BQE Water

BQE WATER INC.

Condensed Consolidated Interim Financial Statements
(Unaudited)

For the three and nine months ended September 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	September 30 2017 $	December 31 2016 $
Assets			
Current assets			
Cash and cash equivalents		**1,225,750**	2,231,798
Trade and other receivables	5	**780,790**	527,054
Receivable from joint venture	6	**-**	86,255
Inventory and work in progress		**-**	20,018
Prepaid and deposits		**127,177**	121,028
Total current assets		**2,133,717**	2,986,153
Non-current assets			
Plant and equipment	7	**158,866**	217,010
Investment in joint venture	8	**5,430,911**	4,231,567
Deposits		**4,751**	24,601
Total non-current assets		**5,594,528**	4,473,178
Total assets		**7,728,245**	7,459,331
Liabilities			
Current liabilities			
Trade payable and accrued liabilities	6, 9	**793,972**	878,891
Income taxes payable		**-**	152,195
Deferred revenue		**154,209**	157,415
Deferred benefits	10	**169,382**	128,910
Convertible loan	11	**1,469,833**	-
Current portion deferred lease inducement		**-**	8,572
Total current liabilities		**2,587,396**	1,325,983
Non-current liabilities			
Convertible loan	11	**-**	1,377,532
Total non-current liabilities		**-**	1,377,532
Total liabilities		**2,587,396**	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		**1,271,012**	1,410,982
Accumulated deficit		**(60,986,433)**	(61,506,865)
Total shareholders' equity		**5,140,849**	4,755,816
Total liabilities and shareholders' equity		**7,728,245**	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 nine months ended September 30, 2017 and 2016
(Unaudited)

	note	3 months ended Sept. 30 **2017** $	3 months ended Sept. 30 2016 $	9 months ended Sept. 30 **2017** $	9 months ended Sept. 30 2016 $
Revenue		**1,578,327**	1,356,345	**3,199,204**	2,390,431
Plant and other operating costs (excluding depreciation)		**641,556**	494,389	**1,715,690**	1,078,392
Operating margin before depreciation		**936,771**	861,956	**1,483,514**	1,312,039
General and administration		**383,120**	409,550	**1,254,484**	1,300,805
Sales and development		**263,115**	355,766	**854,636**	972,811
Stock-based compensation (recovery) expense	10	**34,476**	29,982	**43,082**	76,157
Depreciation of plant and equipment	7	**31,472**	60,332	**97,689**	175,801
Share of results of equity accounted joint venture	8	**(469,792)**	(160,283)	**(1,267,958)**	(351,250)
Income (loss) from operations and joint venture		**694,380**	166,609	**501,581**	(862,285)
Finance costs, net		**(55,425)**	(55,964)	**(159,306)**	(53,926)
Foreign exchange (loss) gain		**(23,074)**	7,156	**(37,561)**	(1,435,273)
Other income		**60,978**	-	**62,978**	6,600
Income (loss) before income taxes		**676,859**	117,801	**367,692**	(2,344,884)
Income tax recovery (expense)		**152,740**	-	**152,740**	(131)
Net income (loss) for the period		**829,599**	117,801	**520,432**	(2,345,015)
Other comprehensive (loss) income					
Items that will be reclassified subsequently to loss					
Translation (loss) gain on foreign operations		**(97,467)**	21,594	**(139,970)**	1,048,148
Comprehensive income (loss) for the period		**732,132**	139,395	**380,462**	(1,296,867)
Net income (loss) per share					
Basic and diluted		**0.01**	0.00	**0.01**	(0.02)
Weighted average number of shares outstanding					
Basic and diluted		**93,966,672**	93,966,672	**93,966,672**	93,966,672

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

BQE WATER INC.

Condensed Consolidated Interim Statements of Changes in Equity
For the nine months ended September 30, 2017 and 2016
(Unaudited)

	note	**Number of Shares**	**9 months ended Sept. 30, 2017 $**	Number of Shares	9 months ended Sept. 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**		11,102
Balance, end of the period			**10,049,881**		10,044,870
Equity component of convertible loan					
Balance, beginning of the period			**84,614**		-
Issuance of convertible loan	11		**1,961**		144,947
Balance, end of the period			**86,575**		144,947
Accumulated other comprehensive income					
Balance, beginning of the period			**1,410,982**		456,982
Other comprehensive (loss) income for the period			**(139,970)**		1,048,148
Balance, end of the period			**1,271,012**		1,505,130
Accumulated deficit					
Balance, beginning of the period			**(61,506,865)**		(59,181,810)
Net income (loss) for the period			**520,432**		(2,345,015)
Balance, end of the period			**(60,986,433)**		(61,526,825)
Total shareholders' equity					
Balance, beginning of the period			**4,755,816**		6,028,754
Share-based payments	10		**2,610**		11,102
Issuance of convertible loan	11		**1,961**		144,947
Net income (lost) for the period			**520,432**		(2,345,015)
Other comprehensive (loss) income for the period			**(139,970)**		1,048,148
Balance, end of the period			**5,140,849**		4,887,936

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

BQE WATER INC.
Condensed Consolidated Interim Statements of Cash Flows
For the nine months ended September 30, 2017 and 2016
(Unaudited)

		9 months ended Sept. 30	
		2017	2016
		$	$
	note		
Operating activities			
Net loss for the period		**520,432**	(2,345,015)
Items not affecting cash			
Income tax (recovery) expense		**(152,740)**	131
Bad debt recovery		**(60,978)**	(6,600)
Share of results of equity accounted joint venture	8	**(1,267,958)**	(351,250)
Interest expense		**159,306**	53,926
Gain on disposal of equipment		**(2,000)**	-
Depreciation of plant and equipment	7	**97,689**	175,801
Amortization of deferred lease inducement		**(23,083)**	(8,572)
Net foreign exchange loss		**36,023**	1,429,542
Expense recognized in respect of stock-based compensation	10	**43,082**	76,157
		(650,227)	(975,880)
Change in non-cash working capital items	14	**(118,857)**	132,148
Cash used in operations		**(769,084)**	(843,732)
Income taxes paid		**-**	(131)
Net cash used in operating activities		**(769,084)**	(843,863)
Investing activities			
Purchase of plant and equipment		**(39,544)**	(10,040)
Proceeds from disposal of equipment		**2,000**	-
Contributions made to joint venture	8	**(85,815)**	(152,251)
Interest received		**6,619**	3,813
Net cash used in investing activities		**(116,740)**	(158,478)
Financing activities			
Financing initiation costs paid	11	**-**	(23,652)
Proceeds from convertible loan	11	**19,666**	1,460,667
Interest paid	11	**(117,552)**	-
Net cash used in financing activities		**(97,886)**	1,437,015
Effect of exchange rate changes on cash and cash equivalents		**(22,338)**	(4,688)
Decrease in cash and cash equivalents		**(1,006,048)**	429,986
Cash and cash equivalents, beginning of the period		**2,231,798**	1,408,890
Cash and cash equivalents, end of the period		**1,225,750**	1,838,876

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 an integrated water services provider with unique expertise and intellectual property related to treatment of water at mines and metallurgical facilities focused on reducing Life Cycle Costs and eliminating long term liabilities. The Company generates revenue from two main sources: (1) Operation and maintenance of water treatment plants, and (2) Technical services relating to water management, including engineering, laboratory and pilot demonstration.

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 September 30, 2017.

The Company's Board of Directors approved these condensed consolidated interim financial statements on November 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 nine months ended September 30, 2017, the Company generated a net income of $520,432 (loss of $2,345,015 in 2016) and used net cash in operating activities of $769,084 ($843,863 in 2016). At September 30, 2017, the Company had a negative working capital of $453,679 (positive $1,660,170 at December 31, 2016) and a cumulative deficit of $60,986,433 ($61,506,865 at December 31, 2016).

The Company no longer expects to generate sufficient working capital to enable us to repay the principle amount of the convertible loan due January 6, 2018 and have sufficient cash reserves to meet ongoing operating requirements over the next 12 months. Management and the Board of Directors of the Company are currently in discussions with the lenders in restructuring the existing convertible loan to ensure sufficient levels of working capital moving into 2018. There is uncertainty to whether the restructuring will be successful or not. This also 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. Beyond this point, we will need to secure new sources of working capital to continue operations.

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

	Sept. 30, 2017	Dec. 31, 2016
	$	$
Trade receivables	457,522	439,573
Unbilled receivables	318,465	74,096
Other	4,803	13,385
	780,790	527,054

6. RELATED PARTY TRANSACTIONS

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

a) As at September 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 nine months ended September 30, 2017, the services received amounted to $15,000 and $45,000 (2016 – $30,000 and $90,000).

b) For the three and nine months ended September 30, 2017 and 2016, the compensation awarded to the Company's key management, which includes the Board of Directors and executive management, are as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	2017	2016
	$	$	$	$
Salaries, fees and short-term benefits	157,128	126,779	442,519	398,522
Share-based payments	-	2,400	2,610	11,102
	157,128	129,179	445,129	409,624

Included in the trade payable and accrued liabilities as at September 30, 2017 is $34,900 (December 31, 2016 - $49,200) of director fees.

c) 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 Sept. 30, 2017				
Opening net book value	-	199,882	17,128	217,010
Additions	-	-	39,545	39,545
Depreciation	-	(86,884)	(10,805)	(97,689)
Closing net book value	**-**	**112,998**	**45,868**	**158,866**
As at Sept. 30, 2017				
Cost	-	580,593	567,087	1,147,680
Accumulated depreciation	-	(467,595)	(521,219)	(988,814)
Closing net book value	**-**	**112,998**	**45,868**	**158,866**

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

8. INVESTMENT IN JOINT VENTURES

a. Shangdong MWT BioteQ Environmental Technologies Co. Ltd.

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. The MWT joint venture had no transactions during the three and nine months ended September 30, 2017 and 2016.

b. JCC-BioteQ Environmental Technologies Co. Ltd.

	Investment $
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	1,113,529
Contributions made	85,815
Balance, September 30, 2017	5,430,911

During the three and nine months ended September 30, 2017, the Company's share of net income in the Dexing joint venture was $469,792 and $1,267,958 (2016 – $160,283 and $351,250).

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 earned revenue by selling 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.

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

Statement of financial position

	Sept. 30, 2017 $	Dec. 31, 2016 $
Assets		
Current assets		
Cash and cash equivalents	2,388,233	783,474
Trade and other receivables	11,512	87,979
Income taxes recoverable	-	55,134
Inventory	47,632	100,272
Prepaid expenses	1,635	857
	2,449,012	1,027,716
Non-current assets		
Plant and equipment	4,017,113	4,481,601
Deferred tax assets	63,494	65,321
	4,080,607	4,546,922
Total assets	6,529,619	5,574,638
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	965,516	1,343,071
Income taxes payable	133,192	-
Total liabilities	1,098,708	1,343,071
Partner's Equity		
Joint venture partner equity	3,669,839	3,584,024
Accumulated other comprehensive income	1,295,479	1,449,908
Retained earnings	465,593	(802,365)
Total partner's equity	5,430,911	4,231,567
Total liabilities and partner's equity	6,529,619	5,574,638

Statements of operations and comprehensive income

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	2017	2016
	$	$	$	$
Revenue	1,568,649	1,055,164	4,238,052	3,676,371
Plant and other operating costs (excluding depreciation)	810,916	676,286	2,124,191	2,670,656
	757,733	378,878	2,113,861	1,005,715
General and administration	44,896	61,479	240,584	152,588
Depreciation of plant and equipment	124,814	127,691	382,209	381,887
Income from operations	588,023	189,708	1,491,068	471,240
Finance income	1,097	297	1,699	672
Foreign exchange gain (loss)	-	478	(438)	(7,595)
Other income, net	23,492	-	23,492	-
Income before income taxes	612,612	190,483	1,515,821	464,317
Current income tax expense	(142,820)	(30,200)	(341,859)	(113,067)
Deferred tax recovery	-	-	93,996	-
Net income for the period	469,792	160,283	1,267,958	351,250
Other comprehensive loss				
Translation loss on foreign operation	(100,478)	24,566	(154,429)	(360,984)
Comprehensive income (loss) for the period	369,314	184,849	1,113,529	(9,734)

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

	Sept. 30, 2017	Dec. 31, 2016
	$	$
Trade payable and accruals	283,697	489,051
Payroll liability	323,151	267,462
Interest payable under convertible loan (note 11)	28,933	56,986
Value added tax payable	158,191	65,392
	793,972	878,891

10. SHARE-BASED PAYMENTS

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

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	2017	2016
	$	$	$	$
Stock options (a)	-	2,401	2,610	11,102
Deferred share units (b)	33,523	26,819	39,354	63,257
Restricted share units (c)	953	762	1,118	1,798
	34,476	29,982	43,082	76,157

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:

	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 Sept. 30, 2017	0.10	3,733,333
Exercisable at Dec. 31, 2016	0.12	3,466,666
Exercisable at Sept. 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)	Sept. 30, 2017 number of outstanding share options
0.07 to 0.15	16	3,133,333
0.16 to 0.18	2	600,000
0.07 to 0.18	14	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, September 30, 2017	2,915,075

During the three and nine months ended September 30, 2017, the Company recorded a fair value charge of $33,523 and $39,354 (2016 – $26,819 and $63,257) 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, September 30, 2017	82,841

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

During the three and nine months ended September 30, 2017, the Company recorded fair value charge of $953 and $1,118 (2016 – $762 and $1,798) 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. Then 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:

	Sept. 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	264,231	100,137
Repayment of interest	(117,552)	-
Total liability component as at period end	1,498,766	1,434,518
Interest payable included in accrued liabilities (note 9)	(28,933)	(56,986)
Liability component balance as at period end	1,469,833	1,377,532

12. SHARE CAPITAL

Authorized: unlimited common shares without par value.

As at September 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 September 30, 2017 was 26% (December 31, 2016 – 26%).

14. SUPPLEMENTAL CASH FLOW INFORMATION

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

	9 months ended Sept. 30	
	2017	2016
Change in non-cash working capital items	$	$
(Increase) decrease in trade receivables	(173,363)	32,617
Decrease in inventory and work in progress	20,137	7,865
Decrease in other assets	8,173	26,489
Increase (decrease) in accounts payable and accrued liabilities	17,957	(177,113)
Decrease in deferred revenue	8,239	242,290
Change in non-cash working capital items	(118,857)	132,148

15. COMMITMENTS

The Company has commitments of $784,039 under operating leases for office and laboratory premises, for laboratory assay services, and for office equipment, as follows:

	$
2017	76,504
2018	285,605
2019	178,183
2020	181,393
2021	62,354
	784,039

16. SEGMENTED INFORMATION

The Company has one operating segment, being principally to build and operate water treatment plants. The Company earns revenue from the operation of water treatment plants and technical services relating to water management.

a. Segment revenue

The Company's sources of revenue are as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	2017	2016
	$	$	$	$
Water treatment plant operations	1,000,049	1,060,880	1,153,150	1,256,404
Technical services	578,278	295,465	2,046,054	1,134,027
	1,578,327	1,356,345	3,199,204	2,390,431

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 Sept. 30		9 months ended Sept. 30	
	2017	2016	2017	2016
	$	$	$	$
Canada	1,159,108	1,074,705	2,031,862	1,870,037
Latin America	348,122	-	937,933	82,942
Other	71,097	281,640	229,409	437,452
	1,578,327	1,356,345	3,199,204	2,390,431

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

	Sept. 30, 2017	Dec. 31, 2016
	$	$
Canada	158,866	217,010
China	5,430,911	4,231,567
	5,589,777	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 nine months ended September 30, 2017 and 2016:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	2017	2016
	$	$	$	$
Customer A	1,000,049	1,060,880	1,153,150	1,256,404
Customer B	236,251	-	292,751	-
Customer E	56,218	-	293,317	-
Customer G	63,549	2,530	489,239	12,262
	1,356,067	1,063,410	2,228,457	1,268,666
Percentage from total revenue	86%	78%	70%	53%

BQE Water

BQE WATER INC.

Interim Management's Discussion and Analysis (Quarterly Highlights)

For the three and nine months ended September 30, 2017 and 2016

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

Quarterly Highlights – for the three and nine months ended September 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 Q3 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 nine months ended September 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 November 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 making the mining and metallurgical industry more sustainable and profitable by revolutionizing water management and treatment in this sector. BQE is an integrated water services provider with unique expertise and intellectual property related to treatment of water at mines and metallurgical facilities focused on reducing Life Cycle Costs and eliminating long term liabilities. The Company generates revenue from two main sources: (1) Operation and maintenance of water treatment plants, which includes sale of metals recovered from operations, and (2) Technical services relating to water management, including engineering, laboratory and pilot demonstration. Headquartered in Vancouver, British Columbia, Canada, our treatment solutions help mine owners to obtain permits, ensure environmental compliance, and attain social license to operate while minimizing risks and costs related to water often encountered during long term mining projects.

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 nine month periods ended September 30, 2017 and 2016 are as follows:

(in $'000s)

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	2017	2016
	$	$	$	$
Reported revenues under GAAP	1,578	1,356	3,199	2,390
Share of reported revenues from Dexing Joint Venture	1,569	1,055	4,238	3,676
Proportional Revenue for the period	3,147	2,411	7,437	6,066

Adjusted EBITDA

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

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

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	2017	2016
	$	$	$	$
GAAP: Net income (loss)	831	117	520	(2,345)
add: interest expense	54	56	157	53
add: income taxes (recovery) expense	(10)	30	95	113
add: depreciation and amortization	156	188	480	558
EBITDA	1,031	391	1,252	(1,621)
add: stock-based compensation	34	30	43	76
add: net foreign exchange loss (gain)	23	(7)	38	1,443
Adjusted EBITDA	1,088	414	1,333	(102)

Q3 2017 COMMENTARY AND OUTLOOK

Our results for Q3 2017 build not only on the results achieved in first and second quarter of 2017 but also on the steady trend of year over year improvements in financial performance since 2014. While the revenues during first half of the year are typically lower due to the seasonal nature of our operations at Raglan Mine and our joint venture operations at Dexing Mine, Q3 is usually our strongest quarter and the results are no exception. However, the financial results in Q3 2017 and year-to-date are notable for the significant improvement including the year-to-date Proportional Revenue increase of 23% and Adjusted EBIDTA increase of $1.4M when compared to same period in 2016.

The improved financial performance in 2017 is a reflection of several factors. First, the 24% increase in the average copper price compared to 2016 increased our share of revenues from Dexing Joint Venture. However, this accounts for less than 50% of the total increase in Proportional Revenue year over year. The remainder of the increase comes from the increase in project revenue. In this context, the results in 2017 reflect the long sales cycle in our industry where efforts over the past three years are finally having a positive impact on revenues this year. Besides the increase in revenues, the reduction in the Company expenses and ongoing fiscal discipline applied in recent years are responsible for the dramatic improvement in year-to-date Adjusted EBIDTA from negative $102,000 to positive $1.3M.

During Q3 2017, we worked on multiple new projects including optimizing a treatment plant removing arsenic and selenium at a smelter in Mexico, re-starting a cyanide recovery plant built by BQE in 2008 using the SART technology to reduce the cost of gold production at the LLuvia de Oro Mine which is now under new ownership, demonstrating a pilot scale of Sulf-IX at a zinc refinery in Peru where BQE's technology can enable the client achieve complete water recycle and Zero Liquid Discharge, and performing several lab scale projects in Canada and Chile for the removal and/or recovery of a wide spectrum of constituents from mine impacted waters.

Although most of these projects provide significant opportunities for future revenues, all of these projects happen in stages, typically over a period of two to three years and the timing of revenues and cash-flows are uncertain. Consequently, the consistency of the Company's profitability through 2017 and 2018 cannot be guaranteed and the continued growth of the projects pipeline, sales bookings, and execution of projects to generate cash-flow are the primary areas of focus for the Company.

Despite the positive results reported throughout 2017, we no longer expect to generate sufficient cash-flow through the rest of 2017 to enable us to repay the principle amount of the convertible loan due on January 6, 2018 and have sufficient cash reserves to ensure ongoing Company operations. This is partly due to the change in timing of revenues from existing and upcoming projects. Although this represents a change in our narrative, we have commented on our inability to control timing of revenues and the risk of temporary shortage in working capital. Management and our Board of Directors are currently in discussions with the lenders to restructure the existing loan to ensure sufficient levels of working capital moving into 2018. 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.

Q3 2017 OVERVIEW

Financial Highlights:

- Revenues as reported under GAAP were $1.6 million compared to $1.4 million in Q3 2016;
- Proportional revenues were $3.1 million compared to $2.4 million in Q3 2016;
- Net income as reported under GAAP was $831,000 compared to $117,000 in Q3 2016;
- Adjusted EBITDA was $1.1 million compared to $414,000 in Q3 2016;
- Cash and cash equivalents reported under GAAP as of September 30, 2017 was $1.2 million 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 September 30, 2017 was $3.6 million compared to $3.0 million at the end of 2016.

Operating Highlights:

The Raglan Project, Quebec

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

During Q2 2017, we commenced our 14th operating season at the site, under a newly extended contract which extends to the end of 2020. Due to the lack of precipitation at the mine site resulting in lower than usual inventory of water requiring treatment, BQE started up and operated only two of the three plants at site in 2017. Based on the volume of water requiring treatment at site in 2017, we anticipate that the total treated volume at the end of the year to be lower than 2016. Operating results of all three plants for the current quarter and the current year were as follows:

(in '000s)	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	2017	2016
Water treated (cubic metres)	1,002	1,115	1,142	1,157

Joint venture with Jiangxi Copper Company, China

Our joint venture in China, with partner Jiangxi Copper Company ("JCC"), operated three WTP during Q3 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 Q3 2017.

Dexing 1

(in '000s)	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	2017	2016
Water treated (cubic metres)	2,505	1,970	5,106	6,211
Copper produced (pounds)	492	459	1,237	1,456

Dexing 2

(in '000s)	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	2017	2016
Water treated (cubic metres)	2,993	2,229	6,894	7,429
Copper produced (pounds)	368	268	904	926

Yinshan

(in '000s)	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	2017	2016
Water treated (cubic metres)	946	610	2,502	2,538
Copper produced (pounds)	196	164	719	701

Total Joint Venture

(in '000s)	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	2017	2016
Water treated (cubic metres)	6,444	4,809	14,502	16,178
Copper produced (pounds)	1,056	891	2,860	3,083

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 at the Dexing Mine and water may be diverted from one plant to the other to optimize operations. The Yinshan plant treats water from a separate source at the neighboring Yinshan Mine. JCC is continuing to complete water management changes at the Yinshan Mine that are expected to increase the efficiency on capturing the mine impacted water which will increase the throughput of the Yinshan plant in the future. The impact of these changes are expected to positively influence the JCC operating results in 2018.

During Q3 2017, all three plants met or exceeded mechanical availability and process performance.

Sales and Project Highlights:

Selen-IX™ Technology Demonstration

In Q3 2017, BQE initiated work on the design and construction of an industrial scale demonstration unit specifically for the Kemess Underground project in BC. The industrial scale unit encompasses the critical unit processes of Selen-IX™ that achieve electro-reduction of selenium with concurrent stabilization of selenium in a stable solid residue with a potential for off-take by steel manufacturers. The objectives of the demonstration includes the confirmation of performance, engineering design for scaled-up Selen-IX™ plant to treat 60 liters of water per second, reduction of risks related to scale-up and operability of full-scale commercial plants which uses multiples of the same size units as tested in 2017. Following the completion of the demonstration for Kemess, two other mining companies expressed interest in using the demonstration unit for evaluating the potential deployment of Selen-IX™ in their projects.

Consulting Services

Also during the quarter, BQE continued to provide consulting services for several water treatment projects in Canada, United States, Asia, Europe and Mexico. These services covered a broad spectrum of activities including preparation of water and contaminant management plans at mine sites, optimization of existing water treatment plants, technical support to ongoing treatment plants operations, engineering assessments of different treatment options, assistance with permitting, and finally, expansion of and subsequent commissioning of cyanide recovery plant using the SART process at a gold mine.

Lab Testing Services

During Q3 2017, BQE continued to perform lab scale testing of its technologies at various mine sites with customers in Northern 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 the formation of a new joint venture in China with Shandong MWT. The immediate goal of the joint venture was to build, own and operate a zinc and copper recovery plant at a smelter in China. Following initial stages of engineering and project permitting, the construction phase began in Q3 2017 with the expectation to start the commissioning of the plant by the beginning of the third quarter in 2018. Under the terms of the joint venture contract, we will receive an operating fee for the first 3 years of the plant operation and an ongoing 20% share of the profits which is expected to recover up to 6 million pounds of zinc per year and 160,000 pounds of copper per year based on the current flow and metal loading in the smelter wastewater.

FINANCIAL RESULTS

(in $'000 except for per share amounts)	**3 months ended Sept. 30**		**9 months ended Sept. 30**	
	2017	2016	**2017**	2016
	$	$	**$**	$
Revenues	**1,578**	1,356	**3,199**	2,390
less: Plant and other operating costs (*excluding depreciation*)	**642**	494	**1,716**	1,078
	936	862	**1,483**	1,312
General and administration	**383**	410	**1,254**	1,301
Sales and development	**263**	356	**855**	973
Stock-based compensation	**34**	30	**43**	76
Depreciation and amortization	**31**	60	**98**	176
Share of results of equity accounted joint ventures	**(470)**	(160)	**(1,268)**	(351)
Income (loss) from operations and joint ventures	**695**	166	**501**	(863)
Other expense, net	**17**	49	**134**	1,482
Income taxes recovery	**(153)**	-	**(153)**	-
Net income (loss) for the period	**831**	117	**520**	(2,345)
Translation (loss) gain on foreign operations	**(97)**	22	**(140)**	1,048
Comprehensive income (loss) for the period	**734**	139	**380**	(1,297)
Net loss per share (basic and diluted)	**0.01**	0.00	**0.01**	(0.02)
Proportional Revenues[1]	**3,147**	2,411	**7,437**	6,066
Adjusted EBITDA[1]	**1,088**	414	**1,333**	(102)

	at Sept. 30, 2017	at Dec. 31, 2016
Working capital	**(454)**	1,660
Total assets	**7,728**	7,459
Total long term liabilities	**-**	1,378
Shareholders' equity	**5,141**	4,756

Notes:

1. *See Non-GAAP measures*

KEY QUARTERLY FINANCIAL INFORMATION

Financial information for the last eight quarters are as follows:

Quarters ended	**Sept-17**	Jun-17	Mar-17	Dec-16	Sept-16	Jun-16	Mar-16	Dec-15
	$	$	$	$	$	$	$	$
Total revenues	**1,578**	953	668	1,570	1,356	644	391	1,229
Plant and other operating costs (excluding depreciation)	**642**	656	418	680	494	365	219	813
	936	297	250	890	862	279	172	416
General and administration	**383**	376	495	404	410	465	426	577
Sales and development	**263**	303	288	181	356	268	349	278
Stock-based compensation	**34**	15	(7)	-	30	16	30	(1)
Depreciation and amortization	**31**	33	33	58	60	59	57	57
Share of results of equity accounted joint ventures	**(470)**	(764)	(34)	195	(160)	(291)	100	392
Income (loss) from operations and joint ventures	**695**	334	(525)	52	166	(238)	(790)	(887)
Other (expenses) income	**(78)**	(69)	(48)	(36)	(49)	(1,415)	(26)	206
Bad debt recovery	**61**	-	-	4	-	7	-	68
Income tax recovery (expense)	**153**	-	-	(1)	-	-	-	(143)
Net income (loss)	**831**	265	(573)	19	117	(1,646)	(816)	(756)
Translation (loss) gain	**(97)**	(51)	9	(94)	22	1,290	(263)	(174)
Comprehensive income (loss)	**734**	214	(564)	(75)	139	(356)	(1,079)	(930)
Non-GAAP Measures:								
Proportional Revenue	**3,147**	3,182	1,108	2,295	2,411	2,137	1,519	1,723
Adjusted EBITDA	**1,088**	744	(497)	107	414	71	(584)	(777)

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 Q3 2017 FINANCIAL RESULTS

The following is a summary of selected financial results for the three month periods ended September 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	**Q3 2017** **$**	**% of total**	Q3 2016 $	% of total	Total Revenue % Change
Water treatment plant operations	**1,000**	**32%**	1,061	44%	(6%)
Technical services	**578**	**18%**	295	12%	96%
Total revenue	**1,578**	**50%**	1,356	56%	16%
Share of joint venture revenue	**1,569**	**50%**	1,055	44%	49%
Total Proportional Revenue	**3,147**	**100%**	2,411	100%	31%

Revenue from water treatment operations is generated from the Company's seasonal operation of the WTP at the Raglan Mine. Starting in 2017, BQE has extended the operating contract until the end of 2020. Although the revenues in Q3 2017 were comparable to those in Q3 2016, we expect that the total revenue for 2017 will be lower than in 2017 due to the significantly lower inventory of water requiring treatment at the mine site.

The revenue from technical services include engineering and plant design, construction and commissioning of WTP, laboratory and pilot demonstrations, consulting, and operation support, which represents a sum of multiple contracts of varying contract values. Revenue from technical services increased $283,000 from the same period in 2016. The increase was attributable to a greater number of projects; particularly from customers in Latin America.

Our share of revenue from our joint venture in China is generated from the metals recovered from the operations of WTP, which is impacted by the amount and price of copper sold. During Q3 2017, the total pounds of copper recovered increased by 18% over the same period in 2016. Our share of revenue increased by 49% from Q3 2016 which was due to the increase in copper recovered and the 26% increase in average copper prices during the period.

Plant and other operating costs (excluding depreciation)

Total plant and other operating costs (excluding depreciation) in Q3 2017 were $642,000 compared to $494,000 in Q3 2016, an increase of $148,000. The increase is mainly due to the increase in projects from technical services, which required additional engineering and laboratory labor.

Expenses

In Q3 2017, general and administration expenses were $383,000 compared to $410,000 in Q3 2016. The decrease of $27,000 in general and administration costs were mainly due to the reduction of consulting fees and rental expenses.

Sales and development costs in Q3 2017 were $263,000 compared to $356,000 in Q3 2016, which is a decrease of $93,000. This decrease reflects an increase of engineering and lab labor allocated to projects in order to support the increase of project activity compared to the prior year's quarter.

Depreciation and amortization expenses were $31,000 in Q3 2017 compared to $60,000 in Q3 2016. The decrease of $29,000 was because the ChemSulphide® plant asset was fully depreciated as at December 31, 2016.

Stock-based compensation expense in Q3 2017 was $34,000 compared to $30,000 in Q3 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 $55,000 in Q3 2017 compared to $56,000 in Q3 2016. The recorded interest expense reflects the loan accretion and accrued interest of the $1.5 million, 18-month convertible loan which was issued in July 2016.

During Q3 2017, we recognized a foreign exchange loss of $23,000 compared to a gain of $7,000 in Q3 2016. These losses and gains arise mainly from changes in the value of the US dollar, Mexican peso, Chilean peso and Chinese renminbi relative to the Canadian dollar.

The Company recorded a bad debt recovery of $50,000 during Q3 2017 of Value Added Tax ("VAT") receivable from the Mexican government, which were written off in 2014. Our Mexican entity was able to apply the recovered VAT towards the VAT payable from revenue earned during 2017. Also included in the bad debt recovery during Q3 2017, the Company recovered from its customers a net receivable of $11,000.

Also during Q3 2017, BQE recorded an income tax recovery of $153,000. In 2012, the Company accrued income tax expenses of $153,000, which was a 15% withholding tax on profits generated from an engineering contract with a client based in Chile. During the quarter, we received confirmation from Chile that BQE is not liable for paying the 15% withholding tax. These taxes and recoveries are not able to be offset against accumulated tax benefits in other jurisdictions.

SUMMARY OF YEAR-TO-DATE Q3 2017 FINANCIAL RESULTS

The following is a summary of selected financial results for the nine month periods ended September 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 Q3 2017 $**	**% of total**	Year-to-date Q3 2016 $	% of total	Total Revenue % Change
Water treatment plant operations	**1,153**	**16%**	1,256	21%	(8%)
Technical services	**2,046**	**27%**	1,134	18%	80%
Total revenue	**3,199**	**43%**	2,390	39%	34%
Share of joint venture revenue	**4,238**	**57%**	3,676	61%	15%
Total Proportional Revenue	**7,437**	**100%**	6,066	100%	23%

The current year-to-date revenue from water treatment operations has decreased $103,000 when compared to 2016. The decrease is due to a significantly lower inventory of water requiring treatment at the mine site for 2017.

Revenue from technical services increased by $912,000 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 totaled $938,000 in 2017.

With our JCC joint venture, our share of year-to-date revenue from metal recovery increased by $562,000 from 2016. Despite an 8% decrease of copper recovered, total revenue increased due to a 24% increase in average copper prices compared to the prior year.

Plant and other operating costs (excluding depreciation)

The year-to-date plant and other operating costs (excluding depreciation) in 2017 increased by $638,000 compared to the same period in 2016. The 59% increase is mainly due to the increase in projects from technical services that require additional labor resources to complete the scope of these projects in 2017.

Expenses

The year-to-date general and administration expenses in 2017 slightly decreased by $47,000 as compared to the same period in 2016. The decrease is a result of the net savings from reduced rental expenses and moving expenses incurred during 2017.

Sales and development costs in year-to-date 2017 decreased by $118,000 over the same period in 2016, as labor resources were allocated projects in order to support higher project activity in 2017.

LIQUIDITY AND CAPITAL RESOURCES

At September 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 November 22, 2017, the number of common shares issued and outstanding remain unchanged from September 30, 2017 and the number of stock options outstanding is 2,933,333.

For the nine months ended September 30, 2017, the Company generated a net income of $520,432 (loss of $2,345,015 in 2016) and used net cash in operating activities of $769,084 ($843,863 in 2016). At September 30, 2017, the Company had a negative working capital of $453,679 (positive $1,660,170 at December 31, 2016) and a cumulative deficit of $60,986,433 ($61,506,865 at December 31, 2016).

Between now till 2021, the Company has commitments of $784,039 under operating leases for office and laboratory premises and for office equipment.

As disclosed in note 2(b) of our Condensed Consolidated Interim Financial Statements for the period ended September 30, 2017 and in the "Q3 2017 COMMENTARY AND OUTLOOK" section of this MD&A, the Company no longer expects to generate sufficient working capital to enable us to repay the principle amount of the convertible loan due January 6, 2018 and have sufficient cash reserves to meet ongoing operating requirements over the next 12 months. Management and the Board of Directors of the Company are currently in discussions with the lenders in restructuring the existing convertible loan to ensure sufficient levels of working capital moving into 2018. There is uncertainty to whether the restructuring will be successful or not. Beyond this point, we will need to secure new sources of working capital to continue operations.

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 September 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 nine months ended September 30, 2017, the services received amounted to $15,000 and $45,000 (2016 – $30,000 and $90,000).

b) For the three and nine months ended September 30, 2017 and 2016, the compensation awarded to key management, which includes the Company's Board of Directors and executive management, are as follows:

	3 months ended Sept. 30		9 months ended Sept. 30	
	2017	2016	2017	2016
	$	$	$	$
Salaries, fees and short-term benefits	157,128	126,779	442,519	398,522
Share-based payments	-	2,400	2,610	11,102
	157,128	129,179	445,129	409,624

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.