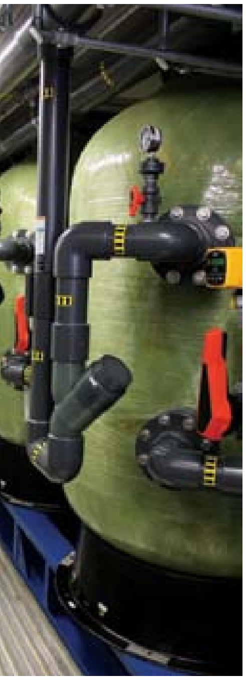
BIOTEQ
ENVIRONMENTAL TECHNOLOGIES INC.

New Directions



2011 Annual Report

Global Footprint

Headquartered in Vancouver, Canada with offices in Chile and China, BioteQ has designed and supplied 15 industrial water treatment plants at sites around the world. The plants are offered on a Design-Supply-Operate, Design-Supply-Transfer or Joint Venture arrangement.

Each site has unique water treatment requirements. BioteQ's water treatment specialists deliver technology solutions tailored to the needs of each project site.

Find Out More

Global Footprint	*inside front cover*
Company Profile	*1*
Clean Technology Solutions	*1*
2011 Key Metrics	*2*
CEO Message	*3*
Management's Report to Shareholders	*6*
Management's Discussion & Analysis	*7*
Independent Auditor's Report	*27*
Consolidated Financial Statements	*29*
Board of Directors	*inside back cover*
Management Team	*inside back cover*
Corporate Information	*inside back cover*

Company Profile

BioteQ Environmental Technologies is an innovative clean technology leader in industrial wastewater treatment. Our proven technologies have been applied at sites around the world to selectively recover dissolved metals and remove sulphate, creating value from waste while producing clean water for re-use or safe discharge to the environment. In 2011, we treated 9.5 billion litres of wastewater and recovered 2.1 million pounds of metals from the environment.

Clean Technology Solutions

BioteQ's clean technology solutions treat water impacted by mining, energy and industrial activities. Our portfolio of patented process technologies include sulphide precipitation for selective metal recovery and ion exchange for removal of metals and sulphate.

Metal Recovery & Removal

BioteQ has applied five process technologies for the removal and recovery of metals from water.

Our **BioSulphide®** and **ChemSulphide®** processes use biological and chemical sources of sulphide to selectively recover dissolved metals in a form that can be sold to offset water treatment costs, eliminating waste sludge while producing very clean water for re-use or safe release to the environment. The processes can remove metals that are toxic, and recover metals that have value.

We also apply our sulphide precipitation know-how to the **SART** process, an enabling technology for gold processing developed by SGS Lakefield and Teck Corporation. SART removes the metallurgical interference of cyanide-soluble metals and regenerates cyanide for recycle to the gold recovery process. SART can improve gold yields and reduce operating costs for copper-complexed gold deposits.

We use **Ion Exchange** process technology to treat water that has very low metal concentrations where the metals have value or exceed allowable discharge limits.

Our technologies can be combined with **lime treatment**, to improve the performance of lime plants by reducing metal loading in residual sludge, reducing sludge volumes, and improving water quality.

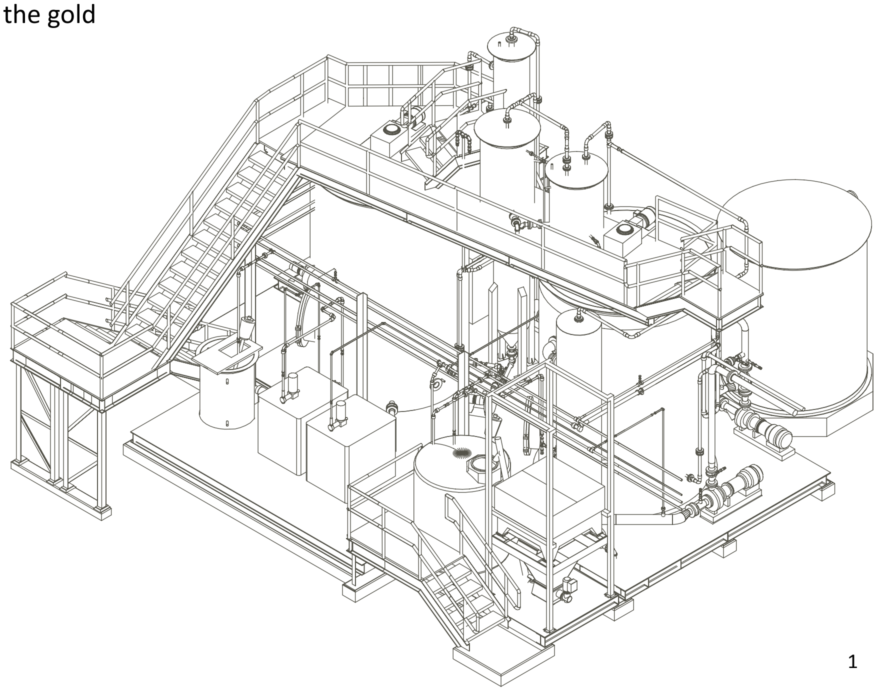
Sulphate Removal

BioteQ has developed the **Sulf-IX™** and **Sulf-IXC™** ion exchange technologies for the removal of Total Dissolved Solids (TDS) and elevated levels of calcium and magnesium sulphates from wastewater. The processes produce a clean gypsum by-product, and treated water that meets tightening regulations for sulphate limits and industry needs for process water that is low in sulphates.

Technology Benefits

BioteQ's water treatment processes:

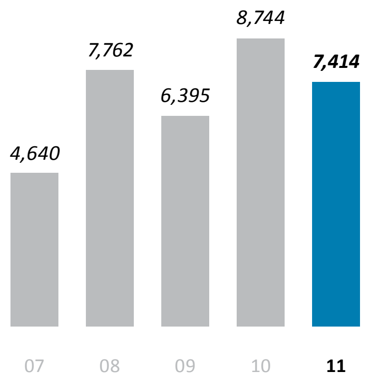
- Produce treated effluent to meet strict water quality regulations for safe discharge.
- Recover up to 99% of water for re-use, reducing the need to draw upon fresh water supplies.
- Reduce or eliminate residual waste sludge and the long-term liabilities associated with sludge disposal and management.
- Reduce life cycle costs for water treatment through lower operating costs and the generation of revenues from recovered metals.
- Enhance environmental performance.



2011 Key Metrics

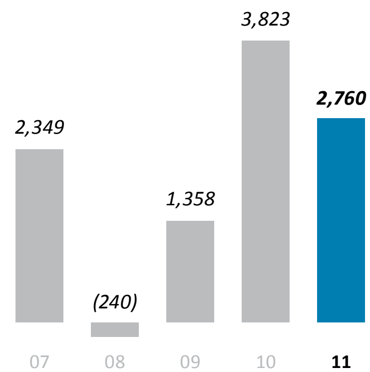
Financial Highlights

Revenues ($ '000)



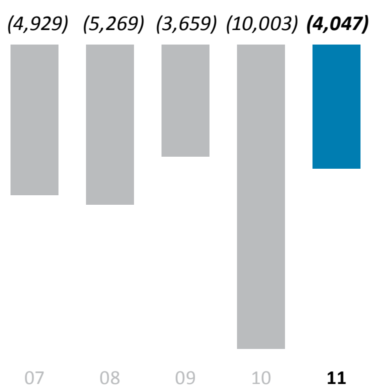
Revenues totaled $7.4 million in 2011, a decline of 15% from the prior year due to reduced revenues from the Minto operation and lower plant sales revenue.

Gross Margin ($ '000)



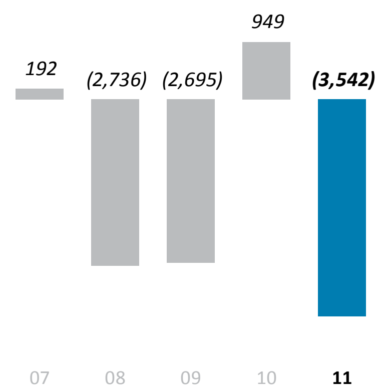
Gross margin on revenue (excluding amortization) for the year was 37% ($2.8 million).

EBITDA ($ '000)



Non-GAAP measure; net income (loss) under GAAP before interest, taxes, depreciation and amortization.

Cash Flow from (Used in) Operations ($ '000)

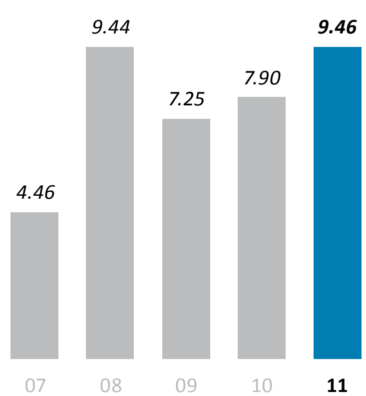


Non-GAAP measure; operating cash flow (use) under GAAP before working capital changes.

All figures for years 2007 to 2009 are presented in accordance with Canadian generally accepted accounting principles.

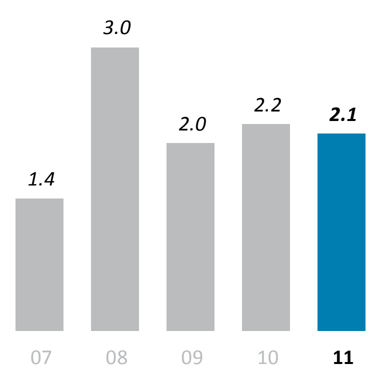
Operational Highlights

Water Treated (billion L)



BioteQ's operations treated close to 20% more water in 2011 than the prior year, mainly due to higher volumes at the Dexing operation.

Metals Removed (million lbs)



BioteQ removed over 2.1 million pounds of metals from the environment, similar to prior years.

CEO Message

2011 was a year of transition at BioteQ. I was appointed to the CEO role in mid-October, following the retirement of BioteQ's founding CEO, Brad Marchant.

During the year, several important milestones were achieved. However, BioteQ also experienced a number of significant challenges, resulting in the company falling short of growth targets.

When I joined BioteQ, we began an analysis that sought to understand both the strengths and the weaknesses of the business. Through the latter part of the year, we developed a strategy for the company that would allow us to build on past accomplishments and enable BioteQ to make the kind of commercial progress going forward that our investors expect.

Why I Joined BioteQ

When I looked at BioteQ as an interested observer I saw a company that:

- has unique and well proven technologies that can add significant value for customers;
- has a base of well regarded, well established customers—including leading global mining companies and regulatory bodies;
- is focused on a space (water remediation) that is large, has clear and compelling drivers, and is growing rapidly; and
- has a talented core of employees.

What I also saw was a company that has struggled with its initial business model and needed a path through which to scale the business.

From my perspective, what the company required was a refocusing of its approach to the market—in terms of the business models it offers and the channels it uses, and the skill sets and resourcing that are applied to technology commercialization.

The opportunity is clear—as observers of the sustainability space will know—water remediation has grown significantly in recent years and appears poised for dramatic growth going forward. Rising public concerns regarding water quality and the availability of clean water supplies are driving significant regulatory change.

Water is so much more tangible for the average citizen than matters such as carbon emissions. We know water, we use it on a daily basis, and we understand its importance in our lives.

The challenge for BioteQ is it to capitalize on the opportunities that lie before us.

Recap of 2011

Key accomplishments

A framework agreement was signed with Minéra México—a subsidiary of Grupo México, the largest mining company in Mexico. The agreement provides for the exploration and development of projects that apply BioteQ's technologies at Minéra México sites. Work on assessing initial potential projects began in 2011.

BioteQ continued to establish itself as the leading provider of SART process technology. During the year the company signed two engineering services agreements—one with Compania Minéra Maricunga, a wholly-owned subsidiary of Kinross Gold; and the second with a European engineering firm. Both of these contracts could lead to broader contracts going forward. Developed by SGS Lakefield and Teck Corporation, the SART process has been proven to significantly improve the project economics for copper-gold deposits. To date, BioteQ is the only company that has successfully provided comprehensive SART plant design, commissioning and operating services.

BioteQ secured a $1 million contract to provide a mobile ion exchange plant for an international mining customer. The transportable plant design opens new market opportunities as it allows the technology to be rapidly deployed to customer sites to meet short-term or urgent water treatment requirements, providing a cost-effective and flexible solution for customers.

Good progress was made with our channel and market diversification partners Newalta, LANXESS Sybron Chemicals, and EcoMetales to plan and assess a number of potential opportunities. We expect that 2012 will be the year in which substantive commercial progress with our alliance partners will occur.

Key challenges

Legal actions were filed against two former customers for breach of contract. One action, against NWM Mining Corporation, seeks damages for NWM defaulting on its lease obligations for the Lluvia SART plant. The second action, against Birla Mt Gordon, is a counter suit that seeks damages for costs and lost operating revenues that BioteQ incurred. Birla Mt Gordon is concurrently suing BioteQ for breach of contract. BioteQ is confident of its legal position in both lawsuits.

The financial performance of the company was not as strong as had been expected at the beginning of the year. A number of projects that had been anticipated to close in 2011 were delayed and in some cases deferred. Guidance provided to the market in March 2011 was revised in early October to reflect weaker than expected revenue and cash flow. The results are in line with this revised guidance.

New Directions

A key aspect of any CEO transition is that it can create opportunities for an organization to revisit previous assumptions and modes of behaviour and it can enable a firm to look at itself and the markets that it purports to serve with a fresh perspective.

Through the strategy development process, BioteQ has adopted a set of clear short and long-term goals.

The company is focused on becoming acknowledged as a global leader in the development and provision of innovative water treatment solutions to industrial markets including mining, metallurgy and energy. As we grow we will be focused on:

- the delivery of innovative, reliable and cost effective solutions for our customers;
- the generation of consistently strong returns to shareholders;
- the creation of a fun and fulfilling workplace for our employees; and
- a commitment to making a positive impact on and contribution to environmental sustainability.

In the near term, our goals are centred on significantly growing the revenue base of the company and driving to positive cash flows within the next 18 to 24 months.

To achieve near term goals and position the company for long-term success, BioteQ has developed a strategy that contains a number of key elements:

1. Business models

BioteQ will firmly position itself as a technology solutions provider. Our focus will be on monetizing the value of our technologies and capabilities, using recurring revenue models and up front lump sum payments for services and equipment. BioteQ will pursue three main business models.

Design-Supply-Operate. BioteQ provides plant design, construction and operating services for a customer owned plant. Capital for the plant is provided by the customer. BioteQ revenues are generated through the plant sale and a recurring operations fee.

Design-Supply-Transfer. BioteQ provides plant design and construction for a plant owned and operated by the customer. Capital for the plant is provided by the customer. BioteQ generates revenues through the plant sale and a recurring technology licensing fee.

Joint Venture. BioteQ forms a joint venture with a partner. The partner provides the capital for the plant and BioteQ provides the technology and engineering services. The plant is operated under the joint venture with both parties sharing in the risks and profits.

2. Commercial Focus and Proactive Sales Approach
While BioteQ's water treatment solutions can create significant value for customers, a more focused and proactive commercial approach is required for BioteQ to scale its business.

Going forward the company will have an enhanced emphasis on Sales and Business Development activities. Key initiatives include:

Expanded Sales team. We recently hired our first Vice President, Sales and Marketing and soon after, a Sales Manager for Latin America. We are creating a dedicated team of Sales professionals (including sales engineering and market research resources) and are creating appropriate systems and support structures to enable the team to be successful.

Channel relationships. The development and furthering of effective and commercially productive channel relationships with select alliance partners such as Newalta will be a key area of focus.

Separation of Business Development from Sales.
Business Development will be centred on the testing and early deployment of pre-commercial technology systems (which at present are mainly Sulf-IX™ related) into novel applications and into new verticals such as treatment of power generation and frac water. The recent reorganization of senior management within the company has created greater bandwidth and priority for the company's Business Development activities.

3. Market Delineation and Focus
Near term Sales efforts will be centred on driving commercial progress, principally in the mining space. Technologies of primary focus will be BioSulphide®and ChemSulphide® systems and SART processes.

Significant efforts will also be expended on Business Development activities relating to exploration and assessment of the use of Sulf-IX™ technology in large, attractive new verticals such as power generation and natural gas fracing in addition to the use of Sulf-IX™ to address challenges faced by the mining industry.

4. Excellence in Project and Operations Execution
BioteQ is organized such that our engineering, project execution and operations personnel will provide:

- on time, on budget delivery of all projects;
- stellar customer service; and
- on-going process improvement and continuous gains in efficiency and productivity.

5. An Internal Culture of "Excellence"
Perhaps one of the most unique assets of working at a smaller firm like BioteQ is an environment where all team members can feel that they can make a measurable difference to corporate performance. We want to ensure that we take full advantage of this asset.

BioteQ is an organization where excellence is expected in everything we do. Our expectations of ourselves as employees, of our suppliers, and of our partners is high. The organization will reward strong performance and will strongly encourage innovation and initiative on the part of its employees. A culture of striving for excellence that impacts everything we do as an organization will be a significant contributor to our successes in the future.

Outlook

I am very optimistic regarding BioteQ's prospects over the coming few years. The opportunities in front of us are large. While the full impact of some of the organizational and commercial changes that have recently been made will take time, given the lengthy sales cycles that exist in our chosen markets, I am confident that the company will turn the corner and will begin to demonstrate concrete commercial progress in 2012 and beyond to shareholders and partners.

Thank you for your continued interest and support,

Jonathan Wilkinson
Chief Executive Officer

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 International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") 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 2011 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 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's 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.

Jonathan Wilkinson
Chief Executive Officer

Paul Kim
Vice President & Chief Financial Officer

Management's Discussion and Analysis

(All figures expressed in Canadian dollars unless otherwise noted) March 27, 2012

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 and the development and maintenance of appropriate information systems and internal controls to ensure that the financial information is complete and reliable. The Audit Committee of the Board of Directors, consisting of independent directors, has reviewed this document and all other publicly reported financial information, for integrity, usefulness, reliability and consistency.

This 2012 Management's Discussion and Analysis ("MD&A") should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2011, which are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

For a discussion of the Company's adoption of IFRS, refer to section "Adoption of Accounting Standards and Pronouncements under IFRS" of this MD&A.

All financial information is presented in Canadian dollars unless otherwise noted. 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.

Description of Business

BioteQ Environmental Technologies Inc. ("BioteQ" or "Company") is a water treatment company headquartered in Vancouver, British Columbia, Canada. BioteQ applies innovative technologies and operating expertise to solve challenging water treatment problems to reduce environmental liabilities while delivering lower life cycle costs for water treatment. The Company's commercially proven technologies treat industrial wastewater contaminated with dissolved heavy metals, sulphate and other contaminants, producing saleable by-products and clean water that can be discharged safely to the environment.

The Company is listed on the Toronto Stock Exchange (TSX) under the symbol BQE.

Technologies

BioteQ's technologies can be applied to treat industrial wastewater generated by mining, power generation, and oil & gas activities. The Company's patented sulphide process technologies, BioSulphide® and ChemSulphide®, selectively remove and recover metals from acid wastewater. BioteQ has been able to leverage its expertise in sulphide precipitation technologies to the SART process (sulphidization-acidification-recycle-thickening) for gold mining applications. SART can remove the metallurgical interference of leachable copper and zinc, and regenerate cyanide so that it can be recycled to the gold operation. The Company's patent-pending Sulf-IX™ process technologies reduce sulphate and total dissolved solids in wastewater, as well as provide the technology platform for selective metal recovery or contaminant removal using ion exchange technologies.

BioteQ's "clean" technologies extract valuable products from waste, reduce environmental liabilities, and produce clean water that complies with strict water quality regulations for re-use or safe discharge to the environment.

BioteQ's technologies can be applied to treat wastewater streams in several industries, including:

- **Mining & metallurgical applications**: treatment of groundwater and surface water drainage, acid mine drainage, metallurgical bleed streams, lime plant effluents, tailings water, and sulphidization-acidification-recycle-thickening (SART) for gold processing;
- **Power generation applications**: treatment of cooling tower water, flue-gas desulphurization (FGD) blowdown, and ash pond water;
- **Oil & gas applications**: treatment of produced water and shale gas fracing water.

BioteQ works with leading resource companies and over the past decade has designed and built 15 commercial scale water treatment plants at industrial sites in Canada, the US, Mexico, Australia, China and Europe. The plants are operated to ISO 14001 standards for environmental compliance, and deliver consistent results and reliable water treatment operations at customer sites.

Commercial Models

BioteQ provides patented water treatment technology and operating expertise to treat industrial effluents. The Company has historically used a number of commercial models to deliver its treatment solutions to customers. These have included:

Build-Own-Operate – where BioteQ provides the capital and operating costs for the treatment plant and charges a fee for water treatment or collects proceeds from the sale of recovered metals. This model has included joint venture arrangements with customers.

Design-Supply-Operate – where the customer provides the capital for the plant and owns the plant, while BioteQ provides process design, technology, engineering, plant supply, and commissioning, and provides ongoing operating services to the customer at their site, on a fee basis.

Design-Supply-Transfer (Plant Sale) – where BioteQ provides a turn-key package of services that include process design, technology, engineering, plant supply, and commissioning, on a fee basis; upon completion of the plant, the customer owns the plant and is responsible for operations. BioteQ typically earns a recurring revenue stream associated with a technology licensing fee structure.

BioteQ is presently focused on growing its business through the use of Design-Build-Operate and Design-Build-Transfer models. The Company will however undertake engineering studies that are linked to progress towards sale of treatment solutions.

Revenue Sources

Potential revenue streams are from:

- sales of value-added by-products recovered from the wastewater
- water treatment fees
- process license fees
- process plant sales
- engineering fees
- sale of treated water

These revenues can be recurring (from long-term, ongoing operating or services contacts and/or technology licensing fees) and one-time (sale of technology solutions) in nature.

2011 Overview

BioteQ's water treatment operations continued to solve challenging water treatment problems for the resource sector. The Company was responsible for operating plants in Canada, the US, and China in 2011. These plants treated 9.5 billion litres of contaminated water, and removed over 2 million pounds of metal contaminants from the environment. The Company also generated revenue from several engineering and service related contracts in North America and Latin America. Significant events during the year include the following:

- BioteQ entered into a fee-based contract with Compania Minera Maricunga, a wholly-owned subsidiary of Kinross Gold, to provide process review and commissioning services for a treatment plant currently under construction at the Maricunga Mine located in Chile. BioteQ's services include engineering and operations review, preparation of operating manuals and procedures, training of local operators, and on site engineering supervision of the SART plant operation during commissioning. Services under the contract have been expanded from the original scope and are expected to be completed in 2012.

- During the year, BioteQ expanded its pipeline of projects entering into development agreements with:
  i. a European engineering firm for a potential SART project, and;
  ii. a subsidiary of Grupo México S.A.B. de C.V to review water treatment requirements at several of their sites.

  BioteQ commenced commissioning of a new 800 cubic metre per hour ion exchange plant for recovery of cobalt and nickel from low-grade solution at the Dexing site in China. Commissioning has been extended to address technical issues; the plant is expected to begin commercial production by the end of the first quarter of 2012.

- BioteQ secured a $1 million contract from an international mining customer to design and install a mobile water treatment plant for a mine site in Canada. The plant was delivered to the customer's site in the first quarter of 2012.

- During the year, BioteQ commenced legal action against NWM Mining Corporation (NWM) and filed a Notice of Civil Claim with the Supreme Court of British Columbia. BioteQ is seeking monetary damages for NWM's breach of a Termination, Consolidation and Reconciliation Agreement during the fourth quarter of 2010. The litigation remains in progress.

- During the year, BioteQ filed legal action against Birla Mt. Gordon (Birla), owner of the Mt. Gordon copper mine in Queensland, Australia for breach of contract related to water treatment operations at the Mt. Gordon site. BioteQ concurrently filed a statement of defense responding to claims for damages made by Birla in 2010. The litigation remains in progress.

- In April 2011, the Company announced the retirement of its former Chief Executive Officer, Mr. Brad Marchant. In September 2011, the Company appointed Mr. Jonathan Wilkinson as the new Chief Executive Officer. Mr. Wilkinson joined the Company on October 11, 2011 and was appointed to the Board of Directors on October 13, 2011.

Outlook

2011 was a year of transition at BioteQ. Jonathan Wilkinson was appointed to the role of CEO in mid-October.

During the year, management carried out a detailed analysis of the business – an analysis that sought to clearly define BioteQ's key strengths and weaknesses and to delineate the most significant opportunities and challenges facing the organization. Management worked to develop a strategy that is clearly focused on enabling BioteQ to make the kind of commercial progress that will meet shareholders' expectations regarding growth and profitability.

One key element of BioteQ's new strategy is the development of a more focused and proactive commercial approach. Going forward, it is management's intention that the company will have a decidedly enhanced focus on Sales and Business Development activities. This includes:

- The recent hiring of BioteQ's first Vice President of Sales and Marketing and its first Sales Manager for Latin America. BioteQ is creating a dedicated team of sales professionals (including sales engineering and market research resources) and is in the process of creating appropriate systems and support structures to enable the team to be successful. The Sales team will be focused on proactively selling and closing contracts for BioteQ's commercial technologies including BioSulphide® and ChemSulphide®, ion exchange for metal recovery, SART, and a limited range of Sulf-IX™ applications.

- The development and furthering of effective and commercially productive channel relationships with select alliance partners such as Newalta.

- The separation of Business Development activities from Sales. Business Development will focus on the testing and early deployment of pre-commercial systems (which, at present, are mainly Sulf-IX™ related) into novel applications and into new market verticals such as power generation and frac water treatment. A recent reorganization of senior management within the Company that included the appointment of Dr. David Kratochvil to the role of Chief Technology Officer has created greater bandwidth and focus for the Company's Business Development activities.

In late 2011 BioteQ management established a set of clear short and long term goals. In the near term, the goals of the organization centre very clearly on significantly growing the Company's revenue base and driving to positive cash flow within the next 18 to 24 months.

Key milestones established for BioteQ in 2012 are:

- To increase revenue to a minimum of $10 million (35% increase compared to 2011);
- Cash used in operations (including changes in working capital) reduced from $2.5 million in 2011 to less than $1.5 million in 2012;
- Initial sale to channel partner;
- First plant sale or long-term plant operating contract in Latin America;
- Initial pilot undertaken in a market vertical outside of hard rock mining.

Management is very optimistic about BioteQ's prospects over the coming years. The opportunities in front of the Company are large. While the full impact of some of the organizational and commercial changes that have recently been made will take time given the lengthy sales cycles that exist in our chosen markets, we are confident that the Company will turn the corner and will demonstrate concrete commercial progress in 2012 and beyond.

Non-GAAP Measures

BioteQ uses non-GAAP measure to supplement the Company's consolidated financial statements presented in accordance with generally accepted accounting principles, or GAAP, to enhance investors' and managements' overall understanding of the Company's current financial performance. Non-GAAP measures have limitations in that they do not reflect all of the amounts associated with BioteQ's results of operations as determined in accordance with GAAP. In addition, non-GAAP measures may be different from non-GAAP measures used by other companies. Non-GAAP measures should only be used to evaluate BioteQ's results of operations in conjunction with the corresponding GAAP measures.

Reconciliation of Non-GAAP Measures *(in Canadian $'000)*	**To December 31, 2011** **$**	**To December 31, 2010** **$**
GAAP: Net cash provided by (used in) operating activities	(2,549)	1,198
Adjustment: Change in non-cash working capital items	(993)	(249)
Non-GAAP: Operating cash flow (use), before changes in non-cash working capital	(3,542)	949

Comparative Information

(in Canadian $'000 except for per share amounts)	**2011**	**2010**	***2009**
	$	**$**	**$**
Revenues	7,414	8,744	6,395
less: Plant & other operating costs (*excluding depreciation*)	4,654	4,921	5,037
	2,760	3,823	1,358
General and administrative expenses	4,990	3,094	2,773
Marketing and development costs	955	843	829
	(3,185)	(114)	(2,244)
Depreciation and amortization	695	880	1,109
Stock-based compensation	102	471	890
Loss before other income (expenses)	(3,982)	(1,465)	(4,243)
Lease fee income – Lluvia de Oro	-	1,001	526
Other income (expenses) – net	(81)	1,147	(154)
Income tax	(472)	(225)	(126)
Write down/Impairment of assets	(555)	(11,387)	(697)
Net loss for the year	(5,090)	(10,929)	(4,694)
Cumulative translation adjustment	408	(1,483)	-
Comprehensive loss for the year	(4,682)	(12,412)	(4,694)
Net loss per share (basic and diluted)	0.07	0.16	0.08
Operating cash flow (use), before changes in non-cash working capital **	(3,542)	949	(2,695)

	2011	**2010**	**at Dec.31, *2009**
	$	**$**	**$**
Working capital	9,520	13,835	7,689
Total assets	19,287	22,169	34,386
Total long term liabilities	200	47	-
Shareholder's equity	16,006	20,530	33,091

* 2009 comparative figures are presented in Canadian GAAP and have not been restated to IFRS

** Non-GAAP measure. See section "Non-GAAP Measures" for details.

Overall Annual Performance

The following is a summary of selected financial results for the year:

- Total revenues for the period were $7.4 million compared to $8.7 million in 2010 – in line with guidance provided by the Company in October 2011. The decrease in revenue over the prior year was mainly due to the suspension of water treatment operations at the Minto site for the 2011 season and lower plant sale revenue in 2011.

- Operating income for the year was $2.8 million, compared to $3.8 million in 2010.

- The net loss for the year was $5.1 million, compared to net loss of $10.9 million in 2010. The comprehensive loss for the year was $4.7 million compared to a loss of $12.4 million in 2010. The prior year's net income included a foreign exchange gain of $968,000 and the prior year's Comprehensive Income includes a Cumulative Translation Adjustment charge of $1.5 million. These amounts are recognized under the Company's transition to International Financial Reporting Standards (IFRS).

- 2011 results include one-time CEO transition and recruitment costs of $750,000 included in General and Administration expenses.

- Non-GAAP operating cash use, before changes in non-cash working capital, was $3.5 million ($2.75 million excluding one-time CEO transition costs), which was in line with guidance provided by the company in October 2011. Cash use including working capital adjustments was $2.5 million.

Revenue

During 2011, revenues totaled $7.4 million which was in line with guidance issued by the company in mid-October. This was a 15% decline or $1.3 million lower than 2010. The change in total revenue from each revenue source is shown in the table below:

$000's	**2011**	**%Total**	**2010**	**%Total**	**Total Revenue %Change**
	$		**$**		
Metal recovery	4,099	55%	4,069	47%	1%
Treatment fees	1,802	24%	2,181	25%	(17%)
Engineering services and plant sales	1,513	20%	2,494	29%	(39%)
Total revenue	7,414	100%	8,744	100%	(15%)

During the year, revenues from metal recovery operations, which include the joint ventures at Bisbee and Dexing, increased $410,000 over the prior year. In 2010, metal recovery revenue included $324,000 from the final sale of copper concentrate at its Mt. Gordon operations which has been inactive since late 2009. The increase in revenue was due to higher copper prices over the year. In 2011, the Dexing site recovered a total of 1.7 million pounds of copper compared to 1.9 million pounds in 2010. The Bisbee site, which had been suspended between January and July of 2011, recovered 330,000 pounds of copper in 2011 compared to 276,000 pounds in 2010.

Revenues from treatment fees decreased 17% from 2010. BioteQ generates treatment fees from operations at the Raglan and Minto sites. In 2011, BioteQ treated 1.15 million cubic meters of water at the Raglan mine site, comparable with 2010. BioteQ also operated the Spoon lime treatment plant at the site. BioteQ did not operate at the Minto site in 2011 at the request of the site owner. BioteQ expects to resume an expanded scope of operations at the site in 2012.

Revenues from engineering services and plant sales decreased 39% from 2010. Revenues for these services include design, construction, commissioning and pilot operations. Revenues from these services are generally "one-time" in nature but projects may lead to additional project work or ongoing operations. In 2010, BioteQ recognized revenue from the sale of the Minto plant. BioteQ did not earn any fees related to plant sales in 2011. 2011 revenues did include fees for the preliminary design of a zinc recovery plant, consulting services for engineering and commissioning of a SART plant and a feasibility level study for 1,800 cubic metre per hour water treatment system.

Plant and engineering costs

Total plant and engineering costs were $4.7 million in 2011, $200,000 lower than $4.9 million in 2010. Overall operating margins decreased from $3.8 million to $2.8 million in the current year. Operating costs at the Dexing and Bisbee sites increased over 2010 due to increased volumes of water treated and higher copper recovery at those sites. Costs also include an allocation of BioteQ's internal technical and engineering resources that are directly attributable to revenue generating projects.

Expenses and other income

During 2011, general and administrative expenses increased from $3.1 million in 2010 to $5 million. General and administrative costs include one-time CEO transition and recruitment costs of $750,000. Other significant items contributing to the increase include legal costs associated with the Birla and NWM litigations, engineering and administrative staff recruitment costs, and consulting fees associated with IFRS transition. Many of these costs are expected to moderate or not recur into 2012.

Marketing and development costs in 2011 were $955,000 compared to $842,000 in 2010. BioteQ is continuing to invest in the development of new technologies and modifications to existing technologies for application into new markets. During the year, BioteQ added key senior level technical and engineering resources that will enable the company to execute and deliver on its growth strategy in coming years.

Total amortization expense was $695,000 in 2011 compared to $880,000 in 2010. Amortization expense will fluctuate based on the number of plants owned by BioteQ and ongoing assessment of the carrying values of those assets.

Stock based compensation charges were $102,000 in 2011 compared to $471,000 in 2010. These non-cash charges will fluctuate based on the number of securities issued and assumptions on the valuation and expected life of those securities.

BioteQ recognized a foreign exchange loss of $205,000 in 2011 compared to a gain of $968,000 in 2010. These losses arise mainly from changes in the value of the US dollar, Australian dollar, and Chinese RMB relative to the Canadian dollar.

During the year, BioteQ recognized interest income of $122,000 from its marketable securities holdings. BioteQ's excess cash balances are typically invested in liquid, secured but low yielding financial instruments to provide maximum flexibility to fund operating requirements as needed. Income earned will vary depending on prevailing market interest rates and the Company's excess cash balance.

The Company recorded a write down of capital assets of $555,000 related to equipment that was redundant and provided no future economic value to the company. The assets include site equipment that is no longer deemed to be functional and will be disposed of.

Income tax expense was $472,000 in 2011 compared to $225,000 in 2010. The income tax charge, consisting of $383,000 in current period expense and $89,000 in deferred income tax liabilities, is a result of taxable profits in China. These taxes cannot offset accumulated tax benefits in other jurisdictions.

Overall performance

Overall net loss for the year was $5.1 million, or $0.07 per share, compared to a loss of $10.9 million in 2010, or $0.16 per share. Results for 2010 were heavily impacted by impairment charges related to the Mt. Gordon and Lluvia de Oro projects.

The Comprehensive loss for the period was $4.7 million compared to a loss of $12.4 million in 2010.

Cash used in operating activities, before changes in working capital, was $3.5 million ($2.75 million excluding one-time CEO transition costs) compared to cash generated by operations of $949,000 in 2010. This was in line with guidance provided by the company in October 2011. Cash used in operating activities, including changes in working capital, was $2.5M in 2011.

Working capital at the end of 2011 was $9.5 million which included $9.3 million in cash and short-term investments.

BioteQ ended the year with total assets of $19.3 million compared to $22.1 million in 2010.

Comparison of Quarters

Financial data for the last eight quarters

(in Canadian $'000 except per share amount)

Quarters ended	Dec-11	Sep-11	Jun-11	Mar-11	Dec-10	Sep-10	Jun-10	Mar-10
	$	$	$	$	$	$	$	$
Total revenues	1,736	2,948	1,406	1,324	1,508	2,749	1,949	2,538
Plant & other operating costs	1,360	1,351	837	1,106	1,081	967	954	1,919
	376	1,598	569	218	427	1,782	995	619
General & administrative	1,219	1,784	1,051	936	745	908	722	720
Marketing & development costs	309	305	218	123	106	168	263	306
Depreciation and amortization	218	160	160	157	221	227	217	215
Stock based compensation	21	10	28	43	79	112	151	130
	(1,391)	(661)	(888)	(1,041)	(724)	367	(358)	(751)
Lease fee income	-	-	-	-	259	256	247	239
Other income (expenses)	(11)	(122)	229	(177)	126	1,430	(360)	(49)
	(1,402)	(783)	(659)	(1,218)	(339)	2,053	(471)	(561)
Impairment charges	555	-	-	-	11,387	-	-	-
Income taxes	(39)	337	78	97	(18)	59	96	87
Net income (loss)	(1,918)	(1,121)	(737)	(1,315)	(11,708)	1,994	(567)	(648)
Cumulative translation adjustment	(32)	561	(178)	57	(904)	(930)	415	(65)
Comprehensive income (loss)	(1,950)	(560)	(915)	(1,258)	(12,612)	1,064	(152)	(713)
Net income (loss) per share	(0.02)	(0.02)	(0.01)	(0.02)	(0.17)	0.01	(0.01)	(0.01)

Quarterly results can fluctuate based on the number of plants operating in the quarter, variation in the volume and grade of water treated, and variation in commodity prices. Seasonality at each operation also impacts timing of revenue. Operations at Raglan typically run from May to November of each year. Operations at Minto are expected to run from April to October 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. Revenue from engineering, design and construction services occur based on timing of customer requirements.

Summary of Q4 2011 results

Below is a summary of revenue for Q4 2011 and 2010:

Project Type	Q4 2011 $	% Total	Q4 2010 $	%Total	Total Revenue %Change
Metal recovery	654	38%	455	30%	44%
Treatment fees	654	38%	381	25%	72%
Engineering services and plant sales (fee-based)	428	25%	672	45%	(36%)
Total revenues	1,736	100%	1,508	100%	15%

Revenues for Q4 2012 increased 15% over the prior year's quarter. Metal recovery revenue increased from higher copper recovery at the Dexing and Bisbee plants combined with higher market prices for copper during the period. Treatment fee revenue increased 72% over the prior year as the Raglan site treated more water in the fourth quarter relative to the prior operating season. Engineering services and plant sale fees decreased year over year due to fewer contracts completed in the quarter.

Total operating costs increased 26% over the prior year reflecting increased activity at the Dexing and Bisbee sites.

Combined General & administrative costs and Marketing & development costs increased $678,000 over the prior year's quarter. The increase was due recruiting and staff expenses, consulting and legal fees, and CEO transition costs.

Overall net loss for the quarter was $1.9 million compared to a loss of $11.7 million in 2010. Results for 2010 were heavily impacted by impairment charges related to the Mt. Gordon and Lluvia de Oro projects.

Project Summary

The following chart summarizes the major projects BioteQ has in progress.

Customer	Project	Business Model	Revenue Source	Capital Cost (BQE Share)	Annual Design Capacity (m^3 treated)	Current Status
Current Operating Projects						
Freeport- McMoRan	Bisbee, AZ	50% JV	Copper	$3,200,000	2,900,000	Resumed full operations in Q3 2011.
Jiangxi Copper	Dexing, China	50% JV	Copper	$1,886,000	5,800,000	Operating since April 2008.
Jiangxi Copper	Dexing Ni-Co	50% JV	Nickel, cobalt	$2,100,000	4,600,000	Commissioning expected to be completed by Q1 2012.
Xstrata	Raglan, PQ	Build, Own, Operate for Fees	Fees per m^3 of water	$2,000,000	750,000	Seasonal operations typically from May to December. Current operating contract expires in April 2014.
	Spoon - Raglan, PQ	Operate	Fixed labour fees	Owned by customer	200,000	Seasonal operations typically from June to September. Current operating contract expires after 2013 season.
Minto Explorations	Minto, Yukon	Design, Supply and Operate	Operating fees (labour + fees per m^3)	Owned by customer	400,000	Seasonal operations typically from April to October. Current operating contract expires after 2012 season.
Current Design, Engineering and Commissioning Projects						
Mining customer	Mobile Ion-exchange plant	Design, Supply and Operate	Process plant sale	Owned by customer	3,000-5,000 m^3/day	Plant delivered in Q1 2012.
Kinross	Maricunga	Engineering services + Operations Support	Engineering and commissioning fees	Owned by customer	n/a	Design and review services in progress; contract services will continue into 2012.
EcoMetales	Arsenic removal plant	Engineering services	Engineering and design fees	TBD – owned by customer	n/a	Engineering design in progress. Final proposal to customer expected in Q2 2012.
Newalta	Mobile Sulf-IX™ plant	Joint ownership	Fees	TBD	n/a	Engineering design complete. Project execution scheduled for Q2 2012.
Mining customer	Multi-stage water treatment plants	Engineering services	Engineering and design fees	TBD – owned by customer	1,800 m^3/hour	Third stage of design and engineering work suspended by customer. Expected to resume in 2013.

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$3.8 million. 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 2011	Q4 2010	Year-to-date 2011	Year-to-date 2010
Water treated (thousand cubic metres)	311	189	610	561
Mechanical availability (%)*	99%	51%	55%	59%
Copper produced (pounds)	167,000	94,000	330,000	276,000
Copper recovery %	>99%	>99%	97%	>99%

*Operations were furloughed between April 2009 and May 2010. Mechanical availability has been adjusted for this period.

The site resumed full operations in May 2010 after being furloughed the previous year. In October 2010, the site operations were temporarily suspended due to technical problems with the plant's reagent supply process. The technical issued were resolved during the first half of 2011 and the plant resumed operations in July. Over the balance of the year, the operation recovered 330,000 pounds of copper. On an annualized basis under expected operating performance, the plant is anticipated to recover at least 650,000 pounds of copper.

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

BioteQ commissioned a copper recovery plant on 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 2011	Q4 2010	Year-to-date 2011	Year-to-date 2010
Water treated (thousand cubic metres)	1,642	804	7,661	5,783
Mechanical availability (%)	90%	98%	97%	96%
Copper produced (pounds)	230,000	99,000	1,733,000	1,923,000
Copper recovery %	95%	94%	96%	94%

In early 2011, the mine site owner made changes to the feed water supply system that increased the volume of water available to the plant but lowered the concentration of copper available for recovery. The change in the feed water supply system will benefit the operation in the longer term providing a more stable and predictable supply of water. Over the year, the concentration of copper in the water continued to improve as expected. Regional precipitation in the area was also favorable in the latter half of the year contributing to the significant increase in the quantity of water treated and the pounds of copper recovered. In 2011, the plant treated 32% more water than 2010 and recovered a total of 1.7 million pounds of copper; a 10% decrease from 2010 but in line with expected operating performance. In 2012, the plant is expected to recover 1.8 million pounds of copper for the year pending availability of water and concentrations of copper.

In 2010, the joint venture began construction of an additional water treatment plant at the Dexing mine site to recover cobalt and nickel from acid wastewater using an innovative ion exchange technology developed by BioteQ. BioteQ's share of the capital cost is anticipated to be about $2.1 million. Construction of the plant was completed in mid 2011 and commissioning continues to be in progress. From mid-2011 to the end of the year, BioteQ and JCC have continued to perform testing and commissioning services. The plant has demonstrated the ability to produce commercial grade metal concentrates. In Q1 2012 BioteQ expects that the plant will move into commercial production. The output of the plant will ramp-up through the year. Once the plant has reached full operating performance, it is expected to recover approximately 50,000 pounds of nickel and 50,000 pounds of cobalt per year.

In early 2012, the new ion exchange plant received a 3.5 million RMB grant (approximately $550,000 CDN) from the Jiangxi Provincial Development and Reform Commission. The grant, awarded in the Green Technology/Environmental category, recognizes high-tech innovations that deliver significant impact for the region in the form of environmental, economic and social benefits.

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 metre of water treated. BioteQ's operating contract at the site expires at the conclusion of the 2013 operating season.

Plant operating results	Q4 2011	Q4 2010	Year-to-date 2011	Year-to-date 2010
Water treated (thousand cubic metres)	484	371	1,159	1,066
Days operated (equivalent hours)	92	71	202	200
Nickel recovery %	98%	98%	98%	98%

BioteQ successfully completed the 2011 operating season in late December 2011. The operation treated just under 1.2 million cubic metres of water, a 9% increase over the prior year. The plant continued to perform to high operating standards in terms of mechanical availability and nickel recovery. The 2012 operating season is expected to commence in May and could include an expanded scope of services to provide additional water treatment capacity at the site.

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's contract to provide these services expires at the end of April 2014.

The Minto Project, Yukon – Design-Supply-Operate for Minto Explorations Ltd.

In Q4 2009, BioteQ and Minto Explorations Ltd. (Minto) entered into an agreement to design and construct a new, long term water treatment plant at the Minto mine site. In November 2009, BioteQ entered into a three year, fee-based operating contract to manage the plant commencing in the spring of 2010. Minto has been responsible for all capital costs for the plant, and provides all plant operating costs, including process reagents and consumables. Construction of the plant was completed in Q1 2010 and commissioning was completed in Q2 2010.

Plant operating results	Q4 2011	Q4 2010	Year-to-date 2011	Year-to-date 2010
Water treated (thousand cubic metres)	-	137	-	530
Days operated (equivalent hours)	-	33	-	112
Copper removal (%)	-	88%	-	82%

The plant remained on stand-by for the 2011 operating season at the request of the site owner, due to changes in treatment requirements at the site. BioteQ's operating contract includes a minimum fee guarantee for stand-by services.

BioteQ has deployed its operating team for the 2012 operating season and is working with Minto to provide an expanded scope of services to meet their new water discharge requirements. Seasonal operations are expected to begin in March and conclude in October.

Engineering and Pilot Projects

During the year, the Company was engaged in several contracts for engineering and design projects.

- In Q2, BioteQ entered into a fee-based contract with Compania Minera Maricunga, a wholly-owned subsidiary of Kinross Gold, to provide process review and commissioning services for a treatment plant currently under construction at the Maricunga Mine located in Chile. BioteQ's services include engineering and operations review, preparation of operating manuals and procedures, training of local operators, and on site engineering supervision of the SART plant operation during commissioning. The contract has been expanded to provide additional commissioning and start-up support. Services under the contract are expected to be completed in 2012.

- BioteQ and EcoMetales have initiated a project together, for removal of arsenic from smelter waste dust. The project is currently in the design stage. Project execution is subject to customer approvals at key milestones.

- In Q4, BioteQ began detailed design and engineering services for a planned 1,800 cubic metre per hour water treatment system. The project was subsequently delayed by the customer, due to unexpected permitting matters. Work on the CDN$1.4 million contract continued through the end of December and all services were invoiced to that date. The parties placed the remaining work on hold, pending resolution of the permitting issues. BioteQ expects the work to restart within 12 to 18 months.

- BioteQ continues to provide ongoing technical and engineering services for a large scale Sulf-IX™ plant at a Freeport-McMoRan mine site. The customer completed construction of the plant in 2010 using BioteQ's technology and design. The commissioning of the plant is an important milestone to demonstrate BioteQ's Sulf-IX™ technology at this scale.

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

In 2008, BioteQ completed construction of a water treatment plant at the Mt. Gordon Mine site, an active copper mine in Queensland, Australia. The mine is owned by Aditya Birla Minerals (Birla), a large metals conglomerate based in India. BioteQ provided for all capital costs and expected to earn revenue from metals recovered.

In Jan 2009, the Mt. Gordon mine site experienced heavy flooding during a severe rain storm. A portion of BioteQ's plant was damaged and BioteQ suspended its operating agreement under the force majeure provisions of the contract. BioteQ has been unable to come to terms on a new or modified operating agreement with Birla to permanently restart operations.

In 2010, Birla commenced legal action against BioteQ alleging that BioteQ has breached and repudiated the agreement. Birla is seeking unspecified financial damages, interest and costs. BioteQ does not believe the allegations have any merit and is vigorously defending its position. In February 2011, BioteQ filed legal action against Birla for breach of contract related to water treatment operations at the Mt. Gordon site. BioteQ concurrently filed a statement of defense responding to claims for damages made by Birla in 2010. The litigation remains in progress.

The Lluvia de Oro Project, Mexico – Lease-to-own for NWM Mining

BioteQ completed construction and commissioning of a SART (sulphidization-acidification-recycle-thickening) plant in 2008 at the Lluvia de Oro gold mine site in Mexico, applying this new enabling technology to reduce the metallurgical interference of copper in the gold recovery process, and increase gold yields. The plant operated successfully during 2008, reducing copper in the gold leach solution to below 50 mg/L in the discharge from the plant, and recovering dissolved copper as a high-grade copper sulphide concentrate. Over 20,000 pounds of dry copper concentrate was recovered containing 65 percent copper.

In June 2009, BioteQ entered into a Termination, Consolidation, and Reconciliation agreement (TCRA) with NWM Mining Corp. (NWM) to restructure the terms of an existing loan owed to BioteQ by NWM and to sell BioteQ's SART plant on a lease to own basis. Repayments on the loan commenced in January 2010 and lease payments were scheduled to begin in October 2010. At the time of the TCRA, the value of the loan was approximately $4.4 million and the total lease obligation was $9.6 million. BioteQ would retain a security interest in NWM's mine assets against the loan. BioteQ would retain ownership of the plant until all lease payments were made.

In September 2010, NWM repaid the full balance of the loan and BioteQ released its security interest. NWM has failed to make any lease payments and is in default of the TCRA. NWM has alleged that there are deficiencies with the SART plant and that it is inoperable. BioteQ strongly disagrees with this assertion. BioteQ had successfully commissioned and operated the plant in 2008 prior to turning over operating responsibility for the plant on an "as is" basis to NWM. BioteQ does not believe that NWM has the legal authority to withhold payments under the TCRA.

In March 2011, BioteQ initiated legal action against NWM seeking damages for the total value of NWM's lease obligation. NWM has purported to terminate the TCRA on the grounds that BioteQ failed to remedy the SART Plant deficiencies. BioteQ believes that its legal position is valid and that NWM's claims are without merit. BioteQ is continuing to pursue its claim through the legal process and expects resolution on the matter by the end of 2012. At this time, BioteQ cannot reasonably predict the outcome of any litigation.

Liquidity and Capital Resources

At December 31, 2011, BioteQ had 69,966,672 (69,949,120 on a weighted average, fully diluted basis) common shares issued and outstanding, compared to 69,865,006 (67,782,512 on a weighted average, fully diluted basis) at December 31, 2010. During year, BioteQ received total proceeds of $56,883 from the exercise of options.

At the current date of March 27, 2012, the number of issued shares is 69,966,672, a total of 4,802,000 options and 3,636,364 warrants are outstanding. Subsequent to December 31, 2011, the Company granted 250,000 stock options at an exercise price of $0.23 to an officer of the Company.

At December 31, 2011, the Company had cash and short-term investments, consisting of banker's acceptance notes, of $9,261,067, a decrease of $3,349,789 from December 31, 2010. This cash, along with financing activities of $121,145, has funded operating activities of $2,548,656 and net capital asset purchases of $972,288.

Working capital at the end of the year was $9,542,327, a decrease of $4,292,340 from December 31, 2010. BioteQ has estimated future commitments of $300,000 for the completion of the new water treatment plant at the Dexing mine site. The balance of available funds is largely uncommitted.

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.

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.

There has been no change in BioteQ's internal controls over financial reporting during the year ended December 31, 2011 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Adoption of Accounting Standards and Pronouncements under 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 comparative period of 2010. Starting with the March 31, 2011 quarterly report, the Company has provided unaudited consolidated quarterly financial information in accordance with IFRS including comparative figures for 2010. Please refer to note 25 of the 2011 Annual Consolidated Financial Statements for a summary of the differences between financial statements previously prepared under Canadian GAAP to those under IFRS.

IFRS Accounting Policy Impacts

On adoption of IFRS, there are a number of areas with differences in accounting policies between Canadian GAAP and IFRS. The following explains these key areas and the changes in accounting policies.

Impairment of assets

IAS 36, *Impairment of Assets*, uses a one-step approach 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). Canadian GAAP generally uses a two-step approach to impairment testing, first comparing asset carrying value with undiscounted future cash flows to determine whether impairment exists, and then measuring any impairment by comparing asset carrying values with fair values. This difference may potentially result in write-downs where carrying values of assets were previously supported under Canadian GAAP on an undiscounted future cash flow basis, but could not be supported on a discounted future cash flow basis.

Additionally, under Canadian GAAP, assets are grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities for impairment testing purposes. IFRS requires that assets be tested for impairment at the level of cash generating units, which is the lowest level of assets that generate largely independent cash inflows. This lower-level grouping could result in identification of impairment more frequently under IFRS but for potentially smaller amounts.

The extent of any new write-downs may be partially offset by the requirement under IAS 36 to reverse any previous impairment losses where circumstances have changed such that the impairments have been reduced. Canadian GAAP prohibits reversal of impairment losses.

BioteQ's impairment testing for the January 1, 2010 opening balance sheet under IFRS resulted in an impairment charge for the property, plant and equipment at the Mt. Gordon Mine site.

Property, plant and equipment

IAS 16, *Property, Plant and Equipment*, requires an entity to identify the significant component parts of its items of property, plant and equipment and depreciate those parts over their respective useful lives. Canadian GAAP only requires componentization to the extent practicable.

BioteQ has identified significant component parts within its property, plant and equipment that were not depreciated separately under Canadian GAAP. The identification of these component parts resulted in a higher depreciation than that determined under Canadian GAAP. This adjustment has been recorded in opening retained earnings upon transition to IFRS.

Foreign exchange translation

IAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires an entity to assess its foreign operation using a functional currency and presentation currency approach. There is no distinction between self-sustaining and integrated foreign operation as there is under Canadian GAAP. Where the functional currency of an entity is different from the presentation currency, an approach similar to the current rate method under Canadian GAAP is applied. The key elements are:

- Assets and liabilities are translated at the balance sheet date exchange rate.
- Income and expenses are translated at the exchange rate at the date of the transaction although the average rate may be applied as a proxy in many circumstances.
- All resulting currency exchange differences are recognized in the Foreign Currency Translation Reserve (FCTR) within other comprehensive income.

The most significant differences to BioteQ are in relation to the Australian, Chilean, China and US operations which are treated as integrated foreign operations under Canadian GAAP. The assessment of functional currency for these operations resulted in a change in the method of foreign currency translation under IFRS. There will be no change in the method used for the foreign currency translation of the Mexico operations based upon the assessment of the functional currency for the operation.

Joint ventures

In May 2011, IFRS 11 was issued and requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 superceded IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. The new policy will be effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

BioteQ is currently using the proportionate consolidation method to account for its interests in joint ventures. IFRS 11 will impact the current accounting treatment of proportionate consolidation of the Bisbee project and the Dexing project. BioteQ will assess the impact of this new standard on these projects.

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.

Economic and Project Site Dependence

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

Uncertain Profitability of Commercial Application

The Company believes there are many sites which can benefit from the Company's processes. The Company has built 15 plants to date deploying proprietary technologies developed by BioteQ and applying them to meet site specific conditions. However, the Company has been unable to consistently generate sufficient cashflows from these projects to cover development and administrative costs. The Company may not be able to monetize its technologies to generate sufficient positive cashflows on a consistent basis.

Competition

The Company is aware of and does address existing competitors for metal removal opportunities. There is a possibility that other companies will enter these markets and compete with the Company. Such competitors could possess greater financial resources and technical facilities. Increased competition could result in significant price competition, reduced profit margins or loss of market share. The Company 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.

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

Conflicts of Interest

Certain 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.

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, 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.

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

Independent Auditor's Report

To the Shareholders of BioteQ Environmental Technologies Inc.

We have audited the accompanying consolidated financial statements of BioteQ Environmental Technologies Inc., which comprise the consolidated statement of financial position as at December 31, 2011 and December 31, 2010 and January 1, 2010 and the consolidated statements of operations and comprehensive loss, statement of changes in equity and the statement of cash flow for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP, Chartered Accountants
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Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of BioteQ Environmental Technologies Inc. as at December 31, 2011 and December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

(Signed) PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, British Columbia
March 27, 2012

BioteQ Environmental Technologies Inc.
Consolidated Statement of Financial Position
As at December 31, 2011 and 2010

	Dec 31 2011 $	Dec 31 2010 $	Jan 1 2010 $
ASSETS		(note 26)	
Current assets			
Cash	4,774,970	4,653,465	2,491,302
Short-term investments	4,486,097	7,957,391	2,849,244
Trade receivables	1,664,326	1,676,963	2,169,978
Receivable from joint venture partners	182,286	180,204	47,288
Current portion of loan receivable (note 7)	-	-	468,424
Net insurance proceeds receivable (note 9)	637,099	618,248	-
Taxes recoverable	153,889	15,469	76,597
Inventory (note 10)	48,174	54,723	673,617
Work in progress	432,261	29,378	-
Prepaid expenses	222,709	241,089	223,009
	12,601,811	15,426,930	8,999,459
Non-current assets			
Loan receivable	-	-	10,339,235
Property, plant and equipment (note 11)	6,615,837	6,641,668	10,273,858
Intangible asset	69,682	100,654	131,626
Total assets	19,287,330	22,169,252	29,744,178
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	2,659,249	1,544,901	1,295,759
Deferred revenue	340,185	-	-
Taxes payable	63,105	-	-
Deferred lease inducement	18,945	47,362	-
	3,081,484	1,592,263	1,295,759
Non-current liabilities			
Deferred income tax liability (note 16)	88,713	-	-
Long-term liabilities (note 12)	111,146	46,884	-
Total liabilities	3,281,343	1,639,147	1,295,759
SHAREHOLDER’S EQUITY			
Capital stock and warrants (note 13)	55,269,416	55,182,229	51,148,380
Contributed surplus	8,117,400	8,045,826	7,586,362
Accumulated other comprehensive loss	(1,075,369)	(1,482,945)	-
Deficit	(46,305,460)	(41,215,005)	(30,286,323)
Total shareholders' equity	16,005,987	20,530,105	28,448,419
Total liabilities and shareholders' equity	19,287,330	22,169,252	29,744,178

Commitments (*note 22*)

Approved by the Board of Directors

Signed “Jonathan Wilkinson”	*Signed “G. W. Poling”*
Jonathan Wilkinson, Director	G.W. Poling, Director

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

BioteQ Environmental Technologies Inc.
Consolidated Statements of Operations and Comprehensive Loss
For the years ended December 31, 2011 and 2010

	2011 $	2010 $
Revenue	7,413,797	8,744,237
Plant and other operating costs (other than depreciation)	4,654,065	4,920,893
	2,759,732	3,823,344
General and administration	4,991,527	3,094,422
Marketing and development	955,225	842,572
Stock-based compensation	101,878	471,079
Depreciation of property, plant and equipment (note 11)	664,038	848,828
Amortization of intangible asset	30,972	30,972
Loss before the under-noted	(3,983,908)	(1,464,529)
Interest income	122,418	79,133
Other income	2,376	99,713
Foreign exchange gain (loss)	(204,519)	967,650
Write-down of capital assets	(554,565)	-
Lease fee income	-	1,000,710
Impairment of Mt. Gordon operations	-	(3,103,981)
Impairment of Lluvia de Oro operations	-	(8,282,650)
Loss before income taxes	(4,618,198)	(10,703,954)
Income taxes (note 16)	472,257	224,728
Net loss for the year	(5,090,455)	(10,928,682)
Other comprehensive income (loss)		
Cumulative translation adjustment	407,576	(1,482,945)
Comprehensive loss for the year	(4,682,879)	(12,411,627)
Net loss per share		
Basic and diluted (note 17)	(0.07)	(0.16)
Weighted average number of shares outstanding		
Basic and diluted (note 17)	69,949,120	67,782,512

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

BioteQ Environmental Technologies Inc.

Consolidated Statement of Changes in Equity

For the years ended December 31, 2011 and 2010

	Number of shares	Capital stock	Warrants	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total
		$	$	$	$	$	$
Balance - January 1, 2010	66,190,308	51,148,380	-	7,586,362	-	(30,286,323)	28,448,419
Issuance of capital stock and warrants (note 13)	3,636,364	2,486,583	1,513,417	-	-	-	4,000,000
Stock-based compensation	-	-	-	471,079	-	-	471,079
Exercise of options	38,334	33,849	-	(11,615)	-	-	22,234
Net income for the period	-	-	-	-	-	(10,928,682)	(10,928,682)
Other comprehensive loss for the year	-	-	-	-	(1,482,945)	-	(1,482,945)
Balance - December 31, 2010	69,865,006	53,668,812	1,513,417	8,045,826	(1,482,945)	(41,215,005)	20,530,105
Balance - January 1, 2011	69,865,006	53,668,812	1,513,417	8,045,826	(1,482,945)	(41,215,005)	20,530,105
Stock-based compensation	-	-	-	101,878	-	-	101,878
Exercise of options	101,666	87,187	-	(30,304)	-	-	56,883
Net loss for the period	-	-	-	-	-	(5,090,455)	(5,090,455)
Other comprehensive income for the year	-	-	-	-	407,576	-	407,576
Balance - December 31, 2011	69,966,672	53,755,999	1,513,417	8,117,400	(1,075,369)	(46,305,460)	16,005,987

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

BioteQ Environmental Technologies Inc.
Consolidated Statement of Cash Flow
For the years ended December 31, 2011 and 2010

	2011 $	2010 $
Cash flow provided by (used in)		
Operating activities		
Net loss for the year	(5,090,455)	(10,928,682)
Items not affecting cash:		
Depreciation of property, plant and equipment	664,038	848,828
Amortization of intangible asset	30,972	30,972
Amortization of deferred lease inducement	(28,417)	(14,208)
Deferred income tax	88,713	-
Write down of capital assets	554,565	-
Loss on disposal of equipment	6,171	-
Impairment of Lluvia Oro operations	-	8,282,650
Impairment of Mt. Gordon operations	-	3,103,981
Unrealized foreign exchange (gain) loss	230,021	(774,631)
Interest income	(99,110)	(70,549)
Stock-based compensation charge (note 13)	101,878	471,079
	(3,541,624)	949,440
Change in non-cash working capital items (note 18)	992,968	248,557
Net cash provided by (used in) operating activities	(2,548,656)	1,197,997
Investing activities		
Purchase of property, plant and equipment	(984,892)	(1,038,681)
Proceeds on disposal of capital assets	12,604	-
Purchase of short-term investments	(14,053,596)	(22,952,189)
Proceeds from sale of short-term investments	17,624,000	17,914,591
Increase in loan receivable	-	(99,713)
Increase in interest in loan receivable	-	(106,029)
Increase in accrued lease fee income	-	(1,000,710)
Repayment of loan receivable	-	4,106,461
Net cash provided by (used in) investing activities	2,598,116	(3,176,270)
Financing activities		
Proceeds from exercise of options	56,883	22,234
Proceeds from issuance of capital stock and warrants	-	4,000,000
Increase in long-term liabilities	64,262	46,884
Net cash provided by financing activities	121,145	4,069,118
	170,605	2,090,845
Effect of exchange rate changes on cash and cash equivalents	(49,100)	71,318
Increase in cash and cash equivalents	121,505	2,162,163
Cash and cash equivalents		
Beginning of year	4,653,465	2,491,302
End of year	4,774,970	4,653,465

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

1. General Information

BioteQ Environmental Technologies Inc. and its subsidiaries (together “BioteQ” or the “Company”) create custom water treatment solutions to recover dissolved metals and remove sulphate from water impacted by mining, energy and industrial activities. The Company's clean technologies convert wastewater into a useful resource. Fifteen commercial scale plants have been built at sites in North America, Australia, China and Europe, with additional projects in development. The Company generates its revenues from three main sources: Metal recovery/concentrate sales, treatment fees, and engineering services and plant sales. Please refer to note 3 for details on the Company’s accounting policies for revenue recognition. BioteQ is incorporated and domiciled in Canada. The address of its registered office is 1100-355 Burrard Street, Vancouver, BC.

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 business conditions at certain sites (notes 7 and 8). For the year-ended December 31, 2011, the Company incurred a net loss of $5,090,455 (2010 - $10,928,682), had a net decrease in cash and short-term investments of $3,349,789 (2010 – net increase of $7,270,310) and generated (used) net cash in operating activities of $(2,548,656) (2010 – $1,197,997). The Company has not yet realized profitable operations and has relied on non-operational sources of financing to fund its operations. The Company’s success and recoverability of long-lived assets are dependent upon its ability to achieve and sustain profitable operations at existing sites, secure projects with new customers, and may require obtaining additional funding to accelerate future growth.

2. Basis of preparation and adoption of IFRS

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles (“GAAP”) as defined in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, these are the Company’s first annual consolidated financial statements prepared in accordance with IFRS as issued by the IASB. In these financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS.

These consolidated financial statements have been prepared in compliance with IFRS as issued by IASB. Subject to certain transition elections and exceptions as disclosed in note 25, the Company has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at January 1, 2010 throughout all periods presented, as if these policies had always been in effect. Note 25 discloses the impact of the transition to IFRS on the Company’s reported financial position and financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company’s consolidated financial statements for the year ended December 31, 2010 prepared under Canadian GAAP.

3. Significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value.

Consolidation

The financial statements of the Company consolidate the accounts of BioteQ Environmental Technologies Inc. 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 (note 5) are proportionately consolidated. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of operating segments and has been identified as the chief executive officer of BioteQ.

Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of each consolidated entity in the BioteQ Environmental Technologies Inc. group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is BioteQ's functional currency.

The financial statements of entities that have a functional currency different from that of BioteQ Environmental Technologies Inc. ("foreign operations") are translated into Canadian dollars as follows: assets and liabilities – at the closing rate at the date of the statement of financial position, and income and expenses – at the average rate for the period (as this is considered a reasonable approximation of actual rates prevailing at the transaction dates). All resulting changes are recognized in other comprehensive income as cumulative translation adjustments.

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

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the statement of operations.

Cash and cash equivalents

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

Short-term investments

Short-term investments consist of bankers' acceptances with maturities of greater than 90 days and less than one year. The investments are carried on the statement of financial position at amortized cost using the effective interest method plus accrued interest.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

At initial recognition, the Company classifies its financial instruments in the following categories:

i. Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term.

   Derivatives are also included in this category unless they are designated as hedges. The Company currently does not use any derivates in the course of its business.

   Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of operations. Gains and losses arising from changes in fair value are presented in the consolidated statement of operations within "other gains and losses (net)" in the period in which they arise. Non-derivative financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which are classified as long-term.

ii. Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any other categories. The Company currently does not have any available-for-sale investments.

   Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from re-measurement are recognized in other comprehensive income except for exchange gains and losses on the translation of debt securities, which are recognized in the consolidated statement of operations. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of operations and are included in "other gains and losses (net)". Available-for-sale investments are classified as non-current, unless an investment matures within twelve months, or management expects to dispose of it within twelve months.

   Interest on available-for-sale debt instruments, calculated using the effective interest method, is recognized in the statement of income as part of interest income. Dividends on available-for-sale equity instruments are recognized in the statement of operations as dividend income when the Company's right to receive payment is established.

iii. Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash, short-term investments, trade receivables, receivable from joint venture partners, net insurance proceeds receivable, and loan receivable, and are included in current and long-term assets. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment. The Company does not sell its receivables under any kind of arrangement with any third parties.

iv. Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade payables. Trade payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables at fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method. The trade payables are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss. The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Inventory

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

Chemicals and spare parts inventories are valued at the lower of cost and net replacement cost, which approximates net realizable value.

Work in progress

Contracts in progress represent the net costs that the Company incurred for projects that are not billable at the balance sheet date. This amount includes both direct materials and direct labour.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Costs include cost of materials, direct labor costs and an appropriate portion of normal overheads, net of any grants and contractual amounts received under feasibility studies. All costs are capitalized in the course of construction. Upon commissioning, these costs are amortized over the useful life of the asset.

The carrying amount of these items is not revalued as the Company has elected not to apply the allowed alternative method, which consists of regularly revaluing one or more categories of property, plant and equipment.

Where an item of property, plant and equipment comprises of major components with different useful lives, the components are accounted for as separate items from the main asset to which they relate and depreciated separately over their own useful life. Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized. The costs of day-to-day servicing are recognized in profit and loss as incurred.

The major categories of property, plant and equipment are depreciated on a straight-line basis as follows:

Office equipment	5 years
Vehicles	5 years
Pilot plants	5 years
Water treatment plants	10 – 20 years

The depreciation method, useful life and residual values are assessed annually.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the statement of operations.

Identifiable intangible asset

The Company's intangible asset comprises of intellectual property with a finite useful life and is capitalized and amortized on a straight-line basis in the statement of operations over the period of its expected useful life of eight years.

Impairment of non-financial assets

The Company's property, plant and equipment and intangible asset are reviewed for indications of impairment at each financial position date. Such indications may be based on events or changes in the market environment, or on internal sources of information. If any such indication is present, the recoverable amount of the asset is estimated in order to determine whether impairment exists. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

Stock-based compensation

The Company grants stock options to certain employees, officers and non-employee members of the Board of Directors. Stock options vest over eighteen months to thirty-six months (1/3 vesting in equal installments throughout the vesting period) and expire after five years. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

Long-term incentive plan

The Company grants Deferred Share Units ("DSU") to non-employee members of the Board of Directors. Each DSU entitles the holder to receive a cash payment equal to the five-day volume weighted average trading price of the shares preceding the date of redemption. The DSUs vest immediately and may only be redeemed within the period beginning on the date a holder ceases to be a participant under the plan and ending on December 31 of the following calendar year. Compensation expense is recognized at the grant date. The fair value of the grant is re-measured each balance sheet date and changes in fair value are recognized through the statement of operations.

Provisions

A provision is a liability of uncertain timing or amount. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

Decommissioning and restoration provisions

The Company estimates liabilities for statutory, contractual, constructive and legal obligations associated with the decommissioning and restoration of property, plant and equipment. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value of asset retirement obligations. The Company also evaluates, on a plant by plant basis, the probability of incurring rehabilitation costs in light of specific locations and partners involved.

Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the statement of operations except to the extent that income tax relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are presented as non-current.

Revenue

Revenue is recognized when the amount of revenue can be measured reliably, it is probable that the economic benefits will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably. In addition, for the sale of metal concentrates, revenue is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods and retains neither managerial involvement nor control over the goods. For the sale of services, a further recognition requirement is that the stage of completion of the transaction at the end of the reporting period can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable.

The Company has three revenue streams:

a) Metal recovery/concentrate sales

The above criteria are generally met when the title of the metal concentrate passes to the customer. 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 quotation period one to four months after the month of shipment. The timing difference between the provisional price and the final settlement price has characteristics of a derivative. Accordingly, the fair value of the receivables is adjusted each reporting period by reference to forward market prices and the changes in fair value are recorded as an adjustment to revenue.

b) Treatment fees

The above criteria are generally met as services are performed. The Company has agreements with different customers for the operation of water treatment plants. The agreements specify the amount and timing of fees, based on (i) a fixed labour component, (ii) a variable component per measure of water treated, or (iii) both fixed and variable components.

c) Engineering services and plant sales

The above criteria are generally met as services are performed. Engineering services include plant design, construction, commissioning and pilot operations. Revenue recognition criteria for the sale of materials and components used in the construction of water treatment plants are generally met 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 statement of operations as determined by the nature of the assistance.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

Earnings per share

Basic earnings per share (“EPS”) is calculated by dividing the net income (loss) for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. The Company's potentially dilutive common shares comprise warrants and stock options granted to employees and officers.

Accounting standards issued but not yet applied

The IASB has issued the following standards which have not yet been adopted by the Company. Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

The following is a description of the new standards:

IFRS 9 *Financial Instruments*

IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39 Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

IFRS 10 *Consolidation*

IFRS 10 was issued in May 2011 and requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC 12 *Consolidation – Special Purpose Entities* and parts of IAS 27 *Consolidation and Separate Financial Statements*.

IFRS 11 *Joint Arrangements*

In May 2011, IFRS 11 was issued and requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 superceded IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*.

IFRS 12 *Disclosure of Interests in Other Entities*
IFRS 12 was issued in May 2011 and establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 *Fair Value Measurement*
IFRS 13 was issued in May 2011 and is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

4. Critical Accounting Estimates and Judgments

The Company makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. The following are the estimates and judgments applied by management that most significantly affect the Company's consolidated financial statements. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Critical accounting estimates

a) Property, plant and equipment

Estimated impairment
At December 31, 2010 and January 1, 2010, the Company determined that the water treatment plant assets at the Mt. Gordon mine site in Queensland, Australia were impaired due to the uncertainty associated with estimated future cash flows. At December 31, 2010, an impairment charge of $3,103,981 (January 1, 2010 - $4,310,110) was recognized for the full carrying value of the Mt. Gordon water treatment plant and inventory. Refer to notes 7 and 8 for further information on the impairment of the Mt. Gordon site.

The Company regularly reviews the carrying values of its long-lived assets, including inactive operations. Recoverability is tested on a project by project basis by comparing current carrying values to fair values based on discounted future cash flows. Based on the current review of business conditions as well as estimated future cash flows, management believes that there are sufficient opportunities at each project to recover the current carrying value of long-lived assets, with the exception of the Mt. Gordon site, as described above. Changes in market conditions, reserve estimates and other assumptions used in these estimates may result in future write-downs or write-ups. Any write-ups are limited to previous write-downs less notional amortization.

Estimated useful lives
Management estimates the useful lives of property, plant and equipment based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for depreciation of property, plant and equipment for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's property, plant and equipment in the future.

b) Decommissioning and restoration provisions

The Company's estimates of obligations associated with the decommissioning and restoration of property, plant and equipment could change as a result of changes in regulatory requirements and assumptions regarding the amount and timing of future expenditures and recoveries. The Company's estimates are reviewed annually for changes in regulatory requirements, effects of inflation and changes in other estimates.

c) Financial instruments

Fair value

The fair values of cash and cash equivalents, short-term investments, trade receivables, receivable from joint venture partners, loan receivable, net insurance proceeds receivable, and accounts payable and accrued liabilities approximate their carrying values due to the short-term to maturities of these financial instruments.

The Company's activities expose it to various risks, including credit risk, liquidity risk and market risks such as foreign currency risk, commodity price risk and interest rate risk. The Company's risk management activities are designed to mitigate possible adverse effects on the Company's performance, having regard for the size and scope of the Company's operations, with a primary focus on preservation of capital.

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 the market prices at the statement of financial position 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.

Estimated impairment

At December 31, 2010, an impairment charge of $8,282,650 arose for the full carrying value of the loan receivable from NWM Mining Corporation with respect to the Lluvia de Oro agreement. Refer to note 7 for further information on the impairment of the loan receivable.

The Company regularly reviews the carrying value of its financial assets to assess whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss. Based on the current review of business conditions, management believes that there are no indicators of impairment of financial assets as at December 31, 2011. Changes in market conditions and other assumptions may result in future changes in carrying values.

Critical accounting judgments

a) Determination of functional currency

In accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*, the Company has determined that the functional currency for each of its subsidiaries and joint venture interests is the local currency, with the exception of BioteQ Water Mexico S.A. de C.V. where the functional currency is the Canadian dollar.

5. Interest in Joint Ventures

Bisbee joint venture

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 commenced operations in August 2004.

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

	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010
Consolidated statement of financial position	**$**	**$**	**$**
Current assets	33,199	47,093	6,776
Non-current assets	1,757,026	1,346,231	1,580,503
Current liabilities	1,214	-	-
Long-term liabilities	-	-	-

	2011	2010
Consolidated statement of operations	**$**	**$**
Revenue	515,883	460,155
Plant and other operating costs (other than depreciation)	(667,798)	(496,293)
Depreciation	(306,534)	(229,356)
Net loss	(458,449)	(265,494)

Dexing joint venture

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. The joint venture 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 potentially at five additional sites owned and operated by JCC. The plant commenced operations on April 1, 2008.

In 2010, the joint venture partners began construction of an additional water treatment plant at the Dexing mine site to recover cobalt and nickel from acid wastewater using an innovative ion exchange technology developed by BioteQ. BioteQ's share of the capital cost is expected to be approximately $2.1 million. Construction of the plant was completed in mid-2011 and commissioning continues to be in progress. From mid-2011 to the end of the year, BioteQ and JCC have continued to perform testing and commissioning services. The plant has demonstrated the ability to provide commercial grade metal concentrates. The Plant is expected to move into commercial production in late Q1 2012. The output of the plant will ramp-up through the year.

At December 31, 2011, BioteQ has recognized a total of $1,804,471 (2010 - $767,000) as construction in progress costs and has future commitments of $300,000 (2010 - $872,000) towards the final completion of the plant.

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

	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010
Consolidated statement of financial position	**$**	**$**	**$**
Current assets	2,832,280	2,760,247	2,084,905
Non-current assets	3,201,940	2,617,738	1,961,271
Current liabilities	912,927	680,230	544,409
Long-term liabilities	-	-	-

	2011	2010
Consolidated statement of operations	**$**	**$**
Revenue	3,583,328	3,228,112
Plant and other operating costs (other than depreciation)	(2,085,181)	(1,091,211)
Depreciation	(137,556)	(133,357)
General and administration	(449,286)	(471,081)
Interest income	48,396	32,852
Foreign exchange loss	-	(35,578)
Income taxes	(252,445)	(223,599)
Net income	707,256	1,306,138

During the year, the Company received $693,683 in dividends (net of withholding taxes) from the Dexing joint venture.

6. Agreements

The Company currently has a number of revenue generating agreements in place with various customers. These contracts relate to activities that include recurring water treatment operations, engineering services, design, construction, and commissioning projects. During the year, the Company entered into the following new significant contracts.

Kinross agreement

During the year, the Company entered into a fee-based contract with Compania Minera Maricunga, a wholly-owned subsidiary of Kinross Gold, to provide process review and commissioning services for a treatment plant currently under construction at the Maricunga Mine located near Copiapo, Chile. BioteQ's services include engineering and operations review, preparation of operating manuals and procedures, training of local operators, and on site engineering supervision of the plant operation during commissioning. Revenue on this contract is recognized on a percentage of completion basis. At December 31, 2011, the services were in progress.

Sale of Mobile Ion Exchange Plant

During the year, the Company entered into a contract with an international mining company to provide a mobile water treatment plant for a mine site in Canada. Under the terms of the contract, valued at approximately $1 million, BioteQ has designed and will install a mobile plant that applies BioteQ's process to remove and recover dissolved metal from mine impacted water at the mine site, meet all applicable environmental discharge limits, and eliminate the production of waste sludge. Work commenced in November 2011 and the plant was delivered in January 2012 and commissioning will take place in the spring of 2012. The Company did not recognize any revenue in relation to this project for the year-ended December 31, 2011 as the risk and reward of ownership were not transferred until delivery.

Water treatment plant design and engineering

During the year, the Company entered into a contract with an international mining company to provide detailed design and engineering services for a planned 1,800 cubic meter per hour water treatment system. This was the initial phase of what was to be a multi-phase project. The total value of the initial contract was $1.4 million. Subsequently, due to unexpected permitting matters, the customer delayed the project pending resolution of the matters. The Company invoiced the customer for work completed in 2011 and recorded the related revenue for the year-ended December 31, 2011. The Company expects the project to restart within 12 to 18 months.

7. Impairment of Loan receivable – Lluvia d'Oro operations

In 2009, BioteQ entered into an agreement with NWM Mining Corporation ("NWM") and a third party, Renvest Mercantile Bancorp, to sell BioteQ's copper recovery and cyanide regeneration plant in Sonora, Mexico, to NWM under a sales type lease arrangement.

At December 31, 2010, the Company determined that there were significant indicators of impairment related to the carrying value of the lease due to the uncertainty associated with estimated future cash flows. This determination was triggered by a failure of NWM to make the agreed upon lease payments and alleged deficiencies with the plant. The Company retains ownership of the plant and will continue to pursue alternative remedies to recover the value of the assets. In March 2011, the Company commenced legal action against NWM. It is unknown at this time if any amounts will be realized as a result of the legal action.

At December 31, 2010, an impairment charge of $8,282,650 was recognized, comprising of $7,907,650 for the full carrying value of the lease and $375,000 for estimated site removal costs.

8. Impairment of Mt. Gordon operations

At December 31, 2010, the Company determined that the water treatment plant assets at the Mt. Gordon mine site in Queensland, Australia, were impaired due to the uncertainty associated with estimated future cash flows. This determination was triggered by the inability to reach a new water treatment agreement with Birla Mt. Gordon Pty Ltd. ("Birla").

At December 31, 2010, an impairment charge of $3,103,981 (2009 - $4,310,110) was recognized for the full carrying value of the Mt. Gordon water treatment plant and inventory. Of the total impairment charge, $3,020,267 (2009 - $4,310,110) relates to property, plant and equipment and $83,714 (2009 - nil) relates to inventory at the site. The impairment charge was included in the line item, impairment of Mt. Gordon operations, within the statement of operations.

Birla has commenced legal action against the Company alleging that the Company has breached and repudiated the original agreement to operate the water treatment plant. Birla is seeking unspecified financial damages. The Company does not believe the allegations have merit and is vigorously defending its position. In March 2011, the Company filed a defense against Birla's claim and concurrently filed a counterclaim against Birla for breach of contract related to water treatment operations at the Mt. Gordon site. The litigation remains in progress.

9. Net insurance proceeds receivable

In January 2009 the Mt. Gordon mine site experienced heavy rainfall that flooded the site and led to suspension of all mining and water treatment activities (note 8). The Company suffered damages to equipment and inventory and reviewed the extent of the damages with its insurance provider.

In 2010, BioteQ determined that the Mt. Gordon mine site is unlikely to resume operations. As a result, under the terms of its insurance policy, the Company elected to receive payment for the indemnity value of the equipment and inventory. At December 31, 2011, the Company recorded insurance proceeds receivable of $637,099 (AU $614,131) (December 31, 2010 - $618,248, AU $608,213). The Company received the full amount of the insurance proceeds in February 2012.

10. Inventory

	Dec 31 2011	Dec 31 2010	Jan 1 2010
	$	$	$
Inventory of chemicals and spare parts	43,304	26,923	396,160
Inventory of metal concentrate	4,870	27,800	1,252,125
	48,174	54,723	1,648,285
Provision for metal concentrate and chemicals	-	-	(974,668)
	48,174	54,723	673,617

During the year ended December 31, 2010, the inventory of metal concentrate and chemicals for the Mt. Gordon operations in the amount of $83,714 was written off as it was determined not to be recoverable by the Company. See notes 8 and 9 for additional information on write-downs at the Mt. Gordon site.

11. Property, plant and equipment

	Water treatment plants	Construction in progress	Other (1)	Total
	$	$	$	$
Year ended December 31, 2010				
Opening net book value	9,076,332	1,006,632	190,894	10,273,858
Additions	200,215	772,665	127,371	1,100,251
Disposals	(562,394)	-	-	(562,394)
Depreciation	(760,238)	-	(88,590)	(848,828)
Foreign exchange translation	(441,958)	(5,938)	(149)	(448,045)
Impairment	(2,873,174)	-	-	(2,873,174)
Closing net book value	4,638,783	1,773,359	229,526	6,641,668
At December 31, 2010				
Cost	7,690,247	1,779,297	578,634	10,048,178
Accumulated depreciation, impairment and other	(3,051,464)	(5,938)	(349,108)	(3,406,510)
	4,638,783	1,773,359	229,526	6,641,668
Year ended December 31, 2011				
Opening net book value	4,638,783	1,773,359	229,526	6,641,668
Additions	(102,459)	944,482	142,869	984,892
Disposals	-	-	(18,775)	(18,775)
Transferred to capital assets	661,618	(661,618)	-	-
Depreciation	(565,665)	-	(98,373)	(664,038)
Write-down of capital assets	(151,147)	(345,014)	(58,404)	(554,565)
Foreign exchange translation	129,580	93,262	3,813	226,655
Closing net book value	4,610,710	1,804,471	200,656	6,615,837
At December 31, 2011				
Cost	7,943,212	1,717,147	584,844	10,245,203
Accumulated depreciation, impairment and other	(3,332,502)	87,324	(384,188)	(3,629,366)
	4,610,710	1,804,471	200,656	6,615,837

(1) "Other" is comprised of pilot plants, office equipment and vehicles.

During the year, the Company recorded a write down of capital assets of $554,565 related to equipment that was redundant and provided no future economic value to the company. The assets include site equipment that is no longer deemed to be functional and will be disposed of.

12. Long-term incentive plan

Deferred share unit plan

The Company implemented a Deferred Share Unit Plan, effective July 1, 2010, pursuant to which deferred share units ("DSU") may be granted to non-employee members of the Board of Directors on an annual basis. The number of DSUs granted to a participant is calculated by dividing (i) a specified dollar amount of the participant's annual retainer, by (ii) the five-day volume weighted average trading price of the shares of the Company traded through the facilities of the Toronto Stock Exchange on the trading days immediately preceding the date of grant. Dividends paid on the shares of the Company are credited as additional DSUs. Each DSU entitles the holder to receive a cash payment equal to the five-day volume weighted average trading price of the shares preceding the date of redemption. The DSUs vest immediately and may only be redeemed within the period beginning on the date a holder ceases to be a participant under the plan and ending on December 31 of the following calendar year.

The measurement of the compensation expense and corresponding liability for these awards is based on the intrinsic value of the award, and is recorded as a charge to the general and administration expense. At each balance sheet date, changes in the Company's payment obligation due to changes in the Company's share price are recorded as a charge to the general and administrative expense.

During the year, in addition to cash compensation, the non-employee members of the board of directors received 216,619 DSU units (2010: 57,780) for the 2011 annual retainer and 289,826 DSU units (2010: Nil) units for additional services provided throughout the year. There were no redemptions of DSUs in the year.

13. Capital stock and warrants

Authorized: unlimited common shares without par value.

On January 22, 2010, the Company entered into an agreement with Newalta Corporation ("Newalta") to pursue joint projects that apply the technologies 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 $1.375 per share for one year and $1.65 per share thereafter. The warrants expire after five years. The proceeds of the investment were allocated on a relative fair value basis with $2,486,583 allocated to common shares and $1,513,417 allocated to the warrants. At December 31, 2011, none of the above warrants have been exercised.

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

	2011		2010	
Stock Options	**Weighted Average Exercise Price $**	**Options Granted (Quantity)**	**Weighted Average Exercise Price $**	**Options Granted (Quantity)**
Outstanding at January 1	2.13	6,148,001	2.26	5,708,001
Options exercised	0.56	(101,666)	0.58	(38,334)
Options granted	0.29	930,000	0.94	710,000
Options forfeited and expired	1.63	(2,174,335)	1.84	(231,666)
Outstanding at December 31	1.98	4,802,000	2.13	6,148,001

Of the 4,802,000 outstanding options (2010 - 6,148,001), 3,872,000 options (2010 - 5,499,668) were exercisable.

On February 1, 2012, the Company granted 250,000 of stock options at an exercise price of $0.23 to an officer of the Company. These options will vest over three years with one-third vesting each year on the anniversary of the grant date and will expire five years after the grant date.

Ex. Price Range	Ex. Price $	Expiry date	2011 Total Options (Quantity)	2010 Total Options (Quantity)
0.01 to 0.50	0.30	10/18/2016	750,000	-
	0.23	11/24/2016	180,000	-
			930,000	-
0.51-1.00	0.53	9/22/2014	458,334	525,000
	0.58	5/26/2014	436,666	496,666
	0.78	5/14/2015	400,000	400,000
			1,295,000	1,421,666
1.01-1.50	1.21	1/4/2015	260,000	310,000
	1.34	4/6/2011	-	666,667
			260,000	976,667
1.51-2.00	1.65	5/1/2011	-	884,667
	1.70	9/13/2011	-	373,001
	1.75	5/30/2011	-	15,000
	2.00	1/5/2012	50,000	50,000
			50,000	1,322,668
2.01-2.50	2.30	1/5/2012	16,600	66,600
	2.48	2/8/2012	-	8,334
			16,600	74,934
3.01-3.50	3.00	8/13/2013	990,000	1,045,000
	3.05	9/2/2013	20,000	50,000
			1,010,000	1,095,000
4.01-4.50	4.20	8/8/2012	1,190,400	1,207,066
	4.29	10/29/2012	25,000	25,000
	4.38	11/7/2012	25,000	25,000
			1,240,400	1,257,066
			4,802,000	**6,148,001**

The weighted average fair value of stock options granted during the 2011 year determined using the Black-Scholes valuation model was $0.26 per option. The significant inputs into the model were weighted average share price of $0.31 at the grant date, exercise price as shown above, volatility of approximately 156%, dividend yield of 0%, an expected option life of 3 years and an annual risk-free interest rate of approximately 1.14%. See the Statement of Changes in Equity for total expense recognized during the year.

14. Expenses by Nature

	2011	2010
	$	$
Changes in inventory	6,549	(604,151)
Raw materials and consumables used	2,644,946	1,150,037
Depreciation and amortization	695,010	879,800
Write-down of capital assets	554,565	-
Impairment charges	-	11,386,631
Employee benefits	5,143,500	4,099,658
Other expenses	2,907,700	4,683,422
	11,952,270	21,595,397

15. Wages and Employee Benefits Expense

	2011	2010
	$	$
Salaries and short-term benefits	4,808,771	3,628,579
Share and option-based payments	334,729	471,079
	5,143,500	4,099,658

Key management compensation includes the Company's directors and members of the Executive. Compensation awarded to key management includes:

	2011	2010
	$	$
Salaries, fees and short-term benefits	1,657,661	1,017,222
Share and option-based payments	328,861	294,000
	1,986,522	1,311,222

16. Income taxes

	2011	2010
Current tax	$	$
Current tax on profits for the year	383,544	224,728
Deferred tax		
Origination and reversal of timing difference	88,713	-
Income tax expense	472,257	224,728

The statutory tax rate to income tax expense (recovery) was 26.5% (2010 – 28.5%) for the year-ended December 31, 2011. The tax on the Company's profits (losses) before tax differs from the amount that would arise using the weighted average tax rate applicable to profits (losses) of the consolidated entities as follows:

	2011	**2010**
	$	**$**
Income tax recovery at statutory rates	(1,223,822)	(3,050,627)
Tax losses for which no deferred income tax asset was recognized	2,172,738	3,713,365
Non-deductible expenses	31,306	137,581
Tax rate differences	(258,171)	(64,833)
Other	(249,794)	(510,758)
Income tax expense	472,257	224,728

As at December 31, 2011, the Company has approximately $919,000 (2010 - $919,000) of research and development expenditures available for unlimited carry-forward, and $86,000 (2010 - $86,000) of investment tax credits, expiring 2019 and 2020, all of which may be used to reduce future Canadian income taxes that are otherwise payable.

The Company has accumulated loss of $16,295,998 (2010 - $13,114,000) for Canadian income tax purposes which may be deducted in the calculation of taxable income in future years. The losses expire as follows:

	$
2014	1,438,574
2015	2,284,202
2026	2,416,351
2027	1,628,919
2028	1,951,879
2029	2,372,749
2030	965,964
2031	3,237,360
	16,295,998

In addition, the Company has available tax losses in other jurisdictions that total $16,282,315 (2010 - $5,691,000). 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, 2010, the Company's future tax assets and liabilities are as follows:

Deferred tax assets:

	2011	2010
	$	$
Intangible asset	(17,421)	(25,164)
Property, plant and equipment	3,560,580	3,324,847
Foreign tax credits	63,104	-
Research and development expense carry-forwards	294,250	285,750
Loan receivable	-	2,214,142
Reserves	112,500	105,000
Non-capital losses carry-forwards	9,148,817	5,084,517
	13,161,830	10,989,092
Deferred tax assets not recognized	(13,161,830)	(10,989,092)
Total future income tax assets	-	-

No income tax benefits related to the future tax assets have been recognized in the accounts because of the uncertainty on whether future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

Deferred tax liability:

	2011	2010
	$	$
Property, plant and equipment	88,713	-

The movement of the deferred income tax account is as follows:

	2011	2010
	$	$
At January 1	-	-
Charge to the statement of operations	88,713	-
At December 31	88,713	-

The movement in deferred income tax liability during the year is as follows:

	Accelerated tax depreciation	Total
	$	$
At January 1, 2011	-	-
Charge to the statement of operations	88,713	88,713
At December 31, 2011	88,713	88,713

17. Loss per share

a) Basic

Basic earnings per share are calculated by dividing the net income attributable to owners of the parent company by the weighted average number of common shares outstanding during the year.

	2011	2010
Net loss attributable to owners of the parent ($)	(5,090,455)	(10,928,682)
Weighted average number of common shares outstanding	69,949,120	67,782,512
Basic loss per share ($)	(0.07)	(0.16)

b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. The Company has two categories of dilutive potential common shares: warrants and stock options. For both, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market price of the Company's outstanding shares for the period), based on the exercise prices attached to the warrants and stock options. The number of shares calculated above is compared with the number of shares that would be issued assuming exercise of the warrants and stock options.

During the year, the Company incurred a net loss and as a result all potential dilutive instruments became anti-dilutive.

	2011	2010
Net loss attributable to owners of the parent ($)	(5,090,455)	(10,928,682)
Weighted average number of common shares outstanding	69,949,120	67,782,512
Adjustments for:		
Warrants	-	-
Stock Options	-	-
Weighted average number of common shares outstanding for diluted loss per share	69,949,120	67,782,512
Diluted loss per share ($)	(0.07)	(0.16)

18. Consolidated Statement of Cash Flow – Supplemental Information

	2011	2010
Change in non-cash working capital items	**$**	**$**
Decrease in trade receivables	12,637	493,015
Increase in receivable from joint venture partners	(2,082)	(132,916)
Increase in net insurance proceeds receivable	(18,851)	(618,248)
(Increase) decrease in taxes recoverable	(138,420)	61,128
Decrease in inventory	6,549	618,894
Increase in work in progress	(402,883)	(29,378)
Decrease (increase) in prepaid expenses	18,380	(18,080)
Increase (decrease) in accounts payable and accrued liabilities	1,114,348	(125,858)
Increase in deferred revenue	340,185	-
Increase in taxes payable	63,105	-
Change in non-cash working capital items	992,968	248,557

19. Segment reporting

a) Operating segment - the Company has one operating segment, being principally to build process plants and earn revenues from recovered metals, treatment fees, plant sales, engineering fees and process licenses.

b) Products and services - the Company's sources of revenues are as follows:

	2011	2010
	$	**$**
Metal recovery	4,098,797	4,068,675
Treatment fees	1,801,898	2,181,432
Engineering services and plant sales	1,513,102	2,494,130
	7,413,797	8,744,237

c) Geographic information – The Company's revenue, property, plant and equipment, and intangible asset by geographic area are as follows:

	2011	2010
Revenue	**$**	**$**
Canada	1,806,398	3,622,213
U.S.	590,555	1,105,675
China	3,582,913	3,283,945
Chile	592,891	-
Australia	-	324,574
Other	841,040	407,830
	7,413,797	8,744,237

	2011	2010
Property, plant and equipment	**$**	**$**
Canada	1,214,653	1,839,015
U.S.	1,757,026	2,007,850
China	3,631,102	2,756,868
Chile	13,056	-
Australia	-	37,935
	6,615,837	6,641,668

The Company's intangible asset resides in Canada.

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

	2011	2010
	$	**$**
Customer A	1,679,969	1,488,064
Customer B	3,582,913	3,283,945
Customer C	121,929	2,016,149
	5,384,811	6,788,158

20. Related Party Transactions

The Company's Bisbee joint venture sells all of the metal concentrate recovered in its operations to the joint venture partner, FMI. For the year-ended December 31, 2011, the Bisbee joint venture's sales to FMI were in the amount of $515,883 (2010 - $460,156).

The Company's Dexing joint venture sells all of the metal concentrate recovered in its operations to the joint venture partner, JCC. For the year-ended December 31, 2011, the Dexing joint venture's sales to JCC were in the amount of $3,582,913 (2010 - $3,283,945).

All related party sales are recorded at the fair market value of the metal prices on the date of sale net of transportation and refining costs at standard industry rates. Sales and other transactions were recorded at the exchange amount.

21. Financial Instruments and Fair Values

Measurement categories

As explained in Note 3, financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the statement of operations or comprehensive income. Those categories are: fair value through profit or loss; loans and receivables; available for sale assets; and for liabilities, amortized cost. The following table shows the carrying values of assets and liabilities for each of these categories at December 31, 2011 and 2010 and January 1, 2010.

	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010
Assets	**$**	**$**	**$**
Loan and receivables			
Cash	4,774,970	4,653,465	2,491,302
Short-term investments	4,486,097	7,957,391	2,849,244
Trade receivables	1,664,326	1,676,963	2,169,978
Receivable from joint venture partners	182,286	180,204	47,288
Net insurance proceeds receivable	637,099	618,248	-
Loan receivable	-	-	10,807,659
	11,744,778	15,086,271	18,365,471

The carrying values of cash, short-term investments, trade receivables, receivable from joint venture partners, net insurance proceeds receivable and trade payables approximately their fair value. Interest income on loan receivable was measured at amortized costs based on the duration of the life of the loan.

Fair value hierarchy

Certain financial assets and liabilities are recognized on the balance sheet at fair value in a hierarchy that is based on significance of the inputs used in making measurements. The levels in the hierarchy are:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets and liabilities
Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

As shown in the above section, the Company's financial instruments are classified as loans and receivables and financial liabilities at amortized cost. As a result, these instruments were not measured at fair value through profit and loss.

Financial risk factors

The Company's activities expose it to various risks, including credit risk, market risks such as foreign currency risk, commodity price risk and interest rate risk, and liquidity risk. The Company's risk management activities are designed to mitigate possible adverse effects on the Company's performance, having regard for the size and scope of the Company's operations, with a primary focus on 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 2010.

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, 2011 was $122,418 (2010 - $79,133). It is estimated that net income (loss) would fluctuate by $41,000 (2010 - $79,500) per annum for every 1% change in the prevailing rates of interest.

b) Credit risk

The Company is exposed to credit risk on its cash and cash equivalents, short-term investments, trade receivables, loan receivable and net insurance proceeds receivable. 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 on 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 receivables, loan receivable and net insurance proceeds receivable is minimized by performing credit reviews, ongoing credit evaluation and account monitoring procedures. All of the Company's receivables have been reviewed for indicators of impairment. At December 31, 2011, the allowance for doubtful accounts balance was $nil (2010 - $nil). In addition, BioteQ recorded a bad debt expense of $nil during the year ended December 31, 2011 (2010 - $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 ongoing basis. The net insurance proceeds receivable is an estimate of the recovery on settlement of the outstanding insurance claim. The Company received the full amount of the insurance proceeds in February 2012.

As of December 31, 2011, there were tax related recoverables of $516,021 (2010- $560,595) which accounted for 31% (2010 - 33%) of all trade receivables. Of this balance, $509,074 (2010 - $545,126) is related to Mexican IVA tax, which had been paid on construction work on the water treatment plant in Mexico. The Company has completed all the necessary tax filings and believes that the IVA refund will be collected.

c) Foreign currency risk

There is a risk to the Company's earnings that arises 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 loss of $4,147. For the year ended December 31, 2011, the Company reported a foreign exchange gain (loss) of $(204,915) (2010 - $967,650 gain).

d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash and cash equivalents and short-term investments. The ability to do this relies on the Company collecting its trade receivables in a timely manner and maintaining sufficient cash and cash equivalents in excess of anticipated needs. At December 31, 2011, the Company's accounts payable and accrued liabilities were $2,637,251 (2010 - $1,544,901), which fall due for payment within twelve months of the balance sheet date. See note 22 for additional commitments.

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. At December 31, 2011, the Company has copper sales of $160,356 (2010 - $19,972) that are subject to commodity price risk. If the copper price changes by 1% against the value recorded, the impact would result in either an increase or decrease in revenue of $1,604 (2010 - $193).

22. Commitments

During the year, the Company's Board of Directors appointed a new Chief Executive Officer ("CEO"). The former CEO retired from the Company on October 10, 2011 ("Retirement Date"). Upon the Retirement Date, the Company began making equal monthly payments of $21,875 over 24 months to the former CEO for total payments of $525,000. During the payment period, the predecessor CEO may elect to accelerate any remaining installment payments in a lump sum. Accordingly, this entire amount has been recorded on the Company's financial statements for 2011.

Under the terms of a separate advisory services agreement between the Company and the former CEO, the former CEO will continue to be available to the Company on a consulting basis to provide additional support as required. The cost of the standby fees will be recorded in future periods as time elapses.

The Company has commitments of $151,289 under operating leases for office and laboratory premises and for office equipment, as follows:

	$
2012	140,323
2013	5,244
2014	4,990
2015	732
	151,289

23. Capital Management

The Company's objective when managing capital is to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Considering the current business stage 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 financing or refinance existing debt with different characteristics. There were no changes in the Company's approach to capital management during the year.

24. Government Assistance

In June 2009, the Company entered into an agreement with the National Research Council Canada ("NRC") under its Industrial Research Assistance Program ("IRAP") to provide funds to assist in testing new applications of wastewater treatment technologies in the energy sector. The NRC agrees to reimburse BioteQ for wage costs incurred on account of the research work performed to a maximum of $295,000. The agreement has ended March 31, 2011.

During the year, the company received $52,094 (2010 - $138,315) of government assistance.

25. Transition to IFRS

The effect of the Company's transition to IFRS, described in note 2, is summarized in this note as follows:

A. Transition elections
B. Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS
C. Adjustments to the statement of cash flows

A. Transition elections

The Company has applied the following transition exceptions and exemptions to full retrospective application of IFRS:

	As described in explanatory note 25 B
Business combinations	a.
Fair value as deemed cost for certain property, plant and equipment	d.
Share-based payments	e.
Cumulative translation differences	f.

B. Reconciliation of equity and comprehensive loss as previously reported under Canadian GAAP to IFRS

The reconciliations from Canadian GAAP to IFRS are outlined on the following pages:

i. Statement of financial position as at:
   - January 1, 2010
   - December 31, 2010
ii. Statement of operations and comprehensive income (loss) for the year-ended December 31, 2010

The January 1, 2010 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

		Jan 1 2010		
	Explanatory Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
		$	$	$
ASSETS				
Current assets				
Cash and cash equivalents		2,491,302	-	2,491,302
Short-term investments		2,849,244	-	2,849,244
Trade receivables		2,169,978	-	2,169,978
Receivable from joint venture partners		47,288	-	47,288
Current portion of loan receivable		468,424	-	468,424
Taxes recoverable		76,597	-	76,597
Inventory	g	658,874	14,743	673,617
Prepaid expenses	g	223,302	(293)	223,009
		8,985,009	14,450	8,999,459
Non-current assets				
Loan receivable		10,339,235	-	10,339,235
Property, plant and equipment	b, c, d, g	14,930,511	(4,656,653)	10,273,858
Intangible asset		131,626	-	131,626
Total assets		34,386,381	(4,642,203)	29,744,178
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		1,295,759	-	1,295,759
SHAREHOLDER'S EQUITY				
Capital stock		51,148,380	-	51,148,380
Contributed surplus	e	7,541,491	44,871	7,586,362
Accumulated other comprehensive income	f	-	-	-
Deficit	b, c, d, e, f, g	(25,599,249)	(4,687,074)	(30,286,323)
Total shareholders' equity		33,090,622	(4,642,203)	28,448,419
Total liabilities and shareholders' equity		34,386,381	(4,642,203)	29,744,178

The December 31, 2010 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

		Dec 31 2010		
	Note	Canadian GAAP $	Effect of transition to IFRS $	IFRS $
ASSETS				
Current assets				
Cash and cash equivalents		4,653,465	-	4,653,465
Short-term investments		7,957,391	-	7,957,391
Trade receivables		1,676,963	-	1,676,963
Receivable from joint venture partners		180,204	-	180,204
Insurance proceeds receivable	h	618,248	-	618,248
Taxes recoverable		15,469	-	15,469
Inventory		54,723	-	54,723
Work in progress		29,378	-	29,378
Prepaid expenses		237,775	3,314	241,089
		15,423,616	3,314	15,426,930
Non-current assets				
Loan receivable		-	-	-
Property, plant and equipment	b, c, d	7,277,758	(636,090)	6,641,668
Intangible asset		100,654	-	100,654
Total assets		22,802,028	(632,776)	22,169,252
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		1,544,901	-	1,544,901
Deferred lease inducement		47,362	-	47,362
		1,592,263	-	1,592,263
Non-current liabilities				
Long-term liabilities		46,884	-	46,884
Total liabilities		1,639,147	-	1,639,147
SHAREHOLDER'S EQUITY				
Capital stock and warrants		55,182,229	-	55,182,229
Contributed surplus	e	8,050,376	(4,550)	8,045,826
Accumulated other comprehensive income	f, g	-	(1,482,945)	(1,482,945)
Deficit	b, c, d, e, f, g	(42,069,724)	854,719	(41,215,005)
Total shareholders' equity		21,162,881	(632,776)	20,530,105
Total liabilities and shareholders' equity		22,802,028	(632,776)	22,169,252

The Canadian GAAP statement of operations and statement of comprehensive loss for the year ended December 31, 2010 has been reconciled to IFRS as follows:

		Year ended Dec 31 2010		
	Note	Canadian GAAP $	Effect of transition to IFRS $	IFRS $
Revenue		8,744,237	-	8,744,237
Operating expenses				
Plant and other operating costs		4,920,893	-	4,920,893
General and administrative expenses		3,094,422	-	3,094,422
Marketing and development costs		842,572	-	842,572
Operating expenses before amortization and stock-based compensation		8,857,887	-	8,857,887
Depreciation of property, plant and equipment	b, c, d, g	967,978	(119,150)	848,828
Amortization of intangible asset		30,972	-	30,972
Impairment of Mt. Gordon operations	c	7,453,439	(4,349,458)	3,103,981
Impairment of Lluvia de Oro operations		8,282,650	-	8,282,650
Stock-based compensation charge	e	520,500	(49,421)	471,079
Loss before the under-noted		(17,369,189)	4,518,029	(12,851,160)
Interest income		79,133	-	79,133
Other income		99,713	-	99,713
Lease fee income		1,000,710	-	1,000,710
Foreign exchange loss	f	(56,114)	1,023,764	967,650
Loss before income taxes		(16,245,747)	5,541,793	(10,703,954)
Income tax expense		224,728	-	224,728
Net loss for the year		(16,470,475)	5,541,793	(10,928,682)
Other comprehensive income (loss)				
Cumulative translation adjustment	f, g	-	(1,482,945)	(1,482,945)
Net loss and comprehensive loss for the year		(16,470,475)	4,058,848	(12,411,627)

Explanatory notes

a) Business combinations

IFRS 1 *First-time Adoption of International Financial Reporting Standards* indicates that a first-time adopter may elect not to apply IFRS 3 *Business Combinations* retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has taken advantage of this election and accordingly has not applied IFRS 3 to business combinations that occurred prior to January 1, 2010.

b) Property, plant and equipment – depreciation expense

Under IFRS, the Company's property, plant and equipment are classified into significant components and depreciation is calculated based on the individual components. The componentization of the water treatment plants resulted in a higher amount of depreciation under IFRS than under Canadian GAAP. Depreciation expense up to the transition date is $451,739 higher under IFRS and accordingly opening deficit has been increased and opening property, plant and equipment has been reduced by that amount. Depreciation expense decreased by $119,150 for the year ended December 31, 2010. The increase in depreciation expense for 2010 as a result of componentization was reduced by the decrease in depreciation expense for 2010 due to the impairment of Mt. Gordon's water treatment plant on transition date.

c) Property, plant and equipment - impairment

An impairment loss of $4,310,110 relating to Mt. Gordon's water treatment plant was recognized in impairment charges at December 31, 2009 for property, plant and equipment for which an impairment indicator existed at December 31, 2009 (note 8). This impairment was not recognized under Canadian GAAP. This adjustment arose because under IFRS, if an indication of impairment is identified, the asset's carrying value is compared to the asset's fair value less cost to sell. If the fair value less cost to sell is less than the carrying value, the asset is impaired by an amount equal to the difference between the discounted cash flows and the carrying value. Fair values less cost to sell were determined based on expected future cash flows. The discount rate used at December 31, 2009 to estimate fair value was 12%. Under Canadian GAAP, the asset's carrying value is only compared to the asset's undiscounted cash flows if the asset's carrying value of assets exceeds the undiscounted cash flows

d) Property, plant and equipment – fair value as deemed cost

IFRS 1 *First-time Adoption of International Financial Reporting Standards* permits a first-time adopter to elect to use fair value as deemed cost to record property, plant and equipment on transition to IFRS. The Company has made this election for one of its plants that was impaired under IFRS at the transition date:

Water treatment plant at the Mt. Gordon mine site in Queensland, Australia. The deemed cost at January 1, 2010 for the Mt. Gordon property, plant and equipment was $3,708,638, which was $4,310,110 less than its net book value at that date. The resulting decreased depreciation expense of $178,285 for the year ended December 31, 2010 was reflected in depreciation expense on the statement of operations.

e) Share-based payments

Under IFRS, each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches. Also, forfeiture estimates are recognized in the period they are estimated, and are revised for actual forfeitures in subsequent periods. Under Canadian GAAP, the fair value of stock-based awards with different vesting dates can be calculated as one award if the assumptions for the different tranches are the same and the resulting fair value is recognized on a straight-line basis over the vesting period. Forfeitures of awards were recognized as they occur.

Accounting for share-based payments in accordance with IFRS resulted in an increase to contributed surplus and deficit at the date of transition in the amount of $44,871, and a decrease in stock-based compensation of $49,421 for the year ended December 31, 2010.

In accordance with IFRS 1 *First-time Adoption of International Financial Reporting Standards*, first-time adopters are not required to apply IFRS 2 *Share-based Payments* to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. Accordingly, the Company has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010, which has been accounted for in accordance with Canadian GAAP.

f) Cumulative translation differences

IFRS 1 allows a first-time adopter to not comply with the requirements of IAS 12 *The Effects of Changes in Foreign Exchange Rates* for cumulative translation differences that existed at the date of transition to IFRS. Accordingly, the Company has elected to reset the cumulative translation adjustment account, which includes gains and losses arising from the translation of foreign operations, to zero at the date of transition to IFRS. The accumulated other comprehensive loss account and the deficit account have been increased by $480,610.

g) Foreign currency translation

IFRS does not distinguish between integrated and self-sustaining foreign operations and the current rate method is required to be applied to all entities where the functional currency is different from the presentation currency, resulting in an adjustment on transition to IFRS. As a result, there was an increase in other comprehensive loss of $1,482,945 for the year ended December 31, 2010.

h) Insurance proceeds receivable

As a result of the impairment loss related to the Mt. Gordon's water treatment plant and the insurance claim (see explanatory note c), the Company reclassified a portion of the cost of the plant to insurance proceeds receivable.

C. Adjustments to the statement of cash flows

The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by the Company.

26. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year presentation.

Board of Directors

George W. Poling[1,4,5] PhD
Chairman of the Board of Directors
Independent Consultant, Professor Emeritus
University of British Columbia
Vancouver, British Columbia

C. Bruce Burton[1,3] BBA, MBA, CA, ICD.D
Independent Businessman
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SGS Minerals Services
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President & Chief Technology Officer
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Chief Executive Officer
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Vancouver, British Columbia

Ronald Sifton[1,2] CA, ICD.D
Independent Businessman
Calgary, Alberta

Jonathan Wilkinson MA
Chief Executive Officer
BioteQ Environmental Technologies
Vancouver, British Columbia

[1]*Member, Audit Committee*
[2]*Member, Compensation Committee*
[3]*Member, Corporate Governance Committee*
[4]*Member, Safety & Environment Committee*
[5]*Member, Technical Committee*

Management Team

Jonathan Wilkinson MA
Chief Executive Officer

David Kratochvil PhD, PEng
President & Chief Technology Officer

Paul Kim CA
Vice President, Chief Financial Officer & Corporate Secretary

Tanja McQueen MBA
Vice President, Corporate Development

Andrew Hall MASc, MBA
Vice President, Sales & Marketing

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HSBC Bank Canada
Vancouver, British Columbia

Transfer Agent
Computershare
Vancouver, British Columbia

Stock Exchange
Toronto Stock Exchange (TSX)
Symbol: BQE

Annual Meeting
9:00 am Tuesday, May 10, 2012
Vancouver Marriott Pinnacle Downtown Hotel
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