

# **BioteQ Environmental Technologies Inc.**

Interim Consolidated Financial Statements  
(Unaudited)

**Second quarter ended June 30, 2008**

# BioteQ Environmental Technologies Inc.

## Consolidated Balance Sheets

	June 30 2008 (Unaudited) \$	Dec 31 2007 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	1,534,642	1,758,744
Short-term investments	15,017,125	23,616,521
Trade receivables	326,903	339,217
Receivable from joint venture partners	546,738	153,318
Loan receivable (note 7)	1,661,238	-
Taxes recoverable	646,809	146,831
Inventory (note 6)	1,065,354	49,380
Prepaid expenses	31,507	164,594
Other receivables	16,057	224,180
	<u>20,846,373</u>	<u>26,452,785</u>
<b>Property, plant and equipment</b> (note 8)	21,241,122	15,832,942
<b>Intangible asset</b> (note 9)	178,084	193,570
	<u>42,265,579</u>	<u>42,479,297</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	2,263,276	3,098,124
	<u>2,263,276</u>	<u>3,098,124</u>
<b>Shareholders' Equity</b>		
<b>Capital stock, warrants and contributed surplus</b> (note 10)	56,870,204	55,041,322
<b>Deficit</b>	(16,867,901)	(15,660,149)
	<u>40,002,303</u>	<u>39,381,173</u>
	<u>42,265,579</u>	<u>42,479,297</u>
<b>Commitments</b> (note 14)		

### Approved by the Board of Directors

"P.B. Marchant"

P.B. Marchant, Director

"Clement A. Pelletier"

Clement A. Pelletier, 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)

	<u>3 months ended June 30th,</u>		<u>6 months ended June 30th,</u>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Revenue</b>	<u>1,506,785</u>	<u>1,072,045</u>	<u>2,321,972</u>	<u>2,188,617</u>
<b>Operating expenses</b>				
Plant and other operating costs	913,987	597,831	1,350,277	1,253,504
General and administrative expenses	592,935	606,297	1,112,576	1,140,637
Marketing and development costs	<u>292,697</u>	<u>160,207</u>	<u>421,037</u>	<u>307,781</u>
Operating expenses before amortization and stock-based compensation	1,799,619	1,364,335	2,883,890	2,701,922
Amortization of property, plant and equipment (note 8)	234,037	90,645	327,495	181,133
Amortization of intangible asset (note 9)	7,743	7,743	15,486	15,486
Stock-based compensation charge (note 10)	<u>440,000</u>	<u>446,992</u>	<u>806,000</u>	<u>679,200</u>
<b>Loss before the under noted</b>	(974,614)	(837,670)	(1,710,899)	(1,389,124)
<b>Interest income</b>	193,100	296,507	440,509	585,358
<b>Interest expense</b>	-	(5,675)	-	(11,984)
<b>Deferred financing costs written-off</b>	-	-	-	(32,771)
<b>Foreign exchange gain (loss)</b>	<u>34,174</u>	<u>(120,002)</u>	<u>62,638</u>	<u>(134,257)</u>
<b>Loss and comprehensive loss for the period</b>	(747,340)	(666,840)	(1,207,752)	(982,778)
<b>Deficit - Beginning of period</b>	<u>(16,120,561)</u>	<u>(11,808,727)</u>	<u>(15,660,149)</u>	<u>(11,492,789)</u>
<b>Deficit - End of period</b>	<u>(16,867,901)</u>	<u>(12,475,567)</u>	<u>(16,867,901)</u>	<u>(12,475,567)</u>
<b>Loss per share - basic and diluted</b>	<u>(0.01)</u>	<u>(0.01)</u>	<u>(0.02)</u>	<u>(0.02)</u>
<b>Weighted average number of shares</b> (excludes 6,300,000 performance based escrow shares)	<u>59,710,897</u>	<u>53,931,898</u>	<u>59,473,411</u>	<u>53,695,233</u>

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

# BioteQ Environmental Technologies Inc.

## Consolidated Statement of Cash Flows

(Unaudited)

	<u>3 months ended June 30th,</u>		<u>6 months ended June 30th,</u>	
	2008	2007	2008	2007
<b>Cash flows from (used in) operating activities</b>				
Loss for the period	(747,340)	(666,840)	(1,207,752)	(982,778)
Items not affecting cash				
Amortization of property, plant and equipment	234,037	90,645	327,495	181,133
Amortization of intangible asset	7,743	7,743	15,486	15,486
Deferred financing costs written-off		-	-	32,771
Stock based compensation charge	440,000	446,992	806,000	679,200
	(65,560)	(121,460)	(58,771)	(74,188)
Change in non-cash working capital items	(1,438,342)	985,645	(2,390,696)	646,750
	(1,503,902)	864,185	(2,449,467)	572,562
<b>Cash flows from (used in) financing activities</b>				
Proceeds from exercise of warrants and options	824,236	1,859,322	1,022,882	2,921,845
Repayment of bank loan	-	(45,924)	-	(91,215)
	824,236	1,813,398	1,022,882	2,830,630
<b>Cash flows from (used in) investing activities</b>				
Purchase of property, plant and equipment	(1,637,609)	(1,967,889)	(5,735,675)	(2,395,729)
Short-term investments	1,190,419	(9,816,239)	8,599,396	605,837
Increase in loan receivable	(1,661,238)	-	(1,661,238)	-
	(2,108,428)	(11,784,128)	1,202,483	(1,789,892)
<b>(Decrease) Increase in cash and cash equivalents</b>	<b>(2,788,094)</b>	<b>(9,106,545)</b>	<b>(224,102)</b>	<b>1,613,300</b>
<b>Cash and cash equivalents - Beginning of period</b>	<b>4,322,736</b>	<b>12,633,913</b>	<b>1,758,744</b>	<b>1,914,068</b>
<b>Cash and cash equivalents - End of period</b>	<b>1,534,642</b>	<b>3,527,368</b>	<b>1,534,642</b>	<b>3,527,368</b>
<b>Supplemental cash flow information</b>				
Interest paid	-	5,675	-	11,984
Withholding taxes paid and receivable	-	-	-	136,434

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 and six months ended June 30, 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 Canadian generally accepted accounting principles (GAAP) 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 13)

# **BioteQ Environmental Technologies Inc.**

Notes to the Consolidated Financial Statements

**(Unaudited)**

As at and for the three months and six months ended June 30, 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 12).

## **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 and six months ended June 30, 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>June 30 2008</b>	<b>Dec 31 2007</b>		
	<b>\$</b>	<b>\$</b>		
<b>Consolidated balance sheets</b>				
Current assets	33,000	24,000		
Long-term assets	1,709,000	1,775,000		
Current liabilities	-	7,000		
	<b>3 months June 30 2008</b>	<b>3 months June 30 2007</b>	<b>6 months June 30 2008</b>	<b>6 months June 30 2007</b>
<b>Consolidated statements of operations</b>				
Sales	470,000	610,000	1,027,000	1,340,000
Operating income	210,000	307,000	491,000	652,000
Net income	177,000	270,000	425,000	567,000
<b>Consolidated statements of cash flows</b>				
Operating activities	204,000	382,000	475,000	617,000
Investing activities	-	-	-	(25,000)
Financing activities	(204,000)	(382,000)	(475,000)	(592,000)

# BioteQ Environmental Technologies Inc.

## Notes to the Consolidated Financial Statements

### (Unaudited)

As at and for the three months and six months ended June 30, 2008 and 2007

#### 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. The plant ceased commissioning and commenced operations on April 1, 2008.

The cost of the plant, including BioteQ's engineering and site costs, in Water Treatment Plants at June 30, 2008 amounted to \$1,845,039 (December 31, 2007- \$1,631,625 in Construction in Progress).

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

	June 30 2008	Dec 31 2007
	\$	\$
<b>Consolidated balance sheets</b>		
Current assets	1,235,000	1,000,000
Long-term assets	1,248,000	1,183,000
Current liabilities	301,000	355,000

	3 months June 30 2008	3 months June 30 2007	6 months June 30 2008	6 months June 30 2007
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#### Consolidated statements of operations

Sales	407,000	-	407,000	-
Expenses, exchange gain	229,000	-	141,000	-
Net income	178,000	-	266,000	-

#### Consolidated statements of cash flows

Operating activities	(288,000)	-	(190,000)	-
Investing activities	(7,000)	-	(81,000)	-
Financing activities	73,000	-	49,000	-

# BioteQ Environmental Technologies Inc.

## Notes to the Consolidated Financial Statements

### (Unaudited)

As at and for the three months and six months ended June 30, 2008 and 2007

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#### 6 Inventory

	June 30 2008	Dec 31 2007
	\$	\$
Inventory of chemicals and spare parts	125,111	25,380
Inventory of copper concentrate	940,243	24,000
	<u>1,065,354</u>	<u>49,380</u>

The new operations at Dexing and Mt Gordon commenced with commissioning on April 1, 2008. The inventory of copper concentrate at June 30 reflected all production since the start of the plant at Mt Gordon owing to no sales being recorded during the quarter. Under the contract for sale, the customer was committed to pick up the copper concentrate by June 30, 2008, but this did not happen until July. Inventory is valued at the lower of cost and net realizable value and the sale has been recorded in the third quarter.

#### 7 Loan receivable

On April 2, 2008, BioteQ agreed to provide \$3 million in debt financing to NWM Mining Corporation (formally Columbia Metals Corporation Limited) 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. The loan bears and interest rate of 12% per annum calculated monthly and 2% per month on amounts used for working capital requirements. Loan amounts are due within one year of issuance and working capital requirements are due six months from issuance. At June 30, 2008, the total amount advanced under the agreement was \$1,661,238. Subsequent to the quarter end, an additional amount of \$1,344,000 has been advanced, including \$942,000 under the option for an additional \$1 million for property payments.

# BioteQ Environmental Technologies Inc.

## Notes to the Consolidated Financial Statements

### (Unaudited)

As at and for the three months and six months ended June 30, 2008 and 2007

#### 8 Property, plant and equipment

	<b>June 30 2008</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net</b>
	\$	\$	\$
Pilot plants	372,113	355,263	16,850
Office equipment	223,263	133,999	89,264
Vehicles	162,464	28,354	134,110
Water treatment plants - net	16,470,997	1,480,143	14,990,853
Construction in progress	6,010,045	-	6,010,045
	<b>23,238,882</b>	<b>1,997,760</b>	<b>21,241,122</b>

  

	<b>Dec 31 2007</b>		
	<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
	<b>17,503,035</b>	<b>1,670,093</b>	<b>15,832,942</b>

On April 1 2008, both the Dexing and Mt Gordon plants were commissioned and amortization of plant assets commenced.

# BioteQ Environmental Technologies Inc.

Notes to the Consolidated Financial Statements

(Unaudited)

As at and for the three months and six months ended June 30, 2008 and 2007

## 9 Intangible asset

	Cost \$	Accumulated amortization \$	Net \$
Intellectual property June 30 2008	247,770	69,686	178,084
December 31 2007	247,770	54,200	193,570

## 10 Capital stock, warrants and contributed surplus

Authorized

Unlimited common shares without par value

Issued and outstanding

	Common shares		Warrants	Contributed surplus	
	Number of Shares	Amount \$	Amount \$	Amount \$	Total \$
Balance - December 31, 2007	65,483,883	49,558,272	1,436,015	4,047,035	55,041,322
Stock-based compensation	-	-	-	806,000	806,000
Exercise of warrants	68,881	144,278	(23,736)	-	120,542
Exercise of options	559,334	1,347,996	-	(445,656)	902,340
	66,112,098	51,050,546	1,412,279	4,407,379	56,870,204

# BioteQ Environmental Technologies Inc.

## Notes to the Consolidated Financial Statements

### (Unaudited)

As at and for the three months and six months ended June 30, 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 June 30, 2008, 6,611,210 options are available for issue, of which 3,747,701 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:

	<b>June 30 2008</b>		<b>Dec 31 2007</b>	
	<b>Weighted average exercise price</b>		<b>Weighted average exercise price</b>	
	<b>Number</b>	<b>price</b>	<b>Number</b>	<b>price</b>
		<b>\$</b>		<b>\$</b>
Outstanding - January 1	4,398,701	2.49	3,927,365	1.34
Options exercised	(559,334)	1.61	(1,333,029)	1.01
Options granted	-	-	1,846,165	3.86
Options forfeited	(91,666)	3.86	(41,800)	2.23
Outstanding – end of period	<u>3,747,701</u>	<u>2.48</u>	<u>4,398,701</u>	<u>2.49</u>
Exercisable at end of period	<u>2,626,323</u>	<u>1.92</u>	<u>2,472,292</u>	<u>1.52</u>
Available for future grant pursuant to Company's stock option plan at end of period	<u>2,863,509</u>		<u>2,149,687</u>	

# BioteQ Environmental Technologies Inc.

## Notes to the Consolidated Financial Statements

### (Unaudited)

As at and for the three months and six months ended June 30, 2008 and 2007

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

	<b>Range of exercise prices \$</b>	<b>Number outstanding at June 30</b>	<b>Weighted average remaining contractual life (years)</b>	<b>Weighted Average exercise price \$</b>
June 30, 2008	0.51 - 1.00	193,533	2.0	0.91
	1.01 - 1.50	666,667	2.5	1.00
	1.51 - 2.00	1,349,668	2.9	1.68
	2.01 - 2.50	136,534	3.5	2.34
	4.01 - 4.50	1,401,299	4.1	4.20
		<u>3,747,701</u>	<u>3.3</u>	<u>2.48</u>
December 31, 2007	0.50 - 1.00	288,533	1.4	0.84
	1.00 - 1.50	683,334	3.3	1.34
	1.50 - 2.00	1,633,669	3.5	1.72
	2.00 - 2.50	275,200	4.1	2.33
	4.00 - 4.50	1,517,965	4.6	4.20
		<u>4,398,701</u>	<u>3.8</u>	<u>2.49</u>

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:

	<b>June 30 2008</b>	<b>Dec 31 2007</b>
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	-	7.40%

During the quarter, the company changed its method for accounting for stock option forfeitures and will recognize forfeitures as they occur for future grants. The impact of the change is not material to warrant a retroactive adjustment.

# BioteQ Environmental Technologies Inc.

## Notes to the Consolidated Financial Statements

### (Unaudited)

As at and for the three months and six months ended June 30, 2008 and 2007

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 \$
Six months to June 30 2008- none granted	-	-
Year to Dec 31 2007	1.19	3.86

Of the total stock-based compensation charge \$61,700 relates to non-employee stock options for the six months to June 30, 2008.

#### b) Warrants

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

	<u>June 30 2008</u>		<u>Dec 31 2007</u>	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Outstanding - January 1	156,951	1.75	4,537,781	1.37
Issued	-	-	-	-
Exercised	(68,881)	1.75	(4,380,829)	1.35
Cancelled	-	-	(1)	-
	<u>88,070</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) Escrow shares

Subsequent to the quarter end, the board of directors approved the release of an additional 2,100,000 of escrowed shares which has been forwarded to Pacific Corporate Trust to affect the release.

# BioteQ Environmental Technologies Inc.

## Notes to the Consolidated Financial Statements

### (Unaudited)

As at and for the three months and six months ended June 30, 2008 and 2007

d) 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.

## II Segmented information

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

	<b>3 months to June 30 2008</b>	<b>3 months to June 30 2007</b>	<b>6 months to June 30 2008</b>	<b>6 months to June 30 2007</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue				
Canada	332,326	503,187	427,906	848,691
U.S.	554,575	568,858	1,274,182	1,339,926
China	407,150	-	407,150	-
Mexico	212,734	-	212,734	-
	<u>1,506,785</u>	<u>1,072,045</u>	<u>2,321,972</u>	<u>2,188,617</u>
			<b>June 30 2008</b>	<b>Dec 31 2007</b>
Property, plant and equipment				
Canada			2,223,181	2,225,949
U.S.			3,040,205	3,124,105
China			1,860,947	1,663,657
Australia			9,103,225	7,486,488
Mexico			5,013,564	1,332,743
			<u>21,241,122</u>	<u>15,832,942</u>

During the second quarter of 2008, revenue was derived from four clients that individually accounted for greater than 10% of total revenues. These four clients contributed \$332,326 (six months ended June 30, 2008 - \$427,906), \$470,153 (six months ended June 30, 2008 - \$1,027,302), \$407,150 (six months ended June 30, 2008 - \$407,150) and \$212,734 (six months ended June 30, 2008 - \$212,734).

During the second quarter of 2007, revenue was derived from two clients that individually accounted for greater than 10% of total revenues. These two clients contributed \$240,000 (six months ended June 30, 2007 - \$335,588) and \$610,097 (six months ended June 30, 2007 - \$1,339,926).

# BioteQ Environmental Technologies Inc.

## Notes to the Consolidated Financial Statements

### (Unaudited)

As at and for the three months and six months ended June 30, 2008 and 2007

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## 12 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:

	June 30 2008	Dec 31 2007
	\$	\$
Held for trading (cash and cash equivalents)	1,534,642	1,758,744
Held to Maturity (short-term investments)	15,017,125	23,616,521
Loans and receivables	2,550,936	716,715
Other financial liabilities	2,263,276	3,098,124

### Fair Value

Cash and cash equivalents, short-term investments, trade 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.

The loan receivable (note 7) was issued at fixed interest rates comparable to prevailing rates for similar instruments and all amounts are due within one year. Therefore the fair value approximates carrying value of this loan.

### 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 June 30, 2008 was \$193,100.

It is estimated that net income will fluctuate by \$37,500 per quarter, for every 1% change in the prevailing rates of interest.

The loan receivable (note 7) was issued at fixed interest rates and the Company is not exposed to interest rate fluctuations on the loan. This loan is due to be repaid within one year.

### Credit Risk

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

# BioteQ Environmental Technologies Inc.

## Notes to the Consolidated Financial Statements

### (Unaudited)

As at and for the three months and six months ended June 30, 2008 and 2007

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

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

Credit risk on trade receivable and other loan receivables are minimized by performing credit reviews, on-going credit evaluation and account monitoring procedures. All of the Company's receivables have been reviewed for indicators of impairment. Of the Company's receivables, only one immaterial balance is overdue and collection problem is not anticipated. The definition of items that are past due is determined by reference to terms agreed with individual customers. No trade 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 June 30, 2008, the Loan receivable balance (note 7) of \$1,661,238 accounted for 52% of all receivable balances. This balance is secured by the assets of the Lluvia de Oro Mine.

As of June 30, 2008, tax related recoverables of \$646,809 accounted for 20% of all trade receivable. Of this balance, \$445,000 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. Four 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 June 30, 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 \$2,200. 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 income of \$4,800. For the three month period ended June 30, 2008, the Company reported a foreign exchange gain of \$34,174 (ytd \$62,638) and for the three month period ended June 30, 2007 the Company recorded a foreign exchange loss of \$120,002 (ytd \$134,257).

#### 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

# BioteQ Environmental Technologies Inc.

## Notes to the Consolidated Financial Statements

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this relies on the Company collecting its trade receivable in a timely manner and by maintaining sufficient cash and cash equivalents in excess of anticipated needs. At June 30, 2008, the Company's accounts payable and accrued liabilities were \$2,263,276, which falls due for payment within twelve months of the balance sheet date.

### 13 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.

### 14 Commitments

The Company has commitments of \$187,000 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 \$351,388, of which \$142,501 has been accrued at June 30, 2008.

The Company has committed approximately \$200,000 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.

# **BIOTEQ ENVIRONMENTAL TECHNOLOGIES INC.**

## **Management's Discussion and Analysis**

**Second Quarter Report – June 30, 2008**

(Expressed in Canadian dollars unless otherwise noted)

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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 six months ended June 30, 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.

# BIOTEQ ENVIRONMENTAL TECHNOLOGIES INC.

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### 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 and metal contaminated water with concurrent recovery of saleable metals from the water and reduction of total dissolved solids. Water from the process plants can be recycled or discharged to the environment. The Company is listed on the Toronto Stock Exchange (TSX) under the symbol BQE.

### Technologies

BioteQ's technologies are used in industrial wastewater treatment applications. The BioSulphide® Process uses 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 to off-set the cost of water treatment as well as minimize waste sludge production. Sulphide technologies can be used to replace or augment lime based treatment facilities to reduce or eliminate waste sludge production and the associated long term liabilities. The biological technology that is an integral part of the BioSulphide® Process can be utilized commercially to generate sulphide reagent on demand for other industrial purposes, such as the application of SART technology for copper-gold ore processing in mining.

BioteQ's Sulf-IX™ technology is a recent development using ion-exchange to meet new regulations for the reduction of the sulphate content in treated water, producing water acceptable for industrial, agricultural and residential use.

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

### Business Models

BioteQ 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 cost 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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### Project Summary

BioteQ has several projects at various stages: operating, construction and development. The following chart summarizes the major projects, including estimates for future project based on mature operations. Actual results may vary based on the volume and grade of water treated, and site-specific conditions.

Customer	Project	Business Model	Metal recovered	Est. Annual Production (lb) (BQE share)	Capital Cost (BQE Share)	Est. Operating Costs p.a. (BQE Share, excl. refining)	Current Status
<b>OPERATING PROJECTS (based on 2008 budget)</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 )	\$2,000,000	\$410,000	Operating since 2004
Jiangxi Copper	Dexing, China	50/50 JV	copper	700,000	\$1,800,000	\$1,400,000	Operating since April 1, 2008
Aditya Birla	Mt. Gordon, Australia	Build, Own, Operate (90% of metal)	copper cobalt	800,000 70,000	\$9,100,000	\$3,200,000	Copper circuit operating since April 1, 2008. Cobalt commissioned as of June 30, 2008.
<b>CONSTRUCTION PROJECTS (Estimates - full year at design capacity)</b>							
NWM Mining	Lluvia de Oro, Mexico	Build, Own, Operate plus fee	copper cyanide	900,000 2,800,000	\$5,200,000	\$500,000 \$1,000,000	In commissioning
Freeport McMoRan	ChemSulphide	Plant sale	zinc, cadmium	Fixed fees	No cost	-	BioteQ components of the 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	Sulf-IX™	Plant sale	sulphate	Fixed fees	No cost	-	Construction to commence Q4 2008
<b>DEVELOPMENT PROJECTS (Estimates - full year at design capacity)</b>							
Jiangxi Copper	Yinshan, China	50/50 JV	copper	To be determined	To be determined	To be determined	2009 construction
Molybdenum	Nos Refinery, Chile	Build, Own, Operate	copper	1,750,000	To be determined	To be determined	2009 construction
NWM Mining	La Jojoba, Mexico	Build, Own, Operate plus fee	copper cyanide	1,650,000 2,300,000	\$2,000,000	\$1,800,000	2009 construction
Vale Inco	North Mine, ON	Build, Own, Operate	nickel	850,000	\$6,500,000	\$1,200,000	2009 construction
Xstrata	Raglan – expansion	Build, Own, Operate	nickel	To be determined	To be determined	To be determined	2009, piloting in progress

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### Overall Performance

Unaudited, in Canadian \$'000	Q2 2008	Q2 2007	To June 30, 2008	To June 30, 2007
Revenues	\$ 1,507	\$ 1,072	\$ 2,322	\$ 2,189
Plant operating costs	914	598	1,350	1,254
Cash flow from plant operations	593	474	972	935
General and administrative expenses	593	606	1,112	1,140
Marketing and development costs	292	160	421	308
Amortization	242	98	343	197
Stock-based compensation	440	447	806	679
Other (income) expenses	(227)	(170)	(503)	(406)
Net profit (loss)	(747)	(667)	(1,207)	(983)
Cash flow from (used in) operating activities	(66)	(121)	(59)	(74)
			<b>At June 30, 2008</b>	<b>At Dec 31, 2007</b>
Total assets			42,266	42,479
Total long-term financial liabilities			-	-
Total liabilities			2,263	3,098
Shareholder's equity			40,003	39,381

BioteQ's second quarter 2008 financial performance reflects results from four operating sources – Bisbee, Raglan, Dexing, and Lluvia de Oro. Production at the Mt. Gordon site is not reflected in Q2 operating results because the concentrate produced during the quarter was shipped shortly after the quarter end, due to a transportation delay. **As a result, revenues of approximately \$925,000 from the sale of 274,000 pounds of copper are expected to be recognized in the third quarter, based on current metal prices.** The net realizable value related to the concentrate have been reflected as inventory. Revenue and expenses related to this inventory will be recognized in the third quarter.

Highlights for the quarter include:

- BioteQ **successfully commissioned and ramped-up operations for two new plants** – in Dexing, China, and Mt. Gordon, Australia. These plants are now recovering saleable metal products and refining contracts for copper are in place.
- As part of a loan agreement providing short-term financing to Columbia Metals (now called NWM Mining Corporation), BioteQ **negotiated an amendment to its operating agreement with Columbia Metals**, providing BioteQ with a “cost-plus” operating contract for the ADR (adsorption-desorption-refining) plant for gold recovery at the Lluvia de Oro gold mine site in Mexico. This is in addition to the build-own-operate contract for BioteQ's new water treatment plant that will recover copper from cyanide leach solution, and regenerate cyanide for recycle to the gold recovery operation, using the SART process (sulphidization-acidification-recycle-thickening). This amendment provides BioteQ with greater control over site operations and ensures that the gold recovery plant and water treatment plant operations will be fully integrated and optimized.

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- BioteQ initiated a **second water treatment project in China** with Jiangxi Copper Company, at the Yinshan copper and zinc mine. The design report for the project is complete. The timing of the project is subject to scheduling for a planned expansion at the mine by Jiangxi Copper Company.
- BioteQ received an **expanded operations contract from Xstrata Nickel** for additional water treatment activities at the Raglan Mine site in northern Quebec, including the piloting of a new ion-exchange technology for metal recovery.
- BioteQ continued its **detailed design and engineering work for two new sulphate reduction plants** that are to be initiated later this year.
- BioteQ has **ramped up its business development activities**, pursuing new opportunities in the metal recovery, SART, and sulphate reduction markets. New projects will be announced when final construction agreements are in place.
- BioteQ continues to **support local economic development** for its projects, hiring local staff, and providing training. Although operations are supported from the Company's head office in Vancouver, each operating region has considerable autonomy over day-to-day decisions.

BioteQ had a successful second quarter, with strong revenue growth, positive cash flow from plant operations, and continued investment in new plants. The Company now has 5 operations – Bisbee, Raglan, Dexing, Mt. Gordon, and Lluvia de Oro, and is well positioned for additional growth from new and existing customers, new markets, and new technology. BioteQ has maintained its strong financial position, with a healthy balance sheet, sufficient capital to invest in growth, and no debt. Although not yet profitable overall, BioteQ's recent capital investments are beginning to contribute to new revenues that are expected to move the Company towards profitability within the next year.

BioteQ's investments in new plants began to provide returns during the second quarter, with revenues rising by 40% over the same quarter in 2007, to \$1.5 million, and contributing to positive cash flow from plant operations of \$593,000, which does not include second quarter production at Mt. Gordon due to transportation delays. This increase is largely due to new revenues generated by the Dexing plant in China, which came on-line at the beginning of April, contributing an additional \$407,000 in revenue; a further \$213,000 came from BioteQ's operating contract that included commissioning of the ADR gold recovery plant at the Lluvia de Oro mine site in Mexico for NWM Mining Corporation.

Although revenues have risen during Q2, revenues for the 6 months ended June 30, 2008 are similar to those for the same period in 2007. Revenues from new operations at Dexing and Lluvia have replaced revenues from the Caribou site, which were winding down in Q2 2007 and ended as of July 2007, and offset a decline in production at Bisbee.

**Q2 revenues do not include production from the Mt. Gordon mine site.** Although the plant was commissioned at the beginning of Q2 and produced 186,000 pounds of copper in Q2 with a refining contract in place, the concentrate was not shipped until early July 2008 because of transportation delays. As a result, the copper produced has been recorded as inventory, and the revenue from the concentrate sales will be recognized in Q3, in accordance with Canadian GAAP requirements.

Operating costs rose during Q2 to \$914,000, reflecting the new operating activities in China and Mexico. Year-to-date operating costs remain similar to 2007.

BioteQ continues to generate positive cash flow from plant operations. During Q2, operations provided \$593,000 in cash flow, with close to \$1 million generated in positive cash from operating activities in the year-to-date.

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General and administrative costs (G&A) are relatively unchanged compared to 2007 for both the quarter and the year-to-date. During Q2 2007, BioteQ incurred one-time expenses related to TSX filing fees; in 2008, G&A costs include costs for additional administrative support in accounting and corporate development. Total G&A costs are expected to be slightly higher in 2008 than 2007 as the Company increases its administrative capacity to support the expanded global operations.

Marketing and development costs are higher by \$132,000 for the quarter due to increased business development activity to secure new contracts, and expanded laboratory research and development activity to enhance existing processes, reduce operating costs, and develop new strategic technology. Overall marketing and development costs for the year are expected to be similar to the costs incurred in 2007.

Other income items for the quarter include interest income and foreign exchange gains. Interest income is lower for the quarter and for the year-to-date because the Company has drawn down its available cash to invest in new operations, and because interest rates have fallen. The Company realized foreign exchange gains during the quarter and the year-to-date compared to losses in 2007.

Non-cash accounting items continue to impact the overall profitability of the Company. Amortization costs are higher for Q2 and the year-to-date compared to 2007 because BioteQ has invested significant capital in new plant assets that are now subject to amortization as they become operational. Although no revenues were recognized in Q2 for Mt. Gordon, \$114,000 of amortization was charged in the quarter for the plant as it commenced operations. Stock based compensation costs are similar in Q2 2008 to Q2 2007, but are up by 18% for the year-to-date because of stock market volatility, which impacts the Black Scholes model's calculation for valuation.

BioteQ is well positioned for additional growth for the balance of 2008, with additional revenues expected in future quarters from the sale of copper and nickel/cobalt concentrate produced at Mt. Gordon, and from new operations now entering production at the Lluvia de Oro gold mine in Mexico. The Company has maintained working capital of \$18.6 million as of June 30, which is expected to finance the existing construction projects in the development pipeline. Although uncommitted at present, BioteQ expects it may invest \$2 million in new capital projects over the balance of 2008.

### Comparison of Quarters

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

Quarter ended	Jun-08	Mar-08	Dec 07	Sept-07	Jun-07	Mar-07	Dec 06	Sept-06
(\$000's except per share details)								
Total revenues	1,507	815	1,137	1,304	1,072	1,117	1,175	1,313
Plant & other operating expenses	914	436	563	464	598	656	736	537
Net income before G&A and amortization & other expenses	593	379	574	840	474	461	439	776
General & administrative	593	520	608	527	606	534	663	458
Marketing & development costs	292	128	245	197	160	148	406	162
Net operating income (loss)	(292)	(269)	(279)	116	(292)	(221)	(630)	156
Amortization	242	101	102	97	98	98	104	107
Stock based compensation	440	366	589	2,663	447	232	356	26
Other (income) expenses	(227)	(276)	(287)	(143)	(171)	(235)	(190)	(55)
Net Income (loss)	(747)	(460)	(683)	(2,501)	(666)	(316)	(908)	78
Loss per share	\$0.01	\$0.01	\$0.01	\$0.05	\$0.01	\$0.01	\$0.02	\$0.00

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Quarterly revenues can fluctuate based on the number of plants operating in the quarter, variation in the volume and grade of water treated, and variation in commodity prices. BioteQ's plant at Raglan operates seasonally, typically from late May to November. Revenues in Q2 2008 increased because there were 4 operations contributing to revenue (Bisbee, Raglan, Dexing, and Lluvia ADR commissioning). Revenues in Q1 2008 were lower than usual because the only operation active during the quarter was Bisbee. Q4 2007 revenues reflect two operations (Bisbee and Raglan). Revenues up to Q3 2007 include revenues from Caribou; BioteQ is no longer active at that site, as of July 2007.

Plant and other operating expenses are comprised of both fixed and variable costs. Variable costs include the cost of reagent consumables, power, and maintenance. Quarterly costs will vary based on the number of active operations and changes in variable costs. Q2 2008 reflects higher plant and other operating expenses because of an increase in the number of operating plants.

General and administrative costs are relatively stable, with slight increases due to the addition of new staff to enhance administrative capacity to support operations. Q2 2007 included a one-time cost for stock exchange filing fees. Q4 2006 includes legal and accounting costs for a capital raise.

Marketing and development costs include costs for business development as well as laboratory research and development to support project evaluation and new product development. Q2 2008 includes costs for expanded laboratory activities and business development; Q4 2006 includes costs for an accrual of \$251,000 for royalties related to a government grant. Subsequent payments have been offset against this accrual.

Amortization costs may vary based on the capital assets of the Company. As BioteQ builds and commissions more plants, this non-cash cost can be expected to rise. The increase in amortization for Q2 2008 reflects new plants coming on-line, and now being subject to amortization.

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

"Other" includes interest income or expense and foreign exchange gains or losses. Interest income is affected by the amount of cash invested and the interest rate. BioteQ has earned interest income from bank note investments of capital raised in late 2006; this capital has been drawn down as the Company builds new plants. Interest expense is affected by the amount of the loan and the interest rate; the Company paid off a small bank loan and debentures as of December 2007. Foreign exchange gains or losses are affected by variation in the currency exchange rates.

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### Operating Results

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

Unaudited (\$'000)	Revenues		Plant Operating Costs		Plant Operating Profit	
	Q2 2008	Q2 2007	Q2 2008	Q2 2007	Q2 2008	Q2 2007
Bisbee	470	610	260	303	210	307
Raglan	280	240	129	124	151	116
Dexing	407	-	216	-	191	-
Mt. Gordon	-	-	-	-	-	-
Caribou	-	187	-	152	-	35
Other	350	35	309	19	41	16
<b>Total</b>	<b>1,507</b>	<b>1,072</b>	<b>914</b>	<b>598</b>	<b>593</b>	<b>474</b>

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

BioteQ operates a BioSulphide® plant to treat wastewater at an inactive mine site near Bisbee, Arizona, recovering copper from the drainage of a low-grade stockpile. The project, which has been operating since 2004, is a 50/50 joint venture with Freeport McMoRan Copper & Gold. The plant was designed and built by BioteQ, and is owned and operated by the joint venture company Copreco LLC. The capital cost of the plant was approximately \$3.2 million, which was paid back within three years of initial operations. The joint venture partners share equally in the ongoing revenues and expenses. BioteQ operates the plant on behalf of the joint venture. Using BioteQ's BioSulphide® Process, the plant produces treated water that is reused at the mine site, and a high-grade copper concentrate, typically containing 35 to 40% copper, which is shipped to a Freeport McMoRan smelter where it is processed on commercially competitive terms. The amount of copper recovered is dependent on the availability of water and the amount of copper and metals dissolved in the water. BioteQ earns revenue from the plant through the sale of its share of recovered copper.

Plant operating results (total for the JV)	Operations Q2 2008	Operations Q2 2007	Year-to-date 2008	Year-to-date 2007
Water treated (millions of gallons)	163	174	355	373
Mechanical availability (%)	99%	98%	99%	99%
Copper produced (pounds in concentrate)	279,000	340,000	610,000	708,000
Copper recovery	>99%	>99%	>99%	>99%

The plant continued to operate well during the second quarter of 2008. The volume of water treated has decreased by approximately 6% due to less precipitation at the site. The plant has continued to provide consistent mechanical availability. Copper production at the site during the period was lower by 14% compared to the same time period in 2007 because of less water to process and an 8% reduction in metal content. Revenues for the quarter were down by 23% because of lower production during the quarter, and because revenues in Q2 2007 included the sale of inventory from 2006. Operating costs declined during Q2 because there was less water treated.

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The plant is expected to produce 1,420,000 pounds of copper in 2008, with operating costs of approximately \$2.8 million.

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

BioteQ operates a seasonal water treatment plant at the Raglan Mine, an active nickel mine in the Arctic region of northern Quebec, owned by Xstrata Nickel. Because of the harsh winter conditions in the Arctic, water is not available for processing until the spring thaw; the plant runs seasonally, typically from late May to early November. The plant was built in 2004, and uses BioteQ's ChemSulphide® process to remove dissolved nickel from wastewater to produce clean water that meets strict water quality criteria for discharge to the environment. The nickel concentrate produced by the plant is shipped to a refinery with other nickel concentrate produced at the mine. This is a build-own-operate project, where BioteQ has provided the \$2 million in capital to build the plant and delivers ongoing operating services in return for a water treatment fee of \$1.12 per cubic meter of water treated, plus a capital fee of \$31,800 per month until early 2009.

Plant operating results	Operations Q2	Operations Q2
	2008	2007
Water treated (thousand of cubic meters)	164	135
Days operated (some partial)	48	35
Nickel recovery	>97%	99%

Plant operations for the 2008 season commenced in early June, following a dry winter. Operating results in the second quarter of 2007 were affected by an unusually long winter which delayed the ice melt; this year, the melt occurred earlier than in 2007, providing more operating days during the quarter. The plant processed 21% more water in the quarter than the previous year, which resulted in increased revenues of 17%, including fixed monthly fees for capital and treatment fees based on the volume of water treated. Plant operating costs rose by 4%, reflecting a slight increase in labour costs. Reagent costs are not included in plant operating costs as they are supplied by Xstrata.

BioteQ has expanded the scope of operating activities at the Raglan site in 2008, with operating responsibility for the Spoon water treatment plant, based on a "cost-plus" contract; the financial results from this contract are included in "Other Operations". BioteQ and Xstrata are exploring fee-based alternatives for future expansion of water treatment services at the Raglan site.

BioteQ expects to treat about 920,000 cubic meters of water during the 2008 operating season, with operating costs budgeted at \$410,000. Xstrata is performing site water balance work to estimate the volume of water at the site that will require treatment over the remainder of 2008.

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

BioteQ has added a new water treatment plant to its operations portfolio, with a new plant commissioned as of April 1, 2008 at the Dexing Mine, an active copper mine in China. The plant is a 50/50 joint venture project with Jiangxi Copper Company, China's largest copper producer, using BioteQ's ChemSulphide® process to recover dissolved copper from acid mine drainage generated by waste dumps and low grade stockpiles. The high-grade copper concentrate that is recovered is shipped to Jiangxi Copper Company's refinery in Guixi City; price is based on the average metal price during the month that the concentrate is shipped, less refining costs. The plant was designed by BioteQ, and is operated by the joint venture company JCC-BioteQ Environmental Technologies Ltd, which is managed jointly where BioteQ is responsible for technical operations and JCC is responsible for local administrative, procurement and government activities. The joint venture partners share equally in the revenues and costs. BioteQ anticipates that the plant's \$3.6 million capital cost will be repaid from operations within three years, based on anticipated water volume, metal recovery rates, and current metal prices. BioteQ generates revenue from the sale of its share of the recovered copper.

<b>Plant operating results (total for the JV)</b>	<b>Operations Q2 2008</b>	<b>Operations Q2 2007</b>
Water treated (thousands of cubic meters)	1,440	-
Mechanical availability (%)	97.7%	-
Copper produced (pounds in concentrate)	251,000	-
Copper recovery	>90%	-

The Dexing plant ramped up production over the quarter, delivering good mechanical availability and a rising rate of copper production. The plant recovered 251,000 pounds of copper in the second quarter, at a recovery rate of more than 90%, adding to the 40,000 pounds of inventory produced during commissioning in the first quarter. The recovery rate for copper is affected by the amount of iron in the wastewater. The plant contributed \$407,000 in new revenues on sales of 117,000 pounds of copper, with operating costs of \$216,000 for the quarter.

The plant is budgeted to produce 700,000 pounds of copper in 2008, with production gradually rising to the plant's annual design capacity of 3.6 million pounds of copper over the next several years. Operating costs for 2008 are budgeted at \$1.4 million, excluding refining and smelting costs. When operating at full design capacity, operating costs are estimated to be \$4.2 million; BioteQ is entitled to half of the plant's production, and is responsible for half of the operating and capital costs.

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

BioteQ has added another new water treatment plant to its operations portfolio in this quarter, with the commissioning of a plant at the Mt. Gordon Mine, an active copper mine in Queensland, Australia. The mine is owned by Aditya Birla, a large metals conglomerate based in India. The plant treats water from mine drainage generated by waste dumps and low grade stockpiles, recovering copper and a nickel/cobalt product using BioteQ's ChemSulphide® process. The processed water is then evaporated using conventional evaporators to maintain the mine site's water

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balance and meet the conditions set for Birla Mt. Gordon by the Queensland EPA. The copper concentrate is sold for refining to Aditya Birla at commercially competitive rates; price is based on the average metal price for the fourth month after shipment, less refining and transportation costs. The copper circuit was fully commissioned as of April 1, 2008 and the cobalt/nickel circuit was commissioned as of June 30, with concentrate sales in progress. This is a build, own, operate project where BioteQ has provided for all capital costs for the plant, C\$ 9.1 million, in exchange for 100% of the metals recovered until capital cost plus 30% is repaid; thereafter, BioteQ is entitled to 90% of the metals recovered. The Company expects that the capital cost of the plant will be paid back from operations within 3 years, based on anticipated water volumes, metal recovery rates, and current metal prices.

<b>Plant operating results (total for the JV)</b>	<b>Operations Q2 2008</b>	<b>Operations Q2 2007</b>
Water treated (thousands of cubic meters)	388	-
Mechanical availability (%)	94.2%	-
Copper produced (pounds in concentrate)	186,000	-
Copper recovery	>98%	-

The Mt. Gordon plant ramped up production of copper during the quarter, delivering good mechanical availability and a high rate of copper recovery. The nickel/cobalt circuit was gradually brought on-line over the quarter, with commissioning complete at the quarter end. The plant produced 186,000 pounds of copper during Q2, adding to the inventory of 88,000 pounds of copper produced during commissioning in Q1.

Revenues from plant production are not included in the second quarter financial results, as 274,000 pounds of copper concentrate was shipped shortly after the quarter end due to a transportation delay. Canadian GAAP requires that the revenue from this shipment be recognized when titled passes. As a result, the value of the copper concentrate, estimated at \$925,000, has been recorded as inventory, and has already been sold in Q3. Costs of production for the inventory were slightly in excess of the net realizable value. As the plant ramps up to full production, including production of nickel-cobalt, management expects that operating costs per pound of production will decline.

The plant is budgeted to produce 800,000 pounds of copper and 70,000 pounds of cobalt/nickel product in 2008. Plant operating costs for 2008 are budgeted at \$3.2 million, excluding refining and smelting costs. Operating costs include the cost of evaporating water at the site and the associated environmental monitoring. The plant has an annual design capacity of 1.4 million pounds of copper and 135,000 pounds of cobalt/nickel, with estimated annual operating costs of \$4.3 million.

### **The Caribou Project, New Brunswick**

BioteQ built and operated two plants at the Caribou Mine in New Brunswick, which served as the Company's initial commercial demonstration site. As of July 31, 2007 BioteQ is no longer active at this site, and the Company's proprietary technology has been removed. As a result, there are no revenues or expenses from this site in 2008.

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### Other Operations

BioteQ is involved in several projects that are based on “cost-plus” contracts for plant equipment or for operating services. During the second quarter of 2008, the Company was engaged in three main contracts of this nature – a plant sale to the USA EPA for the Wellington Oro site in Colorado and an operating contract for the ADR gold recovery plant at the Lluvia de Oro gold mine in Mexico, which are both outlined in more detail in the “Construction Projects” section that follows, and an operating contract for a lime treatment plant at the Raglan Mine.

### Construction Projects:

BioteQ also has several new projects currently in the construction schedule:

- Construction is substantially complete at a new water treatment plant located at the **Lluvia de Oro** gold mine site in Sonora, Mexico, owned by NWM Mining Corporation (formerly known as Columbia Metals) of Toronto. The plant, which has commenced ramp up of operations during the third quarter this year, is a new application of BioteQ's technology, designed to recover copper from cyanide solution as well as regenerate and 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 Cominco. This is a build-own-operate project, where BioteQ has provided the capital cost for the plant, C\$ 5.2 million, in exchange for a one-third share of the gold, silver, and copper produced at the site, until the capital cost of the plant plus 30% is repaid; thereafter, BioteQ is entitled to a share of the copper recovered and a processing fee for cyanide regeneration. The Company expects the capital costs to be paid within 3 years, based on anticipated metal recovery rates, fees and current metal prices. In addition to the water treatment plant, BioteQ has an operating contract for the gold recovery (ADR) plant. This ensures that plant operations can be fully integrated and optimized. The ADR plant is presently operational.
- BioteQ has engineered a ChemSulphide® plant that is under construction at a closed mine site called **Wellington Oro**, near the town of Breckenridge in Colorado. The site is administered under the U.S. Environmental Protection Agency (“US EPA”) Superfund program, established to address abandoned hazardous waste sites in the USA. Selection of BioteQ's plant was approved by the EPA as the best available technology and the plant is now under construction. BioteQ is providing the engineering and procurement of the plant equipment as well as commissioning and operator training, all on a progress fee for service basis. Construction is nearing completion, with commissioning scheduled to commence in mid-August 2008. This is a plant sale. To date, revenues of \$214,000 have been recognized and received in 2008; the remaining balance of about \$75,000 is anticipated in Q4.
- BioteQ has built a **ChemSulphide® plant** as a component for a water treatment system to be installed at a former refinery site in the US. The plant has been designed to remove zinc and cadmium from groundwater. The BioteQ technology was selected for application at this site because of its ability to meet very strict water quality criteria and because it eliminates the production of sludge, when compared to conventional lime processing. This is a plant sale to Freeport McMoRan; BioteQ was paid for the plant in 2006. Installation and commissioning is subject to completion of site infrastructure and permitting by the site owner.
- BioteQ signed a construction and operating agreement in February 2008 with Molibdenos y Metales S.A. (Molytmet), for the development of a water treatment plant at Molytmet'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

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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 annually. BioteQ is responsible for design, construction, and operation of the plant, and will earn revenue based on water treatment fees determined by the cost savings generated compared to the existing reverse osmosis plant. The first stage of engineering for the design report to remove calcium is in progress. Construction of the first stage is expected to commence in Q4 2008, with plant commissioning currently scheduled to commence in Q3 2009. 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, using BioteQ's proprietary Sulf-IX™ ion-exchange technology. It is expected that construction will start in late 2008, for commissioning in 2009, and will be designed to have a total capacity of 125 gallons per minute. Freeport McMoRan will be responsible for all capital and operating costs.

### Development Projects:

The Company has several projects in development, which are currently in the 2009 construction schedule:

- 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 was completed in Q2 2008; the timing of the project is subject to scheduling by Jiangxi Copper Company.
- BioteQ has signed a development agreement with Molibdenos y Metales S.A. (Molytmet), for a water treatment plant at Molytmet's **Nos Refinery** near Santiago, Chile to recover copper from a wastewater 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 NWM Mining Corporation 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. A project feasibility study is in progress 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.
- BioteQ is currently piloting a new nickel recovery process at the **Raglan** site which the Company anticipates will increase the plant's production capacity.

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### Liquidity and Capital Resources

At June 30, 2008, BioteQ had 66,112,098 (fully diluted-69,947,869) 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 year from options and warrants which were exercised to issue 628,215 shares, for cash proceeds of \$1,022,882. At the current date of August 8, 2008, the issued shares are 66,126,974 and fully diluted are 69,947,869. There were 87,194 warrants and 3,733,701 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 559,334 options for cash of \$902,340 and the exercise of 68,881 warrants for cash of \$120,542. No new options were issued subsequent to the quarter end.

At June 30, 2008, the Company had cash and short-term investments, consisting of major bank paper, of \$16,551,767, a decrease of \$8,823,498 from December 31, 2007. Year to date, this cash along with equity issues noted above of \$1,022,882 funded operating activities of \$58,771, changes in non-cash working capital items of \$2,390,696, the Company's new construction projects for \$5,735,676 and a loan to NWM Mining Corporation of \$1,661,238 to expedite completion of the Lluvia de Oro project.

Working capital at the quarter-end was \$18,583,097, which had decreased from December 31, 2007 by \$4,771,564. The change was caused by substantially the same factors as affected cash, noted above. Additional funds of \$3.2 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 \$200,000 has been committed to complete the construction or commissioning of new projects and \$2,339,000 was still available to be drawn under a loan commitment to NWM Mining Corporation to assist in bringing the Lluvia gold and copper mine into production. Subsequent to June 30, 2008 an amount of \$1,344,000 was drawn under this commitment. The balance of available funds is largely uncommitted. The other three construction projects in progress in 2008, the Wellington Oro project in Colorado, the ChemSulphide® project, and the Sulf-IX™ project 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 June 30 2008 are presented in the table below:

Contractual obligations	Payments due by period			
	Total	Less than 1 year	1-3 years	After 3 years
Operating leases	\$187,000	\$85,000	\$102,000	-
Purchase obligations	\$300,000	\$300,000	-	-
Total contractual obligations	\$487,000	\$385,000	\$102,000	-

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 \$351,388, of which \$142,501 has been accrued at June 30 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.

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### General

#### Disclosure Controls and Procedures

As at the period end June 30, 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 June 30, 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 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.

On February 13, 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards will replace Canada's current generally accepted accounting principles for publicly accountable profit-orientated enterprises for interim and annual financial statements effective January 1, 2011. The Company is presently considering the effect these standards will have on its financial statements.

### Risks and uncertainties

The procedures used by the Company to determine risks and uncertainties affecting the Company were reported in the 2007 Annual Report, and remain unchanged. There have been no significant changes in the risks. In general, some aspects of the Company's projects are beyond its control, because the Company's projects are located on customer-owned sites.