

# **BioteQ Environmental Technologies Inc.**

Interim Consolidated Financial Statements  
(Unaudited)

**First quarter ended March 31 2008**

# BioteQ Environmental Technologies Inc.

## Consolidated Balance Sheets

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	<b>March 31 2008 (Unaudited) \$</b>	<b>Dec 31 2007 \$</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	4,322,736	1,758,744
Short-term investments	16,207,544	23,616,521
Trade receivables	98,180	339,217
Receivable from joint venture partners	201,391	153,318
Taxes receivable	537,646	146,831
Inventory (note 6)	365,157	49,380
Prepaid expenses	63,405	164,594
Other receivables	50,065	224,180
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	21,846,124	26,452,785
<b>Property, plant and equipment</b> (note 7)	20,007,550	15,832,942
<b>Intangible asset</b> (note 8)	185,827	193,570
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	42,039,501	42,479,297
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	2,554,094	3,098,124
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	2,554,094	3,098,124
<b>Shareholders' Equity</b>		
<b>Capital stock, warrants and contributed surplus</b> (note 9)	55,605,968	55,041,322
<b>Deficit</b>	(16,120,561)	(15,660,149)
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	39,485,407	39,381,173
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	42,039,501	42,479,297
<b>Commitments</b> (note 13)		
<b>Subsequent events</b> (note 14)		

Approved by the Board of Directors

“P. B. Marchant”

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P. B. Marchant      Director

“G. W. Poling”

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G. W. Poling      Director

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

# BioteQ Environmental Technologies Inc.

Consolidated Statement of Operations, Comprehensive Loss and Deficit

(Unaudited)

For the three months ended March 31

	2008 \$	2007 \$
<b>Revenue</b>	815,187	1,116,572
<b>Operating expenses</b>		
Plant and other operating costs	436,291	655,673
General and administrative expenses	519,641	534,339
Marketing and development costs	128,339	147,575
Operating expenses before amortization and stock-based compensation	1,084,271	1,337,587
Amortization of property, plant and equipment (note 7)	93,458	90,488
Amortization of intangible asset (note 8)	7,743	7,744
Stock-based compensation charge (note 9)	366,000	232,207
<b>Loss before the under noted</b>	(736,285)	(551,454)
<b>Interest income</b>	247,409	288,851
<b>Interest expense</b>	-	(6,309)
<b>Deferred financing costs written-off</b>	-	(32,771)
<b>Foreign exchange gain (loss)</b>	28,464	(14,255)
<b>Loss and comprehensive loss for the period</b>	(460,412)	(315,938)
<b>Deficit - Beginning of period</b>	(15,660,149)	(11,492,789)
<b>Deficit - End of period</b>	(16,120,561)	(11,808,727)
<b>Loss per share - basic and diluted</b>	(0.01)	(0.01)
<b>Weighted average number of shares outstanding</b> (excludes 6,300,000 performance based escrow shares)	59,235,924	53,249,446

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

# BioteQ Environmental Technologies Inc.

## Consolidated Statement of Cash Flows

### (Unaudited)

For the three months ended March 31

	2008 \$	2007 \$
<b>Cash flows from (used in) operating activities</b>		
Loss for the period	(460,412)	(315,938)
Items not affecting cash		
Amortization of property, plant and equipment	93,458	90,488
Amortization of intangible asset	7,743	7,744
Deferred financing costs written-off	-	32,771
Stock-based compensation charge	366,000	232,207
	6,789	47,272
Change in non-cash working capital items	(952,354)	(338,895)
	(945,565)	(291,623)
<b>Cash flows from (used in) financing activities</b>		
Proceeds from exercise of warrants and options	198,646	1,062,523
Repayment of bank loan	-	(45,291)
	198,646	1,017,232
<b>Cash flows from (used in) investing activities</b>		
Purchase of property, plant and equipment	(4,098,066)	(427,840)
Short-term investments	7,408,977	10,422,076
	3,310,911	9,994,236
<b>Increase in cash and cash equivalents</b>	2,563,992	10,719,845
<b>Cash and cash equivalents - Beginning of period</b>	1,758,744	1,914,068
<b>Cash and cash equivalents - End of period</b>	4,322,736	12,633,913
<b>Supplemental cash flow information</b>		
Interest paid	-	6,309
Withholding taxes paid and receivable	152,991	64,402
<b>Non-cash operating, financing and investing activities</b>		
Increase in accounts payable and accrued liabilities related to purchase of property, plant and equipment	110,000	-

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

# BioteQ Environmental Technologies Inc.

## Notes to the Consolidated Financial Statements

### (Unaudited)

As at and for the three months ended March 31, 2008 and 2007

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#### 1 Company operations

BioteQ Environmental Technologies Inc. and its wholly owned subsidiaries Biomet Mining Corporation, BioteQ Arizona, Inc., BioteQ Water (Australia) Pty Ltd. and BioteQ Water Mexico S.A. de C.V. ("BioteQ" or the "Company") has acquired and developed processes to treat metal-laden, sulphate-rich waste water streams for acid neutralization and metal recovery. Six commercial scale plants have been built using its patented BioSulphide® or ChemSulphide™ technology and others are in progress.

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

#### 2 Basis of Presentation

The accompanying unaudited interim consolidated financial statements are prepared in accordance with generally accepted accounting principles (GAAP) in Canada with respect to the preparation of interim financial statements. Accordingly, they do not include all of the information and disclosures required by Canadian GAAP for annual financial statements. Except as described in note 3, the accounting policies used in the preparation of the accompanying unaudited interim financial statements are the same as those described in the annual consolidated financial statements and the notes thereto for the year ended December 31, 2007. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements. The interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements including the notes thereto for the year ended December 31, 2007.

#### 3 New accounting policies

These unaudited interim financial statements follow the same accounting policies and methods of their application as the Company's annual audited financial statements for the year ended December 31, 2007, with the exception of the following:

##### **CICA Handbook Section 3031 – Inventories**

This Section replaces section 3030 and provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value, and on the cost formulas that are used to assign costs to inventories. The recommendations also clarified that major spare parts are to be included in property, plant and equipment. Adoption of this section did not have any impact on the Company's financial statements.

##### **Section 1535 – Capital Disclosures**

This Section establishes standards for disclosing information about an entity's capital and how it is managed. Under this standard the Company is required to disclose qualitative and quantitative information that enables users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital (note 12)

# BioteQ Environmental Technologies Inc.

Notes to the Consolidated Financial Statements

**(Unaudited)**

As at and for the three months ended March 31, 2008 and 2007

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## **Section 3862 – Financial Instruments – Disclosures**

This Section requires entities to provide disclosure of quantitative and qualitative information in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks (note 11).

## **Section 3863 – Financial Instruments – Presentation**

This Section establishes standards for presentation of financial instruments and non-financial derivatives.

## **4 Future Accounting Changes**

The Canadian Institute of Chartered Accountants has issued new accounting recommendations for goodwill and intangible assets which establish standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets (including internally developed intangible assets). These recommendations are effective for the Company beginning January 1, 2009. Goodwill and intangible assets that are not assets as defined by GAAP will be derecognized and charged to the equity at that date. The Company is evaluating the effect of these recommendations on its financial statements.

# BioteQ Environmental Technologies Inc.

## Notes to the Consolidated Financial Statements

### (Unaudited)

As at and for the three months ended March 31, 2008 and 2007

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## 5 Interest in Joint Ventures

### Bisbee agreement

During 2003, the Company signed agreements with Phelps Dodge Corporation ("PD") for the construction and operation of a 50:50 joint venture water processing project at PD's Bisbee property in southern Arizona. The plant recovers copper from a low-grade waste water stream. The plant was constructed by BioteQ and commissioning completed in August 2004. The plant has been operational from that date, with one half of revenues and costs being recorded in the statements of operations.

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

	<b>March 31 2008</b>	<b>Dec 31 2007</b>
	\$	\$
<b>Consolidated balance sheets</b>		
Current assets	27,000	24,000
Long-term assets	1,742,000	1,775,000
Current liabilities	-	7,000
	<b>Mar 31, 2008</b>	<b>Mar 31, 2007</b>
<b>Consolidated statements of operations</b>		
Sales	557,000	730,000
Operating income	281,000	345,000
Net income	248,000	297,000
<b>Consolidated statements of cash flows</b>		
Operating activities	271,000	235,000
Investing activities	-	(25,000)
Financing activities	(271,000)	(210,000)

# BioteQ Environmental Technologies Inc.

## Notes to the Consolidated Financial Statements

### (Unaudited)

As at and for the three months ended March 31, 2008 and 2007

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#### Dexing agreement

During 2006, BioteQ signed a definitive joint venture agreement with Jiangxi Copper Corporation ("JCC") for the operation of a water treatment facility located at JCC's Dexing mine in Jiangxi Province, China. The joint venture agreement which forms an equal share joint venture company between BioteQ and JCC is called JCC-BioteQ Environmental Technologies Co. Ltd., which will build and operate water treatment plants using BioteQ's technology. The agreement includes a license contract whereby BioteQ will provide its patented technology on a royalty-free basis to the joint venture company for use at the Dexing project as well as five additional sites owned and operated by JCC. At March 31, 2008, the plant was in the commissioning stage.

The cost of the plant, including BioteQ's engineering and site costs, in construction in progress at March 31, 2008 amounted to \$1,853,693 (December 31, 2007- \$1,631,625).

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

	<b>Mar 31 2008</b>	<b>Dec 31 2007</b>
	\$	\$
<b>Consolidated balance sheets</b>		
Current assets	974,000	1,000,000
Long-term assets	1,257,000	1,183,000
Current liabilities	339,000	355,000
	<b>Mar 31 2008</b>	<b>Mar 31 2007</b>
	\$	\$
<b>Consolidated statements of operations</b>		
Sales	-	-
Expenses, exchange gain	88,000	-
Net income	88,000	-
<b>Consolidated statements of cash flows</b>		
Operating activities	98,000	-
Investing activities	(74,000)	-
Financing activities	(24,000)	-

# BioteQ Environmental Technologies Inc.

Notes to the Consolidated Financial Statements

(Unaudited)

As at and for the three months ended March 31, 2008 and 2007

## 6 Inventory

	<b>March 31 2008</b>	<b>Dec 31 2007</b>
	\$	\$
Inventory of chemicals and spare parts	224,024	25,380
Inventory of copper concentrate	141,133	24,000
	<u>365,157</u>	<u>49,380</u>

## 7 Property, plant and equipment

### March 31 2008

	<b>Cost \$</b>	<b>Accumulated Amortization \$</b>	<b>Net \$</b>
Pilot plants	372,113	354,263	17,850
Office equipment	216,294	123,993	92,301
Vehicles	150,037	28,170	121,867
Water treatment plants - net	5,484,593	1,264,931	4,219,662
Construction in progress	15,555,870	-	15,555,870
	<u>21,778,907</u>	<u>1,771,357</u>	<u>20,007,550</u>

### December 31, 2007

	<b>Cost \$</b>	<b>Accumulated Amortization \$</b>	<b>Net \$</b>
Pilot plants	372,113	353,263	18,850
Office equipment	184,404	114,993	69,411
Vehicles	137,795	14,811	122,984
Water treatment plants - net	5,484,593	1,187,026	4,297,567
Construction in progress	11,324,130	-	11,324,130
	<u>17,503,035</u>	<u>1,670,093</u>	<u>15,832,942</u>

# BioteQ Environmental Technologies Inc.

Notes to the Consolidated Financial Statements

(Unaudited)

As at and for the three months ended March 31, 2008 and 2007

## 8 Intangible asset

	Cost \$	Accumulated amortization \$	Net \$
Intellectual property March 31 2008	247,770	61,943	185,827
December 31 2007	247,770	54,200	193,570

## 9 Capital stock, warrants and contributed surplus

Authorized

Unlimited common shares without par value

Issued and outstanding

	Common shares		Warrants	Contributed surplus	Total
	Number of shares	Amount \$	Amount \$	Amount \$	\$
Balance - December 31, 2007	65,483,883	49,558,272	1,436,015	4,047,035	55,041,322
Stock-based compensation				366,000	366,000
Exercise of warrants	67,631	141,354	(23,000)		118,354
Exercise of options	38,666	106,292		(26,000)	80,292
	65,590,180	49,805,918	1,413,015	4,387,035	55,605,968

# BioteQ Environmental Technologies Inc.

## Notes to the Consolidated Financial Statements

### (Unaudited)

As at and for the three months ended March 31, 2008 and 2007

a) Stock options

The Company has a stock option plan available to directors, employees and consultants. On May 1, 2006 at the Company's annual and special meeting, the shareholders approved a new 10% rolling stock option plan. Under the new plan, the Company may grant stock options to purchase shares up to 10% of the Company's issued and outstanding share capital from time to time, and at March 31, 2008, 6,559,018 options are available for issue, of which 4,343,368 have been issued. Options vest at the rate of 33% every six months from award and have a maximum term of five years from the date of the grant. A summary of the change in the Company's stock option plan for the year is as follows:

	March 31 2008		Dec 31 2007	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Outstanding - January 1	4,398,701	2.49	3,927,365	1.34
Options exercised	(38,666)	2.08	(1,333,029)	1.01
Options granted	-	-	1,846,165	3.86
Options forfeited	(16,667)	2.18	(41,800)	2.23
Outstanding – end of period	4,343,368	2.49	4,398,701	2.49
Exercisable at end of period	3,139,493	1.93	2,472,292	1.52
Available for future grant pursuant to Company's stock option plan at end of period	2,215,650		2,149,687	

The following table summarizes information about common share options outstanding at the period ends:

	Range of exercise prices \$	Number outstanding at March 31	Weighted average remaining contractual life (years)	Weighted average exercise price \$
March 31 2008	0.51 - 1.00	288,533	1.16	0.84
	1.01 - 1.50	683,334	3.02	1.34
	1.51 - 2.00	1,675,336	3.26	1.72
	2.01 - 2.50	178,200	3.81	2.38
	4.01 - 4.50	1,517,965	4.38	4.20
		4,343,368	3.50	2.49

# BioteQ Environmental Technologies Inc.

Notes to the Consolidated Financial Statements

(Unaudited)

As at and for the three months ended March 31, 2008 and 2007

	Range of exercise prices \$	Number outstanding at March 31	Weighted average remaining contractual life (years)	Weighted average exercise price \$
Dec 31, 2007	0.50 - 1.00	288,533	1.41	0.84
	1.00 - 1.50	683,334	3.27	1.34
	1.50 - 2.00	1,633,669	3.49	1.72
	2.00 - 2.50	275,200	4.07	2.33
	4.00 - 4.50	1,517,965	4.63	4.20
		4,398,701	3.75	2.49

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

	March 31 2008	Dec 31 2007
Expected dividend yield	-	-
Expected stock price volatility	37%	36% - 42%
Risk-free interest rates	3.72%	4.15% - 4.75%
Expected life of options (years)	3	3
Forfeiture rate	7.4%	7.4%

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

	Weighted average fair value \$	Weighted average exercise price \$
Three months to Mar 31 2008- none granted	-	-
Year to Dec 31 2007	1.19	3.86

Of the total stock-based compensation charge, which amounted to \$366,000 for the period, none relates to stock options granted to non-employees for the three months to March 31, 2008.

# BioteQ Environmental Technologies Inc.

## Notes to the Consolidated Financial Statements

### (Unaudited)

As at and for the three months ended March 31, 2008 and 2007

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b) Warrants

As at the period end, the following warrants were outstanding:

		<b>Mar 31 2008</b>		<b>Dec 31 2007</b>
	<b>Number</b>	<b>Weighted average exercise price \$</b>	<b>Number</b>	<b>Weighted average exercise price \$</b>
Outstanding - January 1	156,951	1.75	4,537,781	1.37
Issued	-	-	-	-
Exercised	(67,631)	1.75	(4,380,829)	1.35
Cancelled	-	-	(1)	-
Outstanding – end of period	<u>89,320</u>	1.75	<u>156,951</u>	1.75

The outstanding warrants have an exercise price of \$1.75 and expire on December 7, 2008.

c) Option agreement

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

# BioteQ Environmental Technologies Inc.

## Notes to the Consolidated Financial Statements

### (Unaudited)

As at and for the three months ended March 31, 2008 and 2007

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#### 10 Segmented information

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

	<b>3 months to Mar 31 2008</b>	<b>3 months to Mar 31 2007</b>
	\$	\$
Revenue		
Canada	95,580	345,504
U.S.	719,607	771,068
	<hr/>	<hr/>
	815,187	1,116,572
	<hr/>	<hr/>
	<b>Mar 31 2008</b>	<b>Dec 31 2007</b>
Property, plant and equipment		
Canada	2,234,988	2,225,949
U.S.	3,083,275	3,124,105
China	1,894,715	1,663,657
Australia	8,639,045	7,486,488
Mexico	4,015,527	1,332,743
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	19,867,550	15,832,942
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During the first quarter of 2008, revenue was derived from three clients that individually accounted for greater than 10% of total revenues. These three clients contributed \$588,699, \$130,908 and \$95,580.

During the first quarter of 2007, revenue was derived from two clients that individually accounted for greater than 10% of total revenues. These two clients contributed \$729,829 and \$245,124.

# BioteQ Environmental Technologies Inc.

## Notes to the Consolidated Financial Statements

### (Unaudited)

As at and for the three months ended March 31, 2008 and 2007

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## II Financial Instruments

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

	<b>Mar 31, 2008</b>	<b>Dec 31, 2007</b>
	\$	\$
Held for trading (cash and cash equivalents)	4,322,736	1,758,744
Held to Maturity (short-term investments)	16,207,544	23,616,521
Loans and receivables	887,282	863,546
Other financial liabilities	2,414,094	3,098,124

### Fair Value

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

### Interest rate risk

Short-term investments are invested in separate investments with varying maturities exposing the Company to interest rate risk on these financial instruments. All short-term investments have remaining maturities of less than one year. The recognized interest income of the Company's short-term investments for the three month period ended March 31, 2008 was \$228,943.

It is estimated that net income will fluctuate by \$40,000 per quarter, for every 1% change in the prevailing rates of interest.

### Credit Risk

The Company is exposed to credit risk in its cash and cash equivalents, short-term investments, accounts receivable and other receivables.

As the Company does not utilize credit derivatives or similar instruments, the maximum exposure to credit risk is the full carrying value of the financial instrument.

# BioteQ Environmental Technologies Inc.

## Notes to the Consolidated Financial Statements

### (Unaudited)

As at and for the three months ended March 31, 2008 and 2007

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The Company minimizes the credit risk of cash and cash equivalents and short-term investments by depositing only with reputable financial institutions and limiting the term to maturity to less than one year.

Credit risk on accounts receivable and other receivable is minimized by performing credit reviews, on-going credit evaluation and account monitoring procedures. All of the Company's receivables have been reviewed for indicators of impairment. Of the Company's receivables none are past due. The definition of items that are past due is determined by reference to terms agreed with individual customers. No accounts receivable have been challenged by the respective customers and the Company continues to conduct business with them on an on-going basis. Accordingly, management has no reason to believe that the balance is not fully collectible.

As of March 31, 2008, tax related receivables balances of \$537,000 accounted for 60% of all accounts receivable. Of this balance, \$321,000 related to Mexican IVA tax(GST), which is being paid on construction work on a new project in Mexico. The Company has no reason to believe that these balances will not be collected. Three individual customers account for more than 10% of revenue.

#### Foreign Currency Risk

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

The Company's exposure to foreign currency risk is primarily related to fluctuations in the value of the Canadian dollar relative to that of the United States dollar, because the Company's revenues are largely derived from the sale of commodities which are priced in U.S. dollars. In addition, and to a lesser extent the Company is exposed to currency fluctuations related to operating costs and any construction costs in the local currencies where its plants are being built. Presently, currencies affected would be the Australian dollar, Chinese Renminbi and Mexican Pesos. If the Canadian dollar depreciated by 1 cent against the US dollar at March 31, 2008, with all other variables held constant, the impact of the foreign currency change on the US denominated financial instruments would lead to additional after tax net income of \$2,000. If the Canadian dollar depreciated by 1% against the other currencies mentioned above, with all other variables held constant, the impact of the foreign currency change on the other foreign financial instruments would lead to additional after tax net loss of \$5,000. For the three month period ended March 31, 2008, the Company reported a foreign exchange gain of \$28,464 and for the three month period ended March 31, 2007 the Company recorded a foreign exchange loss of \$14,255.

#### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligation as they fall due. The Company currently settles its financial obligations out of cash and cash equivalents and short-term investments. The ability to do this relies on the Company collecting its accounts receivable in a timely manner and by maintaining sufficient cash and cash equivalents in excess of anticipated needs. At March 31, 2008, the Company's accounts payable and accrued liabilities were \$2,414,094, which falls due for payment within twelve months of the balance sheet date.

# BioteQ Environmental Technologies Inc.

## Notes to the Consolidated Financial Statements

### (Unaudited)

As at and for the three months ended March 31, 2008 and 2007

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## 12 Capital Management

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

Considering the early stage of development of the Company, it has not been able to utilize debt financing to any significant degree and currently has no outstanding debt or facilities, and there are no externally imposed capital requirements. As soon as the Company is able to raise debt finance on favourable terms, the Company will consider this form of capital compared to equity financing.

In order to maintain or adjust its capital structure the Company may issue new shares, purchase shares for cancellation pursuant to a normal course issuer bid, raise debt or refinance existing debt with different characteristics. There were no changes in the Company's approach to capital management during the period.

## 13 Commitments

The Company has commitments of \$74,000 in 2008 under operating leases for office and laboratory premises.

The Company is committed to repayment of government assistance in the form of a quarterly 2% royalty on corporate gross revenues. The maximum amount remaining to be paid is \$367,692, of which \$158,805 has been accrued at March 31, 2008.

The Company has committed approximately \$1,300,000 to capital expenditures to complete the current construction projects.

The Company has committed to spend a maximum amount of \$100,000 for a basic engineering study for a potential new project. The customer will contribute 50% of the amount spent on the study.

## 14 Subsequent events

Subsequent to March 31, 2008, BioteQ agreed to provide \$3 million in debt financing to Columbia Metals Corporation Limited ("Columbia") to bring the Lluvia-Jojoba gold and copper mine into production, to coincide with the completion of BioteQ's water treatment plant currently under construction. There is an extension option for a further \$1 million which can be used to finance property payments. The loan has a maximum term of 1 year and if unpaid will result in an additional share of all net revenues to BioteQ until all loans are repaid. The loans are secured on the assets of the project. In April 2008 BioteQ advanced \$1,100,000 under the loan.

# BIOTEQ ENVIRONMENTAL TECHNOLOGIES INC.

## Management's Discussion and Analysis

First Quarter Report - March 31 2008

(Expressed in Canadian dollars unless otherwise noted)

May 9, 2008

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

This discussion should be read in conjunction with the unaudited, interim consolidated financial statements and accompanying notes for the three months ended March 31, 2008 and 2007 and the audited consolidated financial statements and accompanying notes for the year ended December 31, 2007 and 2006, which were prepared in accordance with Generally Accepted Accounting Principles in Canada ("Canadian GAAP"). Certain statements contained in Management's Discussion and Analysis constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of the date the statements were made and readers are advised to consider such forward-looking statements in light of the risks.

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

## Description of Business

BioteQ Environmental Technologies Inc. ("BioteQ") is an industrial process technology company headquartered in Vancouver, British Columbia, Canada. BioteQ has developed technologies for water treatment, sulphate reduction, and lime sludge processing. BioteQ's process plants allow the treatment of acid contaminated water with concurrent recovery of saleable metals from the water and reduction of total dissolved solids. Water from the process plants meets mandated discharge water quality criteria. In addition, biogenic sulphide reagent can be produced on demand to replace more expensive chemical reagents. The Company is listed on the Toronto Stock Exchange (TSX) under the symbol BQE.

## Technologies

BioteQ's technologies are used in industrial wastewater treatment applications. The BioSulphide® Process uses biological sulphide to selectively recover metals from acid waste water and can be applied in mining and other industrial sectors. The ChemSulphide™ Process is used in place of the BioSulphide® Process where the production of biological sulphide is not warranted. Applications of BioteQ's sulphide technologies include treatment of acid drainage or industrial wastewater and groundwater for the selective recovery of valuable metals to provide a revenue source from the water. In addition, sulphide technologies can be used to replace or augment lime based treatment facilities to reduce or eliminate waste sludge production and the associated liabilities. The biological

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technology that is an integral part of the BioSulphide® Process can be utilized commercially to generate sulphide reagent on demand for other industrial purposes, such as the application of SART technology for copper-gold ore processing in mining.

BioteQ has also developed technology for the conversion of some forms of waste sludge into value-added construction materials, again to eliminate the potential long-term liability of sludge products and create a revenue source from the waste products. BioteQ's Sulf-IX™ technology is a recent development using ion-exchange to meet new regulations for the reduction of the sulphate content in treated water, producing water acceptable for industrial, agricultural and residential use.

### Business Models

BioteQ finances, builds and operates or provides turn-key plants for the treatment of acid mine drainage and other industrial effluents using its commercially proven technology. Typical business models for BioteQ's projects include:

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

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

**Turn-Key Plant** – where BioteQ designs, builds and operates the plant on a fee basis.

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

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### Projects

BioteQ has several projects at various stages: operational, construction and developmental. The following chart summarizes the major projects, including estimates of future projects, on the basis of mature operations. Actual results may vary based on volume and grade of water treated. All projects are operated, or planned for operation, at the customers own sites, therefore BioteQ is dependant on the continued cooperation of those customers.

Company	Project	Business Model	Metal recovered	Annual Production (lb) (BQE share)	Capital Cost (BQE Share)	Operating Costs p.a. (BQE Share, excl. refining)	Current Status and estimates
<b>OPERATING PROJECTS</b>							
Freeport McMoRan	Bisbee, AZ.	50/50 JV	copper	710,000	\$3,200,000	\$1,400,000	Operating since 2004
Xstrata	Raglan, Que.	Build, Own, Operate for Fees	nickel	920,000 (Cubic meters of water )	\$1,800,000	\$410,000	Operating since 2004
Aditya Birla	Mt. Gordon, Australia	Build, Own, Operate (90% of metal )	copper cobalt	1,400,000 135,000	\$8,800,000	\$4,300,000	Copper operating since April 1, 2008. Cobalt circuit commissioning expected complete in Q2.
Jiangxi Copper	Dexing, China	50/50 JV	copper	1,800,000	\$1,800,000	\$2,100,000	Operating since April 1, 2008
<b>CONSTRUCTION PROJECTS (Estimates - full year at design capacity)</b>							
Columbia Metals	Lluvia de Oro, Mexico	Build, Own, Operate plus fee	copper cyanide	900,000 2,800,000	\$5,200,000	\$500,000 \$1,000,000	2Q 2008 commissioning to commence
Freeport McMoRan	Blackwell, OK	Plant sale	zinc, cadmium	Fixed fees	no cost	-	Plant constructed 2006, awaiting infrastructure
US EPA	Wellington Oro, CO	Plant sale	zinc, cadmium	Fixed fees	no cost	-	Q3 2008 commissioning to commence
Molybdenum	Nos Refinery, Chile (stage 1, calcium removal)	Build, Own, Operate	sulphate	700,000 (Cubic meters of water )	\$4,000,000	\$800,000	Construction to start Q4 2008, subject to detailed engineering
Freeport McMoRan	Sierrita, AZ	Plant sale	sulphate	Fixed fees	No cost	-	Construction to commence Q3 2008
<b>DEVELOPMENT PROJECTS (Estimates - full year at design capacity)</b>							
Jiangxi Copper	Yinshan, China	50/50 JV	copper	Tbd	Tbd	Tbd	In design and engineering
Molybdenum	Nos Refinery, Chile	Build, Own, Operate	copper	900,000	\$4,000,000	\$1,100,000	2009
Columbia Metals	La Jojoba, Mexico	Build, Own, Operate plus fee	copper cyanide	1,650,000 2,300,000	\$2,000,000	\$1,800,000	2009
Vale Inco	North Mine ON	Build, Own, Operate	nickel	850,000	\$6,500,000	\$1,200,000	2009

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### *Operating Projects:*

BioteQ has constructed and commissioned six commercial treatment plants using its sulphide technology at five sites:

- Two plants at the **Caribou Mine** in New Brunswick, which served as the Company's initial commercial demonstration site. BioteQ is no longer active at this site, and the Company's proprietary technology has been removed.
- A copper recovery plant in **Bisbee**, Arizona (50/50 joint venture with Freeport McMoRan; BioteQ revenues derived from metal sales). This plant, located at the closed Copper Queen mine site, has been operating since 2004, recovering copper from the drainage of a low-grade stockpile. Further details about operating results for Q1 are outlined in the "Operations" section of this MD&A. The plant is expected to produce 1,420,000 pounds of copper in 2008, with operating costs of approximately \$2.8 million
- A nickel recovery plant at the **Raglan Mine** in northern Quebec (build-own-operate project for Xstrata; BioteQ revenues derived from treatment fees). This plant has been operating seasonally since 2005, typically from May to November, at an active nickel mining operation located in the Canadian Arctic. Because of the harsh winter conditions, water is not available for processing until the spring thaw. During Q1, the plant was in its scheduled winter shut-down mode. BioteQ staff are on site to ready the plant for the 2008 operating season, which is expected to commence with the spring thaw in mid-June. BioteQ expects to treat about 920,000 cubic meters of water during the 2008 operating season, with operating costs budgeted at \$410,000 (these costs are largely labour, since reagents are supplied by Xstrata). BioteQ is paid a water treatment fee of \$1.12 per cubic metre of water treated, plus a capital fee of \$31,800 per month.
- A copper recovery plant at the **Dexing Mine** in China (50/50 joint venture with Jiangxi Copper Company; BioteQ revenues to be derived from metal sales). This new plant was in the final stages of commissioning during Q1. Commissioning was complete as of April 1, and the plant is now producing a saleable copper sulphide product. As of March 31, the plant had produced inventory of 40,000 lbs of copper from commissioning activities, which is expected to be sold during Q2. The copper product will be shipped to Jiangxi Copper Company's refinery in Guixi City. The plant is budgeted to produce 700,000 lbs of copper over the balance of 2008, with production gradually rising to 3.6 million lbs annually of copper over the next several years. Operating costs for 2008 are budgeted at \$1.4 million, excluding refining and smelting costs.
- A copper/cobalt/nickel recovery plant at **Mt. Gordon** in Australia (build-own-operate project for Aditya Birla; BioteQ revenues to be derived from metal sales). This new plant was in the final stages of commissioning during Q1. Commissioning of the copper circuit was complete as of April 1, and the plant is now producing a saleable copper product; the cobalt/nickel circuit is in the final stages of commissioning, and is expected to be fully commissioned during Q2. As of March 31, the plant had produced inventory of 88,000 lbs of copper from commissioning activities, which is expected to be sold during Q2. The Company is presently negotiating final refining and smelting contracts. The plant is budgeted to produce 800,000 lbs of copper and 70,000lbs of cobalt/nickel product over the balance of 2008. Plant operating costs for 2008 are budgeted at \$3.2 million, excluding refining and smelting costs.

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A seventh BioteQ plant (its second with Freeport McMoRan) has been completed and is ready for installation and commissioning in Blackwell, Oklahoma, subject to completion of site infrastructure and permitting by Freeport McMoRan.

### *Construction projects:*

The Company also has several new projects currently in the construction schedule:

- BioteQ is presently constructing a water treatment plant at the Lluvia de Oro gold mine site in Sonora, Mexico, owned by Columbia Metals Corporation Ltd. of Toronto. The plant is a new application of BioteQ's technology, designed to recover copper from cyanide solution as well as recycle cyanide for use in gold extraction, using BioteQ's ChemSulphide™ Process in combination with the SART process, which was co-developed by SGS Lakefield and Teck Corporation. Completion of construction is anticipated later in Q2 2008, at an estimated cost to BioteQ of \$5.2 million.
- BioteQ has engineered a plant for construction at a site in Colorado (Wellington Oro), which is administered under the U.S. Environmental Protection Agency ("US EPA") Superfund program, established to address abandoned hazardous waste sites in the USA. Selection of BioteQ's plant was approved by the EPA as the best available technology and the plant is now in construction. BioteQ is providing the engineering and procurement of the plant equipment and the commissioning and operator training, on a progress fee for service basis. Construction is expected to be complete in mid 2008, with commissioning scheduled for Q3.
- BioteQ signed a construction and operating agreement in February 2008 with Molibdenos y Metales S.A. (Molymet), for the development of a water treatment plant at Molymet's Nos Refinery near Santiago, Chile. This plant will apply BioteQ's new Sulf-IX™ ion exchange technology for final water treatment to remove sulphate from solution, replacing an existing reverse osmosis plant. The plant will be built in three stages to allow gradual replacement of the existing reverse osmosis technology. The capital cost for all three stages is estimated to be \$8 million, with a plant capacity of 700,000 cubic meters of water. The first stage of engineering for the design report to remove calcium is in progress. Completion of the final stage of the project is scheduled for 2011, subject to detailed engineering and the customer's final approval.
- BioteQ has signed a third agreement with Freeport McMoRan, this time to build a demonstration plant for sulphate removal at their Sierrita copper mine in southern Arizona, using BioteQ's proprietary Sulf-IX™ ion-exchange technology. The plant is expected to start construction in late 2008 and is expected to have a total capacity of 125 gallons per minute. Freeport McMoRan will be responsible for all capital and operating costs. BioteQ is providing the technology on a fee for service basis.

### *Development projects:*

The Company has several projects in development:

- BioteQ has initiated the second of six potential projects with Jiangxi Copper Company, at the Yinshan Mine in China, to recover copper and zinc. The design report to define the scale and scope of the project is in progress, and is expected to be complete in Q2 2008.
- BioteQ has signed a development agreement with Molibdenos y Metales S.A. (Molymet), for a water treatment plant at Molymet's Nos Refinery near Santiago, Chile to recover copper from a wastewater

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stream from their hydrometallurgical molybdenum refining process. The project is subject to a final construction and operating agreement.

- BioteQ has signed a development agreement with Columbia Metals to provide copper recovery and cyanide regeneration treatment at the La Jojoba gold mine site, adjacent to the Lluvia de Oro site in Sonora, Mexico. The companies are working together to determine timing of development for the site.
- The Company has completed an engineering study for Inco (now Vale Inco) for a water treatment plant to recover nickel from acidic underground mine water at the North Mine in Sudbury, Ontario. The project is subject to a final construction and operating agreement.

## Operations

### Overall Performance

The first quarter results for 2008 (unaudited) resulted in a positive cash contribution from operations of \$379,000 before G&A, amortization and other expenses, compared to \$461,000 in the first quarter of 2007. A summary of the operating results is shown below under Operating Projects. The lower cash contribution was the result of the Caribou operations ending on July 31, 2007 and Bisbee results in Q1 2007 reflecting an unusually large inventory from December 31, 2006 being sold in the first quarter of 2007. In addition, in 2008 there was 10% less output from the Bisbee plant due to less water to treat and a slightly lower grade. The price achieved for copper in Canadian dollars was very similar in both periods. The first quarter of 2008 shows an overall loss for the period of \$460,000, after all administration and other costs and non-cash charges, compared to a loss of \$315,000 for Q1 2007. After eliminating non-cash charges, there was a positive cash flow from operating activities of \$7,000 in 2008, compared to \$47,000 for the comparative period in 2007.

General and administrative costs were moderately lower in 2008 than 2007, due to some extraordinary costs in the 2007 period. Quarterly costs are expected to be nearly 10 % higher in the remaining quarters of 2008.

Marketing and development costs were also lower in 2008, by 13%. These costs are not necessarily steady throughout the year and depend on the specific need and location of the marketing effort in that period. The marketing and development costs may be expected to increase during the balance of 2008, because the Company is focusing effort on developing and testing new applications of its technologies in a laboratory.

Amortization of property, plant and equipment showed little change in 2008 from 2007, however with the completion of two new plants on April 1, 2008, amortization can be expected to increase by approximately \$130,000 per quarter. The non-cash cost of stock based compensation increased by \$134,000 compared to 2007 due to new director and employee options granted in 2007 being expensed over their vesting periods and being valued at significant amounts under the accepted Black Scholes model for stock option valuation. The rapid rise in BioteQ's stock price during past years has created this significant valuation.

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Interest income has declined by 14% in Q1 2008 from Q1 2007. The invested cash has reduced due to new project expenditures, being offset to some extent by the average yield being slightly higher. Interest income will decrease in future periods with the current lower interest rates.

BioteQ has been very active with new projects in the first quarter, two of which have completed commissioning on April 1, 2008 and will be contributing to operating revenue in Q2. Capital expenditures of \$4.1 million were incurred during the quarter and a further \$1.3 million is expected to be incurred in completing existing construction projects, primarily the Lluvia project in Mexico. In addition to BioteQ's own plant commitment on the Lluvia project, subsequent to the quarter end BioteQ agreed to loan \$3 million to Columbia Metals Corporation Limited. Columbia is the owner of the Lluvia gold and copper mine and the loan is to assist in bringing the site into production as soon as possible. Under the agreement, BioteQ will be repaid within one year or will be repaid from an increase in its share of net revenues from the project. BioteQ will also operate the gold recovery circuit for additional fees.

BioteQ's existing resources will cover these commitments and other projects in 2008. BioteQ has no long term debt.

Assets remained relatively unchanged during the first quarter of 2008. The exercise of warrants and options generated additional cash of \$198,000. Total liabilities reduced by \$544,000 due to construction projects coming to an end. Shareholder equity was largely unchanged during the quarter due to the above-mentioned warrant and option exercises and the credit in share capital for stock-based compensation being offset by the loss for the period.

## Operating Results

### Financial data for the last eight quarters (unaudited)

Quarter ended (\$000's except per share details)	Mar-08	Dec 07	Sept-07	Jun-07	Mar-07	Dec 06	Sept-06	Jun-06
Total revenues	815	1,137	1,304	1,072	1,117	1,175	1,313	1,286
Plant & other operating expenses	436	563	464	598	656	736	537	854
Net income before G&A and Amortization & other	379	574	840	474	461	439	776	432
General & administrative Amortization and other	520	608	527	606	534	663	458	458
	319	649	2,814	535	243	684	240	290
Net Income (loss)	(460)	(683)	(2,501)	(667)	(316)	(908)	78	(316)
Loss per share	\$0.01	\$0.01	\$0.05	\$0.01	\$0.01	\$0.02	\$0.00	\$0.01

Revenues and operating costs varied in each quarter for several reasons:

- The Caribou project was operational through Q1 2007, winding down in Q2 and finished in Q3.
- Raglan operates seasonally from approximately May to October, due to sub-Arctic conditions in Northern Quebec. Results for Q2 2007 were negatively affected by an unusually slow spring thaw.
- Revenue in Q1 2008 and Q4 2007 reflect engineering fees for procurement activities for the Wellington Oro project.

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Net income before G&A and amortization & other shows the positive cash contribution being made by plant operations.

General & administrative expenses changed in the various quarters due to the following. December 2006 included an extra \$100,000 for capital taxes and legal costs as a result of the late 2006 financing. A US based financial communications and media agency was hired in the fourth quarter of 2006 which increased costs by approximately \$35,000 per quarter thereafter until December 2007. The second quarter of 2007 includes TSX original listing fees and associated legal costs of approximately \$200,000. The fourth quarter of 2007 includes \$60,000 of professional fees for financial services.

Amortization & other in the third quarter of 2007 reflects a one-time non-cash charge of \$2,100,000 for escrow share modification. The fourth quarter of 2006 reflects an accrual of \$251,000 for payment of IRAP government grant royalties on future sales (part of marketing and development costs). Stock based compensation charges increased throughout 2007 as the effect of 2006 grants was accounted for as options vested and new grants in 2007 attracted increasingly high charges from the accepted model for valuation of options. The charge for the first quarter of 2008 decreased by approximately \$200,000 from the previous two quarters, due to lower charges from reduced option valuations and older grants having completed their period to be expensed.

## **Liquidity and Capital Resources**

At March 31 2008, the Company had 65,590,180 (fully diluted-70,022,868) common shares issued and outstanding, compared to 65,483,883 (fully diluted-70,039,535) at December 31 2007. Additional cash was received during the period from options and warrants which were exercised to issue 106,297 shares, for cash proceeds of \$198,646. At the current date of May 9, 2008, the issued shares are 66,076,848 and fully diluted are 69,914,535. There were 89,320 warrants and 4,343,368 options outstanding to buy the same numbers of common shares. The increase in the number of issued shares in 2008 is due to the exercise of 38,666 options for cash of \$80,292 and the exercise of 67,631 warrants for cash of \$118,354. No new options were granted during the period or subsequent to March 31, 2008.

At March 31, 2008, the Company had cash and short-term investments, consisting of major bank paper, of \$20,530,280, a decrease of \$4,844,985 from December 31, 2007. During the quarter, this cash, equity issues noted above of \$198,646, and surplus cash from operating activities of \$6,789 funded the changes in non-cash working capital items of \$952,354 and the Company's new construction projects for \$4,098,066.

Working capital at the quarter-end was \$19,292,030, which had decreased from December 31, 2007 by \$4,062,631. The change was caused by substantially the same factors as affected cash, noted above. Additional funds of \$4.3 million may be available from the exercise of outstanding warrants and exercisable options which are in the money at the present time. Of these resources, approximately \$4,300,000 has been committed to complete the construction or commissioning of new projects and for the Columbia loan. The balance is largely uncommitted. The other three construction projects in progress in 2008, the Wellington Oro project in Colorado, the Blackwell

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project in Oklahoma, and the Sierrita project in Arizona are on a fee for service basis and do not require capital contribution from BioteQ. The Molymet project is in the early stages and could require an estimated \$8,000,000 from late 2008 through 2011, including \$4 million for stage one for calcium removal.

Contractual obligations of BioteQ at March 31 2008 are presented in the table below:

Contractual obligations	Total	Payments due by period		
		Less than 1 year	1-3 years	After 3 years
Operating leases	\$74,000	\$74,000	-	-
Purchase obligations	\$800,000	\$800,000	-	-
Total contractual obligations	\$874,000	\$874,000	-	-

In addition, the Company is committed to repayment of Government assistance in the form of a quarterly remittance of 2% of corporate revenues. The maximum possible repayment amounts to \$460,297, of which \$181,551 has been accrued at March 31 2008.

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

## Operating Projects

A summary of the first quarter operating results by project is shown below:

Unaudited	Revenues		Plant Operating Costs		Plant Operating Profit	
	2008	2007	2008	2007	2008	2007
Bisbee	557,000	730,000	276,000	385,000	281,000	345,000
Raglan	96,000	96,000	31,000	47,000	65,000	49,000
Caribou	0	245,000	0	196,000	0	49,000
Other	162,000	46,000	129,000	28,000	33,000	18,000
<b>Total</b>	<b>\$815,000</b>	<b>\$1,117,000</b>	<b>\$436,000</b>	<b>\$656,000</b>	<b>\$379,000</b>	<b>\$461,000</b>

Raglan operations are seasonal from about May to October and the current year's operations commenced in May 2008. Caribou lime plant operations ceased on July 31, 2007. Other revenues and operating costs in the first quarter are largely the result of fees for procurement services for the Wellington Oro project.

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### The Freeport McMoRan Project – Bisbee, Arizona

In August 2004, the Company completed commissioning of a copper recovery plant at the Bisbee site, using BioteQ's BioSulphide® process, in a 50/50 joint venture with Phelps Dodge Corporation (now Freeport McMoRan). The plant was designed and built by BioteQ and is owned and operated by the joint venture company, Copreco LLC. BioteQ has operating responsibility for the plant which is designed to recover copper selectively from circulating acid water which leaches from existing low-grade stockpiles. No sludge is produced in the treatment process. The design capacity of the plant is approximately 2.7 million pounds per year of copper recovered. The actual copper recovered is dependent on water availability and the amount of copper and other metals contained therein. Revenues and expenses are shared equally between the joint venture members.

Plant operating results (total for the JV)	Operations Qtr I	Operations Qtr I
	2008	2007
Water treated (millions of gallons)	192	199
Mechanical availability (%)	99	99
Copper produced (pounds in concentrate)	331,000	368,000
Copper recovery	>99%	>99%

Copper production at the site during the period was lower than 2007 by 10% because of 4% less water to process and a 6% lower metal content. Mechanical availability has been consistently good at 99%. The lower copper grade previously reported has continued, although it appears to have stabilized though Q4, 2007 and Q1 2008.

### The Xstrata Project – Raglan Mine, Quebec

BioteQ's Raglan plant located in Northern Quebec at the Raglan Mine, which is owned by Xstrata (formerly Falconbridge), was designed, built and is operated by BioteQ for fees, to recover nickel from mine wastewater using BioteQ's ChemSulphide™ process. The nickel concentrate produced by the plant is shipped with other nickel concentrate produced at the mine. In 2007, over 12,500 kilograms of nickel was removed from the wastewater, which allowed discharge directly into the environment. No sludge is created for storage, as in a conventional lime treatment plant. The plant was commissioned and reported limited operations in 2004. The first year of full operation, which is seasonal from May to October, was in 2005.

Preparations for the 2008 operating season have commenced, with full operations anticipated with the spring thaw in mid-June.

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### General

#### Disclosure Controls and Procedures

As at the period end March 31, 2008, an evaluation was carried out under the supervision of and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as at March 31, 2008 to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities.

### Changes in Accounting Policies

#### Inventories

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants Section 3031, Inventory. This section provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value, and on the cost formulas that are used to assign costs to inventories. The recommendations also clarified that major spare parts are to be included in property, plant and equipment. Adoption of this section did not have any impact on the Company's financial statements.

#### Financial Instruments and Capital Disclosures

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants Section 3862, **Financial Instruments – Disclosures**, section 3863, **Financial Instruments – Presentation** and section 1535, **Capital Disclosures**. These new standards establish additional presentation and disclosure requirements including the significance of financial instruments to the Company's position and performance, discussion regarding the nature and extent of risks surrounding the Company's financial instruments, disclosures regarding the Company's objectives, policies and process for managing capital; and what the Company regards as capital. The adoption of these standards did not impact net earnings or financial position.

### Future Accounting Changes

The Canadian Institute of Chartered Accountants has issued new accounting recommendations for goodwill and intangible assets which establish standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets (including internally developed intangible assets). These recommendations are effective for the Company beginning January 1, 2009. Goodwill and intangible assets that are not assets as defined by

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GAAP will be derecognized and charged to the equity at that date. The Company is evaluating the effect of these recommendations on its financial statements.

### **Risks and uncertainties**

The procedures used by the Company to determine risks and uncertainties affecting the Company remain unchanged from the year- end and were reported in the MD&A in the 2007 Annual Report and there have been no significant changes in the risks. In general, the unique nature of the Company's projects and being located on its customers own sites results in some aspects of the Company's projects being beyond its control.