BQE Water

BQE WATER INC.

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2021 and 2020

Independent Auditor's Report

To the Shareholders of BQE Water Inc.:

Opinion

We have audited the consolidated financial statements of BQE Water Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and December 31, 2020, and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Jian-Kun Xu.

Vancouver, British Columbia

April 22, 2022

MNP LLP

Chartered Professional Accountants

BQE WATER INC.
Consolidated Statements of Financial Position
As at December 31, 2021 and 2020
(Expressed in Canadian dollars)

	note	**December 31 2021 $**	December 31 2020 $
Assets			
Current assets			
Cash		**3,943,714**	3,239,692
Restricted cash	5	**83,137**	-
Trade and other receivables	6	**2,009,201**	1,685,717
Prepaid and deposits		**233,022**	172,711
Total current assets		**6,269,074**	5,098,120
Non-current assets			
Plant and equipment	8	**255,141**	319,664
Intangible assets	9	**398,715**	-
Investment in joint ventures	10	**6,855,401**	5,021,154
Deposits		**24,881**	24,881
Total non-current assets		**7,534,138**	5,365,699
Total assets		**13,803,212**	10,463,819
Liabilities			
Current liabilities			
Trade payable and accrued liabilities	7, 11	**1,041,802**	1,055,487
Loans	12	**82,500**	61,875
Deferred revenues	22 (d)	**73,243**	75,349
Lease obligations	13	**120,039**	92,128
Deferred benefits	14	**394,441**	270,003
Total current liabilities		**1,712,025**	1,554,842
Non-current liabilities			
Loans	12	**268,125**	350,625
Deferred revenues	22 (d)	**253,560**	283,740
Lease obligations	13	**86,412**	186,877
Other liabilities	9	**169,700**	-
Total non-current liabilities		**777,797**	821,242
Total liabilities		**2,489,822**	2,376,084
Shareholders' Equity			
Share capital	15	**56,573,611**	56,386,413
Contributed surplus		**10,669,159**	10,565,312
Accumulated other comprehensive income		**1,750,386**	1,445,214
Accumulated deficit		**(57,679,766)**	(60,309,204)
Total shareholders' equity		**11,313,390**	8,087,735
Total liabilities and shareholders' equity		**13,803,212**	10,463,819

Commitments (note 21)
Subsequent event (note 27)

Approved and authorized by the Board of Directors:

"Peter Gleeson", Executive Chairman

"Sara Elford", Director

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

BQE WATER INC.
Consolidated Statements of Income and Comprehensive Income
For the years ended December 31, 2021 and 2020
(Expressed in Canadian dollars)

	note	Year ended December 31 2021 $	2020 $
Revenues	22	**7,511,259**	7,696,361
Operating expenses (excluding depreciation)	16	**(3,948,527)**	(4,430,958)
Operating margin before depreciation		**3,562,732**	3,265,403
Share of income from joint ventures	10	**2,803,151**	1,139,450
General and administration	16	**(1,822,932)**	(1,621,996)
Sales and development	16	**(1,373,867)**	(970,547)
Share-based payments	7, 14	**(302,749)**	(386,882)
Depreciation and amortization	8, 9	**(167,995)**	(147,669)
Income from operations and joint ventures		**2,698,340**	1,277,759
Finance costs, net	17	**(23,832)**	(16,967)
Foreign exchange loss		**(21,342)**	(54,938)
Other income	18	**106,645**	63,698
Income before income taxes		**2,759,811**	1,269,552
Income tax expenses	19	**(130,373)**	(102,417)
Net income for the year		**2,629,438**	1,167,135
Other comprehensive income			
Items that will be reclassified subsequently to income			
Translation gain on foreign operations		**305,172**	228,484
Comprehensive income for the year		**2,934,610**	1,395,619
Earnings per share			
Basic	15 (c)	**2.13**	0.96
Diluted	15 (c)	**2.11**	0.95
Weighted average number of shares outstanding			
Basic	15 (c)	**1,231,673**	1,215,884
Diluted	15 (c)	**1,247,374**	1,232,858

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

BQE WATER INC.
Consolidated Statements of Changes in Equity
For the years ended December 31, 2021 and 2020
(Expressed in Canadian dollars)

	note	**Year ended December 31** **Number of Shares**	**2021** **$**	Year ended December 31 Number of Shares	2020 $
Share Capital					
Balance, beginning of the year	15 (b)	**1,217,435**	**56,386,413**	1,210,434	56,344,407
Exercise of options	14 (a)	**27,533**	**187,198**	7,001	42,006
Balance, end of the year		**1,244,968**	**56,573,611**	1,217,435	56,386,413
Contributed surplus					
Balance, beginning of the year			**10,565,312**		10,320,533
Equity settled share-based payments	14 (a)		**103,847**		244,779
Balance, end of the year			**10,669,159**		10,565,312
Accumulated other comprehensive income					
Balance, beginning of the year			**1,445,214**		1,216,730
Other comprehensive income for the year			**305,172**		228,484
Balance, end of the year			**1,750,386**		1,445,214
Accumulated deficit					
Balance, beginning of the year			**(60,309,204)**		(61,476,339)
Net income for the year			**2,629,438**		1,167,135
Balance, end of the year			**(57,679,766)**		(60,309,204)
Total shareholders' equity					
Balance, beginning of the year			**8,087,735**		6,405,331
Exercise of options	14 (a)		**187,198**		42,006
Equity settled share-based payments	14 (a)		**103,847**		244,779
Other comprehensive income for the year			**305,172**		228,484
Net income for the year			**2,629,438**		1,167,135
Balance, end of the year			**11,313,390**		8,087,735

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

BQE WATER INC.
Consolidated Statements of Cash Flow
For the years ended December 31, 2021 and 2020
(Expressed in Canadian dollars)

	note	Year ended December 31 2021 $	2020 $
Operating activities			
Net income for the year		**2,629,438**	1,167,135
Items not affecting cash			
Bad debt recovery	6, 18	**(94,630)**	-
Share of income from joint ventures	10	**(2,803,151)**	(1,139,450)
Finance costs, net	17	**23,832**	16,967
Depreciation and amortization	8, 9	**167,995**	147,669
Foreign exchange loss		**32,460**	7,409
Share-based payments	14	**302,749**	386,882
		258,694	586,612
Change in non-cash operating working capital items	20	**(508,516)**	(441,161)
Net cash (used in) provided by operating activities		**(249,822)**	145,451
Investing activities			
Purchase of plant and equipment	8	**(44,890)**	(20,237)
Purchase of intangible assets	9	**(150,000)**	-
Dividends received from joint ventures	10	**1,177,200**	973,500
Interest received	17	**5,573**	4,792
Net cash provided by investing activities		**987,883**	958,055
Financing activities			
Lease payments on principal portion	13	**(110,012)**	(99,486)
Lease payments on interest portion	13	**(29,322)**	(21,478)
Proceeds from exercise of stock options	14 (a)	**187,198**	42,006
Repayment of loans	12	**(61,875)**	-
Proceeds from loans	12	**-**	157,989
Interest paid	17	**(84)**	(298)
Net cash (used in) provided by financing activities		**(14,095)**	78,733
Effect of exchange rate changes on cash		**(19,944)**	(2,607)
Net increase in cash		**704,022**	1,179,632
Cash, beginning of the year		**3,239,692**	2,060,060
Cash, end of the year		**3,943,714**	3,239,692

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

1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

BQE Water Inc. ("BQE Water" or the "Company") is the ultimate parent company of its consolidated group. BQE Water is an integrated water management services and treatment solutions provider with unique expertise and intellectual property to support the mining and metallurgical industry in reducing life cycle costs and risks associated with water.

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

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements were authorized for issue on April 22, 2022 by the Company's Board of Directors.

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency, and have been prepared under the historical cost basis except for those assets and liabilities that are measured at fair values at the end of each reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies as set out below have been consistently applied to all periods presented in the consolidated financial statements:

a) Basis of Consolidation

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

Entity	Country of incorporation and operation	Ownership interest as at Dec. 31, 2021	Ownership interest as at Dec. 31, 2020
Biomet Mining Corporation	Canada	100%	100%
BioteQ Water (Chile) SpA	Chile	100%	100%
BioteQ Water Mexico S.A. de C.V.	Mexico	100%	100%
BQE Water (Hangzhou) Co. Ltd.	China	100%	100%
BQE Water Delaware, Inc. *	USA	100%	0%

* Incorporation on April 21, 2021

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

Entity	Country of incorporation and operation	Ownership interest as at Dec. 31, 2021	Ownership interest as at Dec. 31, 2020
JCC-BioteQ Environmental Technologies Co. Ltd.	China	50%	50%
Shandong MWT BioteQ Environmental Technologies Co. Ltd.	China	20%	20%
BQE Water Nuvumiut Development Inc. *	Canada	49%	0%

* Incorporation on December 2, 2021

i) Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of a subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases. Inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements. The activities of any dissolved subsidiary are recorded up to the date of dissolution.

ii) Investments in Joint Ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The financial results, assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the joint venture. The Company will record a subsequent investment in joint venture adjustment upon the receipt of cash distribution or dividend produced by the joint venture's profit. When the Company's share of losses in the joint venture exceeds the Company's interest in that joint venture, the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the joint venture. If the joint venture subsequently reports a profit, the Company resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.

When the Company transacts with a joint venture, profits or losses resulting from the transactions with the joint venture are recognized in the Company's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Company.

iii) Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred is measured as the aggregate of the fair value (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree.

The acquiree's identifiable assets and liabilities that meet the conditions for recognition are recognized at their fair value at the acquisition date except for certain assets and liabilities which are recognized and measured in accordance with the applicable IFRS guidance. Goodwill arising on acquisition is recognized as an asset and is measured as the fair value of consideration paid less the fair value of the net identifiable assets and liabilities recognized.

If the Company's interest in the fair value of the acquiree's net identifiable assets and liabilities exceeds the fair value of consideration paid, the excess is recognized immediately in the statement of operations as a bargain purchase. Transaction costs, other than those associated with the issuance of debt or equity securities that the Company incurs in connection with a business combination, are expensed as incurred.

b) Foreign Currency Translation

i) Functional and Presentation Currency

The consolidated financial statements are presented in Canadian dollars ("CAD"), which is the Company's presentation currency.

Items included in the financial statements of each consolidated entity in BQE Water Inc.'s group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company's subsidiaries and its joint ventures are respective of their functional currency, such as the United

States dollars ("USD"), Chilean peso ("CLP") and Chinese renminbi ("RMB").

For the purpose of presenting these consolidated financial statements, entities including joint ventures that have a functional currency different from the presentation currency ("foreign operations") are translated into CAD as follows:

- Assets and liabilities: at the closing rate at the date of the statement of financial position.
- Income and expenses: at the average rate for the period (as this is considered a reasonable approximation of actual rates prevailing at the transaction dates).

Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity. When an entity disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income related to the foreign operation are recognized in profit or loss. If an entity disposes part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive income related to the subsidiary is reallocated between controlling and non-controlling interests.

ii) Transactions and Balances

In preparing the financial statements of each individual BQE Water entity, transactions in currencies other than the entity's functional currency ("foreign currency") are recognized at the rates of exchange prevailing at the date of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for the exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

c) Cash

Cash consists of cash on hand and on demand bank deposits, some of which are interest-bearing.

d) Restricted Cash

Restricted cash is comprised of cash that is held by a bank as collateral for stand-by letters of credit. These balances are subject to collateral restrictions until the completion of the project and are therefore, not available for general use by the Company.

e) Inventory and Work in Progress

Inventories of metal concentrates in the Company's joint venture are valued at the lower of average production cost and net realizable value. Production costs that are inventoried include the costs directly related to bringing the inventory to its current condition and location, such as materials, labour and other direct costs (including external services) and related production overheads but exclude administrative and finance costs. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Chemical and spare part inventories in the Company's joint ventures are valued at the lower of cost and net replacement cost, which approximates net realizable value. Work in progress represents the costs that the Company incurred for projects that are not completed at the statement of financial position date. This amount includes both direct materials and direct labour costs.

f) Plant and Equipment

i) Recognition and Measurement

Plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the items. The cost of self-constructed plant and equipment includes the costs of materials, costs directly attributable to bringing the assets to a working condition for their intended use such as labour, professional fees and for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy. Self-constructed assets are classified to the appropriate categories of plant and equipment and subject to depreciation when ready for their intended use. If significant components of a plant or equipment have different useful lives, then they are accounted for as separate items (major components) of plant and equipment.

ii) Subsequent Measurement

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the consolidated statements of income in the financial period in which they are incurred.

Plant and equipment items are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or retirement of a plant and equipment item is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

iii) Depreciation

Depreciation of plant and equipment is calculated using the straight-line method to allocate their cost net of their residual values, over the shorter of their estimated useful lives and the contract life. Depreciation commences when the asset is fully constructed and available for use. Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted prospectively, if appropriate. Depreciation categories and useful lives for items included in plant and equipment are as follows:

Asset	**Estimated useful life**
Computer equipment	3 years
Furniture, office and lab equipment	5 years
Right-of-use assets & leasehold improvements	Remaining lease term
Pilot plants	3 to 5 years
Water treatment plants	Shorter of contract life or 10 to 20 years

g) Intangible assets

Intangible assets are recorded at cost, net of amortization and any provision for impairment.

Intellectual property assets are being amortized over the useful life of 5 years, being the remaining useful life of the related intellectual property assets from acquisition. Residual values and useful lives are reviewed at each reporting date. Where an indicator of impairment exists, intangible assets are subject to impairment testing as described in "Impairment of assets" under Note 3 (j).

h) Financial Instruments

Financial assets and liabilities, including derivatives, are recognized in the consolidated statements of financial position when the Company becomes a party to the contractual provisions of the financial instrument or derivative contract. Financial instruments are required to be initially measured at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition.

i) Fair Value Estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety. These levels are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

ii) Financial Assets

Based on their nature, the Company classifies its non-derivative financial assets as subsequently measured at amortized cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit or loss ("FVTPL"). The classification of financial assets is based on the contractual cash flow characteristics and the Company's business model for managing the financial asset. On initial recognition, the Company may irrevocably designate a financial asset that meets the amortized cost or FVTOCI criteria as measured at FVTPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. This designation will be recorded until the financial asset is derecognized.

Derivative instruments are recorded in the consolidated statements of financial position at fair value with both realized and unrealized changes in fair value recognized immediately in other income in the consolidated statements of earnings. As at December 31, 2021, the Company did not have any outstanding financial derivatives.

Financial assets are derecognized when the contractual cash flows from the asset expire or when the Company transfers the right to receive the contractual cash flows of the asset in a transaction whereby all risks and rewards of the financial asset are transferred. Any retained interest in the financial asset transferred is recognized as a separate financial asset or liability.

Financial assets and liabilities are offset and presented net in the consolidated statements of financial position only when a legal right of offset exists and the Company intends to settle the transaction on a net basis or realize the asset and the liability simultaneously.

Financial Assets at Amortized Cost

Financial assets with fixed or determinable payments that are neither derivatives nor quoted in an active market are classified as financial assets at amortized cost. The objective is to hold such assets to collect contractual cash flows and contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest. These financial assets are initially recognized at fair value plus any transaction costs directly attributable to the asset. These assets are subsequently measured at amortized cost using the effective interest method, less any impairment losses.

Financial Assets at Fair Value Through Other Comprehensive Income ("FVTOCI")

Financial assets at FVTOCI represent those non-derivative financial assets that are held to achieve an objective by both collecting contractual cash flows and selling the financial assets, where contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest. Financial assets at FVTOCI are initially measured at fair value plus any transaction costs directly attributable to the asset. Subsequent fair value gains or losses are recognized in other comprehensive earnings, except for impairment. For interest-bearing financial assets, interest calculated using the effective interest method and any foreign exchange gains and losses on monetary financial assets are recognized in profit or loss.

Financial Assets at Fair Value Through Profit or Loss ("FVTPL")
A financial asset is measured at FVTPL if it does not meet the criteria for assets measured at amortized cost or fair value through other comprehensive income. Financial assets at FVTPL include held for trading assets and derivative instruments. Financial assets are classified as held for trading if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy and have been acquired principally for the purpose of selling in the near term. A financial asset is measured at FVTPL if it is a derivative that is not designated as effective as a hedging instrument. Financial assets at FVTPL are measured at fair value with changes recognized in profit or loss. Transaction costs associated with assets classified as FVTPL are recognized as incurred through profit or loss.

Cash, restricted cash, and trade and other receivables shall exclude all tax receivable, such as value added tax ("VAT") and GST/PST/QST/HST/IVA, are classified as financial assets at amortized cost. No financial asset was designated as FVTPL or FVTOCI as at December 31, 2021 and 2020.

iii) Financial Liabilities
The Company classifies its financial liabilities into one of the following categories:

Financial Liabilities at Fair Value Through Profit or Loss
This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss. The Company has classified contingent liabilities, included in other liabilities, and deferred benefits, which are the provisions related to the Company's Deferred Share Units ("DSU") and Restricted Share Units ("RSU"), as FVTPL. Financial liabilities that are initially recognized at FVTPL originally include any transaction costs directly attributable to the liability.

Other Financial Liabilities
This category consists of liabilities carried at amortized cost using the effective interest method. The Company has classified trade payable and accrued liabilities, which exclude all tax payable such as VAT and GST/PST/QST/HST/IVA, lease obligations, other liabilities and loans as financial liabilities at amortized cost.

The Company initially recognizes financial liabilities on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are derecognized when their contractual obligations are discharged, cancelled or have expired. Any adjustment to the amortized cost of the financial liability arising from a modification or exchange is recognized in profit or loss at the date of the modification or exchange.

i) Leases
At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether 1) the supplier has a substantive substitution right, 2) the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period; and 3) the Company has the right to direct the use of the asset.

For contracts that contain a lease, the Company recognizes a right-of-use ("RoU") asset and a lease obligation at the lease commencement date in the consolidated statement of financial position. The RoU asset is initially measured based on the initial amount of the lease obligation plus any initial direct costs incurred less any lease incentives received. The RoU asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the RoU asset or the end of the lease term.

The lease obligation is initially measured at the present value of the lease payments that are unpaid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease obligation is subsequently measured at amortized cost using the effective interest rate method.

A lease modification is accounted for as a separate lease from the original lease if the modification increases the scope of the lease by adding the right to use one or more underlying assets; and the consideration for the lease increase by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract. If the lease modification merely extends the Company's right to use an existing leased asset to which it already has access, the modification is not accounted for as a separate lease. Instead, the Company recalculates the existing lease obligations on the effective date of the lease modification to include the lease payments until the end of the extended period and a corresponding adjustment is also made to the RoU asset. The additional RoU asset and lease obligations relating to the extended period are therefore recognized on the date of modification.

For short-term leases (terms of 12 months or less) and leases of low-value assets, the Company has opted to recognize these lease payments as expenses on the consolidated statement of income, as permitted by IFRS 16. This expense is presented within general and administration expenses.

j) Impairment

i) Plant and equipment & intangible assets

The Company's plant and equipment & intangible assets are reviewed for indications of impairment at each financial position date. Such indications may be based on events or changes in the market environment, or on internal sources of information. If any such indication is present, the recoverable amount of the asset is estimated to determine whether impairment exists. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, the Company's assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation can be identified.

An asset's recoverable amount is the higher of its fair value less costs of disposal ("FVLCD") and value in use ("VIU"). In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. Impairment losses are recognized in profit and loss for the period. Impairment losses recorded may be subsequently reversed if the recoverable amount of the assets is once again higher than their carrying value. Where impairment is subsequently reversed, the carrying amount is increased to the revised estimate of the recoverable amount but only to the extent that it does not exceed the carrying value that would have been determined (net of depreciation) had no impairment loss been recognized in prior periods.

ii) Receivables

Receivables measured at amortized cost are assessed at each reporting date to determine whether there is objective evidence of impairment. An expected credit loss impairment model is applied, where expected credit losses are the present value of all cash shortfalls over the expected life of the receivable. A receivable is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the receivable, and that the loss event will have a negative effect on the estimated future cash flows of that receivable that can be estimated reliably.

An impairment loss in respect of receivables is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the receivable's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired receivables continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

iii) Equity-Accounted Investment in Joint Venture

An equity accounted investment in joint venture is reviewed for indication of impairment at each financial position date. Indications include observable data indicating there is a measurable decrease in the estimated future cash flows of the investee's operations. When there is objective evidence that an investment is impaired, the carrying amount of such investment is compared to its recoverable amount, being the higher of its FVLCD and VIU. If the recoverable amount of an investment is less than its carrying amount, the carrying amount is reduced to its recoverable amount and an impairment loss, being the excess of carrying amount over the recoverable amount, is recognized in the period in which the relevant circumstances are identified. When an impairment loss reverses in a subsequent period, the carrying amount of the investment is increased to the revised estimate of recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had an impairment loss not been previously recognized. A reversal of an impairment loss is recognized in net earnings or loss in the period in which the reversal occurs.

k) Provisions

A provision is a liability of uncertain timing or amount. Provisions are recognized when: (i) the Company has present legal or constructive obligations as a result of past events; (ii) it is probable that an outflow of resources will be required to settle the obligations; and (iii) the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligations using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligations. The increase in the provision due to passage of time is recognized as interest expense.

l) Revenue Recognition

Revenue is recognized by applying the five-step model under IFRS 15. The Company recognizes revenue when or as the control of goods or services are transferred to the customer and performance obligations are satisfied.

i) Operation of Water Treatment Plants

For revenue based on water treatment fees, the performance obligations are satisfied and revenue is recognized when water treatment services are provided and the customer receives control of the clean water to be discharged into the environment and as discharge limits and targets are achieved. The Company has an agreement with a customer for the operation of water treatment plants, and considerations for water treatment fees are earned based on the volume of water treated and discharged into the environment. The Company also has an agreement with the Company's joint venture and other customers for the operations support of a water treatment plants, with revenues earned for ongoing operations support and supervisory services.

Revenues are also earned by the Company's joint ventures on the sale of metal concentrates recovered from the operation of water treatment plants. For the sale of metal concentrate, the performance obligations are satisfied when the control of the metal concentrate is passed from the Company's joint ventures to the customer. Revenue is recognized based on the final settlement of weights and assays and is recorded at the fair value, based on prevailing market prices adjusted in accordance with agreed upon terms. Smelting and transportation charges are netted against revenue for sales of metal concentrate.

ii) Technical Services Relating to Water Management

Technical services include both water management consulting and technical innovation services. Water management consulting services include feasibility and assessment studies, toxicity investigations, process engineering design, plant commissioning and plant optimization. Technical innovation services include field pilot demonstrations, laboratory treatability assessments, designing and conducting experiments, and delivery of final reports on the results. Technical services contracts can be remunerated on agreed upon time-based rates or a fixed price commitment for the scope of the contract. The services are passed onto the customer upon the delivery of the work product, such as a written report or completion of a performance test, or as hours of services are performed for the customer. As control of the services passes from the Company to the customer over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. Depending on the specific circumstances of the individual contracts, such as the nature, scope and value of the contracts, the Company recognizes revenue from technical services by either the project stage of completion method or the completed contract method.

m) Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Government grants are recognized as follows:

- Grants relating to plant and equipment are included in non-current liabilities as deferred government grants are credited to the statement of profit or loss on a straight-line basis over the expected lives of the related assets.
- Grants that compensate the Company for expenses incurred are deferred and recognized in the statement of profit or loss on a systematic basis in the periods in which the intended expenses are recognized.

n) Employee Benefits

i) Bonus Plans

The Company recognizes a liability and an expense for bonuses based on a formula that takes into consideration the key performance indicators of the Company. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

ii) Defined Contribution Plans

Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in profit or loss in the periods during which the related service is provided by the employees.

iii) Termination Benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of the following dates:

- When the Company can no longer withdraw the offer of those benefits.
- When the entity recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.
- When benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

o) Share-based Payments

The Company maintains a Deferred Share Unit (“DSU”) plan, a Restricted Share unit (“RSU”) plan and a stock option plan for employees and directors of the Company. The DSU plan and the RSU plan are considered as cash-settled share-based payments and the stock option plan is considered as equity-settled share-based payments.

RSUs are measured initially at the fair value and the amount payable is recognized as an expense with a corresponding increase in liabilities over the vesting period. The RSUs vest over three years in equal installments and the Company will settle all RSUs in cash. Compensation expense relating to the initial award and changes in the market price at each reporting date is recognized on a straight-line basis in profit or loss over the vesting period.

DSUs are measured initially at the fair value and such liabilities are recognized as an obligation at the grant date. The fair value of the amount payable to holders of DSUs is equivalent to the cash value of the common shares at the report date. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is re-measured, with any changes in fair value recognized in profit or loss for the period.
Stock options are measured at the fair value of the equity instruments at the grant date. Fair value is measured using the Black-Scholes pricing model. The fair value determined at the grant date of the equity-settled share-based payments is

expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in contributed surplus. Each vesting tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the contributed surplus. Upon exercise of stock options, the consideration paid by the option holder is recorded as an increase to share capital and the amount previously recognized in contributed surplus will not be reversed back to share capital.

Equity-settled share-based payment with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

p) Income Tax

The Company follows the asset and liability method of accounting for income taxes. Income tax is recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination. Income tax comprises of two components: current and deferred.

i) Current Tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxes as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Current tax comprises the expected tax payable or receivable on the taxable profit for the year and any adjustment to tax payable or receivable in respect of previous years. Current tax also includes any tax arising from dividends. The Company's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

ii) Deferred Tax

Under the asset and liability method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, unused tax losses and other income tax deductions. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against those deductible temporary differences which can be utilized.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets and liabilities are not recognized for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.
- Temporary differences related to investments in subsidiaries, associates and joint arrangements, and interests in joint ventures, to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse or the tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects at the reporting date to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset only if certain criteria are met.

In determining the amount of current and deferred taxes, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. Management believes that its tax liabilities for uncertain tax positions are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

q) Earnings Per Share

Basic earnings per share is calculated by dividing the net income for the year attributable to the equity owners of the Company by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method by adjusting the weighted average number of common shares outstanding for dilutive instruments. If the Company incurs net losses in a fiscal year, basic and diluted losses per share are the same.

r) Recent Accounting Pronouncements

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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 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 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:

a) Impact of COVID-19

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.

b) 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:

i) 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.

ii) 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.

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

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

c) 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.

i) 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.

ii) 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.

iii) Right-of-Use Assets & Lease Obligations

To determine the value of the initial recognition and subsequent re-measurement of RoU 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.

iv) 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.

5. RESTRICTED CASH

The balance at December 31, 2021 includes a term deposit held by Scotiabank as a letter of credit related to one customer in Chile until the completion of the project.

6. TRADE AND OTHER RECEIVABLES

	Dec. 31, 2021	Dec. 31, 2020
	$	$
Trade receivables, net	1,427,398	1,274,976
Contract assets (note 22 (c))	581,159	410,715
Other receivables	644	26
	2,009,201	1,685,717

The Company’s changes in allowance for expected credit loss for the year ended December 31, 2021 and 2020 are as follows:

	2021	2020
	$	$
Allowance for expected credit loss, beginning of the year	94,630	94,630
Recognition of bad debt expense	-	-
Bad debt recovery (note 18)	(94,630)	-
Allowance for expected credit loss, end of the year	-	94,630

7. RELATED PARTY TRANSACTIONS AND BALANCES

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

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 (note 14 (a) and 14 (c))	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.

8. PLANT AND EQUIPMENT

	Right-of-use assets[1]	Pilot plants	Other[2]	Total
	$	$	$	$
Cost				
As at December 31, 2019	272,340	580,593	652,621	1,505,554
Additions	196,535	-	20,237	216,772
Foreign exchange translation	1,561	-	-	1,561
As at December 31, 2020	470,436	580,593	672,858	1,723,887
Additions	36,495	-	44,890	81,385
Foreign exchange translation	2,300	-	-	2,300
As at December 31, 2021	**509,231**	**580,593**	**717,748**	**1,807,572**
Accumulated Depreciation				
As at December 31, 2019	(95,336)	(580,593)	(580,181)	(1,256,110)
Depreciation for the year	(106,873)	-	(40,796)	(147,669)
Foreign exchange translation	(444)	-	-	(444)
As at December 31, 2020	(202,653)	(580,593)	(620,977)	(1,404,223)
Depreciation for the year	(113,430)	-	(33,580)	(147,010)
Foreign exchange translation	(1,198)	-	-	(1,198)
As at December 31, 2021	**(317,281)**	**(580,593)**	**(654,557)**	**(1,552,431)**
Carrying Amount				
As at December 31, 2020	267,783	-	51,881	319,664
As at December 31, 2021	**191,950**	**-**	**63,191**	**255,141**

[1]Right-of-use assets comprises lease assets (note 13) such as office building and office equipment.
[2]Other comprises leasehold improvements, furniture, office equipment and lab equipment.

9. INTANGIBLE ASSETS

	Intellectual Property $
Cost	
As at December 31, 2019 and 2020	-
Additions	419,700
As at December 31, 2021	**419,700**
Accumulated Amortization	
As at December 31, 2019 and 2020	-
Amortization for the year	(20,985)
As at December 31, 2021	**(20,985)**
Carrying Amount	
As at December 31, 2020	-
As at December 31, 2021	**398,715**

On September 3, 2021 (the “Acquisition Date”), the Company entered into an intellectual property purchase agreement and a consulting agreement (together as the “Agreements”) with R&S Environmental Consulting Services Inc. and its sole owner Randy Aguis (together as “R&S”). Under the terms of the Agreements, R&S will receive an aggregate cash payment of $250,000, of which $150,000 was paid on the Acquisition Date and the remaining $100,000 is payable on the first anniversary of the Acquisition Date, plus an earn-out bonus payable on the second anniversary of the Acquisition Date, for intangible asset rights pertaining to cyanide destruction. Intangible asset rights include all intellectual properties, such as the know-how, results, trade secrets, methods, and designs related to cyanide destruction. Also under the Agreements, R&S will work exclusively for the Company for a term of 2 years, collaborating with the Company’s engineering and business development teams, training and mentoring Company staff in regards to cyanide destruction, in exchange of a fixed monthly consulting fee.

The Company concluded the transaction should be accounted for as an asset acquisition and recognized the acquired assets at cost. On the Acquisition Date, it was determined that the acquired assets are a group of similar identifiable assets with similar nature, class and risk, therefore all the acquisition costs have been allocated to this group. The total cost of the acquisition $419,700 includes the total cash consideration of $250,000, plus the contingent consideration, or the earn-out bonus, which was fair valued at $169,700 on the Acquisition Date and included in non-current other liabilities. The fair value of the earn-out bonus is contingent on the future net profits generated from the newly acquired intellectual properties. The fair value of contingent consideration remained unchanged as at December 31, 2021.

10. INVESTMENT IN JOINT VENTURES

The Company's share of investment in joint ventures on December 31, 2021 was $6,855,401 ($5,021,154 on December 31, 2020), comprised of:

	JCC-BQE $	MWT-BQE $
Balance, January 1, 2020	4,641,460	-
Share of net income	1,139,450	19,795
Share of translation gain on foreign operation	213,744	6,285
Distributions received	(973,500)	-
Unrecognized share of net income and translations gain	-	(26,080)
Balance, December 31, 2020	5,021,154	-
Share of net income (loss)	2,803,151	(44,206)
Share of translation gain on foreign operation	208,296	4,087
Distributions received	(1,177,200)	-
Unrecognized share of net loss and translation gain	-	40,119
Balance, December 31, 2021	6,855,401	-

a. JCC-BioteQ Environmental Technologies Co. Ltd.

In 2007, BQE Water entered into a definitive joint venture agreement with Jiangxi Copper Corporation ("JCC") for the operation of a water treatment facility located at JCC's Dexing Mine in Jiangxi Province, China. The joint venture, which forms a 50/50 share joint venture company between BQE Water and JCC, is called JCC-BioteQ Environmental Technologies Co. Ltd. ("JCC-BQE"). The joint venture builds and operates water treatment plants utilizing BQE Water's technologies. The agreement includes a license contract whereby BQE Water will provide its patented technology on a royalty-free basis to the joint venture company for use at Dexing Mine and up to five potential additional sites owned and operated by JCC.

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

Any cash distributions from the joint venture to BQE Water must be unanimously approved by both partners and comply with Chinese tax and regulatory requirements. Distributions are also subject to Chinese withholding taxes and minimum capital requirements as applicable. Currently, BQE Water and JCC have a standing agreement to distribute excess cash reserves annually. The partners take into consideration factors such as operating performance of the plants, future capital requirements and working capital flexibility in determining the cash amount to be distributed in a given year. In 2021, the Company received a gross cash distribution of $1,177,200 ($6 million RMB) compared to $973,500 ($5 million RMB) in 2020.

The joint venture derives its revenue from recovered copper sales, which are subject to risks that are beyond the control of the joint venture. The copper recovery rate is dependent on the rainfall in the region and the grade of copper in the water treated, while the revenue is exposed to global commodity price risk. The Company's share of net earnings in the joint venture for the year ended December 31, 2021 was $2,803,151 ($1,139,450 in 2020).

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

	Dec. 31, 2021 $	Dec. 31, 2020 $
Assets		
Cash	4,145,245	2,000,668
Other current assets	1,331,127	731,753
Non-current assets	3,264,457	3,467,134
Total assets	8,740,829	6,199,555
Liabilities	1,885,428	1,178,401
Partner's Equity	6,855,401	5,021,154
Total liabilities and partner's equity	8,740,829	6,199,555

The condensed statement of income and comprehensive income of the Company's 50% interest in the JCC-BQE joint venture are presented as follows:

	2021 $	2020 $
Revenues	7,714,751	5,389,662
Operating expenses (excluding depreciation)	(3,629,017)	(3,110,673)
	4,085,734	2,278,989
Non-operating expenses	(238,312)	(332,105)
Depreciation of plant and equipment	(414,724)	(533,678)
Income tax expense	(629,547)	(273,756)
Net income for the year	2,803,151	1,139,450
Other comprehensive income	208,296	213,744
Comprehensive income for the year	3,011,447	1,353,194

b. Shandong MWT BioteQ Environmental Technologies Co. Ltd.

During 2016, BQE Water signed a joint venture agreement with Beijing MWT Water Treatment Project Limited Company ("MWT") for the construction and operation of a water treatment plant located in Shandong Province, China. The joint venture between BQE Water and MWT is called Shandong MWT BioteQ Environmental Technologies Co., Ltd. ("MWT-BQE"). The joint venture built a water treatment plant at a smelter owned by Shandong Zhaojin Group Zhaoyuan Gold Smelting Co., Ltd ("Zhaoye"). The joint venture operates the plant using BQE Water's patented technology to recover and sell copper and zinc metals from Zhaoye's industrial wastewater stream to generate revenues. BQE Water is entitled to 20% of the after-tax profits of the joint venture. Upon the establishment of MWT-BQE, the Company paid a cash contribution of $96,400 (RMB $500,000) as registered capital, which represents 4.35% of the total registered capital of the joint venture.

The Company's 20% share of comprehensive loss in the joint venture for the year ended December 31, 2021 was $40,119 (comprehensive income of $26,080 in 2020). As BQE Water does not have a commitment to fund the losses of MWT-BQE, the share of comprehensive income of the joint venture will be recognized on the investments of MWT-BQE when the unrecognized share of net loss is reduced to zero. As of December 31, 2021, the balance of unrecognized share of net losses for MWT-BQE is $180,332 ($140,213 on December 31, 2020).

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

	Dec. 31, 2021	Dec. 31, 2020
	$	$
Current assets	59,672	87,270
Plant and equipment	32,873	47,014
Current liabilities	28,255	60,388
Non-current liabilities	28,031	28,911
Partner's equity	-	-

The condensed statement of loss (income) of BQE Water's 20% interest in the MWT-BQE joint venture are presented as follows:

	2021	2020
	$	$
Revenues	389,904	411,067
Operating expenses (excluding depreciation)	(174,164)	(181,377)
	215,740	229,690
Non-operating expenses	(259,946)	(209,895)
Net (loss) income for the year	(44,206)	19,795
Other comprehensive income	4,087	6,285
Comprehensive (loss) income for the year	(40,119)	26,080

11. TRADE PAYABLE AND ACCRUED LIABILITIES

	Dec. 31, 2021 $	Dec. 31, 2020 $
Trade payable and accruals	591,533	429,035
Payroll liability	414,438	592,115
Tax payable	35,831	34,337
	1,041,802	1,055,487

12. LOANS

On August 20, 2018, the Company entered into a loan agreement with the Minister of Western Economic Diversification Canada under the Western Innovation Initiative ("WINN"). The WINN program offers the Company an interest-free loan contribution up to a maximum of $412,500. The WINN loan was granted to the Company to assist in the commercialization and scale-up of its selenium removal technology in the resource sector. Under the loan agreement, the Company shall repay the total contribution in 60 equal monthly installments, equal to $6,875 per month, which began April 1, 2021 and continue until March 1, 2026. The total remaining balance of the WINN loan, including both current and non-current portions, as of December 31, 2021 is $350,625 ($412,500 on December 31, 2020).

13. LEASES

The Company recognizes right-of-use assets (note 8) and lease obligations in relation to office and equipment leases. The assets and liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate of 12% at the time the lease was assumed or entered into. The Company's carrying value of lease obligations are as follows:

	Dec. 31, 2021 $	Dec. 31, 2020 $
Balance at January 1	279,005	181,033
Addition of lease obligations	36,495	196,535
Interest expense on lease obligations	29,322	21,463
Lease payments on interest portion	(29,322)	(21,478)
Lease payments on principal portion	(110,012)	(99,486)
Foreign exchange translation	963	938
Ending Balance	206,451	279,005
Less: current portion of lease obligations	120,039	92,128
Non-current portion of lease obligations	86,412	186,877

Lease contracts with components of variable lease payments and leases that are classified as short-term and as low value assets are not counted under lease obligations. The Company's lease expense, which is not counted under lease obligations, for the year ended December 31, 2021 and 2020 are as follows:

	2021	2020
	$	$
Classified as short-term or as low value	31,771	27,473
Leases with variable lease payments	83,491	74,886
	115,262	102,359

The following is a schedule of the Company's future lease payments under lease obligations:

	Dec. 31, 2021
	$
2022	137,342
2023	91,236
Total undiscounted lease payments	228,578
Less: imputed interest	(22,127)
Total carrying value of lease obligations	206,451

14. SHARE-BASED PAYMENT EXPENSES

The Company's share-based payment expenses are comprised as follows:

	Dec. 31, 2021	Dec. 31, 2020
	$	$
Stock options (a)	103,847	244,779
Deferred share units (b)	94,162	104,742
Restricted share units (c)	104,740	37,361
	302,749	386,882

a) Stock Options

Under the Company's Stock Option Plan (the "Plan"), the maximum number of shares reserved for exercise of all options granted by the Company may not exceed 10% of the Company's shares issued and outstanding at the time the options are granted. The exercise price of each option granted under the Plan is determined at the discretion of the Board at no less than the five-day volume weighted average share price preceding the grant date. Options granted under the Plan expire no later than the fifth anniversary of the date the options were granted and vesting provisions for issued options are determined at the discretion of the Board although the Company has a practice of having options vest over 3 years in equal installments.

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

On January 8, 2020, the Company granted 51,000 stock options with an exercise price of $8.75 to the directors and employees of the Company. These options have a term of five years from the grant date and vest over three years with one-third vesting each year on the anniversary of the grant date. The fair value of these options determined using the Black-Scholes valuation model was $7.36 per option. The significant assumptions in the valuation model were: a volatility of 124.2%, an expected option life of five years and an annual risk-free interest rate of 1.62%.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2021		2020	
	Weighted average exercise price $	Number of options	Weighted average exercise price $	Number of options
Outstanding at January 1	7.69	82,833	6.00	39,501
Granted	-	-	8.75	51,000
Forfeited	8.75	(2,000)	6.00	(667)
Exercised	6.80	(27,533)	6.00	(7,001)
Outstanding at December 31	8.12	53,300	7.69	82,833
Exercisable at December 31	7.16	21,299	6.00	31,833

The weighted average market price per common share on the days of exercise during the year ended December 31, 2021 was $27.35 ($10.74 in 2020).

The Company uses the Black-Scholes option pricing model in determining the fair value of the stock options. During the year ended December 31, 2021, the Company recognized $103,847 ($244,779 in 2020) of non-cash compensation expense related to stock options. The expiry date by exercise price at December 31, 2021 are as follows:

Exercise price $	Expiry Date	number of outstanding share options	number of exercisable share options
6.00	December 7, 2022	12,300	12,300
8.75	January 8, 2025	41,000	8,999

b) Deferred Share Units

The Company implemented a deferred share unit (“DSU”) plan pursuant to which DSUs may be granted to management and non-employee members of the Board of Directors on an annual basis. The number of DSUs granted to a participant is calculated by dividing: (i) a specified dollar amount of the participant’s compensation amount paid in DSUs in lieu of cash by (ii) the five-day volume weighted average trading price of the shares of the Company traded through the facilities of the Toronto Venture Exchange on the trading days immediately preceding the date of grant. Each DSU entitles the holder to receive a cash payment equal to the five-day volume weighted average trading price of the shares preceding the date of redemption. The DSUs vest immediately upon issuance and may only be redeemed on the date a holder ceases to be a participant under the plan, with payment no later than December 31 of the following calendar year.

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

	Number of units	Value $
Balance, January 1, 2020	10,574	91,874
Fair value adjustment	-	104,742
Balance, December 31, 2020	10,574	196,616
Fair value adjustment	-	94,162
Balance, December 31, 2021	10,574	290,778

c) Restricted Share Units

The Company implemented a restricted share unit ("RSU") plan pursuant to which RSUs may be granted to the officers and employees of the Company. Under this plan, notional RSUs are granted and vested annually over a three-year term in general or otherwise determined by the Board. Upon vesting, the Company will settle the RSUs immediately in cash, with payment equal to the five-day volume weighted average trading price of the number of RSUs held preceding the date of redemption. The RSU plan was amended by the Board of Directors on January 8, 2020. Under the new amendment, any unvested RSUs shall be forfeited upon separation of employment with the Company.

RSUs granted are accounted for and fair valued by recognizing share-based payment expenses on a straight-line basis over the vesting period. In 2020, the Company granted 3,281 RSUs to management and employees of the Company with vesting over 3 years and a fair value upon grant of $50,987. During 2021, the Company granted 4,333 RSUs to management and employees of the Company with vesting over 3 years and a fair value upon grant of $104,341. The fair value per RSU was determined based on the Company's share price on the grant date. The RSUs granted in 2021 remained unvested as at December 31, 2021.

The following table presents the changes to the RSU plan:

	Number of units	Value $
Balance, January 1, 2020	6,485	56,346
Granted	3,281	-
Forfeited	(381)	-
Redeemed	(2,032)	(20,320)
Fair value adjustment and amortization	-	37,361
Balance, December 31, 2020	7,353	73,387
Granted	4,333	-
Forfeited	(801)	-
Redeemed	(2,999)	(74,464)
Fair value adjustment and amortization	-	104,740
Balance, December 31, 2021	7,886	103,663

15. SHARE CAPITAL

a) Authorized

An unlimited number of common shares, without nominal or par value.

b) Issued

As at December 31, 2021, the Company had 1,244,968 common shares outstanding (1,217,435 on December 31, 2020).

c) Earnings per share

The calculation of earnings per share for the year ended December 31, 2021 and 2020 are as follows:

	2021	2020
	$	$
Net income	2,629,438	1,167,135
Basic weighted average number of shares outstanding	1,231,673	1,215,884
Dilution of securities	15,701	16,974
Diluted weighted average number of shares outstanding	1,247,374	1,232,858
Earnings per share:		
Basic	2.13	0.96
Diluted	2.11	0.95

16. EXPENSES BY NATURE

	2021	2020
	$	$
Operating expenses (excluding depreciation)		
Employee benefits	2,798,433	3,159,432
Consulting and contractor expenses	858,877	670,790
Travel expenses	194,909	86,771
Raw materials and consumables used	80,642	383,772
Equipment rental expenses	-	68,222
Other expenses	15,666	61,971
	3,948,527	4,430,958
General and administration		
Employee benefits	773,818	691,205
Consulting and contractor expenses	525,405	463,953
Insurance expenses	238,696	191,993
Rental expenses	90,677	87,345
Director fees	66,600	85,900
Other expenses	127,736	101,600
	1,822,932	1,621,996
Sales and development		
Employee benefits	1,123,434	746,925
Consulting and contractor expenses	133,161	141,791
Rental expenses	24,585	15,014
Travel expenses	22,544	11,135
Other expenses	70,143	55,682
	1,373,867	970,547

17. FINANCE COSTS

The net of finance costs is comprised as follows:

	2021	2020
	$	$
Finance income	(5,573)	(4,792)
Interest expense	29,405	21,759
	23,832	16,967

18. OTHER INCOME

The net of other income is comprised as follows:

	2021	2020
	$	$
Other income	12,015	63,698
Bad debt recovery (note 6)	94,630	-
	106,645	63,698

19. INCOME TAXES

Income tax expense differs from that computed by applying the applicable Canadian federal and provincial statutory rate of 27% (2020 – 27%) before taxes as follows:

	2021	2020
	$	$
Expected income tax expense at statutory rates	754,149	342,779
Non-taxable income	(724,872)	(236,870)
Withholding tax	129,819	102,359
Functional currency adjustments	15,878	(48,202)
Different statutory tax rates on foreign subsidiaries	(13,820)	(3,251)
Change in unrecognized deferred tax assets	(21,781)	(54,398)
Income tax expense	130,373	102,417

	2021	2020
	$	$
Current tax expense	130,373	102,417
Deferred tax expense	-	-
Income tax expense	130,373	102,417

The Company's unrecognized deductible temporary differences and non-capital losses at December 31, 2021 and 2020 are as follows:

	2021	2020
	$	$
Canada		
Plant and equipment	1,437,971	1,282,900
Net capital losses	8,056,712	8,056,712
Non-capital losses	27,201,361	27,257,500
Investment tax credits	-	-
Deferred benefits and others	581,318	549,007
	37,277,362	37,146,119
Foreign Jurisdictions		
Plant and equipment	163,829	60,905
Unrealized foreign exchange loss	1,547,146	1,370,211
Non-capital losses	2,580,111	2,992,543
Other	282,333	12,154
	4,573,419	4,435,813
Total unrecognized deductible temporary differences	41,850,781	41,581,932

The Company's investment tax credits, expiring between 2020 and 2021, may be used to reduce future Canadian income taxes that are otherwise payable. As at December 31, 2021, the Company has not recognized a deferred tax asset in respect of non-capital loss carry forwards of approximately $27,201,360 ($27,257,500 in 2020) which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

	$
2026	1,525,366
2027	1,628,919
2028	1,951,879
2029	2,372,749
2030	965,964
2031	3,007,451
2032	3,735,949
2033	3,403,636
2034	2,414,568
2035	1,458,931
2036	584,241
2037	3,191,545
2038	312,657
2039	647,505
	27,201,360

In addition, the Company has available tax losses in other jurisdictions that total $2,580,111 ($2,992,543 in 2020). These losses can be carried forward to offset against future taxable income in those jurisdictions with expiry periods from 5 years to indefinitely, with losses of $1,236,416 beginning to expire in 2022.

20. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2021	2020
Change in non-cash working capital items	$	$
Changes in trade receivables	(244,384)	(443,832)
Changes in restricted cash	(85,035)	-
Changes in other assets	(60,230)	(9,595)
Changes in trade payable and accrued liabilities	(43,675)	(320,894)
Changes in deferred revenues	(796)	351,871
Changes in other liabilities	(74,396)	(18,711)
Change in non-cash working capital items	(508,516)	(441,161)

21. COMMITMENTS

The Company has commitments of $569,801 under operating leases for office and laboratory premises, and for laboratory assay services, as follows:

	$
2022	288,420
2023	179,381
2024	102,000
	569,801

22. REVENUE

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

a) Disaggregation of Revenue

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

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

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

The disaggregated revenue of the Company are as follows:

	2021 $	2020 $
Operations contracts	2,481,484	1,785,632
Technical services contracts	5,029,775	5,910,729
	7,511,259	7,696,361

b) Remaining Performance Obligations

As at December 31, 2021, the aggregate amount of the transaction price of ongoing contracts allocated to remaining performance obligations is $3,050,993, compared to $1,555,007 as at December 31, 2020. The remaining performance obligations of the Company are expected to be fully completed in the next 18 months of the reporting date. The value of remaining performance obligations does not include amounts for non-contracted future services or for estimated future work orders where the value of work is not specified. Therefore, the Company's anticipated future work to be performed at a given time is greater than what is reported as remaining performance obligations.

c) Changes in Contract Assets

The Company's contract assets are grouped within trade and other receivables (note 6), and the changes in contract assets for the year ended December 31, 2021 and 2020 are as follows:

	2021 $	2020 $
Contract assets, beginning of the year	410,715	446,719
Amounts invoiced included in the beginning balance	(410,715)	(378,370)
Net increase in contract assets recognized during the year	581,159	342,366
Contract assets, end of the year	581,159	410,715

d) Changes in Deferred Revenue

The Company's changes in deferred revenue for the year ended December 31, 2021 and 2020 are as follows:

	2021	2020
	$	$
Deferred revenue, beginning of the year	359,089	5,135
Recognition of deferred revenue included in the beginning balance	(54,211)	-
Net increase in deferred revenue recognized during the year	52,105	353,954
Revaluation on non-current portion of deferred revenue	(30,180)	-
Deferred revenue, end of the year	326,803	359,089
Less: Non-current portion of deferred revenue, end of the year	(253,560)	(283,740)
Current portion of deferred revenue, end of the year	73,243	75,349

23. SEGMENTED INFORMATION

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

a) Geographic Information

The Company mainly generates revenue from North America and occasionally from other foreign countries. The Company's revenue by geographic locations, presented based on the location in which the sale originated from, are as follows:

	2021	2020
	$	$
Revenue		
Canada	3,307,028	2,510,742
USA	2,173,228	3,583,905
Latin America	995,326	1,049,423
China	986,668	552,291
Other	49,009	-
	7,511,259	7,696,361

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

	Dec. 31, 2021	Dec. 31, 2020
	$	$
Canada	625,400	310,606
China	6,883,857	5,030,212
	7,509,257	5,340,818

b) Information about Major Customers

The following table presents revenue for individual customers exceeding 10% of annual revenue for the year ended December 31, 2021 and 2020:

	2021	2020
	$	$
Customer A	2,058,059	1,342,113
Customer B	1,620,119	2,485,240
Customer C	528,792	935,720
Customer D	829,414	439,335
Total	5,036,384	5,202,408
Represents percentage of total revenue for the year	67%	68%

24. CAPITAL MANAGEMENT

The Company's capital management objectives are to ensure that the Company has the financial capacity to support its current and anticipated volume of business and mix of geographical establishments, to manage unforeseen operational and project requirements, and to provide its investors with maximum long-term returns on equity.

In the management of capital, the Company defines capital as shareholder's equity and non-current liabilities, which includes loans, lease obligations, and deferred revenues. In order to facilitate the management of its capital requirements, the Company prepares annual budgets, which are approved by the Board of Directors annually. As a component of working capital, the Company maintains balances of cash, which are intended to cover current liabilities. To maintain or adjust its capital structure, the Company may issue new shares, purchase shares for cancellation pursuant to a normal course issuer bid, raise additional debt financing or refinance existing debt with different characteristics. There were no changes in the Company's approach to capital management during the year.

The amounts of shareholders' equity, working capital and non-current liabilities at December 31, 2021 and 2020 as are follows:

	2021	2020
	$	$
Shareholders' equity	11,313,390	8,087,735
Working capital	4,557,049	3,543,278
Non-current liabilities	777,797	821,242

25. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to various risks, including credit risk, market risks such as foreign currency risk, liquidity risk, and commodity price risk. The Company's risk management activities are designed to mitigate possible adverse effects on the Company's performance, having regard for the size and scope of the Company's operations, with a primary focus on the preservation of capital. Risk management activities are managed by the Company's finance and accounting department, with oversight from the Board of Directors. The Company's risk management policies and procedures have not changed from 2020.

a) Credit Risk

Credit risk is the risk of an unexpected loss if a party to the Company's financial instruments fails to meet their contractual obligations. The Company's financial assets are primarily comprised of cash, restricted cash, and trade and other receivables excluding tax receivable. Credit risk is primarily associated with trade and other receivables; however, it also arises on cash.

The Company's maximum exposure to credit risk is as follows:

	Dec. 31, 2021	Dec. 31, 2020
	$	$
Cash & restricted cash	4,026,851	3,239,692
Trade and other receivables (exclude tax receivable)	2,009,201	1,685,717
	6,036,052	4,925,409

The Company invests its cash with the objective of maintaining safety of principal and providing adequate liquidity to meet all current payment obligations. The Company invests its cash with counterparties that it believes are of high credit quality as assessed by reputable rating agencies. Given these high credit ratings, the Company does not expect any counterparties holding this cash to fail to meet their obligations.

The Company transacts with customers with strong credit ratings and strives to minimize credit risk by performing credit reviews, ongoing credit evaluation and account monitoring procedures. The credit risk associated with trade receivables with aging balances over 90 days at December 31, 2021 is considered higher than normal and the Company has an allowance for expected credit losses at December 31, 2021 of $nil ($94,630 at December 31, 2020). All of the Company's receivables have been reviewed for indicators of impairment. The aging of trade and other receivables is as follows:

				Dec. 31, 2021	Dec. 31, 2020
	0-30 days	31-90 days	Over 90 days	Total	Total
	$	$	$	$	$
Trade and other receivables (exclude tax receivable)	1,388,534	566,362	54,305	2,009,201	1,685,717

Of the Company's receivables, despite overdue balances of $620,667, collection is reasonably assured. The definition of items that are past due is determined by reference to terms agreed upon with individual customers. No trade receivables have been challenged by the respective customers and the Company continues to conduct business with them on an ongoing basis.

b) Currency Risk

The Company conducts business in Canada, 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 two main types of foreign exchange risk for the Company can be categorized as follows:

i) Transaction Exposure

The Company's operations sell mainly services and incur costs in different currencies. 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.

ii) Foreign Exchange Exposure

The Company is exposed to currency risk through the following assets and liabilities denominated in currencies other than the Canadian dollar: cash, restricted cash, trade and other receivable excluding tax receivable, and trade payable and accrued liabilities excluding tax payable. The currencies of the Company's financial instruments and other foreign currency denominated liabilities exposed to currency risk, based on notional amounts and presented in CAD, were as follows:

				December 31, 2021
	U.S. dollar	Mexican peso	Chilean peso	Chinese RMB
Cash & restricted cash	749,094	14,844	360,842	786,795
Trade and other receivables (exclude tax)	640,802	-	172,971	392,668
Trade and other payables (exclude tax)	(14,991)	2,734	(281,168)	(25,280)
Gross balance sheet exposure	1,374,905	17,578	252,645	1,154,183

				December 31, 2020
	U.S. dollar	Mexican peso	Chilean peso	Chinese RMB
Cash	1,203,035	19,912	31,438	248,093
Trade and other receivables (exclude tax)	504,810	-	33,964	483,403
Trade and other payables (exclude tax)	(136,184)	(912)	(405,164)	(14,429)
Gross balance sheet exposure	1,571,661	19,000	(339,762)	717,067

A 10% strengthening (weakening) of the Canadian dollar against the following currencies would have decreased (increased) the Company's net loss from its financial instruments presented by the amounts shown below.

	2021	2020
	$	$
U.S. dollar	137,491	157,166
Mexican peso	1,758	1,900
Chilean peso	25,264	(33,976)
Chinese RMB	115,418	71,707
	279,931	196,797

c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations from Cash. The ability to do this relies on the Company collecting its trade receivables in a timely manner and maintaining sufficient cash in excess of anticipated needs. As of December 31, 2021, the Company has working capital of $4,557,049 ($3,543,278 as of December 31, 2020). To further improve the Company's access to liquidity, there are credit facilities available with the Royal Bank of Canada including a credit card facility of $30,000 and a revolving demand credit facility of $1,000,000. As of December 31, 2021, the revolving demand credit facility remains undrawn. The Company believes that it has access to sufficient funding through the use of the credit facility and its Cash to meet its foreseeable operating requirements.

The following table shows the contractual maturities of debt commitments. Refer to note 12 in respect to the loan agreement between the Company and the Minister of Western Economic Diversification Canada. The amounts presented represent the future undiscounted principal and interest cash flows, and therefore, do not equate to the carrying amounts on the consolidated statements of financial position.

				Dec. 31, 2021	Dec. 31, 2020
	< 1 year	1 to 3 years	> 3 years	Total	Total
	$	$	$	$	$
Trade payable and other payables (excludes tax payable)	1,005,971	-	-	1,005,971	1,021,150
Deferred benefits	394,441	-	-	394,441	270,003
Loans	82,500	247,500	20,625	350,625	412,500
Other liabilities	-	169,700	-	169,700	-
Lease obligations	137,342	91,236	-	228,578	327,763
	1,620,254	508,436	20,625	2,149,315	2,031,416

Taking into consideration the Company's current cash position, volatile equity markets, global uncertainty in the capital markets and increasing cost pressures, the Company continues to review expenditures to ensure adequate liquidity. A period of extended depression in the mining industry, which is the Company's main customer base, may necessitate the Company to seek financing opportunities in accordance with its capital management strategy (note 24).

d) Price Risk

The Company's net income or loss, and financial condition are subject to price risk due to fluctuations of the following:

i) Commodity Price Risk

The profitability of the Company's investment in joint ventures will be significantly affected by changes in the commodity price of copper being sold by the joint ventures of the Company. Copper prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand for copper, the level of interest rates, the rate of inflation, investment decisions by large holders of copper, including governmental reserves, and the stability of exchange rates can all cause significant fluctuations in copper prices. A 10% change in copper prices would impact the Company's net income or loss before taxes and other comprehensive income or loss before taxes by $771,475 in 2021 ($538,966 in 2020).

ii) Common Stock Price Risk

The Company is subject to price risk for changes in the Company's common stock price per share. The Company has implemented, as part of its long-term incentive plan, the DSU and RSU plans that the Company is required to satisfy in cash upon vesting. The Company considers the plan a financial liability and is required to fair value the outstanding liability with the resulting changes included in stock-based compensation expense in each period: an increase in share unit award prices would decrease the Company's net income or loss. A 10% change in common stock prices would impact the Company's net income or loss before taxes and other comprehensive income or loss before taxes by $48,919 in 2021 ($34,241 in 2020).

26. FAIR VALUE MEASUREMENT

The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In assessing the fair value of a particular contract, the market participant would consider the credit risk of the counterparty to the contract. Consequently, when it is appropriate to do so, the Company adjusts the valuation models to incorporate a measure of credit risk. Fair value represents management's estimates of the current market value at a given point in time.

The Company's financial assets and liabilities by category and information about financial assets and liabilities in the statement of financial position are classified and measured as follows:

	Category	Dec. 31, 2021 $	Dec. 31, 2020 $
Financial assets			
Cash	Financial assets at amortized cost	3,943,714	3,239,692
Restricted cash	Financial assets at amortized cost	83,137	-
Trade and other receivables (excludes tax receivable)	Financial assets at amortized cost	2,009,201	1,685,717
Financial liabilities			
Trade payable and other payables (excludes tax payable)	Financial liabilities at amortized cost	1,005,971	1,021,150
Loans	Financial liabilities at amortized cost	350,625	412,500
Lease obligation	Financial liabilities at amortized cost	206,451	279,005
Other liabilities	Financial liabilities at fair value	169,700	-
Deferred benefits	Financial liabilities at fair value	394,441	270,003

The carrying values of the financial assets and liabilities at amortized cost presented above approximate their fair values. The Company has not offset financial assets with financial liabilities.

The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value as described in note 3(h). The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. The Company's deferred benefits, which consist of DSUs and RSUs, are held at fair value, measured by Level 1 inputs. The Company's contingent liabilities, grouped within other liabilities, are held at fair value, measured by Level 3 inputs. There were no transfers between Levels 1, 2 and 3 during the years ended December 31, 2021 and 2020. The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

27. SUBSEQUENT EVENT

In January 2022, the Company entered into a shareholder agreement and services contract with the BQE Water Nuvumiut Development Inc., a joint venture with Nuvumiut Development Inc. The joint venture was federally incorporated on December 2, 2021 with no accounting transactions for the year ended December 31, 2021. The purpose of the joint venture is to partner with the Inuit community to jointly provide water management and treatment services in the Nunaivk regions, located in Northern Quebec.

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

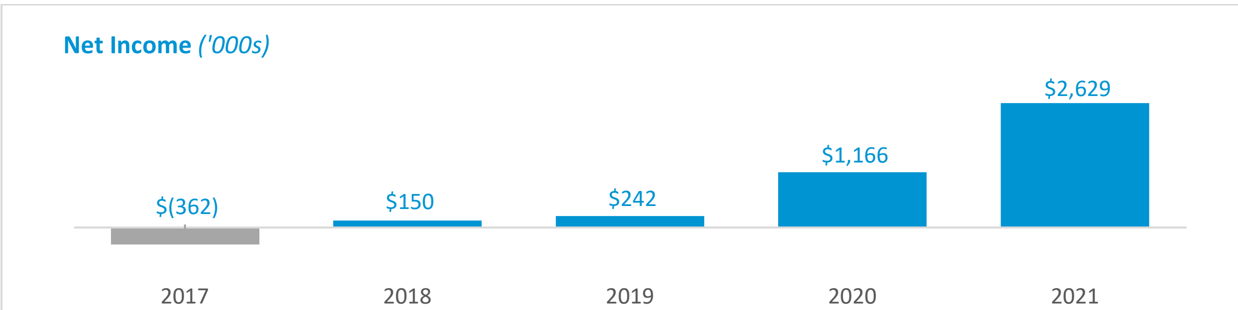
Adjusted EBITDA ("earnings before interest, taxes, depreciation and amortization") is intended to provide additional information only and does not have any standardized meaning under IFRS and may not be comparable to similar measures presented by other companies. It should not be considered in isolation 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:

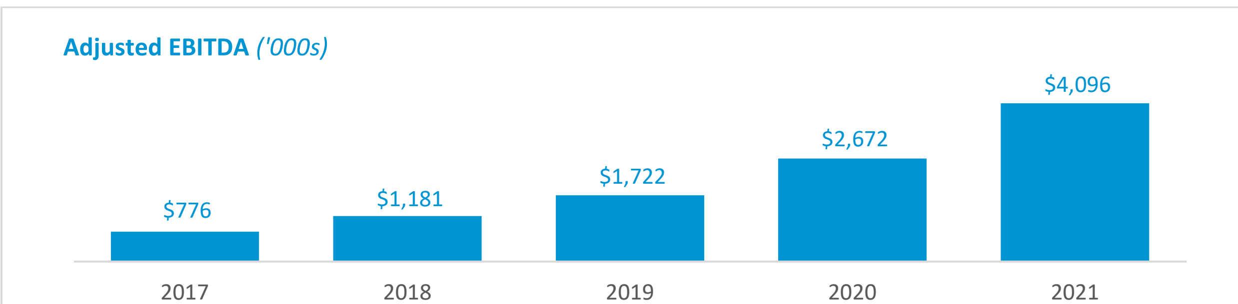
(in $'000s)	**2021**	2020
	$	$
GAAP: Net income	**2,629**	1,166
add: interest expense	**11**	7
add: income tax expense	**760**	376
add: depreciation and amortization	**651**	770
EBITDA	**4,051**	2,319
add: share-based payment expenses	**303**	387
deduct: other income	**(279)**	(89)
add: net foreign exchange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

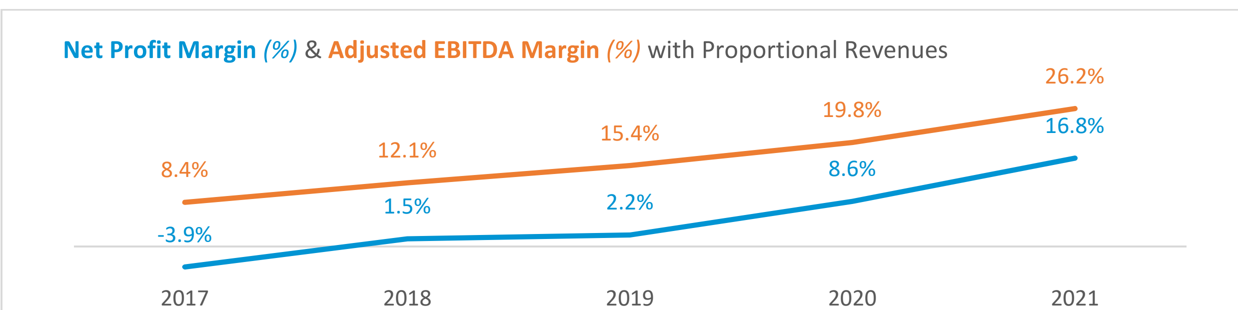
FINANCIAL HIGHLIGHTS

- 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.