BQE Water

BQE WATER INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in Canadian dollars unless stated otherwise)
(Unaudited)

For the three and six months ended June 30, 2019 and 2018

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 2019 $	December 31 2018 $
Assets			
Current assets			
Cash		**359,857**	1,425,312
Trade and other receivables	5	**1,900,532**	1,304,821
Prepaid and other deposits		**93,711**	86,931
Total current assets		**2,354,100**	2,817,064
Non-current assets			
Plant and equipment	7	**439,145**	98,439
Investment in joint ventures	8	**5,481,088**	4,962,449
Deposits		**29,576**	34,699
Total non-current assets		**5,949,809**	5,095,587
Total assets		**8,303,909**	7,912,651
Liabilities			
Current liabilities			
Trade payable and accrued liabilities	6, 9	**1,296,247**	1,352,280
Deferred revenues		**135,010**	92,556
Current portion of lease obligations	11	**156,780**	-
Deferred benefits	12	**143,505**	86,171
Total current liabilities		**1,731,542**	1,531,007
Non-current liabilities			
Loans	10	**146,680**	-
Lease obligations	11	**211,844**	-
Total non-current liabilities		**358,524**	-
Total liabilities		**2,090,066**	1,531,007
Shareholders' Equity			
Share capital	13	**56,332,413**	56,332,413
Contributed surplus	12	**10,294,297**	10,265,959
Accumulated other comprehensive income		**1,286,812**	1,500,791
Accumulated deficit		**(61,699,679)**	(61,717,519)
Total shareholders' equity		**6,213,843**	6,381,644
Total liabilities and shareholders' equity		**8,303,909**	7,912,651

Going concern (note 2(b))
Commitments (note 16)

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

BQE WATER INC.
Condensed Consolidated Interim Statements of Income (Loss) and Other Comprehensive Income (Loss)
For the three and six months ended June 30, 2019 and 2018
(Unaudited)

		3 months ended June 30		6 months ended June 30	
		2019	2018	**2019**	2018
		$	$	**$**	$
	note				
Revenues	17	**1,215,640**	539,748	**1,932,000**	1,067,241
Operating expenses (excluding depreciation)		**606,565**	438,958	**1,050,565**	898,738
Operating margin before depreciation		**609,075**	100,790	**881,435**	168,503
General and administration		**361,651**	344,292	**745,119**	713,345
Sales and development		**273,630**	328,293	**592,820**	652,366
Share-based payment expenses	12	**63,524**	9,588	**85,672**	64,108
Depreciation of plant and equipment	7	**49,930**	4,227	**99,759**	7,764
Share of results of equity accounted joint ventures	8	**(506,757)**	(697,206)	**(708,893)**	(793,856)
Income (loss) from operations and joint ventures		**367,097**	111,596	**66,958**	(475,224)
Finance costs, net		**(10,098)**	(33,366)	**(19,383)**	(63,906)
Foreign exchange (loss) gain		**(7,064)**	(17,717)	**(25,479)**	275
Other losses		**(985)**	-	**(985)**	-
Income (loss) before income taxes		**348,950**	60,513	**21,111**	(538,855)
Income tax expense		**(3,271)**	-	**(3,271)**	-
Net income (loss) for the period		**345,679**	60,513	**17,840**	(538,855)
Other comprehensive (loss) income					
Items that will be reclassified subsequently to income					
Translation (loss) gain on foreign operations		**(240,772)**	(156,632)	**(213,979)**	163,087
Comprehensive income (loss) for the period		**104,907**	(96,119)	**(196.139)**	(375,768)
Net income (loss) per share					
Basic and diluted		**0.29**	0.06	**0.01**	(0.57)
Weighted average number of shares outstanding					
Basic and diluted		**1,208,435**	939,667	**1,208,435**	939,667

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, 2019 and 2018
(Unaudited)

	note	**Number of Shares**	**6 months ended June 30, 2019 $**	Number of Shares	6 months ended June 30, 2018 $
Share Capital					
Balance, beginning of the period	13	**1,208,435**	**56,332,413**	939,667	54,719,814
					-
Balance, end of the period		**1,208,435**	**56,332,413**	939,667	54,719,814
Contributed surplus					
Balance, beginning of the period			**10,265,959**		10,058,149
Equity settled share-based payments	12		**28,338**		62,356
Balance, end of the period			**10,294,297**		10,120,050
Equity component of convertible loan					
Balance, beginning of the period			**-**		86,575
			-		-
Balance, end of the period			**-**		86,575
Accumulated other comprehensive income					
Balance, beginning of the period			**1,500,791**		1,398,709
Other comprehensive (loss) income for the period			**(213,979)**		163,087
Balance, end of the period			**1,286,812**		1,561,796
Accumulated deficit					
Balance, beginning of the period			**(61,717,519)**		(61,867,916)
Net income (loss) for the period			**17,840**		(538,855)
Balance, end of the period			**(61,699,679)**		(62,406,771)
Total shareholders' equity					
Balance, beginning of the period			**6,381,644**		4,395,331
Equity settled share-based payments	12		**28,338**		62,356
Net income (loss) for the period			**17,840**		(538,855)
Other comprehensive (loss) income for the period			**(213,979)**		163,087
Balance, end of the period			**6,213,843**		4,081,919

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, 2019 and 2018
(Unaudited)

	note	6 months ended June 30 2019 $	2018 $
Operating activities			
Net income (loss) for the period		**17,840**	(538,855)
Adjustments for items not affecting cash:			
Income tax expense		**3,271**	-
Other losses		**985**	-
Share of results of equity accounted joint ventures	8	**(708,893)**	(793,856)
Interest expense, net		**19,383**	63,906
Depreciation of plant and equipment	7	**99,759**	7,764
Net foreign exchange loss (gain)		**22,244**	(17,047)
Shared-based payment expenses	12	**85,672**	64,108
		(459,739)	(1,213,980)
Change in non-cash operating working capital items	15	**(616,268)**	311,068
Cash used in operations		**(1,076,007)**	(902,912)
Income tax paid		**-**	-
Net cash used in operating activities		**(1,076,007)**	(902,912)
Investing activities			
Purchase of equipment	7	**(1,353)**	(16,443)
Contributions made to joint ventures	8	**(34,701)**	(46,114)
Interest received		**4,281**	1,164
Net cash used in investing activities		**(31,773)**	(61,393)
Financing activities			
Lease payments	11	**(70,486)**	-
Proceeds from loans	10	**146,680**	325,930
Interest paid		**(23,664)**	(62,944)
Net cash generated from financing activities		**52,530**	262,986
Effect of exchange rate changes on cash		**(10,205)**	17,026
Change in cash		**(1,065,455)**	(684,293)
Cash, beginning of the period		**1,425,312**	984,298
Cash, end of the period		**359,857**	300,005

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. ("BQE Water" or the "Company") is the ultimate parent company of its consolidated group. BQE Water is an integrated water services provider with unique expertise and intellectual property related to the management and treatment of water at mines and metallurgical facilities with a focus on reducing Life Cycle Costs and eliminating long-term liabilities.

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

2. BASIS OF PREPARATION AND GOING CONCERN

a. Statement of compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"), and interpretations of the IFRS Interpretations Committee ("IFRIC"), effective as of June 30, 2019.

The Board of Directors of the Company have approved these unaudited condensed consolidated interim financial statements on August 13, 2019.

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, 2019, the Company reported net income of $17,840 (net loss of $538,855 in 2018) and used net cash in operating activities of $1,076,007 ($902,912 in 2018). At June 30, 2019, the Company had a net working capital of $622,558 ($1,286,057 at December 31, 2018) and a cumulative deficit of $61,699,679 ($61,717,519 at December 31, 2018).

The Company expects to have sufficient working capital resources to finance its current operations beyond the next 12 months. Nevertheless, there are significant risks related to the Company's ability to continue as a going concern. Such risks includes the suspension or major delays in the annual repatriation of funds from the Company's investments in joint ventures in China, the devaluation of the annual dividend due to unfavorable change in exchange rates between the Chinese renminbi and the Canadian dollar, and the Company's inability to maintain profitable operations. Although Management of the Company have partial influence on the Company's ability to maintain profitable operations, the majority of the remaining risks are outside Management's control. In addition, the Company's working capital reserves are expected to continue to be subject to significant fluctuations caused by the seasonality of the Company's plant operations and the uncertainty of timing of non-recurring revenue from new projects. As a result, it is uncertain whether the Company will be able to sustain profitability and positive cash flow from operations.

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 uncertainty that may cast doubt upon the Company's ability to continue as a going concern. These interim consolidated financial statements do not include adjustment to the recoverability and classification on recorded assets and liabilities. Such related expenses might be necessary should the Company be unable to continue as a going concern. If the going concern assumption is not appropriate, material adjustments to the financial statements could be required.

c. Basis of measurement

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

d. Basis of consolidation

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

Entity	Country of incorporation and operation	Ownership interest as at Jun. 30, 2019	Ownership interest as at Dec. 31, 2018
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, 2019	Ownership interest as at Dec. 31, 2018
JCC-BioteQ Environmental Technologies Co. Ltd.	China	50%	50%
Shandong MWT BioteQ Environmental Technologies Co. Ltd.	China	20%	20%

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies as set out below have been consistently applied to all periods presented in these condensed consolidated interim financial statements and are prepared using the same accounting policies and methods of computation as the annual audited consolidated financial statements of the Company for the year ended December 31, 2018, with the exception of the adoption of IFRS 16 as described below. Certain prior year comparative figures have been reclassified to comply with the current year's presentation.

IFRS 16 – Leases

On January 6, 2016, the IASB issued IFRS 16, *Leases* ("IFRS 16"). This standard specifies the methodology to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases. IFRS 16 replaces IAS 17 Leases ("IAS 17") and the effective date for reporting periods beginning on or after January 1, 2019.

The Company adopted IFRS 16 on January 1, 2019 using the modified retrospective approach. Under this approach, the cumulative effect of initially applying IFRS 16 is recognized as an adjustment to equity at the date of initial application. The comparatives for the 2018 reporting period have not been restated and are accounted for under IAS 17, as permitted under the specific transitional provisions in the standard. Additionally, the Company has adopted the exemption by election of not recognizing right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less, and leases of low-value assets. For these leases, the Company recognizes the lease payments as an expense in net income on a straight-line basis over the term of the lease.

On adoption of IFRS 16, the Company recognized lease liabilities for leases previously classified as an operating lease under IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's applicable incremental borrowing rate as of January 1, 2019. The incremental borrowing rate applied to the lease liabilities on January 1, 2019 is 12%. The Company exercised judgment regarding whether it was reasonably certain that the Company would exercise an option to extend a lease. Given that the Company's recognition of right-of-use assets were measured at the amount equal to the lease liability at the date of initial application, no adjustment to equity has been recognized upon IFRS 16 adoption on January 1, 2019.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Estimates and assumptions are continually evaluated and are based on management's experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively. The judgments, estimates and assumptions applied in these condensed consolidated interim financial statements, including key sources of estimation uncertainty were the same as those applied in the Company's last annual audited consolidated financial statements for the year ended December 31, 2018, other than those additional areas which have arisen as a result of the implementation effective January 1, 2019 of IFRS 16 as discussed earlier.

5. TRADE AND OTHER RECEIVABLES

	Jun. 30, 2019	Dec. 31, 2018
	$	$
Trade receivables	1,346,133	786,445
Contract assets	421,392	199,719
Other	133,007	318,657
	1,900,532	1,304,821

6. RELATED PARTY TRANSACTIONS AND BALANCES

For the three and six months ended June 30, 2019 and 2018, the compensation awarded to the Company's key management, which includes the Board of Directors and executive management, are as follows:

	3 months ended Jun. 30		6 months ended Jun. 30	
	2019	2018	2019	2018
	$	$	$	$
Salaries, fees and short-term benefits	166,514	133,411	322,124	259,622
Share-based payments	6,275	13,436	38,004	26,724
	172,789	146,847	360,128	286,346

Included in the trade payables and accrued liabilities as of June 30, 2019 is $106,605 ($131,723 at December 31, 2018) of salaries, management consulting service fees with companies owned by the Company's management, director fees and termination benefits. For the three and six months ended June 30, 2019, the consulting services received from companies owned by the Company's management amounted to $30,000 and $60,000 respectively ($38,000 and $77,000 in 2018).

7. PLANT AND EQUIPMENT

	Right-of-use assets[1]	Pilot plants	Other[2]	Total
	$	$	$	$
As at Dec. 31, 2018				
Opening net book value	-	-	42,463	42,463
Additions	-	-	74,692	74,692
Depreciation	-	-	(18,716)	(18,716)
Closing net book value	-	-	98,439	98,439
As at Dec. 31, 2018				
Cost	-	580,593	642,757	1,223,350
Accumulated depreciation	-	(580,593)	(544,318)	(1,124,911)
Closing net book value	-	-	98,439	98,439
As at Jun. 30, 2019				
Opening net book value	-	-	98,439	98,439
Additions	439,111	-	1,354	440,465
Depreciation	(82,014)	-	(17,745)	(99,759)
Closing net book value	357,097	-	82,048	439,145
As at Jun. 30, 2019				
Cost	439,111	580,593	644,112	1,663,816
Accumulated depreciation	(82,014)	(580,593)	(562,064)	(1,224,671)
Closing net book value	357,097	-	82,048	439,145

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

[2]Other comprises of leasehold improvements, furniture, lab equipment and computer equipment.

8. INVESTMENT IN JOINT VENTURES

The Company's share of investment in joint ventures on June 30, 2019 is $5,481,088 ($4,962,449 on December 31, 2018), and they are comprised of:

	JCC-BQE $	MWT-BQE $
Balance, January 1, 2018	5,020,343	74,913
Share of net income (loss)	968,749	(70,616)
Share of translation gain on foreign operation	72,173	10,354
Contributions made	131,953	-
Distributions received	(1,245,420)	-
Balance, December 31, 2018	4,947,798	14,651
Share of net income (loss)	738,226	(29,333)
Share of translation loss on foreign operation	(211,929)	(13,026)
Contributions made	34,701	-
Balance, June 30, 2019	5,508,796	(27,708)

a. JCC-BioteQ Environmental Technologies Co. Ltd.

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

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

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

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

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

Statement of financial position

	Jun. 30, 2019 $	Dec. 31, 2018 $
Assets		
Current assets		
Cash and short-term investments	2,477,536	1,806,938
Trade and other receivables	363,841	252,350
Income taxes recoverable	-	134,412
Inventory	32,048	37,654
Prepaid expenses	1,189	13,549
	2,874,614	2,244,903
Non-current assets		
Plant and equipment	3,761,311	4,100,733
Deferred tax assets	64,543	67,115
	3,825,854	4,167,848
Total assets	6,700,468	6,412,751
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,191,672	1,464,953
Total liabilities	1,191,672	1,464,953
Partner's Equity		
Joint venture partner equity	3,899,057	3,864,356
Accumulated other comprehensive income	1,304,210	1,516,139
Accumulated earnings (deficits)	305,529	(432,697)
Total partner's equity	5,508,796	4,947,798
Total liabilities and partner's equity	6,700,468	6,412,751

Statements of operations and comprehensive income

	3 months ended Jun. 30		6 months ended Jun. 30	
	2019	2018	2019	2018
	$	$	$	$
Revenues	1,871,925	2,291,731	3,105,364	3,046,489
Operating costs (excluding depreciation)	1,012,571	1,131,115	1,844,786	1,612,049
	859,354	1,160,616	1,260,578	1,434,440
General and administration	73,612	152,530	139,200	208,917
Depreciation of plant and equipment	119,243	121,878	238,806	254,628
Income from operations	666,499	886,208	882,572	970,895
Finance income	339	523	8,339	1,573
Other expenses	-	-	-	(1,250)
Income before income taxes	666,838	886,731	890,911	971,218
Current income tax expense	(137,475)	(179,512)	(152,685)	(158,850)
Net income for the period	529,363	707,219	738,226	812,368
Other comprehensive income				
Translation (loss) gain on foreign operation	(234,324)	(175,454)	(211,929)	146,216
Comprehensive income for the period	295,039	531,765	526,297	958,584

b. Shandong MWT BioteQ Environmental Technologies Co. Ltd.

During 2016, BQE Water signed a joint venture agreement with Beijing MWT Water Treatment Project Limited Company (“MWT”) for the construction and operation of a water treatment plant located in Shandong Province of China. The joint venture between BQE Water and MWT is called Shandong MWT BioteQ Environmental Technologies Co., Ltd. (“MWT-BQE”). The joint venture will build a water treatment plant located on a vacant lot owned by Shandong Zhaojin Group Zhaoyuan Gold Smelting Co., Ltd (“Zhaoye”). The joint venture will operate the plant using BQE Water’s patented technology to recover and sell copper and zinc metals from Zhaoye’s industrial wastewater stream to generate profits. BQE Water is entitled to 20% of the after-tax profits of the joint venture. Upon the establishment of MWT-BQE, the Company paid a cash contribution of $96,400 (RMB $500,000) as registered capital, which is 4.35% of the total registered capital of the joint venture. Starting September 2018, the joint venture began recovering metals through the operation.

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

	Jun. 30, 2019	Dec. 31, 2018
	$	$
Current assets	49,487	54,641
Plant and equipment	69,769	81,926
Current liabilities	49,801	57,899
Partner's equity	(27,708)	14,651

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

	3 months ended Jun. 30		6 months ended Jun. 30	
	2019	2018	2019	2018
	$	$	$	$
Revenue	49,677	-	157,295	-
Operating costs (excluding depreciation)	35,328	-	89,613	-
	14,349	-	67,682	-
General and administration	16,103	10,029	55,264	18,517
Depreciation of plant and equipment	20,856	32	41,707	64
Loss from operations	(22,610)	(10,061)	(29,289)	(18,581)
Net finance income, net	4	48	(44)	69
Net loss for the period	(22,606)	(10,013)	(29,333)	(18,512)
Other comprehensive income				
Translation (loss) gain on foreign operation	(14,412)	(12,917)	(13,026)	13,526
Comprehensive loss for the period	(37,018)	(22,930)	(42,359)	(4,986)

9. TRADE PAYABLE AND ACCRUED LIABILITIES

	Jun. 30, 2019	Dec. 31, 2018
	$	$
Trade payable and accruals	763,500	824,720
Payroll liabilities	509,200	464,650
VAT and taxes payable	23,547	62,910
	1,296,247	1,352,280

10. LOANS

On August 20, 2018, the Company entered into a loan agreement with the Minister of Western Economic Diversification Canada under the Western Innovation Initiative ("WINN"). The WINN loan offers the Company an interest-free loan contribution up to a maximum of $412,500. The purpose of the WINN loan is to assist the Company in its commercialization and scale up of its selenium removal technology in the resource sector. Under the loan agreement, the Company shall repay the total contribution in 60 equal monthly installments commencing on April 1, 2021 until March 1, 2026. As of June 30, 2019, the Company have received a total of $146,680 under this loan agreement.

11. LEASES

The Company adopted IFRS 16 on January 1, 2019 using the modified retrospective approach. Under this approach, the cumulative effect of initially applying IFRS 16 is recognized as an adjustment to equity at the date of initial application. Comparative figures are not restated to reflect the adoption of IFRS 16. Additionally, the Company adopted the exemption for leases with a lease term of 12 months or less and for leases that are low value. As the Company's recognition of lease liabilities is an equal amount to the initial recognition of the right-of-use assets, no adjustment to equity was recognized upon IFRS 16 adoption on January 1, 2019.

The Company's lease assets such as buildings and office equipment. These assets are included in the plant and equipment assets on the statement of financial position and are classified as right-of-use assets as per note 7.

For the three and six months ended June 30, 2019, the Company expensed $9,214 and $19,261 related to leases that are classified as short term and as low value assets.

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

	$
Balance, December 31, 2018	-
Addition due to adoption of IFRS 16	439,111
Interest accretion	23,663
Interest paid	(23,663)
Lease payments	(70,487)
Balance, June 30, 2019	368,624
Less: current portion of lease obligations	156,780
Non-current portion of lease obligations	211,844

12. SHARE-BASED PAYMENT EXPENSES

The Company's share-based payment expenses for the three and six months ended are comprised as follows:

	3 months ended Jun. 30		6 months ended Jun. 30	
	2019	2018	2019	2018
	$	$	$	$
Stock options (a)	14,247	31,350	28,338	62,356
Deferred share units (b)	5,503	(21,207)	13,560	1,615
Restricted share units (c)	43,774	(555)	43,774	137
	63,524	9,588	85,672	64,108

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 36 months in equal installments.

Each vesting tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the grant date using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately. Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2019		2018	
	Weighted average exercise price $	Number of options	Weighted average exercise price $	Number of options
Outstanding at January 1	6	62,000	7	71,333
Forfeited	6	500	7	(4,000)
Expired	7	20,000	15	(5,333)
Outstanding at June 30	6	41,500	6	62,000
Exercisable at June 30	6	13,833	7	20,000

The Company uses the Black-Scholes option pricing model in determining the fair value of the stock options. During the three and six months ended June 30, 2019, the Company recognized $14,247 and $28,338 ($31,350 and $62,356 in 2018) of non-cash compensation expense related to stock options. The expiry date by exercise price at June 30, 2019 are as follows:

Exercise price $	Expiry Date	number of outstanding share options
6.00	December 7, 2022	41,500

b. Deferred share unit

The Company implemented a deferred share units ("DSU") plan, effective July 1, 2010, pursuant to which DSUs may be granted to management and non-employee members of the Board of Directors on an annual basis. Effective from October 1, 2013, the DSU Plan was amended to include certain senior managers of the Company. The number of DSUs granted to a participant is calculated by dividing (i) a specified dollar amount of the participant's compensation amount paid in DSU in lieu of cash, and by (ii) the five-day volume weighted average trading price of the shares of the Company traded through the facilities of the Toronto Venture Exchange on the trading days immediately preceding the date of grant. Dividends paid on the shares of the Company are credited as additional DSUs. Each DSU entitles the holder to receive a cash payment equal to the five-day volume weighted average trading price of the shares preceding the date of redemption. The DSUs vest immediately upon issuance and may only be redeemed on the date a holder ceases to be a participant under the plan with payment made no later than the end of day 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 share-based payment expenses. The DSU is a financial instrument that is fair valued at each reporting date based on the five-day volume weighted average price of the Company's common shares.
The following table presents the changes to the DSU plan:

	Number of units	Value $
Balance, January 1, 2018	25,043	156,529
Redeemed	(9,658)	(61,288)
Fair value adjustment	-	(9,070)
Balance, December 31, 2018	15,385	86,171
Redeemed	(610)	(3,660)
Fair value adjustment	-	17,220
Balance, June 30, 2019	14,775	99,731

c. Restricted share units

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

The following table presents the changes to the RSU plan:

	Number of units	Value $
Balance, January 1, 2018	529	3,306
Redeemed	(529)	(1,746)
Fair value adjustment	-	(1,560)
Balance, December 31, 2018	-	-
Granted	6,485	42,477
Fair value adjustment	-	1,297
Balance, June 30, 2019	6,485	43,774

13. SHARE CAPITAL

Authorized: unlimited common shares without par value.

As at June 30, 2019, the Company had 1,208,435 common shares outstanding (unchanged from December 31, 2018).

On March 5, 2019, the Company completed a consolidation (the "Share Consolidation") of its share capital on the basis of 100 existing common shares for one new common share of the Company. Following the Share Consolidation, the Company had 1,208,435 common shares outstanding. The Share Consolidation was previously approved by shareholders at a meeting held on November 20, 2018. All information in these consolidated financial statements is presented on a post-Share Consolidation basis. The Company's outstanding stock options were adjusted on the same basis with proportionate adjustments being made to the stock option exercise prices. All comparative period information has been adjusted to reflect this Share Consolidation.

14. INCOME TAXES

The income tax charge is a result of profits and withholding tax in two jurisdictions which are taxable and cannot be offset by accumulated tax benefits in other jurisdictions. Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the three and six month period ended June 30, 2019 was 27% (27% at December 31, 2018).

15. SUPPLEMENTAL CASH FLOW INFORMATION

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

	6 months ended Jun. 30	
	2019	2018
Change in non-cash operating working capital items	$	$
Increase in trade receivables	(604,814)	(55,897)
Increase in other assets	(1,925)	(39,965)
(Decrease) increase in accounts payable and accrued liabilities	(53,563)	240,730
Increase in deferred revenue	44,034	166,200
Change in non-cash working capital items	(616,268)	311,068

16. COMMITMENTS

The Company has commitments of $691,806 under operating leases for office and laboratory premises, for laboratory assay services, and for office equipment, as follows:

	$
2019	155,824
2020	294,825
2021	165,882
2022	60,560
2023	14,715
	691,806

17. REVENUES

The Company monetizes the value of its intellectual property and expertise primarily through the services of long-term operations and maintenance of water treatment plants to generate recurring revenue that is directly linked to plant performance. As the period between the identification of new projects and treatment plants entering their operating phase can be lengthy, the Company also generates revenues from technical services relating to water management that are project specific and generally non-recurring in nature.

a) Disaggregation of Revenue

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

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

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

The disaggregated revenue of the Company are as follows:

	3 months ended Jun. 30		6 months ended Jun. 30	
	2019	2018	2019	2018
	$	$	$	$
Operations contracts	274,204	74,330	320,585	74,330
Technical services contracts	941,436	465,418	1,611,415	992,911
	1,215,640	539,748	1,932,000	1,067,241

b) Remaining Performance Obligations

As at June 30, 2019, the aggregate amount of the transaction price of ongoing contracts allocated to remaining performance obligations is $1,141,857, compared to $1,129,533 as at December 31, 2018. The remaining performance obligations of the Company are expected to be fully completed in the next 12 months of the reporting date. The value of remaining performance obligations does not include amounts for non-contracted future services or for estimated future work orders where the value of work is not specified. Therefore, the Company's anticipated future work to be performed at a given time is greater than what is reported as remaining performance obligations.

18. SEGMENTED INFORMATION

The Company has one operating segment, being principally to build and operate water treatment plants. The Company functions as operators of water treatment plants and as providers of technical services relating to water management.

a) 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	
	2019	2018	2019	2018
	$	$	$	$
Canada	563,047	385,726	751,406	741,569
Latin America	345,056	96,087	707,584	230,849
China	272,693	-	395,578	-
Other	34,844	57,935	77,432	94,823
	1,215,640	539,748	1,932,000	1,067,241

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

	Jun. 30, 2019	Dec. 31, 2018
	$	$
Canada	439,145	98,439
China	5,481,088	4,962,449
	5,920,233	5,060,888

b) 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, 2019 and 2018.

	3 months ended Jun. 30		6 months ended Jun. 30	
	2019	2018	2019	2018
	$	$	$	$
Customer A	252,743	74,330	266,999	74,330
Customer B	157,567	-	434,162	-
Customer C	187,489	-	203,704	-
Customer D	148,940	-	225,445	-
Customer G	81,499	183,347	175,467	220,625
	828,238	257,677	1,305,777	294,955
Represents percentage of total revenue for the period	68%	48%	68%	28%

BQE Water

BQE WATER INC.

Interim Management's Discussion and Analysis (Quarterly Highlights)

For the three and six months ended June 30, 2019 and 2018

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

Quarterly Highlights – for the three and six months ended June 30, 2019 and 2018

The following 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 financial condition. Management of the Company have prepared this document in conjunction with their broader responsibilities for reasonable assurance regarding the reliability of the financial reporting and the establishment and maintenance of adequate information systems and internal controls to ensure that the financial information is complete and reliable. Management also believes that any internal controls and procedures for financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met. 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 2019 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, 2019 and 2018 (our "Interim Financial Statements"), our audited consolidated financial statements for the years ended December 31, 2018 and 2017 (our "Audited Financial Statements") and our Annual MD&A for the year ended December 31, 2018. Our Interim Financial Statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"), effective as of June 30, 2019. All financial information in this MD&A is derived from the Company's Financial Statements prepared on a going concern basis, which presumes the realization of assets and discharge of liabilities in the normal course of business operations for the foreseeable future. Our accounting policies are described in note 2 of our Audited Financial Statements. All amounts are expressed in **Canadian dollars** unless otherwise noted.

The effective date of this MD&A is August 13, 2019.

Additional information relating to the Company is available on SEDAR at www.sedar.com and on the Company's website at www.bqewater.com.

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

OUR BUSINESS

BQE Water Inc. ("BQE Water" or the "Company") is helping to make the mining and metallurgical industry more environmentally sustainable and profitable by implementing innovative water management and treatment solutions that support and improve operations in this sector. We have unique expertise and intellectual property related to the treatment of mine water and metallurgical bleed streams which helps our clients minimize Life Cycle Costs and risks associated with water. Central to our business model is that BQE Water produces clean water and stable residues (or saleable by-products) and that we monetize the value of our unique process know-how through recurring revenues generated from plant operations services. Additionally, we recognize that sustained growth and financial success of our business is linked to ongoing innovation and the expansion of our IP portfolio which we are actively engaged in through our own operations and requests from clients evaluating new projects.

BQE Water is headquartered in Vancouver, British Columbia, Canada. The Company has regional offices in Chile and China, which are two key geographical markets in our business. BQE Water is listed on the TSX Venture Exchange under the symbol BQE. Additional information may be found on our website at www.bqewater.com and 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 amounts associated with our results of operations as determined in accordance with GAAP. In addition, non-GAAP financial measures do not have any standardized meaning prescribed by GAAP and are likely to be comparable to similar non-GAAP financial measures presented by other companies. Non-GAAP financial measures should only be used to evaluate our operational results in conjunction with the corresponding GAAP measures.

Proportional Results

Due to IFRS changes in 2012, the revenue and expenses associated with our Chinese joint ventures can no longer be proportionally consolidated into the Company's revenue and expenses as defined by GAAP. Currently, the revenue and expenses associated with our proportionate share of activities in our joint venture are netted and disclosed as a single line item as 'Share of results of equity accounted joint ventures' on our consolidated statements of income (loss) and comprehensive income (loss).

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

Proportional Revenues

This non-GAAP financial measure of Proportional Revenues add BQE Water's share of joint venture revenues to the Company's revenues reported under GAAP. Proportional Revenues for the three and six month periods ended June 30, 2019 and 2018 are as follows:

(in $'000s)	Three months ended Jun. 30		Six months ended Jun. 30	
	2019	2018	2019	2018
	$	$	$	$
Reported revenues under GAAP	1,216	540	1,932	1,067
Share of reported revenues from joint ventures	1,922	2,292	3,262	3,046
Proportional Revenues for the period	3,138	2,832	5,194	4,113

Adjusted EBITDA

Adjusted EBITDA ("earnings before interest, taxes, depreciation and amortization") are intended to provide additional information only and does not have any standardized meaning under IFRS and may not be comparable to similar measures presented by other companies. It should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. Consequently, the presentation of Adjusted EBITDA enables shareholders to better understand the underlying financial performance of our business through the eyes of management. Adjusted EBITDA includes adjustments of the Company's proportionate share of joint venture results. The following table reconciles this non-GAAP measure to the most directly comparable IFRS measure of net income (loss) for the three and six month periods ended June 30, 2019 and 2018:

(in $'000s)	Three months ended Jun. 30		Six months ended Jun. 30	
	2019	2018	2019	2018
	$	$	$	$
GAAP: Net income (loss)	345	61	18	(539)
add: interest expense (income)	10	32	11	62
add: income taxes	140	180	156	159
add: depreciation and amortization	190	126	381	263
EBITDA	685	399	566	(55)
add: share-based payment expenses	64	10	86	64
add: net foreign exchange loss	7	18	25	-
Adjusted EBITDA	756	427	677	9

Q2 2019 COMMENTARY AND OUTLOOK

We are very pleased with our Q2 2019 financial results and the realization of net earnings of $0.29 per share for the quarter, achieving the first ever net profit recorded during the first half of a calendar year. Having attained net earnings in fiscal 2018, extending this positive trend into the first half of 2019 is extremely encouraging. This is especially noteworthy because the first half of any calendar year for the Company is traditionally the weakest due to the seasonality of our existing ongoing operations in Canada and our joint venture operations in China. The single largest factor contributing to the improved overall financial performance of the Company in the first six months in 2019 is the increase in revenues from technical services. While this is very positive, our shareholders should understand the true meaning and importance of the recorded increase during 2019 to better appreciate the expectations for the remainder of the year and the longer term outlook.

In the Company's business model, technical services such as effluent treatability assessments, permitting assistance and preliminary engineering designs come early on in a project and often several years before a new water treatment plant is built and can contribute new recurring revenues when it starts operating. Therefore, revenues from technical services correlates well with the strength of our business development pipeline and provides a leading indicator of the Company's future growth of recurring revenues. Moreover, it is important to consider revenues from technical services over a longer term, preferably on an annual basis or longer to obtain a true picture of the Company's performance and future outlook. This is because it is difficult to predict the timing of this revenue which may lead to irregular financial performance from quarter to quarter.

Finally, while we expect revenues from technical services to continue to increase, we also anticipate that its relative contribution to the overall revenues of the Company will diminish in the future as the recurring revenues portion linked to plant operations grows with each new plant. Consequently, the results recorded in Q1 and Q2 2019 and all of 2018, which are dominated by improvements in revenues from technical services, should not be construed to reflect either a long-term rebalancing of recurring revenues from operations versus non-recurring revenues from technical services and/or a one-off or difficult to maintain short-term change in the Company's fortunes. Rather, the results should be seen as a positive indicator of future longer term performance anchored in a strong project pipeline.

The third quarter tends to be the strongest quarter for the Company when all of our treatment plants contribute the maximum recurring revenues. In addition, we signed several contracts for the construction of new plants in Q2 and expect the revenues from technical services to match our last two quarters. Therefore, the outlook for the rest of the year is very positive. Despite uncertainties around the magnitude and timing of revenues from technical services in 2020, the longer term forecast looks positive with several new plants entering operations next year and we expect the recurring revenue component of our Proportional Revenues to grow. Crucially, these plants include the first industrial scale Selen-IX™ plant showcasing our proprietary selenium removal technology and several SART plants which solidifies our leadership position in what we anticipate to be a fast growing segment of the global gold extraction market. In Management's view, the main risks to the Company's performance in the short-term is a possible sudden change in the foreign exchange rate between the Chinese renminbi and the Canadian dollar and/or a delay in the payment of our annual JCC-BQE dividend.

Q2 2019 OVERVIEW

Financial Highlights

- First ever net earnings recorded during the first six months of a calendar year, extending the period of positive net earnings from 2018;
- Adjusted EBITDA of $756,000 compared to $427,000 in the second quarter of 2018, a significant 77% increase;
- Net earnings per share of $0.29 compared to $0.06 in Q2 2018;
- Net income as reported under GAAP was $345,000 compared to $61,000 in Q2 2018;
- Proportional Revenues of $3.1 million compared to $2.8 million in Q2 2018; and
- Proportional Cash, which includes our share held in joint ventures, as of June 30, 2019 was $2.8 million compared to $2.5 million at June 30, 2018, and to $3.2 million at the end of 2018.

Operational Services Highlights

Our operational services consist of the operation of water treatment plants, which generates recurring revenues for the Company from two main sources: from the sales of recovered metals and from water treatment fees.

Revenues from Sales of Recovered Metals

The Company operates four water treatment plants that generate revenues from the sale of recovered metals, three plants operating under the JCC-BQE Joint Venture and one plant operating under the MWT-BQE Joint Venture.

JCC-BQE Joint Venture ("JCC-BQE")

Our joint venture with partner Jiangxi Copper Company ("JCC") operates three water treatment plants at the Dexing and Yinshan Mines in Jiangxi province of China. The volume of water treated and pounds of copper recovered by the plants fluctuate seasonally depending on precipitation levels in the region. The operating results for JCC-BQE for the three and six months ended June 30, 2019 are as follows:

(in '000s)	3 months ended Jun. 30		6 months ended Jun. 30	
	2019	2018	2019	2018
Water treated (cubic metres)	6,805	7,682	12,614	11,226
Copper produced (pounds)	1,189	1,341	1,971	1,781

During Q2 2019, all three plants met or exceeded mechanical availability and process performance. Both the volume of water treated and the mass of copper recovered decreased by 11% over the same period in 2018. 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.

MWT-BQE Joint Venture ("MWT-BQE")

Our joint venture with partner Beijing MWT Water Treatment Project Limited Company ("MWT") began operations for its first water treatment plant in Q4 2018. The water treatment plant in the Shandong province of China generates revenues from the sale of copper and zinc recovered from smelter wastewater. The operating results for MWT-BQE for the three and six months ended June 30, 2019 are as follows:

(in '000s)	3 months ended Jun. 30		6 months ended Jun. 30	
	2019	2018	2019	2018
Zinc recovered (pounds)	368	-	1077	-
Copper recovered (pounds)	51	-	104	-

During Q2 2019, the MWT-BQE water treatment plant recovered 48% less zinc than Q1 2019. The decrease in zinc recovery is due to a reduction in the volume of wastewater generated by the smelter and in the grade of recoverable zinc contained in the wastewater. The Company expects both of these factors to continue for the remaining of 2019. Such factors are beyond the Company's control as they are linked to a temporary change in the smelter's throughput. Copper recovery is consistent with production during Q1 2019.

<u>Revenues from Water Treatment Fees</u>

The Company is contracted to operate water treatment plants that generate recurring revenues in the form of treatment fees.

Compared to June 2018, the number of water treatment plants generating recurring revenues has increased by two for a total of five plants. They include four plants at Raglan Mine owned by Glencore in Canada and one plant operated by MWT-BQE in Shandong province. In Q1 2019, Glencore updated the scope of our existing operations services agreement to include the addition of operations for the Katinniq plant, which was previously operated by Glencore. This addition was based on 15 years of operational excellence for three other plants at Raglan Mine.

During Q2 2019, we mobilized our operations team to site to commence our 16th operating season at Raglan. The team began operations of the newly added Katinniq plant in April 2019 and began discharging clean water for the ChemSulphide® plant at the beginning of June 2019.

The MWT-BQE plant in Shandong generates an operations support fee paid to the Company by MWT-BQE. This fee is not linked to the volume of water treated but to the achievement of operational targets which rely on the Company's expertise delivered through ongoing operations services. The total water treated for the three and six months ended June 30, 2019 are as follows:

(in '000s)	3 months ended Jun. 30		6 months ended Jun. 30	
	2019	2018	2019	2018
4 Treatment plants at Raglan Mine (cubic metres)	319	-	319	-
1 Treatment plant at MWT-BQE (cubic metres)	80	-	231	-

Technical Services Highlights

BQE Water's technical expertise and IP are applicable globally across broad areas of water management. The highlights of our technical services and technical innovation projects during Q2 2019 are summarized below.

Commercial Deployment of Selen-IX™ Technology

- Assist with the procurement and fabrication of modularized equipment to be shipped and subsequently installed at the Kemess Mine in Northern BC. The new water treatment plant will use Selen-IX™ as one of the treatment stages.
- Preparation of the operating manual, pre-commissioning and commissioning plan.

Engineering Design & Assistance with Procurement for TMAC Resources

- Engineering design of a containerized modular water treatment plant for the Hope Bay project in Western Nunavut.
- Assist with the procurement and oversight of fabrication of equipment to meet a Port of Québec delivery deadline for shipment to site by boat.

Cyanide Management/Recovery for Precious Metals Extraction Projects using SART and the Management of Nitrogen Residues with various Treatment Approaches

- Engineering design and cost estimate for a SART plant treating up to 600 m3/hr of gold leach solution and the recovery of approximately 3,400 metric tons of copper and 6,700 metric tons of cyanide per year in South America.
- Engineering design to support the construction of a SART plant to treat 140 m3/hr of leach solution at the Parral project in Mexico.
- Engineering design for the construction of a SART plant integrated into the gold metallurgical processing facility for Shandong Zhongkuang Group in China.
- Cyanide management at a gold processing facility owned by Shandong Zhaojin Group in China.

Water Services – Management, Treatment, Permitting Assistance, Toxicity Mitigation

- On-site testing and engineering design of a temporary water treatment system to manage toxicity from cyanide destruction residue at a gold mine in Québec.
- Assessment of water quality control and general water management improvements at a large copper mine in Chile. This project involves waste residue minimization, scaling mitigation, flotation improvements and copper recovery from waste.
- Technical lead for the permitting of improvements and expansion of water treatment at the Silvertip Mine in BC.
- Technical review of water treatment for First Nations engaged in the permitting and re-start of an existing BC mine.

Optimization of Existing Water Treatment Plant

- Assessment of options to upgrade and expand the Spoon water treatment facility at Raglan Mine in response to mine expansion.

FINANCIAL RESULTS

(in $'000 except for per share amounts)	**3 months ended Jun. 30**		**6 months ended Jun. 30**	
	2019	2018	**2019**	2018
	$	$	**$**	$
Revenues	**1,216**	540	**1,932**	1,067
less: Operating expenses (*excluding depreciation*)	**607**	439	**1,051**	899
	609	101	**881**	168
General and administration	**362**	344	**745**	713
Sales and development	**274**	328	**593**	652
Share-based payment expenses	**64**	10	**86**	64
Depreciation and amortization	**50**	4	**100**	8
Share of results of equity accounted joint ventures	**(507)**	(697)	**(709)**	(794)
Income (loss) from operations and joint ventures	**366**	112	**66**	(475)
Other expenses, net	**(21)**	(51)	**(48)**	(64)
Net income (loss) for the period	**345**	61	**18**	(539)
Other comprehensive (loss) income				
Translation (loss) gain on foreign operations	**(241)**	(157)	**(214)**	163
Comprehensive income (loss) for the period	**104**	(96)	**(196)**	(376)
Net earnings (loss) per share (basic and diluted)	**0.29**	0.06	**0.01**	(0.57)
Proportional Revenues[1]	**3,138**	2,832	**5,194**	4,113
Adjusted EBITDA[1]	**756**	427	**677**	9

	at Jun. 30, 2019	at Dec. 31, 2018
Working capital	**623**	1,286
Total assets	**8,304**	7,913
Total long term liabilities	**359**	-
Shareholders' equity	**6,214**	6,382

<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-19**	Mar-19	Dec-18	Sept-18	Jun-18	Mar-18	Dec-17	Sept-17
	$	$	$	$	$	$	$	$
Total revenues	**1,216**	716	1,310	1,893	540	527	858	1,578
Operating expenses *(excluding depreciation)*	**607**	444	557	573	439	460	599	642
	609	272	753	1,320	101	67	259	936
General and administration	**362**	383	427	369	344	369	410	383
Sales and development	**274**	319	257	211	328	324	364	263
Shared-based payment expenses	**64**	22	10	37	10	55	25	34
Depreciation and amortization	**50**	50	7	4	4	4	116	31
Share of results of equity accounted joint ventures	**(507)**	(202)	198	(302)	(697)	(97)	119	(470)
Income (loss) from operations and joint ventures	**366**	(300)	(146)	1,001	112	(588)	(775)	695
Other (expense) income - net	**(17)**	(27)	15	(57)	(51)	(13)	(53)	(78)
Bad debt (expense) recovery	**(1)**	-	-	-	-	-	-	61
Income tax (expense) recovery	**(3)**	-	(125)	-	-	-	(53)	153
Net income (loss)	**345**	(327)	(256)	944	61	(601)	(881)	831
Translation (loss) gain	**(241)**	27	257	(318)	(157)	320	128	(97)
Comprehensive income (loss)	**104**	(300)	(1)	626	(96)	(281)	(753)	734
Non-GAAP Measures:								
Proportional Revenues	**3,138**	2,057	2,198	3,488	2,832	1,282	1,839	3,147
Adjusted EBITDA	**756**	(80)	(100)	1,272	427	(418)	(559)	1,088

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 revenues. Operations at Raglan typically run from May to November of each year. Copper production from the Dexing operations increases between April and September of each year and declines during the winter months due to variations in precipitation and the annual maintenance schedule. Revenues from contracts for technical services relating to water management and technical innovation projects occur based on the timing of client requirements.

SUMMARY OF Q2 2019 FINANCIAL RESULTS

The following is a summary of selected financial results for the three month periods ended June 30, 2019 and 2018.

Revenues

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

(unaudited, in $'000s)	**Q2 2019**		Q2 2018		
Revenue source	**$**	**% of total**	$	% of total	% Change
Sale of recovered metals from operations	**1,922**	**61%**	2,292	81%	(16%)
Water treatment fee from operations	**274**	**9%**	74	3%	270%
Technical services	**942**	**30%**	466	16%	102%
Total Proportional Revenues	**3,138**	**100%**	2,832	100%	11%

Revenues from the sale of recovered metals of value comprises the Company's share of joint venture revenue from the operation of water treatment plants in China. The amount of revenue is impacted by the quantity of metals recovered and the metal prices listed on the Shanghai Futures Exchange at the date of sale. During Q2 2019, the Company's share of revenues from the JCC-BQE joint venture decreased by 18% from the comparable period in 2018. The decrease is due to an 11% decrease in the quantity of copper recovered and an 8% decrease in average copper prices for the period. The MWT-BQE joint venture contributed $50,000 from the sale of recovered metals to the Company's share of Proportional Revenues in Q2 2019.

Revenues from water treatment fees are generated from the Company's seasonal operation of water treatment plants at Raglan Mine and from operations support at the MWT-BQE plant. The increase of $200,000 from the same period in 2018 is due to several factors. First, the 2019 operating season at Raglan Mine started two months earlier compared to the late start in the 2018 season. Second, in addition to the three water treatment plants at Raglan Mine the Company provides operational services, the Company took responsibility for water treatment, water quality management and environmental discharge at Katinniq beginning in May 2019 earning an additional $38,000 in revenues. Lastly, the Company continues to provide ongoing operations support at the MWT-BQE water treatment plant during Q2 and earned $48,000 in revenues from operations support fees.

Revenues from technical services relating to water management includes services such as effluent treatability assessment, permitting assistance, engineering and plant design, construction and commissioning of water treatment plants, laboratory testing and pilot demonstrations. It represents the sum of multiple contracts from various clients of varying contract values and the timing of revenues from technical services fluctuates from quarter to quarter based on client needs and the project stage of completion at the reporting date. During Q2 2019, the increase in technical services revenues mainly stems from the increase in projects relating to the engineering and design of SART plants globally, which consists of $225,000 from China and $345,000 from Latin America.

Operating Expenses (excluding depreciation)

Operating expenses (excluding depreciation) in Q2 2019 were $607,000 compared to $439,000 in Q2 2018. Each technical services project will require different levels of technical expertise and resources depending on the specific mine conditions and treatment requirements. The year over year change in operating expenses for the second quarter is due to the costs required to complete the scope of projects.

Our share of operating expenses (excluding depreciation) in the China joint ventures for Q2 2019 was $1 million compared to $1.1 million in Q2 2018. The 7% decrease in expenses is attributed to the decrease in the cost of recovering 11% less copper from our JCC-BQE joint venture and is offset by the increased production cost for the zinc recovered by the new water treatment plant operated by the MWT-BQE joint venture.

Expenses

In Q2 2019, general and administration costs were $362,000 compared to $344,000 in Q2 2018. The 5% increase in general and administration costs were mainly due to minor increases in professional services fees during Q2 2019.

Sales and development costs in Q2 2019 were $274,000 compared to $328,000 in the second quarter of the prior year. The 16% decrease in sales and development costs were due to the reallocation of labour resources to complete technical services contracts in Q2 2019.

Depreciation expenses were $50,000 in Q2 2019 compared to $4,000 in Q2 2018. As described in note 3 and note 10 of our Interim Financial Statements, the increase is due to the adoption of IFRS 16 in 2019. Upon adoption, operating leases of the Company will now be included in the statement of financial position as right-of-use assets. Amortization expenses for these right-of-use assets was $41,000 in Q2 2019.

Share-based payment expenses in Q2 2019 were $64,000 compared to $10,000 in Q2 2018. During the second quarter of 2019, the Company granted $43,000 of restricted share units to management of the Company. From quarter to quarter, share-based payment expenses also consisted of amortization expense for issued stock options and fair value adjustments of deferred and restricted share units resulting from changes in the Company's share price.

Other Income and Losses

Net finance costs were $10,000 in Q2 2019 compared to $33,000 in Q2 2018. As the convertible loan was fully converted at the end of 2018, the Company no longer accrues interest expense related to the convertible loan in 2019.

Foreign exchange loss was $7,000 in Q2 2019 compared to $18,000 in Q2 2018. These exchange gains and losses arise mainly from changes in the value of the US dollar, Mexican peso, Chilean peso and Chinese renminbi relative to the Canadian dollar.

Net Income and Comprehensive Loss

Net income for the three months ended June 30, 2019 was $345,000 compared to $61,000 in the same period in 2018. The Company's comprehensive income for Q2 2019 was $104,000 compared to a comprehensive loss of $96,000 in Q2 2018. As the Company operates through subsidiaries and joint ventures with functional currencies which differs from the Company's reporting currency of the Canadian dollar, any exchange differences on the translation of the net assets of such entities are recognized in a separate component of equity through other comprehensive income or loss.

SUMMARY OF YEAR-TO-DATE Q2 2019 FINANCIAL RESULTS

The following is a summary of selected financial results for the six month periods ended June 30, 2019 and 2018.

Revenues

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

(unaudited, in $'000s) Revenue source	**Year-to-date 2019 $**	**% of total**	Year-to-date 2018 $	% of total	% Change
Sale of recovered metals from operations	**3,262**	**63%**	3,046	74%	7%
Water treatment fee from operations	**320**	**6%**	74	2%	332%
Technical services	**1,612**	**31%**	993	24%	62%
Total Proportional Revenues	**5,194**	**100%**	4,113	100%	26%

Total year-to-date revenues from the sale of recovered metals increased by $216,000 over 2018. During the six months in 2019, revenues from the JCC-BQE joint venture increased slightly due to 11% more copper recovered but was offset by an 8% drop in average copper prices. The newly built water treatment plant at the MWT-BQE joint venture contributed an additional $157,000 of revenues during the first six months in 2019.

The year-to-date water treatment fee revenues increased by $246,000 when compared to 2018. Similar to previous seasons but unlike the previous year, the Raglan operation began to discharge water in June 2019 and earned a total of $227,000 in water treatment revenues during the first half of the year. Since the commissioning of the water treatment plant in MWT-BQE, the Company has earned an additional $94,000 of operations support fees during the first six months of 2019 when compared to the previous year.

Revenues from technical services during the first half of the year increased by $619,000 from the same period in 2018. The 62% increase over 2018 is attributable to higher project activity in the engineering and design of SART treatment plants in China and in Latin America during 2019.

Operating Expenses (excluding depreciation)

Year-to-date operating expenses (excluding depreciation) in 2019 increased by $152,000 compared to the same period in 2018. The increase was mainly due to increases in project activity during 2019.

Expenses

The year-to-date general and administration expenses in 2019 increased by $32,000 compared to the same period in 2018. This increase was due to minor increases in fees paid for professional services.

Sales and development costs in year-to-date 2019 decreased by $59,000 compared to 2018. The decrease was due to the increase in reallocating labour resources to complete technical services contracts during 2019.

LIQUIDITY AND CAPITAL RESOURCES

On March 5, 2019, the Company completed a consolidation (the “Share Consolidation”) of its share capital on the basis of 100 existing common shares for one new common share of the Company. Following the Share Consolidation, the Company had 1,208,435 common shares outstanding. The Share Consolidation was previously approved by shareholders at a meeting held on November 20, 2018. All information in the MD&A and the Condensed Consolidated Interim Financial Statements are presented on a post-Share Consolidation basis. The Company's outstanding stock options were adjusted on the same basis with proportionate adjustments being made to the stock option exercise prices. All comparative period information has been adjusted to reflect this Share Consolidation.

At June 30, 2019, BQE Water had 1,208,435 common shares issued and outstanding (1,208,435 at December 31, 2018), and 41,500 stock options outstanding (62,000 at December 31, 2018).

As of August 13, 2019, the number of common shares issued and outstanding remain unchanged from June 30, 2019 and the stock options outstanding also remain unchanged from June 30, 2019.

For the six months ended June 30, 2019, the Company reported net income of $17,840 (net loss of $538,855 in 2018) and used net cash in operating activities of $1,076,007 ($902,912 in 2018). At June 30, 2019, the Company had a net working capital of $622,558 ($1,286,057 at December 31, 2018) and a cumulative deficit of $61,699,679 ($61,717,519 at December 31, 2018).

The Company has commitments of $691,806 until 2023 under operating leases for office and laboratory premises and for office equipment.

The Company continually monitors its capital resources to assess the liquidity necessary to fund operations and future strategic initiatives. Historically, the Company has financed its working capital requirements through debt or equity financing. Since the Company has been profitable through its operations, the Company expects to finance its working capital requirements internally through the combination of its investments in joint ventures, recurring revenues from plant operations and non-recurring revenues from technical services provided as part of new projects. As disclosed in note 2(b) of our Condensed Consolidated Interim Financial Statements for the period ended June 30, 2019 and in the “Q2 2019 COMMENTARY AND OUTLOOK” section of this MD&A, the Company believes that it has sufficient working capital resources to finance its current operations beyond the next 12 months.

Nevertheless, there are risks related to the Company’s ability to continue as a going concern. Such risks includes the suspension or major delays in the annual repatriation of funds from the Company’s joint venture investments in China, the devaluation of the annual dividend due to unfavourable fluctuations in exchange rates between the Chinese renminbi and the Canadian dollar, and the Company’s inability to maintain profitable operations. Although Management of the Company have partial influence on the Company’s ability to maintain profitable operations, the majority of the remaining risks are outside of Management’s control. In addition, the Company’s working capital reserves are expected to continue to be subject to significant fluctuations caused by the seasonality of the Company's plant operations and the uncertainty of timing of non-recurring revenues from new projects. As a result, it is uncertain whether the Company will be able to sustain profitability and positive cash flow from operations.

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 uncertainty that may cast doubt upon the Company's ability to continue as a going concern. These interim consolidated financial statements do not include adjustments to the recoverability and classification on recorded assets and liabilities. Such related expenses might be necessary should the Company be unable to continue as a going concern. If the going concern assumption is not appropriate, material adjustments to the financial statements could be required.

RELATED PARTY TRANSACTIONS

For the three and six months ended June 30, 2019 and 2018, the compensation awarded to the Company's key management, which includes the Board of Directors and executive management, are as follows:

	3 months ended Jun. 30		6 months ended Jun. 30	
	2019	2018	2019	2018
	$	$	$	$
Salaries, fees and short-term benefits	166,514	133,411	322,124	259,622
Share-based payments	6,275	13,436	38,004	26,724
	172,789	146,847	360,128	286,346

Included in the trade payables and accrued liabilities as of June 30, 2019 is $106,605($131,723 at December 31, 2018) of salaries, management consulting service fees with companies owned by the Company's management, director fees and termination benefits. For the three and six months ended June 30, 2019, the consulting services received from companies owned by the Company's management amounted to $30,000 and $60,000 respectively ($38,000 and $77,000 in 2018).

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 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, 2018.