

BQE Water

BQE WATER INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2018 and 2017

Management's Discussion and Analysis

April 16, 2019

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

This 2018 Management's Discussion and Analysis ("MD&A") should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2018, under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC").

Users should consider the disclosures in note 2(b) titled "Going concern assumption" of the audited consolidated financial statements for the year ended December 31, 2018 and the sections "2018 Commentary and 2019 Outlook" and "Liquidity and Capital Resources" in this MD&A.

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

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. BQE Water provides value for their clients in the areas of technical innovation, water management consulting and operations of water treatment plants.

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.

OUR STRATEGY

The Company monetizes the value of its intellectual property ("IP") and expertise through services that span the full life cycle of mining projects from permitting to closure and which often extends more than 50 years. The Company's primary service is the long-term operation of water treatment plants we have designed to generate recurring revenue that is directly linked to the plant's performance. As the period between the identification of new projects and treatment plants entering their operating phase can be lengthy, BQE Water also generates revenues from technical services that are project specific and are generally non-recurring in nature. The services provided by BQE Water are grouped into two key areas:

Operational Services

Revenues from operational services provided by the Company are earned through water treatment fees or through the sale of base metals recovered. 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 supervision 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 services 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, plant commissioning and plant optimization. Technical innovation services provide our clients with 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. All these services allow BQE Water to follow projects through the entirety of their development and implementation phases, to providing 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 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 results of operations in conjunction with the corresponding GAAP measures.

Proportional Results

Due to changes to IFRS 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 Revenue

This non-GAAP financial measure of Proportional Revenue adds BQE's shares of joint venture revenues to our revenue reported under GAAP. Proportional Revenues for the year ended December 31, 2018 and 2017 are as follows:

<i>(in \$'000s)</i>	2018	2017
	\$	\$
Reported revenues under GAAP	4,270	4,057
Share of reported revenues from joint ventures	5,529	5,219
Proportional Revenue for the year	9,799	9,276

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):

<i>(in \$’000s)</i>	2018	2017
	\$	\$
GAAP: Net income (loss)	150	(362)
add: interest expense	113	212
add: income tax expense	302	99
add: depreciation and amortization	524	724
EBITDA	1,089	673
add: stock-based compensation	111	68
add: net foreign exchange (gain) loss	(19)	35
Adjusted EBITDA	1,181	776

2018 OVERVIEW

Financial Highlights

- First annual net earnings reported in the Company’s financial history, net income of \$150,000 compared to loss of \$362,000 in 2017;
- Adjusted EBITDA for the year was \$1.2 million compared to \$776,000 in 2017, a 51% increase over the prior year;
- Cash reported under GAAP as of December 31, 2018 was \$1.4 million compared to \$1 million at the end of 2017;
- Proportional Cash which includes our share held in joint ventures as of December 31, 2018 was \$3.2 million compared to \$2.5 million at the end of 2017; and
- Debt-free after the full conversion of \$1.6 million convertible loan principal and unpaid accrued interest into an approximate aggregate of 27 million common shares of the Company on December 14, 2018.

Operational Services Highlights

Operations generating revenue from sales of recovered metals

Our joint venture in the Jiangxi province of China operated three water treatment plants during 2018. Revenue is derived from the continuous sale of copper recovered from mining wastewater. The operating results for the 12 months ended December 31, 2018 for our joint venture (“JCC-BQE”) with partner Jiangxi Copper Company (“JCC”) are as follows:

<i>(in ’000s)</i>	2018	2017
Water treated (cubic metres)	19,814	17,160
Copper recovered (pounds)	3,367	3,449

During 2018, our joint venture in the Shandong province commissioned its first water treatment plant and operated the plant continuously for four months. The joint venture generates revenue from the sale of copper and zinc recovered from wastewater. As of December 31, 2018, there was unsold inventory of approximately 431 thousand pounds of zinc and five thousand pounds of copper. This unsold inventory of is expected to be sold in 2019. The operating results for the 12 months ended December 31, 2018 for our joint venture (“MWT-BQE”) with partner Beijing MWT Water Treatment Project Limited Company (“MWT”) are as follows:

<i>(in '000s)</i>	2018	2017
Zinc recovered (pounds)	525	-
Copper recovered (pounds)	34	-

Operations generating revenue from water treatment fees

During the year, we completed our 15th operating season at Raglan Mine where BQE Water is responsible for the ongoing operation of three water treatment plants. Our revenue is linked directly to the volume of water treated and discharged to the environment as per the client's specification. In addition to tolling fees at Raglan Mine, the Company generates an operation support fee from the MWT-BQE joint venture. The fee is not linked to the volume of water treated but rather to the achievement of operational targets which rely on the Company's expertise delivered through ongoing operations supervision and support services. The operating results for the 12 months ended December 31, 2018 are as follows:

<i>(in '000s)</i>	2018	2017
Water treated at Raglan Mine (cubic metres)	1,221	1,168
Water treated at MWT-BQE joint venture (cubic metres)	283	-

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 2018 are summarized below.

Optimization of existing water treatment plants operated by third-parties

- Improving effluent quality to enable increase in water re-use at a zinc smelter in Mexico
- Improving plant availability and reducing mine drainage treatment costs at a former US EPA Superfund site in the USA
- Auditing the use of ultrafiltration and reverse osmosis for mine water treatment in Peru

Water management and permitting assistance

- Lead water treatment consultant during the environmental assessment stage of two new mining projects in Canada
- Water treatment guidance during the permit amendment process for an existing mine undergoing expansion in Canada
- Developing a water management plan for a newly proposed metallurgical coal mine in Canada
- Waste brine management at a gold mine in the US
- Feasibility study for water treatment to support the permitting of a new mine in Ecuador
- Engineering design for a temporary modular water treatment system during the exploration phase of a mining project in Canada

Cyanide recovery and recycle for gold extraction using the SART process

- Expansion of a SART plant built by BQE Water in 2008 at Lluvia de Oro, Mexico
- Starting-up, commissioning and ongoing technical support for a SART plant operation at Minera Media Luna, Mexico
- Scoping level engineering assessments for SART plants to be integrated into existing gold mining operations in Mexico and Bolivia
- Scoping level assessment of SART for a new mine in permitting in the US
- Bench scale SART process testing on cyanide leach solutions generated from locked cycle metallurgical testing

Engineering of selenium removal plants – commercial deployment of Selen-IX™ technology

- Detailed engineering for existing tailings pond water treatment in the Yukon
- Detailed engineering of a modular selenium removal system for groundwater treatment in the US
- Detailed engineering for waste-rock seepage and tailings supernatant treatment at the Kemess underground project in Northern BC

Treatability assessments using laboratory scale testing

- On-site bench scale testing of antimony removal from excess mine water at an existing operation in Canada
- Cyanide destruction bench scale testing to inform water quality predictions for a new project in Canada

Selenium removal – improvements and demonstration of scale-up of Selen-IX™ technology

- Industrial scale demonstration of electro-reduction co-sponsored by three mining companies in Canada
- Laboratory scale testing of direct electro-reduction of selenium from excess mine water at an existing operation in US

Sulphate removal from smelter and mine wastewater

- Pilot demonstration of a membrane system with brine de-saturation at an existing mine in Canada
- Laboratory scale testing and scoping levels engineering for the Sulf-IX™ process at a mine in Chile

Nitrogen species management

- Pilot demonstration of ammonia removal using electro-oxidation applied to mine impacted water in Canada
- Recovery of cyanide from thiocyanate using electro-oxidation applied to wastewater from a gold leaching operation in China

2018 COMMENTARY AND OUTLOOK FOR 2019

Overall, 2018 was very successful and the key achievements of the Company can be summarized as follows:

- Achieved the best financial performance in Company history with net income of \$150,000 and Adjusted EBITDA of \$1.2 million compared to a net loss of \$362,000 and Adjusted EBITDA of \$776,000 in 2017;
- Produced earnings per share of \$0.16, calculated based on adjusted weighted average number of shares outstanding after the 100:1 share consolidation completed on March 5, 2019;
- Maintained a strong safety and environmental record at operations with no accidents and environmental incidents;
- Executed an industrial scale demonstration of the Selen-IX™ electro-reduction circuit and advanced Selen-IX™ to a commercial ready status;
- Signed an engineering services agreement and an operating services agreement with Centerra Gold for the first commercial scale Selen-IX™ water treatment plant;
- Commissioned and started the operation of a new water treatment plant at the Guoda gold smelter;
- Completed a successful pilot demonstration of membrane treatment with brine desaturation at an existing mine in Canada, demonstrating the Company's capabilities and impartiality to select treatment based on project specific requirements; and
- Contracted to provide technical services for six new SART projects globally, reflecting the recognition of BQE Water as the leader in the cyanide recovery and recycle technology.

Adjusted EBITDA (in \$'000s)



The first half of 2018 was slower than expected with several projects either delayed or suspended. This changed in the second half of the year when a number of new projects started, resulting in the best Q3 performance in the Company's

history. Followed by strong Q4, the Company yielded a positive net income for the first year in history. Part of the catch-up in the second half of the year can be attributed to the growth of the Company's project pipeline in the last three years where a short term loss in revenue from cancelled or delayed projects can be replaced by revenue from new and different projects.

The financial results in 2018 extended the steady positive trend in the Company's financial performance improvements of the past few years. Since our 2015 annual results, the net increase of our Adjusted EBITDA was over \$2 million. While this long-term trend is very positive, it is important for shareholders to realize the significant fluctuations of our quarterly results and annual financial performance. Recurring revenue from water treatment fees and sales of recovered metals, which accounts for approximately 55% of our total Proportional Revenue, fluctuates intrinsically as it is dependent on temperature and climatic conditions that affect total water volume and recoverable metals available for treatment.

Although the Company has been cash-flow positive since 2017, shareholders should realize that a significant portion of the Company's working capital are on the balance sheet of our joint ventures in China. Cash earned from operation is accumulating in our joint ventures throughout the year and it cannot be accessed by the Company until the annual declaration of dividends. The Company recognize that short-term fluctuations in our revenue combined with the timing of the dividend payout represents a risk of a temporary shortfall in working capital. Management and our Board of Directors are actively exploring options to mitigate this risk.

Looking ahead towards 2019, the Company has several catalysts to grow recurring revenue over the long-term that is built into the current project pipeline. First and foremost, we expect the first commercial Selen-IX™ plant to be successfully commissioned at the Kemess Mine before the end of 2019. The success of this project will not only initiate our five-year operating agreement for this water treatment plant but will likely trigger new projects due to the growing demand for selenium removal solutions in the North American mining market. The key features of the Selen-IX™ process are its ability to reduce selenium in effluent to less than one part per billion and to produce a small amount of very stable residue that can be reused in steel making. Current competitors of Selen-IX™ do not achieve either. The second catalyst is our global leadership in the deployment of SART technology on a large industrial scale. Our current pipeline includes several SART projects at gold mines in Latin America and China that may proceed to construction in 2019 and begin operation in 2020.

Aside from Selen-IX™ and SART related projects, there are several projects in our pipeline that may lead to larger projects and we expect it to give the Company an opportunity to generate new IP in the mine water market that we believe may become strategic in the next five years.

FINANCIAL RESULTS

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

	2018	2017
	\$	\$
Revenues	4,270	4,057
less: Operating expenses (excluding depreciation)	2,029	2,315
	2,241	1,742
General and administration	1,509	1,665
Sales and development	1,120	1,219
Stock-based compensation	111	68
Depreciation of plant and equipment	19	214
Share of results of equity accounted joint ventures	(898)	(1,149)
Income (loss) from operations and joint ventures	380	(275)
Finance costs, net	(124)	(215)
Foreign exchange gain (loss)	19	(35)
Other income	-	63
Income (loss) before income taxes	275	(462)
Income tax (expense) recovery	(125)	100
Net income (loss) for the year	150	(362)
Translation gain (loss) on foreign operations	102	(12)
Comprehensive income (loss) for the year	252	(374)
Net income (loss) per share (basic and diluted)	0.16	(0.38)
Proportional Revenues ¹	9,799	9,276
Adjusted EBITDA ¹	1,181	776
	at December 31	at December 31
	2018	2017
	\$	\$
Working capital	1,286	735
Total assets	7,913	6,866
Total non-current liabilities	-	1,498
Shareholders' equity	6,382	4,395

Notes:

1. See Non-GAAP measures

COMPARISON OF QUARTERS

Financial data for the last eight quarters:

(in \$'000s)

Quarters ended	Dec-18	Sept-18	Jun-18	Mar-18	Dec-17	Sept-17	Jun-17	Mar-17
	\$	\$	\$	\$	\$	\$	\$	\$
Revenues	1,310	1,893	540	527	858	1,578	953	668
Operating expenses (excluding depreciation)	557	573	439	460	599	642	656	418
	753	1,320	101	67	259	936	297	250
General and administration	427	369	344	369	410	383	376	495
Sales and development	257	211	328	324	364	263	303	288
Stock-based compensation	10	37	10	55	25	34	15	(7)
Depreciation and amortization	7	4	4	4	116	31	33	33
Share of results of equity accounted joint ventures	198	(302)	(697)	(97)	119	(470)	(764)	(34)
Income (loss) from operations and joint ventures	(146)	1,001	112	(588)	(775)	695	334	(525)
Other expenses	15	(57)	(51)	(13)	(53)	(78)	(69)	(48)
Bad debt recovery	-	-	-	-	-	61	-	-
Income tax expense	(125)	-	-	-	(53)	153	-	-
Net (loss) income	(256)	944	61	(601)	(881)	831	265	(573)
Translation gain (loss)	257	(318)	(157)	320	128	(97)	(51)	9
Comprehensive (loss) income	(1)	626	(96)	(281)	(753)	734	214	(564)

Non-GAAP Measures:

Proportional Revenue	2,198	3,488	2,832	1,282	1,839	3,147	3,182	1,108
Adjusted EBITDA	(100)	1,272	427	(418)	(559)	1,088	744	(497)

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 sales contracts of water management consulting services and technology development services occur based on the timing of client requirements.

SUMMARY OF Q4 2018 FINANCIAL RESULTS

The following is a summary of selected financial results for the three-month periods ended December 31, 2018 and 2017.

Revenue

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

<i>(in \$'000s)</i>	Q4 2018		Q4 2017		% Change
	\$	% of total	\$	% of total	
Sale of recovered metals from operations	888	40%	981	53%	(9%)
Water treatment fee from operations	444	20%	35	2%	1,169%
Technical services	866	40%	823	45%	5%
Total Proportional Revenue	2,198	100%	1,839	100%	20%

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. During Q4 2018, the Company's share of revenues from the JCC-BQE joint venture decreased slightly from the comparable period in 2017 due to an approximate 6% decrease in both the quantity of copper recovered and in the average copper prices for the period. The MWT-BQE joint venture began operation in Q4 2018 and contributed \$31,000 from the sale of recovered metals to the Company's share of Proportional Revenue. Sale of recovered metals were lower than production amounts due to the amount of unsold inventory at December 31, 2018. The metal concentrate inventory, including our share which represents approximately \$80,000 based on year-end market prices, is expected to be sold in 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 in Shandong. As the operating season in 2018 started later due to late spring thaw, revenues in Q4 2018 were higher than Q4 2017 as the operating season at Raglan Mine was extended to mid-December 2018 to keep with up the water treatment demands at the site. Additionally, the newly operated MWT-BQE water treatment plant contributed \$48,000 in revenues from operations support fees.

Revenues from technical services relating to water management includes services such as engineering and plant design, construction and commissioning of water treatment plants, laboratory testing, pilot demonstrations and operations support. It represents the sum of multiple contracts from various clients of varying contract values. 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.

Expenses

Total operating expenses (excluding depreciation) in Q4 2018 were \$557,000 compared to \$599,000 in Q4 2017, a decrease of \$42,000. The variance is due to different project requirements as each individual project requires different levels of technical expertise and resources depending on the specific mine conditions and water treatment solutions.

In Q4 2018, general and administration costs were \$427,000 compared to \$410,000 in Q4 2017. The increase in general and administration costs were mainly due to increase in fees for professional services during Q4 of 2018.

Sales and development costs in Q4 2018 were \$257,000 compared to \$364,000 in Q4 2017, representing a decrease of \$108,000. This is due to a decrease in labour resources allocated to business and technology development projects.

Depreciation expenses were \$7,000 in Q4 2018 compared to \$116,000 in Q4 2017. The decrease was due to the Selen-IX™ pilot plant asset being fully depreciated as at December 31, 2017.

Stock-based compensation costs in Q4 2018 were \$10,000 compared to \$25,000 in Q4 2017. Stock-based compensation costs consisted of stock options granted to directors and employees during Q4 2017 and the fair value adjustment of deferred and restricted share units resulting from changes in the Company's share price.

SUMMARY OF 2018 FINANCIAL RESULTS

The following is a summary of selected financial results for the year ending December 31, 2018 and 2017

Revenue

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

<i>(in \$'000s)</i>	2018		2017		
Revenue source	\$	% of total	\$	% of total	% Change
Sale of recovered metals from operations	5,529	57%	5,219	56%	6%
Water treatment fee from operations	1,430	14%	1,188	13%	20%
Technical services	2,840	29%	2,869	31%	(1%)
Total Proportional Revenue	9,799	100%	9,276	100%	6%

Revenues from the sale of based metals recovered comprises the Company's share of revenue from its joint venture in China. The sale of copper and zinc recovered during the operation of water treatment plants are impacted by the amount and market price of metal concentrate sold. During 2018 the Company's share of revenue from the JCC-BQE joint venture increased by 5% from 2017. Our share of total pounds of copper recovered decreased by 2% over the prior year and the average annual price of copper was USD \$2.96/LB and USD \$2.80/LB in 2018 and 2017 respectively, representing a 6% increase. The remaining variance is due to the newly commissioned water treatment plant from the MWT-BQE joint venture which contributed additional copper and zinc recovery sales of \$31,000 to the Company's Proportional Revenue.

Water treatment fee revenues includes the tolling fees earned from each cubic metre of water discharged at Raglan Mine and the operating support fees from the new MWT-BQE plant in Shandong, China. During the 2018 operating season at Raglan Mine, revenue increased by \$194,000 primarily due to a six-week extension of the operating season. The total volume of water treated at Raglan Mine during 2018 was 1.2 million cubic metres, which is a 5% increase over 2017. Also in 2018, the newly operated MWT-BQE water treatment plant provided an additional \$48,000 from operations support fees.

The non-recurring revenue from technical services were consistent at \$2.9 million year over year. In 2018, there was an increase in the value of SART related services which was more or less balanced by a decrease in the value of pilot demonstration projects compared to 2017. The timing of revenues from technical services fluctuates from year to year as it depends on client needs and the project stage of completion at the reporting date.

Operating Expenses (excluding depreciation)

Total operating expenses (excluding depreciation) were \$2 million compared to \$2.3 million in 2017, a decrease of \$286,000. The 12% decline is attributed to decreases in costs to complete the scope of projects in 2018. Each individual project will require varying levels of technical expertise and resources depending on the specific mine conditions and treatment requirements.

Our share of total plant operating expenses (excluding depreciation) in the China joint ventures for 2018 was \$3.5 million compared to \$3 million in 2017. The 17% increase is due to the increase in reagent market prices during the year.

Expenses

In 2018, general and administration expenses were \$1.5 million compared to \$1.7 million, a decrease of \$156,000. This decrease is consistent with Management's strategy to further reduce overhead expenses such as rental costs and professional services.

Sales and development costs in 2018 were \$1.1 million, which is a decrease of \$99,000 from 2017. The variance is due to the increase of internal labour resources allocated from technology development to fulfill technical services contracts.

Total depreciation and amortization expenses were \$19,000 in 2018 compared to \$214,000 in 2017. The decrease was due to our Selen-IX™ mobile pilot plant asset being fully depreciated as at December 31, 2017.

Stock-based compensation was \$111,000 in 2018 compared to \$68,000 in 2017. The 2018 expense were mainly due to the amortization of stock-based compensation expenses relating to the stock option grant of December 7, 2017. Other stock-based compensation expenses were lower in 2018 due to a lower fair value adjustment of deferred and restricted share units resulting from the movement of the Company share price.

Other Gains and Losses

Net finance costs were \$124,000 in 2018 compared to \$215,000 in 2017. During 2018, we recorded approximately 12 months of accrued interest expense related to the convertible loan while finance costs in 2017 included accrued interest and also amortization expense due to accretion of the convertible loan.

Foreign exchange gain was \$19,000 in 2018 compared to loss of \$35,000 during 2017. 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.

Income Tax and Net Income

In 2018, net income tax expense was \$125,000 compared to a net income tax recovery of \$100,000 in the prior year. The income tax charges in both years contained a 10% withholding tax in China for the distributions made by the JCC-BQE joint venture which were \$125,000 in 2018 and \$52,000 in 2017. These taxes are not able to be offset against accumulated tax benefits in other jurisdictions.

Overall net income for the year was \$150,000 compared to a net loss of \$362,000 in 2017. Comprehensive income for the year was \$252,000 compared to a comprehensive loss of \$374,000 in 2017. As the Company operates through subsidiaries and joint ventures with functional currencies other than 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 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 site, an active copper mine in China. The plant utilizes BQE Water's ChemSulphide® process to remove dissolved copper from acid mine drainage generated by waste dumps and low-grade stockpiles. The high-grade copper concentrate recovered from the water is shipped to JCC's refinery. In 2014, the joint venture completed the construction and commissioning of two new water treatment plants at JCC's Yinshan Mine and Dexing Mine sites. Both plants also utilize BQE Water's 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:

Dexing 1

(in '000s)

	2018	2017
Water treated (cubic metres)	6,905	6,368
Copper produced (pounds)	1,365	1,585

Dexing 2*(in '000s)*

	2018	2017
Water treated (cubic metres)	8,915	8,031
Copper produced (pounds)	1,213	1,120

Yinshan*(in '000s)*

	2018	2017
Water treated (cubic metres)	3,994	2,762
Copper produced (pounds)	789	744

Total Joint Venture*(in '000s)*

	2018	2017
Water treated (cubic metres)	19,814	17,160
Copper produced (pounds)	3,367	3,449

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 2018, all three plants met or exceeded mechanical availability and process performance. Changes in water volume and feed grade are largely the result of environmental conditions beyond the control of the joint venture and will fluctuate from period to period.

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 would recover 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 during the first three years of operation. Plant construction began in Q4 2017 and the plant was completed and commissioned during Q3 2018. The plant has been operating daily and is expected to recover approximately 180,000 pounds of zinc and 18,000 pounds of copper per month. 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:

<i>(in '000s)</i>	2018	2017
Water treated (cubic metres)	283	-
Zinc recovered (pounds)	525	-
Copper recovered (pounds)	34	-

Raglan Mine Operation for Glencore Canada Corporation, Quebec, Canada

BQE Water operates three water treatment plants at the Raglan Mine, an active nickel mine in Northern Quebec which is owned by Glencore Canada Corporation (“Glencore”). The three plants include: BQE Water’s ChemSulphide® process plant, BQE Water’s Met-IX™ process plant and one conventional lime neutralization plant. 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 Quebec, 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 charges a treatment fee per cubic metre of water discharged.

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

<i>(in '000s)</i>	2018	2017
Water treated - ChemSulphide® plant and Met-IX™ plant (cubic metres)	976	748
Water treated - lime neutralization plant (cubic metres)	245	420
Total	1,221	1,168

In 2018, we successfully completed our 15th operating season at the site. Due to unusually cold weather in May and June, the spring thaw was delayed by approximately one month compared to previous seasons. As a result, in 2018 we extended the operating season by one month and in the process, treated and discharged 30% more water from our ChemSulphide® plant as compared to 2017, a particular dry season. Due to the shorter treatment season, the lime neutralization plant treated and discharged 175,000 cubic metres less water compared to 2017.

SUMMARY OF TECHNICAL SERVICES

Issued for Construction Engineering for Selen-IX™ Plant

The Kemess underground project received permits to proceed based on the use of Selen-IX™ as the treatment system to control selenium in treated water discharged from the site into the environment. During Q1 of 2018, we signed an agreement with Centerra Gold for the engineering, procurement, installation support and commissioning of a water treatment plant at the Kemess site. The plant will combine our unique know-how of heavy metal removal and selenium control using our Selen-IX™ process.

Issued for construction engineering has been completed and the project is currently in the initial stages of procurement, equipment fabrication and site preparation. Equipment fabricated and procured over the winter will be installed in Q2 2019 with commissioning of the water treatment plant scheduled for the second half of 2019. We have also signed a five-year operating services agreement to operate the new water treatment plant, which is expected to treat up to 6,400 m³/day of mine impacted water. The operation of the water treatment plant is expected to start on January 1, 2020.

Modular Selen-IX™ Plant for Contaminated Groundwater Site in the US

This urban site in the US experiences ingress of groundwater contaminated with selenium into the underground building structure. Following successful laboratory testing that demonstrated the ability of Selen-IX™ to remove selenium from water down to less than one part per billion, the client requested that detailed engineering of a modular skidded Selen-IX™ system be completed. The design of the plant was completed in Q4 of 2018.

SART Plant Start-up at Minera Media Luna

The Minera Media Luna (“MML”) gold property contains elevated levels of cyanide soluble copper which impacts gold extraction. In Q2 2018, we were contracted by MML to commission the SART plant at their site and help stabilize the operation. This involved overcoming and rectifying plant design inadequacies delivered by a third party. Throughout the commissioning phase, we led all aspects of the SART plant operation including safety, environmental, automation, operator and supervisor training, and reporting. The commissioning was completed safely without any incidents and the plant entered stable continuous operation in approximately three months. Our involvement continued in Q4 with ongoing technical support of the SART operation.

SART Engineering Projects in Early Stages of Planning and Development

In 2018, we provided engineering and/or laboratory testing services to five new SART projects in early stages of development. All projects are located in the Americas and are yet to be built. We anticipate that some of these projects may advance into detailed engineering design and construction in 2019.

Membrane Water Treatment Pilot at BC Mine

This active mine in BC has a positive water balance and wishes to reduce the inventory of mine impacted water stored on site. Following our initial assessment of water treatment options, we identified membrane treatment as the most suitable method to achieve the site objectives mostly driven by sulphate levels in the receiving environment. Although we

considered the use of our Sulf-IX™ process, the volume of water requiring treatment is finite and the time horizon for active treatment quite short which favored the deployment of a membrane-based system instead of Sulf-IX™.

The mine owner then contracted us in Q2 to carry out a pilot demonstration of the proposed system. The on-site pilot was completed over a period of seven weeks and involved the treatment of 1,200 m³ of mine water. An important component of the pilot was the demonstration of brine management, which is critical for the success of any membrane application in the mining industry. The pilot was successfully completed and a report issued in Q4 2018.

Water Management and Permitting Assistance

Over the course of 2018, BQE Water engineers acted as the Qualified Persons (“QPs”) for water issues on several projects navigating the permitting process. We have also participated in formulating water management plans and identifying possible treatment systems for new mining projects in early stages of development.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2018, BQE Water had 120,843,316 common shares issued (93,966,672 at December 31, 2017) and 6,200,000 stock options outstanding (7,133,333 at December 31, 2017).

On March 5, 2019, the Company completed a 100:1 share consolidation of the common shares, resulting in 1,208,435 common shares issued and outstanding and 71,333 stock options outstanding. As of April 16, 2019, aside from the 100:1 share consolidation, the number of common shares issued and outstanding remain unchanged from December 31, 2018; and the number of stock options issued and outstanding also remain unchanged from December 31, 2018.

At December 31, 2018, the Company had Cash of \$1.4 million, which is an increase of approximately \$441,000 in Cash from December 31, 2017. For the 12 months ended Dec 31, 2018, the Company’s Cash funded operating activities of \$579,000 and financing activities of \$82,000.

The Company had a working capital position at the end of the year of \$1,286,000, an increase of \$551,000 from December 31, 2017. At December 31, 2018, BQE Water’s significant working capital items include trade and other receivables of \$1,304,821 (\$680,530 at December 31, 2017) and trade payable and accrued liabilities of \$1,352,280 (\$783,799 at December 31, 2017).

The Company has commitments of \$846,828 until 2023 under operating leases for office and laboratory premises and for office equipment.

As disclosed in note 2(b) of our audited consolidated financial statements for the year ended December 31, 2018 and in the “2018 COMMENTARY AND 2019 OUTLOOK” section of this MD&A, the Company believes it has sufficient working capital resources to continue current operations for the next 12 months. Aside from working capital received from existing operations, the Company expects potential sources of new working capital from new projects. Beyond this point, we will need to secure new non-operational sources of working capital to continue operations, such as debt or equity investments.

The continuation of the Company as a going concern is dependent upon its ability to raise additional financing and ultimately attain and maintain profitable operations. This assumes BQE Water is able to continue successful plant operations at Raglan Mine and its Chinese joint ventures, market prices for metals and foreign exchange rates remain at current levels, the Company maintains or further decreases operating expenses, successfully repatriates funds from its Chinese joint venture, and secures and completes new sales contracts. Beyond this point, the Company will need to secure new sources of working capital to continue operations.

Whether and when the Company can sustain profitability and attain positive cash flow from operations is uncertain. While the Company has been successful in securing financing in the past, there is uncertainty whether financing will be available in the future on terms acceptable to the Company. Accordingly, there is material uncertainty that may cast significant doubt upon the Company’s ability to continue as a going concern. These 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.

RELATED PARTY TRANSACTIONS

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

- a) For the year ended December 31, 2018 and 2017, the compensation awarded to the Company’s key management, which includes the Board of Directors and executive management, are as follows:

	2018	2017
	\$	\$
Salaries, fees and short-term benefits	557,517	658,480
Share-based payments	52,659	6,153
	610,176	664,633

Included in the trade payables and accrued liabilities as of December 31, 2018 is \$131,723 (\$12,231 at December 31, 2017) of director fees, management consulting service fees with companies owned by the Company’s management, and termination benefits. Included in the salaries, fees and short-term benefits, are consulting services received from companies owned by the Company’s management, which amounted to \$142,000 for the year ended December 31, 2018 (2017 - \$69,000).

- b) The Company had multiple loan transactions with multiple related parties during 2018. These lenders include the Company’s joint venture, certain directors, shareholders, management and employees of the Company. Details of the loans with various related parties are described in note 12 of our audited consolidated financial statements.
- c) Included in the trade payables and accrued liabilities as of December 31, 2018 is \$nil (\$96,400 as of December 31, 2017) of contribution of registered capital payable to the Company’s joint venture as described in note 9(b) of our audited consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Estimates and assumptions are continually evaluated and are based on management’s experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company’s assets and liabilities are accounted for prospectively.

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

Critical Judgements

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

- a) Management’s assessment of the Company’s ability to continue as a going concern (see note 2(b) of our audited consolidated financial statements);
- b) Management’s judgement on determining the timing of the transfer of control and satisfaction of performance obligations of either at a point in time or over time; and

- c) 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 relative 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.

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 taking into consideration of forward-looking information. If actual credit losses differ from estimates, future earnings would be affected.

GENERAL

Disclosure Controls and Procedures and Internal Control over Financial Reporting

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

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

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

There has been no change in BQE Water's internal controls over financial reporting during the year ended December 31, 2018 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Adoption of New Accounting Standards and Amendments

The Company have adopted the following new accounting standards during 2018:

IFRS 15 - Revenue from Contracts with Customers

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

The Company has adopted IFRS 15 on the required effective date of January 1, 2018, using the modified retrospective approach. The Company is providing expanded disclosures related to the nature, amount and timing of the revenue (see Note 20). In addition, the Company has elected to make use of the following practical expedient of IFRS 15 which is the application only to revenue contracts that are not completed as the date of applying the standard of January 1, 2018.

The Company has evaluated the impact of applying IFRS 15 by performing a comprehensive review of existing sale contracts, control processes and revenue recognition methodology. For the Company's revenue earned from the operation and maintenance of water treatment plants, the Company concluded there is no change in the timing of revenue recognized under the new standard, as the point of transfer of risk and reward for goods and services and transfer of control with the fulfillment of performance obligations occurs at the same time. The Company also earns revenue from technical services relating to water management, including engineering, laboratory and pilot demonstrations. For technical services contracts, the Company may defer and recognize the revenue over time as each obligation within the contracts are fulfilled. Given that the majority of the Company's technical services contracts have the clause which allows the Company to have an enforceable right to payment for performance completed to date, the Company concluded there is no change in the amount of revenue recognized as the Company recognizes revenue over time based on the project stage of completion for labour hours expended or costs incurred.

The Company will continue to recognize revenue by applying the five-step model under IFRS 15. The Company continues to recognize revenue at a contract level as performance obligations are satisfied over time, using project stage of completion or as performance obligations are satisfied at a point in time as the control of goods or services are transferred to the customer.

IFRS 9 - Financial Instruments

IFRS 9, *Financial Instruments* ("IFRS 9") was issued to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The Company adopted IFRS 9 retrospectively on January 1, 2018. IFRS 9 introduces new requirements for the classification and measurements of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities and amends the impairment model by introducing a new "expected credit loss" model for calculating impairment. It also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. The adoption of this standard did not have material impact to the Company's consolidated financial statements. The Company's policies and procedures surrounding the identification of credit risk and the recognition of credit losses comply with the requirements of this standard.

Future Changes in Accounting Standards not yet Adopted

The Company reviewed new and revised accounting pronouncements that have been issued but are not yet effective.

IFRS 16 - Leases

On January 6, 2016, the IASB issued IFRS 16, *Leases* ("IFRS 16"). IFRS 16 specifies the methodology to recognize, measure, present and disclose leases. IFRS 16 replaces IAS 17 *Leases* and the effective date for reporting periods beginning on or after January 1, 2019 with early adoption permitted. For lessees, IFRS 16 will bring most leases onto the consolidated statements

of financial position under a single model, eliminating the distinction between operating and finance leases. Lessors will continue accounting for leases under a dual lease classification model, and the classification between operating and finance leases will determine how and when a lessor will recognize revenue, and what assets would be recorded.

The Company will be adopting 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 will be adopting the exemption for leases with a lease term of 12 months or less and for leases that are low value. While the assessment of the impact is still being determined, and the Company is not currently in a position to reliably quantify the full impact of IFRS 16 on its consolidated financial statements, the Company expects the adoption of this standard to increase assets by recording a right-of-use asset upon adoption. There will also be an increase to liabilities as a corresponding liability will also be recorded in the consolidated financial statements. The Company also expects an impact from the reclassification of lease expense from operating expense and general and administration expense to depreciation expense and interest expense. There will be no impact on the statement of cash flows as cash flows from operating activities will increase as payments will be reclassified to cash flows from investing activities.

RISKS AND UNCERTAINTIES

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

Uncertain Profitability, Funding Needs, Financing Risks and Dilution

The Company believes there are many sites which can benefit from the Company's processes. The Company has designed and/or built 19 plants to date deploying proprietary technologies developed by BQE Water and applying them to meet site specific conditions. However, the Company has been unable to consistently generate sufficient cash flow from these projects to cover ongoing development and administration costs to date.

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

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

Going Concern

There can be no assurance of the Company's success and, therefore, any investor in securities of the Company could potentially lose their entire investment. Please refer to the disclosure in note 2(b) of our audited consolidated financial statements for the year ended December 31, 2018 and in the "2018 COMMENTARY AND 2019 OUTLOOK" section of this MD&A.

Dependence on Key Personnel

The Company is substantially dependent upon a number of key employees and consultants. The loss of any one or more of the Company's key employees or consultants could have an adverse material effect on its business. Additionally, the Company's ability to develop, manufacture and market its products and compete with current and future competitors depends, in large part, on its ability to attract and retain qualified personnel. Competition for qualified personnel in the

Company's industry may prove to be intense and it may have to compete for personnel with companies that have substantially greater financial and other resources than it does. Failure to attract and retain qualified personnel could have an adverse material effect on the Company's business operating results and financial condition.

Economic and Project Site Dependence

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

Commodity Prices

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

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 RMB. This creates exposure at the operational level, which may affect the Company's profitability as exchange rates fluctuate. The Company has not hedged its exposure to currency fluctuations. The Company is also exposed to currency risk through assets and liabilities denominated in currencies other than Canadian dollar.

Technology Risk

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

Intellectual Property Protection

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

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

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

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

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

Access to Proprietary Information

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

Competition

The Company is aware of and does address existing competitors for 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 its technologies for water treatment solutions is far beyond the capability 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.

Environmental Regulation

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

Management of Growth

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

Conflicts of Interest

Certain directors, officers and other members of management of the Company and its subsidiaries serve (and may in the future serve) as directors, officers, promoters and members of management of other companies and therefore, it is possible that a conflict may arise between their duties as a director, officer or member of management of the Company or its subsidiaries and their duties as a director, officer, promoter or member of management of such other companies. The directors and officers of the Company are aware of the existence of laws governing accountability of directors and officers for corporate opportunity and requiring disclosures by directors of conflicts of interest and the Company will rely upon such laws in respect of any directors' and officers' conflicts of interest or in respect of any breaches of duty by any of its directors

or officers. All such conflicts will be disclosed by such directors or officers in accordance with the Business Corporations Act (British Columbia) and they will govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law.

Possible Volatility of Share Price

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

Lack of Dividends

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