BQE Water

BQE WATER INC.

Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and six months ended June 30, 2017 and 2016

NOTICE TO READER

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

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

	note	June 30 2017 $	December 31 2016 $
Assets			
Current assets			
Cash and cash equivalents		**685,444**	2,231,798
Trade and other receivables	5	**771,677**	527,054
Receivable from joint venture	6	**-**	86,255
Inventory and work in progress		**6,803**	20,018
Prepaid and deposits		**217,209**	121,028
Total current assets		**1,681,133**	2,986,153
Non-current assets			
Plant and equipment	7	**186,385**	217,010
Investment in joint venture	8	**5,034,250**	4,231,567
Deposits		**14,533**	24,601
Total non-current assets		**5,235,168**	4,473,178
Total assets		**6,916,301**	7,459,331
Liabilities			
Current liabilities			
Trade payable and accrued liabilities	6, 9	**726,946**	878,891
Income taxes payable		**152,210**	152,195
Deferred revenue		**36,343**	157,415
Deferred benefits	10	**134,906**	128,910
Convertible loan	11	**1,443,930**	-
Current portion deferred lease inducement		**3,785**	8,572
Total current liabilities		**2,498,120**	1,325,983
Non-current liabilities			
Convertible loan	11	**-**	1,377,532
Deferred lease inducement		**9,464**	-
Total non-current liabilities		**9,464**	1,377,532
Total liabilities		**2,507,584**	2,703,515
Shareholders' Equity			
Share capital	10, 12	**54,719,814**	54,719,814
Contributed surplus	12	**10,049,881**	10,047,271
Equity component of convertible loan	11	**86,575**	84,614
Accumulated other comprehensive income		**1,368,479**	1,410,982
Accumulated deficit		**(61,816,032)**	(61,506,865)
Total shareholders' equity		**4,408,717**	4,755,816
Total liabilities and shareholders' equity		**6,916,301**	7,459,331

Going concern (note 2(b))
Commitments (note 15)

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

BQE WATER INC.

Condensed Consolidated Interim Statements of Loss and Other Comprehensive Loss

For the three and six months ended June 30, 2017 and 2016

(Unaudited)

	note	3 months ended June 30		6 months ended June	
		2017	2016	**2017**	2016
		$	$	**$**	$
Revenue		**952,748**	643,534	**1,620,877**	1,034,086
Plant and other operating costs (excluding depreciation)		**655,946**	364,593	**1,074,134**	584,003
Operating margin before depreciation		**296,802**	278,941	**546,743**	450,083
General and administration		**376,166**	465,304	**871,364**	891,255
Sales and development		**303,139**	267,658	**591,521**	617,045
Stock-based compensation (recovery) expense	10	**15,251**	16,257	**8,606**	46,175
Depreciation of plant and equipment	7	**32,797**	58,650	**66,217**	115,469
Share of results of equity accounted joint venture	8	**(764,360)**	(291,215)	**(798,166)**	(190,967)
Income (loss) from operations and joint venture		**333,809**	(237,713)	**(192,799)**	(1,028,894)
Finance (costs) income, net		**(53,969)**	132	**(103,881)**	2,038
Foreign exchange loss		**(14,554)**	(1,414,659)	**(14,487)**	(1,442,429)
Other income		**-**	6,600	**2,000**	6,600
Income (loss) before income taxes		**265,286**	(1,645,640)	**(309,167)**	(2,462,685)
Income tax expense		**-**	-	**-**	(131)
Net income (loss) for the period		**265,286**	(1,645,640)	**(309,167)**	(2,462,816)
Other comprehensive (loss) income					
Items that will be reclassified subsequently to loss					
Translation (loss) gain on foreign operations		**(51,476)**	1,289,601	**(42,503)**	1,026,554
Comprehensive income (loss) for the period		**213,810**	(356,039)	**(351,670)**	(1,436,262)
Net loss per share					
Basic and diluted		**0.00**	(0.02)	**(0.00)**	(0.03)
Weighted average number of shares outstanding					
Basic and diluted		**93,966,672**	93,966,672	**93,966,672**	93,966,672

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

BQE WATER INC.
Condensed Consolidated Interim Statements of Changes in Equity
For the six months ended June 30, 2017 and 2016
(Unaudited)

	note	**Number of Shares**	**6 months ended June 30, 2017 $**	Number of Shares	6 months ended June 30, 2016 $
Share Capital					
Balance, beginning of the period	12	**93,966,672**	**54,719,814**	93,966,672	54,719,814
			-		-
Balance, end of the period		**93,966,672**	**54,719,814**	93,966,672	54,719,814
Contributed surplus					
Balance, beginning of the period			**10,047,271**		10,033,768
Share-based payments	10		**2,610**		8,701
Balance, end of the period			**10,049,881**		10,042,469
Equity component of convertible loan					
Balance, beginning of the period			**84,614**		-
Issuance of convertible loan	11		**1,961**		-
Balance, end of the period			**86,575**		-
Accumulated other comprehensive income					
Balance, beginning of the period			**1,410,982**		456,982
Other comprehensive (loss) income for the period			**(42,503)**		1,026,554
Balance, end of the period			**1,368,479**		1,483,536
Accumulated deficit					
Balance, beginning of the period			**(61,506,865)**		(59,181,810)
Net loss for the period			**(309,167)**		(2,462,816)
Balance, end of the period			**(61,816,032)**		(61,644,626)
Total shareholders' equity					
Balance, beginning of the period			**4,755,816**		6,028,754
Share-based payments	10		**2,610**		8,701
Issuance of convertible loan	11		**1,961**		-
Net loss for the period			**(309,167)**		(2,462,816)
Other comprehensive (loss) income for the period			**(42,503)**		1,026,554
Balance, end of the period			**4,408,717**		4,601,193

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

BQE WATER INC.

Condensed Consolidated Interim Statements of Cash Flows

For the six months ended June 30 2017 and 2016

(Unaudited)

	note	6 months ended June 30	
		2017	2016
		$	$
Operating activities			
Net loss for the period		**(309,167)**	(2,462,816)
Items not affecting cash			
Income tax expense		**-**	131
Bad debt recovery		**-**	(6,600)
Share of results of equity accounted joint venture	8	**(798,166)**	(190,967)
Interest expense (income)		**103,881**	(2,038)
Gain on disposal of equipment		**(2,000)**	-
Depreciation of plant and equipment	7	**66,217**	115,469
Amortization of deferred lease inducement		**(9,834)**	(5,714)
Net foreign exchange loss		**16,181**	1,433,385
Expense recognized in respect of stock-based compensation	10	**8,606**	46,175
		(924,282)	(1,072,975)
Change in non-cash working capital items	14	**(490,138)**	117,569
Cash used in operations		**(1,414,420)**	(955,406)
Income taxes paid		**-**	(131)
Net cash used in operating activities		**(1,414,420)**	(955,537)
Investing activities			
Purchase of plant and equipment		**(35,592)**	(10,040)
Proceeds from disposal of equipment		**2,000**	-
Contributions made to joint venture	8	**(58,468)**	(123,663)
Interest received		**4,064**	2,787
Net cash used in investing activities		**(87,996)**	(130,916)
Financing activities			
Proceeds from convertible loan	11	**19,666**	-
Interest paid	11	**(58,351)**	-
Net cash used in financing activities		**(38,685)**	-
Effect of exchange rate changes on cash and cash equivalents		**(5,253)**	(6,043)
Decrease in cash and cash equivalents		**(1,546,354)**	(1,092,496)
Cash and cash equivalents, beginning of the period		**2,231,798**	1,408,890
Cash and cash equivalents, end of the period		**685,444**	316,394

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

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

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

b. Going concern assumption

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

For the six months ended June 30, 2017, the Company incurred a net loss of $309,167 (2016 – $2,462,816) and used net cash in operating activities of $1,414,420 (2016 – $955,537). At June 30, 2017, the Company had a negative working capital of $816,987 (December 31, 2016 – positive $1,660,170) and a cumulative deficit of $61,816,032 (December 31, 2016 – 61,506,865).

The Company currently believes that it has sufficient working capital resources to meet operating requirements over the next 12 months and meet its debt repayment obligations. This assumes that BQE is able to continue successful operations at its Raglan and Chinese joint venture plants, market prices for metals and foreign exchange rates remain at current levels, the Company maintains or further decreases operating expenses, successfully repatriates funds from its Chinese joint venture, and secures and completes new sales contracts.

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

c. Basis of measurement

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

These condensed consolidated interim financial statements incorporate the financial statements of the Company, and the entities controlled by the Company, and the share of net assets and net earnings or loss in entities which the Company is a joint venture partner. The principal subsidiaries of the Company, which are accounted for under the consolidated method, are as follows:

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

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Estimates and assumptions are continually evaluated and are based on management’s experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company’s assets and liabilities are accounted for prospectively. The judgments, estimates and assumptions applied in these condensed consolidated interim financial statements, including key sources of estimation uncertainty were the same as those applied in the Company’s last annual audited consolidated financial statements for the year ended December 31, 2016.

5. TRADE AND OTHER RECEIVABLES

	Jun. 30, 2017	Dec. 31, 2016
	$	$
Trade receivables	370,516	439,573
Unbilled receivables	391,316	74,096
Other	9,845	13,385
	771,677	527,054

6. RELATED PARTY TRANSACTIONS

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

a) As at June 30, 2017, the Company had a receivable balance of $nil (December 31, 2016 - $86,255) 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. There was no sale of goods and services with the Dexing joint venture during the three and six months end June 30, 2017 and 2016.

b) As of June 30, 2017, the Company has $5,000 included in trade payable and accrued liabilities (December 31, 2016 – $10,000) with a company, owned by a director, for management consulting services. For the three and six months ended June 30, 2017, the services received amounted to $15,000 and $30,000 (2016 – $30,000 and $60,000).

c) For the three and six months ended June 30, 2017 and 2016, the compensation awarded to key management, which includes the Company's directors and members of the executive, are as follows:

	3 months ended Jun. 30		6 months ended Jun. 30	
	2017	2016	2017	2016
	$	$	$	$
Salaries, fees and short-term benefits	132,945	138,841	285,390	271,744
Share-based payments	261	2,766	2,610	8,702
	133,206	141,607	288,000	280,446

Included in the trade payable and accrued liabilities as at June 30, 2017 is $69,500 (December 31, 2016 - $49,200) of director fees.

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

7. PLANT AND EQUIPMENT

	Water treatment plants $	Pilot plants $	Other[1] $	Total $
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
As at Jun. 30, 2017				
Opening net book value	-	199,882	17,128	217,010
Additions	-	-	35,592	35,592
Depreciation	-	(58,644)	(7,573)	(66,217)
Closing net book value	**-**	**141,238**	**45,147**	**186,385**
As at Jun. 30, 2017				
Cost	-	580,593	563,220	1,143,813
Accumulated depreciation	-	(439,355)	(518,073)	(957,428)
Closing net book value	**-**	**141,238**	**45,147**	**186,385**

[1]Other comprises of lease improvements, office and lab equipment, and computer equipment.

8. INVESTMENT IN JOINT VENTURES

Investment in joint ventures is comprised of:

	Dexing joint venture $
Balance, January 1, 2016	4,708,976
Share of comprehensive income	(295,929)
Contributions made	202,920
Distributions received	(384,400)
Balance, December 31, 2016	4,231,567
Share of comprehensive income	744,215
Contributions made	58,468
Balance, June 30, 2017	5,034,250

During 2016, BQE signed a joint venture agreement with Shandong MWT ("MWT") to build and operate a water treatment plant to recover copper and zinc from wastewater discharged by Shandong Zhaojin Group Zhaoyuan Gold Smelting Co., Ltd. As at June 30, 2017, neither party has transferred their respective initial capital contribution. The MWT joint venture had no transactions during the three and six months ended June 30, 2017 and 2016.

During the three and six months ended June 30, 2017, the Company's share of net income in the Dexing joint venture was $764,360 and $798,166 (2016 – $291,215 and $190,967).

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

The Dexing joint venture 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.

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

Statement of financial position

	Jun. 30, 2017 $	Dec. 31, 2016 $
Assets		
Current assets		
Cash and cash equivalents	1,329,856	783,474
Trade and other receivables	448,168	87,979
Income taxes recoverable	-	55,134
Inventory	40,908	100,272
Prepaid expenses	1,027	857
	1,819,959	1,027,716
Non-current assets		
Plant and equipment	4,225,690	4,481,601
Deferred tax assets	64,780	65,321
	4,290,470	4,546,922
Total assets	6,110,429	5,574,638
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,030,353	1,343,071
Income taxes payable	45,826	-
Total liabilities	1,076,179	1,343,071
Partner's Equity		
Joint venture partner equity	3,642,492	3,584,024
Accumulated other comprehensive income	1,395,957	1,449,908
Accumulated deficit	(4,199)	(802,365)
Total partner's equity	5,034,250	4,231,567
Total liabilities and partner's equity	6,110,429	5,574,638

Statements of operations and comprehensive income

	3 months ended Jun. 30		6 months ended Jun. 30	
	2017	2016	2017	2016
	$	$	$	$
Revenue	2,229,433	1,493,486	2,669,403	2,621,207
Plant and other operating costs (excluding depreciation)	936,289	914,034	1,313,275	1,994,370
	1,293,144	579,452	1,356,128	626,837
General and administration	167,334	61,826	195,688	91,109
Depreciation of plant and equipment	130,045	128,143	257,395	254,196
Income from operations	995,765	389,483	903,045	281,532
Finance income	309	99	602	375
Foreign exchange loss	-	(2,543)	(438)	(8,073)
Income before income taxes	996,074	387,039	903,209	273,834
Current income tax expense	(231,714)	(95,824)	(199,039)	(82,867)
Deferred tax recovery	-	-	93,996	-
Net income for the period	764,360	291,215	798,166	190,967
Other comprehensive loss				
Translation loss on foreign operation	(63,143)	(121,323)	(53,951)	(385,551)
Comprehensive income (loss) for the period	701,217	169,892	744,215	(194,584)

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

9. TRADE PAYABLE AND ACCRUED LIABILITIES

	Jun. 30, 2017	Dec. 31, 2016
	$	$
Trade payable and accruals	278,973	489,051
Payroll liability	345,977	267,462
Interest payable under convertible loan (note 11)	57,887	56,986
Value added tax payable	44,109	65,392
	726,946	878,891

10. SHARE-BASED PAYMENTS

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

	3 months ended Jun. 30		6 months ended Jun. 30	
	2017	2016	2017	2016
	$	$	$	$
Stock options (a)	261	2,766	2,610	8,701
Deferred share units (b)	14,576	13,118	5,830	36,438
Restricted share units (c)	414	373	166	1,036
	15,251	16,257	8,606	46,175

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 follow:

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

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

Exercise price range $	Weighted average remaining life (months)	Jun. 30, 2017 number of outstanding share options
0.07 to 0.15	19	3,133,333
0.17 to 0.30	5	600,000
0.07 to 0.30	17	3,733,333

b. Deferred share unit

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

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

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

The following table presents the changes to the DSU plan:

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

During the three and six months ended June 30, 2017, the Company recorded a fair value charge of $14,576 and $5,830 (2016 – $13,118 and $36,438) as stock-based compensation related to the DSUs.

c. Restricted share units

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

The following table presents the changes to the RSU plan:

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

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

During the three and six months ended June 30, 2017, the Company recorded fair value charge of $414 and $166 (2016 – $373 and $1,036) as stock-based compensation related to the RSUs.

11. CONVERTIBLE LOAN

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

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

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

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

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

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

	Jun. 30, 2017 $	Dec. 31, 2016 $
Face value of convertible loan issued	1,500,000	1,500,000
Less: amounts receivable from lenders	-	(19,667)
Transaction costs	(23,652)	(23,652)
Equity conversion component on initial recognition	(124,261)	(122,300)
Liability component on initial recognition	1,352,087	1,334,381
Accumulated amortization of interest expense	208,081	100,137
Repayment of interest	(58,351)	-
Total liability component as at period end	1,501,817	1,434,518
Interest payable included in accrued liabilities (note 9)	(57,887)	(56,986)
Liability component balance as at period end	1,443,930	1,377,532

12. SHARE CAPITAL

Authorized: unlimited common shares without par value.

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

13. INCOME TAXES

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

14. SUPPLEMENTAL CASH FLOW INFORMATION

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

	6 months ended Jun. 30	
	2017	2016
Change in non-cash working capital items	$	$
(Increase) decrease in trade receivables	(163,587)	122,744
Decrease in inventory and work in progress	13,334	33,619
(Increase) decrease in other assets	(91,142)	70,308
Decrease in accounts payable and accrued liabilities	(127,304)	(57,107)
Decrease in deferred revenue	(121,439)	(51,995)
Change in non-cash working capital items	(490,138)	117,569

15. COMMITMENTS

The Company has commitments of $629,738 under operating leases for office and laboratory premises, for laboratory assay services, and for office equipment, as follows:

	$
2017	151,402
2018	288,256
2019	122,490
2020	122,490
2021	5,100
	629,738

16. 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:

	3 months ended Jun. 30		6 months ended Jun. 30	
	2017	2016	2017	2016
	$	$	$	$
Treatment fees	153,100	195,524	153,100	195,524
Engineering & lab services	799,648	448,010	1,467,777	838,562
	952,748	643,534	1,620,877	1,034,086

b) Geographic information

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

	3 months ended Jun. 30		6 months ended Jun. 30	
	2017	2016	2017	2016
	$	$	$	$
Canada	482,327	459,877	872,755	759,390
Latin America	363,718	-	589,811	82,942
Other	106,703	183,657	158,311	191,754
	952,748	643,534	1,620,877	1,034,086

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

	Jun. 30, 2017	Dec. 31, 2016
	$	$
Canada	186,385	217,010
China	5,034,250	4,231,567
	5,220,635	4,448,577

c) Information about major customers

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

	3 months ended Jun. 30		6 months ended Jun. 30	
	2017	2016	2017	2016
	$	$	$	$
Customer A	153,100	195,524	153,100	195,524
Customer C	74,200	147,805	152,651	407,520
Customer E	170,041	-	247,306	-
Customer G	218,646	440	425,690	9,732
	615,987	343,769	978,747	612,776
Percentage from total revenue	65%	53%	60%	59%

BQE Water

BQE WATER INC.

Interim Management's Discussion and Analysis
(Quarterly Highlights)

For the three and six months ended June 30, 2017 and 2016

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

Quarterly Highlights – for the three and six months ended June 30, 2017 and 2016

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

This Q2 2017 Interim MD&A updates disclosure previously provided in our Annual MD&A, up to the date of this Interim MD&A, and should be read in conjunction with our unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2017 and 2016 (our "Interim Financial Statements"), our audited consolidated financial statements for the years ended December 31, 2016 and 2015 (our "Audited Financial Statements") and our Annual MD&A for the year ended December 31, 2016.

Our Interim Financial Statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") and all amounts are expressed in Canadian dollars unless otherwise noted. Our accounting policies are described in note 2 of our Audited Financial Statements. This MD&A has been prepared as at August 22, 2017.

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") (formally 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 Water Inc. is listed on the TSX Venture Exchange under the symbol BQE.

Additional information may be found on our website at 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 three and six month periods ended June 30, 2017 and 2016 are as follows:

(in $'000s)

	Three months ended Jun.30		Six months ended Jun.30	
	2017	2016	2017	2016
	$	$	$	$
Reported revenues under GAAP	953	644	1,621	1,035
Share of reported revenues from Dexing Joint Venture	2,229	1,493	2,669	2,621
Proportional Revenue for the period	3,182	2,137	4,290	3,656

Adjusted EBITDA

Adjusted EBITDA ("earnings before interest, taxes, depreciation and amortization") for the three and six month periods ended June 30, 2017 and 2016 is derived as follows:

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

	Three months ended Jun. 30		Six months ended Jun. 30	
	2017	2016	2017	2016
	$	$	$	$
GAAP: Net income (loss)	265	(1,646)	(309)	(2,462)
add: interest expense (income)	54	-	103	(2)
add: income taxes	232	96	105	83
add: depreciation and amortization	163	187	323	370
EBITDA	714	(1,363)	222	(2,011)
add: stock-based compensation	15	16	9	46
add: net foreign exchange loss	15	1,418	14	1,452
Adjusted EBITDA	744	71	245	(513)

Q2 2017 COMMENTARY AND 2017 OUTLOOK

Our results for Q2 2017 builds upon the progress achieved over the last year. The first half of the year typically has lower revenue due to the seasonal nature of our operations at the Raglan mine site and China joint venture. However, as previously noted, we finished 2016 with a strong backlog of projects and increased our year-to-date project revenue by 75% over the prior year.

In Q1 2017, seasonal conditions around our plants in China were drier than normal and as a result, we had a slow start to 2017. During Q2 2017, copper recovery increased significantly and we finished the quarter near budgeted levels of copper volume on a year to date basis. The plants in 2017 recovered 388,000 pounds less copper when compared to 2016, but with the increase in average copper price during 2017, our year to date copper revenues were consistent with 2016.

Overall, we increased our positive adjusted EBITDA significantly when compared to the same quarter in 2016. This improvement is a result of maintaining a focused and disciplined cost structure while targeting activities in key markets for future growth.

The current projects completed year to date are the result of efforts over the past several years. We have worked on positioning the Company for success by getting 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 a period of two to three years and the timing of revenue and cashflows 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, sales bookings, and execution of projects to generate cashflow are the primary areas of focus for the Company's management.

We are scheduled to repay the principle amount of the convertible loan on January 6, 2018. Currently, we believe that we will generate sufficient cash from operations and new projects through the rest of 2017 to meet this obligation. However, the lack of control in timing of revenues from forecasted projects introduces the risk of temporary shortage in working capital and could impact our ability to repay the loan.

Management and our Board of Directors are actively monitoring the company's cash position and exploring potential options to ensure continuing operations of our business beyond 2017. 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.

Q2 2017 OVERVIEW

Financial Highlights:

- Revenues as reported under GAAP were $953,000 compared $644,000 in Q2 2016;
- Proportional revenues were $3.2 million compared to $2.1 million in Q2 2016;
- Net income as reported under GAAP was $265,000 compared to net loss of $1.6 million in Q2 2016;
- Adjusted EBITDA was $744,000 compared to $71,000 in Q2 2016;
- Cash and cash equivalents reported under GAAP as of June 30, 2017 was $685,000 compared to $2.2 million at December 31, 2016; and
- Proportional cash and cash equivalents, which includes our share held in joint ventures, as of June 30, 2017 was $2 million compared to $3 million at the end of 2016.

Operating Highlights:

The Raglan Project, Quebec

BQE Water Inc. operates a water treatment plant at the Raglan Mine, an active nickel mine in northern Quebec, owned by Glencore Canada Corporation ("Glencore"). The plant runs seasonally, typically from late spring to fall. The plant was built in 2004 and uses our ChemSulphide® process to remove dissolved nickel from wastewater to produce clean water that meets strict water quality criteria for discharge to the environment. We also maintain operating responsibility for Glencore's Spoon water treatment plant. This plant performs lime treatment and acidification of water that is not treated by the ChemSulphide® plant. As of January 1, 2017, we have extended the operating contract for both operations until 2020 and have transferred ownership of the ChemSulphide® water treatment plant to Glencore.

During the quarter, we commenced operations for our 14th operating season at the site. The plant began treating water in early June, slightly earlier than the prior year. Based on the availability of water at the site, we expect to conclude operations by September; a few months earlier than prior years. Operating results for the current quarter was as follows:

Plant operating results	Q2 2017	Q2 2016
Water treated (cubic metres)	140,000	42,000
Days operated (equivalent days)	25	14

Joint venture with Jiangxi Copper Company, China

Our joint venture in China with partner Jiangxi Copper Company ("JCC"), operated three plants during Q2 2017. Two of the plants are located at the Dexing Mine site as well as a plant at the Yinshan Mine site. Both mine sites are owned by JCC. The following is summary of operating results for all three plants during Q2 2017.

Dexing 1

(in '000s)	3 months ended Jun. 30		6 months ended Jun. 30	
	2017	2016	2017	2016
Water treated (cubic metres)	2,311	2,529	2,601	4,241
Copper produced (pounds)	745	570	745	997

Dexing 2

(in '000s)	3 months ended Jun. 30		6 months ended Jun. 30	
	2017	2016	2017	2016
Water treated (cubic metres)	2,770	2,844	3,901	5,200
Copper produced (pounds)	397	334	536	658

Yinshan

(in '000s)	3 months ended Jun. 30		6 months ended Jun. 30	
	2017	2016	2017	2016
Water treated (cubic metres)	1,043	1,287	1,556	1,928
Copper produced (pounds)	359	370	523	537

Total Joint Venture

(in '000s)	3 months ended Jun. 30		6 months ended Jun. 30	
	2017	2016	2017	2016
Water treated (cubic metres)	6,124	6,660	8,058	11,639
Copper produced (pounds)	1,501	1,274	1,804	2,192

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 are expected to improve the volume of water treated and copper recovered from the plant in the future. These changes are expected to be completed in late 2017 which will improve the management of feedwater to the plant.

During Q2 2017, 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. During Q2 2017, we have a decrease of 8% in water treated and an increase in copper recovery of 18% over the same period in 2016. On a year to date basis, all three plants have met budgeted copper recovery after a slow start to the year.

Sales and Project Highlights:

Sulf-IX™ Piloting Activity

In early 2017, BQE started a pilot testing contract with a Peruvian resource company to demonstrate the capabilities of our Sulf-IX™ technology. BQE successfully completed the construction of a Sulf-IX™ pilot plant and finished two months of on-site piloting in Peru during Q2 2017. The pilot campaign was able to meet stringent discharge limits and results are currently being reviewed with the customer to determine the advancement of the project.

Engineering Services

In Q2 2017, BQE continued to provide engineering services for a mine located in the Northern Interior of BC. Following BQE's successful pilot demonstration with this client in 2016, BQE was contracted to assist them with their permit application and to conduct detailed engineering for a water treatment system to remove selenium and metals using BQE's Selen-IX™ and ChemSulphide® technologies. We are continuing discussions with the mine site owner to advance the project but the water treatment operations will be a part of the overall development of the site.

Consulting Services

Also during the quarter, BQE continued to provide consulting services for several water treatment projects in Canada, United States, Asia, Europe and Latin America. These services covered a broad spectrum of activities including operation 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 and contracts as water management measures proceed to implementation.

Lab Testing Services

During Q2 2017, BQE continued to perform lab scale testing of its technologies at various mine sites with customers in Canada, United States and Latin America. These tests will allow mine sites to assess BQE's technologies and provide high level cost estimates for possible full-scale plants. If results prove favorable, they could lead to additional services including pilot scale testing, design, construction, and operation of full-scale plants in the future.

Zinc and Copper Recovery – Joint Venture
In late 2015, we announced a new joint venture to build, own and operate a zinc and copper recovery plant at a smelter in China. We have commenced engineering and construction and had expected to begin operations in late 2017. However, due to construction delays beyond the control of the joint venture partners, we now expect the plant to begin operations in late Q1 2018. Under the terms of the joint venture and operating contracts, we will receive a fixed-fee for technical support contract and an ongoing share of the profits from the operation.

FINANCIAL RESULTS

(in $'000 except for per share amounts)	**3 months ended Jun. 30**		**6 months ended Jun. 30**	
	2017	2016	**2017**	2016
	$	$	**$**	$
Revenues	**953**	644	**1,621**	1,035
less: Plant and other operating costs (*excluding depreciation*)	**656**	365	**1,074**	584
	297	279	**547**	451
General and administration	**376**	465	**871**	891
Sales and development	**303**	268	**592**	617
Stock-based compensation	**15**	16	**9**	46
Depreciation and amortization	**33**	59	**66**	116
Share of results of equity accounted joint ventures	**(764)**	(291)	**(798)**	(191)
Income (loss) from operations and joint ventures	**334**	(238)	**(193)**	(1,028)
Other expenses – net	**(69)**	(1,408)	**(116)**	(1,434)
Net income (loss) for the period	**265**	(1,646)	**(309)**	(2,462)
Translation (loss) gain on foreign operations	**(51)**	1,290	**(43)**	1,027
Comprehensive income (loss) for the period	**214**	(356)	**(352)**	(1,435)
Net loss per share (basic and diluted)	**0.00**	(0.02)	**(0.00)**	(0.03)
Proportional Revenues[1]	**3,182**	2,137	**4,290**	3,656
Adjusted EBITDA[1]	**744**	71	**245**	(513)

	at Jun. 30, 2017	at Dec. 31, 2016
Working capital	**(817)**	1,660
Total assets	**6,916**	7,459
Total long term liabilities	**9**	1,378
Shareholders' equity	**4,409**	4,756

<u>*Notes:*</u>

1. *See Non-GAAP measures*

KEY QUARTERLY FINANCIAL INFORMATION

Financial information for the last eight quarters are as follows:

Quarters ended	**Jun-17**	Mar-17	Dec-16	Sep-16	Jun-16	Mar-16	Dec-15	Sep-15
	$	$	$	$	$	$	$	$
Total revenues	**953**	668	1,570	1,356	644	391	1,229	1,620
Plant and other operating costs (excluding depreciation)	**656**	418	680	494	365	219	813	740
	297	250	890	862	279	172	416	880
General and administration	**376**	495	404	410	465	426	577	472
Sales and development	**303**	288	181	356	268	349	278	248
Stock-based compensation	**15**	(7)	-	30	16	30	(1)	1
Depreciation and amortization	**33**	33	58	60	59	57	57	57
Share of results of equity accounted joint ventures	**(764)**	(34)	195	(160)	(291)	100	392	(55)
Income (loss) from operations and joint ventures	**334**	(525)	52	166	(238)	(790)	(887)	157
Other (expenses) income	**(69)**	(48)	(36)	(49)	(1,415)	(26)	206	6
Bad debt recovery	**-**	-	4	-	7	-	68	116
Income tax expense	**-**	-	(1)	-	-	-	(143)	-
Net income (loss)	**265**	(573)	19	117	(1,646)	(816)	(756)	279
Translation (loss) gain	**(51)**	9	(94)	22	1,290	(263)	(174)	287
Comprehensive income (loss)	**214**	(564)	(75)	139	(356)	(1,079)	(930)	566
Non-GAAP Measures:								
Proportional Revenue	**3,182**	1,108	2,295	2,411	2,137	1,519	1,723	3,010
Adjusted EBITDA	**744**	(497)	107	414	71	(584)	(777)	496

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

SUMMARY OF Q2 2017 FINANCIAL RESULTS

The following is a summary of selected financial results for the three month periods ended June 30, 2017 and 2016.

Revenue

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

(unaudited, in $'000s)

Revenue Source	**Q2 2017** **$**	**% of total**	Q2 2016 $	% of total	Total Revenue % Change
Water treatment fees	**153**	**5%**	195	9%	(22%)
Engineering & lab services	**800**	**25%**	449	21%	78%
Total revenue	**953**	**30%**	644	30%	48%
Metal recovery – share of joint venture results	**2,229**	**70%**	1,493	70%	49%
Total Proportional Revenue	**3,182**	**100%**	2,137	100%	49%

Water treatment fee revenue is generated from the Company's seasonal operation of the water treatment plant at the Raglan Mine. Starting in 2017, BQE has extended the operating contract until 2020. Based on the extension of the contract, BQE will transfer ownership of its plant to the mine site owner and charge a reduced rate on water treated for both the Chemsulphide and Spoon lime treatment plants. Since the plant ownership has been transferred to the client, significant savings on operating costs will offset the reduced water treatment rate and net income from the plant is expected to remain in line with prior years.

The revenue from engineering & lab services include plant design, construction, consulting, operation support, commissioning and pilot operations, which are generally one-time in nature and have varying contract values. Revenue from engineering & lab services increased $351,000 from the same period in 2016. The increase was attributable to a greater number of projects; particularly from customers in Latin America.

Revenue from metal recovery operations from our joint venture in China are impacted by the amount and price of copper sold. During Q2 2017, the total pounds of copper recovered increased by 18% over the same period in 2016. Our share of revenue increased by 49% from Q2 2016 which was due to the increase in copper recovered and the 27% increase in average copper prices in the period.

Plant and other operating costs (excluding depreciation)

Total plant and other operating costs (excluding depreciation) in Q2 2017 were $656,000 compared to $365,000 in Q2 2016, an increase of $291,000. The increase is mainly due to the increase in project activity and in costs to complete the engineering and lab projects during Q2 2017, as each individual project requires different levels of cost depending on the scope of work.

Our share of total plant and other operating costs (excluding depreciation) in the China venture for Q2 2017 were $936,000 compared to $914,000 in Q2 2016, which is consistent with the increase in copper recovered.

Expenses

In Q2 2017, general and administration expenses were $376,000 compared to $465,000 in Q2 2016. The decrease of $89,000 in general and administration costs were mainly due to the reduction of professional and consulting fees and rental expenses.

Sales and development costs in Q2 2017 were $303,000 compared to $268,000 in Q2 2016, which is an increase of $35,000. This increase reflects the higher level of business development travel expenses compared to the prior year's quarter.

Depreciation and amortization expenses were $33,000 in Q2 2017 compared to $59,000 in Q2 2016. The decrease of $26,000 was due to our Raglan water treatment plant asset being fully depreciated as at December 31, 2016.

Stock-based compensation expense in Q2 2017 was $15,000 compared to $16,000 in Q2 2016. Stock-based compensation costs will reflect fair value adjustments of deferred and restricted share units between each reporting period.

Other expenses
Net financing and interest expense was $54,000 in Q2 2017 compared to $nil in Q2 2016. During Q2 2017, we have recorded interest expense of $55,000 relating to the $1.5 million, 18-month convertible loan which was issued in July 2016.

During Q2 2016, we recognized a foreign exchange loss of $15,000 compared to $1.4 million in Q2 2016. These losses arise mainly from changes in the value of the US dollar, Australian dollar, Mexican peso, Chilean peso and Chinese renminbi relative to the Canadian dollar. In 2016, we recorded a one-time foreign exchange translation difference of $1.4 million upon the dissolution of our Australian subsidiary.

SUMMARY OF YEAR-TO-DATE Q2 2017 FINANCIAL RESULTS
The following is a summary of selected financial results for the six month periods ended June 30, 2017 and 2016.

Revenue
The change in revenue and Proportional Revenue from reach revenue source is shown in the table below:
(unaudited, in $'000s)

Revenue Source	**Year-to-date Q2 2017 $**	**% of total**	Year-to-date Q2 2016 $	% of total	Total Revenue % Change
Water treatment fees	**153**	**4%**	195	5%	(22%)
Engineering & lab services	**1,468**	**34%**	840	23%	75%
Total revenue	**1,621**	**38%**	1,035	28%	57%
Metal recovery – share of joint venture result	**2,669**	**62%**	2,621	72%	2%
Total Proportional Revenue	**4,290**	**100%**	3,656	100%	17%

The year-to-date water treatment fee revenue has slightly decreased when compared to 2016. This is mainly due to the reduction of billable hours during the standby period under the new operating agreement, despite an increase of water treated in 2017 when compared to 2016.

Revenue from engineering & lab services increased by $628,000 from the same period in 2016. The increase was attributable to higher project activity in the current year; especially from project activity arising from Latin America, which consist of $533,000 in 2017.

Total year-to-date revenue from metal recovery operations were consistent with a slight increase of $48,000 from 2016. Despite a 18% decrease of copper recovered, total revenue increased due to a 20% increase in copper prices compared to the prior year.

Plant and other operating costs (excluding depreciation)
The year-to-date plant and other operating costs (excluding depreciation) in 2017 was an increase of $490,000 compared to the same period in 2016. The 83% increase is mainly due to the costs incurred to the increase of project activity in 2017.

Expenses
The year-to-date general and administration expenses in 2017 were comparable to same period in 2016 with a slight decrease of $20,000.

Sales and development costs in year-to-date 2017 were consistent to 2016 with a slight decreased of $25,000.

Stock-based compensation expense was $9,000 in the first six months of 2017 compared to $46,000 in the same period prior year. In 2017, stock-based compensation expenses were due to a lower fair value adjustments of deferred and restricted share units from a lower Company share price.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2017, BQE had 93,966,672 common shares issued and outstanding (December 31, 2016 – 93,966,672), and 3,733,333 stock options outstanding (December 31, 2016 – 4,333,333).

As of August 22, 2017, the number of common shares issued and outstanding remain unchanged from June 30, 2017 and the number of stock options outstanding also remain unchanged.

For the six months ended June 30, 2017, the Company incurred a net loss of $309,167 (2016 – $2,462,816) and used net cash in operating activities of $1,414,420 (2016 – $955,537). At June 30, 2017, the Company had a negative working capital of $816,987 (December 31, 2016 – positive $1,660,170) and a cumulative deficit of $61,816,032 (December 31, 2016 – 61,506,865).

The Company has $629,738 under operating leases for office and laboratory premises and for office equipment.

As disclosed in note 2(b) of our Condensed Consolidated Interim Financial Statements for the period ended June 30, 2017 and in the "Q2 2017 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 and meet its debt repayment obligations. 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.

Management's current plan is to focus on increasing revenue and exercise careful cost control to sustain operations. If necessary, the Company will further curtail discretionary spending. Management will also actively work with the Company's Board to secure sources of funds, including possible equity and debt financing options, as required to support the company beyond the next 12 months.

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

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 June 30, 2017, the Company had a receivable balance of $nil (December 31, 2016 - $86,255) 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. There was no sale of goods and services with the Dexing joint venture during the three and six months end June 30, 2017 and 2016.

b) As of June 30, 2017, the Company has $5,000 included in trade payable and accrued liabilities (December 31, 2016 – $10,000) with a company, owned by a director, for management consulting services. For the three and six months ended June 30, 2017, the services received amounted to $15,000 and $30,000 (2016 – $30,000 and $60,000).

c) For the three and six months ended June 30, 2017 and 2016, the compensation awarded to key management, which includes the Company's directors and members of the executive, are as follows:

	3 months ended Jun. 30		6 months ended Jun. 30	
	2017	2016	2017	2016
	$	$	$	$
Salaries, fees and short-term benefits	132,945	138,841	285,390	271,744
Share-based payments	261	2,766	2,610	8,702
	133,206	141,607	288,000	280,446

Included in the trade payable and accrued liabilities as at June 30, 2017 is $69,500 (December 31, 2016 - $49,200) of director fees.

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Estimates and assumptions are continually evaluated and are based on management's experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively. The judgments, estimates and assumptions applied in these condensed consolidated interim financial statements, including key sources of estimation uncertainty were the same as those applied in the Company's last annual audited consolidated financial statements for the year ended December 31, 2016.