Sustainable water treatment solutions

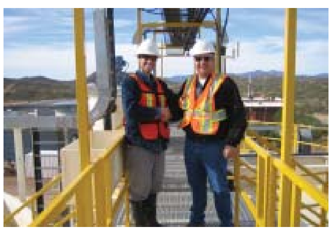
BioteQ Environmental Technologies Inc.

2009 Annual Report

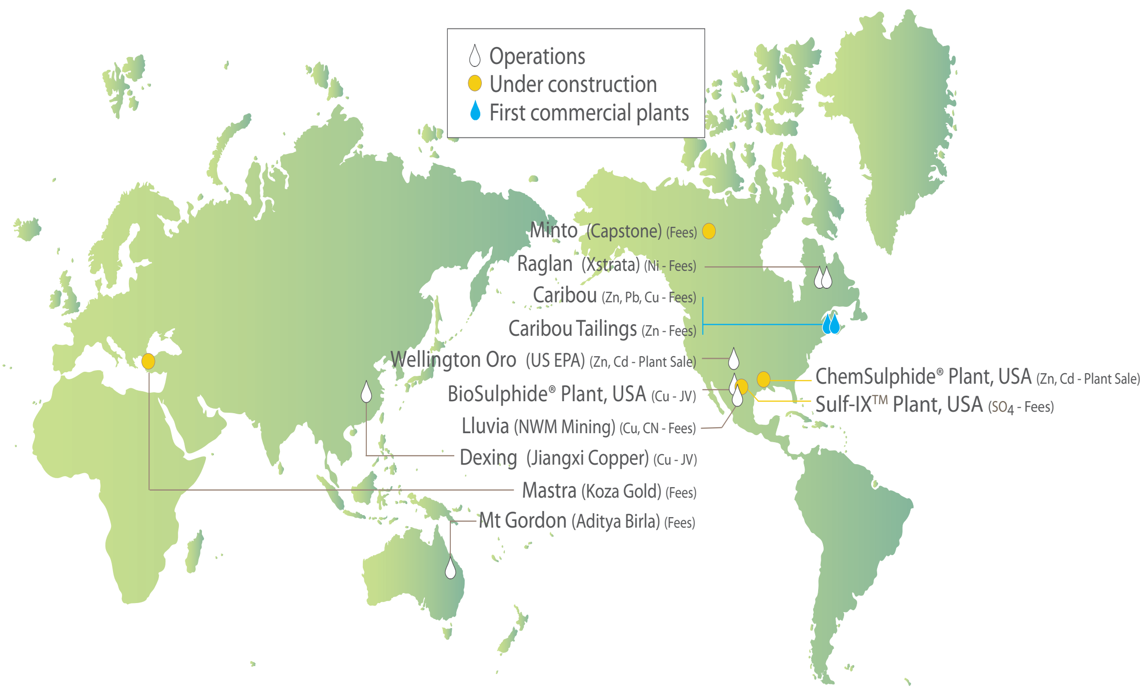
CORPORATE PROFILE

BioteQ is a water treatment company that applies innovative technologies and operating expertise to solve challenging water treatment problems in the resource and power generation industries. BioteQ focuses on delivering lower life cycle costs for industrial wastewater treatment by removing dissolved heavy metals and sulphate more cost effectively than conventional treatment systems, producing clean water for re-use or discharge, and recovering valuable metals from waste in the form of saleable products. The Company earns revenues from water treatment fees, the sale of recovered by-products, engineering fees and plant sales.

BioteQ's sustainable water treatment solutions enable customers to comply with environmental regulations, reduce environmental liabilities, and save money compared to alternative treatment processes. Current customers include some of the world's leading resource companies, utility operators, and regulators.



BIOTEQ'S GLOBAL OPERATIONS



BioteQ is diversifying its markets to apply the company's technologies in mining, power generation and oil sands, and is developing strategic alliances to jointly target new market opportunities.

2009 Achievements

- Processed 7.25 billion litres of contaminated water
- Removed over 2 million pounds of metal contaminants from the environment
- Plants delivered 98% mechanical availability
- Reduced exposure to commodity risk by structuring several contracts to generate revenue from fees rather than metals recovered
- Expanded the business model to be more flexible, in response to customer needs
- Secured new fee-based contracts with new customers
- Received national and international award recognition:
    - 2009 Top 50 Most Socially Responsible Corporations in Canada (Jantzi Research & Maclean's)
    - 2009 Environmental and Social Responsibility Award (Prospectors & Developers Association of Canada)
    - 2009 Canada Export Achievement Award (Export Development Canada & Profit)

Strategic Goals for 2010

- Target new water treatment projects, including:
    - 2 "design" projects
    - 2 "design-supply-operate" projects
    - 2 pilot operations
    - 2 strategic alliances
- Continue to focus on operations to generate recurring cash flow while meeting strict safety and environmental standards
- Secure new fee-based contracts that further reduce the company's exposure to commodity risk
- Diversify the market base to serve new customers in mining, power generation, and oil sands
- Retain skilled and talented staff to ensure that BioteQ has the human capital needed to drive growth

CEO's MESSAGE

To our Shareholders,

Less than one percent of all fresh water resources are available for human use.

- United Nations Environment Program

In industrialized nations, close to 60 percent of available fresh water is used by industry and 30 percent by agriculture, creating constraints on water supplies, accelerated consumption, and competing demands among users. As regulators and communities look for ways to protect scarce water resources, many industries are improving their water conservation strategies and increasing water re-use by adopting new water treatment technologies. BioteQ is a water treatment company that provides innovative technologies and operating expertise to solve challenging water treatment problems for the resource and power generation industries.

BioteQ established its first commercial water treatment plant in 2001, applying the company's patented process technology to treat metal-contaminated wastewater emanating from a mine site in New Brunswick, Canada. Since that time, BioteQ has proven the technology, built a strong customer base, expanded the number of active operations, and delivered reliable water treatment services, with the design, construction, and operation of nine industrial water treatment plants at sites in Canada, the US, Mexico, Australia, and China. BioteQ works with international resource companies, utility operators, and regulators, helping customers to comply with regulations and improve water quality and re-use.

2009 was a year of change for BioteQ – change that positioned the company to weather the economic downturn in the first half of the year, and position the company for stronger growth in the future.

- First, BioteQ adjusted its revenue model to incorporate more fee-based contracts that provide a stable revenue stream. While revenue from two operations continue to be tied to commodity prices (Dexing and Bisbee), the remaining active operating contracts and new contracts have been structured to earn fee-based revenue. The purpose of this change is to provide a balanced revenue mix and reduce the impact of commodity price fluctuations.

- Second, BioteQ expanded its business model to include design-supply-operate and design-supply-transfer projects, where the company provides process design, equipment supply, commissioning and operating services, and earns fees for each stage of the project. This enables BioteQ to respond to a wider range of customer opportunities, and at the same time reduce the requirement to provide project capital while expanding its operating and customer base.

- Third, BioteQ began to diversify into new customer markets, targeting the water treatment needs of power generation and oil sands operations. During 2009, the company carried out research and development activities to modify existing technologies, and initiated discussions with potential strategic alliance partners to enter these markets.

1997 - 2000
Research & Development
- Biomet Mining carries out R&D for metal recovery process technology

2001
Get Started
- Biomet goes public and becomes BioteQ
- First commercial contract secured

2002
Prove the technology
- Initial operation proves the technology can be used successfully on a commercial scale

2003
Commercialize technology
- BioteQ secures two new contracts - Raglan & Bisbee

2004
Operating company
- BioteQ commissions the Raglan & Bisbee plants
- BioteQ treats about one-half billion litres of contaminated water

Looking ahead, we are optimistic that these changes position BioteQ for growth. The company has set out an aggressive growth plan for 2010, targeting new water treatment projects and continued diversification of the company's markets. To meet these goals, we have established an important strategic alliance with Newalta Corporation (TSX:NAL), a leader in industrial waste management with a network of more than 80 facilities across North America. Newalta and BioteQ share similar core values about converting waste into a useful resource, and we believe that both companies can expand their respective product offerings and customer base by working together to jointly target new opportunities.

"We expect that 2010 will bring improved operating results, new water treatment projects that contribute incremental recurring revenue, and expansion into new markets."

Regulations are driving the need for water-intensive industries such as power generation and the resource sector to re-think their water strategies. At the same time, access to clean water continues to be a critical issue for the world's growing population. Together, these factors are driving new opportunities in the water sector. BioteQ is positioned to benefit from these opportunities with innovative technologies and a seasoned staff that have a proven track record of solving challenging water treatment problems.

We expect that 2010 will bring improved operating results, new water treatment projects that contribute incremental recurring revenue, and expansion into new markets. We thank you for your commitment to BioteQ as we deliver sustainable water treatment solutions that convert wastewater into a useful resource.

On behalf of the Board of Directors,

Brad Marchant
CEO

2005
Build operating expertise
- BioteQ secures ISO 14001 certification at Raglan
- BioteQ wins bid with USEPA
- BioteQ treats about 2.3 billion litres of contaminated water

2006
Expand customer base
- New customers: Jiangxi Copper, Aditya Birla
- Plant operating availability exceeds 95%
- Plants generate positive cash flow from operations
- BioteQ treats about 4.2 billion litres of contaminated water

2007
Invest in growth
- Initiate construction of 3 new plants
- Develop Sulf-IX™ technology for sulphate removal
- BioteQ treats about 4.5 billion litres of contaminated water and removes 1.4 million pounds of metals

2008
Expand operating base
- Commission 4 new plants
- Apply new SART technology for gold mining operations
- Successfully pilot the Sulf-IX™ technology
- BioteQ treats about 9.4 billion litres of contaminated water and removes 3 million pounds of metals

2009
Diversify
- Expand business model
- Reduce commodity exposure
- Secure new fee-based contracts with new customers
- Initiate market diversification strategy

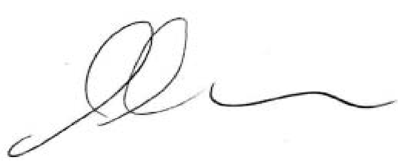
MANAGEMENT'S REPORT TO SHAREHOLDERS

The accompanying Consolidated Financial Statements, Management's Discussion and Analysis and all information in the Annual Report have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. The Consolidated Financial Statements were prepared in accordance with Canadian generally accepted accounting principles and, where appropriate, reflect management's best estimates and judgements. Management is responsible for the accuracy, integrity and objectivity of the Consolidated Financial Statements and Management's Discussion and Analysis within reasonable limits of materiality and for the consistency of financial data included in the text of the Annual Report with that contained in the consolidated financial statements.

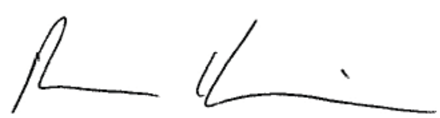
To assist management in the discharge of these responsibilities, the Company maintains a system of internal controls designed to provide reasonable assurance that its assets are safeguarded; that only valid and authorized transactions are executed; and that accurate, timely and comprehensive financial information is prepared. The Consolidated Financial Statements have been independently audited by PricewaterhouseCoopers LLP. Their report for 2009 outlines the nature of their audits and expresses their opinion on the Consolidated Financial Statements of the Company.

The Company's Audit Committee is appointed annually by the Board of Directors and is comprised of Directors who are neither employees nor officers of the Company. The Audit Committee meets with management as well as with external auditors to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the Consolidated Financial Statements, the independent auditors' report and the Management's Discussion and Analysis. The Audit Committee reports its findings to the Board of Directors for consideration in approving the Consolidated Financial Statements and Management Discussion and Analysis for presentation to the shareholders. The external auditors have direct access to the Audit Committee of the Board of Directors.

The Consolidated Financial Statements and Management's Discussion and Analysis have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in Note 2 of the notes to the Consolidated Financial Statements of the Company.



P. Bradley Marchant
Chief Executive Officer



Paul Kim
Vice President &
Chief Financial Officer

Management's Discussion and Analysis

March 16, 2010

(All figures expressed in Canadian dollars unless otherwise noted)

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

This discussion should be read in conjunction with the consolidated financial statements and accompanying notes for years ended December 31, 2009 and 2008, which were prepared in accordance with Generally Accepted Accounting Principles in Canada ("Canadian GAAP"). Certain statements contained in Management's Discussion and Analysis constitutes 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.

Additional information may be found on the Company's website www.bioteq.ca and also on SEDAR at www.sedar.com. The Company's Annual Information Form ("AIF") may also be found on SEDAR.

Description of Business

BioteQ Environmental Technologies Inc. ("BioteQ") is an industrial process technology company headquartered in Vancouver, British Columbia, Canada. BioteQ has developed technologies for water treatment, sulphate reduction, and lime sludge processing. BioteQ's process plants treat acid and metal contaminated water with concurrent recovery of saleable metals from the water and reduction of total dissolved solids. Water from the process plants can be recycled or discharged to the environment. The Company is listed on the Toronto Stock Exchange (TSX) under the symbol BQE.

Technologies

BioteQ's technologies are used in industrial wastewater treatment applications. The BioSulphide® Process uses biogenic sulphide to selectively recover metals from acid waste water and can be applied in mining and other industrial sectors. The ChemSulphide® Process is used in place of the BioSulphide® Process where the production of biological sulphide is not warranted. Applications of BioteQ's sulphide technologies include treatment of acid drainage, industrial wastewater and groundwater for the selective recovery of valuable metals to provide a revenue source from the water to off-set the cost of water treatment as well as minimize waste sludge production. Sulphide technologies can be used to replace or augment lime based treatment facilities to reduce or eliminate waste sludge production and the associated long term liabilities of metal-laden sludge. The biological technology that is an integral part of the BioSulphide® Process can be utilized commercially to generate sulphide reagent on demand for other industrial purposes, such as the application of SART technology for copper-gold ore processing in mining.

BioteQ's Sulf-IX™ technology is a recent development using ion-exchange to meet new regulations for the reduction of the sulphate content in wastewater, producing water acceptable for industrial, agricultural and residential re-use. There is potential to apply the technology to mining, power generation, and oil sands applications.

BioteQ has also developed technology for the conversion of some forms of waste sludge into value-added construction materials, again to minimize the potential long-term liability of sludge products and create a revenue source from the waste products.

Business Models

BioteQ provides patented water treatment technology and operating expertise to treat industrial effluents. Typical business models for BioteQ's projects include:

Build, Own and Operate – where BioteQ provides the capital and operating costs for the treatment plant and charges a fee for water treatment and/or retains the metals recovered from the water. After capital payback, the metal revenues may be shared with the property owner.

Joint Venture – where BioteQ shares the capital and operating costs with the property owner, operates the plant, and shares in the process cost benefits and metals recovered.

Design, Supply, and Operate – where BioteQ provides process design, technology, engineering and operations expertise on a fee basis.

Plant Sale – where BioteQ designs, builds and commissions the plant on a fee basis.

In all cases BioteQ will provide a process guarantee. Potential revenue streams are recovered by-products, water treatment fees, process license fees, plant sales, engineering fees, and the sale of value-added co-products and treated water.

Project Summary

The following chart summarizes the major projects BioteQ has completed along with capital costs, estimates of annual production and operating costs where applicable. Actual results may vary based on the volume and grade of water treated, and site-specific conditions.

Customer	Project	Business Model	Revenue Source	2009 Actual Production (BQE share)	Capital Cost (BQE Share)	* 2009 Operating Costs (BQE Share)	Current Status
Operating Projects (Based on 2009 actual results)							
Freeport McMoRan	Bisbee, AZ.	50% Joint Venture	Copper	152,000 lbs	$3,200,000	$522,000	Operating since 2004; on furlough as of April 1, 2009
Xstrata	Raglan,Que.	Build, Own, Operate for Fees	Fees per m^3 of water	915,000 m^3 (water)	$2,000,000	$454,000	Seasonal operations since 2004. 2010 operating season expected to start in May 2010
Xstrata	Spoon - Raglan, Que.	Operate	Fees	Fixed fees	Owned by customer	$144,000	Seasonal operation since 2008
Jiangxi Copper	Dexing, China	50% Joint Venture	Copper	849,000 lbs	$1,886,000	$1,211,000	Operating since April 1, 2008
Jiangxi Copper	HDS Plant - Dexing, China	Design	n/a	n/a	Owned by customer	-	Operating since April 1, 2009
Aditya Birla	Mt. Gordon, Australia	Build, Own, Operate	Copper	82,000 lbs	$9,169,000	$547,000	Operations inactive pending negotiations with customer
NWM Mining	Lluvia de Oro, Mexico	Plant sale	Fees	Lease fees	$6,443,000	$243,000	Plant sold to customer under sales type lease in June 2009
US EPA	Wellington Oro, CO	Plant sale	Fees	n/a	Owned by customer	-	Commissioned in January 2009
Construction and Development Projects							
Minto Explorations	Minto, Yukon	Design, Supply, and Operate	Fees	n/a	Owned by customer	-	Plant to be commissioned in spring, 2010
Koza Gold	Mastra, Turkey	Design	Fees	n/a	Owned by customer	-	SART plant design

*Excludes refining costs

Significant accomplishments for 2009 include:

- BioteQ's water treatment operations continued to solve challenging water treatment problems for the resource sector. The company had active operations in Canada, the US, and China in 2009; these plants treated 7.25 billion liters of contaminated water, and removed 2.2 million pounds of metal contaminants from the environment.
- BioteQ made operational adjustments to reduce costs and optimize existing operations.
- BioteQ has worked to bring inactive operations back on-line:
  - The Bisbee operation in Arizona, which was placed on furlough in Q2 2009, is in the process of being re-started, with active operations expected to begin in Q2 2010.
  - In June 2009, BioteQ sold its SART plant at the Lluvia de Oro mine site in Mexico to site owner, NWM Mining Corp. The plant sale, under a sales type lease, was part of a consolidation and restructuring of the total loan outstanding from NWM Mining Corp.
  - BioteQ re-started temporary operations at the Mt. Gordon site in Australia in November 2009, following a force-majeure shut-down earlier in the year because of extensive flooding at the mine site. Operations at the site are currently inactive pending negotiations for future water treatment activities with the site owner.
- BioteQ expanded its business model to include fee-based design-supply-operate projects where BioteQ provides process design, technology, engineering, and operations expertise for fees. This adjustment enabled BioteQ to respond to a wider range of customer opportunities and at the same time preserve capital while expanding its operating base.
- BioteQ secured fee-based contracts with new customers, including projects with Minto Explorations and Koza Gold.
- BioteQ began to diversify its markets during 2009 to include water treatment applications in power generation and oil sands. The company carried out research and development activities with funding support from the Canadian government to modify existing technologies, and initiated strategic alliances to develop these new markets. A strategic alliance with Newalta Corporation came into fruition in early 2010. Newalta is a leader in waste management in Canada and the US, with strong customer relationships in a range of industries including oil and gas.
- BioteQ continues to retain and expand its human capital. While the company reduced staff at the beginning of the year to preserve cash, new contracts have generated new employment opportunities in the last half of the year. Human capital continues to be an important asset for BioteQ's future development and growth, and BioteQ is enhancing its human resource management systems to maintain highly qualified personnel.

Outlook

BioteQ expects 2010 to be a year of further growth and market diversification for the company. BioteQ has established the following goals for the coming year:

- BioteQ is targeting six new water treatment projects for business development and engineering during 2010, including:
    - two "design" projects where BioteQ expects to provide process design and commissioning services for fees;
    - two "design-supply-operate" projects where BioteQ expects to provide complete plant design and construction services as well as commissioning and operating services for fees; the first of these projects – at the Minto Mine – is underway;
    - two pilot operations for fees where BioteQ plans to introduce its technologies into new markets.
- BioteQ plans to diversify its market base to serve new customers in the mining, oil sands, and power generation industries. BioteQ will use the recently established strategic alliances with Newalta and Guangdong Hehei Engineering to jointly develop new market opportunities.
- BioteQ will continue to focus on operations, to ensure reliable and consistent operating results that deliver recurring, positive cash flow from operations while meeting safety and environmental standards.
- BioteQ is working to secure new fee-based contracts that further reduce the Company's exposure to commodity risk.
- BioteQ will continue to innovate to develop new technology and process solutions for challenging water treatment problems in existing and new market sectors.
- BioteQ will retain skilled and talented staff. Over the past several years, BioteQ has built a strong team of experienced engineers and operators – this human capital is an important asset for future development and growth.

Overall Performance

Three Year Comparative Information

In Canadian $'000 except for per share amounts

	2009	2008	2007
Revenues	$ 6,395	$ 7,762	$ 4,630
Plant operating costs	5,037	8,003	2,281
	1,358	(241)	2,349
General and administrative expenses	2,773	2,429	2,275
Marketing and development costs	829	936	749
Amortization	1,109	845	396
Stock-based compensation/escrow shares	890	1,664	3,931
Other income - net	(372)	(957)	(834)
Loss before income taxes	(3,871)	(5,158)	(4,168)
Income tax	126	88	-
Loss before extraordinary items	(3,997)	(5,246)	(4,168)
Extraordinary items	(697)	-	-
Net Loss	$ (4,694)	$ (5,246)	$ (4,168)
Net loss per share (basic and diluted)	$0.08	$0.09	$0.08
Cash flow from (used in) operating activities before changes in working capital	(2,695)	(2,736)	192
Total assets	34,386	38,863	42,479
Total long-term financial liabilities	-	-	-
Total liabilities	1,296	2,011	3,098
Shareholders' equity	33,090	36,852	39,381

2009 Summary

BioteQ's 2009 financial performance reflects results from five water treatment projects – Bisbee, Raglan, Dexing, Mt. Gordon, and Lluvia de Oro. BioteQ also provided water treatment and engineering services on a fee basis for projects including Wellington Oro, Raglan-Spoon and Minto.

Revenue for 2009 was $6.4M, a decrease of 18% from 2008 when revenue was $7.8M. The decline was mainly due to fewer active operations during the year compared to the prior year. Operations at Bisbee were furloughed in April 2009 with expected restart planned in Q2 2010. Operations at Lluvia de Oro were inactive during the year and the plant was sold to the site owner in June 2009 under a sales type lease. Operations at Mt Gordon were inactive under force majeure conditions for most of the year due to heavy flooding in January 2009. The site resumed temporary operations for the month of November 2009 and was subsequently shut down for maintenance and pending negotiations for long term water treatment services with the site owner. The declines in revenue from inactive operations were partially offset by increases in water treatment activities at the Raglan site, a full year of operations at the Dexing site, and new service based contracts at the Minto site and Koza Gold site in Turkey.

Plant operating costs were $5M for the year, down $3M from 2008. The decrease in operating costs was primarily due to fewer operating plants previously noted. Operating costs include all direct expenses for each site as well as labour costs for design projects and material costs for plant construction services.

General and administrative costs (G&A) increased $344,000 over the prior year. Higher legal costs, increased sales taxes in the Dexing joint venture, and increased directors' fees contributed to the increase.

Marketing and development costs were lower by $107,000 for the year due to restructuring of staff during Q1 2009 and an increased allocation of labour resources to revenue generating projects.

Other income items include interest income, lease fees and foreign exchange gains and losses. Interest income from cash and short term investments declined in 2009 compared to 2008 as funds were used for operating requirements as well as lower market interest rates on investments. In 2009, the Company recognized $526,000 in accrued lease fees from sale of the plant in Mexico to NWM Mining Corp. Payments are scheduled to begin in October 2010. The Company experienced foreign exchange losses during the year primarily due to the strengthening of the Canadian dollar relative to the US Dollar and Chinese RMB.

Amortization costs were higher for 2009 compared to 2008 due to the completion of the Dexing and Mt Gordon plants in 2008.

Stock based compensation costs decreased $774,000 from 2008 to the current year.

The income tax charge in 2009 is a result of taxable profits in China. These taxes cannot offset accumulated tax benefits in other jurisdictions.

During the year, BioteQ recognized a one-time extraordinary item charge of $697,000 due to the write down of reagent and concentrate inventory damaged during flooding at the Mt. Gordon site in Australia. These costs will not be covered by the insurance underwriter. BioteQ continues to work with its insurance company to settle additional claims for damages at the site.

BioteQ posted a net loss of $4.7M for 2009, a decrease of $500,000 compared to the loss of $5.2M in 2008.

Overall in 2009, BioteQ used $2.7M in cash for operating activities before changes in non-cash working capital items, comparable to 2008.

BioteQ maintained working capital of $7.7 million as of December 31, 2009 with no debt. This working capital positions BioteQ to maintain its current operations, expand its customer base, develop new markets, and create new technology.

Current economic and specific site uncertainty may materially affect future revenues and costs, and annual results are not necessarily indicative of future performance. Changes in commodity prices will impact projects that generate commodity-based revenues.

Comparison of Quarters

Financial data for the last eight quarters (unaudited)
In Canadian $'000 except per share amounts

Quarters ended	Dec-09	Sep-09	Jun-09	Mar-09	Dec-08	Sep-08	Jun-08	Mar-08
Total revenues	$1,978	$2,280	$1,207	$930	$1,269	$4,171	$1,507	$815
Plant & other operating expenses	1,764	1,045	710	1,518	3,988	2,665	914	436
Net income before G&A and amortization & other expenses	214	1,235	497	(588)	(2,719)	1,506	593	379
General & administrative	779	631	745	618	701	615	593	520
Marketing & development costs	185	231	255	158	198	318	292	128
Net operating income (loss)	(750)	373	(503)	(1,364)	(3,618)	573	(292)	(269)
Amortization	243	225	323	318	256	246	242	101
Stock based compensation	219	195	183	293	470	387	440	366
Other (income) expenses	(496)	141	91	(108)	(284)	(170)	(227)	(276)
Income (loss) before taxes	(716)	(188)	(1,100)	(1,867)	(4,060)	110	(747)	(460)
Income taxes	(81)	74	96	37	(93)	181	-	-
Loss before extraordinary items	(635)	(262)	(1,196)	(1,904)	(3,967)	(71)	(747)	(460)
Extraordinary items	-	-	-	(697)	-	-	-	-
Net loss	($635)	($262)	($1,196)	($2,601)	($3,967)	($71)	($747)	($460)
Loss per share	$0.01	$0.00	$0.02	$0.04	$0.07	$0.00	$0.01	$0.01

Quarterly revenues can fluctuate based on the number of plants operating in the quarter, variation in the volume and grade of water treated, and variation in commodity prices. Seasonality at each operation also impacts timing of revenue. Operations at Raglan typically run from May to November of each year. Copper production at Dexing increases between April and September of each year and declines during winter months due to variation in precipitation and annual maintenance needs. In January 2009, operations at the Mt. Gordon site were suspended due to force majeure conditions created by a large storm event. Operations at Bisbee were put on furlough in April 2009 pending technical improvements and cost savings measures. The SART plant in Mexico was sold to site owner NWM in June 2009.

Plant and other operating expenses are comprised of both fixed and variable costs. Variable costs include the cost of reagent consumables, power, and maintenance. Quarterly costs will vary based on the number of active operations and changes in variable costs.

General and administrative costs will vary from quarter to quarter based on costs required to support existing and new operations as well as BioteQ's compliance and filing requirements as a publicly traded company. Costs in Q2 2009 included additional expenses related to legal and consulting work. Costs in Q4 2009 include higher compensation charges and increased legal and consulting work.

Marketing and development costs include costs for business development as well as laboratory research and engineering activities to support project evaluation and new technologies. In Q1 2009, BioteQ restructured its marketing and development efforts but costs increased in Q2 2009 due to furlough activities at the Bisbee site that contributed to additional laboratory costs. Costs in Q3 and Q4 2009 decreased as a result of higher fee-based, revenue generating, engineering projects during the quarter.

Amortization costs vary based on the capital assets of the Company. As BioteQ has built and commissioned more plants, this non-cash cost has increased. The increase in amortization reflects new plants coming on-line, and now being subject to amortization. The decrease in amortization in Q3 2009 reflects the impact of the SART plant sale to NWM in June 2009.

Stock-based compensation costs are non-cash costs that reflect the value of stock options issued to employees, directors, and contractors. The valuation is based on the standard Black-Scholes model, which is affected by price volatility. Q3 2007 includes a one-time charge for re-valuation of escrow shares due to a change in the escrow agreement.

"Other" includes interest income or expense and foreign exchange gains or losses. Interest income is affected by the amount of cash invested and the interest rate. BioteQ has earned interest income from its loan to NWM and from major bank short-term investments of capital raised in late 2006. This capital was drawn down as the Company built new plants and funded existing operations. Interest expense is affected by the amount of the loan and the interest rate; the Company paid off a small bank loan and debentures as of December 2007. Foreign exchange gains or losses are affected by changes in currency exchange rates, mainly with the US Dollar, Chinese RMB, Mexican Peso, and Australian Dollar.

Income taxes vary according to the country in which income is earned. Prior to Q3 2008, no income tax was incurred at any of BioteQ's operations. As operations in China have become profitable as of Q3 2008, BioteQ has incurred income tax expense that cannot be offset by losses in other jurisdictions.

Operating Results

A summary of annual operating results by project is shown below, followed by results for Q4 and a discussion for each project:

	REVENUES		PLANT OPERATING COSTS		PLANT OPERATING PROFIT	
	2009	2008	2009	2008	2009	2008
Bisbee	477	1,636	522	1,291	(45)	345
Raglan	1,146	1,153	454	401	692	752
Dexing	2,171	1,625	1,211	920	960	705
Mt. Gordon	115	871	547	2,179	(432)	(1,308)
Lluvia	9	1,707	243	2,685	(234)	(978)
Other	2,477	770	2,060	527	417	243
Total	6,395	7,762	5,037	8,003	1,358	(241)

	REVENUES		PLANT OPERATING COSTS		PLANT OPERATING PROFIT	
	Q4 2009	Q4 2008	Q4 2009	Q4 2008	Q4 2009	Q4 2008
Bisbee	-	182	10	392	(10)	(210)
Raglan	385	126	142	101	243	25
Dexing	199	353	434	370	(235)	(17)
Mt. Gordon	-	(263)	106	1,051	(106)	(1,314)
Lluvia	-	753	2	2,000	(2)	(1,247)
Other	1,394	118	1,070	74	324	44
Total	1,978	1,269	1,764	3,988	214	(2,719)

The Bisbee Project, Arizona – Joint-venture with Freeport-McMoRan Copper & Gold

BioteQ operates a BioSulphide® plant to treat wastewater at an inactive mine site near Bisbee, Arizona, recovering copper from the drainage of a low-grade stockpile. The project, which was commissioned in 2004, is a 50/50 joint venture with Freeport-McMoRan Copper & Gold. The plant was designed and built by BioteQ, and is owned and operated by the joint venture company Copreco LLC. The capital cost of the plant was approximately US$3.2 million, which was paid back within three years of initial operations. The joint venture partners share equally in the ongoing revenues and expenses. BioteQ operates the plant on behalf of the joint venture. Using BioteQ's BioSulphide® Process, the plant produces treated water that is reused at the mine site, and a high-grade copper concentrate, typically containing > 40% copper, which is shipped to a Freeport-McMoRan smelter where it is processed on commercially competitive terms; settlement is based on the average price for the month after shipment. The amount of copper recovered is dependent on the availability of water and the amount of copper and metals dissolved in the water. BioteQ earns revenue from the plant through the sale of its share of recovered copper.

Plant operating results (total for the JV)	Q4 2009	Q4 2008	Year-to-date 2009*	Year-to-date 2008
Water treated (thousand cubic meters)	-	797	818	2,899
Mechanical availability (%)	-	99%	98%	99%
Copper produced (pounds)	-	333,000	304,000	1,274,000
Copper recovery %	-	>99%	>99%	>99%

** Reflects activity to start of furlough*

As of April 1, 2009, BioteQ and Freeport-McMoRan agreed to place the Bisbee operation on furlough, to initiate technical improvements and cost reduction measures that are expected to improve the profitability of the joint venture. A reduced complement of BioteQ staff continues to work on site to implement technical changes and maintain the bioreactor activity at a level that allows a rapid restart. The cost of power and consumables has been minimal during the furlough period. BioteQ is responsible for the labour costs associated with BioteQ staff at the joint venture plant while Freeport is responsible for the labour cost associated with Freeport staff. Freeport has assumed site overhead costs for the joint venture during the furlough period, and initiated work on assessing various options for improving copper extraction from the stockpile. In addition, the joint venture is investigating opportunities to increase the revenue from the high grade copper product recovered. During the furlough period, the stockpile wastewater is being re-circulated back onto the stockpile.

BioteQ and Freeport-McMoRan regularly review the status of the project, and maintain the plant so that operations can be re-initiated quickly. Most of the planned technical improvements and cost reduction measures have now been put in place and restart of the plant is expected by Q2 2010.

The Raglan Project, Quebec – Build-own-operate for Xstrata Nickel

BioteQ operates a seasonal water treatment plant at the Raglan Mine, an active nickel mine in the Arctic region of northern Quebec, owned by Xstrata Nickel. Because of the harsh winter conditions in the Arctic, water is not available for processing until the spring thaw; the plant runs seasonally, typically from late spring to fall. The plant was built in 2004, and uses BioteQ's ChemSulphide® process to remove dissolved nickel from wastewater to produce clean water that meets strict water quality criteria for discharge to the environment. The nickel concentrate produced by the plant is shipped to a refinery with other nickel concentrate produced at the mine. This is a build-own-operate project, where BioteQ has provided the $2 million in capital to build the plant and delivers ongoing operating services in return for a water treatment fee per cubic meter of water treated for the current year ($1.14 per cubic meter for 2009). The final monthly capital fee of $31,800 was paid in January 2009.

Plant operating results	Q4 2009	Q4 2008	Year-to-date 2009	Year-to-date 2008
Water treated (thousand cubic meters)	318	27	915	688
Days operated (equivalent hours)	51	8	161	165
Nickel recovery %	>99%	>99%	>99%	>99%

Current year operations at the site began in May and finished in mid-November. The plant treated 915,000 cubic meters of water during the season, or a 33% increase over the prior year. The increase in treated water volume was mainly attributable to record precipitation in the area and improvements in site infrastructure related to the supply of power to the plant. Operating costs decreased during the quarter due to better efficiencies and reduced labour requirements.

BioteQ will continue to provide an expanded scope of operating activities at the Raglan site with operating responsibility for Xstrata's Spoon water treatment plant, based on a "cost-plus" contract. This plant performs lime treatment and acidification of water that is not treated by BioteQ's ChemSulphide® plant. BioteQ is currently in negotiations to continue and expand these services for the 2010 year.

The Dexing Project, China – Joint-venture with Jiangxi Copper Company

BioteQ added a water treatment plant to its operations portfolio in 2008, with a new plant commissioned as of April 1, 2008 at the Dexing Mine, an active copper mine in China. The plant is a 50/50 joint venture project with Jiangxi Copper Company (JCC), China's largest copper producer, using BioteQ's ChemSulphide® process to remove dissolved copper from acid mine drainage generated by waste dumps and low grade stockpiles. The high-grade copper concentrate that is removed from the water is shipped to JCC's refinery in Guixi City; price is based on the average metal price during the month that the concentrate is shipped, less refining costs. The plant was designed by BioteQ, and is operated by the joint venture company JCC-BioteQ Environmental Technologies Ltd, which is managed jointly where BioteQ is responsible for technical operations and JCC is responsible for local administrative, procurement and government activities. The joint venture partners share equally in the revenues and costs. BioteQ generates revenue from the sale of its share of the recovered copper.

Plant operating results (total for the JV)	Q4 2009	Q4 2008	Year-to-date 2009	Year-to-date 2008
Water treated (thousand cubic meters)	730	1,197	5,467	4,449
Mechanical availability (%)	94%	97%	94%	97%
Copper produced (pounds)	59,000	273,000	1,699,000	981,000
Copper recovery %	94%	94%	94%	95%

Operations at the Dexing plant during the year were successful. High seasonal rainfall, combined with improvements in the management of acid mine water at the Dexing mine contributed to this success. The plant produced 1.7M pounds of copper in its first full year of operations. Despite a decrease in copper prices from 2008, revenues increased 33% over the prior year due to higher sales volumes. Operating expenses were $1.2M for the year reflecting a full operating year.

During Q4 2009, the plant was closed for four weeks for scheduled annual maintenance. Q4 also had the lowest levels of water available to treat due to variations in seasonal precipitation in the region.

In connection with the ChemSulphide® plant owned by the joint venture, BioteQ also provided engineering and technical expertise to JCC to build a High Density Sludge (HDS) plant to treat water for discharge. This plant, which is owned and operated by JCC, began operations on April 1, 2009. BioteQ and the joint venture continue to maintain a technical and supervisory role in the operations of the plant.

The Mt. Gordon Project, Australia – Build-own-operate for Aditya Birla

BioteQ added a new water treatment plant to its operations portfolio in 2008 at the Mt. Gordon Mine, an active copper mine in Queensland, Australia. The mine is owned by Aditya Birla, a large metals conglomerate based in India. The plant is designed to treat water from mine drainage generated by waste dumps and low grade stockpiles, removing dissolved metals using BioteQ's ChemSulphide® process.

This is a build, own, operate project where BioteQ has provided for all capital costs for the plant, C$ 9.2 million, and earns revenue from metals recovered.

The Mt. Gordon mine site was flooded during an unprecedented storm event in January 2009 that required the evacuation of all site personnel. BioteQ served notice under force majeure to Aditya Birla to temporarily shut down water treatment operations, pending review of damage to the water treatment plant equipment and inventories.

In November 2009, BioteQ restarted the plant on a temporary, modified basis. The restart was initiated to demonstrate the functionality of the plant and its ability to meet future water treatment needs at the site. During this period, the plant treated 180,000 cubic meters of water and recovered 82,000 pounds of copper which was sold to Birla subsequent to year end. In December 2009, operations were shut down for maintenance and preparations for future upgrades.

Concurrently, BioteQ has been in negotiations with Birla to reach terms on a new long term operating contract. These negotiations remain ongoing. At this time, there are no assurances that a mutually acceptable agreement will be reached.

Lluvia de Oro, Mexico – Build-own-operate for NWM Mining

With the completion and commissioning of the **Lluvia de Oro** plant during 2008, at a cost of $6.4 million, BioteQ successfully applied its water treatment technology to a new application for gold mining operations, improving gold yields while removing metal contaminants from the gold extraction process and regenerating and recycling the gold process reagent. The site represents a strategic investment for BioteQ, as it is the Company's first commercial application in the gold mining industry, a market that has future growth potential for copper-complexed gold deposits. For this reason, BioteQ provided extensive support to the project, including loans to the site owner NWM Mining, and site management services.

In April 2008, these terms were modified when BioteQ agreed to provide a short-term loan of up to $4 million to NWM to assist the gold project to move into production. The loan was secured by the gold project assets, and revised operating terms increased BioteQ's share of net revenues from the project. BioteQ would also provide ADR services on a cost-plus fee basis. BioteQ completed construction of the water treatment plant in July 2008, concurrent with the initial gold production at the site.

In October 2008, the Company agreed to manage all operations at the Lluvia site on behalf of NWM, in exchange for a management fee equivalent to all metals recovered at the site, until repayment of BioteQ's capital cost plus 30%, the $4 million loan plus accrued interest, and any additional site development costs incurred by BioteQ. Commissioning of the water treatment plant was completed in December 2008.

Between July and December 2008, the site had limited operations, producing 1,418 ounces of gold (including 1,025 ounces credited to BioteQ's account), and 13,000 pounds of saleable copper.

By December 2008, NWM was unable to meet its debt obligation to BioteQ, putting the loan into default. BioteQ elected not to exercise its security provisions; instead, BioteQ scaled back operations at the site, pending additional investment that NWM was working to secure for operating permits and infrastructure for commercial mining operations.

In March 2009, BioteQ and NWM agreed to terminate the management agreement, with all ongoing financial and operational obligations associated with the mine site assumed by NWM.

In June 2009, BioteQ, NWM, and a third party, Renvest Mercantile Bancorp through its Global Resource Fund (Renvest), entered into an agreement with the following key terms:

- NWM made an immediate repayment of $500,000 CAD to BioteQ against the loan BioteQ had provided.
- The repayment terms of the remaining loan were restructured. BioteQ will charge NWM an annualized interest rate of LIBOR + 2%. Payments will be due each month beginning in January 2010.
- BioteQ sold its plant to NWM under a sales type lease arrangement. BioteQ will receive total lease payments of $9.6M CAD. Payments will be due each month beginning in October 2010. Revenue from the sales type lease of $3.3M CAD will be recognized over the term of the lease.
- Both the loan and the lease have a fixed minimum repayment schedule. Actual repayments may be accelerated based on future gold prices or project cash flow.
- Renvest provided NWM with additional capital to resume and expand mining operations at the site.
- BioteQ agreed to share its first charge over the project assets with Renvest on a pro-rata basis to secure its loan. BioteQ will retain legal title to its plant until all lease payments are received.
- NWM has assumed responsibility for the operation of BioteQ's plant and process. BioteQ will continue to provide management and technical services at commercially competitive rates.
- BioteQ will no longer be directly entitled to any portion of metal sales from the site. However, BioteQ will receive a copper participation fee and a cyanide regeneration fee over the life of the entire project.

In Q4 2009, NWM Mining secured close to $4 million in equity financing. BioteQ believes that the additional capital received by NWM and the new agreements in place for BioteQ's loan and lease positions the project to move towards operational and financial stability in order for BioteQ to recover its investment and realize a profitable return.

During the year, BioteQ recognized $66,000 in interest income on the loan and $526,000 in accrued lease fees.

Other Operations

BioteQ is involved in several projects that are based on "cost-plus" contracts for plant equipment or for engineering and operating services. During 2009, the Company was engaged in several contracts of this nature.

In 2005, BioteQ won an international bid to provide a water treatment plant for a closed silver-zinc mine site called **Wellington Oro**, located near the town of Breckenridge, Colorado. The site is administered under the U.S. Environmental Protection Agency (US EPA) Superfund program, established to address abandoned hazardous waste sites in the USA. The Wellington Oro project is a plant sale, with BioteQ responsible for design, engineering, procurement, commissioning, and operator training. The plant has been designed to process approximately 300 million litres of water annually to remove dissolved cadmium and zinc from mine drainage. Plant construction was completed during Q3 2008, and commissioning was completed in Q1 2009. BioteQ continues to provide ongoing engineering support on a fee basis. Revenues from the project totaled $98,000 in 2009.

In Q2 2009, BioteQ entered into a contract with Minto Explorations Ltd. (Minto), owner of the **Minto Mine** site in the Yukon, to provide engineering services and to operate their existing water treatment plant for the 2009 operating season (June to September). Revenues from the project totaled $500,000 for the season. In Q4 2009, BioteQ and Minto entered into an agreement to design and construct a new, long term water treatment plant at the site and a three year, fee-based operating contract to manage the plant commencing in the spring of 2010. Minto Explorations has been responsible for all capital costs for the plant, and will provide all plant operating costs, including process reagents and consumables.

In Q3 2009, BioteQ entered into a contract with **Koza Gold** to design a SART plant for Koza's Mastra gold mine site in Turkey. The work was substantially completed by the end of Q4 2009. BioteQ will provide Koza with support during construction, and commissioning services in Q2 2010.

Liquidity and Capital Resources

At December 31, 2009, BioteQ had 66,190,308 (fully diluted-71,898,309) common shares issued and outstanding, compared to 66,126,974 (fully diluted-70,947,342) at December 31, 2008. During the year, 1,125,000 options were granted and total proceeds of $42,234 were received from the exercise of options.

Subsequent to year end, BioteQ issued 3,636,364 common shares and the same number of warrants for total proceeds of $4,000,000 in a private placement with Newalta Corporation. Each warrant is exercisable into a common share for a period of five years, at an exercise price of $1.375 for the first year and an exercise price of $1.65 thereafter. In addition, 310,000 options were granted to various officers and employees. At the current date of March 16, 2010, the number of issued shares is 69,851,672, a total of 5,993,001 options and 3,636,364 warrants are outstanding.

At December 31, 2009, the Company had cash and short-term investments, consisting of major bank paper, of $5,340,546, a decrease of $3,886,927 from December 31, 2008. Year-to-date, this cash along with repayment of the loan receivable of $500,000 and proceeds from the exercise of options of $42,234 has funded operating activities of $2,694,820, non-cash working capital items of $1,593,595, and capital additions of $140,746.

Working capital at the quarter-end was $7,689,250, a decrease from December 31, 2008 of $2,416,715. The change was caused by substantially the same factors as affected cash, noted above. The balance of available funds is largely uncommitted. No new capital projects are currently scheduled for 2010.

Management believes that the current working capital is sufficient to support the Company's operating requirements in the foreseeable future. In the longer term, the Company expects it will continue to grow through developing new projects, which will likely require additional equity or debt financing, depending on project scope and commercial terms. Management believes such funding will be available if its existing projects are proven to be successful, but recognizes the market uncertainty of such arrangements.

General

Disclosure Controls and Procedures and Internal Control over Financial Reporting

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

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

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

Critical Accounting Estimates

In preparing financial statements, the Company has to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Based on historical experience and current conditions, the Company makes assumptions that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for judgments about the carrying value of assets and liabilities and reported amounts for revenues and expenses. Different assumptions would result in different estimates, and actual results may differ from results based on these estimates. These estimates and assumptions are also affected by the Company's application of accounting policies. Critical accounting estimates are those that affect the consolidated financial statements materially and involve a significant level of judgment by the Company. The Company's critical accounting estimates apply to the assessment for the impairment of property, plant and equipment and the valuation of other assets and liabilities such as loan receivable.

Property, plant and equipment and long-lived assets

Expenditures on property, plant and equipment are stated at cost, net of grants and contractual amounts received under feasibility studies. Costs relating to property, plant and equipment in the course of construction are capitalized. Upon commissioning, these costs will be amortized over the useful life of the asset.

The Company evaluates the recoverability of long-lived assets and asset groups whenever events or changes in circumstances indicate that the carrying value may not be recoverable. When such a situation occurs, the estimated undiscounted future cash flows anticipated to be generated during the remaining life of the asset or asset group are compared to its net carrying value. When the net carrying amount of the asset or asset group is less than the undiscounted future cash flows, an impairment loss is recognized to the extent by which the carrying amount of long-lived assets or asset group exceeds its fair value.

Management's estimates of mineral prices, foreign exchange rates, production levels and operating costs are subject to risk and uncertainties that may affect the determination of the recoverability of the long-lived asset groups. It is possible that material changes could occur that may adversely affect management's estimates.

Revenue

Revenue from the Company's water treatment plants varies depending on the Company's agreements with various mining and other companies and can include:

- revenue from managing and operating the plants recognized as the services are performed;
- revenue from concentrate sales are recognized when the title of the concentrate passes to the customer and collection of proceeds is reasonably assured and recorded net of refining costs and transportation fees. Sales are initially recorded at a provisional price based on prevailing market prices. Final, or settlement, metal prices are based on a predetermined and defined quotational period one to four months after the month of shipment. The terms of the contracts result in embedded derivatives because of the timing difference between the provisional price and the final settlement price. These embedded derivatives are adjusted to fair value through revenue each period until the date of final price determination.
- fees from engineering services recognized as the services are rendered.
- revenue from the sale of materials and components used in the construction of water treatment plants recognized upon delivery or installation.

Stock-based compensation

The Company accounts for stock options using the fair value method calculated using the Black-Scholes option pricing model. Under this method, stock-based awards for employees are measured at the fair value of the equity instrument issued and stock-based compensation expense is recorded over the period in which the related employee services are provided. The fair value of stock-based awards to non-employees is measured at the earliest of the date at which the services are provided, the date which a performance commitment is reached, or the option grant date if the options are fully vested and non-forfeitable. A corresponding increase in contributed surplus is recorded when stock options are expensed. When stock options are exercised, capital stock is credited by the sum of the consideration paid and the related portion previously recorded in contributed surplus. The effects of forfeitures are accounted for as they occur.

Changes in Accounting Policies

Goodwill and Intangible Assets

The Canadian Institute of Chartered Accountants has issued new accounting recommendations for goodwill and intangible assets which establish standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets (including internally developed intangible assets). These recommendations are effective for the Company beginning January 1, 2009. Goodwill and intangible assets that are not assets as defined by GAAP are derecognized and charged to the equity at that date. Adoption of this section did not have any impact on the Company's financial statements.

Business Combinations and Related Sections

The CICA has issued new accounting recommendations related to business combinations and minority interests effective January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under GAAP with IFRS. These new standards revise guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination.

The CICA concurrently issued new accounting recommendations that provide revised guidance on the preparation of consolidated financial statements and accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. The Company is evaluating the effect of these recommendations on its financial statements.

Transition to International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board ("AcSB") announced that publicly accountable enterprises in Canada will be required to prepare financial statements in accordance with International Financial Reporting Standards ("IFRS") for fiscal periods beginning on or after January 1, 2011. BioteQ's first annual IFRS financial statements will be for the year ending December 31, 2011 and will include the comparable period of 2010. Starting in the first quarter of 2011, BioteQ will prepare unaudited consolidated financial statements in accordance with IFRS including comparative figures for 2010.

IFRS uses a conceptual framework similar to Canadian GAAP but there are significant differences in recognition, measurement and disclosures. As a result of the transition to IFRS, changes in accounting policy are likely and may materially impact the consolidated financial statements of BioteQ. In the period leading up to the changeover, the AcSB will continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the changeover date. The International Accounting Standards Board ("IASB") will also continue to issue new accounting standards during the conversion period, and as a result, the final impact of IFRS on our consolidated financial statements will only be measured once all the IFRS applicable at the conversion date are known. Consequently, our analysis of changes has been made based on our expectations regarding the accounting standards that we anticipate will be effective at the date of transition.

BioteQ has established an IFRS conversion team to manage the transition made up of management and external consultants. The team will provide regular updates to the Audit Committee of the Board. BioteQ's transition plan addresses the impact of IFRS on accounting policies and implementation decisions, infrastructure, business activities, and control activities and is being executed, on a priority basis; those areas which we believe may cause the most significant impact to our consolidated financial statements. The conversion plan is comprised of three phases: review and assessment; design and implementation.

The review and assessment phase involves a high-level diagnostic of the major differences between Canadian GAAP and IFRS. In the assessment, considerations are given to the technical accounting complexity, the choices for accounting policy selection, the need for conversion resources and the impact on systems. For those areas that have been identified as significant for the Company, we have entered the design and implementation phase of the conversion plan. However, the Company has not yet determined the full accounting effects of adopting IFRS. As we continue to analyze the effects of the conversion to IFRS, BioteQ will provide updates on the status of key activities for this convergence project in our quarterly and annual Management's Discussion and Analysis throughout the convergence period to January 1, 2011.

Expected Areas of Significance

A number of differences between Canadian GAAP and IFRS have been identified that may impact the Company's consolidated financial statements. The list and comments should not be regarded as a complete list of changes that will result from transition to IFRS. It is intended to highlight those areas we believe to be most significant; however, analysis of changes is still in process and not all policies are available. At this stage, the Company is not able to reliably quantify the impacts expected on our consolidated financial statements for these differences.

First-time adoption of IFRSs

IFRS 1, First Time Adoption of International Financial Reporting Standards ("IFRS 1"), provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. The Company is analyzing the various accounting policy choices available and will implement those determined to be most appropriate in our circumstances.

Property, plant and equipment

The methodology used to determine if an asset should be impaired is somewhat different under IFRS to that under Canadian GAAP. The Canadian GAAP rules provide for a two-step approach, with no impairment being required if the undiscounted future expected cash flows relating to an asset are higher than the carrying value of that asset. Under IFRS, a one-step approach is used for both testing for and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). The difference in methodology may result in an impairment being recorded under IFRS but not under Canadian GAAP, and therefore, require an adjustment to the opening balance sheet under IFRS. At this time, we have not completed our analysis of the impairment testing for the opening balance sheet under IFRS and are unable to state whether or not the results would differ from our Canadian GAAP impairment tests.

A second difference that may result in an adjustment to the opening balance under IFRS is for the depreciation of significant component parts of property, plant and equipment. Under IFRS, the cost of an item of property, plant and equipment made up of significant component parts must be separated into its component parts and depreciated over the life of these parts. This is not a requirement under Canadian GAAP. This difference may result in a higher depreciation amount being recorded under IFRS than under Canadian GAAP.

Joint ventures

Canadian GAAP allows for the use of proportionate consolidation in the accounting for joint ventures. This is also currently allowed under IFRS; however, the IASB is currently considering an exposure draft that is intended to modify this standard. It is expected that future changes will remove the option to use proportionate consolidation and require an entity to recognize its interest in a joint venture using the equity method of accounting. This would affect a number of BioteQ's balance sheet and income statement line items as these items would be presented as one line item on each of these statements.

Provisions

Under IFRS, an entity is required to recognize a provision when a contract becomes onerous, that is when it has a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from it. Canadian GAAP only requires the recognition of such a liability in certain situations. As well, the threshold for recognition of provisions under IFRS is lower than that under Canadian GAAP. Under IFRS, a provision must be recorded where required payment is "probable", which is a lower threshold than "likely" under Canadian GAAP.

As a result, there could be recognition of a provision under IFRS that was not previously recognized under Canadian GAAP. The Company is currently evaluating this standard and cannot yet determine if there will be an impact to the opening balance sheet under IFRS.

Risks and Uncertainties

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

Dependence on Key Personnel

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

Securities of the Company and Dilution

The Company anticipates generating cash flow from all plants built, but not sufficient cash flow to provide for all future financing requirements. It is anticipated that each project built will be financed largely by presently available resources and debt, but some equity may be required. There can be no assurance that such financings will be available if needed or, if available, on terms satisfactory to the Company. The issuance of common shares in the capital of the Company in the future could result in further dilution to the Company's shareholders.

Competition

Although the Company is not currently aware of any competitors for its metal removal process, there is a possibility that other companies will compete with the Company and such competitors may 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 may not be able to compete successfully with existing or future competitors and cannot ensure that competitive pressures will not materially and adversely affect its business, operating results and financial condition.

Uncertain Profitability of Commercial Application

The Company believes there are many sites which can benefit from the Company's processes. The Company has built eight significant commercial plants, one is awaiting installation and commissioning and several more are in the engineering stage. Until the Company has completed these revenue generating plants the Company's success cannot be assured. The Company currently derives its revenue from a limited number of sources (contracts). The loss of any one contract could result in a materially adverse effect on the Company's financial condition.

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®, or Sulf-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 investors of the patents were the first creators of inventions covered by pending applications, or that it was the first to file patent applications for such inventions. There can be no assurance that the Company's patents, if issued, would be valid or enforceable by a court or that a competitor's technology or product would be found to infringe such patents.

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

Access to Proprietary Information

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

Commodity Prices

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

Currency Risk

Commodities are priced in United States dollars. Therefore, any devaluation of the United States dollar would adversely affect the Company's future revenues. Further, since a significant portion of the Company's expenses are in Canadian and other currencies, a significant increase in the value of such currencies relative to the United States dollar coupled with unstable or declining base metal prices could have an adverse affect on the Company's results of operations to the extent that sales of base metals are not hedged.

Environmental Regulation

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

Management of Growth

The Company could experience growth that could put a significant strain on each of the Company's managerial, operational and financial resources. The Company must implement and constantly improve its operational and financial systems and expand, train and manage its employee base to manage growth. The Company might also establish additional water treatment facilities which would create additional operational and management complexities. In addition, the Company expects that it's operational and management systems will face increased strain as a result of the expansion of the

Company's technologies and services. The Company might not be able to effectively manage the expansion of its operations and systems, and its procedures and controls might not be adequate to support its operations. In addition, management might not be able to make and execute decisions rapidly enough to exploit market opportunities for the expansion of the Company's technologies and services. If the Company is unable to manage its growth effectively, its business, results of operations and financial condition will suffer.

Conflicts of Interest

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

Possible Volatility of Share Price

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

Lack of Dividends

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

Possible Loss of Investment

There can be no assurance of the Company's success and, therefore, any investors in securities of the Company could potentially lose their entire investment.

Dilution

There are a number of outstanding securities and agreements pursuant to which common shares of the Company may be issued in the future which will result in dilution to the Company's shareholders.

Auditors' Report to the Shareholders

To the Shareholders of
BioteQ Environmental Technologies Inc.

We have audited the consolidated balance sheets of BioteQ Environmental Technologies Inc. as at December 31, 2009 and 2008 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, BC
March 15, 2010

Consolidated Balance Sheets
As at December 31, 2009 and 2008

	2009 $	2008 $
Assets		
Current assets		
Cash and cash equivalents	$ 2,491,302	$ 3,524,777
Short-term investments	2,849,244	5,702,696
Trade receivables	2,169,978	1,561,640
Receivable from joint venture partners	47,288	1,019
Current portion of loan receivable (note 7)	468,424	-
Taxes recoverable	76,597	56,757
Inventory (note 5)	658,874	895,909
Prepaid expenses	223,302	373,858
	8,985,009	12,116,656
Loan receivable (note 7)	10,339,235	4,413,191
Property, plant and equipment (note 8)	14,930,511	22,170,585
Intangible asset (note 9)	131,626	162,598
	$ 34,386,381	$ 38,863,030
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 1,295,759	$ 2,010,691
Shareholders' Equity		
Capital stock, warrants and contributed surplus (note 11)	58,689,871	57,757,637
Deficit	(25,599,249)	(20,905,298)
	33,090,622	36,852,339
	$ 34,386,381	$ 38,863,030

Commitments (note 18)

Subsequent Events (note 19)

Approved by the Board of Directors

P.B Marchant, Director

G.W. Poling, Director

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

Consolidated Statement of Operations, Comprehensive Loss and Deficit
For the years ended December 31, 2009 and 2008

	2009 $	2008 $
Revenue	$ 6,394,615	$ 7,762,490
Operating expenses		
Plant and other operating costs	5,036,999	8,002,945
General and administrative expenses	2,772,584	2,429,146
Marketing and development costs	828,843	935,908
Operating expenses before amortization and stock-based compensation	8,638,426	11,367,999
Amortization of property, plant and equipment (note 8)	1,078,159	814,503
Amortization of intangible assets (note 9)	30,972	30,972
Stock-based compensation charge (note 11)	890,000	1,663,500
Loss before the under-noted	(4,242,942)	(6,114,484)
Interest income	76,930	604,385
Other income	122,666	353,995
Lease fees	526,231	-
Foreign exchange loss	(353,562)	(921)
Loss before income taxes	(3,870,677)	(5,157,025)
Income taxes (note 12)	126,236	88,124
Loss before extraordinary items	(3,996,913)	(5,245,149)
Extraordinary items (note 13)	(697,038)	-
Loss and comprehesive loss for the year	(4,693,951)	(5,245,149)
Deficit - Beginning of year	(20,905,298)	(15,660,149)
Deficit - End of year	$ (25,599,249)	$ (20,905,298)
Loss per share - basic and diluted (note 11)	$ (0.08)	$ (0.09)
Weighted average number of basic and diluted shares outstanding (note 11)	62,087,137	60,477,101

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

Consolidated Statement of Cash Flows
For the years ended December 31, 2009 and 2008

		2009 $		2008 $
Cash flows from (used in) operating activities				
Loss for the year	$	(4,693,951)	$	(5,245,149)
Items not affecting cash:				
Amortization of property, plant and equipment		1,078,159		814,503
Amortization of intangible asset		30,972		30,972
Stock based compensation charge (note 11)		890,000		1,663,500
		(2,694,820)		(2,736,174)
Change in non-cash working capital items (note 14)		(1,593,595)		(979,096)
		(4,288,415)		(3,715,270)
Cash flows from (used in) financing activities				
Proceeds from exercise of warrants and options		42,234		1,052,815
Cash flows from (used in) investing activities				
Purchase of property, plant and equipment		(140,746)		(9,072,146)
Purchase of short-term investments		(12,861,204)		(43,022,259)
Proceeds from sale of short-term investments		15,714,656		60,936,084
Decrease (increase) in loan receivable		500,000		(4,413,191)
		3,212,706		4,428,488
Increase (decrease) in cash and cash equivalents		(1,033,475)		1,766,033
Cash and cash equivalents - Beginning of year		3,524,777		1,758,744
Cash and cash equivalents - End of year	$	2,491,302	$	3,524,777

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

1. Company operations

BioteQ Environmental Technologies Inc. ("BioteQ") has acquired and developed processes to treat metal-laden, sulphate-rich waste water streams for acid neutralization and metal recovery. Eight commercial scale plants have been built using its patented BioSulphide® or ChemSulphide® technology.

The principal operations of the Company are to build process plants and earn revenues from recovered metals, treatment fees, plant sales, engineering fees and process licenses.

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. The Company has curtailed operations as a result of current economic and business conditions at certain sites and has estimated that it will have adequate funds from existing working capital to meet corporate, development, administrative and other obligations for the coming year. However, the Company has not yet realized profitable operations and has relied on non-operational sources of financing to fund its operations. For the year ended December 31, 2009, the Company incurred a loss of $4,693,951 (2008 - $5,245,149), had a net decrease in cash and short term deposits of $3,886,927 (2008 - $16,147,792) and used net cash in operating activities of $4,288,415 (2008 - $3,715,270). The Company's success and recoverability of long-lived assets is dependent upon its ability to achieve or sustain profitable operations at existing sites, secure operating contracts with new customers, and obtain additional funding to accelerate future growth.

2. Significant accounting policies

General accepted accounting principles

These consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada ("GAAP") and are presented in Canadian dollars.

Principles of consolidation

The consolidated financial statements include the accounts of BioteQ and its wholly owned subsidiaries, Biomet Mining Corporation, BioteQ Arizona, Inc., BioteQ Water (Australia) Pty Ltd., Bioteq Water (Chile) SpA and BioteQ Water Mexico S.A. de C.V. (the "Company"). The accounts of the joint ventures in which the Company holds an interest are proportionately consolidated. All intercompany transactions and balances have been eliminated.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Assessment of the valuation of stock-based compensation, recoverability of long-lived assets and recoverability of the loan receivable are significant areas requiring the use of estimates. Actual results could differ from those estimates.

Cash and cash equivalents

Cash consists of unrestricted bank deposits, some of which are interest bearing and are all classified as held-for-trading. Cash equivalents consist of banker's acceptances that are readily convertible to known amounts of cash and are held to their original maturities within 90 days from their date of purchase.

Short-term investments

The Company's short-term investments consist of banker's acceptances and are classified as held-to-maturity for accounting purposes and carried on the balance sheets at amortized cost using the effective interest method, plus accrued interest. Investments with maturities of greater than 90 days and less than one year are classified as short-term investments.

Inventories

Inventories of concentrate 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, other direct costs (including external services) and related production overheads, but excludes administrative and finance costs.

Supplies inventories are valued at the lower of cost and net replacement cost which approximates net realizable value.

Property, plant and equipment and long-lived assets

Expenditures on property, plant and equipment are stated at cost, net of grants and contractual amounts received under feasibility studies. Amortization has been provided for in the financial statements using the following rates and methods:

Office equipment	5 years straight-line
Vehicle	5 years straight-line
Pilot plants	5 years straight-line
Water treatment plants	10 - 20 years straight-line

Costs relating to property, plant and equipment in the course of construction are capitalized. Upon commissioning, these costs will be amortized over the useful life of the asset.

The Company evaluates the recoverability of long-lived assets and asset groups by plant location whenever events or changes in circumstances indicate that the carrying value may not be recoverable. When such a situation occurs, the estimated undiscounted future cash flows anticipated to be generated during the remaining life of the asset or asset group are compared to its net carrying value. When the net carrying amount of the asset or asset group is less than the undiscounted future cash flows, an impairment loss is recognized to the extent by which the carrying amount of long-lived assets or asset group exceeds its fair value. Management's estimates of mineral prices, foreign exchange rates, production levels and operating costs are subject to risk and uncertainties that may affect the determination of the recoverability of the long-lived asset groups. It is possible that material changes could occur that may adversely affect management's estimates.

Revenue

Revenue from the Company's water treatment plants varies depending on the Company's agreements with its customers and can include:

- revenue from managing and operating the plants recognized as the services are performed;
- revenue from concentrate sales recognized when the title of the concentrate passes to the customer and collection of proceeds is reasonably assured and recorded net of refining costs and transportation fees. Revenue is initially recorded at a provisional price based on prevailing market prices. Final, or settlement, metal prices are based on a predetermined and defined quotational period one to four months after the month of shipment. The terms of the contracts result in embedded derivatives because of the timing difference between the provisional price and the final settlement price. These embedded derivatives are adjusted to fair value through revenue each period until the date of final price determination.
- fees from engineering services are recognized as the services are rendered.
- revenue from the sale of materials and components used in the construction of water treatment plants are recognized upon delivery or installation.

Government assistance

Government assistance is recorded when reasonable assurance exists that the Company has complied with the terms and conditions of the approved grant program. Government assistance is either recorded as a reduction of the cost of the applicable property, plant and equipment or credited in the statements of operations as determined by the nature of the assistance. Where assistance is contingently repayable, the repayment of these funds is treated as either an increase in the cost of the asset or an expense, in the year it is incurred, as determined by the original accounting treatment of the assistance.

Foreign currency translation

The Company's foreign subsidiaries and joint ventures are considered to be integrated foreign operations. Foreign denominated monetary assets and liabilities of the Canadian and foreign operations are translated into Canadian dollars at the rates of exchange prevailing at the balance sheet dates. Non-monetary assets and liabilities are translated at the exchange rates prevailing when the assets were acquired or the liabilities incurred. Revenues and expenses are translated at the average exchange rate prevailing during the year, except for depreciation and amortization which are translated at the same rates as those used in the translation of the corresponding assets. Foreign exchange gains and losses are included in the determination of net earnings or net loss.

Loss per share

Loss per share is calculated using the weighted average number of shares outstanding during the period, excluding performance based escrow shares, and diluted loss per share is calculated to reflect the dilutive effect of exercising outstanding stock options, warrants or equivalents by application of the treasury stock method except when the effect would be anti-dilutive. For the years ended December 31, 2009 and 2008, the Company excluded potential common share equivalents from the loss per share calculation as they were considered anti-dilutive.

Future income taxes

The Company accounts for income taxes using the liability method of tax allocation. Future income taxes are recognized for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases (temporary differences) and for the benefits of loss carry-forwards. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period that includes the substantial enactment date. Future income tax assets are evaluated, and if realization is not considered to be more likely than not, a valuation allowance is provided.

Stock-based compensation

The Company accounts for stock options using the fair value method calculated using the Black-Scholes option pricing model. Under this method, stock-based awards for employees are measured at the fair value of the equity instrument issued and stock-based compensation expense is recorded over the period in which the related employee services are provided. The fair value of stock-based awards to non-employees is measured at the earliest of the date at which the services are provided, the date which a performance commitment is reached, or the option grant date if the options are fully vested and non-forfeitable. A corresponding increase in contributed surplus is recorded when stock options are expensed. When stock options are exercised, capital stock is credited by the sum of the consideration paid and the related portion previously recorded in contributed surplus. The effects of forfeitures are accounted for as they occur.

Financial instruments

The Company classified all financial assets and liabilities as either: held-to-maturity, held-for-trading, loans and receivables, available-for-sale, or other financial liabilities. The initial and subsequent recognition of the financial instrument depends on its initial classification.

The Company has classified its financial instruments as follows:

a) Cash and cash equivalents: the Company designated its cash and cash equivalents as held-for-trading, which are measured at fair value.

b) Short-term investments: the Company classified its short-term investments as held-to-maturity which are measured at amortized cost using the effective interest method. The carrying value of short-term investments approximates fair value due to their short-term nature.

c) Accounts receivable and loan receivable: the Company classified its trade receivables, receivable from joint venture partners and loan receivable as loans and receivables, which are initially measured at fair value and subsequently at amortized cost using the effective interest method.

d) Accounts payable and accrued liabilities: the Company classified these as other financial liabilities, which are initially measured at fair value and subsequently at amortized cost using the effective interest method.

The Company expenses transaction costs in the period incurred.

New accounting policies

On January 1, 2009, the Company adopted the following CICA accounting standards:

CICA Handbook Section 3064 – Goodwill and Intangible Assets

The CICA has issued new accounting recommendations for goodwill and intangible assets which establish standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets (including internally developed intangible assets). These recommendations are effective for the Company beginning January 1, 2009. Goodwill and intangible assets that are not assets as defined by GAAP are derecognized and charged to equity at that date. Adoption of this section did not have any impact on the Company's financial statements.

Financial Instruments – Disclosures

In June 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures," to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. The amendments to Section 3862 are effective for the Company for the annual reporting period ended December 31, 2009. The impact of adopting this standard is disclosed in Note 16.

3. Future accounting changes

Business Combinations and Related Sections

The CICA has issued new accounting recommendations related to business combinations and minority interests effective January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under GAAP with IFRS. These new standards revise guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination.

The CICA concurrently issued new accounting recommendations that provide revised guidance on the preparation of consolidated financial statements and accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. The Company is evaluating the effect of these recommendations on its financial statements.

4. Agreements

The Company has a number of revenue generating agreements. The most significant are as follows:

Raglan agreement

On April 15, 2003, the Company entered into a 10-year agreement to construct and operate a water treatment plant to remove nickel from mine water at the Raglan mine owned by Xstrata Nickel in northern Quebec.

The contract provides for a plant with a design capacity to treat at least 530,000 cubic meters of water per year. Construction of the plant was largely completed in November 2003 and began operations in June 2004. Under the contract, the Company charges a fixed monthly fee which has increased from $24,500 to $31,860 due to the cost of increased capacity requested by the client. The final fixed monthly fee of $31,860 was paid in January 2009. In addition, an operating fee is charged of $1.06 per cubic meter of water treated, increasing up to a maximum of 2% per annum. In 2009, the fee was increased to $1.142 per cubic meter. The fees are subject to certain conditions and performance criteria that must be met by either Xstrata Nickel or by the Company. After 63 months from the plant installation date of November 2003, Xstrata Nickel has the option to purchase the plant at BioteQ's cost, less straight-line depreciation at 5% per annum, in which case the contract would cease and BioteQ would be entitled to an ongoing technology fee. At December 31, 2009, the cost of the plant, including commissioning costs, amounted to $1,987,400 (2008 - $1,987,400) and net book value after accumulated depreciation amounted to $1,398,340 (2008 - $1,497,709).

Mt Gordon agreement

In May 2007, BioteQ finalized the full scope of an agreement with Birla Mt Gordon Pty Ltd ("Birla") for the development and operation of a water treatment plant at Birla's Mt Gordon copper mine in Queensland, Australia.

The contract provides for a plant to recover copper, cobalt and nickel from contaminated water at the rate of 250 cubic meters per hour. In addition, BioteQ is to provide an evaporation system to treat a minimum of one gigaliter of water inventory in Birla's pit annually and also provide sufficient capacity in the system to maintain at least a zero discharge water balance at the site subject to permitting, infrastructure and site access to be obtained and provided by the site owner.

The commissioning of certain parts of the plant commenced in 2007. Full commissioning of the copper circuit and evaporation system and the separate cobalt recovery circuit commenced in 2008. The plant ceased commissioning and commenced operations on April 1, 2008.

In January 2009, significant rain events flooded the site causing evacuation of all site personnel and damaging a portion of the Company's plant equipment. The Company served notice to Birla to cease operations under force majeure. In November 2009, the Company restarted plant operations on a modified and temporary basis to demonstrate the functionality of the plant to Birla. In December 2009, operations were shut down to perform plant maintenance and prepare for modifications to meet long term water treatment needs at the site.

Currently, the force majeure conditions remain at the site and the plant is inactive. The Company is continuing discussions with Birla to assess the long term water treatment needs and agree on new or modified commercial terms. See Note 13 – Extraordinary items

At December 31, 2009, the cost of the plant, including commissioning costs, amounted to $9,027,065 (2008 - $9,077,456) and net book value after accumulated depreciation amounted to $8,236,379 (2008 - $8,736,816).

Lluvia agreement

In February 2007, BioteQ signed an agreement with NWM Mining Corporation (formerly Columbia Metals Corporation) (“NWM”) for the construction of a copper recovery and cyanide regeneration plant at NWM’s mine site in Sonora, Mexico.

The contract provides for BioteQ to construct a plant to treat the solution from NWM’s gold heap leach operation to regenerate cyanide and recover copper, prior to gold recovery by NWM. BioteQ will receive a share of all metal revenues produced at the property, which amounted to approximately 33.33%,until it has recovered an amount equal to its capital cost plus a return of 30% (“Return on Capital”). After BioteQ has recovered its Return on Capital, BioteQ’s revenue will accrue in one of two ways, at BioteQ’s option, either by way of a fee per pound of regenerated cyanide plus copper recovered, or by an operating fee.

Commissioning of the plant commenced in 2008 and it was fully commissioned on December 11, 2008.

On October 1, 2008, the Company entered into a new agreement with NWM for the operations management of the Lluvia de Oro-Jojoba gold mines. The Company assumed responsibility for all operating activities at the site in exchange for a management fee from NWM. The agreement would be in place until the Company had recovered all related operating and development costs, original capital investment plus 30% and loans to NWM. As of October 1, 2008, the results of all operations of the site are reflected as part of the Company’s consolidated results. In March 2009, BioteQ and NWM agreed to terminate the management agreement, with all ongoing financial and operational obligations associated with the mine site assumed by NWM.

In June 2009, BioteQ, NWM and a third party, Renvest Mercantile Bancorp through its Global Resource Fund entered into an agreement that superseded all previous agreements, restructured the terms of the existing loan and included the sale of the plant to NWM under a sales type lease arrangement. See Note 7 – Loan Receivable.

5. Inventory

	2009	2008
	$	**$**
Inventory of chemicals and spare parts	396,160	269,013
Inventory of metal concentrate	1,237,382	950,451
	1,633,542	1,219,464
Writedown of metal concentrate	(974,668)	(323,555)
	658,874	895,909

Inventory is valued at the lower of cost and net realizable value. A provision for the inventory of metal concentrate and chemicals was recorded for the Mt. Gordon operations to reflect the inventory at net realizable value (see Note 13 – Extraordinary items).

The cost of inventories recognized as expense and included in "plant and other operating costs" for year ended December 31, 2009 amounted to $2,958,089 (2008 - $7,041,054). Non-inventory items recorded in plant and other operating costs include items such as labour, supplies and travel.

6. Interest in Joint Ventures

Bisbee agreement

During 2003, the Company signed agreements with Freeport-McMoRan Copper & Gold Inc. ("FMI") (formerly Phelps Dodge Corporation) for the construction and operation of a 50:50 joint venture water processing project at FMI's Bisbee property in southern Arizona. The plant recovers copper from a low-grade waste water stream. The plant was constructed by BioteQ and commissioning completed in August 2004 and has been operational from that date.

As of April 1, 2009, BioteQ and FMI agreed to place the Bisbee operation on furlough, to initiate technical improvements and cost reduction measures that are expected to improve the profitability of the joint venture. A reduced complement of BioteQ staff continues to work on site to implement technical changes and maintain the bioreactor activity at a level that allows a rapid restart. BioteQ is responsible for the labour costs associated with BioteQ staff at the joint venture plant while FMI is responsible for the labour costs associated with FMI staff. FMI has assumed site overhead costs for the joint venture during the furlough period and initiated work on assessing various options for improving copper extraction from the stockpile. In addition, the joint venture is investigating opportunities to increase the revenue from the high grade copper product recovered. During the furlough period, the stockpile wastewater is being re-circulated back onto the stockpile.

The 50% interest in the joint venture in the consolidated financial statements is as follows:

	2009 $	2008 $
Consolidated balance sheets		
Current assets	6,800	30,700
Long-term assets	1,498,000	1,638,000
Consolidated statement of operations		
Revenue	477,200	1,636,100
Operating income (loss)	(45,000)	345,200
Net income (loss)	(185,000)	203,700
Consolidated statements of cash flows		
Operating activities	(24,900)	348,900
Investing activities	-	(4,500)
Financing activities	24,900	(344,400)

Dexing agreement

During 2006, BioteQ signed a definitive joint venture agreement with Jiangxi Copper Corporation ("JCC") for the operation of a water treatment facility located at JCC's Dexing mine in Jiangxi Province, China. The joint venture agreement which forms an equal share joint venture company between BioteQ and JCC is called JCC-BioteQ Environmental Technologies Co. Ltd., builds and operates water treatment plants using BioteQ's technology. The agreement includes a license contract whereby BioteQ will provide its patented technology on a royalty-free basis to the joint venture company for use at the Dexing project as well as five additional sites owned and operated by JCC. The plant ceased commissioning and commenced operations on April 1, 2008.

The cost of the plant, including BioteQ's engineering and site costs, in Water Treatment Plants at December 31, 2009 amounted to $1,998,625 (2008 - $1,845,361) and net book value after accumulated depreciation amounted to $1,837,469 (2008 - $1,780,002).

BioteQ's 50% of the joint venture in the consolidated financial statements is as follows:

	2009 $	2008 $
Consolidated balance sheets		
Current assets	2,085,000	1,966,000
Long-term assets	1,302,000	1,246,000
Current liabilities	544,000	608,000
Consolidated statement of operations		
Revenue	2,172,000	1,625,000
Expenses	1,741,000	720,000
Net income	305,000	816,000
Consolidated statements of cash flows		
Operating activities	288,000	1,033,000
Investing activities	(153,000)	(77,000)
Financing activities	(74,000)	(99,000)

7. Loan receivable

On April 2, 2008, BioteQ agreed to provide $3 million in debt financing to NWM to bring the Lluvia-Jojoba gold and copper mine into production, to coincide with the completion of BioteQ's water treatment plant. There was an extension option for a further $1 million which could be used to finance property payments. The loan has a maximum term of one year and if unpaid will result in an additional share of all net revenues to BioteQ until all loans are repaid. The loans are secured on the assets of the project. The loan bears an interest rate of 12% per annum calculated monthly and 2% per month on amounts used for working capital requirements. Loan amounts are due within one year of issuance and working capital requirements are due six months from issuance.

In December 2008, NWM was unable to meet the repayment terms of the loans and the loans went into default. The Company did not exercise its security over the loan at that time and entered into negotiations with NWM to restructure the repayment terms on the loan as well as reviewing the future of the Company's plant and operations on the project site.

In June 2009, the Company, NWM, and a third party, Renvest Mercantile Bancorp through its Global Resource Fund (Renvest), entered into an agreement with the following key terms:

- NWM made a payment of $500,000 CAD on June 12, 2009 to the Company against the existing loan.
- The repayment terms of the remaining loan were restructured. BioteQ will charge NWM an annualized interest rate of LIBOR + 2%. Payments will be due each month beginning in January 2010.
- The Company sold its plant to NWM under a sales type lease arrangement. The net book value of the plant at the time the agreement was entered into was $6,302,661. The Company will receive total lease payments of $9,621,710 under the agreements. Payments will be due each month beginning in October 2010.

- Renvest provided NWM with additional capital to resume and expand mining operations at the site. The Company agreed to share its first charge over the project assets with Renvest on a pro-rata basis to secure its loan. The Company will retain legal title to its plant until all lease payments are received.

Below is a summary of the total loan balance:

	Loan $	Lease $	Total $
Balance - December 31, 2008	4,413,191	-	4,413,191
Total additions	-	6,302,661	6,302,661
Total interest	65,576	-	65,576
Total lease fees	-	526,231	526,231
Total repayments	(500,000)	-	(500,000)
Balance - December 31, 2009	3,978,767	6,828,892	10,807,659
less: current portion	468,424	-	468,424
Long-term portion	3,510,343	6,828,892	10,339,235

Both the loan and lease have a fixed minimum repayment schedule. Actual repayments may be accelerated based on future gold prices or project cash flows. Remaining minimum repayments under the loan and lease are:

	Loan $	Lease $
2010	600,000	487,800
2011	1,500,000	1,951,200
2012	1,500,000	1,951,200
2013	378,767	1,951,200
2014	-	1,951,200
2015	-	1,329,110
	3,978,767	9,621,710

Interest income on the loan will be recognized over the entire term of the loan. Revenue from the sales type lease of $3,319,049 will be recognized over the term of the lease.

As part of the repayment terms for both the loan and the lease, the Company holds an embedded derivative due to provisions for accelerated repayments based on future gold prices. At this time, the Company believes that this derivative does not have any value as this provision is not expected to be triggered over the course of the loan.

8. Property, plant and equipment

	2009		
	Cost $	Accumulated Amortization $	Net $
Pilot plants	372,113	361,631	10,482
Office equipment	279,590	190,709	88,881
Vehicles	162,464	77,574	84,890
Water treatment plants	16,517,026	2,777,400	13,739,626
Construction in progress	1,006,632	-	1,006,632
	18,337,825	3,407,314	14,930,511

	2008		
	Cost $	Accumulated Amortization $	Net $
Pilot plants	372,113	357,447	14,666
Office equipment	266,999	156,541	110,458
Vehicles	162,464	44,837	117,627
Water treatment plants	22,694,903	1,925,937	20,768,966
Construction in progress	1,158,868	-	1,158,868
	24,655,347	2,484,762	22,170,585

Amortization expense for the year ended December 31, 2009 amounted to $1,078,159 (2008 - $814,503).

During 2009, the Company disposed of $6,302,661 in water treatment plant equipment (see Note 7 – Loan receivable).

9. Intangible asset

	Cost	Accumulated Amortization	Net
	$	$	$
Intellectual property			
December 31, 2009	247,770	116,144	131,626
December 31, 2008	247,770	85,172	162,598

BioteQ had a continuing obligation to pay royalties under a cooperative development agreement which expired on June 2, 2004. The agreement was replaced in March 2006 with a new marketing and royalty agreement under which BioteQ has paid a one time lump sum of $247,770 for the use of certain technology. The one time payment allows BioteQ to build one plant each year until 2014 using this technology. The payment has been capitalized as an intangible asset, and will be amortized over 8 years.

10. Long-lived assets and measurement uncertainty

The Company regularly reviews the carrying values of its long-lived assets. In light of current economic and site-specific conditions, including inactive operations as well as the Company's operating performance to date, a review was conducted for each of the Company's operating plants experiencing possible impairment conditions. The Company tests for recoverability using a two-step process. The first step involves the assessment of the probability weighted undiscounted estimated future cash flows on a project by project basis compared to the current carrying value of each project. When impairment is indicated by the first step, a second step is carried out to measure the impairment using discounted cash flows to estimate the fair value.

Based on the current review, management believes that there are sufficient opportunities at each project to recover the current carrying value of long-lived assets. At the Bisbee site, the Company impairment assessment assumes the technical changes and improvement in the economic environment, specifically copper prices, will allow restart of operations at the site. At the Mt Gordon site, the Company is continuing negotiations with the site owner and the impairment assessment assumes there is a high probability that a new long term operating contract will be reached. However, it is not possible to determine with any certainty the success and adequacy of these initiatives. Changes in market conditions, reserve estimates, the ability to reach a long term operating contract at Mt Gordon, and other assumptions used in these estimates may result in future write downs.

11. Capital stock, warrants and contributed surplus

Authorized

Unlimited common shares without par value

Issued and outstanding

	Common shares		Warrants	Contributed Surplus	
	Number of Shares	Amount $	Amount $	Amount $	Total $
Balance - December 31, 2007	65,483,883	49,558,272	1,436,015	4,047,035	55,041,322
Stock-based compensation	-	-	-	1,663,500	1,663,500
Exercise of warrants	69,757	146,114	(24,039)	-	122,075
Expiry of warrants	-	-	(1,411,976)	1,411,976	-
Exercise of options	573,334	1,385,020	-	(454,280)	930,740
Balance - December 31, 2008	66,126,974	51,089,406	-	6,668,231	57,757,637
Stock-based compensation	-	-	-	890,000	890,000
Exercise of options	63,334	58,974	-	(16,740)	42,234
Balance - December 31, 2009	66,190,308	51,148,380	-	7,541,491	58,689,871

Of the total stock-based compensation charge which amounted to $890,000 for the year (2008 - $1,663,500), none of the charges relate to stock options granted to non-employees (2008 - $61,700).

a) Stock options

The Company has a stock option plan available to directors, employees and consultants. Under the plan, the Company may grant stock options to purchase shares up to 10% of the Company's issued and outstanding share capital from time to time, and at December 31, 2009, 6,619,031 options are available for issue, of which 5,708,001 have been issued. Options vest at the rate of 33% every six months from award and have a maximum term of five years from the date of the grant. A summary of the change in the Company's stock option plan for the year is as follows:

		2009		2008
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Outstanding - January 1	4,820,368	2.59	4,398,701	2.49
Options exercised	(63,334)	0.67	(573,334)	1.62
Options granted	1,125,000	0.56	1,170,000	3.00
Options forfeited	(174,033)	2.46	(174,999)	4.62
Outstanding - December 31	5,708,001	2.26	4,820,368	2.59
Exercisable at December 31	4,433,557	2.54	3,202,713	2.22
Available for future grant pursuant to Company's stock option plan at December 31	911,030		1,792,329	

The following table summarizes information about common share options outstanding at December 31:

	Range of exercise prices $	Number of outstanding at December 31	Weighted average remaining contractual life (years)	Weighted average exercise price $
2009	0.51 - 1.00	1,211,666	4.2	0.59
	1.00 - 1.50	666,667	1.3	1.34
	1.51 - 2.00	1,322,668	1.5	1.68
	2.01 - 2.50	74,934	2.0	2.32
	3.01 - 2.50	1,125,000	3.6	3.00
	4.01 - 4.50	1,307,066	2.6	4.20
		5,708,001	2.5	2.26
2008	0.51 - 1.00	191,533	1.5	0.91
	1.00 - 1.50	666,667	2.0	1.00
	1.51 - 2.00	1,347,668	2.5	1.68
	2.01 - 2.50	101,534	3.0	2.31
	3.01 - 2.50	1,170,000	4.6	3.00
	4.01 - 4.50	1,342,966	3.6	4.20
		4,820,368	2.8	2.59

The fair value of stock options granted is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2009	2008
Expected dividend yield	-	-
Expected stock price volatility	80% to 85%	37%
Risk-free interest rates	1.75% - 2.00%	2.75% - 3.00%
Expected life of options (years)	3	3

The weighted average fair value and weighted average exercise price of options granted in the periods indicated were as follows:

	Weighted average fair value	Weighted average exercise price
	$	$
Year to December 31, 2009	0.30	0.56
Year to December 31, 2008	0.86	3.00

b) Escrow shares

At December 31, 2009, the common shares issued include 2,100,000 (2008 – 4,200,000) performance shares which were to be released from escrow based upon the cash flow performance of the Company determined annually in accordance with the policies of the Toronto Venture Exchange. Any performance shares not released within 10 years from issuance on December 20, 2000 would be cancelled and returned to the Company's treasury. At the Company's annual general meeting on April 23, 2007, the shareholders approved a change in the escrow arrangement to a time release method. The time release formula would allow release of the escrow shares over a period of 36 months, on the basis of 10% of the shares on the date specified in the news release announcing the conversion, and 30% of the original number of the escrow shares every 12 months thereafter. The three time releases of 30% are also subject to the Company building and operating a total of three new water treatment plants in each period of 12 months. The new plants are cumulative in qualifying for each release of 30%.

The change in the escrow arrangement was approved by all parties to the original escrow contract and represents a modification of the escrowed shares, which has resulted in additional stock-based compensation expense of $2,100,000 during 2007. The first release of 10% (700,000 performance shares) took place in October 2007 and in 2008, the Board of Directors approved the release of 2,100,000 of escrowed shares.

During the year ended December 31, 2009, the Board of Directors approved the release of an additional 2,100,000 of escrowed shares.

Loss per share, basic and diluted, and weighted average number of basic and diluted shares outstanding excludes these performance based escrow shares.

c) Option agreement

In June 2007, the Company entered into an option agreement to purchase an engineering and fabricating company for 1,000,000 shares of BioteQ and $500,000 in cash, at the sole option of BioteQ. The agreement has a term of three years from the date of the agreement, with a possible extension of two years for additional consideration of 500,000 shares of BioteQ for each year extended. There was nominal cost for the option. In order for the option to be exercised, BioteQ's shares are required to be trading for at least $3.00 at the exercise date.

12. Income taxes

As at December 31, 2009, the Company has approximately $919,000 of research and development expenditures available for unlimited carry-forward, and $86,000 of investment tax credits, expiring 2009 to 2010, all of which may be used to reduce future Canadian income taxes otherwise payable.

The Company has accumulated losses of approximately $13,462,000 for Canadian income tax purposes which may be deducted in the calculation of taxable income in future years. The losses expire as follows:

	$
2010	1,310,000
2014	1,439,000
2015	2,284,000
2026	2,416,000
2027	1,629,000
2028	1,952,000
2029	2,432,000
	13,462,000

In addition, BioteQ has available tax losses in other jurisdictions that total $4,600,000 (2008 - $3,200,000). These losses can be carried forward to offset against future taxable income in those jurisdictions with expiry periods that range from 10 years to indefinitely.

As at December 31, 2009, the Company's future tax assets and liabilities were as follows:

	2009 **$**	**2008** **$**
Property, plant and equipment	664,000	439,000
Financing costs	79,000	194,000
Research and development expense carry-forwards	286,000	295,000
Non-capital losses carry-forwards	4,826,000	4,236,000
	5,855,000	5,164,000
Valuation allowance	(5,855,000)	(5,164,000)
Total future income tax assets	-	-

No income tax benefits related to the future tax assets have been recognized in the accounts as their realization does not meet the requirements of "more likely than not" under the liability method of tax allocation.

The reconciliation of income tax attributable to operations computed at the statutory tax rates to income tax expense (recovery), using a 30% (2008 - 31%) statutory tax rate, for the year ended December 31 is as follows:

	2009 $	2008 $
Income tax recovery at statutory rates	(1,370,000)	(1,599,000)
Change in valuation allowance	692,000	1,232,000
Non-deductible expenses	269,000	522,000
Tax rate differences	213,000	229,000
Other	322,000	(296,000)
Total income tax expense	126,000	88,000

13. Extraordinary items

In January 2009, the Mt. Gordon mine site in Queensland, Australia experienced heavy rainfall that flooded the site and led to suspension of all mining and water treatment activities. The Company has suffered damages to equipment and inventory and is continuing to review the extent of the damages with its insurance provider. The Company served notice to its customer shutting down operations under the force majeure clause of its agreement. The Company expects that any loss or damage to equipment and inventory will be replaced under its existing property insurance policy and has expensed any items that it expects will not be recovered under this policy. As at December 31, 2009, the insurance claim has not yet been settled.

14. Consolidated Statement of Cash Flows – Supplemental Information

	2009 $	2008 $
Increase in accounts receivable	(608,338)	(998,243)
Decrease (increase) in receivable from joint venture partners	(46,269)	152,299
Decrease (increase) in taxes receivable	(19,840)	90,074
Increase in accrued interest receivable on loan receivable	(65,576)	-
Increase in accrued lease fees	(526,231)	-
Decrease (increase) in inventory	237,035	(846,529)
Decrease (increase) in prepaid expenses	150,556	(209,264)
Increase (decrease) in accounts payable and accrued liabilities	(714,932)	832,567
	(1,593,595)	(979,096)

	2009 $	2008 $
Supplemental cash flow		
Withholding taxes paid and receivable	41,923	56,757
Income taxes paid	204,654	88,124
Non-cash operating, financing and investing activities		
Increase in loan receivable on disposal of property, plant and and equipment (Note 7)	6,302,661	-
Decrease in accounts payable related to purchase of property, plant and equipment	-	(1,920,000)

15. Segmented information

The Company currently has one operating segment. Geographic disclosures are as follows:

	2009 $	2008 $
Revenue		
Canada	2,770,847	1,494,689
U.S.	624,501	2,064,404
Australia	115,861	871,391
China	2,265,422	1,624,782
Mexico	44,293	1,707,224
Other	573,691	-
	6,394,615	7,762,490
Property, plant and equipment		
Canada	2,037,183	2,183,507
U.S.	2,743,390	2,938,037
Australia	8,287,457	8,806,544
China	1,862,481	1,813,219
Mexico	-	6,429,278
	14,930,511	22,170,585

Revenues are attributed to countries based on the location of customers.

Revenues were derived from customers that individually accounted for greater than 10% of total revenues, as follows:

	2009 $	2008 $
Customer A	1,402,953	1,494,689
Customer B	2,171,892	1,624,782
Customer C	1,330,538	-
	4,905,383	3,119,471

16. Financial instruments

Under GAAP, financial instruments are classified into one of the following categories: held for trading, held-to-maturity, available-for-sale, loans and receivables and other financial liabilities. The following table summarizes information regarding the carrying values of the Company's financial instruments:

	2009 $	2008 $
Held for trading (cash and cash equivalents)	2,491,302	3,524,777
Held to maturity (short-term investments)	2,849,244	5,702,696
Loans and receivables	13,024,925	5,975,850
Other financial liabilities	1,295,759	2,010,691

Interest income and other gains and losses from "held for trading" and "held to maturity" financial assets are recognized in interest income. Interest income, expense and gains and losses from loans, receivables and other financial liabilities are recognized in other income (expense). The following table summarizes interest income and expense under the effective interest method for the year ended December 31, 2009:

	2009 $	2008 $
Interest income from:		
Held for trading (cash and cash equivalents)	45,317	61,527
Held to maturity (short-term investments)	31,613	542,858
Loans and receivables	648,897	353,995

Fair Value

Cash and cash equivalents, short-term investments, trade receivable, receivable from joint venture partners, other assets and accounts payable and accrued liabilities are short term financial instruments whose fair value approximated the carrying amount given that they will mature shortly.

During 2008, the loan receivable (note 7) was issued at fixed interest rates comparable to prevailing rates for similar instruments. As of December 31, 2008, NWM was in default of the terms of the loan. The Company has not exercised its security over the loan. The Company estimated the fair value of the security underlying the loan receivable based on (1) applying an estimated value or reserve multiple for comparable companies to the estimated reserves of the Lluvia de Oro site which was provided as security for the loan receivable; and (2) estimating the fair value of the security provided on the loan receivable based on the market capitalization of NWM as at December 31, 2008. As a result, the Company has determined that the fair value of the collateral is in excess of the carrying value of this loan and no impairment is required.

Classification and Measurement of Financial Instruments

Cash and cash equivalents are measured at fair value. CICA Handbook Section 3862 Financial Instruments – Disclosures requires classification of these items within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly;
Level 3 – Inputs that are not based on observable market data.

All of the Company's cash and cash equivalents is measured using level 1 inputs.

Measurement Uncertainty

The Company recognizes revenues on sales of recovered metals at a provisional price for the metals at the time of shipment. All sales that have not been settled at the reporting period have been recognized at market prices at the balance sheet date. Actual settlement prices are based on market prices of metals one to four months after shipment. Future changes in market prices could require a material change in recognized amounts in future periods.

Risks

The Company’s activities expose it to various risks, including credit risk, market risks such as foreign exchange risk and interest rate risk, and liquidity risk. The Company’s risk management activities are designed to mitigating 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 preservation of capital. Risk management activities are managed by the finance and accounting department. The Company’s risk management policies and procedures have not changed from 2008.

a) Interest rate risk

Short-term investments are invested in separate investments with varying maturities exposing the Company to interest rate risk on these financial instruments. All short-term investments have remaining maturities of less than one year. The recognized interest income of the Company’s short-term investments for the year ended December 31, 2009 was $31,613 (2008 - $542,858). It is estimated that net income (loss) will fluctuate by $7,200 (2008 - $56,900) per annum, for every 1% change in the prevailing rates of interest.

The loan receivable with NWM (note 7) is subject to interest rate risk as the interest accumulating on the loan balances is based on LIBOR + 2%. During the year, the Company recognized income of $65,576 (2008 - $nil) on the loan balance outstanding from NWM. It is estimated that net income (loss) will fluctuate by $36,000 (2008 - $nil) for every 1% change in the prevailing rates of interest.

b) Credit Risk

The Company is exposed to credit risk in its cash and cash equivalents, short-term investments, trade receivable, loans and other receivables. As the Company does not utilize credit derivatives or similar instruments, the maximum exposure to credit risk is the full carrying value of the financial instrument. The Company minimizes the credit risk of cash and cash equivalents and short-term investments by depositing only with reputable financial institutions and limiting the term to maturity to less than one year.

Credit risk on trade receivable and other loan receivables are minimized by performing credit reviews, on-going credit evaluation and account monitoring procedures. All of the Company's receivables have been reviewed for indicators of impairment. At December 31, 2009, the allowance for doubtful accounts balance was $nil (2008 - $nil). In addition, we recorded a bad debt expense of $nil during the year ended December 31, 2009 (2008 - $nil). Of the Company's receivables, there are no overdue balances and collection is reasonably assured. The definition of items that are past due is determined by reference to terms agreed with individual customers. No trade receivables have been challenged by the respective customers and the Company continues to conduct business with them on an on-going basis. Accordingly, management has no reason to believe that the balance is not fully collectible.

As of December 31, 2009, the loan receivable balance (note 7) of $10,807,659 (2008 - $4,413,191) accounted for 83% (2008 - 73%) of all receivable balances. This balance is secured by the assets of the Lluvia de Oro Mine. The Company has estimated the fair value of the collateral to be in excess of the loan receivable.

As of December 31, 2009, there were tax related recoverable of $663,692 (2008 - $907,804) which accounted for 31% (2008 - 56%) of all trade receivable. Of this balance, $652,091 (2008 - 751,442) related to Mexican IVA tax (GST), which had been paid on construction work on the water treatment plant in Mexico. The Company has no reason to believe that these balances will not be collected.

c) Foreign Currency Risk

There is a risk to the Company's earnings that arise from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Company's financial results are reported in Canadian dollars. The Company does not hedge foreign exchange risks.

The Company's exposure to foreign currency risk is primarily related to fluctuations in the value of the Canadian dollar relative to that of the United States dollar, because the Company's revenues are largely derived from the sale of commodities which are priced in U.S. dollars. In addition, and to a lesser extent the Company is exposed to currency fluctuations related to operating costs and any construction costs in the local currencies where its plants are being built. Presently, currencies affected would be the Australian dollar, Chinese Renminbi, Mexican Pesos and Chilean Pesos If the Canadian dollar depreciated by 1% against the currencies mentioned above, with all other variables held constant, the impact of the foreign currency change on the other foreign financial instruments would lead to additional after tax net income (loss) of $57,000. For the year ended December 31, 2009, the Company reported a foreign exchange loss of $353,562 (2008 - $921).

d) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligation as they fall due. The Company currently settles its financial obligations out of cash and cash equivalents and short-term investments. The ability to do this relies on the Company collecting its trade receivable in a timely manner and by maintaining sufficient cash and cash equivalents in excess of anticipated needs. At December 31, 2009, the Company's accounts payable and accrued liabilities were $1,295,759 (2008 - $2,010,691), which falls due for payment within twelve months of the balance sheet date.

e) Commodity Price Risk

The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken. The Company does not have any hedging or other commodity based risks respecting its operations.

17. Capital management

In the management of capital, the Company includes shareholders equity, excluding accumulated other comprehensive income. The Company manages its capital to ensure that financial flexibility is present to increase shareholder value through organic growth and selective acquisitions as well as allow the Company to respond to changes in economic and/or marketplace conditions.

Considering the early stage of development of the Company, it has not utilized debt financing to any significant degree and currently has no outstanding debt or facilities, and there are no externally imposed capital requirements. In order 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 debt or refinance existing debt with different characteristics. There were no changes in the Company's approach to capital management during the period.

18. Commitments

The Company has commitments of $87,800 under operating leases for office and laboratory premises and for office equipment.

The Company is committed to repayment of government assistance in the form of a quarterly 2% royalty on corporate gross revenues. The maximum amount remaining to be paid is $86,799 of which $37,000 has been accrued at December 31, 2009.

19. Subsequent events

Subsequent to the year-end, the Company entered into an agreement with Newalta Corporation to pursue joint projects that could apply the innovative environmental technologies and operating expertise of both companies. In connection with this agreement, Newalta purchased 3,636,364 common shares of the Company, at an issue price of $1.10 per share, for total cash consideration of $4 million. Each share purchased includes an additional warrant to purchase one common share of the Company at 125% of the issue price for one year and 150% of the issue price thereafter. The warrants expire after 5 years.

CORPORATE INFORMATION

2009 Directors

George W. Poling [1,4]
Chairman of the Board of Directors
Independent Consultant and
Professor Emeritus
University of British Columbia
Vancouver, British Columbia

C. Bruce Burton [1,3]
Independent Consultant
Toronto, Ontario

Kelvin P.M. Dushnisky [1,2,3]
Executive Vice-President,
Corporate Affairs
Barrick Gold Corporation
Toronto, Ontario

P. Bradley Marchant [4]
CEO of the Company
Vancouver, British Columbia

Clement A. Pelletier [2,4]
Chief Executive Officer
Rescan Environmental Services Ltd.
Vancouver, British Columbia

Kenneth F. Williamson [2,3]
Independent Consultant
Dwight, Ontario

1 – member, Audit Committee
2 – member, Compensation Committee
3 – member, Corporate Governance Committee
4 – member, Technical Committee

Officers

P. Bradley Marchant
CEO

David Kratochvil
President & COO

Richard W. Lawrence
Vice President

Paul Kim
Vice President & CFO

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PricewaterhouseCoopers
Vancouver, British Columbia

Banker

HSBC Bank Canada
Vancouver, British Columbia

Transfer Agent

Computershare
Vancouver, British Columbia

Stock Exchange

Toronto Stock Exchange (TSX)
Symbol: BQE

Annual Meeting

9 am, May 6, 2010
16th Floor
401 West Georgia Street
Vancouver, British Columbia

BIOTEQ
ENVIRONMENTAL TECHNOLOGIES INC.

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