BIOTEQ
ENVIRONMENTAL TECHNOLOGIES INC.

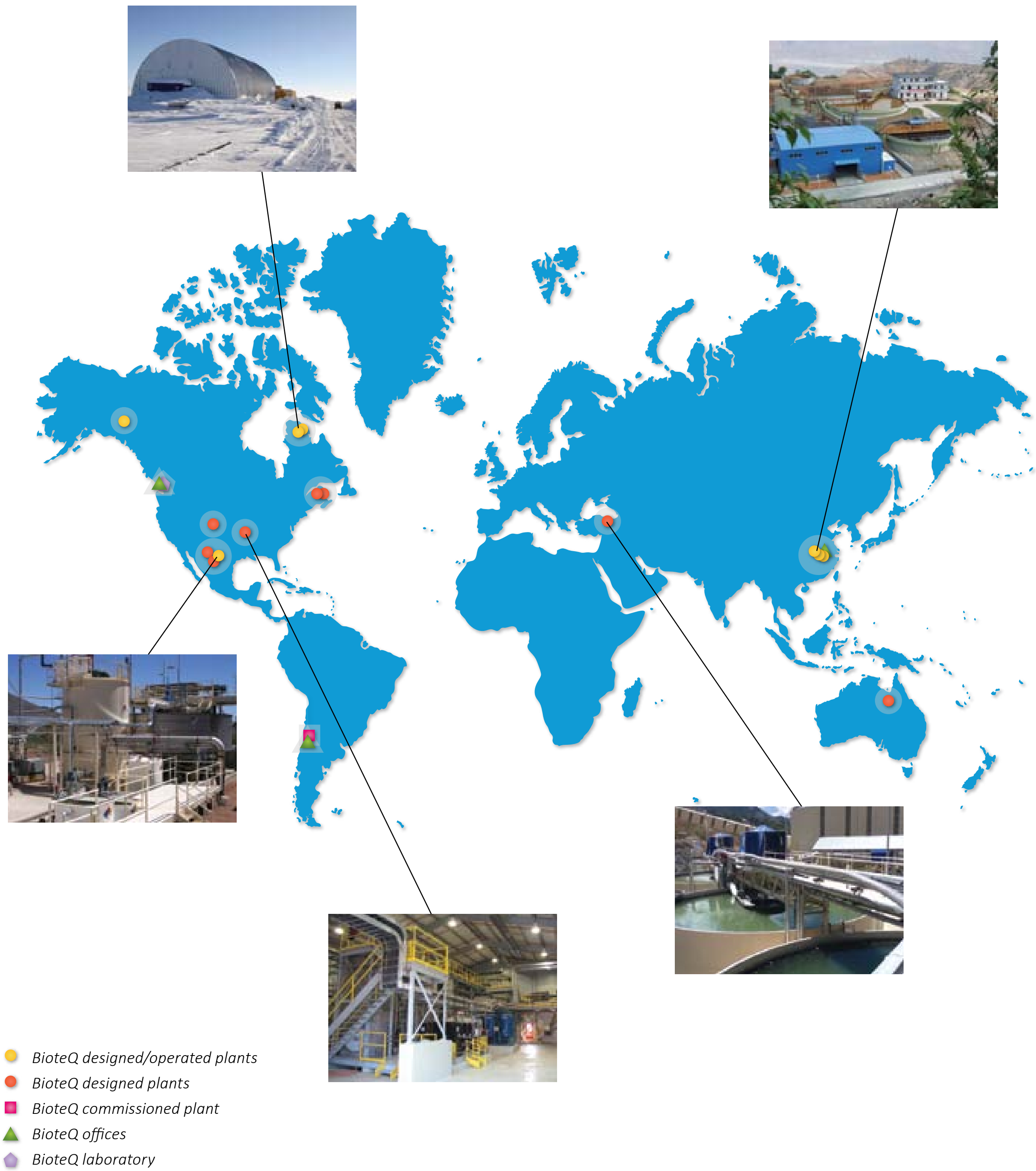
LAYING THE FOUNDATION

2012 ANNUAL REPORT

Contents

Global Footprint

With headquarters and laboratory services in Vancouver, Canada and offices in both Chile and China, BioteQ has designed, supplied, commissioned and operated industrial water treatment plants at project sites around the world. The plants are offered on a Design-Supply, Design-Supply-Operate basis or as part of a Joint Venture arrangement. In 2012, BioteQ had active plant operations that treated 10.6 million cubic metres of wastewater and removed 2.5 million pounds of metals from the environment.



Company Profile

BioteQ Environmental Technologies is a water treatment company providing proprietary technologies and leading technical expertise to serve the mining, energy and industrial markets. Our proven technologies have been applied to selectively recover dissolved metals and to remove targeted contaminants including sulphate and selenium from industrial process waters. These technologies produce treated water for re-use or safe discharge to the environment, reduce or eliminate residual waste and recover saleable by-products from wastewater.

Application of these technologies has helped customers comply with environmental regulations, develop new revenue streams from recovered metals, recover up to 99% of process water for re-use and lower the life cycle costs of water treatment. BioteQ has the in-house expertise to offer a full scope of services, from lab and pilot testing, process design, plant commissioning and operations to on-going technical support. This knowledge and experience allows BioteQ to deliver practical solutions, tailored to the unique water treatment needs of each customer.

Scope of services provided by BioteQ in delivering water treatment solutions. Construction is undertaken with a local partner.

Key Relationships

We have formed key relationships with industry leaders as part of the Company's "go to market" strategy to expand into new sectors and geographical territories. These relationships broaden BioteQ's own growth efforts and they bring with them, significant knowledge and presence in their respective areas of expertise.

JOINT VENTURE PARTNERS	**Jiangxi Copper Company** Largest copper mining company in China	**Freeport McMoRan Copper & Gold** World's largest publically traded copper company	
STRATEGIC PARTNERS	**EcoMetales** Industrial waste management company wholly owned by Chile's largest copper producer	**Newalta Corporation** Canada's largest industrial waste management & environmental services firm	**Minería Mexico** Mexico's largest mining company with world's largest copper reserves
STRATEGIC SUPPLIER	**LANXESS Sybron Chemicals** Leading international manufacturer & supplier of ion exchange resins used in water treatment		

Technology Product Portfolio

Our portfolio of patented process technologies include sulphide precipitation for selective metal recovery or removal and ion exchange solutions for the selective removal of metals and contaminants such as sulphate and selenium from process waters.

METAL RECOVERY & REMOVAL

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

We also apply our deep sulphide precipitation know-how to making operable 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 but that must be lowered further to meet stringent discharge requirements. Ion Exchange technology is also used to selectively recover small amounts of high value metals, such as rhenium, from waste streams.

These technologies can, in some instances, be combined effectively 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

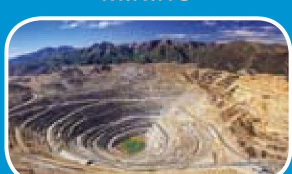
BioteQ has developed **Sulf-IX™** and **Sulf-IXC™** ion exchange technologies for the removal of Total Dissolved Solids (TDS) and sulphate from wastewater. The processes produce treated water to meet sulphate discharge regulations. The only by-product is a solid gypsum product. These processes can also reduce sulphate levels in industrial re-use applications such as cooling towers, enabling the recirculation and re-use of water.

SELENIUM REMOVAL

BioteQ has developed an **Ion Exchange** based approach to remove selenium from water streams. Selenium is present in mine water run-off and coal-fired power plant process waters and is toxic at high levels for aquatic life, leading to increased scrutiny from regulatory authorities. Coal mining and power generation industries are actively looking for reliable and cost efficient technology solutions. BioteQ's approach provides effective selenium removal and stabilization at a low total life cycle cost.

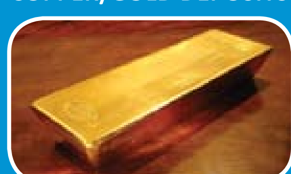
Target Applications

MINING



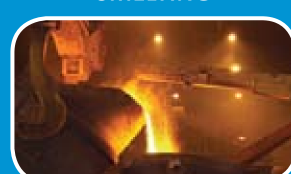
Metals recovery/removal from acid mine drainage to meet environmental discharge requirements & to create value from waste

COPPER/GOLD DEPOSITS



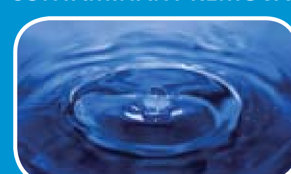
Remove interference of cyanide-soluble copper and recycle cyanide to improve the project economics of copper-laden gold deposits

SMELTING



High-value metal recovery from smelter waste streams to meet environmental discharge requirements & to create value from waste

CONTAMINANT REMOVAL

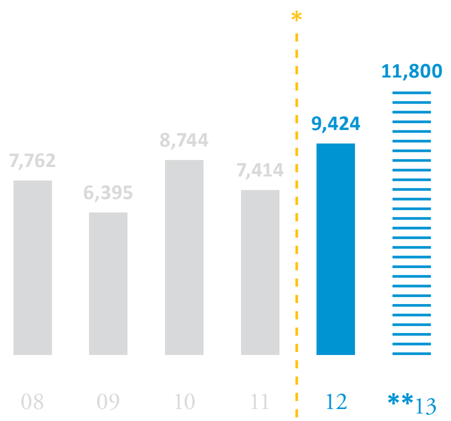


Remove contaminants to meet environmental discharge requirements and recover water for re-use, conserving water supplies

2012 Key Metrics

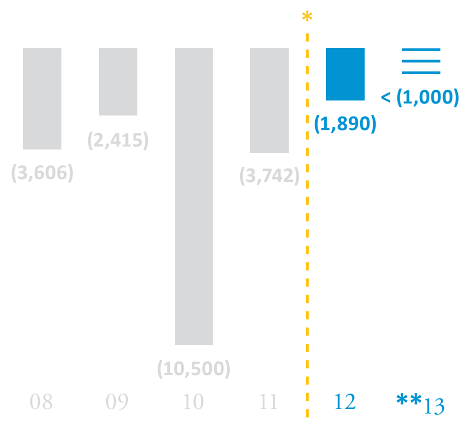
FINANCIAL HIGHLIGHTS

Revenues ($ '000)



Revenues increased 27% in 2012 over the prior year due to increased engineering and plant sales. 2013 revenues project a 25% growth over 2012.

Adjusted EBITDA ($ '000)



Adjusted EBIDTA improved 49% over 2011. 2013 is projected to see additional improvements of 50% from 2012.

All figures for years 2008 and 2009 are presented in accordance with Canadian generally accepted accounting principles.

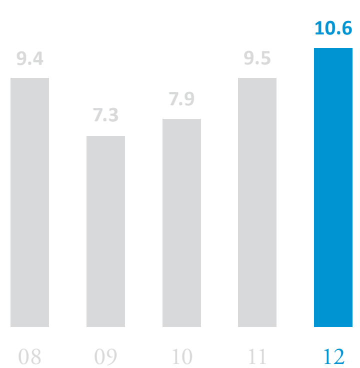
See "Non-GAAP Measures" in the Management Discussion & Analysis.

**Indicates adoption of new Corporate Strategy in 2012.*

***2013 Financial Guidance*

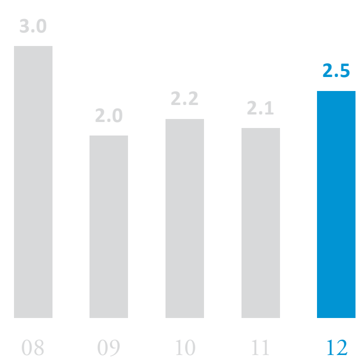
OPERATIONAL HIGHLIGHTS

Water Treated (billion L)



BioteQ's operations treated an increase of 11% more wastewater in 2012 than the prior year.

Metals Removed (million lbs)



BioteQ removed 19% more metals from the environment than the year prior.

CEO Message

After assuming the CEO role at BioteQ in mid October 2011, I worked with the management team during November and December developing a new strategy for the Company—a strategy that aimed to build on the existing strengths of the organization but one that would enable the Company to achieve significantly enhanced scale and scope.

2012 was the first year in which we began to implement the new corporate strategy. It was also a year in which we strived to show measured but meaningful financial and operational progress. However, the primary focus for the Company in 2012 was to lay the foundation that would enable continuing rapid growth over the coming 5 years.

BIOTEQ CORPORATE HISTORY

Several key points relating to BioteQ's founding and evolution are relevant to understanding the strategy the Company adopted for 2012 and beyond.

Historic Business Model

BioteQ was established with a Build-Own-Operate (BOO) business model. From a technology perspective, BioteQ was largely engaged in treating acid rock drainage streams containing high levels of valuable metals. The Company viewed itself as a mining company—one that mined the metals found in the wastewater streams of existing mining operations.

The BOO business model worked well as a new technology deployment strategy. By putting up the capital, BioteQ assumed the capital related risks associated with initial technology deployment.

However, while this approach worked well to minimize the risks borne by initial customers, the BOO model had significant limitations:

- Major mining companies are typically reluctant to allow third parties to own assets on their mine sites. BioteQ's BOO model limited the addressable market by excluding many larger mining firms. This model also raised the risk profile associated with the remaining addressable market which consisted, in significant measure, of small and mid-tier mining companies.

- BioteQ's cost of capital was and is higher than the cost of capital of most of its prospective customers (larger firms typically have greater access to debt and a lower cost of equity) making the BOO model a less attractive financial proposition for many prospective customers.

Limited Proactive Sales Function

The Company had a limited proactive commercial capability. Sales leads were typically inbound and were generated largely through conference attendance and participation. There was no dedicated Sales team nor was there a Sales VP position at the executive table. Sales functions were handled by various individuals as time permitted.

Relevant but Limited Product Portfolio

BioteQ's commercial products had traditionally focused on the BioSulphide® and ChemSulphide® and SART metals removal systems. Beyond these core technologies, BioteQ had in recent years spent time developing sulphate removal technology.



While this technology portfolio did offer opportunities for additional growth, the product portfolio was somewhat limited and the Company lacked a technology roadmap to guide its thinking as to how or whether the portfolio should be expanded.

Key Elements of the New Strategy

BioteQ's new strategy is aspirationally focused on the Company becoming 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.

Over the coming 3-5 years, our specific goals are centred on significantly growing the revenue base of the Company and driving to generate strong positive cash flows. The major elements of the new corporate strategy are:

BioteQ as a "Technology Solutions Provider"

Leverage BioteQ's technologies and in-house capabilities to meet the needs of the broadest possible addressable market. This implies that we will monetize the value of our technologies and capabilities through utilization of a range of business models including:

- *Design-Supply*—design, supply of equipment packages and commissioning services;
- *Design-Supply-Operate*—design, supply of equipment packages, commissioning services and long-term plant operations;
- *Joint Ventures*—in the right circumstances and with the right partners, our contribution may take the form of technology provision and/or capital for an interest in the proceeds from plants.

We believe this more flexible approach to the market will enable a significant scaling of the revenue profile of the current business. It will do so while generating reasonable flows of recurring revenue from operating contracts and joint venture contracts to complement one-time "solution" sales.

Proactive Sales Presence in Key Markets

- Build a professional Sales and Marketing organization
- Initial focus on North and South America
- Build effective and commercially productive channel relationships

Broaden Product Portfolio with Selective/ Targeted Technology & Business Development Initiatives

- Begin to actively commercialize the sulphate removal solution
- Select and commence development of technology solutions for markets of highest priority based on market size, competitive position and time to market

Enhanced Focus on IP Generation and Capture

- Enhance attractiveness of offerings and expand margin potential through the strategic use and expansion of our IP portfolio

RECAP OF 2012

Key accomplishments

- Financial progress in 2012 was in line with the Company's guidance for the year with revenue growth of 27% and a 49% increase in EBITDA compared to 2011. 2012 revenues represent the strongest performance by the Company since inception. We believe the

1 *The ChemSulphide® plant at the Raglan Mine in Quebec that operates seasonally from late spring to fall. The plant treats wastewater to remove nickel to meet discharge requirements.*

2 *In joint venture with a large US based mining company, a BioSulphide® plant was developed to treat wastewater and recover a high-grade copper concentrate that is sold to generate revenues.*

3 *A ChemSulphide® plant was developed jointly with Jiangxi Copper Company to treat wastewater and recover a saleable high-grade copper concentrate. The revenues generated from the copper sales delivered a capital payback on the plant in under three years.*

4

5

6

strong results achieved in the first year of our new strategy has established a strong foundation for progress going forward.

- BioteQ had active plant operations in Canada, the US and China that collectively treated 10.6 million cubic metres of water and removed 2.5 million pounds of metals from the environment.

- BioteQ together with its joint venture partner Jiangxi Copper Company announced plans in September to build a second ChemSulphide® copper recovery plant at the Dexing site.

- BioteQ completed fee based engineering design work for an arsenic removal facility for EcoMetales, a wholly-owned subsidiary of Codelco. The project has now moved on to the next stage of review, which includes environmental and regulatory approvals.

- BioteQ obtained 7 paid testing contracts relating to a number of different applications. These testing contracts typically constitute the initial phase in the development of projects that could lead to the provision of full-scale treatment plants.

- BioteQ continued to work with Kinross Gold in 2012 providing technical services, and extended the contract in place into 2013.

- BioteQ and Newalta completed construction of a mobile Sulf-IX™ pilot plant to test for sulphate removal. Subsequent to year end, the parties announced the successful commissioning of the unit at a Newalta site. BioteQ also announced it had secured the first test contract for the unit with a US based industrial customer.

- Significant technology development was made in selective high-value metals recovery (one test contract signed) and selenium removal (two test contracts signed).

- BioteQ successfully resolved its ongoing litigation with NWM. Under the terms of the resolution NWM agreed to pay BioteQ $1.2M over three years. NWM also subsequently purchased from BioteQ the SART plant assets located at NWM's Lluvia mine site in Mexico for USD $650,000.

Key Challenges

- Legal actions relating to the dispute with Birla Mount Gordon continued during 2012.

OUTLOOK

2012 was a year in which significant progress was made with the implementation of a new strategy we believe will stabilize the existing business and provide a platform for rapid growth. Given the numerous financial, sales and operational accomplishments over the past 12 months, I believe we are poised for sustained growth and we are well on our way towards creating a robust, innovative and financially strong organization.

Thank you for your continued support,

Jonathan Wilkinson
Chief Executive Officer

4 *The joint venture, with Jiangxi Copper Company, ion exchange based nickel-cobalt recovery plant at the Dexing Mine in China.*

5 *BioteQ obtained 7 testing contracts that were carried out at the company's Vancouver lab. Testing contracts are typically the first phase in developing full-scale water treatment plants.*

6 *Construction and commissioning of the Mobile Sulf-IX™ pilot plant to provide on-site testing for sulphate removal was completed. The pilot plant was developed in partnership with Newalta Corporation.*

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 2012 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

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 15, 2013

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

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

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

DESCRIPTION OF BUSINESS

BioteQ Environmental Technologies Inc. ("BioteQ" or the "Company") is a process technology company headquartered in Vancouver, British Columbia, Canada. We apply innovative technologies and operating expertise to solve challenging industrial water treatment problems to reduce environmental liabilities while delivering lower life cycle costs for water treatment. Our commercially proven technologies treat industrial wastewater contaminated with dissolved heavy metals, sulphate and other contaminants, producing saleable by-products and clean water for re-use or safe discharge to the environment.

BioteQ is listed on the Toronto Stock Exchange ("TSX") under the symbol BQE.

Additional information may be found on our website www.bioteq.ca and also on SEDAR at www.sedar.com.

2012 HIGHLIGHTS

2012 was a successful year for BioteQ. We generated the highest level of revenues that the Company has achieved in its history. We also made significant progress with respect to cash usage levels and further reported progress in a range of operational areas.

2012 was the first year in which we began to implement our new corporate strategy. It was a year in which we strived to show meaningful financial and operational progress. However, the primary focus for the company in 2012 was to lay the foundation that would enable continuing rapid growth over the coming five years.

At the beginning of 2012, we established a set of financial and operational milestones for the year. The following is a summary of our progress against these milestones:

2012 Financial Milestones

- *To increase revenue by at least 30%*

Revenues for the year grew in line with guidance provided by BioteQ in March 2012. Total revenues for the year were $9.4 million compared to $7.4 million in 2011. This represents a 27% increase over revenues achieved by the Company in 2011 and is a record level of revenue for the company since inception. Further, our reported revenues do not include the $650,000 USD in proceeds we received from the sale of our plant equipment in Mexico to NWM Mining. These proceeds are included in the financial statements as part of the "reversal of impairment" on our Statement of Operations. Had this sale been to a typical BioteQ customer other than NWM Mining, it would have been accounted for as revenue.

It is also instructive to note that during 2012 our revenues from metal recovery operations were impacted by an overall decline in copper prices year over year. Had copper pricing in 2012 been in line with 2011 levels, our revenue and our gross margin would have further improved by $767,000.

- *To reduce cash used in operations (including changes in working capital) from $2.5 million in 2011 to less than $1.5 million in 2012 (40% reduction)*

Cash usage for the year was also in line with guidance provided by the Company in March 2012. Total cash used in operations, after changes in working capital, for 2012 was $1.46 million compared to $2.5 million in 2011, a 43% improvement year over year. In addition to revenue growth and cash use improvements, our adjusted EBITDA (see Non-GAAP measures), improved from ($3.7) million in 2011 to ($1.9) million in 2012, a 49% improvement year over year.

2012 Operational Milestones

- *Secure an initial sale to a strategic alliance partner*

We announced a contract with strategic alliance partner EcoMetales, a wholly-owned subsidiary of Codelco Limited, to develop basic engineering and laboratory testing related to arsenic removal for a treatment facility to be built in Chile. The work, which included lab testing and basic engineering, was completed during the year. The project is now in the next phase of review, which will include environmental and other regulatory approval procedures.

- *Close sales bookings in Latin America*

In addition to the arsenic removal project with EcoMetales, we completed engineering review and start-up support services for a Kinross Gold SART project in Chile. Upon completion of the services, we renewed an ongoing technical support contract and are contracted to provide these services into 2013.

We also secured a number of testing contracts with mining companies in South America. One contract was with a leading international mining company to carry out validation test work for recovery of copper and other high value trace metals and removal of arsenic from smelter effluent at a site in Chile, applying our ion exchange technology. The work, which includes laboratory testing and evaluation, was completed in the first quarter of 2013, and will provide the design basis for a pilot plant and eventually a commercial plant.

- *Initial pilot undertaken in a market vertical outside of hard rock mining*

We completed construction of a mobile Sulf-IX™ unit that will provide pilot scale testing for sulphate removal. The mobile pilot plant, a joint initiative with Newalta Corporation, provides on-site field testing for sulphate removal from wastewater. Subsequent to year end, the parties announced the successful commissioning of the unit at a Newalta site. BioteQ also announced it had secured the first test contract for the unit with a US based industrial (non-hard rock mining) customer.

Other Highlights

- Our water treatment operations continue to address challenging water treatment requirements of the mining sector. BioteQ had active plant operations in Canada, the US and China that collectively treated 10.6 million cubic metres of water and removed 2.5 million pounds of metals from the environment.
- During the year, we continued to build our business of providing technology solutions – including design, engineering, commissioning and other technical services to mining and other industrial customers.
- In Q1 2012, we delivered a mobile ion exchange water treatment plant to an international mining customer. Total proceeds from the sale of the plant and supplies were $1.2 million.
- Our operations at the Dexing mine site in China continued to generate excellent results. We operate at the site as part of a joint venture with the mine site owner, Jiangxi Copper Company (“JCC”).
  - a. Our existing copper recovery plant treated 8.7 million cubic metres of water and recovered just under 2 million pounds of copper, a 15% increase over 2011;
  - b. We are in the process of making modifications to the new nickel-cobalt ion exchange recovery plant and expect this plant will be on stream producing commercial quantities of metals in Q2 2013; and
  - c. The joint venture announced plans to build a second ChemSulphide® copper recovery plant at the Dexing site. The plant is expected to be completed in Q3 2013 at a total cost of approximately $3 million.
- BioteQ obtained 7 paid testing contracts relating to a number of different applications. These testing contracts typically constitute the initial phase in the development of projects that could, if the project proceeds forward beyond the testing phase, lead to the provision of full-scale treatment plants.
- Significant technology development progress was made in the areas of:
  - a. Selective high-value metals recovery (one test contract signed); and
  - b. Selenium removal (two test contracts signed).
- We negotiated a settlement of our lawsuit against NWM Mining Corporation (“NWM”) for unpaid lease payments relating to a treatment plant built at NWM’s Mexican mine site. Subsequent to the legal settlement, BioteQ negotiated the sale of its existing plant equipment at the site to NWM. The total value of the settlement and purchase price of the plant equipment was approximately $2 million. Under the relevant agreements, payments will be made to BioteQ over a three year period.
- Our litigation with Aditya Birla in Australia remains in progress. We continue to believe that our position is strong with regard to Birla’s claims against BioteQ and are pursuing a counter-claim against Birla for breach of contract.

OUTLOOK

2012 was a year in which significant progress was made with regard to development and implementation of a new strategy that we believe will stabilize the existing business and provide a platform for growth going forward. Given the numerous financial, sales and operational accomplishments made by the company over the past 12 months, we believe that the Company is poised for sustained growth and that we are well on our way towards creating a robust, innovative and financially sound organization.

In 2012 we achieved record revenue level for the Company and reduced our cash used in operations by over 40%. In addition, we made several operational changes that included:

- Creation of a focused and dedicated sales and marketing organization;
- Establishment of a technology innovation and business development function; and
- Enhanced and made more rigorous our engineering and project execution functions.

In 2013, we expect to continue to build on the progress made in 2012. Key financial milestones for 2013 are:

a) Revenue

We expect to grow revenue in 2013, on a proportionate revenue basis, by 25% over 2012 to approximately $11.8 million. Revenue growth is expected to be generated from: the completion of plants currently under construction at the Dexing site; large scale piloting campaigns with customers in North and South America; plant sales; and engineering and technical development projects.

b) Adjusted EBITDA

We will provide guidance for 2013 and beyond in terms of Adjusted EBITDA (adjusted to exclude the effects of foreign exchange and stock based compensation charges). We believe that this non-GAAP measure will provide investors and observers with enhanced transparency and understanding of the underlying performance of the Company.

In 2012, our adjusted EBITDA was ($1.9) million. For 2013, we expect to improve our adjusted EBITDA by approximately 50% to less than ($1) million. The projected improvement in adjusted EBITDA is expected to come from additional margin generated via increased sales revenues and from continued improvements in the efficiency of our operating and engineering activities.

Both Proportional revenue and Adjusted EBITDA are non-GAAP measures without standard meaning under GAAP. Please refer to section "Non-GAAP Measures" (immediately below) for additional descriptions and reconciliation to corresponding GAAP measures.

NON-GAAP MEASURES

We use non-GAAP measures to supplement our consolidated financial statements presented in accordance with generally accepted accounting principles, or GAAP, to enhance investors' and observers' overall understanding of the Company's current financial performance. Non-GAAP measures have limitations in that they do not reflect all of the amounts associated with our 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 our results of operations in conjunction with the corresponding GAAP measures.

Operating cash flow (use), before changes in non-cash working capital

Operating cash flow (use), before changes in non-cash working capital is derived as follows:

	2012	2011	Dec 31 2010
	$	$	$
GAAP: Net cash provided by (used in) operating activities	(1,463)	(2,549)	1,198
Adjustment: Change in non-cash working capital items	(354)	(993)	(249)
Operating cash flow (use), before changes in non-cash working capital	(1,817)	(3,542)	949

Adjusted EBITDA

Adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization) is derived as follows:

	2012 $	2011 $	Dec 31 2010 $
GAAP: Net income (loss)	(3,367)	(5,090)	(10,929)
add: interest expense (income)	(60)	(125)	(179)
add: taxes	465	472	225
add: depreciation and amortization	976	695	880
EBITDA	(1,986)	(4,048)	(10,003)
add: stock-based compensation	130	102	471
add: net foreign exchange loss (gain)	(34)	205	(968)
Adjusted EBITDA	(1,890)	(3,742)	(10,500)

Proportional Revenue

Beginning in Q1 2013, we are required to adopt IFRS 11 as our standard for joint venture accounting (see Adoption of Accounting Standards and Pronouncements under IFRS). The new standard will require that we account for our joint ventures, the Bisbee and Dexing projects, using the equity method of consolidation. ***In general, going forward the revenue and operating costs associated with our proportionate share of activities in our joint ventures will be netted and disclosed as single line item on our Consolidated Statements of Operations.*** The change in accounting standard will not impact our overall, consolidated profitability or cash flow in past or future periods. **However, this change will, given the mandated accounting treatment, mean that the Company will show substantially lower revenues than it historically has.**

Given this, beginning in Q1 2013, we plan to also provide a non-GAAP financial measure, Proportional Revenue, to disclose the estimated revenue we would have reported had we continued to include our share of joint venture revenue on a gross basis – as has been the case since the Company's inception. We believe this disclosure will allow comparability of our future financial results to prior years and provide additional insight into our underlying results.

Below is a table outlining the estimated impact on our reported revenues for the years 2010-2012 had we applied the IFRS 11 standard during those years:

	2012 $	2011 $	Dec 31 2010 $
Revenues as reported / Proportional revenue	9,424	7,414	8,744
% change	27%	(15%)	37%
less: Revenue reported in joint ventures	(4,161)	(4,099)	(3,688)
Revenue as reported under IFRS 11	5,263	3,315	5,056
% change	59%	(34%)	35%

COMPARATIVE INFORMATION

(in $'000 except for per share amounts)

	2012	2011	2010
	$	$	$
Revenues	9,424	7,414	8,744
less: Plant & other operating costs (*excluding depreciation*)	5,770	4,654	4,921
	3,655	2,760	3,823
General and administrative expenses	4,822	4,990	3,094
Sales and development	1,555	955	843
	(2,723)	(3,185)	(114)
Depreciation and amortization	976	695	880
Stock-based compensation	130	102	471
Loss before other income (expenses)	(3,829)	(3,982)	(1,465)
Other income (expenses) – net	94	(81)	1,147
Reversal (impairment) of Lluvia de Oro operations	1,227	-	(10,386)
Other impairment/write down of assets	(394)	(555)	-
Income tax	(465)	(472)	(225)
Net loss for the year	(3,367)	(5,090)	(10,929)
Cumulative translation adjustment	(22)	408	(1,483)
Comprehensive loss for the year	(3,389)	(4,682)	(12,412)
Net loss per share (basic and diluted)	0.05	0.07	0.16
Net cash provided by (used in) operating activities, after changes in working capital	(1,463)	(2,549)	1,198
Adjusted EBITDA*	(1,890)	(3,742)	(10,500)

			at Dec 31
	2012	2011	2010
Working capital	7,356	9,520	13,835
Total assets	15,358	19,287	22,169
Total long term liabilities	2,611	200	47
Shareholder's equity	12,747	16,006	20,530

** see Non-GAAP measures*

COMPARISON OF RESULTS FOR THE YEAR ENDED DECEMEBER 31, 2012 TO DECEMEBER 31, 2011

The following is a summary of selected financial results for the year ending December 31, 2012.

Revenue

In 2012, revenues totaled $9.4 million compared to $7.4 million in 2011; a 27% increase. The change in total revenue from each revenue source is shown in the table below:

Project Type	**2012**	**% of total**	**2011**	**% of total**	**Total Revenue % Change**
	$		**$**		
Metal recovery	4,161	44%	4,099	55%	1%
Treatment fees	1,787	19%	1,802	24%	(1%)
Engineering services and plant sales	3,475	37%	1,513	20%	130%
Total revenues and fees	9,426	100%	7,414	100%	27%

In 2012, revenues from engineering services and plant sales were up significantly to $3.5 million compared to $1.5 million in 2011 a 130% increase over the prior year. Revenues for these services include design, construction, commissioning, pilot operations and testing contracts. The increase in revenue over 2011 was attributable to the sale of a mobile ion exchange plant for $1.2 million, increased revenue for engineering and technical support services at a Kinross Gold site during the year and revenue from several new lab testing contracts with potential to form the basis for full scale plant proposals.

During the year, we also negotiated the sale of equipment at NWM's mine site in Mexico. The total proceeds of this sale was USD $650,000. These proceeds are not included as revenue. Rather, they are included in the "Reversal of impairment of Lluvia de Oro operations" (see further description in "Expenses and Other Income" section).

2012 revenues from metal recovery operations, which include the joint ventures at Bisbee and Dexing, were $4.2 million, consistent with the prior year. While revenue for the year was similar to 2011, average copper prices in 2012 were significantly lower than in 2011. In 2011, the average copper price was US $4.00 per pound. The average copper price on the London Metal Exchange ("LME") during over 2012 was US $3.61 per pound – a 10% decrease year over year. Our actual net realized price of copper was $3.35 per pound in 2012 compared to $3.97 per pound in 2011. This negative price variance accounts for approximately $767,000 in revenue and gross margin year over year. In other words, had copper pricing in 2012 been the same as in 2011, our revenues and cash flow would have improved by a further $767,000. We were able to offset the decline in copper pricing by enhanced productivity at our copper producing operations. Our share of total copper recovered increased 207,000 pounds over 2011.

In 2012, revenues from treatment fees were $1.8 million, consistent with the prior year. We generated treatment fees at our operations at the Raglan and Minto mine sites based on volumes of water treated. Revenue from the Raglan site decreased from 2011 as we treated 864,000 cubic metres of water compared to 1.2 million cubic metres in 2011. The decrease in water volume was due to lower precipitation in the region than the prior year. The decrease at Raglan was offset by revenues from operations at the Minto site in 2012. The Minto site was inactive in 2011 at the request of the customer.

Plant & other operating costs (excluding depreciation)

Total plant & other operating costs (excluding depreciation) were $5.8 million compared to $4.7 million in 2011. Gross margin increased $868,000 from 2011 to 2012. BioteQ also continues to incur care and maintenance expenses for its water treatment plant at the Mount Gordon mine site which continues to be inactive. Operating costs were generally in line with budgeted expectations for the year. Costs also include an allocation of BioteQ's internal technical and engineering resources that are directly attributable to revenue generating projects.

As previously noted in the discussion of revenue, the decline in copper prices compared to the prior year has lowered gross margins on copper recovery revenue. In 2012, the impact of the negative price variance was $767,000.

Expenses and other income

In 2012, general and administrative expenses were $4.8 million compared to $5 million in the prior year quarter. The decrease in general and administrative costs was mainly due to one-time CEO transition and recruitment costs incurred in 2011 of about $750,000. This decrease was offset by higher incremental legal costs related to the Birla and NWM litigations, consulting fees and payments due to its former Chief Executive Officer, severance pay resulting from an internal efficiency review earlier in 2012 and modest increases in general administrative costs. However, some of these costs are essentially non-recurring and short-term in nature and will gradually be reduced or eliminated in 2013. In addition to these non-recurring costs, recurring costs increased with the addition of a Vice President of Sales & Marketing early in 2012.

Sales and development costs in 2012 were $1.6 million compared to $955,000 in 2011. Over the last year, we added key senior level sales and marketing resources including a dedicated sales resource for the Latin American market as part of our strategy to increase our presence in this geographic area. Additional engineering and technical resources have also been added to the sales effort to enable the company to deliver significant growth going forward.

Total depreciation and amortization expense was $976,000 in 2012 compared to $695,000 in 2011. At the beginning of 2012, we reduced the amortization period of certain assets to reflect our updated estimate of their useful life.

Stock based compensation charges were $130,000 compared to $102,000 in the prior year. These non-cash charges will fluctuate based on the number of securities issued and assumptions on the valuation and expected life of those securities.

We recognized a foreign exchange gain of $34,000 compared to a loss of $205,000 in 2011. These gains and losses arise mainly from changes in the value of the US dollar, Australian dollar, Mexican Peso, Chilean Peso and Chinese RMB relative to the Canadian dollar.

BioteQ recognized an impairment charge of $394,000 in relation to certain construction materials that were originally purchased for use in the Dexing ion exchange plant and now deemed redundant. The joint venture partners have determined that alternative equipment would provide improved operating performance long-term. The joint venture has negotiated a partial refund of the original construction materials that includes fixed and variable repayments over the next 12 months. These repayments will be recognized into income as they are received in subsequent periods.

During the year, we recognized the settlement of our litigation against NWM and the sale of equipment at NWM's mine site. The total value of the settlement and sale to NWM is approximately $2 million. This sum will be paid to BioteQ over a three year period. In addition, we will no longer have to incur anticipated demobilization costs which were accrued in prior years. The income from both transactions with NWM will be recognized as a "Reversal of impairment of Lluvia de Oro operations" on our Statement of Operations in the period that cash payments are received. For 2012, we have recognized the following amounts: $200,000 for the first payment of the legal settlement, $650,000 USD for the sale of plant equipment, and $375,000 for the reversal of demobilization costs accrued in prior years. The total amount of other income for the year was $1.2 million.

In 2012, income tax expense was $465,000 compared to $472,000 in 2011. The income tax charge is a result of taxable profits in China and Chile. These taxes cannot offset accumulated tax benefits in other jurisdictions.

Overall performance

Overall net loss for the year was $3.4 million or $0.05 per share, compared to a loss of $5.1 million in 2011, or a loss of $0.07 per share; a 34% improvement year over year.

Cash used in operating activities, after changes in working capital, was $1.5 million compared $2.5 million in 2011; a 43% improvement year over year.

Adjusted EBITDA was ($1.9) million compared to ($3.7) million in 2011; a 49% improvement over 2011.

COMPARISON OF QUARTERS

Financial data for the last eight quarters

(unaudited, in $'000 except per share amount)

Quarters ended	Dec-12	Sep-12	Jun-12	Mar-12	Dec-11	Sep-11	Jun-11	Mar-11
	$	$	$	$	$	$	$	$
Total revenues	2,089	2,773	2,398	2,164	1,736	2,948	1,406	1,324
Plant & other operating costs	1,137	1,572	1,652	1,409	1,360	1,351	837	1,106
	953	1,201	746	755	376	1,598	569	218
General & administrative	1,241	1,305	1,084	1,192	1,219	1,784	1,051	936
Sales and development	455	428	360	312	309	305	218	123
Depreciation & amortization	259	240	240	237	218	160	160	157
Stock based compensation	31	39	38	22	21	10	28	43
	(1,034)	(811)	(976)	(1,008)	(1,391)	(661)	(888)	(1,041)
Other income (expenses)	22	(31)	1,246	84	(11)	(122)	229	(177)
	(1,011)	(842)	270	(924)	(1,402)	(783)	(659)	(1,218)
Impairment charges	46	348	-	-	555	-	-	-
Income taxes	138	67	195	65	(39)	337	78	97
Net income (loss)	(1,196)	(1,257)	75	(989)	(1,918)	(1,121)	(737)	(1,315)
Cumulative translation adjustment	156	(197)	92	(73)	(32)	561	(178)	57
Comprehensive income (loss)	(1,040)	(1,454)	167	(1,062)	(1,950)	(560)	(915)	(1,258)
Net income (loss) per share	(0.02)	(0.02)	0.00	(0.01)	(0.02)	(0.02)	(0.01)	(0.02)

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. 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 2012 results

Below is a summary of revenue for Q4 2012 and Q4 2011:

Project Type	Q4 2012	% of total	Q4 2011	% of total	Total Revenue % Change
Metal recovery	669	32%	654	38%	1%
Treatment fees	298	14%	654	38%	(54%)
Engineering services and plant sales	1,122	54%	428	25%	164%
Total revenues	2,091	100%	1,736	100%	20%

Total revenues for Q4 2012 increased 20% over the prior year's quarter. Metal recovery revenue was consistent with 2011. In the quarter, our share of recovered copper 144,000 pounds compared to 198,000 pounds in 2011. The fourth quarter is typically our lowest quarter for copper production due to a three week annual maintenance shutdown at the Dexing site. Treatment fee revenue decreased 54% over the prior year as the Raglan site treated less water in the fourth quarter. Engineering services and plant sale fees increased 164% year over year largely due to the extension of our technical services contract at a Kinross Gold mine site and completion of various lab testing contracts.

Total operating costs decreased $195,000 over the prior year and gross profit increased from $376,000 in 2011 to $926,000 in 2012. This reflects a change in mix of revenue towards higher margin engineering services and plant sale activities during the quarter.

General & administrative costs were $1.2 million, consistent with the prior year. Significant expenses incurred during the quarter include litigation fees related to the Birla lawsuit and annual employee compensation benefits.

Sales and development costs were $455,000 compared to $309,000 in the prior year. The increased costs reflect the investment we have made over the last year to enhance our sales and marketing activities in targeted markets.

Overall net loss for the quarter was $1.2 million compared to a loss of $1.9 million in 2011.

PROJECT SUMMARY

The following chart summarizes significant 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	Current operations expected to recover a total of 600,000 pounds of copper in 2013.
Jiangxi Copper	Dexing, China	50% JV	Copper	$1,886,000	5,800,000	Current operations expected to recover a total of 1.8 million pounds of copper in 2013.
Jiangxi Copper	Dexing Ni-Co	50% JV	Nickel, cobalt	$2,100,000	4,600,000	Plant currently recovering small amounts of commercial grade metals. Currently undergoing upgrades and expected to commence commercial operations in Q2 2013.
Jiangxi Copper	Dexing, China	50% JV	Copper	$1,600,000	4,800,000	Engineering and design in progress. Expected completion in Q3 2013.
Xstrata	Raglan,PQ	Build, Own, Operate for Fees	Fees per m^3 of water	$2,000,000	1,100,000	Operating season concluded in November 2012. Current operating contract expires in April 2014. Plant is expected to treat 945,000 cubic metres of water in 2013.
	Spoon - Raglan, PQ	Operate	Fixed labour fees	Owned by customer	200,000	Operating season concluded in Q3 2012. Current operating contract expires in April 2014.
Current Design, Engineering and Commissioning Projects						
Freeport-McMoRan	Sulf-IX™ demo plant	Engineering services	Fees	Owned by customer	n/a	On-going technical services.
Kinross	Maricunga	Engineering services	Engineering and commissioning fees	Owned by customer	n/a	Technical services contract extended into 2013.
Newalta	Mobile Sulf-IX™ plant	Joint ownership	n/a	$486,000	n/a	Commissioning completed Q1 2013.
US Industrial Company	Mobile Sulf-IX™ pilot campaign	Engineering and technical services	Fees	n/a	n/a	Initial pilot campaign for Mobile Sulf-IX™ plant commenced in February 2013.
EcoMetales	Arsenic removal plant	Engineering services	Engineering and design fees	TBD – owned by customer	n/a	Engineering design is complete. Project now under review by customer.
Mining customer	Ion exchange for recovery of copper and other metals	Lab testing and technical evaluation	Fees	TBD	n/a	Test work complete; commercial proposal for plant supply in progress.
Mining customer	Selenium removal	Lab testing and technical evaluation	Fees	TBD	n/a	Test work in progress; technical evaluation and proposal to follow.
Minera Mexico (Grupo Mexico)	Copper leach solution treatment	Lab testing and technical evaluation	Fees	TBD	n/a	Test work in progress; commercial proposal to follow.
Minera Mexico (Grupo Mexico)	Metal recovery from zinc electrolyte	Lab testing and technical evaluation	Fees	TBD	n/a	Test work in progress; commercial proposal to follow.

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 $3.8 million USD. 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 greater than 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 2012	Q4 2011	Dec 31 YTD 2012	Dec 31 YTD 2011
Water treated (thousand cubic metres)	253	311	974	610
Mechanical availability (%)	78%	99%	79%	55%
Copper recovered (pounds)	123,000	167,000	492,000	330,000
Copper recovery (%)	98%	99%	99%	97%

In Q4 2012, the Bisbee plant treated a total of 253,000 cubic metres of water and recovered 123,000 pounds of copper, a decrease from 311,000 cubic metres of water and 167,000 pounds of copper in Q4 2011. The decrease was due to mechanical upgrades that took place during the quarter that temporarily shut down operations. The joint venture also implemented improvements to the water management system that will increase the availability of water in future periods.

For the 2012 year, the Bisbee plant treated 974,000 cubic metres of water and recovered 492,000 pounds of copper. This is an increase over 2011 when the plant treated 610,000 cubic metres of water and recovered 330,000 pounds of copper. 2012 operations were impacted by a shutdown in the second quarter for plant maintenance and upgrades.

With expected improvements in mechanical availability of the plant and the water management improvements put in place during the fourth quarter, we expect the Bisbee plant to increase production to 600,000 pounds of copper for 2013.

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; 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 2012	Q4 2011	Dec 31 YTD 2012	Dec 31 YTD 2011
Water treated (thousand cubic metres)	1,671	1,642	8,661	7,661
Mechanical availability (%)	99%	90%	99%	97%
Copper produced (pounds)	165,000	230,000	1,985,000	1,733,000
Copper recovery (%)	95%	95%	94%	96%

In Q4 2012, the Dexing plant treated a total of 1.7 million cubic metres of water and recovered 165,000 pounds of copper. Copper recovery decreased from 230,000 pounds in Q4 2011 to 165,000 pounds in Q4 2012. The decrease was mainly due to changes in feed water grade. The plant shuts down annually for approximately 3 weeks for routine repairs and maintenance.

For the 2012 year, the Dexing plant treated 8.7 million cubic metres of water and recovered just under 2 million pounds of copper; a record year for the operation. This is an increase over 2011 when the plant treated 7.7 million cubic metres of water and recovered 1.7 million pounds of copper. The increase was mainly due to higher than normal precipitation levels in the region over the year. At various points in the year, the plant ran above its normal design capacity to meet the demand.

With expected completion of the new copper recovery plant at the Dexing site (see below), the plant is expected to recover a total of 1.8 million pounds of copper in 2013. This is consistent with historical levels of operation and the normal design capacity of the plant.

Dexing Ion Exchange Plant, China: Joint-venture with Jiangxi Copper Company

In 2010, the JCC-BioteQ 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 was $1.3 million. Construction of the plant was completed in mid-2011. From mid-2011, BioteQ and JCC have performed testing and commissioning services.

During the commissioning process, the joint venture partners identified two issues that needed to be resolved before full commercial operations could begin:

- Mechanical risks were identified related to the materials and construction of certain process components. These issues are now well understood and a process to address these matters is in place; and
- As a result of testing during the commissioning process, the performance of a key piece of process equipment was reviewed for long-term performance. The joint venture partners have identified an alternative type of equipment to improve long-term performance of the plant and have begun implementing changes accordingly.

The plant is currently producing commercial grade metal concentrates in limited quantities and will ramp up production once the outstanding issue has been demonstrated to have been fully resolved. Full production is expected to be achieved in Q2 2013. Post plant modifications, we expect the total volume of metals recovered to be slightly lower than had initially been estimated but that operations will incur significantly lower operating costs. The revised annual recovery of metals is expected to be approximately 36,000 pounds of nickel and 53,000 pounds of cobalt per year.

New Dexing Copper Recovery Plant, China: Joint-venture with Jiangxi Copper Company

In Q3 2012, BioteQ and JCC announced plans to begin construction of a second water treatment plant to recover copper at the Dexing mine site in China. The joint venture partners will share equally in the capital costs of the plant and in the profits generated from operations. The total cost of the plant is expected to be $3.2 million. BioteQ's share of the capital cost is estimated to be $1.6 million, which will be funded from the existing cash reserves of the joint venture. Revenues from the operation of the new plant will be based on copper recovered, identical to the joint venture's existing copper recovery facility at the site.

During the plant execution process, BioteQ will contribute to the engineering design and will work with JCC personnel on the procurement of key process equipment. JCC will provide all permits and manage site construction. Staff from the existing joint venture will provide commissioning and operating services. Construction is slated to be completed and the plant in operation in Q3 2013.

The new plant will apply BioteQ's patented ChemSulphide® process to selectively recover copper from mine drainage, using a design similar to the copper recovery plant built at the site in 2008. This plant will address the Dexing mine's need for increased water treatment capacity.

The plant will be designed to treat up to 24,000 cubic metres of water per day. Annually, it is expected to treat approximately 4.6 million cubic metres of water and remove approximately 900,000 pounds of copper from the environment. The copper concentrate will be sold to Jiangxi Copper Company's refinery at market prices, less transportation and refining costs. The operating costs for the new plant are expected to be similar to the current operation, which has a production cost of approximately $1.50 per pound of copper recovered. The financial performance of this, as any copper recovery plant, can be impacted by copper price, the amount of copper dissolved in the water, and annual precipitation levels.

This is the fourth water treatment project between BioteQ and its joint venture partner, Jiangxi Copper Company (JCC). In 2006, BioteQ and JCC formed a joint venture to apply BioteQ's technology at JCC's mine sites. To date, the partners have designed, built, and operated three water treatment plants at the Dexing mine site, located near Dexing City in southeastern China, including a copper recovery plant that applies BioteQ's ChemSulphide® process to remove approximately 2 million pounds of copper annually from the environment, a BioteQ designed HDS lime treatment plant, and an ion exchange plant for recovery of cobalt and nickel. The joint venture projects have been recognized with several national and international awards for environmental performance and sustainability.

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 northern Quebec, owned by Xstrata Nickel. Because of the harsh winter conditions in northern Quebec, water is not available for processing until the spring thaw; the plant runs seasonally, typically from late spring to fall. 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 in April 2014.

Plant operating results	Q4 2012	Q4 2011	Dec 31 YTD 2012	Dec 31 YTD 2011
Water treated (thousand cubic metres)	241	484	864	1,066
Days operated (some partial)	42	92	149	200
Nickel recovery	98%	98%	98%	98%

BioteQ continues 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.

During Q4 2012, the plant discharged a total of 241,000 cubic metres of water compared to 484,000 cubic metres of water in 2011. The total volume of water decreased in 2012 due to lower precipitation in the region and the resultant availability of water for treatment. BioteQ has been working with the site owner to develop additional water treatment processes to increase treatment capacity at the site long-term. BioteQ successfully concluded its ninth operating season at the Raglan site in November.

For the 2013 operating season, the total volume of water treated is expected to be 945,000 cubic metres based on historical precipitation levels in the region. 2013 is also effectively the final operating season under the current contract. We are working with the customer to identify future water treatment requirements and to discuss options relating to water treatment for future years.

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 and commissioning of the plant was completed in 2010.

The Minto, Yukon operation commenced seasonal operations for 2012 in April. The plant treated 104,000 cubic metres of water as of mid-June when the plant concluded operations for the season slightly earlier than anticipated, pending an amendment to the site owner's water use license. Revenues for this operation are based on a combination of labour fees and fees for the volume of water treated. The original three year operating contract for the site has now been completed.

Engineering and Pilot Projects

During the year, the Company was engaged in several contracts for engineering and design projects. The following are the significant projects either in-progress or completed during the year:

- In Q1 2012, we delivered a mobile ion exchange water treatment plant to an international mining customer. Total proceeds from the sale of the plant and supplies were $1.2 million.
- Between Q1 and Q3 2012, we completed our contract to deliver engineering review and start-up support services for a Kinross Gold SART project. At the end of Q3, we entered into an agreement with Kinross to extend technical support services into 2013.
- In Q3 and Q4 2012, we completed engineering and lab testing for EcoMetales Limited, a strategic partner in Latin America. The project is now in the next phase of review, which will include environmental and other regulatory approval procedures.
- We completed construction of a mobile Sulf-IX unit that will provide pilot scale testing for sulphate removal. The mobile pilot plant, a joint initiative with Newalta Corporation, provides on-site field testing for sulphate removal from wastewater. Subsequent to year end, the parties announced the successful commissioning of the unit at a Newalta site. BioteQ also announced it had secured the first test contract for the unit with a US based industrial customer.
- We continue to provide ongoing technical and engineering services for a large scale Sulf-IX™ demonstration plant designed by BioteQ and built at a Freeport-McMoRan mine site in the southern US. The operation of the Sulf-IX™ plant is an important milestone to demonstrate BioteQ's Sulf-IX™ technology at this scale. We are working with Freeport-McMoRan to complete plant optimization by the middle of 2013.
- BioteQ obtained a total of seven paid testing contracts relating to a number of different applications. These testing contracts typically constitute the initial phase in the development of projects that could lead to the provision of full-scale treatment plants.
- Significant technology development progress was made in the areas of:
  a. Selective high-value metals recovery (one test contract signed); and
  b. Selenium removal (two test contracts signed).

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

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

In January 2009, the Mount Gordon mine site experienced heavy flooding during a severe rain storm. A portion of BioteQ's plant was damaged and we suspended our operating agreement under the force majeure provisions of the contract. We have 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 us alleging that BioteQ had breached and repudiated the agreement. Birla is seeking unspecified financial damages, interest and costs. We do not believe the allegations have merit and are vigorously defending our position. In February 2011, we filed legal action against Birla for breach of contract related to water treatment operations at the Mount Gordon site. We concurrently filed a statement of defense responding to claims for damages made by Birla in 2010. Both cases have yet to go to trial.

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

In April 2012, we negotiated a settlement of our outstanding lawsuit against NWM Mining Corporation ("NWM") for unpaid lease payments relating to a treatment plant built at NWM's Mexican mine site. Subsequent to the legal settlement, we negotiated the sale of our existing plant equipment at the site to NWM. Terms of each transaction are noted below:

a) The legal settlement was for $1.3 million, which included an immediate payment of $200,000, a second payment of $400,000 due in April 2013, and a final payment of $700,000 due in April 2014. All future payment obligations are secure by a $2 million “Consent to Judgment” that BioteQ can enforce against NWM in the event of a default. The initial payment for $200,000 has been received in Q2 2012.

b) The sale of the plant equipment was for a total price of $650,000 USD. The terms of the sale included transfer of all equipment at the site on an “as-is” basis to NWM with no further obligations or warranties from BioteQ related to the equipment or site. BioteQ maintained ownership of the process logic control (“PLC”) system that formed a key intellectual property component of the plant. Payment for the equipment was received in full in Q2 2012 and the PLC has been returned to BioteQ.

The total value of the settlement and sale with NWM is approximately $2 million. In addition to the cash settlement, we will not have to incur anticipated demobilization costs of $375,000 which were accrued in prior years. The income from both transactions with NWM will be recognized as a “Reversal of impairment charges” on BioteQ’s Statement of Operations in the period that cash payments are received. The reversal of accrued demobilization costs was recognized in the Q2 2012.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2012, BioteQ had 69,966,672 common shares issued and outstanding (unchanged from December 31, 2011), 4,781,666 stock options outstanding (December 31, 2011 - 4,802,000) and 3,636,364 warrants outstanding (unchanged from December 31, 2011).

As of March 15, 2013 the number of stock options issued and outstanding are 5,244,999. The number of common shares and warrants issued and outstanding remain unchanged from December 31, 2012.

At December 31, 2012, the Company had cash and short-term investments, consisting of banker’s acceptance notes, of $7,528,726, a decrease of $1,732,341 from December 31, 2011. This cash has primarily funded operating activities of $1,462,776, net capital asset purchases of $282,128.

Working capital at the end of the year was $7,356,022, a decrease of $2,164,305 from December 31, 2011. BioteQ’s significant working capital items include trade receivables of $1,380,672 ($1,664,326 at December 31, 2011) and trade payables of $1,976,636 ($2,659,249 at December 31, 2011).

BioteQ has estimated future commitments of $1.6 million for the completion of the new water treatment plants at the Dexing mine site and $895,115 under operating leases for office and laboratory premises and for office equipment. The balance of available funds is largely uncommitted.

To date, the Company has not yet realized profitable operations and has relied on non-operational sources of financing to fund its operations. Management believes that the current working capital will be sufficient to enable the Company to meet its anticipated operating, capital expenditure, growth, and other financial requirements in the near term.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The application of certain accounting policies requires the Company to make estimates and judgments based on assumptions. For a complete discussion of accounting estimates and judgments deemed most critical by the Company, refer to the Company’s annual 2012 audited financial statements.

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, 2012 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

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 assessed the impact that the new and amended standards will have on its financial statements and concluded that there will be no material differences except as noted below.

The following is a description of the new standards:

IFRS 7 *Financial Instruments: Disclosure*

In December 2011, the IASB issued amendments to IFRS 7 Financial Instruments which enhances the current offsetting disclosure. The amendments require an entity to disclose information about rights of set-off and related arrangements (e.g. collateral agreements). The disclosure will provide users with information in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set off in accordance with IAS 32.

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*.

The Company has two joint arrangements: Bisbee and Dexing (see note 4 in the 2012 audited financial statements). The Company undertook an analysis and concluded that both of the joint arrangements met the criteria for joint venture as specified under IFRS 11. Accordingly, the two joint ventures will be accounted for using the equity method of accounting. This guidance is effective for years beginning on or after January 1, 2013 and will be applied retrospectively.

The adoption of IFRS 11 will have a significant impact on the presentation of the Company's financial statements. Asset, liabilities, revenues and expenses presented on the financial statements will not include the Company's pro rata share of each of the assets, liabilities, revenues and expenses in the joint ventures. The Company will present its investment in the joint ventures at cost and the carrying value, adjusted thereafter to include the Company's pro rata share of earnings of the joint ventures. The investment account of the Company is also increased or decreased to reflect the Company's share of capital transactions. For the year-ended December 31, 2012, the Company accounted for the results from the Bisbee and Dexing joint ventures using the proportionate consolidation method (note 2 in the 2012 audited financial statements).

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.

IAS 32 *Financial Instruments: Presentation*
In December 2011, the IASB issued amendments to IAS 32 *Financial Instruments: Presentation* which clarifies the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems which apply gross settlement mechanism that are not simultaneous. Further, the rights of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the other specific situations and not be contingent on a future event. The guidance is effective for years beginning on or after January 1, 2013 and will be applied retrospectively.

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.

March 15, 2013

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. and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2012 and December 31, 2011 and the consolidated statements of operations and comprehensive loss, statement of changes in equity and statement of cash flow for the years then ended, 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
PricewaterhouseCoopers Place, 250 Howe Street, Suite 700, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806, www.pwc.com/ca

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of BioteQ Environmental Technologies Inc. and its subsidiaries as at December 31, 2012 and December 31, 2011 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed) PricewaterhouseCoopers LLP

Chartered Accountants

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 700, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806, www.pwc.com/ca

BioteQ Environmental Technologies Inc.
Consolidated Statements of Financial Position
For the years ended December 31, 2012 and 2011

	Dec 31 2012 $	Dec 31 2011 $
Assets		
Current assets		
Cash and cash equivalents	5,594,154	4,774,970
Short-term investments	1,934,572	4,486,097
Trade receivables	1,380,672	1,664,326
Receivable from joint venture partners (note 17)	159,724	182,286
Net insurance proceeds receivable (note 20)	-	637,099
Taxes recoverable	41,131	153,889
Inventory (note 7)	89,957	48,174
Work in progress	229,797	432,261
Other receivable and prepaid expenses	306,641	222,709
	9,736,648	12,601,811
Non-current assets		
Property, plant and equipment (note 4, 8 and 16)	5,582,740	6,615,837
Intangible asset	38,710	69,682
Total assets	15,358,098	19,287,330
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,976,636	2,659,249
Deferred revenue	91,970	340,185
Taxes payable	251,930	63,105
Deferred lease inducement	60,090	18,945
	2,380,626	3,081,484
Non-current liabilities		
Deferred income tax liability (note 13)	146,140	88,713
Long-term liabilities (note 9)	84,723	111,146
Total liabilities	2,611,489	3,281,343
Shareholders' Equity		
Capital stock and warrants (note 10)	55,269,416	55,269,416
Contributed surplus	8,247,007	8,117,400
Accumulated other comprehensive loss	(1,097,611)	(1,075,369)
Deficit	(49,672,203)	(46,305,460)
Total shareholders' equity	12,746,609	16,005,987
Total liabilities and shareholders' equity	15,358,098	19,287,330

Contingency *(note 20)*
Commitments *(note 21)*
Subsequent event *(note 23)*

Approved by the Board of Directors

"Jonathan Wilkinson"	"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, 2012 and 2011

	2012 $	2011 $
Revenue	9,424,179	7,413,797
Plant and other operating costs (not including depreciation)	5,769,513	4,654,065
	3,654,666	2,759,732
General and administration	4,822,446	4,991,527
Sales and development	1,555,154	955,225
Stock-based compensation (note 10)	129,607	101,878
Depreciation of property, plant and equipment (note 8)	945,098	664,038
Amortization of intangible asset	30,972	30,972
Loss before the under-noted	(3,828,611)	(3,983,908)
Interest income	48,602	122,418
Other income	11,886	2,376
Foreign exchange gain (loss)	33,915	(204,519)
Write-down of capital assets (note 8)	-	(554,565)
Reversal of impairment of Lluvia de Oro operations (note 6)	1,226,873	-
Impairment of reagent (note 4)	(394,214)	-
Loss before income taxes	(2,901,549)	(4,618,198)
Income taxes (note 13)	465,194	472,257
Net loss for the year	(3,366,743)	(5,090,455)
Other comprehensive income (loss)		
Cumulative translation adjustment	(22,242)	407,576
Comprehensive loss for the year	(3,388,985)	(4,682,879)
Net loss per share		
Basic and diluted	(0.05)	(0.07)
Weighted average number of shares outstanding		
Basic and diluted	69,966,672	69,949,120

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, 2012 and 2011

	Number of shares	Capital stock	Warrants	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total
		$	$	$	$	$	$
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 (note 10)	-	-	-	101,878	-	-	101,878
Exercise of options	101,666	87,187	-	(30,304)	-	-	56,883
Net loss for the year	-	-	-	-	-	(5,090,455)	(5,090,455)
Other comprehensive loss 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
Balance - January 1, 2012	69,966,672	53,755,999	1,513,417	8,117,400	(1,075,369)	(46,305,460)	16,005,987
Stock-based compensation (note 10)	-	-	-	129,607	-	-	129,607
Net loss for the year	-	-	-	-	-	(3,366,743)	(3,366,743)
Other comprehensive income for the year	-	-	-	-	(22,242)	-	(22,242)
Balance - December 31, 2012	69,966,672	53,755,999	1,513,417	8,247,007	(1,097,611)	(49,672,203)	12,746,609

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

	2012 $	2011 $
Cash flow used in		
Operating activities		
Net loss for the period	(3,366,743)	(5,090,455)
Items not affecting cash:		
Depreciation of property, plant and equipment	945,098	664,038
Amortization of intangible asset	30,972	30,972
Amortization of deferred lease inducement	(22,328)	(28,417)
Deferred income tax	57,427	88,713
Write down of capital asset (note 8)	-	554,565
Impairment of reagent (note 4)	394,214	-
Loss on disposal of equipment	-	6,171
Unrealized foreign exchange loss	29,548	230,021
Interest income	(14,880)	(99,110)
Stock-based compensation charge (note 10)	129,607	101,878
	(1,817,085)	(3,541,624)
Change in non-cash working capital items (note 15)	354,309	992,968
Net cash used in operating activities	(1,462,776)	(2,548,656)
Investing activities		
Purchase of property, plant and equipment	(559,678)	(984,892)
Proceeds on disposal of equipment	-	12,604
Receipt of government grant (note 19)	277,550	-
Purchase of short-term investments	(3,908,203)	(14,053,596)
Proceeds from sale of short-term investments	6,474,608	17,624,000
Net cash provided by investing activities	2,284,277	2,598,116
Financing activities		
Proceeds from exercise of options	-	56,883
Increase in deferred lease inducement	63,473	-
Increase (decrease) in long-term liabilities	(26,423)	64,262
Net cash provided by financing activities	37,050	121,145
	858,551	170,605
Effect of exchange rate changes on cash	(39,367)	(49,100)
Increase in cash	819,184	121,505
Cash		
Beginning of period	4,774,970	4,653,465
End of period	5,594,154	4,774,970

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 remove and recover dissolved metals and to remove contaminants such as sulphate and selenium 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, treatment fees, and engineering services and plant sales. Please refer to note 2 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 Suite 1000 – 1050 West Pender Street, Vancouver, BC.

The Company's Board of Directors approved these consolidated financial statements on March 15, 2013.

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. For the year-ended December 31, 2012, the Company incurred a net loss of $3,366,743 (2011 - $5,090,455), had a net decrease in cash and short-term investments of $1,732,341 (2011 – $3,349,789) and used net cash in operating activities of $1,462,776 (2011 – $2,548,656). 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. Significant accounting policies

These consolidated financial statements have been prepared in accordance with IFRS as issued by IASB. The Company has consistently applied the accounting policies used in the preparation of its financial statements for all periods presented. 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.

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 4) 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 unrestricted security deposits held at the Company’s banks which can readily be converted to cash.

Short-term investments

Short-term investments consist of bankers’ acceptances with maturities of 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.

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 derivatives 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.

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, and net insurance proceeds 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
Inventory of metal concentrate is 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
Work in progress represents the costs that the Company incurred for projects that are not billed at the balance sheet date. This amount includes both direct materials and direct labour costs.

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 labour 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:

Computer equipment	3 years
Furniture and fixture, and general equipment	5 years
Vehicles	5 years
Pilot plants	3 – 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 36 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 granted Deferred Share Units ("DSU") to non-employee members of the Board of Directors until the plan was closed on January 1, 2012. 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

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.

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, piloting, commissioning and 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. Lab services include experiment design, experimental equipment and reagent procurement, test apparatus setup, conducting of experiments, disposals of samples and delivery of final lab reports on the results. The Company recognizes revenue from lab services by either the percentage of completion or completed contract method depending on the specific circumstances of the individual contracts.

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 assessed the impact that the new and amended standards will have on its financial statements and concluded that there will be no material differences except as noted below.

The following is a description of the new standards:

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*.

The Company has two joint arrangements: Bisbee and Dexing (note 4). The Company undertook an analysis and concluded that both of the joint arrangements met the criteria for joint venture as specified under IFRS 11. Accordingly, the two joint ventures will be accounted for using the equity method of accounting. This guidance is effective for years beginning on or after January 1, 2013 and will be applied using the modified retrospective application guidance requirements of IFRS 11.

The adoption of IFRS 11 will have a significant impact on the presentation of the Company's financial statements. Asset, liabilities, revenues and expenses presented on the financial statements will not include the Company's pro rata share of each of the assets, liabilities, revenues and expenses in the joint ventures. The Company will present its investment in the joint ventures at cost and the carrying value, adjusted thereafter to include the Company's pro rata share of earnings of the joint ventures. The investment account of the Company is also increased or decreased to reflect the Company's share of capital transactions. For the year-ended December 31, 2012, the Company accounted for the results from the Bisbee and Dexing joint ventures using the proportionate consolidation method (note 2 *consolidation*). The adoption of IFRS 11 is not anticipated to have a business impact on the Company.

IFRS 7 *Financial Instruments: Disclosure*
In December 2011, the IASB issued amendments to IFRS 7 Financial Instruments which enhances the current offsetting disclosure. The amendments require an entity to disclose information about rights of set-off and related arrangements (e.g. collateral agreements). The disclosure will provide users with information in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set off in accordance with IAS 32.

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 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.

IAS 32 *Financial Instruments: Presentation*
In December 2011, the IASB issued amendments to IAS 32 *Financial Instruments: Presentation* which clarifies the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems which apply gross settlement mechanism that are not simultaneous. Further, the rights of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the other specific situations and not be contingent on a future event. The guidance is effective for years beginning on or after January 1, 2013 and will be applied retrospectively.

3. Critical Accounting Estimates and Judgments

In preparing the consolidated financial statements, management undertakes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgments, estimates and assumptions made by management. 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
In 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. The Company recorded a total impairment charge of $7,414,091 at December 31, 2010 and January 1, 2010 for the full carrying value of the Mt. Gordon water treatment plant and inventory.

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, 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
In 2010, the Company recorded an impairment charge of $8,282,650 for the full carrying value of the loan receivable from NWM Mining Corporation with respect to the Lluvia de Oro agreement. Refer to note 6 for the partial reversal of the impairment charge for 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, 2012. 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.

4. 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, USA. The plant recovers copper from low-grade wastewater. 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, 2012 $	Dec 31, 2011 $
Consolidated statement of financial position		
Current assets	37,942	33,199
Non-current assets	1,464,749	1,757,026
Current liabilities	1,114	1,214

	2012 $	2011 $
Consolidated statement of operations		
Revenue	806,581	515,883
Plant and other operating costs (not including depreciation)	(711,374)	(667,798)
Depreciation	(313,425)	(306,534)
Net loss for the year	(218,218)	(458,449)

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 technologies. 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 a potential five additional sites owned and operated by JCC. This first plant commenced operations on April 1, 2008.

In 2010, the joint venture partners began construction of an ion exchange water treatment plant (the "Dexing Ion Exchange Plant") at the Dexing mine site to recover cobalt and nickel from wastewater using an innovative ion exchange based technology developed by BioteQ. BioteQ's share of the capital cost is expected to be approximately $1.3 million. Construction of the plant was completed in mid-2011. From mid-2011, BioteQ and JCC have continued to perform testing and commissioning services. During the commissioning process, the joint venture partners identified certain mechanical risks, and certain process equipment did not yield the optimal level of operating performance.

The mechanical risks have been resolved and an implementation plan developed. With respect to the process equipment, the joint venture partners have conducted significant testing and analysis and determined that an alternative approach utilizing different materials would improve performance of the plant. The joint venture partners completed part of the required modification work in Q4 2012 and the remaining work will be completed in Q1 2013. The joint venture partners expect the plant will move into commercial production in Q2 2013.

BioteQ recorded an impairment charge of $394,214 related to the original process equipment that will no longer be used and thus a corresponding reduction in the net book value of construction in process.

At December 31, 2012, BioteQ has recognized a total of $1,120,262, net of the government grant for $277,550, (2011 - $1,804,471, net of $Nil) as construction in progress costs and has future commitments of $Nil (2011 - $300,000) towards the final completion of the Dexing Ion Exchange Plant.

In September 2012, the joint venture partners committed a further $3.2 million to build an additional copper recovery plant (ChemSulphide® technology – similar to the first water treatment plant at the Dexing mine). This will be the fourth plant designed by BioteQ at JCC's Dexing mine site. The joint venture partners will share equally in the capital costs of the plant and in the profits generated from operations. BioteQ's share of the capital cost is estimated to be $1.6 million, which will be funded from existing cash reserves of the joint venture. Revenues from the operation of the new plant will be based on copper recovered, identical to the joint venture's existing copper recovery facility at JCC's Dexing mine site.

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

	Dec 31, 2012	**Dec 31, 2011**
	$	**$**
Consolidated statement of financial position		
Current assets	4,042,314	2,832,280
Non-current assets	2,283,201	3,201,940
Current liabilities	724,726	912,927
Long-term liabilities	146,140	88,713

	2012	**2011**
	$	**$**
Consolidated statement of operations		
Revenue	3,354,867	3,583,328
Plant and other operating costs (not including depreciation)	(1,594,196)	(2,085,181)
Depreciation	(151,729)	(137,556)
General and administration	(489,562)	(449,286)
Interest income	10,619	48,396
Impairment of reagent	(394,214)	-
Income taxes	(275,870)	(341,158)
Net income for the year	459,915	618,543

5. 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 agreements

During the year, the Company signed an agreement with Compania Minera Maricunga, a wholly-owned subsidiary of Kinross Gold ("Kinross") to provide technical support services for a SART Plant. The services under this contract were completed in December 2012 and the revenue was recognized in full in 2012. Subsequent to year-end, the Company secured a second contract with Kinross to extend the on-site technical support services until December 2013.

6. NWM Settlement and the Sale of the Lluvia de Oro Water Treatment Plant

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 NWM's failure to make the agreed upon lease payments and alleged deficiencies with the plant. The Company recorded an impairment charge of $8,282,650 in 2010, comprising of $7,907,650 for the full carrying value of the lease and $375,000 for estimated site removal costs.

On April 25, 2012, the Company reached a settlement agreement with NWM. Under the terms of the settlement agreement, NWM will pay BioteQ $1.3 million in cash over 2013 and 2014. The first $200,000 payment from NWM was received on April 26, 2012. A second payment of $400,000 is due April 30, 2013. The final payment of $700,000 is due April 30, 2014. In the event that NWM is sold, or sells or transfers its assets, the payments will become due immediately. If NWM fails to make the specified payments, BioteQ has been provided with a $2 million consent to judgement that it can enforce against NWM. The $2 million figure remains in place until the final payment is made to BioteQ.

On June 18, 2012, the Company agreed to sell a majority of equipment from its Lluvia de Oro plant to NWM for US $650,000. BioteQ received the full payment on June 27, 2012.

In connection to these transactions, BioteQ has reversed a portion of the impairment charge on the Lluvia de Oro operation that was recognized in 2010. The reversal consists of the $200,000 settlement amount that was received during the year, the sale price of the plant equipment for US $650,000 and a reversal of accrued demobilization cost of US $375,000. Future settlement payments will be recorded as reversal of impairment for the Lluvia de Oro operations in the period when the funds are received.

7. Inventory

	Dec 31, 2012 $	Dec 31, 2011 $
Inventory of chemicals and spare parts	45,201	43,304
Inventory of metal concentrate	44,756	4,870
	89,957	48,174

8. Property, Plant and Equipment

	Water treatment plants	Construction in progress	Other (1)	Total
	$	$	$	$
Year ended December 31, 2011				
Opening net book value	4,638,783	1,773,359	229,526	6,641,668
Additions	(102,459)	952,567	142,869	992,977
Disposals	-	-	(18,775)	(18,775)
Transferred from (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	125,678	85,177	7,715	218,570
Closing net book value	4,606,808	1,804,471	204,558	6,615,837
At December 31, 2011				
Cost	7,943,212	1,725,232	584,844	10,253,288
Accumulated depreciation, impairment and other	(3,336,404)	79,239	(380,286)	(3,637,451)
	4,606,808	1,804,471	204,558	6,615,837
Year ended December 31, 2012				
Opening net book value	4,606,808	1,804,471	204,558	6,615,837
Additions	55,769	576,149	124,084	756,002
Government grant (note 19)	-	(277,550)	-	(277,550)
Transferred from work in progress	-	36,510	-	36,510
Impairment of reagent (note 4)	-	(394,214)	-	(394,214)
Reversal of over-accrual of construction costs	-	(196,324)	-	(196,324)
Depreciation	(817,249)	-	(127,849)	(945,098)
Foreign exchange translation	1,050	(12,133)	(1,340)	(12,423)
Closing net book value	3,846,378	1,536,909	199,453	5,582,740
At December 31, 2012				
Cost	7,998,981	1,469,803	686,732	10,155,516
Accumulated depreciation, impairment and other	(4,152,603)	67,106	(487,279)	(4,572,776)
	3,846,378	1,536,909	199,453	5,582,740

In 2011, the Company recorded a write down of capital assets for $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.

(1) "Other" is comprised of pilot plants, furniture and fixtures, general equipment, computer equipment, and vehicles.

9. 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.

Effective January 1, 2012, the Company modified the compensation structure for the Board of Directors. As a result of this modification, the Company ceased granting new DSUs to non-executive Board members. Instead, the Company has begun to issue stock options to non-executive Board members as part of their total compensation.

As at December 31, 2012, there were 564,225 (December 31, 2011 – 564,225) DSUs outstanding. During the year, there were no redemptions of DSUs.

10. 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 technology and operating expertise of both companies. In connection with this agreement, Newalta purchased 3,636,364 common shares of the Company, at an issue price of $1.10 per share, for total cash consideration of $4 million. Each share purchased includes an additional warrant to purchase one common share of the Company at $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, 2012, 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:

	2012		2011	
Stock Options	**Weighted Average Exercise Price $**	**Options Granted (Quantity)**	**Weighted Average Exercise Price $**	**Options Granted (Quantity)**
Outstanding at January 1	1.98	4,802,000	2.13	6,148,001
Options exercised	-	-	0.56	(101,666)
Options granted	0.19	1,555,000	0.29	930,000
Options forfeited and expired	3.68	(1,575,334)	1.63	(2,174,335)
Outstanding at December 31	0.89	4,781,666	1.98	4,802,000

Of the 4,781,666 outstanding options (2011 – 4,802,000), 2,606,635 options (2011 – 3,872,000) were exercisable.

The Company uses the Black-Scholes option pricing model in determining the fair value of the stock options. The following summary provides information on the grants and inputs to the Black-Scholes model.

On February 1, 2012, the Company granted 250,000 stock options with 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 in five years after the grant date. The fair value of this grant was determined at $0.13 per option. The significant assumptions in the Black-Scholes model were: weighted average share price of $0.24 on the grant date, exercise price as shown above, volatility of approximately 81%, an expected option life of 3 years and an annual risk-free interest rate of 1.09%.

On April 10, 2012, the Company granted 540,000 stock options with an exercise price of $0.19 to the directors 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 in five years after the grant date. The fair value of the grant was determined at $0.08 per option. The significant assumptions in the Black-Scholes model were: weighted average share price of $0.18 on the grant date, exercise price as shown above, volatility of approximately 73%, an expected option life of 3 years and an annual risk-free interest rate of 1.52%.

On May 24, 2012, the Company granted 60,000 options with an exercise price of $0.17 to a director 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 in five years after the grant date. The fair value of the grant was determined at $0.08 per option. The significant assumptions in the Black-Scholes model were: weighted average share price of $0.17 on the grant date, exercise price as shown above, volatility of approximately 74%, an expected option life of 3 years and an annual risk-free rate of 1.18%.

On November 22, 2012, the Company granted 705,000 options with an exercise price of $0.18 to the employees and officers 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 in five years after the grant date. The fair value of the grant was determined at $0.07 per option. The significant assumptions in the Black-Scholes model were, weighted average share price of $0.17 on the grant date, exercise price as shown above, volatility of approximately of approximately 71%, an expected option life of 3 years and an annual risk rate of 1.16%. The Company adjusted for a forfeiture rate of 50,000 options as one of the officers left the Company subsequent to the year-end.

Exercise Price Range $	Exercise price per share $	Expiry date	2012 Total Options (Quantity)	2011 Total Options (Quantity)
0.01 to 0.50				
	0.17	2017	60,000	-
	0.18	2017	705,000	-
	0.19	2017	540,000	-
	0.23	2017	250,000	-
	0.23	2016	180,000	180,000
	0.30	2016	750,000	750,000
			2,485,000	930,000
0.51 to 1.00				
	0.53	2014	450,000	458,334
	0.58	2014	356,666	436,666
	0.78	2015	400,000	400,000
			1,206,666	1,295,000
1.01 to 1.50				
	1.21	2015	180,000	260,000
1.51 to 2.00				
	2.00	2012	-	50,000
2.01 to 2.50				
	2.30	2012	-	16,600
3.01 to 3.50				
	3.00	2013	905,000	990,000
	3.05	2013	5,000	20,000
			910,000	1,010,000
4.01 to 4.50				
	4.20	2012	-	1,190,400
	4.29	2012	-	25,000
	4.38	2012	-	25,000
			-	1,240,400
			4,781,666	**4,802,000**

11. Expenses by Nature

	2012	2011
	$	$
Changes in inventory	(41,783)	6,549
Raw materials and consumables used	4,336,609	2,644,946
Employee benefits	5,612,448	5,041,622
Professional fees	1,117,796	712,730
Other expenses	1,122,043	2,194,970
	12,147,113	10,600,817

12. Wages and Employee Benefits Expense

	2012	2011
	$	$
Salaries and short-term benefits	5,612,448	4,808,771
Share and option-based payments	129,607	334,729
	5,742,055	5,143,500

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

	2012	2011
	$	$
Salaries, fees and short-term benefits	1,334,012	1,657,661
Share and option-based payments	136,841	328,861
	1,470,853	1,986,522

13. Income taxes

	2012	2011
	$	$
Current tax:		
Current tax on profits for the year	407,767	383,544
Deferred tax:		
Origination and reversal of timing difference	57,427	88,713
Income tax expense	465,194	472,257

The statutory tax rate to income tax expense (recovery) was 25.0% (2011 – 26.5%) for the year-ended December 31, 2012. 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:

	2012	**2011**
	$	**$**
Income tax recovery at statutory rates	(733,329)	(1,223,822)
Tax losses for which no deferred income tax asset was recognized	1,459,155	2,172,738
Non-deductible expenses	40,209	31,306
Tax rate differences	(126,842)	(258,171)
Other	(173,999)	(249,794)
Income tax expense	465,194	472,257

As at December 31, 2012, the Company has approximately $919,000 (2011 - $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 $21,043,255 (2011 - $16,295,998) 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	4,086,003
2032	3,898,614
	21,043,255

In addition, the Company has available tax losses in other jurisdictions that total $16,625,634 (2011 - $16,282,315). 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, 2012, the Company's future tax assets and liabilities are as follows:

Deferred tax assets:

	2012	2011
	$	$
Intangible asset	(9,678)	(17,421)
Property, plant and equipment	3,737,176	3,560,580
Lease inducement	15,023	-
Unpaid compensation	50,983	-
Foreign tax credits	252,230	63,104
Research and development expense carry-forwards	294,250	294,250
Reserves	-	112,500
Non-capital losses carry-forwards	10,347,007	9,148,817
	14,686,991	13,161,830
Deferred tax assets not recognized	(14,686,991)	(13,161,830)
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 utilized.

Deferred tax liability:

	2012	2011
	$	$
Property, plant and equipment	146,140	88,713

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

	2012	2011
	$	$
At January 1	88,713	-
Charge to the statement of operations	57,427	88,713
At December 31	146,140	88,713

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

	Accelerated tax depreciation
	$
At January 1, 2012	88,713
Charge to the statement of operations	57,427
At December 31, 2012	146,140

14. 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.

	2012	2011
Net loss attributable to owners of the parent ($)	(3,366,743)	(5,090,455)
Weighted average number of common shares outstanding	69,966,672	69,949,120
Basic loss per share ($)	(0.05)	(0.07)

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.

	2012	2011
Net loss attributable to owners of the parent ($)	(3,366,743)	(5,090,455)
Weighted average number of common shares outstanding	69,966,672	69,949,120
Adjustments for:		
Warrants	-	-
Stock Options	-	-
Weighted average number of common shares outstanding for diluted loss per share	69,966,672	69,949,120
Diluted loss per share ($)	(0.05)	(0.07)

15. Consolidated Statement of Cash Flow – Supplemental Information

	2012	2011
Change in non-cash working capital items	**$**	**$**
Decrease in trade receivables	283,654	12,637
Decrease (increase) in receivable from joint venture partners	22,562	(2,082)
Decrease (increase) in net insurance receivable	637,099	(18,851)
Decrease (increase) in taxes recoverable	112,758	(138,420)
Decrease (increase) in inventory	(41,783)	6,549
Decrease (increase) in work in progress	165,954	(402,883)
Decrease (increase) in other receivable and prepaid expenses	(83,932)	18,380
Increase (decrease) in accounts payable and accrued liabilities	(682,613)	1,114,348
Increase (decrease) in deferred revenue	(248,215)	340,185
Increase in taxes payable	188,825	63,105
Change in non-cash working capital items	354,309	992,968

16. 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:

	2012	2011
	$	$
Metal recovery	4,161,448	4,098,797
Treatment fees	1,787,400	1,801,898
Engineering services and plant sales	3,475,331	1,513,102
	9,424,179	7,413,797

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

	2012	2011
	$	$
Revenue		
Canada	3,261,217	1,806,398
U.S.	818,903	590,555
China	3,354,867	3,582,913
Chile	1,818,718	592,891
Other	170,474	841,040
	9,424,179	7,413,797

	Dec 31, 2012	Dec 31, 2011
	$	$
Property, plant and equipment		
Canada	847,338	1,214,653
U.S.	1,464,749	1,757,026
China	1,719,069	3,631,102
Chile	14,675	13,056
	4,045,831	6,615,837

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:

	2012	2011
	$	$
Customer A	2,855,423	1,679,969
Customer B	3,354,867	3,582,913
Customer C	479,466	121,929
Customer F	1,239,909	317,300
	7,929,665	5,702,111

17. 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, 2012, the Bisbee joint venture's sales to FMI were in the amount of $806,581 (2011 - $515,883). As at December 31, 2012, the amount receivable from FMI was $67,814 (2011 - $90,814)

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, 2012, the Dexing joint venture's sales to JCC were in the amount of $3,354,867 (2011 - $3,582,913). As at December 31, 2012, the amount receivable from JCC was $91,910 (2011 - $91,472)

During the year, BioteQ provided engineering services to a company whose key management personnel is also director of BioteQ for an amount of $41,924 (2011 - $Nil).

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.

18. Financial Instruments and Fair Values

Measurement categories

As explained in Note 2, 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, 2012 and 2011.

	Dec 31, 2012	**Dec 31, 2011**
	$	**$**
Assets		
Loan and receivables		
Cash	5,594,154	4,774,970
Short-term investments	1,934,572	4,486,097
Trade receivables	1,380,672	1,664,326
Receivable from joint venture partners	159,724	182,286
Net insurance proceeds receivable	-	637,099
	9,069,122	11,744,778
Liabilities		
Amortized cost		
Trade payables	533,435	479,624

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.

As shown in the table above, 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 2011.

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, 2012 was $48,602 (2011 - $122,418). It is estimated that net income (loss) would fluctuate by $2,665 (2011 - $41,000) 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 and trade receivables. As the Company does not utilize credit derivatives or similar instruments, the maximum exposure to credit risk is the full carrying value of the financial instrument. The Company minimizes the credit risk 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 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, 2012, the allowance for doubtful accounts balance was $nil (2011 - $nil). In addition, BioteQ recorded a bad debt expense of $nil during the year ended December 31, 2012 (2011 - $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.

As of December 31, 2012, there were tax related receivables of $443,500 (2011- $516,021) which accounted for 32% (2011 - 31%) of all trade receivables. Of this balance, $431,854 (2011 - $509,074) is related to Mexican VAT tax, which was 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 part of the Company's revenues is 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 $46,243. For the year ended December 31, 2012, the Company reported a foreign exchange gain (loss) of $33,915 (2010 - $(204,915)).

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, 2012, the Company's accounts payable and accrued liabilities were $1,976,636 (2011 - $2,659,249), which fall due for payment within twelve months of the balance sheet date. See note 20 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, 2012, the Company had copper sales of $67,490 (2011 - $82,054) that were subject to commodity price risk. If copper prices change by 1% against the value recorded, the impact would result in either an increase or decrease in revenue of $675 (2011 - $821).

19. Government Assistance

In March 2012, the Jiangxi Provincial Development and Reform Commission in China announced that the Dexing joint venture's new ion exchange plant was the recipient of a $550,100 (RMB $3,500,000) government grant. The Dexing joint venture received the full amount of the grant in April 2012 and May 2012. As the Dexing joint venture fulfilled all conditions of receiving the grant, the Company recorded its 50% share of $277,550 as a reduction to the cost of construction in progress.

20. Contingency

In 2008, the Company completed the 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. The Company provided for all capital costs and expected to earn revenue from metals recovered.

In January 2009, the Mt. Gordon mine site experienced heavy flooding during a severe rain storm. A portion of the Company's plant and equipment were damaged and the Company suspended its operating agreement under the force majeure provisions of the contract (note 3).

In 2010, the Company 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). The Company received the full amount of the insurance proceeds in February 2012.

In 2010, Birla commenced legal action against the Company alleging that the Company 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. As at December 31, 2012, the Company did not record any contingency for the Birla lawsuit.

21. Commitments

In 2011, 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 payable amount was recorded on the Company's financial statements for 2011. As at December 31, 2012, the remaining payable amount was $203,931 (2011 - $466,431).

In March 2012, the Company entered into a lease agreement for a new office premise. The lease commenced on October 1, 2012 with a term of five years.

In July 2012, the Company renewed the lease for the laboratory facility and storage space. The renewal commenced on September 1, 2012 with a term of two years.

The Company has commitments of $895,115 under operating leases for office and laboratory premises and for office equipment, as follows:

	$
2013	213,976
2014	207,194
2015	169,678
2016	173,867
2017	130,400
	895,115

22. 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.

The Company 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.

23. Subsequent Event

Subsequent to the year-end, the Dexing joint venture received US $50,000 from a supplier for a refund for certain equipment that was impaired (note 4). The supplier will also provide a second amount of US $50,000 in 2013. Further, an additional amount of refund may be available depending on the sale price of the original equipment to other third parties. The Company will record its 50% share of the refunds against the impairment charge in the period when the cash is received.

Board of Directors

George W. Poling [2,4] 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
Toronto, Ontario

Christopher A. Fleming [3,4] PhD
Senior Metallurgist Consultant
SGS Minerals Services
Lakesfield, Ontario

Peter Gleeson [1,3]
Independent Businessman
Seattle, Washington

Clement A. Pelletier [2,4] BSc
Chief Executive Officer
Rescan Environmental Services Ltd.
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 & 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

Andrew Hall MASc, MBA
Vice President, Sales & Marketing

Corporate Information

Investor Relations
Tel: 1 800 537 3073
investor@bioteq.ca

Legal Counsel
McCarthy Tétrault LLP
Vancouver, British Columbia

Auditors
PricewaterhouseCoopers
Vancouver, British Columbia

Annual Meeting
9:00 am Thursday, May 9, 2013
Vancouver Marriott Pinnacle Downtown Hotel
1128 West Hastings Street
Vancouver, British Columbia V6E 4R5

Banker
HSBC Bank Canada
Vancouver, British Columbia

Transfer Agent
Computershare
Vancouver, British Columbia

Stock Exchange
Toronto Stock Exchange (TSX)
Symbol: BQE

BioteQ Environmental Technologies
Suite 1000 - 1050 West Pender Street
Vancouver BC Canada V6E 3S7
t 604.685.1243 *f* 604.685.7778
tf 1.800.537.3073
investors@bioteq.ca www.bioteq.ca