BioteQ Environmental Technologies Inc.

Condensed Consolidated Interim Financial Statements
(Unaudited)
Second quarter ended June 30, 2016

NOTICE TO READER

The accompanying condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

BioteQ Environmental Technologies Inc.
Condensed Consolidated Interim Statements of Financial Position
(Unaudited)

	note	June 30 2016 $	December 31 2015 $
Assets			
Current assets			
Cash and cash equivalents		**316,394**	1,408,890
Trade and other receivables	5	**478,352**	568,204
Receivable from joint venture	6	**82,979**	116,165
Inventory and work in progress	7	**21,299**	61,455
Prepaid and other deposits		**59,856**	130,122
Total current assets		**958,880**	2,284,836
Non-current assets			
Plant and equipment	8	**327,091**	432,526
Investment in joint venture	9	**4,638,055**	4,708,976
Prepaid and deposits		**24,601**	24,601
Total non-current assets		**4,989,747**	5,166,103
Total assets		**5,948,627**	7,450,939
Liabilities			
Current liabilities			
Trade payable and accrued liabilities	6, 10	**875,065**	929,579
Income taxes payable		**152,548**	152,550
Deferred revenue		**202,105**	254,100
Deferred benefits	11	**103,428**	65,954
Current portion deferred lease inducement		**11,430**	11,430
Total current liabilities		**1,344,576**	1,413,613
Non-current liabilities			
Deferred lease inducement		**2,858**	8,572
Total liabilities		**1,347,434**	1,422,185
Shareholders' Equity			
Share capital	11, 12	**54,719,814**	54,719,814
Contributed surplus		**10,042,469**	10,033,768
Accumulated other comprehensive income		**1,483,536**	456,982
Accumulated deficit		**(61,644,626)**	(59,181,810)
Total shareholders' equity		**4,601,193**	6,028,754
Total liabilities and shareholders' equity		**5,948,627**	7,450,939

Going concern (note 2(b))
Commitments (note 15)
Subsequent events (note 17)

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

BioteQ Environmental Technologies Inc.

Condensed Consolidated Interim Statements of Loss and Other Comprehensive Loss
For the three and six months ended June 30, 2016
(Unaudited)

		3 months ended June 30		6 months ended June 30	
		2016	2015	**2016**	2015
		$	$	$	$
	note				
Revenue		**643,534**	286,353	**1,034,086**	798,679
Plant and other operating costs (excluding depreciation)		**364,593**	280,189	**584,003**	780,454
Operating margin before depreciation		**278,941**	6,164	**450,083**	18,225
General and administration		**465,304**	455,904	**891,255**	981,830
Sales and development		**267,658**	358,048	**617,045**	651,075
Stock-based compensation expense	11	**16,257**	(18,548)	**46,175**	(18,469)
Depreciation of plant and equipment	8	**58,650**	51,532	**115,469**	106,738
Share of results of equity accounted joint venture	9	**(291,215)**	(446,172)	**(190,967)**	(525,994)
Loss from operations and joint venture		**(237,713)**	(394,600)	**(1,028,894)**	(1,176,955)
Finance income, net		**132**	16,918	**2,038**	41,756
Foreign exchange (loss) gain		**(1,414,659)**	(11,250)	**(1,442,429)**	27,008
Bad debt recovery		**6,600**	82,866	**6,600**	152,143
Loss before income taxes		**(1,645,640)**	(306,066)	**(2,462,685)**	(956,048)
Income tax expense		**-**	-	**(131)**	(125)
Net loss for the period		**(1,645,640)**	(306,066)	**(2,462,816)**	(956,173)
Other comprehensive income (loss)					
Items that will be reclassified subsequently to loss					
Translation gain (loss) on foreign operations		**1,289,601**	(90,294)	**1,026,554**	403,343
Total comprehensive loss for the period		**(356,039)**	(396,360)	**(1,436,262)**	(552,830)
Net loss per share					
Basic and diluted		**(0.02)**	(0.00)	**(0.03)**	(0.01)
Weighted average number of shares outstanding					
Basic and diluted		**93,966,672**	93,966,672	**93,966,672**	93,966,672

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

BioteQ Environmental Technologies Inc.
Condensed Consolidated Interim Statements of Changes in Equity
For the six months ended June 30, 2016
(Unaudited)

	note	**Number of Shares**	**6 months ended June 30, 2016 $**	Number of Shares	6 months ended June 30, 2015 $
Share Capital					
Balance, beginning of the period		**93,966,672**	**54,719,814**	93,966,672	56,253,254
Expired warrants	12		**-**		(1,513,417)
Balance, end of the period		**93,966,672**	**54,719,814**	93,966,672	54,739,837
Contributed surplus					
Balance, beginning of the period			**10,033,768**		8,446,809
Share-based payments	11		**8,701**		26,542
Expired warrants	12		**-**		1,513,417
Balance, end of the period			**10,042,469**		9,986,768
Equity component of convertible loan					
Balance, beginning of the period			**-**		-
Issuance of convertible loan			**-**		30,712
Balance, end of the period			**-**		30,712
Accumulated other comprehensive income (loss)					
Balance, beginning of the period			**456,982**		(59,930)
Other comprehensive income for the period			**1,026,554**		403,343
Balance, end of the period			**1,483,536**		343,413
Accumulated deficit					
Balance, beginning of the period			**(59,181,810)**		(57,749,530)
Net loss for the period			**(2,462,816)**		(956,173)
Balance, end of the period			**(61,644,626)**		(58,705,703)
Total shareholders' equity					
Balance, beginning of the period			**6,028,754**		6,890,603
Share-based payments			**8,701**		26,542
Issuance of convertible loan			**-**		30,712
Net loss for the period			**(2,462,816)**		(956,173)
Other comprehensive income for the period			**1,026,554**		403,343
Balance, end of the period			**4,601,193**		6,395,027

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

BioteQ Environmental Technologies Inc.

Condensed Consolidated Interim Statements of Cash Flows
For the six months ended June 30, 2016
(Unaudited)

	note	6 months ended June 30 2016 $	2015 $
Operating activities			
Net loss for the period		**(2,462,816)**	(956,173)
Items not affecting cash			
Income tax expense		**131**	125
Bad debt recovery		**(6,600)**	-
Share of results of equity accounted joint venture	9	**(190,967)**	(525,994)
Interest income		**(2,038)**	(41,756)
Depreciation of plant and equipment	8	**115,469**	106,738
Amortization of deferred lease inducement		**(5,714)**	(5,715)
Net foreign exchange loss (gain)		**1,433,385**	(23,010)
Expense recognized in respect of stock-based compensation	11	**46,175**	(18,469)
		(1,072,975)	(1,464,254)
Change in non-cash working capital items	14	**117,569**	384,800
Cash used in operations		**(955,406)**	(1,079,454)
Income taxes paid		**(131)**	(125)
Net cash used in operating activities		**(955,537)**	(1,079,579)
Investing activities			
Purchase of plant and equipment		**(10,040)**	(33,895)
Net contributions made to joint venture	9	**(123,663)**	(98,277)
Proceeds from sale of short-term investments		**-**	373,991
Interest received		**2,787**	52,074
Net cash (used in) provided by investing activities		**(130,916)**	293,893
Financing activities			
Net proceeds from convertible loan		**-**	769,104
Net cash provided by financing activities		**-**	769,104
Effect of exchange rate changes on cash and cash equivalents		**(6,043)**	13,703
Decrease in cash and cash equivalents		**(1,092,496)**	(2,879)
Cash and cash equivalents, beginning of the period		**1,408,890**	915,681
Cash and cash equivalents, end of the period		**316,394**	912,802

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

1. DESCIPTION OF BUSINESS AND NATURE OF OPERATIONS

BioteQ Environmental Technologies Inc. and its subsidiaries (together "BioteQ" or the "Company") is a service provider specializing in treating mining wastewater and specific hydrometallurgical streams while achieving compliance and introducing sustainability into water management. The Company generates its revenues from three main sources: metal recovery, treatment fees, and engineering services and plant sales.

BioteQ is a publicly listed company incorporated and domiciled in Canada with limited liability under the legislation of the Province of British Columbia. The Company's shares are listed on the TSX Venture Exchange under the symbol BQE. The address of its registered office is Suite 1000 - 1050 West Pender Street, Vancouver, BC.

2. BASIS OF PREPARATION

a. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), effective as of June 30, 2016.

The Company's Board of Directors approved these condensed consolidated interim financial statements on August 16, 2016.

b. Going concern assumption

The condensed consolidated interim financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business.

For the six months ended June 30, 2016, the Company incurred a net loss of $2,462,816 (2015 – $956,173) and used net cash in operating activities of $955,537 (2015 – $1,079,579). The Company has a net decrease in cash and short-term investments of $1,092,496 (2015 – $376,870). The Company had a net working capital position of ($385,696) (December 31, 2015 – $871,223) and a cumulative deficit of $61,644,626 (December 31, 2015 – 59,181,810) as at June 30, 2016.

Subsequent to the end of June 30 2016, the Company completed a $1.5 million financing through a convertible loan (note 17), and the Company currently believes that it has sufficient working capital resources over the next 12 months. This assumes that BioteQ is able to continue successful operations at its Raglan and Chinese joint venture operations, market prices for metals and foreign exchange rates remain at current levels, the Company maintains or further decreases operating expenses, successfully repatriates funds from its Chinese joint venture, and secures and completes new sales contracts.

Historically, the Company has not yet realized profitable operations and has relied on non-operational sources of financing to fund its operations. Whether and when the Company can attain profitability and positive cash flows is uncertain. While the Company has been successful in securing financing in the past, there is uncertainty whether financing will be available in the future on terms acceptable to the Company. Accordingly, there is a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern. The consolidated condensed consolidated interim financial statements do not include adjustment to the recoverability and classification on recorded assets and liabilities and related expenses that might be necessary should the Company be unable to continue as a going concern. If the going concern assumption is not appropriate, material adjustments to the condensed consolidated interim financial statements could be required.

c. Basis of measurement

These condensed consolidated interim financial statements have been prepared under the historical cost basis except for deferred share units and restricted share units, which are measured at fair value through profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies as set out below have been consistently applied to all periods presented in these condensed consolidated interim financial statements, unless otherwise stated. The Company did not adopt any new accounting standard changes or amendments effective January 1, 2016 that had a material impact on these condensed consolidated interim financial statements.

Certain prior period comparative figures have been reclassified to comply the with current period's presentation.

These condensed consolidated interim financial statements incorporate the financial statements of the Company, and the entities controlled by the Company, and the share of net assets and net earnings or loss in entities which the Company is a joint venture partner. The principal subsidiaries and joint ventures of the Company are as follows:

Entity	**Ownership type**	**Method of accounting**	**Country of incorporation and operation**	**Ownership interest as at Jun. 30, 2016**	**Ownership interest as at Dec. 31, 2015**
Biomet Mining Corporation	Subsidiary	Consolidated	Canada	100%	100%
BioteQ Water (Chile) SpA	Subsidiary	Consolidated	Chile	100%	100%
BioteQ Water Mexico S.A. de C.V.	Subsidiary	Consolidated	Mexico	100%	100%
BioteQ (Shanghai) Water Treatment Technologies Co. Ltd.	Subsidiary	Consolidated	China	100%	100%
JCC-BioteQ Environmental Technologies Co. Ltd.	Joint venture	Equity	China	50%	50%

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Company's condensed consolidated interim financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about the future events that affect the amounts reported in the condensed consolidated interim financial statements and related notes to the financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Estimates and assumptions are continually evaluated and are based on management's experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively. The judgments, estimates and assumptions applied in these condensed consolidated interim financial statements, including key sources of estimation uncertainty were the same as those applied in the Company's last annual audited consolidated financial statements for the year ended December 31, 2015 except for the calculation of current income taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual income or loss.

5. TRADE AND OTHER RECEIVABLES

	Jun. 30, 2016 $	Dec. 31, 2015 $
Trade receivables	473,856	390,216
Unbilled receivables	-	173,693
Other	4,496	4,295
	478,352	568,204

6. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties of the Company:

a) As at June 30, 2016, the Company had a receivable balance of $82,979 (December 31, 2015 - $116,165) from the Dexing joint venture, arising mainly from joint venture investments and sale transactions. The receivables are unsecured in nature and bear no interest. No provisions are held against such receivables. There was no sale of goods and services with the Dexing joint venture during the three and six months ended June 30, 2016 and 2015. Sales and other transactions are recorded at the exchange amount agreed by both parties.

b) As of June 30, 2016, the Company has $160,000 included in trade payable and accrued liabilities (December 31, 2015 – $160,000) with a company, owned by a director, for management consulting services. For the three and six months ended June 30, 2016, the services received amounted to $30,000 and $60,000 (2015 - $30,000 and $60,000).

c) For the three and six months ended June 30, 2016 and 2015, the compensation awarded to key management, which includes the Company's directors and members of the Executive, are as follows:

	3 months ended Jun. 30		6 months ended Jun. 30	
	2016	2015	2016	2015
	$	$	$	$
Salaries, fees and short-term benefits	138,841	197,742	271,744	388,335
Share-based payments	2,766	9,153	8,702	26,104
	141,607	206,895	280,446	414,439

Included in the trade payable and accrued liabilities as at June 30, 2016 is $208,543 (December 31, 2015 - $230,043) of salaries, director fees, and termination benefits, with payment commitments in 2016.

7. INVENTORY AND WORK IN PROGRESS

	Jun. 30, 2016	Dec. 31, 2015
	$	$
Work in progress	1,665	40,248
Inventory of spare parts	19,634	21,207
	21,299	61,455

Inventory is recorded at the net realisable value at period end. There have been no impairments or write down of inventories during the three and six months ended June 30, 2016 and 2015, and there is no provision for obsolescence as of June 30, 2016 (December 31, 2015 – $nil).

8. PLANT AND EQUIPMENT

	Water treatment plants $	Pilot plants $	Other[1] $	Total $
As at Dec. 31, 2015				
Opening net book value	100,509	434,456	68,203	603,168
Additions	50,254	-	550	50,804
Disposals	-	(800)	-	(800)
Depreciation	(64,407)	(116,487)	(39,829)	(220,723)
Foreign exchange translation	-	-	77	77
Closing net book value	86,356	317,169	29,001	432,526
As at Dec. 31, 2015				
Cost	2,105,132	580,593	517,833	3,203,558
Accumulated depreciation	(2,018,776)	(263,424)	(488,832)	(2,771,032)
Closing net book value	86,356	317,169	29,001	432,526
As at Jun. 30, 2016				
Opening net book value	86,356	317,169	29,001	432,526
Additions	8,256	-	1,785	10,041
Depreciation	(43,823)	(58,644)	(13,002)	(115,469)
Foreign exchange translation	-	-	(7)	(7)
Closing net book value	**50,789**	**258,525**	**17,177**	**327,091**
As at Jun. 30, 2016				
Cost	2,113,388	580,593	519,862	3,213,843
Accumulated depreciation	(2,062,599)	(322,068)	(502,085)	(2,886,752)
Closing net book value	**50,789**	**258,525**	**17,177**	**327,091**

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

9. INVESTMENT IN JOINT VENTURE

Investment in joint venture is comprised of:

	Dexing joint venture $
Balance, January 1, 2015	5,033,483
Share of comprehensive income	871,409
Contributions made	229,284
Distributions received	(1,425,200)
Balance, December 31, 2015	4,708,976
Share of comprehensive loss	(194,584)
Contributions made	123,663
Balance, June 30, 2016	4,638,055

During the three and six months ended June 30, 2016, the Company's share of net earnings in the Dexing joint venture were $291,215 and $190,967 (2015 – earnings of $446,172 and $525,994).

During 2006, BioteQ signed a definitive joint venture agreement with Jiangxi Copper Corporation ("JCC") for the operation of a water treatment facility located at JCC's Dexing mine in Jiangxi Province, China. The joint venture agreement, which forms an equal share joint venture company between BioteQ and JCC, is called JCC-BioteQ Environmental Technologies Co. Ltd. The joint venture builds and operates water treatment plants using BioteQ's technologies. The agreement includes a license contract whereby BioteQ will provide its patented technology on a royalty-free basis to the joint venture company for use at the Dexing project as well as five potential additional sites owned and operated by JCC. The first plant commenced operations on April 1, 2008.

The Dexing joint venture sells all of the metal concentrate recovered in its operations to the joint venture partner, JCC. All related party sales are recorded on the date of sale at the adjusted fair market price of the metal based on applicable terms, net of transportation and refining costs at standard industry rates.

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

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

Statement of financial position

	Jun. 30, 2016 $	Dec. 31, 2015 $
Assets		
Current assets		
Cash and cash equivalents	298,530	588,406
Short-term investments	277,894	92,699
Trade and other receivables	600,142	112,817
Taxes recoverable	-	80,147
Inventory	128,854	438,052
Prepaid expenses	479	522
	1,305,899	1,312,643
Non-current assets		
Plant and equipment	4,892,613	5,351,657
Total assets	6,198,512	6,664,300
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,543,358	1,955,324
Income taxes payable	17,099	-
	1,560,457	1,955,324
Total liabilities	1,560,457	1,955,324
Partner's Equity		
Joint venture partner equity	3,504,767	3,381,104
Accumulated other comprehensive income	1,516,575	1,902,126
Accumulated deficit	(383,287)	(574,254)
Total partner's equity	4,638,055	4,708,976
Total liabilities and partner's equity	6,198,512	6,664,300

Statements of operations and comprehensive income

	3 months ended Jun. 30		6 months ended Jun. 30	
	2016	2015	2016	2015
	$	$	$	$
Revenue	1,493,486	1,721,896	2,621,207	2,417,561
Plant and other operating costs (excluding depreciation)	914,034	1,012,516	1,994,370	1,500,487
	579,452	709,380	626,837	917,074
General and administration	61,826	32,995	91,109	67,838
Depreciation of plant and equipment	128,143	116,123	254,196	232,578
Income from operations	389,483	560,262	281,532	616,658
Finance income	99	509	375	1,029
Foreign exchange (loss) gain	(2,543)	(1,539)	(8,073)	7,119
Income before income taxes	387,039	559,232	273,834	624,806
Current income tax expense	(95,824)	(113,060)	(82,867)	(98,812)
Net income for the period	291,215	446,172	190,967	525,994
Other comprehensive income				
Translation (loss) gain on foreign operation	(121,323)	(85,854)	(385,551)	394,093
Comprehensive income (loss) for the period	169,892	360,318	(194,584)	920,087

The Dexing joint venture derives its revenue from recovered copper sales, which is subject to risks that are beyond the control of the joint venture. The copper recovery rate is dependent on the rainfall in the region and the grade of copper in the water treated, while the revenue is exposed to the world commodity price risk.

10. TRADE PAYABLE AND ACCRUED LIABILITIES

	Jun. 30, 2016	Dec. 31, 2015
	$	$
Trade payable and accruals	429,713	446,660
Payroll liability	426,586	413,605
Value added tax payable	18,766	69,314
	875,065	929,579

11. SHARE-BASED PAYMENTS

The following is the Company's recorded stock-based compensation expense for the three and six months ended:

	3 months ended Jun. 30		6 months ended Jun. 30	
	2016	2015	2016	2015
	$	$	$	$
Stock options (a)	2,766	9,373	8,701	26,542
Deferred share units (b)	13,118	(27,233)	36,438	(43,901)
Restricted share units (c)	373	(688)	1,036	(1,110)
	16,257	(18,548)	46,175	(18,469)

a. Stock options

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

Each vesting tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately. Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Weighted Average Exercise Price $	Number of Options
Outstanding at Jan. 1, 2015	0.21	6,058,333
Forfeited	0.11	(108,334)
Expired	0.75	(716,666)
Outstanding at Dec. 31, 2015	0.14	5,233,333
Expired	-	-
Outstanding at Jun. 30, 2016	5,233,333	5,233,333
Exercisable at Dec. 31, 2015	0.18	3,332,222
Exercisable at Jun. 30, 2016	0.16	4,366,666

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

Exercise price range $	Weighted average remaining life (months)	Jun. 30, 2016 number of outstanding share options
0.07 to 0.15	31	3,133,333
0.17 to 0.30	10	2,100,000
0.07 to 0.30	23	5,233,333

b. Deferred share unit

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

The number of DSUs granted to a participant is calculated by dividing (i) a specified dollar amount of the participant's compensation amount paid in DSU in lieu of cash, and by (ii) the five-day volume weighted average trading price of the shares of the Company traded through the facilities of the Toronto Stock Exchange on the trading days immediately preceding the date of grant. Dividends paid on the shares of the Company are credited as additional DSUs. Each DSU entitles the holder to receive a cash payment equal to the five-day volume weighted average trading price of the shares preceding the date of redemption. The DSUs vest immediately upon issuance and may only be redeemed within the period beginning on the date a holder ceases to be a participant under the plan and ending on December 31 of the following calendar year.

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

The following table presents the changes to the DSU plan:

	Number of units
Balance, January 1, 2015	3,187,160
Granted	93,958
Redeemed	(366,043)
Balance, December 31, 2015	2,915,075
Redeemed	-
Balance, June 30, 2016	2,915,075

During the three and six months ended June 30, 2016, the Company recorded a fair value expense of $13,118 and $36,438 (2015 –recovery of $27,233 and $43,901) as stock-based compensation expense related to the DSUs.

c. Restricted share units

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

The following table presents the changes to the RSU plan:

	Number of units
Balance, January 1, 2015	82,841
Redeemed	-
Balance, December 31, 2015	82,841
Redeemed	-
Balance, June 30, 2016	82,841

Of the RSUs outstanding as at June 30, 2016, all remain unvested as at June 30, 2016 (December 31, 2015 – 82,841).

During the three and six months ended June 30, 2016, the Company recorded fair value adjustment as expense of $373 and $1,036 (2015 – recovery of $688 and $1,110) as stock-based compensation expense related to the RSUs.

12. SHARE CAPITAL

Authorized: unlimited common shares without par value.

In January 2010, the Company entered into an agreement with Newalta Corporation ("Newalta") to purchase 3,636,364 common shares of the Company, at an issue price of $1.10 per share, for total cash consideration of $4 million. Each share purchased includes an additional warrant to purchase one common share of the Company at $1.375 per share for one year and $1.65 per share thereafter. These warrants with a relative fair value basis of $1,513,417 expired on January 21, 2015 and are allocated to a contributed surplus.

In January 2014, the Company completed a Shareholders Rights Offering (the "Offering"). For the Offering, 24,000,000 common shares were issued for proceeds of $963,815, net of financing costs of $236,185. As a part of the financing costs, the Company issued 685,714 warrants with an exercise price of $0.07, which are fair valued at $20,023. These warrants expired on December 10, 2015 and are allocated to a contributed surplus.

As at June 30, 2016, the Company has 93,966,672 (December 31, 2015 – 93,966,672) common shares and no warrants outstanding (December 31, 2015 – nil).

13. INCOME TAXES

The income tax charge is a result of profits and withholding tax in two jurisdictions which are taxable and cannot be offset by accumulated tax benefits in other jurisdictions. Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the three and six months period ended June 30, 2016 was 26% (December 31, 2015 – 26%).

14. SUPPLEMENTAL CASH FLOW INFORMATION

	6 months ended Mar. 31	
	2016	2015
Change in non-cash working capital items	$	$
Decrease (increase) in trade receivables	122,744	(72,873)
Decrease in inventory and work in progress	33,619	218,097
Decrease in other assets	70,308	67,298
(Decrease) in accounts payable and accrued liabilities	(57,107)	(182,670)
(Decrease) increase in deferred revenue	(51,995)	354,948
Change in non-cash working capital items	117,569	384,800

15. COMMITMENTS

As of June 30, 2016, the Company has commitments of $500,313 under operating leases for office and laboratory premises and for office equipment, as follows:

	$
2016	205,593
2017	278,610
2018	16,110
	500,313

16. SEGMENTED INFORMATION

The Company has one operating segment, being principally to build process plants and earn revenues from metal recovery, treatment fees, engineering & lab services, and plant sales.

a) Segment revenue

The Company's sources of revenue are as follows:

	3 months ended Jun. 30		6 months ended Jun. 30	
	2016	2015	2016	2015
	$	$	$	$
Treatment fees	195,524	180,735	195,524	180,735
Engineering & lab services	448,010	105,618	838,562	617,943
	643,534	286,353	1,034,086	798,678

b) Geographic information

The Company's revenue and plant and equipment by geographic area are as follows:

	3 months ended Jun. 30		6 months ended Jun. 30	
	2016	2015	2016	2015
	$	$	$	$
Revenue				
Canada	642,650	269,972	978,105	698,622
Chile	-	12,034	47,000	95,051
Other	884	4,347	8,981	5,005
	643,534	286,353	1,034,086	798,678

	Jun. 30, 2016	Dec. 31, 2015
	$	$
Plant and equipment		
Canada	326,713	431,267
Chile	378	1,259
	327,091	432,526

c) Information about major customers

The following table presents revenue to individual customers exceeding 10% of total revenue for the three and six months ended June 30, 2016 and 2015.

	3 months ended Jun. 30		6 months ended Jun. 30	
	2016	2015	2016	2015
	$	$	$	$
Customer A	195,524	180,735	195,524	180,735
Customer B	182,773	-	182,773	-
Customer C	147,805	-	407,520	-
Customer G	440	45,430	9,732	45,430
Customer K	2,070	43,807	20,575	472,457
	528,612	269,972	816,124	698,622
Percentage from total revenue	82%	94%	79%	87%

17. SUBSEQUENT EVENTS

On July 6, 2016, the Company entered into an 18-month secured convertible loan agreement totaling $1,500,000 with 16 lenders. The lenders include certain directors, management, and employees of the Company, individual investors, and non-management insiders of the Company. Under the agreement, the convertible loan bears interest at a rate of 8% per annum, and interest being payable semi-annually. Upon prepayment or maturity of the convertible loan agreement, lenders have the option to convert into common shares of the Company with a conversion price of $0.06 per share.

Interim Management's Discussion and Analysis – Quarterly Highlights

August 16, 2016

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

This Q2 2016 Interim Management's Discussion and Analysis ("MD&A") updates disclosure previously provided in our Annual MD&A, up to the date of this Interim MD&A, and should be read in conjunction with our unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2016 and 2015 (our "Interim Financial Statements"), our audited consolidated financial statements for the years ended December 31, 2015 and 2014 (our "Audited Financial Statements") and our Annual MD&A for the year ended December 31, 2015.

Our Interim Financial Statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") and all amounts are expressed in Canadian dollars unless otherwise noted. Our accounting policies are described in note 2 of our Audited Financial Statements.

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

DESCRIPTION OF BUSINESS

BioteQ Environmental Technologies Inc. ("BioteQ" or the "Company") is a service provider specializing in treating mining wastewater and specific hydrometallurgical streams with focus on reducing Life Cycle Costs while achieving compliance and introducing sustainability into water management. Headquartered in Vancouver, British Columbia, Canada, our treatment solutions minimize waste, recover value from waste where possible and maximize water recovery. We have extensive expertise and operations experience in sulphide precipitation, ion exchange, alkali/lime neutralization and SART process technologies.

BioteQ is listed on the TSX Venture Exchange under the symbol BQE. Additional information may be found on our website www.bioteq.ca and also on SEDAR at www.sedar.com.

NON-GAAP MEASURES

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

Proportional Revenue and Other Proportional Results

Under the IFRS, the revenue and operating costs associated with our proportionate share of activities in our joint venture are netted and disclosed as a single line item on our consolidated statements of loss and comprehensive loss. Also, our share of assets, liabilities and equity in the joint venture are presented as a net investment on our consolidated statement of financial position.

To provide additional insight into our underlying results, certain statements in this MD&A disclose the effective portion of results that we would have reported if our joint venture results had been proportionately integrated into our results and referred to as BioteQ's proportional share ("Proportional"). All proportional financial measures disclosed in this MD&A are non-GAAP measures. We believe these disclosures allow comparability of our current financial results to prior years and provide additional insight into our underlying results:

Proportional Revenue

Proportional Revenues for the three and six month periods ended June 30, 2016 and 2015 are as follows:

(in $'000s)

	Three months ended Jun.30		Six months ended Jun.30	
	2016	2015	2016	2015
	$	$	$	$
Reported revenues under GAAP	644	286	1,034	798
Share of revenues from Dexing Joint Venture:				
Reported revenues	1,493	1,722	2,621	2,418
add: Sales and administrative costs previously included in revenue	254	293	446	411
Proportional Revenue for the period	2,391	2,301	4,101	3,627

Adjusted EBITDA

Adjusted EBITDA is derived as follows:

(in $'000s, all amounts include BioteQ's proportionate share of joint venture results)

	Three months ended Jun. 30		Six months ended Jun. 30	
	2016	2015	2016	2015
	$	$	$	$
GAAP: Net loss	(1,646)	(306)	(2,461)	(956)
less: interest income	-	(18)	(2)	(44)
add: taxes	96	113	83	99
add: depreciation and amortization	187	168	369	339
EBITDA	(1,363)	(43)	(2,011)	(562)
add: stock-based compensation	16	(19)	46	(19)
less: net foreign exchange (gain) loss	1,418	13	1,450	(34)
Adjusted EBITDA	71	(49)	(515)	(615)

Q2 2016 COMMENTARY AND 2016 OUTLOOK

In the first half of 2016, we have won contracts to provide design, construction, and commissioning services for several projects to advance opportunities we expect to lead to long term recurring revenues. While many of these contracts are relatively small in monetary value, they represent the initial stages of longer term projects where BioteQ can expect to generate significantly more revenue as the projects advance through the development stages. For the remaining half of 2016, the most significant opportunities we are pursuing are a Selen-IX pilot campaign with a new Canadian based customer, completion of detailed design and engineering for a SART project in Mexico, and beginning construction of the zinc/copper recovery plant in China with our new joint venture partner.

Although these projects provide significant opportunities for future one-time and recurring revenues, the short term cash flow potential is limited. As a result, subsequent to the end of Q2 2016, we completed a $1.5 million financing with various lenders including major shareholders, directors, executives and employees of the company. The funds will be used to meet current working capital needs to ensure that BioteQ's management has the financial resources to continue executing on its longer term growth strategy.

Q2 2016 OVERVIEW

Financial Results:

- Revenues as reported under GAAP were $644,000 compared $286,000 in Q2 2015;
- Proportional revenues were $2.4 million compared to $2.3 million in Q2 2015, an increase of 5% compared to the same period in prior year;
- Results for the quarter include a one-time, non-cash, foreign exchange loss of approximately $1.4 million. This adjustment is a result of cumulative foreign exchange adjustments related to the company's Australian subsidiary. It does not reflect results from our current or future operating activities;
- Net loss as reported under GAAP was $1.6 million compared to $306,000 in Q2 2015;
- Adjusted income before interest, tax, depreciation and amortization ("adjusted EBITDA") was $71,000 compared to a loss of $49,000 in Q2 2015;
- Cash and cash equivalents reported under GAAP as of June 30, 2016 was $316,000 compared to $1,409,000 at December 31, 2015; and
- Proportional cash and cash equivalents and short term investments, which includes our share held in joint ventures, as of June 30, 2016 was $892,000 compared to $2.1 million at the end of 2015.

Financing:

Subsequent to the end of Q2 2016, we completed a convertible loan ("Loans") for gross proceeds of $1.5 million. The lenders include certain directors, management, and employees of BioteQ, individual investors, and non-management insiders of the company. The Loans bear interest at a rate of 8% per annum and are repayable in full on the 18 month anniversary of closing. Interest is payable semi-annually in arrears. BioteQ may elect to prepay all or any portion of the outstanding balance at any time during the term of the Loan without penalty. During the term of the Loan, the lenders will hold a first charge security interest over the assets of the company.

Upon prepayment or maturity of the Loans, each lender may elect to convert all or any portion of the repaid principal into common shares of BioteQ at a conversion price $0.06 cents per share. Any accrued but unpaid interest thereon will be converted into common shares at a conversion price equal to the greater of $0.06 cents per share or the then-prevailing market price of the common shares.

The proceeds of the Loans will be used to fund general operating expenses and ensure we have the financial resources to continue executing on our longer term growth strategy.

Operational Results:

The Raglan Project, Quebec

BioteQ operates a seasonal water treatment plant at the Raglan Mine, an active nickel mine in northern Quebec, owned by Glencore Canada Corporation ("Glencore"). The plant runs seasonally, typically from late spring to fall. The plant was built in 2004 and uses BioteQ's ChemSulphide® process to remove dissolved nickel from wastewater to produce clean water that meets strict water quality criteria for discharge to the environment. The nickel concentrate produced by the plant is shipped to a refinery with other nickel concentrate produced at the mine. BioteQ's current operating contract with Glencore expires at the end of 2016.

During the quarter, we commenced operations for our 13th operating season at the site. Operating results for the current quarter was as follows:

Plant operating results	Q2 2016	Q2 2015
Water treated (cubic metres)	42,000	57,000
Days operated (equivalent days)	14	27

BioteQ also maintains operating responsibility for Glencore's Spoon water treatment plant, based on a cost-plus contract. This plant performs lime treatment and acidification of water that is not treated by BioteQ's ChemSulphide® plant.

Joint venture with Jiangxi Copper Company, China

Our joint venture in China with partner Jiangxi Copper Company ("JCC"), operated three plants during Q2 2016. Two of the plants are located on the Dexing mine site as well as a plant at the nearby, Yinshan mine site. Both mine sites are owned by JCC. The following is summary of operating results for all three plants Q2 2016.

Dexing 1:

	3 months ended Jun. 30		6 months ended Jun. 30	
	2016	2015	2016	2015
Water treated (cubic metres)	2,529,000	2,363,000	4,224,000	3,550,000
Copper produced (pounds)	569,000	610,000	995,000	863,000

Dexing 2:

	3 months ended Jun. 30		6 months ended Jun. 30	
	2016	2015	2016	2015
Water treated (cubic metres)	2,844,000	2,622,000	5,200,000	4,034,000
Copper produced (pounds)	333,000	330,000	657,000	438,000

Yinshan:

	3 months ended Jun. 30		6 months ended Jun. 30	
	2016	2015	2016	2015
Water treated (cubic metres)	1,287,000	1,156,000	1,928,000	1,697,000
Copper produced (pounds)	369,000	267,000	536,000	413,000

Total Joint Venture:

	3 months ended Jun. 30		6 months ended Jun. 30	
	2016	2015	2016	2015
Water treated (cubic metres)	6,660,000	6,141,000	11,352,000	9,281,000
Copper produced (pounds)	1,271,000	1,207,000	2,188,000	1,714,000

The volume of water treated and pounds of copper recovered at all three plants will fluctuate depending on precipitation levels and prevailing environmental conditions at both sites. The plants at the Dexing site treat water from the same sources and water may be diverted from one plant to the other to optimize operations. JCC is continuing to complete water management changes at the Yinshan site that is expected to improve the volume of water treated and copper recovered from the plant in the future. These changes are now expected to be completed in 2017.

Year to date, all three plants have met or exceeded mechanical availability and process performance. Total water treated and copper recovery have improved over 2015. We expected this performance to continue into Q3 2016 and decline into Q4 2016 as precipitation in the region declines and the plants undergo annual scheduled maintenance.

Project Sales and New Technology Development:

Design, Construction, and Commissioning Services
In Q1 2016, we began to provide design, construction and commissioning services for a water treatment plant at the Silvertip project in northern BC. The plant has been commissioned and available for water treatment operations. We continue to provide additional technical services and operating support as required.

Lab Testing Contracts
During the quarter, we completed contracts with customers in Canada and Latin America to perform lab scale testing of our technologies at various mine sites. These tests will allow the customers to assess our technologies and provide high level cost estimates for a possible full scale plant. If results prove favorable, it may lead to additional services including pilot scale testing, design, construction, and operation of a full scale plant in the future.

Consulting
During the quarter, we continued to provide water management consulting services for a mine site in Mongolia. Our scope of services include the design and operation of weather and water measurement systems and analysis. We expect to conclude our scope and provide a final report by the end of the year. Based on results, we will propose long term water management systems to the client.

Zinc and Copper Recovery – Joint Venture
We have also completed our detailed technical and economic assessment of a new treatment plant to be installed at an active smelter in China. The proposed new treatment plant has completed environmental permitting and BioteQ is working closely with a potential new partner on forming a joint venture to deliver the treatment plant for the smelter under a Build-Own-Operate business model following. Once final terms are agreed upon, we expect to commence construction in Q3 2016 and expect to begin commissioning and operations in early 2017. Under current terms being negotiated, we expect to receive a fixed-fee, technical support contract and an ongoing share of the profits from the operation.

COMPARATIVE INFORMATION

(in $'000 except for per share amounts)	3 months ended. Jun. 30		6 months ended. Jun. 30	
	2016	2015	2016	2015
	$	$	$	$
Revenues	644	286	1,034	798
less: Plant and other operating costs (*excluding depreciation*)	365	280	584	780
	279	6	450	18
General and administration	465	456	891	982
Sales and development	268	358	617	651
Stock-based compensation	16	(19)	46	(19)
Depreciation and amortization	59	52	115	107
Share of results of equity accounted joint ventures	(291)	(446)	(191)	(526)
Loss from operations and joint ventures	(238)	(395)	(1,028)	(1,177)
Finance income, net	-	17	2	42
Foreign exchange (loss) gain	(1,415)	(11)	(1,442)	27
Bad debt recovery	7	83	7	152
Net loss for the period	(1,646)	(306)	(2,461)	(956)
Translation gain (loss) on foreign operations	1,290	(90)	1,027	404
Comprehensive loss for the period	(356)	(396)	(1,434)	(552)
Net loss per share (basic and diluted)	(0.02)	(0.00)	(0.03)	(0.01)
Proportional Revenues[1]	2,391	2,301	4,101	3,627
Adjusted EBITDA[1]	71	(49)	(515)	(615)

	at Jun. 30	at Dec. 31
	2016	2015
Working capital	(386)	871
Total assets	5,949	7,451
Total long term liabilities	3	9
Shareholders' equity	4,601	6,029

Notes:

1. *See Non-GAAP measures*

SUMMARY OF Q2 2016 RESULTS

Revenue

Below is a summary of revenues for Q2 2016 and Q2 2015:
(unaudited, in $'000s)

Revenue Source	Q2 2016 $	% of total	Q2 2015 $	% of total	Total Revenue % Change
Treatment fees	196	8%	180	8%	9%
Engineering & lab services	448	19%	106	5%	323%
Total revenue	644	27%	286	13%	125%
Metal recovery – share of joint venture result	1,747	73%	2,015	87%	(13%)
Total Proportional Revenue	2,391	100%	2,301	100%	4%

Treatment fee revenue are generated from the Company's operation in the water treatment plant at the Raglan Mine. Treatment fees were consistent with the prior year's quarter as the operation began treating water slightly earlier in mid-June. We expect to conclude our operations by the beginning of November this year.

Revenue from engineering & lab services increased by $342,000 from the same period in 2015. The increase was attributable to higher project activity in the current quarter. In Q2 2016, we have earned new revenue of $331,000 from two new clients, which we provide services at mine sites in the Yukon and Mongolia.

Revenue from metal recovery operations, which are from the Chinese joint venture, decreased by $268,000 from Q2 2015. The decline in copper price compare to Q2 2015 was offset by the weaker Canadian dollar relative to Chinese renminbi and by the increase in volume of copper recovery.

Plant and other operating costs (excluding depreciation)

Total plant and other operating costs (excluding depreciation) in Q2 2016 were $365,000 compared to $280,000 in Q2 2015, an increase of $85,000. The increase is mainly due to the increase of project activity during Q2 2016. The projects in Q2 2016 have a slightly higher margin as each individual project requires different levels of cost depending on specific mine conditions and treatment requirements.

Expenses and other income

In Q2 2016, general and administration expenses were $465,000, which is comparable to $456,000 in the same period prior year.

Sales and development costs in Q2 2016 were $268,000 compared to $358,000 in Q2 2015. The decrease of $90,000 is mainly due to the decrease in internal labor spent on technology development while increasing labor resources to engineering and lab services.

Stock-based compensation expense was $16,000 in Q2 2015 compared to a recovery of $19,000 in the same period prior year. In Q2 2016, stock-based compensation expenses were mainly due to fair value adjustments of deferred and restricted share units.

In Q2 2016, we recognized a foreign exchange loss of $1,415,000 compared to $11,000 in Q2 2015. During Q2 2016, we dissolved our Australian subsidiary, BioteQ Water (Australia). Throughout each reporting period since inception in 2007, the Company recognized cumulative, foreign translation differences of $1,416,000 related to the translation of the Australian subsidiary's financial results from Australian dollar to Canadian dollar. Such translation differences have been recognized in other comprehensive loss as "foreign currency translation adjustments on foreign subsidiaries". Upon the final dissolution of the subsidiary this quarter, the accumulated other comprehensive loss due to translation adjustments on this subsidiary has been reclassified as foreign exchange loss in the Statement of Operations. It does not reflect results from our current or future operating activities.

SUMMARY OF YEAR-TO-DATE Q2 2016 RESULTS

Revenue

Below is a summary of revenues for the six month ended 2016 and 2015:

(unaudited, in $'000s)

Revenue Source	Year-to-date Q2 2016 $	% of total	Year-to-date Q2 2015 $	% of total	Total Revenue % Change
Treatment fees	196	5%	180	5%	9%
Engineering & lab services	838	20%	618	17%	36%
Total revenue	1,034	25%	798	22%	30%
Metal recovery – share of joint venture result	3,067	75%	2,829	78%	8%
Total Proportional Revenue	4,101	100%	3,627	100%	13%

The year-to-date treatment fee revenue is the same as Q2 as operation commenced in June.

Revenue from engineering & lab services increased by $220,000 from the same period in 2015. The increase was attributable to higher project activity in the current year.

Total year-to-date revenue from metal recovery operations increased by $238,000 from 2015. Despite a 10% decline in copper prices compared to the prior year, total revenue increased due to a 22% increase of copper recovered and the weakening of the Canadian dollar against the Chinese RMB.

Plant and other operating costs (excluding depreciation)

The decrease in Plant and other operating costs (excluding depreciation) by $196,000 in year-to-date 2016 compared to the same period in 2015 is mainly due to the costs incurred to complete the Seabridge pilot during the first half of 2015.

Expenses and other income

The year-to-date general and administration expenses decreased by $91,000 over the comparable period in 2015. The decrease due to lower salaries and benefits for administration, insurance expenses, and public company fees in 2016.

Sales and development costs in year-to-date 2016 is comparable to 2015 with a slight decreased of $34,000.

Stock-based compensation expense was $46,000 in the first six months of 2016 compared to recoveries of $19,000 in the same period prior year. In 2016, stock-based compensation expenses were due to a higher fair value adjustments of deferred and restricted share units from a higher Company share price.

The year-to-date foreign exchange loss was $1,442,000 in 2016 compared to gain of $27,000 in 2015. These gains and losses arise mainly from changes in the value of the US dollar, Mexican peso, Chilean peso and Chinese renminbi relative to the Canadian dollar. During 2016, due to the dissolution of BioteQ Water (Australia), the Company reclassified $1,416,000 of accumulated other comprehensive loss due to translation differences from BioteQ Water (Australia) as foreign exchange loss.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2016, BioteQ had 93,966,672 common shares issued and outstanding (December 31, 2015 – 93,966,672), and 5,233,333 stock options outstanding (December 31, 2015 - 5,233,333).

As of August 16, 2016 the number of common shares issued and outstanding and stock options outstanding remain unchanged from June 30, 2016.

For the three and six months ended June 30, 2016, the Company incurred a net loss of $1,645,640 and $2,462,816 (2015 – $306,066 and $956,173). For the six months ended June 30, 2016, the Company used net cash in operating activities of $955,537 (2015 – $1,079,579). The Company has a net decrease in cash and short-term investments of $1,092,496 (2015 – $376,870). The Company had a net working capital position of ($385,696) (December 31, 2015 – $871,223) and a cumulative deficit of $61,644,626 (December 31, 2015 – 59,181,810) as at June 30, 2016.

The Company has $500,313 under operating leases for office and laboratory premises and for office equipment.

As disclosed in note 2(b) of our Condensed Consolidated Interim Financial Statements for the period ended June 30, 2016 and in the "Q2 2016 COMMENTARY AND 2016 OUTLOOK" section of this MD&A, the Company believes that it has sufficient working capital resources to continue current operations for the next 12 months. Beyond this point, we will need to secure new sources of working capital to continue operations. Potential sources of new working capital include new sales projects or non-operational sources such as debt or equity investments.

The continuation of the Company as a going concern is dependent upon its ability to raise additional financing and ultimately attain and maintain profitable operations. This assumes that the Company is able to successfully obtain financing to fund its working capital needs, continue successful operations at its Raglan and Dexing joint venture operations, maintain or further decrease operating expenses, successfully repatriate funds from its Dexing joint venture, and secures and completes new sales contracts.

Historically, we have not yet realized profitable operations and relied on non-operational sources of financing to fund our operations. Whether and when the Company can attain profitability and positive cash flows is uncertain. While the Company has been successful in securing financing in the past, there is uncertainty whether financing will be available in the future on terms acceptable to the Company. Accordingly, there is a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern. Our consolidated financial statements do not include adjustment to the recoverability and classification on recorded assets and liabilities and related expenses that might be necessary should the Company be unable to continue as a going concern. If the going concern assumption is not appropriate, material adjustments to our consolidated financial statements could be required.

RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties of the Company:

a) As at June 30, 2016, the Company had a receivable balance of $82,979 (December 31, 2015 - $116,165) from the Dexing joint venture, arising mainly from joint venture investments and sale transactions. The receivables are unsecured in nature and bear no interest. No provisions are held against such receivables. There was no sale of goods and services with the Dexing joint venture during the three and six months ended June 30, 2016 and 2015. Sales and other transactions are recorded at the exchange amount agreed by both parties.

b) As of June 30, 2016, the Company has $160,000 included in trade payable and accrued liabilities (December 31, 2015 – $160,000) with a company, owned by a director, for management consulting services. For the three and six months ended June 30, 2016, the services received amounted to $30,000 and $60,000 (2015 - $30,000 and $60,000).

c) For the three and six months ended June 30, 2016 and 2015, the compensation awarded to key management, which includes the Company's directors and members of the Executive, are as follows:

	3 months ended Jun. 30		6 months ended Jun. 30	
	2016	2015	2016	2015
	$	$	$	$
Salaries, fees and short-term benefits	138,841	197,742	271,744	388,335
Share-based payments	2,766	9,153	8,702	26,104
	141,607	206,895	280,446	414,439

Included in the trade payable and accrued liabilities as at June 30, 2016 is $208,543 (December 31, 2015 - $230,043) of salaries, director fees, and termination benefits, with payment commitments in 2016.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the Company's condensed consolidated interim financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about the future events that affect the amounts reported in the condensed consolidated interim financial statements and related notes to the financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Estimates and assumptions are continually evaluated and are based on management's experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively. The judgments, estimates and assumptions applied in these condensed consolidated interim financial statements, including key sources of estimation uncertainty were the same as those applied in the Company's last annual audited consolidated financial statements for the year ended December 31, 2015 except for the calculation of current income taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual income or loss.