BIOTEQ
ENVIRONMENTAL TECHNOLOGIES INC.

2013 ANNUAL REPORT

INSIDE FRONT COVER

Contents

Company Profile

BioteQ Environmental Technologies is a leading developer of water treatment solutions for the mining, energy and industrial markets.

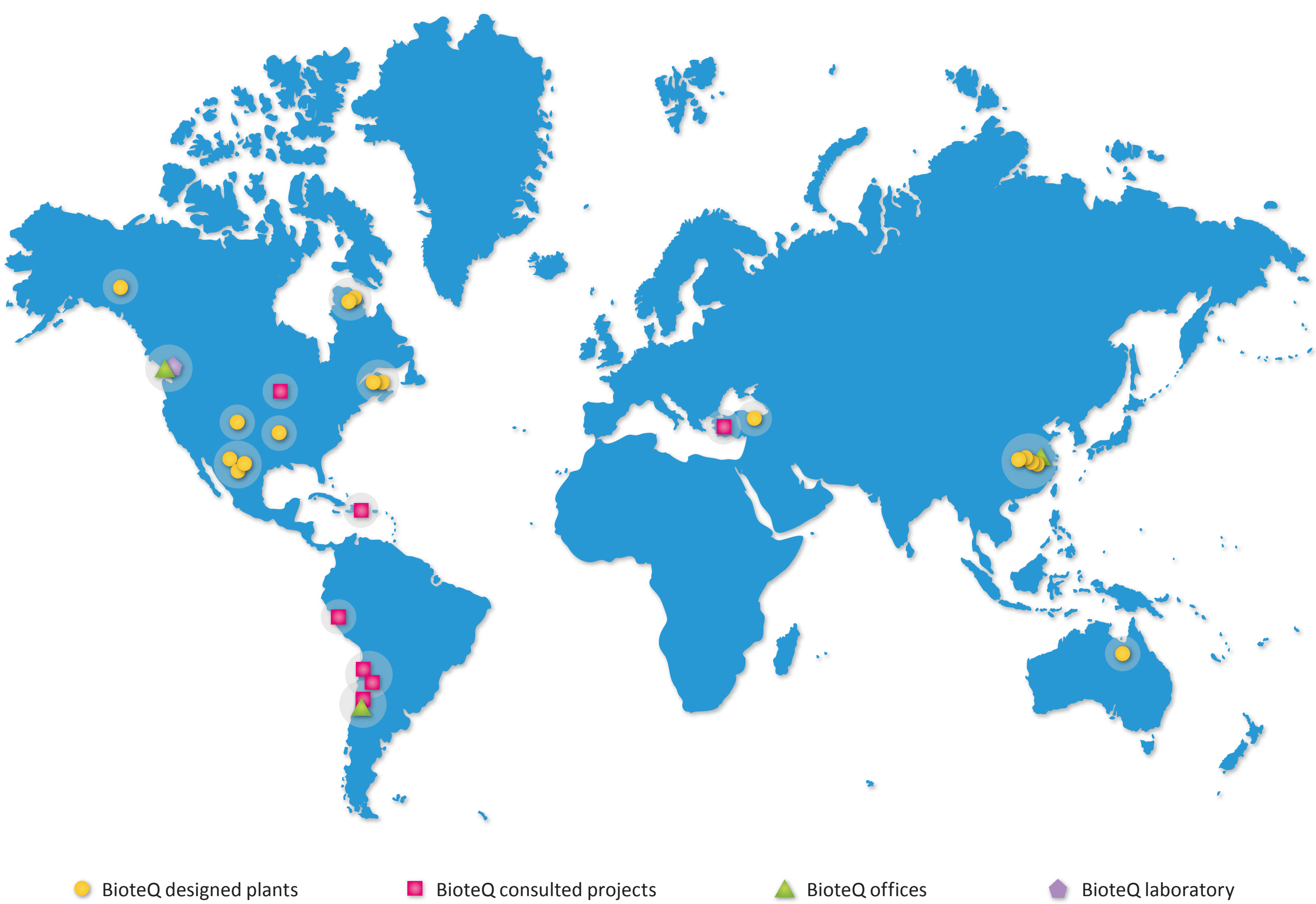
The company offers proprietary process technologies to selectively recover dissolved metals and remove constituents such as sulphate and selenium from wastewater. Application of these technologies produce treated water for re-use or discharge to the environment, reduce or eliminate residual waste and recover saleable by-products from wastewater.

Customers turn to BioteQ for proven technologies that will help them to comply with stringent/ultra-low environmental discharge limits for a host of harmful constituents cost effectively, develop new revenue streams from the recovery of metal by-products, recycle up to 99% of process water for re-use and lower water treatment life cycle costs.

With headquarters and a laboratory in Vancouver, Canada and offices in Chile and China, BioteQ has the in-house expertise to offer a full scope of services, from lab and pilot testing, design and engineering, equipment procurement, plant commissioning, operations and training to on-going technical support.

This knowledge base and hands-on operational experience makes BioteQ uniquely positioned to deliver practical solutions to meet the specific water treatment requirements of each project site.

Over the past decade, BioteQ has designed, supplied, commissioned, operated and provided consultancy services for water treatment plants at sites around the world for corporations that include Glencore Canada, Kinross, Freeport McMoran, Jiangxi Copper, Koza Gold and the US EPA.



Technology Portfolio

The BioteQ portfolio of patented process technologies includes sulphide precipitation for metal recovery or removal and ion exchange based solutions for the removal of metals and constituents such as sulphate and selenium from wastewater.

Metal Recovery & Removal

BioSulphide® and **ChemSulphide®** use biological and chemical sources of sulphide to selectively precipitate dissolved metals from wastewater. With the metals removed, waste sludge is reduced or eliminated and the treated water meets requirements for re-use or discharge to the environment. The technologies remove metals that are toxic and recover metals of value in a form that can be sold to offset water treatment costs.

This extensive sulphide precipitation know-how is also applied to making the **SART** process operable. SART was developed by SGS Lakefield and Teck Corporation to improve the economics of polymetallic gold projects. The process removes the metallurgical interference of cyanide-soluble metals and regenerates the cyanide for recycle to the gold leaching circuit. SART improves gold yields and reduces operating costs.

Met-IX™ treats wastewater containing very low dissolved metal concentrations that must be lowered further to meet stringent environmental discharge limits. The technology is effective for extracting low concentrations of metals with appreciable value while producing treated water for re-use or discharge.

In some cases, BioSulphide®, ChemSulphide® and Met-IX™ can be combined with lime treatment to improve the performance of lime plants by reducing both the metal content in the waste sludge and the overall volume of sludge produced, in addition to improving water quality.

Sulphate Removal

Sulf-IX™ and **Sulf-IXC™** remove sulphate and hardness from wastewater. The technologies produce treated water to comply with sulphate discharge regulations with the only by-product a gypsum solid. These processes can also improve efficiencies in industrial water use applications such as cooling towers by removing sulphate to allow for increased water recirculation and re-use.

Selenium Removal

Selen-IX™ is being developed to remove selenium from water streams. Selenium is present in mine water run-off and coal-fired power plant process waters. Its toxicity at high levels is leading to increased regulatory scrutiny. Selen-IX™ offers effective selenium removal and stabilization at a low total life cycle cost to meet industry requirements for a reliable and cost effective solution.

Sulf-IX™ plant removes calcium and sulphate hardness from wastewater for discharge.

Sulphide precipitation plant that treats mine drainage and recovers dissolved copper.

Met-IX™ plant produces treated water for discharge and a regenerant stream directed to a ChemSulphide® plant for nickel recovery.

Mobile Selen-IX™ plant conducts field testing to remove selenium from wastewater.

Message from the CEO

Returning to BioteQ

While considering several career options following my departure from BioteQ in October 2013, I came to the realization that however interesting and financially rewarding opportunities outside of BioteQ may be, I knew that with the right strategy, business model and management structure, the company could become a huge success and a dominant player in the industrial water treatment industry.

I believe the company is well positioned to exploit treatment gaps in specific areas of the overall market and that BioteQ is truly a unique and exciting company with much to offer:

- The company has a portfolio of patented commercial technologies and technologies under development that positions the company well for success in an industry that is moving towards the adoption of stricter effluent discharge limits, endorsing the recovery of value from waste to reduce life cycle costs, and placing greater emphasis on corporate social responsibility.

- BioteQ combines the brick and mortar aspect of building water treatment plants with the practical experience of operating these plants to produce clean water and/or valuable solid residues as the final products. Additionally, the company is continuously innovating new treatment technologies in response to industry needs and bringing them to market.

- A team of dedicated, competent and highly professional staff who I have come to know very well, and who have the diverse knowledge and expertise in process design, hands-on plant operation and technology development. I view the team as the single most important asset that will enable the company to achieve long-term success.

My decision to return was further based on the recognition that I can strengthen the company's capacity to attract new business with my knowledge of the industry, experience and network of contacts that I have acquired after more than 20 years working in water treatment and chemical processing.

I look forward to the challenge and opportunity to grow a company whose mission is to help industry protect the environment and foster sustainability through innovation.

And I am encouraged by the fact the board of directors and shareholders are aligned in supporting the vision of building the company steadily using a business model of recurring revenues and which is based on realistic expectations that takes into account the relatively long sales cycle and an evolving addressable market.

Looking ahead

Building on past successes and lessons learned

Over the past 13 years, the company has achieved success in a number of areas including:

- Establishing itself as a leader in providing innovative water treatment in the mining industry by successfully commercializing ChemSulphide®, BioSulphide® and SART treatment technologies;
- Designing, building and/or operating 15 treatment facilities around the world in addition to providing consulting services on numerous other projects;
- Maintaining a strong safety record at its operations;
- Building a strong and capable team to carry the company forward;
- Establishing and growing recurring revenue from its operations with long-term operating contracts and partnerships with some of the largest mining companies in the world including Glencore Canada and Jiangxi Copper;
- Building a strong technology partnership with Freeport McMoran in the area of sulphate removal using BioteQ's Sulf-IX™ process;
- Initiating the development of Selen-IX™, a new selenium treatment process which captured the interest of Teck Resources and who are currently funding further development to expand the scope of the technology to include nitrate removal; and
- Being recognized with a number of prominent awards including the PDAC award for environmental and social responsibility which earned BioteQ the recognition of being a sustainability leader in the mining industry.

There are also a numbers of lessons learned that will help us improve the company's overall performance moving forward:

- Very careful selection of business partners in Build-Own-Operate projects to provide BioteQ with long-term recurring revenue and mitigate the risks of this business model;
- Building an organizational structure that allows sales and business development activities to be led by staff with a strong background in our technologies and experience in the mining sector; and
- Targeting projects where the application of BioteQ's technologies can bring considerable value to the customer.

Return to the recurring revenue business model
As we work towards our new direction, the company will focus on developing projects that will generate long-term recurring revenue based on the volume of water treated and/or the mass load of constituents removed or recovered. The advantages of recurring revenue projects are many:

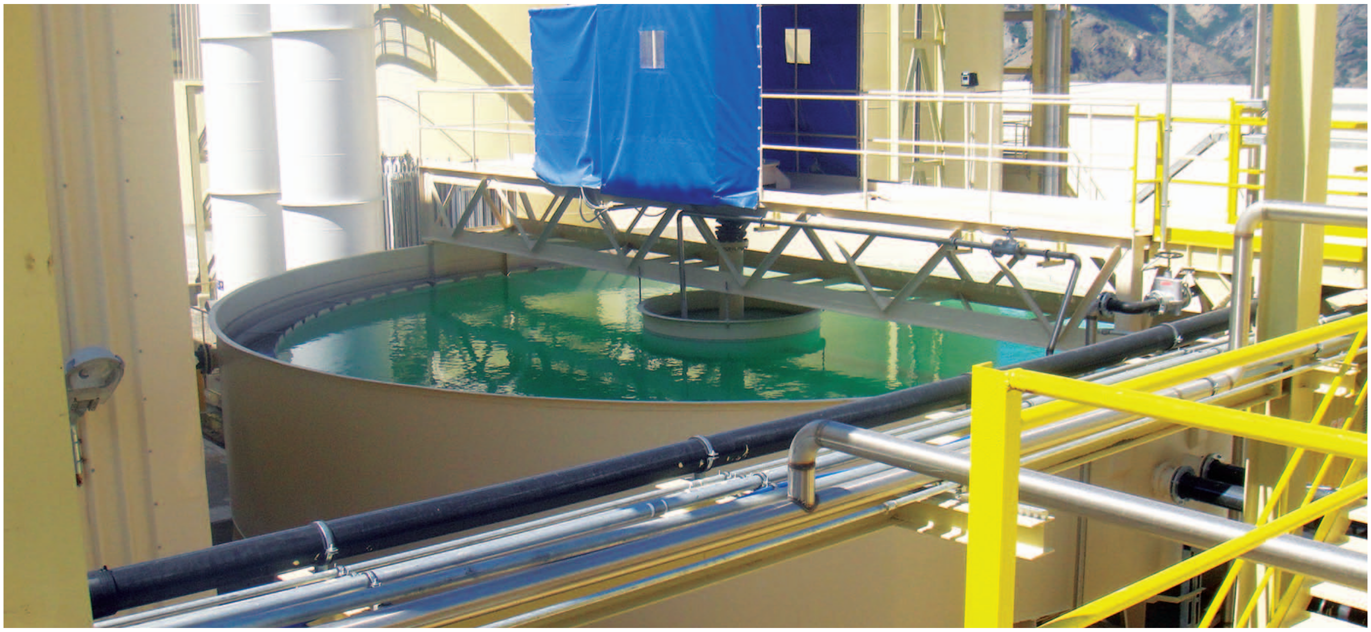
- Supports predictable financial performance and provides financial stability throughout the industry's business cycles;
- Allows the company to better monetize the value of its technologies and avoid a margin squeeze typical for equipment and services supply contracts in a highly competitive marketplace;
- Promotes relationship building with customers as long-term partnerships rather than vendor-purchaser exchanges centred on individual transactions; and
- Facilitates the commercialization of new technologies by sharing the technical and financial risks for early adopters of new technologies and fits well with BioteQ's core value of innovation.

The long-term success of BioteQ's operations at the Raglan (Glencore Canada) and Dexing (JCC) mine sites demonstrate the success of this model globally in various jurisdictions. Customers who view BioteQ as a partner are more likely to reward us with repeat business. This is exemplified by JCC who recently awarded us with two new plants under our joint venture agreement and is a model we will strive to repeat with future customers.

Continued focus on strategic innovation
New environmental regulations have opened new global market opportunities in the areas of selenium and sulphate removal. While enforcement of these regulations vary from jurisdiction to jurisdiction, forward looking mining companies and those applying for expansion or new mine development permits will have a significant interest in accessing cost-effective technologies to achieve compliance with the new regulations. Consequently, BioteQ will continue to focus on accelerating the development of its Selen-IX™ and improving its Sulf-IX™ process technologies to offer more technically robust and financially attractive treatment solutions to what is currently available.

Building a strong sales pipeline
Based on our experience, the typical sales cycle in our industry is about 2-3 years. Therefore, it is important to have a strong sales pipeline and to continuously grow it in order to identify projects with strong treatment drivers and who are open to applying our preferred business model as early in the sales process as possible. To overcome market and sales cycle challenges, BioteQ will focus on:

- Proactive outreach to existing and potential new customers to communicate our new strategy and how this direction fits with their current and future needs;



- Engaging with leading consulting and EPCM companies, who often act as technology arbiters, to increase their awareness of BioteQ's technologies and capabilities; and

- Working closely with partners and agents with knowledge of local markets, particularly outside of Canada, who are excited about the opportunity to work with BioteQ to deploy our technology solutions.

Overcoming balance sheet limitations
With current constraints on our available working capital, execution of our new strategy in the short-term will involve:

- Focusing on strengthening existing partner relationships and selectively developing new relationships with parties interested in investing in projects using BioteQ's technologies;

- Focusing sales activities on projects where the value generated by our technologies is sufficiently large to provide an attractive return on investment; and

- Exploring alternate methods and sources of project specific financing.

Achieving positive cash flow and future profitability
The first step to improving our financial strength is to break even on an operating cash flow basis. While certain progress has taken place to work towards this in 2014, we will be challenged to meet this target for the year:

- Our recurring revenue is expected to increase with the new plants coming on stream in China, however, these plants will not commence operations and begin contributing cash flow until the second quarter of 2014;

- The management changes and corporate restructuring undertaken in February 2014 will reduce the company's ongoing expenses in the long-term but the impact of these changes will not be fully realized until 2015; and

- There is uncertainty around the cost, outcome and settlement of litigation related to past projects.

Our focus will be on our core business where we can provide value to customers who recognize the benefits of our technology and expertise. In the short-term, we will supplement recurring revenue with strategic one-time plant sales and technical services provision in areas including sulphate and selenium treatment, molybdenum recovery and SART where BioteQ has established itself.

I look forward to returning BioteQ to the recurring revenue business model which capitalizes on the company's strength and fits well with its core competencies and which will support steady growth for the company over the long-term.

David Kratochvil
Interim Chief Executive Officer

Management's Report to Shareholders

The accompanying Consolidated Financial Statements, Management's Discussion and Analysis and all information in the Annual Report have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. The Consolidated Financial Statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and, where appropriate, reflect management's best estimates and judgements. Management is responsible for the accuracy, integrity and objectivity of the Consolidated Financial Statements and Management's Discussion and Analysis within reasonable limits of materiality and for the consistency of financial data included in the text of the Annual Report with that contained in the consolidated financial statements.

To assist management in the discharge of these responsibilities, the Company maintains a system of internal controls designed to provide reasonable assurance that its assets are safeguarded; that only valid and authorized transactions are executed; and that accurate, timely and comprehensive financial information is prepared. The Consolidated Financial Statements have been independently audited by PricewaterhouseCoopers LLP. Their report for 2013 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.

Dr. David Kratochvil
Interim 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 31, 2014

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 2013 Management's Discussion and Analysis ("MD&A") should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2013, under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Users should consider the disclosures in note 1 titled "General Information and Going Concern" of the audited consolidated financial statements for the year ended December 31, 2013 and the section "Liquidity and Capital Resources" in this MD&A.

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

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.

2013 OVERVIEW

In 2013, we continued to solve challenging water treatment problems for the resource sector with operations in Canada, the U.S., Chile and China. For the year, these operations treated a total of 10,259,000 cubic metres of water and removed 2,098,000 pounds of metals from the environment.

We also made significant progress in the development of new technologies to expand our portfolio of solutions, particularly in the areas of sulphate and selenium removal.

Annual Financial Results:

- Revenues as reported under GAAP were $4.1 million compared $5.3 million in 2012, a decline of 23% year over year;
- Proportional revenues for the year were $7.6 million compared to $9.4 million in 2012, a decline of 19% year over year;
- Adjusted earnings before interest, tax, depreciation and amortization ("adjusted EBITDA") for the year was a loss of $5 million compared to $1.9 million in 2012. Excluding the impact of one-time, non-cash impairment charges, our adjusted EBITDA loss was $2.3 million in 2013;
- Net loss as reported under GAAP was $6.4 million compared to $3.4 million in 2012; and
- Cash and cash equivalents and short term investments, including our share held in joint ventures, was $3.2 million compared to $7.5 million at the end of 2012.

Water Treatment Operations:

- We successfully completed our 10th operating season at the Raglan mine site. During the year, we treated and discharged a total of 838,000 cubic metres of water compared to 864,000 cubic metres in 2012. We also announced the extension of our service contract with mine site owner, Glencore Canada Corporation ("Glencore") (formally Xstrata PLC), for an additional three years to the end of the 2016.
- During the year, our existing water treatment operation at the Dexing mine site, a joint venture with mine site owner Jiangxi Copper Company ("JCC"), treated 8,847,000 cubic metres of water and recovered a total of 1,831,000 pounds of copper compared to 2012 when we treated 8,661,000 cubic metres of water and recovered 1,985,000 pounds of copper.
- In November 2013, we announced that we had indefinitely furloughed water treatment operations at the Bisbee mine site in Arizona. The plant and operations were a joint venture with mine site owner Freeport McMoran Copper & Gold ("FMI"). At the time, we assessed the future profitability of the operation given expected performance and copper prices and determined that it would be in the best interest of both partners to furlough operations. As a result, we recognized an impairment charge of approximately $1.5 million, the full carrying value of our investment in the joint venture.

Projects and Technology Development:

- In the first half of 2013, we continued to provide technical support services to Kinross Corporation ("Kinross") at a mine site in South America. These services were a continuation of our work with Kinross that began in 2011. Our contract with Kinross at this site concluded as of July 7, 2013.

- In Q1 2013, we successfully completed commissioning of a mobile Sulf-IX™ pilot plant that was jointly funded by Newalta Corporation ("Newalta") and BioteQ. This unit provides on-site field testing for sulphate removal from wastewater. Data collected from the pilot plant testing will be used to validate the applicability of the technology to new water streams and to generate the design criteria for full-scale Sulf-IX™ water treatment plants.

  Upon completion of commissioning, we conducted two separate pilot campaigns with a U.S. based industrial company. The pilot campaigns were aimed at testing sulphate removal from wastewater generated from flue gas treatment. The campaigns were successful in demonstrating the technology's application to the customer's treatment needs and further enhanced the development of the technology. We are currently discussing the results of these pilot campaigns with the customer to determine next steps towards a possible commercial agreement.

  Following the conclusion of the first test campaign, we sold our ownership share of the mobile Sulf-IX™ pilot plant to Newalta for approximately $500,000. Under the terms of the agreement, we continue to retain full ownership of our

Sulf-IX™ intellectual property. However, sale of this test unit will ensure that planning and execution for deployment of the unit will be more efficient and that the new arrangement will more effectively leverage the strengths of both Newalta and BioteQ on future test campaigns.

- In Q2 2013, we secured a contract with Teck Resources Limited ("Teck") to conduct pilot scale testing of our innovative new Selen-IX™ technology for selenium removal. Work under the contract was completed in late 2013. However, in Q3 2013, Teck changed the original statement of requirements for the Selen-IX™ process and expanded the scope of treatment to include the removal of not only selenium but also nitrate from mine impacted waters. In response to this change, BioteQ initiated a laboratory testing program that would help establish what changes or additions need to be made to the original process for selenium removal. We are currently reviewing the results of lab testing for nitrate removal and the pilot campaign for selenium with Teck in order to determine the path forward for continuing development of the selenium and nitrate removal technology; and
- Under the terms of the Teck agreement, we invested approximately $550,000 to construct a Selen-IX™ pilot plant for selenium removal only. We retain ownership of the pilot plant and all associated intellectual property for future test campaigns. Beyond our current work with Teck, we are actively exploring new customer sites to deploy the plant to further demonstrate the technology.

New Plants – Joint Venture with JCC:

- In August 2013, we announced an agreement with joint venture partner JCC, to build a copper recovery water treatment plant at the Yinshan mine site in China. The Yinshan Mine is an active copper mine located in southeast China approximately 30 km from the Dexing site where the joint venture has existing metals recovery water treatment plants. Plant construction is currently in progress and the plant is expected to begin operations in Q2 2014. Once completed, the plant is expected to treat approximately 5.3 million cubic metres of water and recover 930,000 pounds of copper on an annual basis.
- During 2013, we continued construction of a second copper recovery plant at the Dexing mine site. The plant is scheduled to begin operations in Q2 2014. Once completed, the plant is expected to treat approximately 5 million cubic metres of water and recover 900,000 pounds of copper on an annual basis.
- During 2013, we continued commissioning of an ion exchange plant to recover cobalt and nickel at the Dexing site. Over the course of the project, the plant has experienced problems with construction quality, performance issues with key components and changes in operating conditions at the site which has delayed completion. Currently, the plant is in a condition that could run as designed. However, most recently, we have identified a new issue that would lead to longer term performance issues if the problem is not addressed. As a result, commissioning has been delayed until this matter can be investigated and resolved.

  Given the current uncertainty around the plant, we feel that for financial reporting purposes, the full carrying value of the plant of approximately $1.2 million should be impaired at this time. However, we plan to continue investigating the current issue and work towards a long-term solution. If the plant is able to begin operations in the future, we will re-evaluate and reverse the impairment as appropriate.

Other Items:

- In December 2013, we began a financing under a Share Rights Offering to raise gross proceeds of approximately $1.2 million. The proceeds from the offering will be used to fund operating expenses and other general working capital needs. The financing closed in January 2014.
- In February 2014, we announced changes to our executive management team and roles on our Board of Directors as follows:
  1) Jonathan Wilkinson stepped down from his positions as Chief Executive Officer and Board member;
  2) David Kratochvil, previously BioteQ's President and Chief Technology Officer, rejoined the Company in the capacity of Interim Chief Executive Officer;
  3) George Poling stepped down from his capacity as Board Chair due to personal reasons, although he will remain on the BioteQ Board; and

4) Peter Gleeson, previously a non-executive member of the Board, assumed an executive management role as Executive Chairman.

2013 COMMENTARY AND 2014 OUTLOOK

While we have been pleased with our development of new technologies, specifically Sulf-IX™ and Selen-IX™, and continued growth in China with our joint venture partner JCC, our commercial progress and financial performance fell well short of our expectations set at the beginning of the year. We ended 2012 with high expectations for the year and anticipated continued momentum in 2013. As noted in our prior updates, the mining industry has been a challenging one in 2013. This has had its impact on BioteQ in at least a couple of ways:

- The decline in metal prices has impacted the financial performance of BioteQ's copper recovery operations;
- Significant constraints that have been imposed on capital spending by mining companies have resulted in the cancellation or delay of several projects on which BioteQ had been actively working and have resulted in a significant slowdown in new project development more generally; and
- Our cash and working capital resources have declined to a level that required us to make significant restructuring decisions and implement cost savings measures to preserve capital. We also asked shareholders to provide additional resources through our recently completed Share Rights Offering to strengthen our liquidity position.

Despite these challenges, we believe that attractive opportunities exist for our technologies in the mining sector; particularly due to the adoption and enforcement of new stringent effluent discharge regulations in many jurisdictions around the world.

The management and board changes announced in February 2014 are part of a plan that will include a renewed emphasis on the development and provision of innovative technical solutions for the mining sector. The emphasis for BioteQ going forward will be to pursue opportunities that will lead to the generation of recurring revenues to the Company and that will allow us to play a role of a technical expert and a technology partner to customers seeking to manage technical risks associated with achieving compliance with new challenging environmental regulations. These partnerships will better align the interests of BioteQ and its customers in the success of projects over the long term while utilizing the Company's core strengths and expertise. Our strategy and short-term goals will include the following:

- Build on past successes and lessons learned;
- Continued focus on the completion of our new plants in China to begin generating cash flow as soon as possible. The Yinshan plant will begin commissioning within the next month and expected begin to recovering copper upon completion. The second copper plant at Dexing is currently completing commissioning. It is expected to begin commissioning in late May and being operations in June 2014.
- Accelerate the development of our Selen-IX™ process and improve Sulf-IX™ process in order to present technically robust and financially attractive alternatives to conventional technologies; and
- Rebuild a pipeline of sales projects that will focus on opportunities that utilize our proven commercial technologies and new strategic areas of the market (selenium and sulphate) that can generate long-term recurring revenue based on the volume of water treated and/or the mass load of contaminants removed or recovered.

We are in the early stages of this transition and progress on this renewed strategy will take time to develop. The strategy will also evolve as our new technologies are developed and markets can be assessed to confirm the acceptance of our recurring revenue model.

In terms of our current financial outlook for the year, although our recurring revenue is expected to increase this year, it may prove to be challenging to break even on an operating cash flow basis due to:

- The volume of one-time sales that can be recognized in the short-term;
- Uncertainty on the cost, outcome and settlement of litigation related to prior projects;
- Management changes and corporate restructuring will reduce the company's ongoing expenses in the long-term but the impact of these changes will not be fully realized until 2015; and
- The recent decline in copper prices which impacts the results of our operations in China.

We will provide more specific updates on our financial projections for the year in subsequent quarters as near term opportunities are fully evaluated.

NON-GAAP MEASURES

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

Proportional Revenue and Other Proportional Results

Commencing with our financial year beginning January 1, 2013, we were required to adopt IFRS 11 as our standard for joint venture accounting. The new standard requires that we account for our joint ventures, the Bisbee and Dexing projects, using the equity method of accounting. Accordingly:

- The revenue and operating costs associated with our proportionate share of activities in our joint ventures are netted and disclosed as a single line item on our consolidated statements of operations and comprehensive loss; and
- Our share of assets, liabilities and equity in each joint venture are presented as a net investment on our consolidated statement of financial position.

The change in accounting standard does not impact our overall, consolidated profitability or cash flow in past or future periods. However, given the mandated accounting treatment, this change means that the Company reports substantially lower revenues than it historically has.

To ensure clarity and comparability with historic results, certain statements in this MD&A are characterized as BioteQ's proportional share ("Proportional"), which means the effective portion of results that we would have reported if each of our joint ventures had been reported in accordance with past accounting standards.

Beginning in 2013, we are providing non-GAAP financial measures which are based on the past accounting standards applied to the Company's annual results prior to January 1, 2013. We believe these disclosures allow comparability of our current financial results to prior years and provide additional insight into our underlying results:

Proportional Revenue

Proportional Revenues for twelve-month periods ended December 31, 2013, 2012 and 2011 are as follows:

(in $'000s)

	2013	2012	2011
	$	$	$
Reported revenues under GAAP	4,066	5,263	3,315
add: Share of revenue reported in Dexing Joint Venture	3,077	3,355	3,583
add: Share of revenue reported in Bisbee Joint Venture	467	806	516
Proportional Revenue for the period	7,610	9,424	7,414

Adjusted EBITDA

Adjusted EBITDA is derived as follows:

(in $'000s)

	2013 $	2012 $	2011 $
GAAP: Net income (loss)	(6,427)	(3,367)	(5,090)
add: interest expense (income)	(40)	(60)	(125)
add: taxes	207	465	472
add: depreciation and amortization	1,098	976	695
EBITDA	(5,162)	(1,986)	(4,048)
add: stock-based compensation	199	130	102
add: net foreign exchange loss (gain)	(43)	(34)	205
Adjusted EBITDA	(5,006)	(1,890)	(3,741)
add: impairment of Bisbee and Dexing IX investments	*2,702*	-	-
Adjusted EBITDA excluding impairment of Bisbee and Dexing IX investments	*(2,304)*	*(1,890)*	*(3,741)*

*all amounts include BioteQ's proportionate share of joint venture results

COMPARATIVE INFORMATION

(in $'000 except for per share amounts)	2013	2012	2011[1]
	$	$	$
Revenues	4,066	5,263	7,414
less: Plant and other operating costs (*excluding depreciation*)	2,371	3,464	4,654
	1,695	1,799	2,760
General and administration	3,473	4,333	4,990
Sales and development	1,856	1,555	955
Share of results of equity accounted joint ventures	1,057	(242)	-
Impairment of investment in joint venture	1,463	-	-
	(6,154)	(3,847)	(3,185)
Depreciation and amortization	746	511	695
Stock-based compensation	199	130	102
Loss before other income (expenses)	(7,099)	(4,488)	(3,982)
Other income (expenses) – net	111	84	(81)
Reversal of capital asset impairment	400	1,227	-
Gain (loss) on disposal of capital assets	239	-	(555)
Income tax	(78)	(189)	(472)
Net loss for the year	(6,427)	(3,366)	(5,090)
Translation gain (loss) on foreign operations	640	(22)	408
Comprehensive (loss) for the year	(5,787)	(3,388)	(4,682)
Net loss per share (basic and diluted)	0.09	0.05	0.07
Proportional Revenues[2]	7,610	9,424	7,414
Adjusted EBITDA[2]	(2,304)	(1,890)	(3,742)

			at Dec. 31
	2013	2012	2011
Working capital	1,786	3,914	7,569
Total assets	8,326	14,578	18,284
Total long term liabilities	66	127	111
Shareholder's equity	7,097	12,747	16,006

Notes:

1. *Results for the year ended Dec. 31, 2011 have been presented under the proportional consolidation method of accounting.*
2. *See Non-GAAP measures*

COMPARISON OF RESULTS FOR THE YEAR ENDED DECEMEBER 31, 2013 TO DECEMEBER 31, 2012

The following is a summary of selected financial results for the year ending December 31, 2013.

Revenue

In 2013, revenue was $4.1 million compared to $5.2 million in 2012. Proportional Revenue was $7.6 million compared to $9.4 million in 2012. The change in revenue and Proportional Revenue from each revenue source is shown in the table below:

(in $'000s)

Revenue Source	2013 $	% of total	2012 $	% of total	Total Revenue % Change
Treatment fees	1,331	17%	1,788	19%	(26%)
Engineering services and plant sales	2,735	36%	3,475	37%	(21%)
Total revenue	4,066	53%	5,263	56%	(23%)
Metal recovery – share of joint venture results	3,544	47%	4,161	44%	(15%)
Total Proportional Revenue	7,610	100%	9,424	100%	(19%)

2013 treatment fee revenue decreased by $457,000 from 2012. $429,000 of the decrease is due to the completion of our operating contract at the Minto site in 2012, and the remaining decrease of $28,000 is due to a shorter operating season at the Raglan site.

2013 engineering services and plants sales revenue decreased by $740,000. In 2012, revenue included a one-time sale of a mobile ion exchange plant for $1 million. The revenue from this sale has been partially offset in 2013 by an increase of other engineering service revenues earned during the year, primarily from our work with Kinross and Teck.

Revenue from metal recovery operations, which include the joint ventures at Bisbee and Dexing, decreased by $617,000 from 2012 to 2013. Revenues from both operations were impacted by lower volumes of copper recovered as well as a decline in average annual copper prices year over year. In 2013, our share of total copper recovered was 1,049,000 pounds. In 2012, we recovered 1,239,000 pounds. The average annual price of copper in 2013 was $3.42/lb (US $3.32/lb). In 2012, the average annual price of copper was $3.61/lb (US $3.61/lb).

Plant & other operating costs (excluding depreciation)

Total plant & other operating costs (excluding depreciation) were $2.4 million compared to $3.5 million in 2012, a decrease of $1.1 million. Approximately $970,000 of the decrease in costs was from the cost of the mobile water treatment plant sold in 2012. No similar plant sale took place in 2013. The remaining decrease of $130,000 was from costs associated with other non-recurring engineering and lab contacts in 2012. Overall operating gross margin was $1.7 million compared to $1.8 million in 2012.

Expenses and other income

In 2013, general and administration expenses was $3.5 million compared to $4.3 million in the prior year. The decrease in general and administration costs are mainly the result of lower variable staff compensation expenses, reduced legal costs related to our litigations with Aditya Birla Minerals Inc. ("Birla") and NWM Mining Corporation ("NWM"), and reduced consulting and professional services costs.

Sales and development costs in 2013 were $1.9 million compared to $1.6 million in 2012. Over the last year, we added 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 were also added.

Total depreciation and amortization expenses was $746,000 in 2013 compared to $511,000 in 2012. In Q4 2013, we accelerated the amortization period of certain assets to reflect our updated estimate of their useful lives.

Stock-based compensation charges were $200,000 compared to $130,000 in the prior year. In general, these non-cash charges 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 $85,000 compared to $34,000 in 2012. These gains and losses arise mainly from changes in the value of the US dollar, Australian dollar, Mexican peso, Chilean peso and Chinese yuan renminbi relative to the Canadian dollar.

During 2013, we recognized two impairment charges related to existing water treatment assets in our joint ventures. In September 2013, we impaired the full carrying value of our investment in our Bisbee joint venture for $1.5 million. The water treatment operation was furloughed indefinitely at that time. Currently, there is uncertainty about when or if the plant will resume operations in the future. At year end, we also impaired the carrying value of a plant being commissioned in our Dexing joint venture. Our share of the costs was $1.2 million in the plant. During the course of finalizing commissioning, we encountered a significant operational issue that would negatively impact the long-term performance of the plant. Currently, we are evaluating possible solutions but there is uncertainty as to whether or not a viable solution will be found.

In 2012, 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 of plant assets to NWM is approximately $2 million. In 2013, we received $400,000 from NWM under the terms of the settlement. In 2012, we recognized the following amounts: $200,000 for the first payment of the legal settlement, $651,188 (US $650,000) for the sale of plant equipment and $375,685 (US $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. The income from both transactions with NWM are recognized as a "Reversal of capital asset impairment" on our consolidated statement of operations in the period that cash payments are received.

In Q2 2013, we recorded a gain on the sale of asset of $239,000. This related to the sale of a mobile ion exchange plant to Newalta that was previously jointly owned and developed by both companies.

In 2013, income tax expense was $78,000 compared to $189,000 in the prior year. 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 $6.4 million or $0.09 per share, compared to a loss of $3.4 million in 2012, or a loss of $0.05 per share; a 91% loss increase year over year.

Cash used in operating activities, after changes in working capital, was $3.9 million compared $2.3 million in 2012; a 73% increase year over year.

Adjusted EBITDA was ($2.3) million compared to ($1.9) million in 2012; a 22% loss increase over 2012.

COMPARISON OF QUARTERS

Financial data for the last eight quarters

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

Quarters ended	Dec-13	Sep-13	Jun-13	Mar-13	Dec-12	Sep-12	Jun-12	Mar-12
	$	$	$	$	$	$	$	$
Total revenues	1,112	1,234	924	796	1,420	1,434	1,030	1,379
Plant and other operating costs (excluding depreciation)	575	533	654	608	708	774	1,023	959
	537	701	270	188	712	660	7	420
General and administration	710	726	1,067	970	1,162	1,151	928	1,093
Sales and development	410	523	449	474	455	428	360	312
Depreciation and amortization	351	123	127	146	135	124	128	124
Stock-based compensation	104	30	31	35	31	39	38	22
	(1,038)	(701)	(1,404)	(1,437)	(1,071)	(1,082)	(1,447)	(1,131)
Share of results of equity accounted joint ventures	(1,407)	33	184	133	(31)	(143)	354	61
Impairment of investment in joint venture	(62)	(1,401)	-	-	-	-	-	-
Other income (expenses)	41	(37)	253	93	20	(34)	16	81
Reversal of capital asset impairment	-	-	200	200	-	-	1,227	-
Income tax recovery (expense)	2	-	(78)	(2)	(116)	2	(75)	-
Net (loss) income	(2,464)	(2,106)	(845)	(1,013)	(1,198)	(1,257)	75	(989)
Translation gain (loss)	237	(150)	406	147	156	(197)	92	(73)
Comprehensive (loss) income	(2,227)	(2,256)	(439)	(866)	(1,042)	(1,454)	167	(1,062)

Quarterly results can fluctuate based on the number of plants operating in the quarter, variation in the volume and grade of water treated and variation in commodity prices. Seasonality at each operation also impacts the timing of 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 the timing of customer requirements.

Summary of Q4 2013 results

Below is a summary of revenue for Q4 2013 and Q4 2012:

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

Revenue Source	Q4 2013 $	% of total	Q4 2012 $	% of total	Total Revenue % Change
Treatment fees	182	12%	298	14%	(39%)
Engineering services and plant sales	930	64%	1,122	54%	(17%)
Total revenue	1,112	76%	1,420	68%	(22%)
Metal recovery – share of joint venture results	346	24%	670	32%	(48%)
Total Proportional Revenue	1,458	100%	2,090	100%	(30%)

Total revenues for Q4 2013 decreased 22% over the prior year's quarter. Treatment fee revenue decreased 39% as Raglan's season ended two weeks earlier than the prior year. Engineering services and plant sale fees decreased 17% year over year largely due to the completion of the technical services contract at a Kinross mine site.

In 2013, total Proportional Revenue for Q4 decreased 30% over the prior year's quarter. Metal recovery revenue decreased by 48%. In the quarter, our share of recovered copper was 125,000 pounds compared to 144,000 pounds in 2012. The fourth quarter is typically our lowest quarter for copper production due to a three-week annual maintenance shutdown at the Dexing site.

Total Q4 operating costs decreased $133,000 over the prior year and gross profit decreased from $712,000 in 2012 to $537,000 in 2013. This decrease of 24% is consistent with the decrease in revenue, as gross profit margins remains at 50%.

General & administration costs during the quarter decreased by $452,000 over the prior year. The decrease in general and administration costs are mainly the result of lower variable staff compensation expenses, reduced legal costs related to our litigations with Birla and NWM, and reduced consulting and professional services costs.

In Q4 2013, sales and development costs were $410,000 compared to $455,000 in the prior year. The decrease in costs is mainly due to the $43,000 of a government grant claimed under the Industrial Research Assistance Program ("IRAP") that started in 2013.

Overall net loss for the quarter was $2.5 million compared to a loss of $1.2 million in 2012.

PROJECT SUMMARY

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

In 2004, BioteQ constructed and began operating 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 is a 50/50 joint venture with FMI. The joint venture partners share equally in the ongoing revenues and expenses. Using BioteQ's BioSulphide® process, the plant produced treated water that was reused at the mine site and a high-grade copper concentrate, typically containing greater than 40% copper, which was shipped to an FMI smelter.

Plant operating results (total for the JV)	Q4 2013	Q4 2012	YTD Dec. 31 2013	YTD Dec. 31 2012
Water treated (cubic metres)	-	253,000	574,000	974,000
Copper recovered (pounds)	-	123,000	267,000	492,000

In September 2013 we announced that operations at the Bisbee plant had been suspended. Unusually high levels of rainfall in the area during July and August had necessitated the plant being placed in idle mode. In mid-August while the plant was in idle mode, it encountered operational and process issues that led to a gas release event. We subsequently conducted an investigation into the root causes of this release. The investigation revealed that a partial blockage in a pipe at the plant and a concurrent failure for a short duration of a seal mechanism led to gas being released.

We have evaluated the merits of making required changes to the plant and restarting the operations. Relevant matters to making a decision included:

- The volume of solution being treated by the plant and the amount of copper being recovered has been declining since 2008. This decline in solution being processed plus a concurrent decline in copper grade has resulted in poor financial returns from the facility;
- In the five fiscal years between 2009 and 2013 year-to-date, the Bisbee facility has generated positive cash flow on an annual basis only once; and
- If the plant were to continue to operate, it is highly likely that the volume of solution being fed to the plant would continue to decline. Even if the volume of solution were to remain constant, the plant would continue to struggle to achieve a cash positive position.

Given that the plant would not generate positive cash flow if the plant were in operation over the next 24 months, BioteQ has decided to furlough the Bisbee plant for an indefinite period. The parties plan to monitor ongoing developments at the site. The plant will remain in furlough until a decision is made regarding the future of the plant.

The decision to furlough the Bisbee plant was a difficult one given that it has operated successfully from a technical perspective for almost 10 years. However, because financial results generated by the plant in the past five years have been poor and because we know that these results will not improve in the near future, the decision to furlough the operation at this time is in the best interests of both joint venture partners.

The Dexing Project, China: Joint venture with Jiangxi Copper Company

BioteQ commissioned a copper recovery plant in April 2008 at the Dexing Mine, an active copper mine in China. The plant is a 50/50 joint venture project with 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 recovered from the water is shipped to JCC's refinery; pricing 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. The plant 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 2013	Q4 2012	YTD Dec. 31 2013	YTD Dec. 31 2012
Water treated (cubic metres)	861,000	1,671,000	8,847,000	8,661,000
Copper produced (pounds)	249,000	165,000	1,831,000	1,985,000

During 2013, plant operations performed in line with expectations in terms of mechanical availability and process performance. The plant treated approximately the same volume of water as in the prior year. However, the total volume of copper recovered declined by 154,000 pounds. The decline is attributable to a decrease in the concentration of copper available in the feed water throughout the year. Copper concentration levels are impacted by environmental factors and site water management decisions beyond the control of the joint venture. Copper concentration levels in 2013 were well below historical levels. This condition is expected to continue into the first half of 2014 but increase back to historical levels throughout the year.

The joint venture is currently completing construction of three new water treatment plants in China. Progress on these plants is as follows:

a) In September 2013, we began construction of a water treatment plant at JCC's Yinshan mine site. The Yinshan Mine is an active copper mine located in southwest China, approximately 30 km from the Dexing site where the joint venture has existing metals recovery water treatment plants. The Yinshan water treatment will apply BioteQ's patented ChemSulphide® process technology to selectively recover dissolved copper from mine drainage. Designed to treat up to 17,000 cubic metres of water per day, the plant is expected to recover approximately 930,000 pounds of copper per year that will be sold to JCC's refinery at market prices. The joint venture partners have committed a total of $2.4 million to build the plant and will share equally in the capital costs and in the profits generated from operations. The plant is currently in the final stages of construction and commissioning is expected to begin shortly. We expect the plant to begin operations early in Q2 2014.

b) In September 2012, we began construction of a second copper recovery plant at the Dexing mine site. The joint venture partners have committed a total of $3.2 million to build the plant and will share equally in the capital costs and in the profits generated from operations. 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 is 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, in a form that can be refined into useful products. The copper concentrate will be sold to JCC's refinery at market prices, less transportation and refining costs. The plant is currently in the construction stage. We expect to commission the plant and begin operations near the end of Q2 2014.

c) In July 2010, we began construction of new ion exchange plant to recover cobalt and nickel at the Dexing site, applying BioteQ's Met-IX™ technology. Over the course of the project, the plant has experienced problems with construction quality, performance issues with key components, and changes in operating conditions at the site which has delayed completion. Currently, the plant is in a condition that can recover cobalt and nickel as designed. However, a new operational issue has been identified that would lead to longer term performance issues if the problem is not addressed. As a result, commissioning has been further delayed until this matter can be investigated and resolved.

   While we plan to continue investigating the current issue and work towards a long-term solution, the full carrying value of the plant of approximately $1.2 million was impaired for accounting purposes. However, if the plant is able to begin operations in the future, we will re-evaluate and reverse the impairment as appropriate.

The completion of the new copper recovery plants is a near term priority for us as they will contribute significant recurring cash flows. Once operational, the total volume of copper the joint venture is expected to recover will be approximately 3,600,000 million pounds on an annual basis.

The Raglan Project, Quebec: Build-own-operate for Glencore Canada Corporation (formerly Xstrata Nickel)
BioteQ operates a seasonal water treatment plant at the Raglan Mine, an active nickel mine in northern Quebec, owned by Glencore. 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 provided $2 million in capital to build the plant and provides ongoing operating services in return for a water treatment fee per cubic metre of water treated.

Under the original 10 year operating contract, our water treatment services were to expire at the end of the current year's season. In September of 2013, we renewed our water treatment services for an additional three years under terms similar to the existing agreement through to 2016.

Plant operating results	Q4 2013	Q4 2012	YTD Dec. 31 2013	YTD Dec. 31 2012
Water treated (cubic metres)	138,000	241,000	838,000	864,000
Days operated (some partial)	34	42	136	149

During Q4 2013, the plant discharged a total of 138,000 cubic metres of water compared to 241,000 cubic metres of water in 2012. The total volume of water decreased in 2013 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.

For the 2013 operating season, the total volume of water treated was 838,000 cubic metres compared to 864,000 cubic metres in 2012. The plant successfully met all operating performance targets and discharge requirements during the season. Under the new three-year operating contract, the plant is expected to resume operations in mid-June 2014.

BioteQ continues to provide an expanded scope of operating activities at the Raglan site with operating responsibility for Glencore'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.

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 was responsible for all capital costs for the plant, and provided all plant operating costs, including process reagents and consumables. Construction and commissioning of the plant was completed in 2010. The original three-year operating contract for the site was completed in 2012.

Technology Development, Engineering and Pilot Projects

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

Sulphate Removal – Sulf-IX™

In Q1 2013, we successfully completed commissioning of a mobile Sulf-IX™ pilot plant that was jointly funded by Newalta and BioteQ. This unit provides on-site field testing for sulphate removal from wastewater. Data collected from the pilot plant testing will be used to validate the applicability of the technology to new water streams and to generate the design criteria for full-scale Sulf-IX™ water treatment plants.

Upon completion of commissioning, we conducted two separate pilot campaigns with a US based industrial company. The pilot campaigns were aimed at testing sulphate removal from wastewater generated from flue gas treatment. The campaigns were successful in demonstrating the technology's application to the customer's treatment needs and further enhanced the development of the technology. We are currently discussing the results of these pilot campaigns with the customer to determine next steps towards a possible commercial agreement.

Selenium Removal – Selen-IX™
Over the past two years, we have been developing an ion exchange process to remove selenium from mine impacted water streams. We view the selenium removal market as a significant near term opportunity in Canada and the United States. Selenium is a relatively rare, semi-metal, trace element. Typically high selenium levels are found in marine shales, coal and phosphorous basins. Mining operations located in areas containing high selenium concentrations accelerate the discharge of selenium via disturbances and the exposure of rock to rainfall.

Key developments with regard to Selen-IX™ over the past year have included:

- In March 2013, we were awarded funding under IRAP of Canada to help defray some of the development costs we have been investing in the development of this new technology;
- In May 2013, we secured a $900,000 contract from Teck to conduct lab and pilot scale testing for selenium removal. Under the terms of the agreement, we committed to construct and deploy a pilot scale plant for on-site field testing. BioteQ retains the ownership of the pilot plant and all associated intellectual property;
- During Q3, Teck changed the original statement of requirements for the Selen-IX™ process and expanded the scope of treatment to include the removal of not only selenium but also nitrate from mine impacted waters;
- In Q4 2013, we completed design and construction of a selenium removal pilot plant and initiated pilot testing. At the same time we commenced lab testing focused on nitrate removal to help establish process modifications required to achieve simultaneous removal of selenium and nitrate at the pilot scale. The pilot operations concluded in December. We are currently analyzing results with the customer and next steps in the development process for the removal of selenium and nitrate will be determined; and
- In October 2013, we filed provisional patent application # 61888908 with the United States Patent and Trademark Office titled "Selective Removal of Dissolved Selenium from Aqueous Solutions".

BioteQ's Selen-IX™ technology is presently still in the pre-commercial phase. We are devoting very significant resources to the development and furtherance of this platform. We believe that the emerging selenium removal market is significant and will eventually be very large; that the drivers for solution implementation are strong; and that our technology, once technically proven, will offer an extremely compelling value proposition to prospective customers.

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

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 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 sides have presented their evidence and facts for discovery to the court. We are currently awaiting directions from the court to determine next steps in the litigation process. Our position continues to be that Birla's claims are without merit. We intend to continue to vigorously defend our position and to pursue our claim for damages.

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

In April 2013, we negotiated a settlement of our outstanding lawsuit against 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 second payment of $400,000 was received in Q2 2013.

b) The sale of the plant equipment was for a total price of $651,188 (US$650,000). 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 2013 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 $375,685 (US$375,000) which were accrued in prior years.

All settlement payments are recorded as a reversal of impairment for the Lluvia de Oro operation in the period when the funds are received. In 2013, the reversal consists of the $400,000 settlement payment received during the year. For 2012, the reversal of $1,226,873 consists of the $200,000 settlement payment, the sale price of the plant equipment for $651,188 (US$650,000) and a reversal of accrued demobilization cost of $375,685 (US$375,000).

As of our reporting date, $700,000 due April 30, 2014 was outstanding. Subsequent to year end, we amended the payment terms for this amount as follows: $50,000 will be due March 31, 2014, $50,000 will be due April 15, 2014, and the final $600,000 balance will be due no later than June 30, 2014. All other terms and conditions remain unchanged.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2013, BioteQ had 69,966,672 common shares issued and outstanding (unchanged from December 31, 2012), 4,189,999 stock options outstanding (December 31, 2012 - 4,781,666) and 3,636,364 warrants outstanding (unchanged from December 31, 2012).

Subsequent to the end of the year, we completed a “Share Rights Offering” financing that commenced in December 2013. The financing was for gross proceeds of $1.2 million, net proceeds of $964,000 after deducting $236,000 in financing costs. In exchange for the proceeds, we issued 24,000,000 common shares and 685,714 warrants. The funds from the financing are unallocated and to be used for general working capital and operational requirements.

As of March 31, 2014 the number of common shares issued and outstanding is 93,966,672 and warrants is 4,322,078. The number of stock options outstanding remain unchanged from December 31, 2013.

At December 31, 2013, the Company had cash and cash equivalents of $1,193,000 and short-term investments of $nil, which is a decrease of $1,220,000 in cash and cash equivalents and $1,455,000 in short-term investments from December 31, 2012. The cash and cash equivalents and short-term investments funded operating activities of $3,927,000 net capital asset purchases of $649,000.

Working capital at the end of the year was $1,786,000, a decrease of $2,127,000 from December 31, 2012. BioteQ’s significant working capital items include trade and other receivables of $1,093,000 ($1,076,000 at December 31, 2012) and trade payable and accrued liabilities of $999,000 ($1,343,000 at December 31, 2012).

BioteQ has estimated future commitments of $1.7 million for the completion of the new water treatment plants at the Dexing mine site, which is to be funded through the joint venture’s cash reserves. Any cash distributions from the joint venture to BioteQ must be unanimously approved by both partners and comply with Chinese tax and regulatory requirements. Distributions are also subject to Chinese withholding taxes and minimum capital requirements as applicable. Currently, BioteQ and its partner have a standing agreement to distribute excess cash reserves annually. The partners will take into consideration factors such as operating performance of the plants, future capital requirements and working capital flexibility in determining the cash amount to be distributed in a given year. In addition to the commitments in Dexing joint venture, the Company has $681,000 under operating leases for office and laboratory premises and for office equipment.

Based on the Company's current working capital resources, planned capital expenditures, and expected cash flows over the next 12 months, the Company believes that it will have sufficient working capital to meet its obligations and planned expenditures. However, the Company's Chinese joint venture will need to successfully complete the construction of two new water treatment plants, successfully operate its existing water treatment plants in China and Canada, secure projects to advance and commercialize new water treatment technologies, specifically in the areas of selenium and sulphate removal, and secure new projects for its commercialized, metal recovery, solutions. The Company has also begun to implement internal cost reduction measures and may need to further reduce expenses if required. Results of operations may be adversely impacted by delays or disruptions at the Company's water treatment plants, a significant and sustained decline in market prices for copper, the commercial viability of new technologies under development, and project delays or cancellations by customers. Significant cost reduction measures could also impair the Company's ability for future growth.

Historically, the Company has not yet realized profitable operations and has relied on non-operational sources of financing to fund its operations. Whether and when the Company can attain profitability and positive cash flows is uncertain. While the Company has been successful in securing financing in the past, there is uncertainty whether financing will be available in the future on terms acceptable to the Company. These uncertainties cast significant doubt upon the Company's ability to continue as a going concern. If the going concern assumption is not appropriate, material adjustments to the financial statements could be required.

RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties of the Company, which are Bisbee and Dexing joint ventures:

a) Year-end receivable balances

	Dec. 31, 2013	Dec. 31, 2012
	$	$
Bisbee joint venture	85,071	67,814
Dexing joint venture	107,140	130,820
	192,211	198,634

The receivables from related parties arise mainly from joint venture investments and sale transactions. The receivables are unsecured in nature and bear no interest, no provisions are held against receivables from related parties.

b) Sales of goods and services

	2013	2012
	$	$
Dexing joint venture	152,580	78,697

The Company did not have any sales transactions with its Bisbee joint venture. Sales and other transactions were recorded at the exchange amount agreed by both parties.

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

	2013	2012
	$	$
Salaries, fees and short-term benefits	1,082,072	1,334,012
Share-based payments	237,774	136,841
	1,319,846	1,470,853

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In the application of the Company's accounting policies, which are described in note 2 of the consolidated financial statements, the management of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical accounting estimates

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

a) Impairment of assets

Impairment of investment in joint venture

During 2013 the Company impaired the carrying amount of its investment in the Bisbee joint venture following an impairment review. Determining the amount of impairment requires an estimation of the recoverable amount, which is defined as the higher of fair value less the cost of disposal or value in use. Management applied the concept of "value in use" to estimate future cash flows from the operation to determine the possible impairment loss. The recoverable amount was determined to be $nil as management does not presently expect any future cash flows from the operation due to the uncertainty that exists with regards to a restart of the plant. As a result, the full carrying value of BioteQ's investment in the Bisbee joint venture, $1,462,607, has been recognized as an impairment loss in 2013.

The carrying amount of investment in Bisbee at December 31, 2013 was $nil (December 31, 2012 – $1,501,577) after an impairment loss of $1,462,607 was recognized during 2013 (2012 – $nil).

Impairment of plant and equipment

During 2013, the Dexing joint venture impaired the carrying amount of a plant under construction and related equipment following an impairment review. Determining the amount of impairment requires an estimation of the recoverable amount, which is defined as the higher of fair value less the cost of disposal or value in use. Management determined that the recoverable amount, which is the value in use, to be $nil as there is no expected cash flow from the plant.

The carrying amount of the impaired plant and equipment in Dexing at December 31, 2013 was $nil (December 31, 2012 – $1,120,262) after an impairment loss of $1,239,042.

b) Plant and equipment

Estimated useful lives

Management estimates the useful lives of 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 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 plant and equipment in the future.

Critical accounting judgments

The following are the critical judgments, apart from those involving estimations above, that management have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

a) Classification of the Company’s joint arrangements as joint ventures
The Company is a joint venture partner in the Bisbee and Dexing projects. In the absence of clear legal and contractual terms that may be easily associated with the characteristics of a joint venture as defined in the IFRSs, management assessed the operational and financial decision-making processes and practices and concluded that the parties to the joint arrangement had rights to the net assets of the joint arrangements.

b) Recognition of development expenditures
Management concluded that the criteria for capitalizing development expenditure were not met. Accordingly, the amounts incurred during the year were recognized in loss.

GENERAL

Disclosure Controls and Procedures and Internal Control over Financial Reporting
The Company’s management, including the Interim 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 Interim 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 Interim 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, 2013 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:

a) New and revised IFRSs affecting amounts reported and/or disclosures in the financial statements
New and revised standards on consolidation, joint arrangements, associates and disclosures
In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising IFRS 10 *Consolidated financial statements*, IFRS 11 *Joint Arrangements,* IFRS 12 *Disclosure of interests in other entities*, IAS 27 (as revised in 2011) *Separate financial statements* and IAS 28 (as revised in 2011) *Investments in associates*

and joint ventures. Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the first-time application of the standards.

In the current year, the Company has applied for the first time IFRS 10, IFRS 11, IFRS 12 and IFRS 28 (as revised in 2011) together with the amendments to IFRS 10, IFRS 11 and IFRS 12 regarding the transitional guidance. IAS 27 (as revised in 2011) is not applicable to the Company as it deals only with separate financial statements.

The impact of the application of these standards as follows:

i. IFRS 10 *Consolidated financial statements*
IFRS 10 replaces the parts of IAS 27 *Consolidated and separate financial statements* that deal with consolidated financial statements and SIC-12 *Consolidation – Special purpose entities*. IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The adoption of IFRS 10 has no impact on the Company, as it maintains control over its investees under the revised definition of control.

ii. IFRS 11 *Joint arrangements*
Under IFRS 11 *Joint arrangements* investments in joint arrangements are classified either as joint operations or joint ventures, depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangements.

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

Under IFRS 11, the joint arrangements have been assessed to be joint ventures and the standard requires an investor to account for the results of joint ventures using the equity method of accounting. Before January 1, 2013, the Company's interests in its joint arrangements, Copreco LLC ("Bisbee") and JCC-BioteQ Environmental Technologies Co. Ltd. ("Dexing"), were accounted for using the proportionate consolidation method.

The Company has applied the new policy for its interest in the joint ventures in accordance with the transition provision of IFRS 11 on January 1, 2013 under the modified retrospective application: the Company recognized its investments in the joint ventures as at January 1, 2012, being the beginning of the immediately preceding period of the transition date, and deemed the costs of the investments to be the opening balances of the investments at initial recognition. The financial effects of the change in accounting of the joint arrangements at January 1, 2012 and December 31, 2012 are shown in note 25 to the consolidated financial statements.

iii. IFRS 12 *Disclosures of interests in other entities*
IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements, specifically note 8 to the consolidated financial statements.

IFRS 13 Fair value measurement
IFRS 13 defines fair value, establishes a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. IFRS 13 requires prospective application from January 1, 2013. The adoption of IFRS has had no material impact on the disclosures or on the amounts recognized in the consolidated financial statements

Amendments to IAS 1 Presentation of items of Other Comprehensive income
The amendments retain the option to present profit or loss and other comprehensive income either in one continuous statement or in two separate but consecutive statements. Items of other comprehensive income are required to be grouped into those that will and will not be subsequently reclassified to income. Tax on items of other comprehensive income is required to be allocated on the same basis. The measurement and recognition of items of income and other comprehensive income are not affected by the amendments. The Company has classified all items of other comprehensive income as those that may subsequently be reclassified to income. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Amendments to IAS 1 Presentation of Financial Statements
(as part of the *Annual Improvements to IFRSs 2009 – 2011 Cycle* issued in May 2012)
The Annual Improvements to IFRSs 2009 -2011 have made a number of amendments to IFRSs. The amendments that are relevant to the Company are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when: a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements; and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.

In the current year, the Company has applied IFRS 11, which has resulted in material effect on the information in the consolidated statement of financial position as at January 1, 2012. In accordance with the amendments to IAS 1, the Company has presented a third statement of financial position as at January 1, 2012 without the related notes except for the disclosure requirements of IAS 8 *Accounting policies, changes in accounting estimates and errors* as detailed in note 25 to the consolidated financial statements.

Amendments to IFRS 7 disclosures – Offsetting financial assets and financial liabilities
The Company has applied the amendments to IFRS 7 *Disclosures – Offsetting financial assets and financial liabilities* for the first time in the current year. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements, such as collateral posting requirements, for financial instruments under an enforceable master netting agreement of similar arrangement.

As the Company does not have any offsetting arrangements in place, the application of the amendments has had no material impact on the disclosures or on the amounts recognized in the consolidated financial statements.

New and revised IFRSs in issue but not yet effective
The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9 Financial instruments
IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. Where the fair value option is taken, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Company does not expect IFRS 9 to have a material impact on the consolidated financial statements and will also consider the impact of the remaining phases of IFRS 9 when completed by the IASB.

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment entities
The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- Measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

The Company does not anticipate that the investment entities amendments will have any effect on the Company's consolidated financial statements as the Company is not an investment entity. The amendments are effective for annual periods beginning on or after January 1, 2014, with earlier application permitted.

Amendments to IAS 32 Offsetting financial assets and financial liabilities
The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

The Company does not anticipate that the application of these amendments to IAS 32 will have a significant impact on the Company's consolidated financial statements as the Company does not have any financial assets and financial liabilities that qualify for offset. The amendments are effective for annual periods beginning on or after January 1, 2014, with earlier application permitted.

Amendments to IAS 36 Impairment of assets
The amendments removed certain disclosures of the recoverable amount of cash generating units which had been included in IAS 36 by the issue of IFRS 13 *Fair value measurement*. The application of the amendments to IAS 36 does not result in any impact on profit or loss and other comprehensive income or the financial position of the Company. The amendments are effective for annual periods beginning on or after January 1, 2014, with earlier application permitted.

IFRIC 21 Levies
The new interpretation sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognized. The Company is not currently subjected to significant levies so the impact on the Company is not material. The interpretation is effective for annual periods beginning on or after January 1, 2014, with earlier application permitted.

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.

Uncertain Profitability, Funding Needs, Financing Risks and Dilution

The Company believes there are many sites which can benefit from the Company's processes. The Company has designed and/or built 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 cash flows from these projects to cover ongoing development and administration costs to date.

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

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

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.

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.

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 price 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 US dollar. Therefore, any devaluation of the US 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 US dollar coupled with unstable or declining base metal prices could have an adverse effect on the Company's results of operations to the extent that sales of base metals are not hedged.

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®, Met-IX™, Sulf-IX™ and Selen-IX™ processes. Litigation or regulatory proceedings, which could result in substantial cost and uncertainty to the Company, may also be necessary to enforce the intellectual property rights of the Company or to determine the scope and validity of other parties' proprietary rights. There can be no assurance that the Company will have the financial resources to defend its patents, trademarks and copyrights from infringement or claims of invalidity.

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

Since patent applications are maintained in secrecy for a period of time after filing, and since publication of discoveries in the scientific or patent literature often lags behind actual discoveries, the Company cannot be certain that the 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 Canada or the United States.

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.

March 31, 2014

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 statements of financial position as at December 31, 2013, December 31, 2012 and January 1, 2012, and the consolidated statements of loss and other comprehensive loss, changes in equity, and cash flows for the years ended December 31, 2013 and December 31, 2012, 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 audits 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.

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, 2013, December 31, 2012 and January 1, 2012 and their financial performance and their cash flows for the years ended December 31 2013 and 2012 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of matter
Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which discloses matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about BioteQ Environmental Technologies Inc.'s ability to continue as a going concern.

Signed "PricewaterhouseCoopers LLP"

Chartered Accountants

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	note	**December 31 2013 $**	December 31 2012 $	January 1 2012 $
			(note 25)	(note 25)
Assets				
Current assets				
Cash and cash equivalents		**1,192,977**	2,412,892	2,675,858
Short-term investments		**-**	1,455,472	4,117,637
Trade and other receivables	4	**1,093,130**	1,076,027	2,093,632
Receivable from joint ventures	5	**192,211**	198,634	174,662
Inventory	6	**101,774**	252,585	450,404
Prepaid and other deposits		**151,689**	221,873	224,139
Deferred financing costs	10, 24	**218,178**	-	-
Total current assets		**2,949,959**	5,617,483	9,736,332
Non-current assets				
Plant and equipment	7	**779,177**	1,274,966	1,227,710
Intangible asset		**7,738**	38,710	69,682
Investment in joint ventures	8	**4,564,750**	7,646,870	7,250,751
Prepaid and deposits		**24,601**	-	-
Total non-current assets		**5,376,266**	8,960,546	8,548,143
Total assets		**8,326,225**	14,578,029	18,284,475
Liabilities				
Current liabilities				
Trade payable and accrued liabilities	9, 10	**999,539**	1,342,707	1,745,107
Income taxes payable	16	**152,740**	251,930	63,105
Deferred revenue		**-**	91,970	340,185
Current portion deferred lease inducement		**11,430**	17,228	18,945
Total current liabilities		**1,163,709**	1,703,835	2,167,342
Non-current liabilities				
Deferred benefits	10	**34,154**	84,723	111,146
Deferred lease inducement		**31,432**	42,862	-
Total non-current liabilities		**65,586**	127,585	111,146
Total liabilities		**1,229,295**	1,831,420	2,278,488
Shareholders' Equity				
Capital stock and warrants		**55,269,416**	55,269,416	55,269,416
Contributed surplus		**8,385,196**	8,247,007	8,117,400
Accumulated other comprehensive loss		**(458,074)**	(1,097,611)	(1,075,369)
Accumulated deficit		**(56,099,608)**	(49,672,203)	(46,305,460)
Total shareholders' equity		**7,096,930**	12,746,609	16,005,987
Total liabilities and shareholders' equity		**8,326,225**	14,578,029	18,284,475

General information and Going concern (note 1)
Contingency and Commitments (note 18 and 19)
Subsequent events (note 24)

The financial statements on pages 36 to 78 were authorized for issue by the board of directors on March 31, 2014 and were signed on its behalf.

"Peter Gleeson"	"Clem Pelletier"
Peter Gleeson, Director and Executive Chairman	Clement A. Pelletier, Director

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

CONSOLIDATED STATEMENTS OF LOSS AND OTHER COMPREHENSIVE LOSS

	note	Year ended December 31 **2013** **$**	2012 $ (note 25)
Revenue		**4,066,273**	5,262,731
Plant and other operating costs (excluding depreciation)	12	**2,370,620**	3,463,943
Operating margin before depreciation		**1,695,653**	1,798,788
General and administration	12	**3,473,290**	4,332,882
Sales and development	12	**1,856,502**	1,555,154
Stock-based compensation	10	**199,588**	129,607
Depreciation of plant and equipment	7	**714,930**	479,944
Amortization of intangible asset		**30,972**	30,972
Share of results of equity accounted joint ventures	8	**1,057,258**	(241,696)
Impairment of investment in joint venture	8	**1,462,607**	-
Loss from operations and joint ventures		**(7,099,494)**	(4,488,075)
Finance income		**25,901**	37,983
Foreign exchange gain		**85,269**	33,915
Gain on disposal of equipment		**238,709**	11,886
Reversal of capital asset impairment	14	**400,000**	1,226,873
Loss before income taxes		**(6,349,615)**	(3,177,418)
Income tax expense	16	**(77,790)**	(189,325)
Net loss for the year		**(6,427,405)**	(3,366,743)
Other comprehensive income (loss)			
Items that will not be reclassified subsequently to loss			
Translation gain (loss) on foreign operations		**639,537**	(22,242)
Comprehensive loss for the year		**(5,787,868)**	(3,388,985)
Net loss per share			
Basic and diluted		**(0.09)**	(0.05)
Weighted average number of shares outstanding			
Basic and diluted		**69,966,672**	69,966,672

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	note	**Year ended December 31 Number of Shares**	**2013 $**	Year ended December 31 Number of Shares	2012 $
Capital stock					
Balance, beginning and end of the year	11	**69,966,672**	**53,755,999**	69,966,672	53,755,999
Warrants					
Balance, beginning and end of the year	11		**1,513,417**		1,513,417
Contributed surplus					
Balance, beginning of the year			**8,247,007**		8,117,400
Share-based payments	10		**138,189**		129,607
Balance, end of the year			**8,385,196**		8,247,007
Accumulated other comprehensive loss					
Balance, beginning of the year			**(1,097,611)**		(1,075,369)
Other comprehensive income (loss) for the year			**639,537**		(22,242)
Balance, end of the year			**(458,074)**		(1,097,611)
Accumulated deficit					
Balance, beginning of the year			**(49,672,203)**		(46,305,460)
Net loss for the year			**(6,427,405)**		(3,366,743)
Balance, end of the year			**(56,099,608)**		(49,672,203)
Total shareholders' equity					
Balance, beginning of the year			**12,746,609**		16,005,987
Share-based payments			**138,189**		129,607
Net loss for the year			**(6,427,405)**		(3,366,743)
Other comprehensive income (loss) for the year			**639,537**		(22,242)
Balance, end of the year			**7,096,930**		12,746,609

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	note	Year ended December 31 **2013** **$**	 2012 $
			(note 25)
Operating activities			
Net loss for the year		**(6,427,405)**	(3,366,743)
Items not affecting cash			
Income tax expense		**77,790**	189,325
Share of results of equity accounted joint venture		**1,057,258**	(241,696)
Impairment of investment in joint venture		**1,462,607**	-
Interest income		**(25,901)**	(14,880)
Gain on disposal of equipment		**(238,709)**	(11,886)
Depreciation of plant and equipment		**714,930**	479,944
Amortization of intangible asset		**30,972**	30,972
Amortization of deferred lease inducement		**(11,429)**	(22,328)
Net foreign exchange loss (gain)		**(57,836)**	6,222
Expense recognized in respect of stock-based compensation		**199,588**	129,607
		(3,218,135)	(2,821,463)
Change in non-cash working capital items	17	**(531,492)**	555,027
Cash used in operations		**(3,749,627)**	(2,266,436)
Income taxes paid		**(177,229)**	-
Net cash used in operating activities		**(3,926,856)**	(2,266,436)
Investing activities			
Purchase of plant and equipment		**(648,918)**	(489,745)
Proceeds from disposal of equipment		**665,000**	-
Net distributions received from (contributions made to joint ventures		**1,214,684**	(154,423)
Purchase of short-term investments		**(1,993,910)**	(3,797,563)
Proceeds from sale of short-term investments		**3,462,299**	6,474,608
Interest received		**15,586**	-
Net cash provided by investing activities		**2,714,741**	2,032,877
Financing activities			
Financing fees paid for rights offering		**(31,796)**	-
Net cash used in financing activities		**(31,796)**	-
Effect of exchange rate changes on cash and cash equivalents		**23,996**	(29,407)
Decrease in cash and cash equivalents		**(1,219,915)**	(262,966)
Cash and cash equivalents, beginning of the year		**2,412,892**	2,675,858
Cash and cash equivalents, end of the year		**1,192,977**	2,412,892
Non-cash financing activities			
Warrants issued on financing		20,023	-

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

1. General Information and Going Concern

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 and concentrate sales, treatment fees, and engineering services and plant sales.

BioteQ is a publicly listed company incorporated and domiciled in Canada with limited liability under the legislation of the Province of British Columbia. The Company's shares are listed on the Toronto Stock Exchange under the symbol BQE. 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 31, 2014.

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, 2013, the Company incurred a net loss of $6,427,405 (2012 – $3,366,743), had a net decrease in cash and cash equivalents and short-term investments of $2,675,387 (2012 – $2,925,131) and used net cash in operating activities of $3,926,856 (2012 – $2,266,436).

Based on the Company's current working capital resources, planned capital expenditures, and expected cash flows over the next 12 months, the Company believes that it will have sufficient working capital to meet its obligations and planned expenditures. However, the Company's Chinese joint venture will need to successfully complete the construction of two new water treatment plants, successfully operate its existing water treatment plants in China and Canada, secure projects to advance and commercialize new water treatment technologies, specifically in the areas of selenium and sulphate removal, and secure new projects for its commercialized, metal recovery, solutions. The Company has also begun to implement internal cost reduction measures and may need to further reduce expenses if required. Results of operations may be adversely impacted by delays or disruptions at the Company's water treatment plants, a significant and sustained decline in market prices for copper, the commercial viability of new technologies under development, and project delays or cancellations by customers. Significant cost reduction measures could also impair the Company's ability for future growth.

Historically, the Company has not yet realized profitable operations and has relied on non-operational sources of financing to fund its operations. Whether and when the Company can attain profitability and positive cash flows is uncertain. While the Company has been successful in securing financing in the past, there is uncertainty whether financing will be available in the future on terms acceptable to the Company. These uncertainties cast significant doubt upon the Company's ability to continue as a going concern. If the going concern assumption is not appropriate, material adjustments to the financial statements could be required.

2. Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

Basis of preparation

The consolidated financial statements the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and IFRS Interpretations Committee ("IFRS IC") applicable to companies reporting under IFRS. These consolidated financial statements incorporate the financial statements and the entities controlled by the Company and the share of net assets and net earnings or loss in entities which the Company is a joint venture partner. The principal subsidiaries and joint ventures of the Company are as follows:

Entity	Ownership type	Method of accounting	Country of incorporation and operation	Interest, Dec. 31, 2013	Interest, Dec. 31, 2012
Biomet Mining Corporation	Subsidiary	Consolidated	Canada	100%	100%
BioteQ Arizona Inc.	Subsidiary	Consolidated	USA	100%	100%
BioteQ Water (Australia) Pty Ltd.	Subsidiary	Consolidated	Australia	100%	100%
BioteQ Water (Chile) SpA	Subsidiary	Consolidated	Chile	100%	100%
BioteQ Water Mexico S.A. de C.V.	Subsidiary	Consolidated	Mexico	100%	100%
Copreco, LLC	Joint venture	Equity	USA	50%	50%
JCC-BioteQ Environmental Technologies Co. Ltd.	Joint venture	Equity	China	50%	50%

The consolidated financial statements have been prepared under the historical cost basis except for financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries and joint ventures to bring their accounting policies into line with the Company's accounting policies.

All intercompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

Investments in joint ventures

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

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, an investment in a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the joint venture. When the Company's share of losses in the joint venture exceeds the Company's interest in that joint venture, the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the joint venture.

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

The requirements of IAS 39 *Financial instruments: recognition and measurement* are applied to determine whether it is necessary to recognize any impairment loss with respect to the Company's investment in a joint venture. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 *Impairment of assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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 BioteQ Environmental Technologies Inc.'s 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 ("CAD"), which is BioteQ's presentation currency.

For the purposes of presenting these consolidated financial statements, entities including joint ventures that have a functional currency different from that of BioteQ Environmental Technologies Inc. ("foreign operations") are translated into CAD 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).

Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity.

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

b) Transactions and balances

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

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

Cash and cash equivalents

Cash consists of unrestricted bank deposits, some of which are interest-bearing. Cash equivalents consist of term deposits with maturities of less than 91 days and 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.

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 represents the costs that the Company incurred for projects that are not billed at the statement of financial position date. This amount includes both direct materials and direct labour costs.

Plant and equipment

Plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy. Such plant and equipment are classified to the appropriate categories of plant and equipment when ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

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

- Computer equipment — 3 years
- Furniture and fixture, and general equipment — 5 years
- Pilot plants — 3 – 5 years
- Water treatment plants — shorter of contract life or 10 – 20 years

The estimated useful lives, residual values and depreciation method are reviewed annually, with the effect of any changes in estimate accounted for on a prospective basis.

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

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

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

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the development or from the development phase of an internal project is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Company classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss (“FVTPL”), held-to maturity financial assets, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired.

The Company classifies non-derivative financial liabilities as either financial liabilities at FVTPL or other financial liabilities.

Management determines the classification of financial assets and liabilities at initial recognition.

a) Non-derivative financial assets and financial liabilities – recognition and de-recognition

The Company initially recognizes loans and receivables and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognized on the trade date. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

b) Non-derivative financial assets – measurement

Financial assets at fair value through profit or loss

Financial assets at FVTPL are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or it is designated as at FVTPL. Derivatives are also categorized as held for trading unless they are designated as hedges.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the other gains and (losses) line item. Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognized immediately in profit or loss.

The Company currently does not have any financial assets in this category.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to maturity financial assets are measured at amortized cost using the effective interest method less any impairment.

The Company currently does not have any financial assets in this category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the amount expected to be received plus any directly attributable transaction costs, 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 impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

The Company's loans and receivables comprise cash and cash equivalents, short-term investments, trade and other receivables, and receivable from joint ventures.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories. These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments, are recognized in other comprehensive income or loss and accumulated in the fair value reserve. When these assets are derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

The Company currently does not have any available-for-sale financial assets.

c) Non-derivative financial liabilities – measurement

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the other gains and (losses) line item.

The Company has classified the provisions related to the Company's deferred share units as at FVTPL.

Other financial liabilities

Other financial liabilities are initially recognized at the fair value less any directly attributable transaction cost. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments, including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts, through the expected life of the financial liability or a shorter period where appropriate, to the net carrying amount on initial recognition.

The Company classifies its trade and other payables as other financial liabilities.

d) Share capital

The Company's ordinary common shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognized as a deduction from equity.

Impairment

a) Tangible and intangible assets other than goodwill

The Company's 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.

b) Non-derivative financial assets

Financial assets not classified as at FVTPL, including an interest in an equity-accounted investee, are assessed at each reporting date to determine whether there is an objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- Default or delinquency by a debtor;
- Restructuring of an amount due to the Company on terms that the Company would not consider otherwise;
- Indications that a debtor or issuer will enter bankruptcy;
- Adverse changes in the payment status of borrowers or issuers;
- The disappearance of an active market for a security; or
- Observable date indicating that there is measurable decrease in expected cash flows from a group of financial assets.

For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost.

Financial assets measured at amortized cost

The Company considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Company uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss.

Available-for sale financial assets

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss previously recognized in profit or loss. IF the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed through profit or loss; otherwise, it is reversed through other comprehensive income.

Equity-accounted investees
An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognized in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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 Company estimates liabilities for statutory, contractual, constructive and legal obligations associated with the decommissioning and restoration of plant and equipment. 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.

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.

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 grant

Grants from the governments are recognized at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions.

Government grants are recognized as follows:

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

Employee benefits

a) Bonus plans

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

b) Defined contribution plans

Obligations to defined contribution plans are expensed as the related service is provided.

c) Termination benefits

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

- When the Company can no longer withdraw the offer of those benefits; and
- When the entity recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

Share-based payment transactions

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the contributed surplus.

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

For cash-settled share-based payments, a liability is recognized for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is re-measured, with any changes in fair value recognized in profit or loss for in the period.

Income tax

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

a) Current tax

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

b) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax assets and liabilities are not recognized for:

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

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects at the reporting date to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

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.

New and amended standards adopted by the Company

The following standards have been adopted by the Company for the first time for the financial years beginning on or after January 1, 2013.

a) New and revised IFRSs affecting amounts reported and/or disclosures in the financial statements

New and revised standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising IFRS 10 *Consolidated financial statements*, IFRS 11 *Joint Arrangements,* IFRS 12 *Disclosure of interests in other entities*, IAS 27 (as revised in 2011) *Separate financial statements* and IAS 28 (as revised in 2011) *Investments in associates and joint ventures.* Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the first-time application of the standards.

In the current year, the Company has applied for the first time IFRS 10, IFRS 11, IFRS 12 and IFRS 28 (as revised in 2011) together with the amendments to IFRS 10, IFRS 11 and IFRS 12 regarding the transitional guidance. IAS 27 (as revised in 2011) is not applicable to the Company as it deals only with separate financial statements.

The impact of the application of these standards as follows:

i. IFRS 10 *Consolidated financial statements*

IFRS 10 replaces the parts of IAS 27 *Consolidated and separate financial statements* that deal with consolidated financial statements and SIC-12 *Consolidation – Special purpose entities*. IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The adoption of IFRS 10 has no impact on the Company, as it maintains control over its investees under the revised definition of control.

ii. IFRS 11 *Joint arrangements*

Under IFRS 11 *Joint arrangements* investments in joint arrangements are classified either as joint operations or joint ventures, depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangements.

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

Under IFRS 11, the joint arrangements have been assessed to be joint ventures and the standard requires an investor to account for the results of joint ventures using the equity method of accounting. Before January 1, 2013, the Company's interests in its joint arrangements, Copreco LLC ("Bisbee") and JCC-BioteQ Environmental Technologies Co. Ltd. ("Dexing"), were accounted for using the proportionate consolidation method.

The Company has applied the new policy for its interest in the joint ventures in accordance with the transition provision of IFRS 11 on January 1, 2013 under the modified retrospective application: the Company recognized its investments in the joint ventures as at January 1, 2012, being the beginning of the immediately preceding period of the transition date, and deemed the costs of the investments to be the opening balances of the investments at initial recognition. The financial effects of the change in accounting of the joint arrangements at January 1, 2012 and December 31, 2012 are shown in note 25.

iii. IFRS 12 *Disclosures of interests in other entities*

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements, specifically note 8.

IFRS 13 Fair value measurement

IFRS 13 defines fair value, establishes a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. IFRS 13 requires prospective application from January 1, 2013. The adoption of IFRS has had no material impact on the disclosures or on the amounts recognized in the consolidated financial statements

Amendments to IAS 1 Presentation of items of Other Comprehensive income

The amendments retain the option to present profit or loss and other comprehensive income either in one continuous statement or in two separate but consecutive statements. Items of other comprehensive income are required to be grouped into those that will and will not be subsequently reclassified to income. Tax on items of other comprehensive income is required to be allocated on the same basis. The measurement and recognition of items of income and other comprehensive income are not affected by the amendments. The Company has classified all items of other comprehensive income as those that may subsequently be reclassified to income. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Amendments to IAS 1 Presentation of Financial Statements

(as part of the *Annual Improvements to IFRSs 2009 – 2011 Cycle* issued in May 2012)

The Annual Improvements to IFRSs 2009 -2011 have made a number of amendments to IFRSs. The amendments that are relevant to the Company are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when: a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements; and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.

In the current year, the Company has applied IFRS 11, which has resulted in material effect on the information in the consolidated statement of financial position as at January 1, 2012. In accordance with the amendments to IAS 1, the Company has presented a third statement of financial position as at January 1, 2012 without the related notes except for the disclosure requirements of IAS 8 *Accounting policies, changes in accounting estimates and errors* as detailed in note 25.

Amendments to IFRS 7 disclosures – Offsetting financial assets and financial liabilities

The Company has applied the amendments to IFRS 7 *Disclosures – Offsetting financial assets and financial liabilities* for the first time in the current year. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements, such as collateral posting requirements, for financial instruments under an enforceable master netting agreement of similar arrangement.

As the Company does not have any offsetting arrangements in place, the application of the amendments has had no material impact on the disclosures or on the amounts recognized in the consolidated financial statements.

b) New and revised IFRSs in issue but not yet effective

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9 Financial instruments

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. Where the fair value option is taken, the part of a fair value change due to an entity’s own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Company does not expect IFRS 9 to have a material impact on the consolidated financial statements and will also consider the impact of the remaining phases of IFRS 9 when completed by the IASB.

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment entities

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- Measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

The Company does not anticipate that the investment entities amendments will have any effect on the Company's consolidated financial statements as the Company is not an investment entity. The amendments are effective for annual periods beginning on or after January 1, 2014, with earlier application permitted.

Amendments to IAS 32 Offsetting financial assets and financial liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

The Company does not anticipate that the application of these amendments to IAS 32 will have a significant impact on the Company's consolidated financial statements as the Company does not have any financial assets and financial liabilities that qualify for offset. The amendments are effective for annual periods beginning on or after January 1, 2014, with earlier application permitted.

Amendments to IAS 36 Impairment of assets

The amendments removed certain disclosures of the recoverable amount of cash generating units which had been included in IAS 36 by the issue of IFRS 13 *Fair value measurement*. The application of the amendments to IAS 36 does not result in any impact on profit or loss and other comprehensive income or the financial position of the Company. The amendments are effective for annual periods beginning on or after January 1, 2014, with earlier application permitted.

IFRIC 21 Levies

The new interpretation sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognized. The Company is not currently subjected to significant levies so the impact on the Company is not material. The interpretation is effective for annual periods beginning on or after January 1, 2014, with earlier application permitted.

3. Critical Accounting Estimates and Judgements

In the application of the Company's accounting policies, which are described in note 2, the management of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical accounting estimates

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

a) Impairment of assets

Impairment of investment in joint venture

As disclosed in note 8, during 2013 the Company impaired the carrying amount of its investment in the Bisbee joint venture following an impairment review. Determining the amount of impairment requires an estimation of the recoverable amount, which is defined as the higher of fair value less the cost of disposal or value in use.

The carrying amount of investment in Bisbee at December 31, 2013 was $nil (December 31, 2012 – $1,501,577) after an impairment loss of $1,462,607 was recognised during 2013 (2012 – $nil) (note 8).

Impairment of plant and equipment

As disclosed in note 8, during 2013, the Dexing joint venture impaired the carrying amount of a plant under construction and related equipment following an impairment review. Determining the amount of impairment requires an estimation of the recoverable amount, which is defined as the higher of fair value less the cost of disposal or value in use.

The carrying amount of the impaired plant and equipment in Dexing at December 31, 2013 was $nil (December 31, 2012 – $1,120,262) after an impairment loss of $1,239,042 (note 8).

b) Plant and equipment

Estimated useful lives

Management estimates the useful lives of 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 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 plant and equipment in the future.

Critical accounting judgements

The following are the critical judgements, apart from those involving estimations above, that management have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

a) Classification of the Company's joint arrangements as joint ventures

The Company is a joint venture partner in the Bisbee and Dexing projects (note 8). In the absence of clear legal and contractual terms that may be easily associated with the characteristics of a joint venture as defined in the IFRSs, management assessed the operational and financial decision-making processes and practices and concluded that the parties to the joint arrangement had rights to the net assets of the joint arrangements.

b) Recognition of development expenditures

Management concluded that the criteria for capitalizing development expenditure were not met (note 2). Accordingly, the amounts incurred during the year were recognized in loss.

4. Trade and Other Receivables

	Dec. 31, 2013	Dec. 31, 2012
	$	$
Trade receivables	624,804	631,640
Value added tax receivables	463,878	443,500
Other	4,448	887
	1,093,130	1,076,027

5. Related Party Transactions

The following transactions were carried out with related parties of the Company, which are Bisbee and Dexing joint ventures:

a) Year-end receivable balances

	Dec. 31, 2013	Dec. 31, 2012
	$	$
Bisbee joint venture	85,071	67,814
Dexing joint venture	107,140	130,820
	192,211	198,634

The receivables from related parties arise mainly from joint venture investments and sale transactions. The receivables are unsecured in nature and bear no interest, no provisions are held against receivables from related parties.

b) Sales of goods and services

	2013	2012
	$	$
Dexing joint venture	152,580	78,697

The Company did not have any sales transactions with its Bisbee joint venture. Sales and other transactions were recorded at the exchange amount agreed by both parties.

6. Inventory

	Dec. 31, 2013	Dec. 31, 2012
	$	$
Work in progress	49,801	229,797
Inventory of chemicals and spare parts	51,973	22,788
	101,774	252,585

Inventory is recorded at the net realisable value at year end and prior year. There have been no impairments or write down of inventories during the year and there is no provision for obsolescence (2012 – $nil).

7. Plant and Equipment

	Water treatment plants $	Pilot plants $	Construction in progress $	Other[1] $	Total $
As at Dec. 31, 2012					
Opening net book value	1,043,371	2,114	-	182,225	1,227,710
Additions	17,790	-	412,952	95,513	526,255
Depreciation	(365,832)	(2,114)	-	(111,998)	(479,944)
Foreign exchange translation	-	-	-	945	945
Closing net book value	695,329	-	412,952	166,685	1,274,966
As at Dec. 31, 2012					
Cost	2,005,190	20,920	412,952	582,839	3,021,901
Accumulated depreciation	(1,309,861)	(20,920)	-	(416,154)	(1,746,935)
Closing net book value	695,329	-	412,952	166,685	1,274,966
As at Dec. 31, 2013					
Opening net book value	695,329	-	412,952	166,685	1,274,966
Additions	63,262	-	562,975	20,163	646,400
Transferred in (out)	-	975,927	(975,927)	-	-
Disposals	(294)	(425,997)	-	-	(426,291)
Depreciation	(604,345)	(45,784)	-	(64,801)	(714,930)
Foreign exchange translation	-	-	-	(968)	(968)
Closing net book value	**153,952**	**504,146**	**-**	**121,079**	**779,177**
As at Dec. 31, 2013					
Cost	2,059,637	542,450	-	507,797	3,109,884
Accumulated depreciation	(1,905,685)	(38,304)	-	(386,718)	(2,330,707)
Closing net book value	**153,952**	**504,146**	**-**	**121,079**	**779,177**

[1]Other comprises of office furniture, lab equipment and computer software and hardware.

8. Investment in Joint Ventures

Investment in joint ventures is comprised of:

	Dec. 31, 2013	Dec. 31, 2012
	$	$
Investment in Bisbee	-	1,501,577
Investment in Dexing	4,564,750	6,145,293
	4,564,750	7,646,870

For the years ended December 31, 2013 and 2012, the Company's share of net earnings (loss) in the joint ventures were as follows:

	2013	2012
	$	$
Share of net loss in Bisbee	(311,817)	(218,218)
Share of net (loss) earnings in Dexing	(745,441)	459,914
Total share of results of equity accounted joint ventures	(1,057,258)	241,696

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 a low-grade wastewater stream. The plant was constructed by BioteQ and commenced operations in August 2004.

The Bisbee joint venture sells all of the metal concentrate recovered in its operations to the joint venture partner, FMI. 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. Changes in working net working capital as a result of operations are generally settled on a monthly basis. As a result, cash balances are transferred between the parties and the joint venture entity does not maintain a cash balance.

As at September 30, 2013, management determined that impairment indicators were present related to BioteQ's investment in the Bisbee joint venture and estimated the recoverable amount of BioteQ's investment to be nil. The events and circumstances that led management to recognize the impairment loss is as follows:

- In September 2013, BioteQ announced that operations at the Bisbee plant had been suspended. Unusually high levels of rainfall in the area during July and August had necessitated the plant being placed in idle mode. In mid-August while the plant was in idle mode, it encountered operational and process issues that led to a gas release event and has remained inactive since.
- BioteQ has evaluated the merits of making required changes to the plant and restarting operations. Relevant matters to making a decision included the fact that the volume of solution being treated by the plant and the amount of copper being recovered has been declining since 2008. This decline in solution being processed plus a concurrent decline in copper grade has resulted in poor financial returns from the facility. Based on the assessment, BioteQ has decided to furlough the Bisbee plant for an indefinite period. The parties plan to monitor ongoing developments at the site. The plant will remain in furlough until a decision is made regarding the future of the plant.

As there were indicators of impairment as at September 30, 2013, management applied the concept of "value in use" to estimate future cash flows from the operation to determine the possible impairment loss. The recoverable amount was determined to be $nil as management does not presently expect any future cash flows from the operation due to the uncertainty that exists with regards to a restart of the plant. As a result, the full carrying value of BioteQ's investment in the Bisbee joint venture, $1,462,607, has been recognized as an impairment loss in 2013.

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

Statement of financial position

	Dec. 31, 2013 $	Dec. 31, 2012 $
Assets		
Current assets		
Trade and other receivables	-	5,679
Inventory	145,984	27,125
Prepaid expenses	5,508	5,138
	151,492	37,942
Non-current assets		
Plant and equipment	1,311,115	1,464,749
Total assets	1,462,607	1,502,691
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	-	1,114
	-	1,114
Partner's Equity		
Joint venture partner equity	2,117,422	1,960,340
Accumulated other comprehensive income	172,812	57,047
Accumulated deficit	(827,627)	(515,810)
Total partner's equity	1,462,607	1,501,577
Total liabilities and partner's equity	1,462,607	1,502,691
less: Impairment	(1,462,607)	-
	-	1,502,691

Statements of operations and comprehensive loss

	2013	2012
	$	$
Revenue	466,974	806,581
Plant and other operating costs (excluding depreciation)	514,781	711,374
	(47,807)	95,207
Depreciation of plant and equipment	264,010	313,425
Net loss for the year	(311,817)	(218,218)
Other comprehensive income		
Translation gain on foreign operation	115,765	14,611
Comprehensive loss for the year	(196,052)	(203,607)

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. The first plant commenced operations on April 1, 2008.

The Dexing joint venture sells all of the metal concentrate recovered in its operations to the joint venture partner, JCC. 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.

Any cash distributions from the joint venture to BioteQ must be unanimously approved by both partners and comply with Chinese tax and regulatory requirements. Distributions are also subject to Chinese withholding taxes and minimum capital requirements as applicable. Currently, BioteQ and its partner have a standing agreement to distribute excess cash reserves annually. The partners will take into consideration factors such as operating performance of the plants, future capital requirements and working capital flexibility in determining the cash amount to be distributed in a given year. During 2013, the Company received its share of cash distribution of $1,772,285 (CNY 10,750,000).

In September 2012, the joint venture partners committed $3.2 million to build a second copper recovery plant which 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. 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. As at December 31, 2013, including accrued amounts, each joint venture partner had $866,943 as outstanding commitments related to the construction.

In September 2013, the Company signed an agreement with JCC to build another new water treatment plant at their Yinshan mine site. The Yinshan Mine is an active copper mine located in southwest China, approximately 30 km from the Dexing site where the joint venture has existing metals recovery water treatment plants. As at December 31, 2013, each joint venture partner had $880,755 of commitments, including accrued amounts, outstanding to build the Yinshan plant and will share equally in the capital costs and in the profits generated from operations. BioteQ's share of the capital will be funded from existing cash reserves of the joint venture.

During 2013, the commissioning of an ion exchange plant to recover cobalt and nickel at the Dexing site continued. The joint venture began construction of the plant in July 2010. Over the course of the project, the plant has experienced problems with construction quality, performance issues with key components, and changes in operating conditions at the site which has delayed completion. Currently, the plant is in a condition that could run as designed. However, most recently, a new operational issue was identified that would lead to longer term performance issues if not addressed. As a result, commissioning has been delayed until this matter can be investigated and resolved.

Given the current uncertainty around the plant, the full carrying value of the plant of $1,239,042 was impaired as at December 31, 2013. However, there is a plan to continue investigating the current issue and work towards a long-term solution. If the plant is able being operations in the future, the impairment will be reversed as appropriate.

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

Statement of financial position

	Dec. 31, 2013 $	Dec. 31, 2012 $
Assets		
Current assets		
Cash and cash equivalents	1,772,173	3,181,263
Short-term investments	263,550	479,100
Trade and other receivables	204,955	299,852
Taxes recoverable	30,132	40,245
Inventory	31,108	40,045
Prepaid expenses	87,708	1,810
	2,389,626	4,042,315
Non-current assets		
plant and equipment	3,834,320	2,973,845
Total assets	6,223,946	7,016,160
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,565,200	724,727
Non-current liabilities		
Deferred income tax liability	93,996	146,140
Total liabilities	1,659,196	870,867
Partner's Equity		
Joint venture partner equity	2,952,088	2,551,575
Accumulated other comprehensive income	791,742	255,072
Retained earnings	820,920	3,338,646
Total partner's equity	4,564,750	6,145,293
Total liabilities and partner's equity	6,223,946	7,016,160

Statements of operations and comprehensive income (loss)

	2013	2012
	$	$
Revenue	3,076,588	3,354,867
Plant and other operating costs (excluding depreciation)	1,985,869	1,594,196
	1,090,719	1,760,671
General and administration	444,342	489,563
Depreciation of plant and equipment	87,874	151,729
Income from operations	558,503	1,119,379
Finance income	14,458	10,619
Foreign exchange loss	(41,758)	-
Impairment of assets	(1,147,359)	(394,214)
(Loss) income before income taxes	(616,156)	735,784
Income tax (expense) recovery		
Current	(181,429)	(218,443)
Deferred	52,144	(57,427)
	(129,285)	(275,870)
Net (loss) income for the year	(745,441)	459,914
Other comprehensive income (loss)		
Translation gain (loss) on foreign operation	536,670	(31,960)
Comprehensive (loss) income for the year	(208,771)	427,954

The Dexing joint venture derives its revenue from recovered copper sales, which is dependent on conditions that are beyond the control of the joint venture. The copper recovery rate is dependent on the rainfall in the region and the revenue is exposed to the world commodity price risk. Also the new plants will be subject to the inherent technical risk of any continuous chemical process.

9. Trade Payable and Accrued Liabilities

	Dec. 31, 2013	Dec. 31, 2012
	$	$
Trade payable and accruals	471,098	616,475
Payroll liability	331,699	602,283
Accrued plant demobilization costs	111,483	118,382
Accrued RSU benefits	62,544	-
Value added tax payable	22,715	5,567
	999,539	1,342,707

10. Share-based Payments

Stock-based compensation

The Company's recorded stock-based compensation expense comprised as follows:

	Dec. 31, 2013	Dec. 31, 2012
	$	$
Stock options (i)	118,166	129,607
Deferred share units (ii)	81,422	-
	199,588	129,607

i. Stock options

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

Each vesting tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the 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. Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2013		2012	
	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options
	$		$	
Outstanding at January 1	0.89	4,781,666	1.98	4,802,000
Granted	0.15	533,333	0.19	1,555,000
Forfeited	0.41	(215,000)	2.43	(383,734)
Expired	3.00	(910,000)	4.09	(1,191,600)
Outstanding at December 31	0.37	4,189,999	0.89	4,781,666
Exercisable at end of year	0.50	2,359,997	0.41	2,606,635

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.

On January 2, 2013, the Company granted 533,000 options with an exercise price of $0.15 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 these options determined using the Black-Scholes valuation model was $0.07 per option. The significant assumptions in the valuation model were: weighted average share price of $0.15 on the grant date, exercise price as described above, volatility of approximately 70.08%, an expected option life of 3 years and an annual risk-free interest rate of 1.25%.

Exercise Price Range $	Weighted Average Remaining Life (months)	2013 Number of Outstanding Share Options
0.15 to 0.30	41	2,938,333
0.53 to 0.78	10	1,071,666
1.21	12	180,000
0.15 to 1.21	32	4,189,999

ii. Deferred share unit

The Company implemented a deferred share unit (“DSU”) plan, effective July 1, 2010, pursuant to which DSUs may be granted to non-employee members of the Board of Directors on an annual basis. During 2013, the DSU Plan was amended to include certain senior managers of the Company, effective from October 1, 2013 to December 31, 2014.

The number of DSUs granted to a participant is calculated by dividing (i) a specified dollar amount of the participant’s compensation amount paid in DSU in lieu of cash, and 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 upon issuance 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.

As the Company is required to settle this award in cash, it records an accrued liability and a corresponding compensation expense. The DSU is a financial instrument that is fair valued at each reporting date based on the five-day volume weighted average price of the Company's common shares. The changes in fair value are included in the stock-based compensation expense for that period.

The following table presents the changes to the DSU plan:

	Number of units
Balance, December 31, 2011 and 2012	564,225
Settled	(31,439)
Balance, December 31, 2013	532,786

During 2013, the Company recorded ($50,569) (2012 – ($26,423)) of fair value adjustment as recovery of stock-based compensation expense.

In 2013, the Company entered into an arrangement with certain senior managers and the directors to pay a portion of their cash compensation in DSUs. The salaries and board fees of $131,991 (2012 – $nil) covered under the arrangement were included in the stock-based compensation expense. As the DSUs under the arrangement had not been issued as at December 31, 2013, there was no related fair value adjustment recorded in the reporting period.

iii. Restricted share units

The Company implemented a restricted share unit ("RSU") plan, effective August 5, 2010, pursuant to which RSUs may be granted to the officers of the Company. Under this plan, notional RSUs are granted and vested annually over a three-year term in general or otherwise determined by the Board. Upon vesting, RSUs are automatically paid out in the Company's shares purchased in the open market in a number equal to the number of RSUs held.

During 2013, the Company granted 434,332 (2012 – nil) RSUs in relation to the compensation arrangement entered into in 2012. Under the arrangement the Company recorded $nil (2012 – $62,544) as compensation expense in 2013. The RSUs granted remained unvested as at December 31, 2013.

Share-based payments to non-employees

In December 2013, the Company announced a plan to raise approximately $1,200,000 through a Shareholders Rights Offering (the "Offering") (note 24). In connection with the Offering, the Company entered into a standby purchase agreement with a shareholder of the Company. In consideration for the shareholder agreeing to the standby purchase arrangement, the shareholder is entitled to a cash fee at the closing of the Offering of $48,000 and 685,714 warrants. The number of warrants to be issued equals 4% of the total number of rights to subscribe for common shares to be issued under the terms of the Offering. These warrants expire on December 10, 2015 and are exercisable at an exercise price of $0.07 per common share.

As the aggregate fair value of the standby service that was provided cannot be measured reliably, the fair value of the warrants to be issued was measured using the Black-Scholes valuation model. Based on the valuation, the fair value was determined to be $0.03 per warrant. The significant assumptions in the valuation model were: share price of $0.07 on the grant date, exercise price as described above, volatility of approximately 76%, an expected option life of 2.02 years and an annual risk-free interest rate of 1.11%.

The total standby fee of $68,023 was recorded as deferred financing fees and the portion paid by warrants of $20,023 was included in the contributed surplus as at December 31, 2013 (December 31, 2012 - $nil).

11. 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, 2013 and 2012, none of the above warrants have been exercised.

12. Expenses by Nature

	2013 $	2012 $
Plant and other operating costs		
Raw materials and consumables used	185,983	208,237
Employee benefits	1,418,445	1,817,086
Consulting and contractor expenses	261,002	569,084
Insurance expenses	85,408	132,784
Travel expenses	235,120	300,643
Other expenses	184,662	436,109
	2,370,620	3,463,943
General and administration		
Employee benefits	1,260,017	1,934,632
Director fees	199,054	223,665
Consulting and contractor expenses	1,183,214	1,117,796
Rental expenses	271,905	319,682
Marketing and communication expenses	132,967	147,583
Insurance expenses	143,796	128,502
Travel expenses	115,217	168,234
Other expenses	167,120	292,788
	3,473,290	4,332,882
Sales and development		
Raw materials and consumables used	24,480	113,166
Employee benefits	1,367,155	958,624
Consulting and contractor expenses	46,767	89,185
Rental expenses	62,730	59,702
Travel expenses	265,107	59,675
Other expenses	90,263	274,802
	1,856,502	1,555,154

13. Compensation of Directors and other Key Management Personnel

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

	2013	2012
	$	$
Salaries, fees and short-term benefits	1,082,072	1,334,012
Share-based payments	237,774	136,841
	1,319,846	1,470,853

14. 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.

In 2010 the Company determined that there were significant indicators of impairment and recorded an impairment charge of $7,907,650 for the full carrying value of the lease and $375,000 (US$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 between 2012 and 2014:

		$
April 26, 2012	received	200,000
April 30, 2013	received	400,000
March 31, 2014	outstanding (note 24)	50,000
April 15, 2014	outstanding (note 24)	50,000
June 30, 2014	outstanding (note 24)	600,000
		1,300,000

On June 18, 2012, the Company agreed to sell a majority of equipment from its Lluvia de Oro plant to NWM for $651,188 (US$650,000). BioteQ received the full payment on June 27, 2012.

The settlement payments have been recorded as received and reversal of impairment in the consolidated statement of loss and other comprehensive loss.

15. Government Assistance

a) In March 2013, the Company entered into an agreement with the National Science and Engineering Research Council of Canada ("NSERC") under its Industrial Research Assistance Program ("IRAP") to provide funds to assist in testing new applications of wastewater treatment technologies in the mining sector. The NSERC agrees to reimburse BioteQ for costs incurred on account of the research work to a maximum of $261,750 until March 31, 2015. As of December 31, 2013, the Company was eligible to receive $105,403 under IRAP, and it has been recorded as a reduction to sales and development expenses.

b) In June 2013, the Company received an award from the NSERC under Industrial R&D Fellowship ("IRDF"). The NSERC agrees to award BioteQ to a maximum of $60,000 until June 2015. As of December 31, 2013, the Company was eligible to receive $10,000 under IRDF, and it has been recorded as a reduction to sales and development expenses.

16. Income Taxes

	2013	2012
	$	$
Current tax:		
Current tax on profits for the year	77,790	189,325
Income tax expense	77,790	189,325

The statutory tax rate to income tax expense was 25.75% (2012 – 25%) for the year-ended December 31, 2013. The tax on the Company's losses before tax differs from the amount that would arise using the weighted average tax rate applicable to losses of the consolidated entities as follows:

	2013	2012
	$	$
Income tax recovery at statutory rates	(1,635,026)	(794,354)
Tax assets for which no deferred income tax was recognized	(82,582)	1,316,716
Adjustment in relation to prior period	1,373,441	(220,617)
Non-deductible expenses	106,542	40,209
Impairment of investment in joint venture	376,621	-
Tax rate differences	(414,070)	(112,518)
Share of loss (earnings) of joint ventures	272,244	(60,424)
Other	80,620	20,313
Income tax expense	77,790	189,325

As at December 31, 2013, the Company has approximately $919,000 (2012 - $919,000) of research and development expenditures available for unlimited carry-forward, and $86,000 (2012 - $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 $23,981,710 (2012 - $21,043,255) for Canadian income tax purposes which may be deducted in the calculation of taxable income in future years. The losses expire as follows:

	$
2014	1,278,625
2015	2,097,710
2026	2,328,884
2027	1,628,919
2028	1,951,879
2029	2,372,749
2030	965,964
2031	4,086,003
2032	3,931,298
2033	3,339,679
	23,981,710

In addition, the Company has available tax losses in other jurisdictions that total $10,757,314 (2012 - $10,343,657). 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, 2013, the Company's future tax assets are as follows:

Deferred tax assets:

	2013	**2012**
	$	**$**
Intangible asset	(2,012)	(9,678)
Plant and equipment	3,363,983	3,284,419
Lease inducement	11,144	15,023
Unpaid compensation	-	50,983
Foreign tax credits	177,229	252,230
Research and development expense carry-forwards	302,580	294,250
Non-capital losses carry-forwards	9,479,152	9,550,431
	13,332,076	13,437,658
Deferred tax assets not recognized	(13,332,076)	(13,437,658)
Total deferred tax assets	-	-

No income tax benefits related to the deferred 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.

17. Supplemental Cash Flow Information

	2013	2012
Change in non-cash working capital items	$	$
Decrease in trade receivables	72,136	994,576
Decrease in other asset	14,556	2,266
Decrease in inventory	150,811	197,819
Decrease in accounts payable and accrued liabilities	(629,437)	(428,469)
Decrease in deferred revenue	(91,970)	(248,215)
(Increase) decrease in other liabilities	(47,588)	37,050
Change in non-cash working capital items	(531,492)	555,027

18. 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.

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 (AUS$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.

As at December 31, 2013, both parties have submitted initial discovery to the court and the Company has updated its counter-claim against Birla. BioteQ is awaiting further directions from the court to finalize next steps in the litigation process. The Company's position continues to be that Birla's claims are without merit.

19. Commitments

The Company has commitments of $681,099 under operating leases for office and laboratory premises and for office equipment, as follows:

	$
2014	207,154
2015	169,678
2016	173,867
2017	130,400
	681,099

20. 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:

	2013 $	2012 $
Treatment fees	1,330,612	1,787,400
Engineering services and plant sales	2,735,661	3,475,331
	4,066,273	5,262,731

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

	2013	2012
	$	$
Revenue		
Canada	2,694,913	3,261,217
U.S.	371,710	12,321
Chile	806,482	1,818,718
Mexico	67,500	-
Other	125,668	170,475
	4,066,273	5,262,731

	Dec. 31, 2013	Dec. 31, 2012
	$	$
Plant and equipment		
Canada	769,765	1,260,290
Chile	9,412	14,676
	779,177	1,274,966

The Company's intangible asset resides in Canada.

	Dec. 31, 2013	Dec. 31, 2012
	$	$
Investment in joint ventures		
U.S.	-	1,501,577
China	4,564,750	6,145,293
	4,564,750	7,646,870

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

	2013	2012
	$	$
Customer A	1,513,545	2,855,423
Customer E	1,084,294	-
Customer F	752,089	1,239,909
	3,349,928	4,095,332

21. Capital Risk 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.

22. Financial Risk Management

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 2012.

a) Credit risk

Credit risk is the risk of an unexpected loss if a party to the Company's financial instruments falls to meet their contractual obligations. The Company's financial assets are primarily composed of cash and cash equivalents, short-term investments and trade and other receivables. Credit risk is primarily associated with trade and other receivables; however, it also arises on cash and cash equivalents.

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

	Dec. 31, 2013	Dec. 31, 2012
	$	$
Cash and cash equivalents	1,192,977	2,412,892
Short-term investments	-	1,455,472
Accounts receivable	1,285,341	1,274,661
	2,478,318	5,143,025

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. The allowance for doubtful accounts balance was $nil at December 31, 2013 and 2012.

The aging of accounts receivable at December 31, 2013 is as follows:

	0-30 days	31-60 days	61-90 days	Over 90 days	**2013 Total**	Dec. 31 2012
	$	$	$	$	**$**	$
Trade receivables	242,676	283,508	18,947	79,673	**624,804**	631,640
Value added tax receivables	1,044	-	-	462,834	**463,878**	443,500
Other	3,193	-	-	1,255	**4,448**	887
Receivable from joint ventures	24,135	60,937	-	107,139	**192,211**	198,634
	271,048	344,445	18,947	650,901	**1,285,341**	1,274,661

The Company did not record any bad debt expense during the year ended December 31, 2013 and 2012. 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.

Of the value added tax ("VAT") receivables of $463,878 (2012- $443,500), which accounted for 36% (2012 - 32%) of all accounts receivables, $462,834 (2012 - $431,854) is related to Mexican VAT ("IVA") paid on construction work on the water treatment plant in Mexico.

b) Interest rate risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. When the Company holds short-term investments, historically the investments have been invested in separate investments with varying maturities exposing the Company to interest rate risk on these financial instruments. The Company's exposure to the changes in market interest rate in 2013 and 2012 diminished throughout the year, as the Company reduced its holdings in short-term investments to $nil.

c) Foreign exchange risk

The Company operates in Canada, the United States, Mexico, Chile, China and Australia. As a result, the Company has foreign currency exposure with respect to items not denominated in Canadian dollars. The three main types of foreign exchange risk for the Company can be categorized as follows:

Transaction exposure

The Company's operations sell mainly services and incur costs in different currencies. This creates exposure at the operational level, which may affect the Company's profitability as exchange rates fluctuate. The Company has not hedged its exposure to currency fluctuations.

Currency risk exposure

The Company is exposed to currency risk through the following assets and liabilities denominated in currencies other than Canadian dollar: cash and cash equivalents, trade and other receivable, receivable from joint ventures, trade payable and accrued liabilities, and current income taxes payable. The currencies of the Company's financial instruments and other foreign currency denominated liabilities exposed to currency risk, based on notional amounts, were as follows:

					December 31, 2013
	US dollar	Mexican pesos	Australian dollar	Chilean peso	Chinese renminbi
Cash and cash equivalents	36,039	5,472	60,108	605,794	-
Accounts receivable	167,436	464,090	1,001	24,416	107,139
Trade and other payables	(15,489)	(36,839)	(145,992)	(104,423)	-
Gross balance sheet exposure	187,986	432,723	(84,883)	525,787	107,139

					December 31, 2012
	US dollar	Mexican pesos	Australian dollar	Chilean peso	Chinese renminbi
Cash and cash equivalents	1,527,884	8,360	331,516	249,676	-
Accounts receivable	268,402	431,854	-	275,439	130,820
Trade and other payables	(36,334)	(41,605)	(281,295)	(37,608)	(99,190)
Gross balance sheet exposure	1,759,952	398,609	50,221	487,507	31,630

Translation risk exposure

The Company's functional and reporting currency is Canadian dollars. The Company's operations translate their operating results from the host currency to Canadian dollars. Therefore, exchange rate movements in the U.S. dollar, Australian dollar, Mexican peso, Chilean peso and Chinese renminbi can have a significant impact on the Company's consolidated operating results. A 10% strengthening (weakening) of the Canadian dollar against the following currencies would have decreased (increased) the Company's net loss from the financial instruments presented by the amounts shown below.

	2013	2012
	$	$
US dollar	(18,799)	(175,995)
Mexican peso	(43,272)	(39,861)
Australian dollar	8,488	(5,022)
Chilean peso	(52,579)	(48,751)
Chinese renminbi	(10,714)	(3,163)
	(116,876)	(272,792)

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 short-term investments. The ability to do this relies on the Company collecting its trade receivables in a timely manner and maintaining sufficient cash in excess of anticipated needs.

The following are the contractual maturities of debt commitments. The amounts presented represent the future undiscounted cash flows:

	Less than 1 year	1-3 years	After 3 years	**2013 Total**	Dec. 31 2012
	$	$	$	**$**	$
Trade and other payables	1,020,288	-	-	**1,020,288**	1,594,637
DSU	131,991	34,154	-	**166,145**	84,723
	1,152,279	34,154	-	**1,186,433**	1,679,360

Taking into consideration the Company's current cash position, volatile equity markets, global uncertainty in the capital markets and increasing cost pressures, the Company is continuing to review expenditures in order to ensure adequate liquidity. A period of continuous depression in mining industry, which is the Company's main customer base, may necessitate the Company to seek financing opportunities in accordance to its capital risk management strategy (note 21).

e) Price risk

The Company is subject to price risk for changes in the Company's common stock price per share. The Company has implemented, as part of its long-term incentive plan, the DSU plan that the Company is required to satisfy in cash upon vesting. The Company considers the plan a financial liability and is required to fair value the outstanding liability with the resulting changes included in stock-based compensation expense each period: an increase in share unit award prices would decrease the Company's net earnings. A 10% change in prices would impact the Company's net earnings before taxes and other comprehensive income before taxes by $1,664 in 2013 (2012 - $847).

23. Fair Value Management

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

The Company's financial assets and financial liabilities are classified and measured as follows:

	Dec. 31, 2013 $	Dec. 31, 2012 $
Financial assets		
Loan and receivables at amortized cost		
Cash and cash equivalents	1,192,977	2,412,892
Short-term investments	-	1,455,472
Accounts receivable	1,285,341	1,274,661
Financial liabilities		
Fair value through profit or loss		
DSU	166,145	84,723
Financial liabilities at amortized cost		
Trade and other payables	957,744	1,532,093

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

The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value as described in note 2. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. The Company's DSUs are held at fair value, measured by Level 1 inputs. There were no transfers between Levels 1, 2 and 3 during the years ended December 31, 2013 and 2012. The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

24. Subsequent Events

Subsequent to the end of the year:

a) The Company announced on January 24, 2014 that it has completed the Offering. The Company issued approximately 24 million common shares under the Offering at a price of $0.05 per Rights Share, for gross proceeds of $1.2 million.

b) The Company announced restructuring to its board of directors and executive management on February 6, 2014. These changes are expected to result in approximately $500,000 in termination benefits.

c) The Company signed an amendment to the settlement agreement with NWM, revising the payment schedule for $700,000 that is due April 30, 2014 under the original settlement agreement. Under the amended terms, NWM will make a payment of $50,000 to BioteQ by March 31, 2014, another $50,000 by April 15, 2014 and the remaining $600,000 by June 30, 2014. All other terms and conditions remain unchanged.

25. Adoption of IFRS 11 Joint Arrangement

The adoption of IFRS 11 *Joint arrangement* had a significant impact on the presentation of the Company's financial statements: assets, liabilities, revenues and expenses presented on the financial statements no longer include the Company's pro-rata share of each of the assets, liabilities, revenues and expenses in the joint ventures. As described in note 2, the results of the Company's joint ventures are accounted for using the equity method of accounting. The Company presents its investment in 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.

The January 1, 2012 statement of financial position has been restated as follows:

	January 1, 2012		
		Effect of adoption of IFRS 11	Restated
	$	$	$
Assets			
Current assets			
Cash and cash equivalents	4,774,970	(2,099,112)	2,675,858
Short-term investments	4,486,097	(368,460)	4,117,637
Trade receivables	1,664,326	(208,918)	1,455,408
Receivable from joint ventures	182,286	(7,624)	174,662
Insurance proceeds receivable	637,099	-	637,099
Current income taxes receivable	153,889	(152,764)	1,125
Inventory	48,174	(30,031)	18,143
Work in progress	432,261	-	432,261
Prepaid expenses	222,709	1,430	224,139
	12,601,811	(2,865,479)	9,736,332
Non-current assets			
Plant and equipment	6,615,837	(5,388,127)	1,227,710
Intangible asset	69,682	-	69,682
Investment in Bisbee joint venture	-	1,789,011	1,789,011
Investment in Dexing joint venture	-	5,461,740	5,461,740
Total assets	19,287,330	(1,002,855)	18,284,475
Liabilities			
Current liabilities			
Trade payable and accrued liabilities	2,659,249	(914,142)	1,745,107
Deferred revenue	340,185	-	340,185
Current income taxes payable	63,105	-	63,105
Deferred lease inducement	18,945	-	18,945
	3,081,484	(914,142)	2,167,342
Non-current liabilities			
Deferred income tax liability	88,713	(88,713)	-
Deferred benefits	111,146	-	111,146
Total liabilities	3,281,343	(1,002,855)	2,278,488
Shareholders' Equity			
Capital stock and warrants	55,269,416	-	55,269,416
Contributed surplus	8,117,400	-	8,117,400
Accumulated other comprehensive loss	(1,075,369)	-	(1,075,369)
Accumulated deficit	(46,305,460)	-	(46,305,460)
Total shareholders' equity	16,005,987	-	16,005,987
Total liabilities and shareholders' equity	19,287,330	(1,002,855)	18,284,475

The December 31, 2012 statement of financial position has been restated as follows:

	December 31, 2012		
		Effect of adoption of IFRS 11	Restated
	$	$	$
Assets			
Current assets			
Cash and cash equivalents	5,594,154	(3,181,262)	2,412,892
Short-term investments	1,934,572	(479,100)	1,455,472
Trade and other receivables	1,380,672	(305,531)	1,075,141
Receivable from joint ventures	198,634	-	198,634
Current income taxes receivable	41,131	(40,245)	886
Inventory	319,754	(67,169)	252,585
Prepaid and deposits	228,821	(6,948)	221,873
	9,697,738	(4,080,255)	5,617,483
Non-current assets			
Plant and equipment	5,582,740	(4,307,774)	1,274,966
Intangible asset	38,710	-	38,710
Investment in Bisbee joint venture	-	1,501,577	1,501,577
Investment in Dexing joint venture	-	6,145,293	6,145,293
Total assets	15,319,188	(741,159)	14,578,029
Liabilities			
Current liabilities			
Trade payable and accrued liabilities	1,937,726	(595,019)	1,342,707
Current income taxes payable	251,930	-	251,930
Deferred revenue	91,970	-	91,970
Current portion deferred lease inducement	17,228	-	17,228
	2,298,854	(595,019)	1,703,835
Non-current liabilities			
Deferred benefits	84,723	-	84,723
Deferred income tax liability	146,140	(146,140)	-
Deferred lease inducement	42,862	-	42,862
Total liabilities	2,572,579	(741,159)	1,831,420
Shareholders' Equity			
Capital stock and warrants	55,269,416	-	55,269,416
Contributed surplus	8,247,007	-	8,247,007
Accumulated other comprehensive loss	(1,097,611)	-	(1,097,611)
Accumulated deficit	(49,672,203)	-	(49,672,203)
Total shareholders' equity	12,746,609	-	12,746,609
Total liabilities and shareholders' equity	15,319,188	(741,159)	14,578,029

The statement of operations and statement of comprehensive loss for the year ended December 31, 2012 has been restated as follows:

	Year ended December 31, 2012		
		Effect of adoption of IFRS 11	Restated
	$	$	$
Revenue	9,424,179	(4,161,448)	5,262,731
Plant and other operating costs (excluding depreciation)	5,769,513	(2,305,570)	3,463,943
	3,654,666	(1,855,878)	1,798,788
General and administration	4,822,446	(489,564)	4,332,882
Sales and development	1,555,154	-	1,555,154
Stock-based compensation	129,607	-	129,607
Depreciation of plant and equipment	945,098	(465,154)	479,944
Amortization of intangible asset	30,972	-	30,972
Share of results of equity accounted joint ventures	-	(241,696)	(241,696)
Loss from operations and joint ventures	(3,828,611)	(659,464)	(4,488,075)
Finance income	48,602	(10,619)	37,983
Foreign exchange gain	33,915	-	33,915
Reversal of impairment of Lluvia de Oro operations	1,226,873	-	1,226,873
Impairment of reagent	(394,214)	394,214	-
Miscellaneous income	11,886	-	11,886
Loss before income taxes	(2,901,549)	(275,869)	(3,177,418)
Income tax expense	(465,194)	275,869	(189,325)
Net loss for the year	(3,366,743)	-	(3,366,743)
Other comprehensive loss			
Translation loss on foreign operations	(22,242)	-	(22,242)
Comprehensive loss for the year	(3,388,985)	-	(3,388,985)

The statement of cash flows for the year ended December 31, 2012 has been restated as follows:

	Year ended December 31, 2012		
		Effect of adoption of IFRS 11	Restated
	$	$	$
Operating activities			
Net loss for the year	(3,366,743)	-	(3,366,743)
Items not affecting cash:			
Income tax expense recognized in net loss	57,427	131,898	189,325
Share of results of equity accounted joint ventures	-	(241,696)	(241,696)
Interest income	(14,880)	-	(14,880)
Gain on disposal of equipment	(11,886)	-	(11,886)
Depreciation of plant and equipment	945,098	(465,154)	479,944
Amortization of intangible asset	30,972	-	30,972
Amortization of deferred lease inducement	(22,328)	-	(22,328)
Impairment of reagent	394,214	(394,214)	-
Net foreign exchange loss	29,548	(23,326)	6,222
Expense recognized in respect stock-based compensation	129,607	-	129,607
	(1,828,971)	(992,492)	(2,821,463)
Change in non-cash working capital items	403,245	151,782	555,027
Net cash used in operating activities	(1,425,726)	(840,710)	(2,266,436)
Investing activities			
Purchase of plant and equipment	(559,678)	69,933	(489,745)
Receipt of government grant	277,550	(277,550)	-
Purchase of short-term investments	(3,908,203)	110,640	(3,797,563)
Proceeds from sale of short-term investments	6,474,608	-	6,474,608
Net contributions to joint ventures	-	(154,423)	(154,423)
Net cash provided by investing activities	2,284,277	(251,400)	2,032,877
Effect of exchange rate changes on cash and cash equivalents	(39,367)	9,960	(29,407)
Increase in cash and cash equivalents	819,184	(1,082,150)	(262,966)
Cash and cash equivalents, beginning of year	4,774,970	(2,099,112)	2,675,858
Cash and cash equivalents, end of year	5,594,154	(3,181,262)	2,412,892

Board of Directors

Peter Gleeson
Executive Chairman
Independent Businessman
Seattle, Washington

Dr. George W. Poling PhD [1,4]
Independent Consultant, Professor Emeritus
University of British Columbia
Vancouver, British Columbia

Clement A. Pelletier BSc [2,3,4]
Chief Executive Officer
Rescan Environmental Services Ltd
Vancouver, British Columbia

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

Dr. Christopher A. Fleming PhD [3,4]
Senior Metallurgical Consultant
SGS Minerals Services
Lakefield, Ontario

[1]Member, Audit Committee
[2]Member, Compensation Committee
[3]Member, Corporate Governance Committee
[4]Member, Environment, Health, Safety & Technology Committee

Management Team

Dr. David Kratochvil PhD, PEng
Interim Chief Executive Officer

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

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Vancouver, British Columbia

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PricewaterhouseCoopers
Vancouver, British Columbia

Banker
HSBC Bank Canada
Vancouver, British Columbia

Transfer Agent
Computershare
Vancouver, British Columbia

Stock Exchange
Toronto Stock Exchange (TSX)
Symbol: BQE

Annual General Meeting
9:00 am Tuesday, May 13, 2014

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