BQE Water

BQE WATER INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2021 and 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 2021 MD&A should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2021, under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). All financial information in this MD&A is derived from the Company's Financial Statements, as 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 3 of our audited consolidated financial statements. All financial information is presented in **Canadian dollars** (the presentation currency of the Company's financial statements) and all tabular amounts are in $000s, unless otherwise noted. This MD&A has been prepared as at April 22, 2022.

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. Central to our business model, BQE Water produces clean water and stable residues or saleable by-products, and we monetize the value of our unique process know-how through recurring revenues generated from plant operations services.

BQE Water is headquartered in Vancouver, British Columbia, Canada. The Company has regional offices in Chile and China, which are two key geographical markets for 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.

OUR STRATEGY

The Company's strategy is to apply our unique expertise and intellectual property ("IP") related to the treatment of mine water and metallurgical bleed streams to help clients minimize their life cycle costs and risks associated with water. Additionally, we recognize that sustained growth and the financial success of our business are linked to ongoing innovation and the expansion of our IP portfolio, activities we are actively engaged in through our own operations and through inquiries from clients evaluating new projects.

The Company monetizes the value of its IP and expertise through services that span the full life cycle of mining projects from pre-permitting to post-closure. The Company's primary service is the long-term operation of water treatment plants, designed by our team, to generate recurring revenues linked to plant performance. As the period between the identification of new projects and treatment plants entering their operating phase can be lengthy, we also generate revenues from technical services that are project specific and generally non-recurring in nature. As such, our services are grouped into two key areas:

Operational Services

Revenues from operational services provided by the Company are recurring in nature and are earned through water treatment fees or through the sale of recovered base metals. Water treatment fees are either tolling fees charged per cubic metre of clean water treated and discharged subject to specific water quality criteria, or fees for the Company's expertise linked to the achievement of operational targets and delivered through supervisory and ongoing operational support services. The Company also monetizes the value of its IP through joint ventures by sharing in the value of metals recovered from treating wastewater.

Technical Services

Technical services provided by the Company can be grouped into consulting and technical innovation services. Consulting services help mining companies define water problems, identify opportunities for improving project performance and present solutions to address specific water management issues. Such services include feasibility & assessment studies, toxicity investigations, process engineering design, treatment plant commissioning and plant optimization. Technical innovation services offer our clients beneficial design and technological improvements drawn from our unique knowledge and expertise acquired from ongoing plant operations services. This also provides the Company with opportunities to develop new technologies, through either laboratory treatability assessments or field pilot demonstrations, as triggered by industry needs. These services allow us to follow projects through the entirety of their development and implementation phases, and to provide recurring operational services for our clients.

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 overall understanding of the Company's current financial performance with investors and observers. Non-GAAP financial measures have limitations in that they do not reflect all amounts associated with our operational results 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

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 Revenue adds BQE Water's share of joint venture revenues to the Company's revenues reported under GAAP. Proportional Revenues for the year ended December 31, 2021 and 2020 are as follows:

(in $'000s)	**2021**	2020
	$	$
Reported revenues under GAAP	**7,511**	7,696
Share of reported revenues from joint ventures	**8,105**	5,801
Proportional Revenues for the year	**15,616**	13,497

Adjusted EBITDA

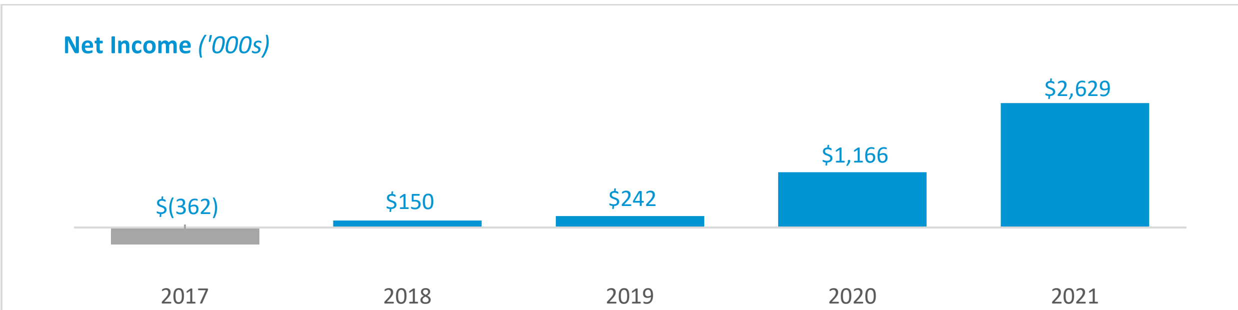
Adjusted EBITDA ("earnings before interest, taxes, depreciation and amortization") is intended to provide additional information only and does not have any standardized meaning under IFRS and may not be comparable to similar measures presented by other companies. It should not be considered in isolation 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 Proportional share of joint venture results. The following table reconciles this non-GAAP measure to the most directly comparable IFRS measure of net income:

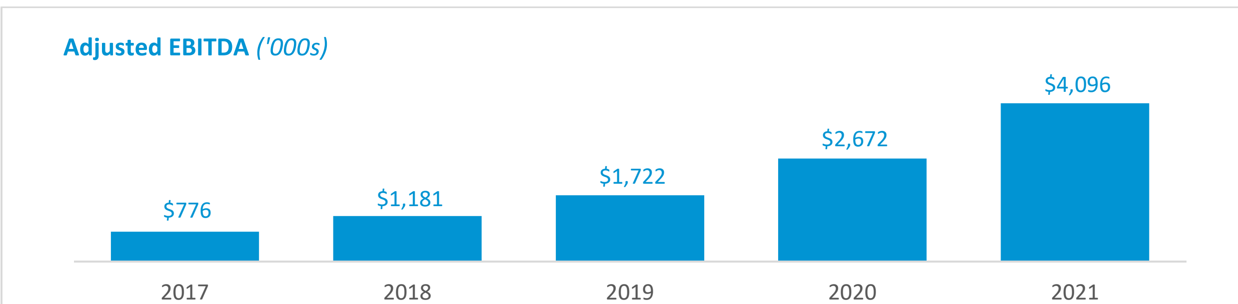
(in $'000s)	**2021**	2020
	$	$
GAAP: Net income	**2,629**	1,166
add: interest expense	**11**	7
add: income tax expense	**760**	376
add: depreciation and amortization	**651**	770
EBITDA	**4,051**	2,319
add: share-based payment expenses	**303**	387
deduct: other income	**(279)**	(89)
add: net foreign exchange loss	**21**	55
Adjusted EBITDA	**4,096**	2,672

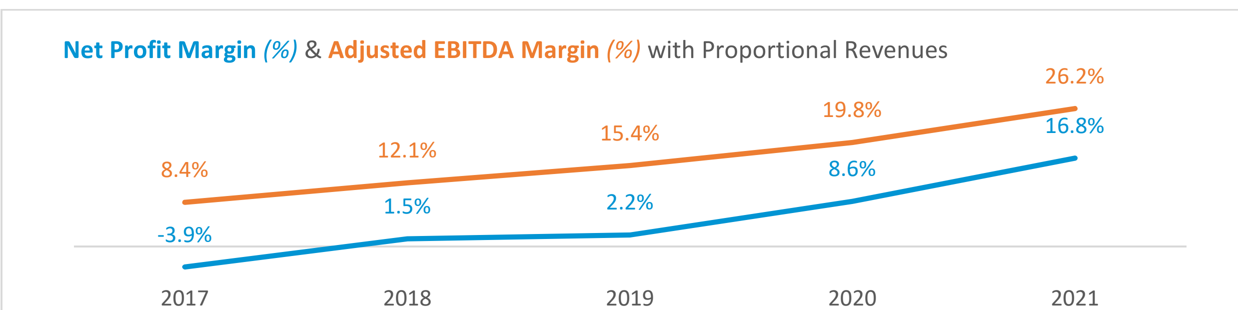
FINANCIAL HIGHLIGHTS

- Increased Adjusted EBITDA by 53%, from $2.7 million in 2020 to $4.1 million in 2021.
- Grew Proportional Revenues by 16%, from $13.5 million in 2020 to $15.6 million in 2021.
- Recorded new historic high net income of $2.6 million in 2021, a 125% increase from $1.2 million in 2020.
- Grew diluted Earnings Per Share by 122%, from $0.95 in 2020 to $2.11 in 2021.
- Increased working capital by 29% year-over-year, from $3.5 million to $4.5 million as of December 31, 2021.
- Increased net cash by 22% over the 12-month period, from $3.2 million to $3.9 million at the end of 2021.

Selected financial results and margins with Proportional Revenues for the last 5 years are as follows:







Other selected financial results for the 3 and 12 months ended December 31, 2021 are as follows:

(in '000s)	3 months ended Dec. 31		12 months ended Dec. 31	
	2021	2020	2021	2020
Revenues under GAAP	**2,570**	1,609	**7,511**	7,696
Proportional Revenues	**4,389**	3,085	**15,616**	13,497
Net income (loss)	**800**	(202)	**2,629**	1,166
Adjusted EBITDA	**754**	133	**4,096**	2,672

OPERATIONAL SERVICES HIGHLIGHTS

Our operational services consist of the operation or technical supervision of water treatment plants, which generates recurring revenues from three main sources: sales of recovered metals, water treatment fees and operations support fees. The Company's active operations for the 12 months ended December 31, 2021 and 2020 are as follows:

Operations	Location	Revenue Source
JCC-BQE Joint Venture	Jiangxi province, China	Sales of recovered metals
MWT-BQE Joint Venture	Shandong province, China	Sales of recovered metals
Raglan Mine for Glencore	Northern Québec, Canada	Water treatment fees
Kemess Property for Centerra	Northern BC, Canada	Water treatment fees
Eastern China Metallurgical Facilities for MWT	Shandong province, China	Operations support fees

JCC-BQE Joint Venture Operations

Our 50/50 joint venture with partner Jiangxi Copper Company ("JCC") operates three water treatment plants at Dexing Mine and at Yinshan Mine 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 the 12 months ended December 31, 2021 are as follows:

(in '000s)	2021	2020
Water treated (cubic metres)	21,552	21,094
Copper recovered (pounds)	3,337	3,312

During 2021, all three plants met mechanical availability and process performance set by the Company. Both the volume of water treated and the mass of copper recovered increased year-over-year by 2% and 1% respectively. Changes in water volume and feed grade are largely the result of environmental conditions beyond the control of the joint venture. The minimal variances between 2020 and 2021 indicate very stable operations.

MWT-BQE Joint Venture Operations

Our 20% share of MWT-BQE is with our 80% partner Beijing MWT Water Treatment Project Limited Company ("MWT") and together we operate a water treatment plant at a smelter in Shandong province of China. MWT-BQE generates revenues from the sale of zinc and copper recovered from smelter wastewater. The operating results for the 12 months ended December 31, 2021 are as follows:

(in '000s pounds)	2021	2020
Zinc recovered	845	1,254
Copper recovered	237	226

The mass of zinc recovered decreased by 33% while copper recovery increased by 5%. The smelter periodically operated their production lines with ores from different sources which led to varying concentrations of zinc and copper in the feed composition and a fluctuation in the volume of wastewater treated by the plant. The joint venture has no control in the composition and volume of the feed that flows into the plant.

BQE Water Operations

The Company operates four treatment plants at Raglan Mine for Glencore Canada Corporation ("Glencore"). In April 2021, we mobilized our operations team to site to commence our 18th operating season and began discharging water in June 2021. During 2021, the total water treated across all four plants at Raglan Mine increased by 50%.

In 2020, we completed the commissioning of the first industrial scale plant utilizing our patented and award-winning Selen-IX™ process for selenium management at the Kemess property owned by Centerra Gold ("Centerra"). In 2021, the Kemess property was not operating as it was declared to be in an extended state of care and maintenance, with water treatment not required under this status.

The Zhongkuang SART plant began operations in January 2021 and the Zhaojin SART plant in April 2021. Both SART plants are under BQE Water's technical supervision since beginning full production. During 2021, the Zhongkuang SART plant was put into care and maintenance temporarily from March to October due to the metallurgical circuit shutdown at the Zhongkuang leaching plant.

The volume of water treated for the 12 months ended December 31, 2021 are as follows:

(in '000s cubic metres)	2021	2020
Glencore water treatment plants	2,327	1,555
MWT-BQE joint venture water treatment plant	617	637
Centerra water treatment plant	-	119
Eastern China SART plants	336	-

TECHNICAL SERVICES HIGHLIGHTS

BQE Water's technical expertise and IP are applicable globally across broad areas of water management. The highlights of technical services provided to clients and technical innovation projects during 2021 are summarized below.

Commercial Deployment of Selen-IX™ and Direct Selenium Electro-Reduction (ERC) Technology

- Initiated pre-commissioning activities for a second large scale Selen-IX™ plant to be installed at a mine in the US.
- Continued to provide engineering services for the first commercial scale direct selenium ERC plant at a mine in the US.
- Completed the commissioning of the first Selen-IX™ plant, outside of the mining industry, at an ash pond in the US.

Cyanide Recovery, Destruction, and Thiocyanate Management

- Completed field assessments of several cyanide destruction plants in Canada.
- Completed laboratory testing of cyanide destruction for projects in Canada and Mexico.
- Completed feasibility studies for SART implementation at metallurgical facilities in China.
- Completed a study to review the potential relocation and re-use of existing SART plant equipment in Latin America.
- Completed lab scale testing and scoping level engineering for cyanide recovery from thiocyanate at an active mine in North America.

Water Consulting Services – Management, Treatability, Permitting Assistance, Toxicity Mitigation

- Completed engineering design of water treatment system for permitting of a new mine in BC.
- Completed comprehensive review of water treatment requirements and independent review of engineering design of a water treatment plant for an existing mining operation in Peru.
- Completed feasibility level engineering for water treatment to support permitting and development of a new mine in Central America.
- Provided troubleshooting and optimization services for an existing ammonia removal plant in Ontario.
- Completed prefeasibility level engineering for a new ammonia removal plant in Ontario.
- Completed laboratory treatability studies to support permitting of new mining operations in Canada and Chile.
- Initiated a 2-year pilot demonstration program for sulphate removal and copper recovery for Codelco in Chile.

2021 COMMENTARY AND OUTLOOK FOR 2022

Overall, 2021 was a year dominated by strong profitable growth and the achievement of several important technical and commercial milestones. These include:

- New records for net income, Adjusted EBITDA and Proportional Revenues, growing these by 125%, 53% and 16% respectively year over year, and improving working capital year over year by 29%.
- Completed commissioning and began operations of the first treatment plant in the power industry, using our patented and award-winning Selen-IX™ process to remove selenium from ash pond water in the Eastern US.
- Advanced two selenium removal projects in mining with one entering plant pre-commissioning and the other having completed the procurement of long lead equipment. We signed long-term operating agreements with both projects.
- Growing acceptance by industry and regulators of our Selen-IX™ process for selenium removal with our inclusion as a treatment option in the most recent draft of the Canadian Coal Mining Effluent Regulations.
- Acquired IP in cyanide destruction and began integrating the world-leading knowledge and experience of one of the co-inventors of the cyanide destruction process into the Company. This arrangement gives us the ability to offer a complete suite of cyanide management services, and has already generated new projects and clients in 2021 and expanded the sales pipeline for 2022.
- Signed a 2-year contract with Codelco, the world's largest copper producer, to provide pilot demonstrations of our sulphate removal and copper recovery technologies at multiple locations in Chile.
- Initiated work on four new projects in Eastern Canada, expanding geographically into new mineral rich areas.
- Expanded the in-house technical team and capabilities at all our locations: Canada, US, Chile and China.

Looking ahead, we anticipate the momentum of the last few years will continue into 2022, supported by:

- Sales pipeline growth from:
  - World leading cyanide destruction expertise complementing our expertise with cyanide recycling in SART.
  - Large number of permitting and feasibility studies expected to advance to the next project phase.
  - The KSM project in BC advancing to substantial start where we are the lead for water treatment.
  - Increasing industry recognition and credibility as the trusted subject matter expert.
- Additional recurring revenues generated from the operation of treatment plants in the US.
- Active ongoing projects in Latin America: pilots with Codelco, Trafigura and water management at El Mirador.

We are also excited for our growth prospects beyond 2022 as the demand for our technical expertise and commercial business model aligns with key long-term trends:

- Global de-carbonization that demands critical metals and base metals for a green economy.
- Need for mining projects to be environmentally responsible and socially acceptable with water being one of the key elements determining both.
- Tightening government regulations and enforcement for water quality.
- Obligation for positive engagement and active involvement with indigenous communities where our focus on clean water production provides opportunities for bringing local communities on board with mining projects.
- Outsourcing of innovation by mining companies to service providers combined with our track record of bringing technology innovation to market.
- Clean-up and closure of ash ponds is one of the largest environmental liabilities faced by power utilities.

Despite these trends and our optimistic outlook for 2022, readers need to be cautioned about the risks that may create sudden and potentially significant headwinds for us and our business. First, although the COVID-19 pandemic appears to be entering the endemic phase, the success of our continued growth relies on travel and free movement of key personnel between countries. Second, geopolitical tensions between China and the West may complicate our ongoing China operations and any future business. Lastly, a global recession may lead to a drop in commodity prices that could put resource projects on hold. For these reasons, we remain focused on fiscal prudence and maintaining our working capital at a level that would shield us from these exogenous impacts. Our financial results for 2021 and the current outlook for 2022 underpin our view that we are on track for profitable growth and have sufficient cash reserves to mitigate these risks.

SELECTED FINANCIAL INFORMATION

(in $'000 except for per share amounts)	**2021**	2020
	$	$
Revenues	**7,511**	7,696
Operating expenses	**(3,949)**	(4,431)
Operating margin	**3,562**	3,265
Share of income from joint ventures	**2,803**	1,139
General and administration	**(1,823)**	(1,622)
Sales and development	**(1,374)**	(971)
Share-based payments	**(303)**	(387)
Depreciation and amortization	**(168)**	(148)
Income from operations and joint ventures	**2,697**	1,276
Other expenses, net	**(33)**	(8)
Bad debt recovery	**95**	-
Income tax expenses	**(130)**	(102)
Net income for the year	**2,629**	1,166
Earnings per share (basic)	**2.13**	0.96
Earnings per share (diluted)	**2.11**	0.95
Proportional Revenues[1]	**15,616**	13,497
Adjusted EBITDA[1]	**4,096**	2,672
Comprehensive income	**2,934**	1,394

	at Dec 31	at Dec 31
	2021	2020
	$	$
Cash	**3,944**	3,240
Working capital	**4,557**	3,543
Total assets	**13,803**	10,464
Total non-current liabilities	**778**	821
Shareholders' equity	**11,313**	8,088
Proportional cash[1]	**8,089**	5,241

Notes:

1. See Non-GAAP measures

COMPARISON OF QUARTERS

Financial data for the last eight quarters:

(in $'000s)	**Dec-21**	Sept-21	Jun-21	Mar-21	Dec-20	Sept-20	Jun-20	Mar-20
	$	$	$	$	$	$	$	$
Revenues	**2,570**	2,773	1,188	980	1,609	2,738	1,414	1,936
Operating expenses	**(1,409)**	(1,088)	(944)	(507)	(934)	(1,381)	(921)	(1,195)
	1,161	1,685	244	473	675	1,357	493	741
Share of income (loss) from joint ventures	**499**	700	1,580	23	101	785	380	(127)
General and administration	**(535)**	(427)	(459)	(401)	(413)	(342)	(435)	(433)
Sales and development	**(270)**	(273)	(378)	(453)	(349)	(153)	(239)	(229)
Share-based payments	**(11)**	(19)	(184)	(88)	(107)	(113)	(118)	(49)
Depreciation and amortization	**(57)**	(37)	(37)	(37)	(42)	(33)	(36)	(36)
Income (loss) from operations	**787**	1,629	766	(483)	(135)	1,501	45	(133)
Other income (expenses), net	**13**	34	(39)	(40)	30	(58)	(95)	115
Bad debt recovery	**-**	-	95	-	-	-	-	-
Income tax expense	**-**	(118)	(13)	-	(97)	-	(5)	-
Net income (loss)	**800**	1,545	809	(523)	(202)	1,443	(55)	(18)
Translation gain (loss)	**120**	227	28	(69)	(63)	97	(191)	387
Comprehensive income (loss)	**920**	1,772	837	(592)	(265)	1,540	(246)	369
Non-GAAP Measures:								
Proportional Revenue	**4,389**	5,502	4,174	1,551	3,085	5,287	2,771	2,356
Adjusted EBITDA	**754**	2,139	1,435	(231)	133	2,039	412	91

Quarterly results can fluctuate based on the number of plants operating in the quarter, variation in the volume and grade of water treated, and movements in commodity prices. Seasonality at each operation also impacts the timing of revenues. Operations at Raglan Mine typically run from May to October of each year. Copper production at the Dexing operations increase between April and September of each year and decline during the winter months due to lower seasonal 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 Q4 2021 FINANCIAL RESULTS

The following is a summary of selected financial results for the three-month periods ended December 31, 2021 and 2020.

Proportional Revenues

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

(in $'000s)	**Q4 2021**		Q4 2020		
Revenue source	**$**	**% of total**	$	% of total	% Change
Sale of recovered metals from operations	**1,819**	**41%**	1,476	48%	23%
Water treatment fee from operations	**577**	**13%**	534	17%	8%
Technical services	**1,993**	**46%**	1,075	35%	86%
Total Proportional Revenues	**4,389**	**100%**	3,085	100%	42%

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. The amount of revenue is impacted by the quantity of metals recovered and the metal prices listed on the Shanghai Futures Exchange. During Q4 2021, the JCC-BQE joint venture contributed $1.7 million to the Company's share of Proportional Revenue compared to $1.2 million in Q4 2020. The 40% increase in revenue against the comparable period in 2020 was due to an approximate 11% increase in the quantity of copper recovered and a 26% increase in average copper market prices. During Q4 2021, the MWT-BQE joint venture contributed $95,000 to the Company's share of Proportional Revenue compared to $243,000 in Q4 2020. The decrease of $148,000 was due to a one-time substantial sale of 173,000 pounds of copper completed during Q4 2020, which was approximately 77% of the year's total production.

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 several metallurgical facilities in Eastern China. During Q4 2021, the treatment plants at Raglan Mine treated 46% more water than the same period in 2020 due to additional mine impacted water requiring water treatment for the season. The newly operational SART plants in Eastern China contributed new recurring revenues of $56,000 during Q4 2021. This increase was slightly offset by the discontinuation of operations support at the MWT-BQE water treatment plant at the end of Q3 2021 with the completion of the 3-year service arrangement with MWT-BQE.

Revenues from technical services increased by $918,000 from the same period in 2020. The increased revenue from technical services was largely due to the completion of commissioning of the first Selen-IX™ plant, outside of the mining industry, at an ash pond in the US. These revenues are non-recurring in nature and consist of water management services such as treatability assessments, permitting assistance, engineering and plant design, construction and commissioning of water treatment plants, laboratory testing and pilot demonstrations. The amount represents the sum of multiple contracts from various clients of varying contract values.

Expenses

Total operating expenses in Q4 2021 were $1.4 million compared to $934,000 in Q4 2020, an increase of $475,000, which is consistent with the increase of project activity during the quarter. In addition, each individual project requires different levels of technical expertise and resources depending on the specific mine conditions and water treatment solutions.

In Q4 2021, general and administration costs were $535,000 compared to $413,000 in Q4 2020. The $122,000 variance was due to increases in insurance premiums and fees paid for professional services.

Sales and development costs in Q4 2021 were $270,000 compared to $349,000 in Q4 2020, representing a decrease of $79,000. Due to the increase of technical services activity during the quarter, labour resources were allocated to fulfilling technical services than to business and technology development initiatives during the quarter when compared to Q4 2020.

SUMMARY OF 2021 FINANCIAL RESULTS

The following is a summary of selected financial results for the year ending December 31, 2021 and 2020.

Proportional Revenues

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

(in $'000s)	**2021**		2020		
Revenue source	**$**	**% of total**	$	% of total	% Change
Sale of recovered metals from operations	**8,105**	**52%**	5,801	43%	40%
Water treatment fee from operations	**2,481**	**16%**	1,785	13%	39%
Technical services	**5,030**	**32%**	5,911	44%	(15%)
Total Proportional Revenues	**15,616**	**100%**	13,497	100%	16%

Revenues from the sale of base metals recovered comprises the Company's share of revenues from joint ventures in China. The sale of copper and zinc recovered during the operation of water treatment plants is impacted by the amount and market price of metal concentrates sold. During 2021, our share of revenues from the JCC-BQE joint venture was $7.7 million compared to $5.4 million in 2020, representing a $2.3 million or 43% increase. While the total pounds of copper recovered annually remained at 1.7 million for both years, the average copper price was $4.62/lb in 2021 and $3.26/lb in 2020, representing a 42% increase. The remaining variance was from the MWT-BQE joint venture, which contributed copper and zinc recovery sales of $390,000 to the Company's Proportional Revenue in 2021 compared to $411,000 in 2020. The variance is due to the concentration of metals contained in the feed going into the treatment plant, which had a higher concentration of copper offset by lower concentrations of zinc.

Water treatment fee revenues include the tolling fees earned from each cubic metre of water discharged at Raglan Mine and operations support fees from the various metallurgical facilities in Eastern China. Treatment fees from the Raglan operations are the largest contributor, providing $2.0 million in water treatment fees in 2021 compared to $1.3 million in 2020, an increase of $652,000 year-over-year. This increase was due to 50% more water treated and discharged across the four plants from the year prior. During 2021, we continued to support the operations in Eastern China, earning support fees of $344,000 from the newly commissioned SART plants and $144,000 from MWT-BQE.

Revenues from technical services decreased by $881,000 or 15% in 2021 compared to 2020. Technical services revenue was lower due to the timing and nature of the project stages completed during the year, which were smaller in scope despite being larger in number. These revenues are non-recurring in nature and relate to water management services such as treatability assessments, permitting assistance, engineering and plant design, construction and commissioning of water treatment plants, laboratory testing and pilot demonstrations. Such revenues represent the sum of multiple contracts from various clients of varying values.

Operating Expenses

Total operating expenses in 2021 were $3.9 million compared to $4.4 million in 2020, a decrease of $482,000. The 11% decrease in operating expenses is largely attributed to the 15% decrease in project activity related to technical services completed in the year. Each individual project requires varying levels of technical expertise and resources depending on the specific mine conditions and treatment requirements. Total employee benefits, which is the largest component contained within operating expenses, were $2.8 million in 2021 compared to $3.2 million in 2020, which the variance was due to additional resources deployed to business and technology development

Expenses

General and administration expenses in 2021 were $1.8 million compared to $1.6 million in 2020, representing a $201,000 or 12% increase. The increase was attributable to the $83,000 increase in employee benefits, the $61,000 net increase in professional services fees, and the $47,000 increase in insurance premiums for the year.

Sales and development costs in 2021 were $1.4 million compared to $971,000 in 2020, an increase of 42%. The $403,000 increase is due to the decrease of technical services activity during the year and more labour resources designated for business and technology development initiatives.

Share-based payment expenses were $303,000 in 2021 compared to $387,000 in 2020, a decrease of $84,000. Share-based payment expenses mainly consist of non-cash compensation expenses relating to stock options expenses which are expensed on a straight-line basis over the vesting period. Other share-based payment expenses were due to fair value adjustments of deferred and restricted share units resulting from the increase of the Company share price.

Depreciation and amortization expenses were $168,000 in 2021 compared to $148,000 in 2020. The increase of $20,000 was due to the initiation of amortization expenses on the newly acquired intellectual property from R&S Environmental Consulting Services Inc.

Other Income and Expenses

The net of other income and expenses was an expense of $33,000 in 2021 compared to an expense of $8,000 in 2020. Other income and expenses consist of finance costs, foreign exchange and other income.

Net finance costs were $24,000 in 2021 compared to $17,000 in 2020. Finance costs consist of interest paid and interest accrued for other liabilities. Foreign exchange loss was $21,000 in 2021 compared to $55,000 in 2020. 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 Company's reporting currency in Canadian dollars. The remaining variance is from other income of $12,000 in 2021 and $64,000 in 2020. Other income are recoveries from written off liabilities, and other gains and fees earned which are non-operating in nature.

During 2021, a previously recorded allowance of doubtful accounts of $95,000 was reversed. The recovery of bad debt is attributed to the full recovery of an accounts receivable balance outstanding for more than two years.

Income Tax

In 2021, income tax expenses were $130,000 compared to $102,000 in the prior year. The income tax charges in both years consist of a 10% withholding tax in China for the distributions made by the JCC-BQE joint venture and by the Company's wholly owned Chinese operating subsidiary. These taxes are not able to be offset against accumulated tax benefits in other jurisdictions.

Net Income and Comprehensive Loss

Overall, net income for the year was $2.6 million compared to $1.2 million in 2020, a gain of $1.4 million.

SUMMARY OF OPERATIONAL SERVICES

JCC-BQE Joint Venture Operation, Jiangxi Province, China

In 2007, BQE Water entered into a 50/50 joint venture arrangement with JCC, China's largest copper producer and in April 2008, the joint venture completed the construction and commissioning of its first water treatment plant at JCC's Dexing Mine, an active copper mine in China. The plant utilizes our patented ChemSulphide® process to remove and recover dissolved copper from acid mine drainage generated by waste dumps and low-grade stockpiles. The recovered high-grade copper concentrate is shipped to JCC's refinery. In 2014, the joint venture completed the construction and commissioning of two additional water treatment plants at JCC's Yinshan Mine and Dexing Mine sites. Both plants also utilize the ChemSulphide® process.

All three water treatment plants were designed by BQE Water and are operated by the joint venture. The plants are managed jointly whereby BQE Water is responsible for technical operations and JCC is responsible for local administrative, procurement and government activities. The joint venture partners share 50% in the revenues and costs. Revenues are generated through the sale of recovered copper from the plants based on the metal price during the day when the concentrate is shipped, less refining costs.

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

(in '000s)		
Dexing 1	2021	2020
Water treated (cubic metres)	8,648	7,872
Copper produced (pounds)	1,341	1,251
Dexing 2	2021	2020
Water treated (cubic metres)	8,854	9,400
Copper produced (pounds)	1,272	1,327
Yinshan	2021	2020
Water treated (cubic metres)	4,050	3,822
Copper produced (pounds)	724	734
Total Joint Venture	2021	2020
Water treated (cubic metres)	21,552	21,094
Copper produced (pounds)	3,337	3,312

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 site. The two plants, Dexing 1 and Dexing 2, treat water from the same source and water may be diverted from one plant to the other to optimize operations.

During 2021, all three plants met or exceeded mechanical availability and process performance. Changes in water volume and feed grade are largely the result of environmental conditions beyond the control of the joint venture and will vary from period to period.

MWT-BQE Joint Venture Operation, Shandong Province, China

In 2016, BQE Water entered into a joint venture agreement with MWT for the design, construction and operation of a treatment plant that recovers copper and zinc from wastewater generated by the Guoda gold smelter and refinery owned by Zhaoyuan Gold Smelting Co., Ltd (“Zhaoye”). BQE Water provides its technology and plant operating experience in exchange for an ongoing 20% share of the profit from metals recovered and technical support fees. Copper concentrate produced by the plant is sold back to Zhaoye and the zinc concentrate is sold to local metal traders.

Operating results for the plant during the year were as follows:

(in ’000s)	2021	2020
Water treated (cubic metres)	617	637
Zinc recovered (pounds)	845	1,254
Copper recovered (pounds)	237	226

Raglan Mine Operation for Glencore Canada Corporation, Quebec, Canada

BQE Water operates four water treatment plants at Raglan Mine, an active nickel mine in Northern Québec which is owned by Glencore Canada Corporation (“Glencore”). The four plants include: BQE Water’s ChemSulphide® process plant, BQE Water’s Met-IX™ process plant, the lime neutralization plant at Spoon pit and the lime plant at Katinniq. All plants discharge treated water into the environment. The ChemSulphide® and Met-IX™ plants also recover nickel from wastewater which is blended into the nickel concentrate produced by the mine. Because of the harsh winter conditions in Northern Québec, water is not available for processing until the spring thaw; the plant runs seasonally, typically from late spring to fall. BQE Water is responsible for all aspects of the plant operation and we receive a treatment fee per cubic metre of water discharged.

The volume of water treated for the four plants during the year were as follows:

(in ’000s cubic metres)	2021	2020
ChemSulphide® and Met-IX™ plants	1,032	640
Spoon plant	515	355
Katinniq plant	779	560
Total	2,326	1,555

In 2021, we successfully completed our 18th operating season at the site. The timing and length of the 2021 operating season was comparable with previous seasons with our operations team deployed from May to November.

Kemess Property Operation for Centerra Gold, British Columbia, Canada

In 2020, we completed the commissioning of the first industrial scale plant utilizing our patented Selen-IX™ process for selenium management at the Kemess property in Northern BC owned by Centerra Gold. Upon commissioning, the plant operated continuously for a month treating up to 5,600 m^3/day of mine impacted water to produce clean water containing selenium concentrations of less than 2 parts per billion. In December 2020, the Kemess site was declared to be in a state of care and maintenance. With the site requiring active water treatment only during mine construction, operation and closure but not during care and maintenance, the water treatment plant is not expected to operate until the site status changes. During 2021, we completed annual maintenance activities to maintain the water treatment plant during this state.

China Metallurgical Facilities Operations for MWT Water Treatment Ltd., Shandong Province, China
In 2021, we completed the commissioning of two SART plants at two metallurgical facilities located in Eastern China, owned by Shandong Zhongkuang Group Co., Ltd. ("Zhongkuang") and Zhaojin Mining Industry Co., Ltd. ("Zhaojin"). Zhongkuang began operations in January 2021 and Zhaojin began operations in April 2021. Both SART plants are being operated under the ongoing technical supervision of BQE Water. When the SART plants are operating, they are expected to recover cyanide, copper and zinc. Recovered cyanide will be re-used within the metallurgical process and the copper and zinc will be sold to generate incremental revenues for each owner.

The Zhongkuang SART plant was put into care and maintenance from March to October 2021 due to the metallurgical circuit shutdown at the Zhongkuang leaching plant.

The volume of water treated for the two plants during the year were as follows:

(in '000s cubic metres)	2021	2020
Zhongkuang SART plant	70	-
Zhaojin SART plant	266	-

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2021, BQE Water had 1,244,968 common shares issued (1,217,435 at December 31, 2020) and 53,300 stock options outstanding (82,833 at December 31, 2020).

As of the date of this MD&A, on April 22, 2022, there were 1,248,128 common shares issued and outstanding, and 50,140 stock options outstanding.

At December 31, 2021, we had net cash of $3.9 million, an increase of approximately $704,000, or 22%, from December 31, 2020. For the 12 months ended December 31, 2021, our cash used in operating activities was $250,000.

Working capital is defined as current assets minus current liabilities. At December 31, 2021, the Company had a consolidated working capital position of $4.5 million, an increase of $1.0 million from December 31, 2020. At December 31, 2021, significant working capital items, aside from cash, include trade and other receivables of $2.0 million ($1.7 million at December 31, 2020) and trade payable and accrued liabilities of $1.0 million ($1.1 million at December 31, 2020).

The Company has an interest-free loan with the Minister of Western Economic Diversification Canada under the Western Innovation Initiative ("WINN") program. At December 31, 2021, the WINN loan balance was $351,000 with obligations to repay the loan in 60 equal monthly installments from April 1, 2021 to March 1, 2026. Furthermore, there are credit facilities available with the Royal Bank of Canada ("RBC") including a credit card facility of $30,000 and a revolving demand credit facility of $1 million which had not been utilized as at December 31, 2021.

The Company has commitments of $570,000 until 2024 under operating leases for office and laboratory premises, and assay services.

We believe we have sufficient working capital resources to finance current operations beyond the next 12 months, albeit with the continuing potential for a temporary working capital shortfall based on short-term fluctuations in our non-recurring revenues combined with the timing of the annual dividend payment from China.

RELATED PARTY TRANSACTIONS

For the year ended December 31, 2021 and 2020, the compensation awarded to the Company's key management, which includes the Board of Directors and executive management, are as follows:

	2021	2020
	$	$
Salaries, fees and short-term benefits	698,615	671,197
Share-based payments	101,595	170,749
	800,210	841,946

Included in salaries, fees and short-term benefits, are consulting services received from companies owned by the Company's management that amount to $103,600 for the year ended December 31, 2021 ($135,000 in 2020).

Included in trade payables and accrued liabilities as of December 31, 2021 is $nil ($13,162 at December 31, 2020) of director fees, management consulting service fees with companies owned by the Company's management, and termination benefits.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. The estimates and associated assumptions are based on historical experience and other factors 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 our assets and liabilities are accounted for prospectively.

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

COVID-19 Economic Uncertainties

The COVID-19 pandemic continued to disrupt global health and the economy in 2021. Notwithstanding the vaccination programs underway, COVID-19 along with the variants of the virus that have emerged, continue to have a significant impact on the global and Canadian economies. For BQE Water, the recurring services for the operations of water treatment plants were largely uninterrupted, but certain technical services projects that were expected to be awarded and secured were delayed or suspended due to the pandemic.

The uncertainties around the outbreak of the COVID-19 pandemic required the use of significant judgments and estimates. As at December 31, 2021, management determined that the Company's ability to execute its medium and longer-term plans, the economic viability of its assets and the carrying value of its long-lived assets are not materially impacted. In making this judgment, management has assessed various criteria including, but not limited to, existing laws, regulations, orders, potential hindrances to our supply chain, disruptions in the markets for our services, commodity prices and foreign exchange prices along with the actions the Company has taken at its operations to protect the health and safety of its workforce and local communities. At this time, the full extent of the impact of COVID-19 along with its variants may have on the Company is unknown and will depend on future developments that are highly uncertain and that cannot be predicted with confidence.

Critical Judgements

Critical judgements that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statement are:

a) Management's assessment of the Company's ability to continue as a going concern, as the consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business.

b) Management's judgement on revenue recognition, when determining the performance obligations that exist in an arrangement and the timing of the transfer of control and satisfaction of performance obligations of either at a point in time or over time.

c) Management' assessment of the intellectual property transaction in the current year as an intangible asset acquisition and not a business combination arrangement.

d) Management' assessment of impairment indicators for asset impairment on long-term assets such as plant and equipment or investment in joint ventures.

Key Sources of Estimation Uncertainty and Assumptions

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

Revenue Recognition

Revenue for technical services relating to water management are recognized using the project stage of completion method, which requires judgment for estimating project inputs and costs for completion and making assumptions for scope changes. Depending on the services provided and on the contract terms, many variables are used in assessing the revenues earned based on the project stage of completion at the reporting date. For the revenue arrangements comprise multiple performance obligations, estimates are required when determining the relative fair value of each performance obligation utilizing standalone prices for similar deliverables where it exists or internally generated estimates of standalone price.

Expected Credit Loss

Trade and other receivables are assessed for impairment at each reporting date by applying the expected credit loss impairment model. Expected credit loss represents management's best estimate and assumptions based on actual credit loss experience and informed credit assessment, and also takes into consideration forward-looking information. If actual credit losses differ from estimates, future earnings would be affected.

Right-of-Use Assets & Lease Obligations

To determine the value of the initial recognition and subsequent re-measurement of right-of-use-assets and lease obligations, management is required to exercise judgment in several areas. Management has reviewed its lease agreements to estimate the lease term by evaluating the probability of exercising its option to extend or renew its lease contracts. Further judgement is required to determine the discount rate on lease payments by assessing its incremental borrowing rate at each of the Company's locations.

Contingent Consideration

Contingent consideration, resulting from purchase of intangible assets, is valued at fair value at the acquisition date as part the asset acquisition price. When the contingent consideration meets the definition of a financial liability, it is subsequently remeasured to fair value at each reporting date. The determination of the fair value is based on estimation of the earn-out bonus to be paid in the future. The key assumptions take into consideration the eligible projects' revenue and costs in the contract term and the discount factor.

GENERAL

Disclosure Controls and Procedures and Internal Control over Financial Reporting

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

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

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

There has been no change in BQE Water's internal controls over financial reporting during the year ended December 31, 2021 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Future Accounting Standards and Amendments

There are a number of accounting standard amendments issued by the IASB which we have not yet adopted. None of the future amendments are expected to have a significant impact on the Company's consolidated financial statements on adoption.

RISKS AND UNCERTAINTIES

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

Dependence on Key Personnel

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

Maintaining Safety and Protecting the Environment

Despite the Company's efforts to minimize the risk of safety and environmental incidents, they can occur from time to time and, if and when they do, the impact on the Company can be significant. Our success in the water management and treatment space is highly dependent on our ability to keep project and work sites safe and any failure to do so can have serious impact on the personal safety of our employees and others. In addition, it can expose the Company to contract termination, fines, regulatory sanctions or even criminal prosecution.

Our safety record and operational safety practices also have a direct bearing on our ability to secure new project work. Certain clients will not engage contractors or consultants to perform work if their safety practices do not conform to predetermined standards or if they have an unacceptably high incidence of safety infractions or incidents.

We adhere to very rigorous safety policies and procedures which are continually reinforced on project and work sites. Management is not aware of any pending health and safety legislation or prior incidents which would be likely to have a material impact on any of our operations or competitive position.

Economic and Project Site Dependence

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

Commodity Prices

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

Management of Growth

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

Competition

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

Global Pandemic

Efforts to fight the COVID-19 pandemic have been taken by national and local governments. These efforts have had a significant impact on businesses through the restrictions put in place by the Canadian federal, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. Throughout the pandemic, the Company promoted a work from home policy and requested all employees to engage in active social distancing. A majority of the Company's ongoing projects, being regulatory driven, are considered essential and continued without any significant disruptions. The Company's operation of water treatment plants continues since treatment of contaminated water is considered an essential service.

Although there is currently no significant direct COVID-19 impact to the Company, the COVID-19 pandemic could impact our suppliers, customers, local communities and other stakeholders, which could impact the Company's ability to operate in the future. The COVID-19 pandemic and responses to it may also lead to an economic recession or downturn that may materially adversely affect the Company's operations or liquidity position. At this time, the full extent of the impact the COVID-19 outbreak, including any future outbreaks, that may have on the Company is unknown and will depend on future developments that are highly uncertain and that cannot be predicted with confidence.

Technology Risk

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

Intellectual Property Protection

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

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

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

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

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

Credit Risk

The Company's credit risk is primarily associated with trade and other receivables, however, it also arises on cash. The Company invests its cash with counterparties that it believes are of high credit quality as assessed by reputable rating agencies. To manage credit risk on trade and other receivables, the Company transacts with customers with strong credit ratings with ongoing credit evaluation and account monitoring procedures. Even such, the credit risk associated with trade receivables with aging balances over 90 days are considered higher than normal.

Currency Risk

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

Access to Proprietary Information

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

Information Systems and Cyber-Security Risk

The Company relies on information technology to manage, process, store and transmit electronic information. Complete, accurate, available and secure information is vital to the Company's operations and any compromise in such information could result in improper decision making, inaccurate or delayed operational and/or financial reporting, delayed resolution to problems, breach of privacy and/or unintended disclosure of confidential information. Failure in the completeness, accuracy, availability or security of the Company's information systems, the risk of system interruption or failure during system upgrades or implementation, or a breach of data security could adversely affect the Company's operations and financial results.

In addition, cyber-security incidents relating to the Company's information technology systems may disrupt operations and impact operating results. Cyber-security incidents may occur from a range of techniques, from phishing or hacking attacks to sophisticated malware, hardware or network attacks. While the Company has implemented systems, policies, procedures, practices, hardware and backups designed to prevent and limit the effect of cyber-security attacks, there can be no assurance that these measures will be sufficient to prevent, detect or address the attacks in a timely matter or at all. A successful cyber-attack may allow unauthorized interception, destruction, use or dissemination of the Company's confidential information, which could have a material adverse effect on the business.

Environmental Regulation

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

Conflicts of Interest

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

Possible Volatility of Share Price

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