

# *BioteQ*

*BioteQ Environmental Technologies Inc.  
Annual Report  
2000*

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## Corporate Profile

BioteQ is a Canadian industrial process company that has developed and patented the BioSulphide Process<sup>TM</sup> for water treatment. The process allows the treatment of acid contaminated water with concurrent recovery of saleable metals from the water. Water discharged from the process contains very low concentrations of toxic heavy metals.

BioteQ has projects in advanced stages of development in Canada and the United States and is reviewing other projects in North America and elsewhere. BioteQ proposes to operate on three commercial bases: design, build, own and operate; contract; or third party license. Potential revenue streams are recovered metals and treatment fees.

The management of BioteQ has extensive experience in environmental aspects of the minerals and related industries, with internationally recognized expertise in many aspects of acid contaminated water management.



## *President's Message to Shareholders*

The acquisition of Biomet Mining Corporation allowed the company to complete its qualifying transaction at the end of 2000 and is a significant milestone in our objective of establishing commercial applications of the patented water treatment technology, the BioSulphide Process<sup>TM</sup>. The acquisition not only included the BioSulphide Process<sup>TM</sup> technology, but also Biomet's laboratory assets, mobile pilot plants, engineering studies, development projects and intellectual property. Most importantly, the qualifying transaction brings a strong Board of Directors and management team to the Company and provides an exceptional opportunity for the Company to achieve commercial success and value for our shareholders.

### *Highlights in 2000*

Biomet was very active during 2000 in the technical development of the commercialization plan for the BioSulphide Process<sup>TM</sup>. Highlights from Biomet's operations during 2000 include:

- Successful completion of pilot operations at the Berkeley Pit project in Butte, Montana, including operation of a prototype partial oxidation burner for nutrient gas supply for the BioSulphide Process<sup>TM</sup>.
- Completion of an independent Quality Assurance / Quality Control report of the pilot results at Berkeley Pit contracted to the Montana Bureau of Mines and Geology
- Completion of pilot operations, co-sponsored by Cominco Alaska, at Cominco's Red Dog Mine in Alaska and preliminary project engineering for potential commercial operations at Red Dog
- Completion of preliminary engineering for potential commercial operations by AGRA Simons (now AMEC Simons) which provided the basis for project costing to assist in evaluation of commercial opportunities for the Company
- Completion of laboratory and mini-pilot testing at Caribou Mine in New Brunswick as well as a prefeasibility level engineering report
- Completion of a consultant's report of the burner operation in Butte which confirmed the commercial potential of the burner
- \$1.2 million financing through the completion of the qualifying transaction
- Addition of John York, C.A. as Chief Financial Officer and Dr. Richard Lawrence, Ph.D., P.Eng., Executive Vice President, to the management team.

## *Expectations for 2001*

The management team is now focusing on reaching a commercial agreement for application of the BioSulphide Process<sup>TM</sup> and completing the engineering for project feasibility. The commercialization plan includes the following critical steps:

1. Completion of an independent engineering study for a commercial plant
2. Completion of an independent review on the burner operation and its commercial potential
3. Development of key strategic alliances with complimentary companies in plant engineering, equipment supply, finance and operation,
4. Completion of a commercial transaction in North America,
5. Ongoing development of new commercial targets, and
6. Addition of key technical and financial personnel.

I would like to thank my fellow directors, employees, consultants, shareholders and our underwriters for their contributions to our successes this year. 2001 should be an exciting year for the Company as the commercial potential of its underlying technology assets is realized. I look forward to working with the management team and Board of Directors to both increase value and broaden our shareholder base.

*P. Bradley Marchant  
President and CEO  
Vancouver, Canada*

## *The Technology*

The BioSulphide Process<sup>TM</sup> was developed to neutralize acidic water with concurrent selective recovery of metals from the contaminated solutions. Potential applications of the Process include the treatment of:

- acid mine drainage
- heap/dump leach solutions
- tailings re-treatment leachates
- refinery/smelter waste streams
- naturally occurring metal-laden streams
- industrial and municipal water with high total dissolved solids (TDS) due to sulphate

The resulting treated water can be discharged to the environment without further treatment or recycled for process use.

Revenue sources from the BioSulphide Process<sup>TM</sup> are water treatment fees and recovered metals such as copper, zinc, cobalt and nickel, and valuable sulphide-based co-products (eg. NaHS, H<sub>2</sub>S). There is virtually no “reserve risk” as the acid and metals are contained in solution, which is easily quantified, generally independently by environmental regulatory agencies.

Alternative processes available to treat these and related wastes include lime precipitation, lime scrubbing, ion exchange and biosorption, conventional sulphate reduction, and wetlands. In many applications, all of these alternatives encounter technical and/or economic limitations.

## *Process Description*

The patented BioSulphide Process<sup>TM</sup> was developed with the following objectives:

- Minimize treatment costs
- Selectively recover metals in saleable grade concentrates to offset treatment costs
- Reduce liabilities by reducing the volume of sludge for disposal and minimizing heavy metal content
- Produce discharge quality water
- Easily engineered and operated using known chemical and biological process unit operations
- Easily integrated into existing operations without specialized personnel or infrastructure

The BioSulphide Process<sup>TM</sup> integrates a biological phase and a chemical phase to treat wastewater and other streams to discharge quality and maximize metals recovery. A general process schematic is shown in Figure 1.

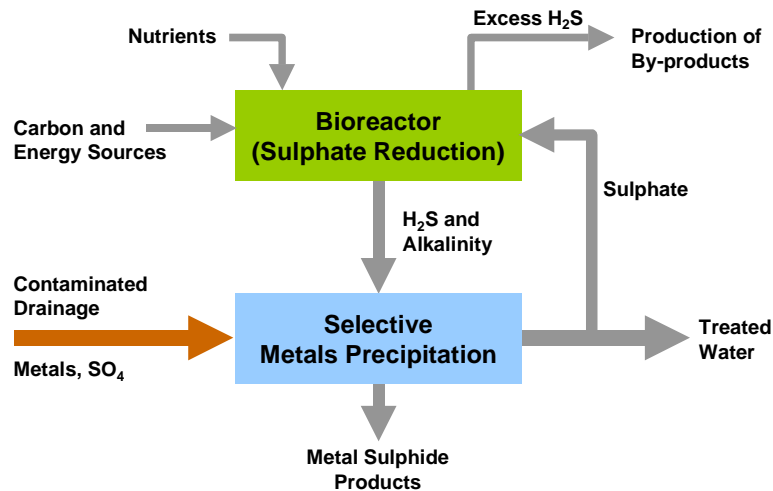


Figure 1. Generalized Schematic - BioSulphide Process<sup>TM</sup>

Essentially, the BioSulphide Process<sup>TM</sup> is a chemical treatment process that uses inexpensive biologically-generated reagents. The entire wastewater stream passes through a chemical treatment stage where the pH is adjusted, using biologically generated alkalinity, and biogenic hydrogen sulphide gas ( $H_2S$ ) is introduced to selectively precipitate metals from solution as sulphides. The sulphide concentrates are recovered by dewatering and shipped for sale.

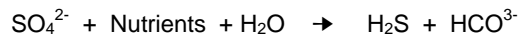
A portion of the resultant metal-free sulphate solution is fed to an anaerobic biological reactor where sulphate is biologically reduced to sulphide ( $H_2S$ ). The fraction of solution to be treated biologically is normally controlled by the amount of  $H_2S$  required for sufficient metal removal. However, a larger portion might be treated if excess alkalinity and/or  $H_2S$  are desired for additional water treatment purposes and/or for the production of saleable sulphide-based co-products, such as NaHS, depending on local markets. Alternatively, in selected applications, sulphur can be reduced directly in a bioreactor to produce  $H_2S$  for use in metals recovery.

The BioSulphide Process<sup>TM</sup> utilizes a mixed anaerobic biological culture to reduce sulphate species already present in the wastewater to produce hydrogen sulphide with the simultaneous production of alkalinity, in the form of carbonate, for pH adjustment. Biologically produced sulphide is recycled as  $H_2S$  gas or  $HS^-$  in solution to the chemical treatment step for metal sulphide precipitation and recovery. Biologically generated alkalinity is also utilized in the chemical treatment step for pH control during selective precipitation. It is important to note that in most cases, only a fraction of the total waste sulphate requires treatment to provide sulphide in sufficient quantities for complete metal removal and pH control. It is not necessary, therefore, to size bioreactors on the basis of the total flow of contaminated feed to the plant.

*Chemical Pretreatment:*



*Biological Reduction:*



During the process biomass is continually created. Several nutrient sources for biomass growth have been pilot tested (eg. coal, wood, natural gas or diesel combustion products, sewage sludge, glycol and ethanol). For commercial applications, the nutrient source will likely be limited to the combustion products of natural gas, propane or diesel fuel due to the simplicity of operation, high efficiency of nutrient utilization, and because this method provides excess heat to maintain the bioreactors at optimum biological activity.

## *Environmental Benefits*

There are significant environmental benefits to the use of the BioSulphide Process<sup>TM</sup>. The process offers a long-term mitigation alternative for acid rock drainage as well as more complete metal recovery overall and improved resource utilization. The BioSulphide Process<sup>TM</sup> is a responsible waste management alternative utilizing a simple, low risk biological process. The final products from the process include:

- treated water
- metals recovered for recycle
- minimum waste sludge for disposal
- valuable co-products for industrial recycle

As a result of the positive environmental benefits of employing the BioSulphide Process<sup>TM</sup>, preliminary indications are that permitting for commercial operation would not require any special review and that the operation would receive favourable operating tax incentives.



## Project Descriptions

### Red Dog Project

The objective of the Red Dog Project in Alaska is to treat tailings water that is currently stored at site to recover 250 ppm dissolved zinc, remove copper, lead, cadmium and selenium to meet discharge criteria, and recycle the water back to the mill. The project would be developed in two stages. The first stage would be to treat a highly concentrated wastewater stream that contributes to the metal load in the tailings pond and then, secondly, to treat tailings water for recycle and/or discharge.



Biomet conducted the initial investigations at their laboratory in Vancouver, using water samples from the site. A mini-pilot plant was then built and operated at site, initially by Biomet then by Cominco personnel.

Based on the laboratory and mini-pilot plant results, both of which showed good rates of sulphate reduction and metal removal to discharge limits, a mobile pilot plant was built in 1998 and shipped to the Red Dog site. The pilot plant was tested in 1998, showing good sulphate reduction using bottled nutrient gases. The pilot scale prototype burner was, however, not successful. The results of the Phase 1 pilot operations at Red Dog demonstrated good biomass development and zinc recovery along with complete removal of cadmium and lead from the water. (Figure 1). The plant was operated again during 1999 for additional pilot scale burner design data. These data, along with the design criteria from successful commercial scale burner trials at our other pilot plant operations in Butte, Montana, during 2000, will be used to complete an independent engineering study for commercial operations at Red Dog. Discussions with the owners are in progress for commercial application of the BioSulphide Process™ at Red Dog.

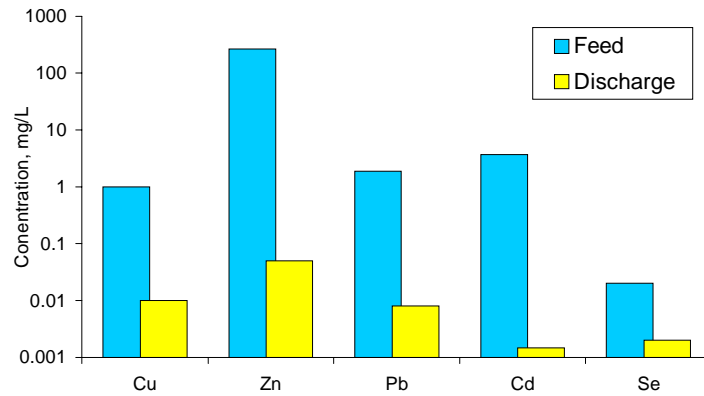


Figure 1. Feed and product water analyses from Red Dog pilot plant campaign, 1999 (note metal concentration on logarithmic scale)

### *Berkeley Pit Project*

According to the US Environmental Protection Agency (US EPA), the Berkeley Pit in Butte, Montana, is one of the largest acid drainage sites in the US. There is currently 32 billion gallons of contaminated water stored in the abandoned Berkeley Pit containing 200 ppm copper and 600 ppm zinc.



Initial laboratory scoping work was completed in Vancouver using samples from the site, followed by a mini-pilot plant operation in Butte. Based on the success of the laboratory and mini-pilot

program, a second, larger scale mobile pilot plant was designed and built for operation at the Berkeley Pit during 1999 to determine plant operational design criteria and changes required for operation specific to the Berkeley Pit. This plant included a commercial-scale partial oxidation burner that can utilize diesel, propane or natural gas as the fuel source. Results demonstrated that the partial oxidation burner will produce nutrient gas according to design expectations.

A second phase of piloting at the Berkeley Pit was completed in 2000 to provide feasibility study design criteria. The company has completed initial commercial scale engineering for the Berkeley Pit project and is in discussions with the owners and the US EPA for construction of a commercial plant.

A summary of results from the Berkeley Pit pilot testing, showing concentrations of metals in feed water and plant discharge is shown below.

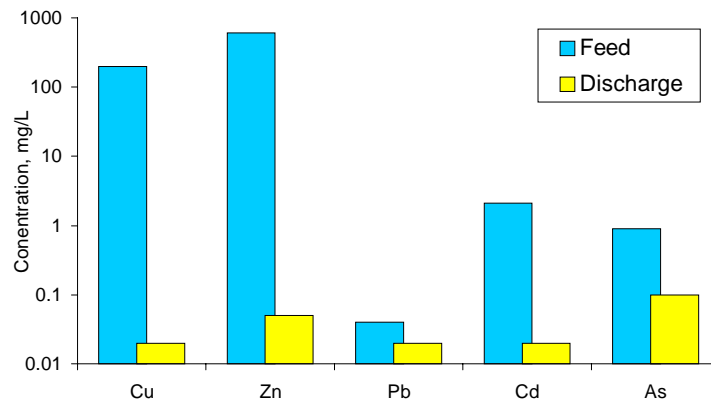


Figure 2. Feed and product water analyses from Berkeley Pit pilot plant campaign, 2000 (note metal concentration on logarithmic scale)

### *Caribou Project*

The Caribou Mine, located near Bathurst, New Brunswick, is currently shut down. The mine site has acid drainage, containing copper and zinc for recovery. In addition, there is zinc-rich lime sludge from the existing lime treatment plant that can be re-treated for zinc recovery. The sludges overlay older high-grade tailings that can be re-leached using the acid drainage to enhance metal recovery and allow disposal of the treated tailings within the existing tailings impoundment area.

Biomet completed initial laboratory scoping work, jointly with RPC laboratories in Fredericton, and mini-pilot plant testing at the Caribou site for copper and zinc recovery. A prefeasibility level engineering study has been completed and discussions are in progress with the owners to determine the potential for commercial operation at Caribou, first as a small commercial plant to treat acid drainage followed by expansion to include tailings re-treatment.

## *New Initiatives*

The Company will also be exploring new potential commercial projects for water treatment. These projects normally involve initial project scoping work and due diligence, followed by some laboratory investigations to confirm the processing alternatives and then project piloting for engineering purposes. The Company is currently evaluating projects in Canada, USA, Australia and South America.

The Company has also been conducting due diligence on water treatment processes developed in South Africa which are complimentary to the BioSulphide Process<sup>TM</sup>. Evaluation of these and other complimentary processes will continue during 2001.

The partial oxidation burner technology that has been developed by the Company to provide low cost nutrients for the bioreactors shows potential as an alternate source of hydrogen for the growing fuel cell market. The Company will seek an independent assessment of the burner potential to determine the best route to pursue for further development.



## *Management Discussion and Analysis*

The following discussion and analysis should be read in conjunction with the audited consolidated financial statements of the Corporation for the year ended December 31, 2000.

### *Operating Results*

On December 20, 2000, the Company completed its qualifying transaction under CDNX regulations and changed its name to BioteQ Environmental Technologies Inc. The qualifying transaction was structured as a reverse takeover by Biomet Mining Corporation. Consequently, the Consolidated Financial Statements reflect the past and current activities of Biomet. BioteQ, the legal parent and publicly traded entity, has been accounted for as being acquired on December 20, 2000, and its activities are only included in these financial statements from that date.

Biomet is developing a process for treatment of contaminated water. The majority of Biomet's costs associated with developing the process have been deferred. The costs shown in the Consolidated Statement of Operations are the costs, which do not relate directly to the process development and minimal costs of BioteQ from the date of acquisition on December 20, 2000.

During 2001, consolidated costs of operations will not be comparable with the year 2000. The public company, BioteQ, is now operating as the parent of Biomet and will incur a full year of costs of management, rental of office premises and other operating costs. Furthermore, in 2001 the Company is obliged to adopt the new accounting guidelines for "Enterprises in the Development Stage". As a result, the Company will have to review all deferred costs to assess their recoverability in accordance with CICA Handbook Section 3450. To December 31, 2000 the deferred costs have amounted to \$1,852,474, of which \$686,949 was incurred in 2000, compared to \$526,144 in 1999. Any write-down or write-off would impact the Consolidated Statement of Operations.

### *Liquidity and Capital Resources*

At December 31, 2000 the Company had cash of \$618,384 and working capital of \$412,518. These resources were acquired with the BioteQ/Biomet transaction close to the year-end and was the result of a concurrent financing to raise \$900,000 (\$699,000 net) through the issue of shares. The Company is now focused on reaching a commercial agreement for application of its BioSulphide Process<sup>TM</sup>. Additional financing is planned during 2001 to build a plant and provide additional working capital.

### *Risks and Uncertainties*

The Company is at an early stage in its development and has yet to put a commercial plant into operation. Until that time, there will be some technical risk associated with the scale-up from pilot size test plants, even though extensive testing has been carried out. The technical risk of a new process plant should be reduced by being able to use many off-the-shelf components.

Any new commercial application of the BioSulphide Process<sup>TM</sup> will run certain operational risks. Revenue will be dependent to some extent on the price of the commodities being recovered and operating costs will be largely dependent on the cost of consumables, which may fluctuate. The Company will allow for the adverse effect of price changes in its budgeting process. The material being processed should be very consistent and therefore does not carry the normal reserve risk of a conventional mining operation.

### *Outlook*

The Company's development of its BioSulphide Process<sup>TM</sup> is nearly complete. In 2001 the Company intends to finalize an independent engineering study for a commercial plant and pursue a commercial transaction. The Company is confident that success will be achieved.

### *Management's Responsibility for Financial Reporting*

The management of BioteQ Environmental Technologies Inc. is responsible for the preparation of the consolidated financial statements as well as the financial and other information contained in the annual report. Management maintains an internal control system to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

The consolidated financial statements are prepared in accordance with generally accepted accounting principals in Canada and necessarily include amounts determined in accordance with estimates and judgements made by management. The external auditors, PriceWaterhouseCoopers, Chartered Accountants, express their opinion on the consolidated financial statements in the annual report.

The Board of Directors, through the Audit Committee, is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control.

The financial statements of the Company have been approved by the Board of Directors.

*"P B Marchant"*

P. Bradley Marchant  
President and CEO

*"J C York"*

John York  
Chief Financial Officer

**Bioteq Environmental Technologies  
Inc.**

(formerly Venturecorp Capital Inc.)  
(A Development Stage Company)

Consolidated Financial Statements  
**December 31, 2000**

February 26, 2001

## **Auditors' Report**

### **To the Shareholders of Bioteq Environmental Technologies Inc.**

We have audited the consolidated balance sheets of **Bioteq Environmental Technologies Inc.** as at December 31, 2000 and 1999 and the consolidated statements of operations and deficit and cash flow for each of the two years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2000 and 1999 the results of its operations and cash flows for each of the two years then ended in accordance with Canadian generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied consistently except as disclosed in note 10.

**“PricewaterhouseCoopers LLP”**

**Chartered Accountants**



# Bioteq Environmental Technologies Inc.

(formerly Venturecorp Capital Inc.)

(A Development Stage Company)

Consolidated Balance Sheets

As at December 31, 2000

	2000 \$	(Restated note 10) 1999 \$	
<b>Assets</b>			
<b>Current assets</b>			
Cash	618,384	26,545	
Funding receivable	—	65,110	
Scientific research tax credits receivable	—	82,957	
Other	28,535	13,672	
	<u>646,919</u>	<u>188,284</u>	
<b>Capital assets</b> (note 5)	191,522	166,801	
<b>Deferred development costs</b> (note 6)	1,852,474	1,165,525	
	<u>2,690,915</u>	<u>1,520,610</u>	
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accruals	234,401	65,027	
Amounts due to shareholder (note 8)	—	88,520	
	<u>234,401</u>	<u>153,547</u>	
<b>Shareholders' Equity</b>			
<b>Share capital</b> (note 7)	2,655,770	1,443,849	
<b>Deficit</b>	(199,256)	(76,786)	
	<u>2,456,514</u>	<u>1,367,063</u>	
	<u>2,690,915</u>	<u>1,520,610</u>	
<b>Going concern</b> (note 2)			
<b>Approved by the Board of Directors</b>			
_____ "Brad Marchant"	Director	_____ "George Poling"	Director

# Bioteq Environmental Technologies Inc.

(formerly Venturecorp Capital Inc.)

(A Development Stage Company)

Consolidated Statements of Operations and Deficit

For the years ended December 31, 2000 and 1999

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	<b>2000</b>	<b>(Restated note 10) 1999</b>
	\$	\$
<b>Expenses</b>		
Legal and accounting	84,673	20,000
Marketing	7,748	17,279
Administration	30,049	6,010
	<hr/>	<hr/>
<b>Net loss</b>	122,470	43,289
	<hr/>	<hr/>
<b>Deficit – beginning of year, as previously stated</b>	–	–
	<hr/>	<hr/>
<b>Prior period adjustment</b> (note 10)	76,786	33,497
	<hr/>	<hr/>
<b>Deficit – beginning of year, restated</b>	76,786	33,497
	<hr/>	<hr/>
<b>Deficit – end of year</b>	199,256	76,786
	<hr/>	<hr/>
<b>Loss per share</b>	(0.01)	(0.00)

# Bioteq Environmental Technologies Inc.

(formerly Venturecorp Capital Inc.)

(A Development Stage Company)

Consolidated Statements of Cash Flow

For the years ended December 31, 2000 and 1999

	2000 \$	(Restated note 10) 1999 \$
<b>Net loss</b>	(122,470)	(43,289)
<b>Change in working capital</b>	72,625	38,124
	(49,845)	(5,165)
<b>Cash flows from financing activities</b>		
Issuance of common shares for cash	89,402	377,500
Amounts due to shareholder	(27,922)	50,000
Cash received through acquisition of Bioteq	1,143,786	-
	1,205,266	427,500
<b>Cash flows from investing activities</b>		
Capital assets	(98,627)	(54,473)
Deferred development costs	(611,953)	(761,836)
Cash receipts from third parties credited to deferred development costs	146,998	231,107
	(563,582)	(585,202)
<b>Net change in cash</b>	591,839	(162,867)
<b>Cash – Beginning of year</b>	26,545	189,412
<b>Cash – End of year</b>	618,384	26,545
Supplemental information:		
Share capital issued in exchange for shareholder loan	60,598	-
Interest paid	1,300	907
Income taxes paid	-	-

# **Bioteq Environmental Technologies Inc.**

(formerly Venturecorp Capital Inc.)

(A Development Stage Company)

Notes to Consolidated Financial Statements

**December 31, 2000**

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## **1 Company operations**

On December 20, 2000, Biomet Mining Corporation ("Biomet") completed a reverse take-over of Bioteq Environmental Technologies Inc. (formerly Venturecorp Capital) ("Bioteq"). As a result of the reverse take-over, the former shareholders of Biomet constituted the majority of the shareholders of Bioteq. Legally, Bioteq is the parent entity; however, since the former shareholders of Biomet acquired control of Bioteq, Biomet is identified as the acquiring entity. Biomet's assets and liabilities, being those of the acquiring entity, are included in the balance sheet at cost; the assets and liabilities of Bioteq are included at their fair market values; and the historical financial statements presented are those of Biomet.

Biomet acquired a patent from related parties in 1997 for a process to treat metal-laden, sulphate-rich waste water streams for acid neutralization and metal recovery. The result, the biosulphide process, has been developed through the pilot demonstration stage and independent pre-feasibility study for commercial application. The company is continuing to develop the process.

## **2 Going concern**

The company requires capital to commercialize the biosulphide process.

These consolidated financial statements have been prepared on a going concern basis, which assumes that the company will be able to meet its commitments, continue its operations and realize its assets and discharge its liabilities in the normal course of business. These statements do not reflect adjustments to carrying values of assets and liabilities that may be necessary should the company be unable to obtain financing and achieve sufficient cash flows to continue as a going concern. The company has deferred \$1,852,474 of development costs to date. The recovery of these costs is contingent on successful commercial acceptance of the resulting processes and products.

The company's ability to carry on as a going concern is dependent upon its ability to arrange debt or equity financing to meet its ongoing needs. Subsequent to the year end the company raised \$161,500 from the exercise of stock options (note 7).

## **3 Significant accounting policies**

### **Generally accepted accounting principles**

These financial statements are prepared in accordance with generally accepted accounting principles in Canada.

### **Principles of consolidation**

The consolidated financial statements include the accounts of Bioteq Environmental Technologies Inc. and its wholly owned operating subsidiary Biomet. All material intercompany transactions and balances have been eliminated.

# **Bioteq Environmental Technologies Inc.**

(formerly Venturecorp Capital Inc.)

(A Development Stage Company)

Notes to Consolidated Financial Statements

**December 31, 2000**

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## **Capital assets**

Expenditures on capital assets are stated at cost, net of grants and contractual amounts received under feasibility studies. All assets are amortized on a straight-line basis over five years, with the amortization being charged to deferred development costs.

## **Deferred development costs**

The company continues to develop its biosulphide process. The majority of costs incurred by the company are associated with the development of this process. As a result, all expenses incurred by the company, are deferred with the exception of legal, audit and other administrative expenses that are not attributable to the development of the process (note 10). The costs will be amortized upon commercial application of the process or will be written-off if commercial feasibility is not achieved.

All amounts received from third parties in connection with testing during the development stage are netted against development costs.

The company's current accounting policy is to capitalize development costs incurred during the pre-operating stage. In March 2000, the Canadian Institute of Chartered Accountants ("CICA") issued Accounting Guideline 11, "Enterprises in the Development Stage" ("AcG-11"), which is effective for fiscal periods beginning after April 1, 2000. AcG-11 removes certain exemptions for accounting for research and development costs and disclosure of current assets and liabilities for enterprises in the development stage. Removal of these exemptions results in enterprises in the development stage being subject to the same accounting standards of recognition, measurement, presentation and disclosure as enterprises in the operating stage. The company is required to adopt the recommendations effective January 1, 2001. As a result, upon adoption the deferred development and pre-operating costs will be reviewed to assess their recoverability, in accordance with the recommendations of CICA handbook section 3450, "Research and Development Costs". Any write-down or write-off resulting will be treated as a change in accounting policy, applied retroactively without restatement of the financial statements of prior periods.

## **Stock options**

The company has a stock option plan, which is described in note 7. No compensation expense is recognized for this plan when stock options are issued to employees. Consideration paid on exercise of stock options is credited to share capital.

## **Financial instruments**

The fair values of accounts receivable and payable approximate their carrying value.

# Bioteq Environmental Technologies Inc.

(formerly Venturecorp Capital Inc.)

(A Development Stage Company)

Notes to Consolidated Financial Statements

December 31, 2000

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## 4 Reverse take-over

As a result of the reverse take-over referred to in note 1, the former shareholders of Biomet acquired the majority of shares in Bioteq. The cost of the purchase has been allocated to Bioteq's assets and liabilities as at December 20, 2000 as follows:

	\$
Fair value of consideration	<u>1,089,395</u>
Net assets acquired	
Cash	771,280
Accounts payable	(81,885)
Due from Biomet (cash advances)	<u>400,000</u>
	<u>1,089,395</u>

Prior to the reverse take-over on December 20, 2000, the legal parent, Bioteq, incurred administrative costs from January 1, 2000 of \$166,095, being largely legal costs of \$87,875 and Underwriter costs of \$37,000. During 2000, Bioteq raised cash from the issue of shares of \$699,000 (net of costs of \$201,000) and also raised cash from the issue of convertible notes of \$300,000 which was loaned to Biomet.

## 5 Capital assets

	2000 \$	1999 \$
Pilot plants, net	358,287	259,660
Accumulated amortization	(170,816)	(99,159)
	<u>187,471</u>	<u>160,501</u>
Office equipment	11,241	11,242
Accumulated amortization	(7,190)	(4,942)
	<u>4,051</u>	<u>6,300</u>
	<u>191,522</u>	<u>166,801</u>

To date the company has received \$258,537 from third parties and \$15,670 in investment tax credits which are offset against the cost of the pilot plants. Amortization amounted to \$73,906 (1999 - \$57,682).

# Bioteq Environmental Technologies Inc.

(formerly Venturecorp Capital Inc.)

(A Development Stage Company)

Notes to Consolidated Financial Statements

December 31, 2000

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## 6 Deferred development costs

Cumulative deferred development costs incurred to date are as follows:

	<b>2000</b>	<b>(Restated note 10) 1999</b>
	\$	\$
Laboratory process development		
Labour costs	706,602	430,174
Laboratory operations	304,584	218,988
Patents	32,615	24,573
Other	56,350	23,573
Investment tax credit	(67,287)	(67,287)
	<hr/> 1,032,864	<hr/> 630,021
Amortization of capital assets	<hr/> 178,006	<hr/> 104,101
Pilot plants		
Labour costs	149,033	133,033
Pilot plant operations	437,495	252,264
Other	47,370	34,847
	<hr/> 633,898	<hr/> 420,144
Interest	<hr/> 7,706	<hr/> 11,259
	<hr/> <b>1,852,474</b>	<hr/> <b>1,165,525</b>

# Bioteq Environmental Technologies Inc.

(formerly Venturecorp Capital Inc.)

(A Development Stage Company)

Notes to Consolidated Financial Statements

December 31, 2000

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During the normal course of operations, the company pays salaries, wages and management fees to shareholders and directors. In addition, the company has had the following cumulative transactions since inception with related parties:

	<b>2000</b>	<b>1999</b>
	\$	\$
Included in deferred development costs:		
Intangible assets purchased from shareholders	20	20
Interest charged by a shareholder	4,284	3,112
Provision of engineering services by shareholders	257,323	170,142
Laboratory expenses incurred by shareholders	68,356	68,356

The amounts paid for the services are based on estimated fair market value, and/or contracted amounts.

## 7 Share capital

The company is authorized to issue 100,000,000 common shares without par value.

### Issued and outstanding

	<b>Number of shares (a)</b>	<b>Amount \$</b>
Balance – December 31, 1998	381	1,066,349
Issued for cash	20	382,500
Expenses associated with issue of shares	–	(5,000)
Balance – December 31, 1999	401	1,443,849
Issued for cash	178,804	89,402
Settlement of amounts due to shareholders	121,196	60,598
Shares outstanding pre-December 20	300,401	1,593,849
Deemed number of shares to adjust for recapitalization	10,699,599	–
	11,000,000	1,593,849
Shares issued in exchange for net assets of Bioteq (b)	4,905,884	1,089,395
Expenses associated with issue of shares	–	(27,474)
Total	15,905,884	2,655,770



# **Bioteq Environmental Technologies Inc.**

(formerly Venturecorp Capital Inc.)

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Notes to Consolidated Financial Statements

**December 31, 2000**

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(a) The number of shares prior to December 20, 2000 reflects the number of shares actually issued by Biomet. The adjustment on December 20, 2000 reflects the deemed number of shares issued in connection with the reverse take-over.

(b) The net assets of Bioteq on December 20, 2000 include the proceeds of a financing of \$900,000, less transaction costs of \$201,000.

## **Stock options**

The company has a stock option plan available to employees and consultants. 2,981,176 shares are available for issue under the plan. Options vest at the minimum rate of 33% every six months from award.

Subsequent to the year-end, the company received \$121,500 for the exercise of the over-subscription option granted to the Underwriter under the December 2000 financing. This entitlement was exercised by the Underwriter to acquire 270,000 shares at \$0.50 per share, less commission of 10%. In addition, stock options were exercised on 200,000 shares for \$0.20 per share, for cash proceeds of \$40,000. These were issued in 1999 and were the only incentive stock options outstanding at December 31, 2000.

At December 31, 2000 there were Underwriter options outstanding to purchase 100,000 common shares, which were issued in relation to the company's initial public offering in December 1999. Each option is exercisable until June 8, 2001 at a price of \$0.20 per share. In addition, the Underwriter also received in connection with the December 2000 financing, 240,000 share purchase warrants entitling the agent to purchase 240,000 common shares at \$0.50 per share until December 2002.

Subsequent to the year-end, a total of 450,000 options were issued to employees at prices between \$0.54 and \$0.67 per share.

## **Escrow shares**

The shares issued at December 31, 2000 includes the following held in escrow:

7,000,000 performance shares which will be released from escrow based upon the cash flow performance of Biomet determined on an annual basis in accordance with the policies of the exchange. Biomet must generate a cash flow of \$0.30 for each performance share to be released from escrow. Any performance shares which have not been released within 10 years from issuance will be cancelled and returned to the company's treasury.

1,000,000 seed shares which are to be released prorata to the seed shareholders as to one third on each of the first, second and third anniversaries of the completion of the company's qualifying transactions, which occurred on December 20, 2000.

## **Weighted average number of shares**

The deemed shares issued on December 20, 2000 has been used for purposes of calculating the weighted average number of shares.

# Bioteq Environmental Technologies Inc.

(formerly Venturecorp Capital Inc.)

(A Development Stage Company)

Notes to Consolidated Financial Statements

December 31, 2000

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## 8 Due to shareholder

During the year ended December 31, 1999, a shareholder loaned the company \$88,520. The loan carried an interest rate of 7-3/4% per annum and had no fixed terms of repayment. \$1,300 of interest was paid on the loan. During 2000 \$60,598 of this loan was converted into common shares of the company. The remainder was repaid.

## 9 Investment tax credits and tax loss carryforward

The company has accumulated losses of approximately \$1,169,000 for income tax purposes which may be deducted in the calculation of taxable income in future years. The losses expire as follows:

	\$
2004	172,000
2005	230,000
2006	331,000
2007	436,000
	<hr/>
	1,169,000
	<hr/>

In addition to the accumulated losses for income tax purpose, the Company has incurred scientific research and experimental development expenditure ("SR&ED") of \$433,000 to date for income tax purposes which may be carried forward indefinitely and deducted in the calculation of taxable income in future years.

The Company has also accumulated non-refundable investment tax credits of \$23,000 which may be applied against taxes payable in future years, and which expire at various dates commencing 2006.

These amounts are subject to review and revision by Canada Customs and Revenue Agency and the potential tax benefit which may result from application of the losses, non-refundable investment tax credits, SR&ED expenditures and capital cost allowance is not reflected in these financial statements.

## 10 Prior period adjustment

The company changed its policy of capitalizing administrative costs to deferred development costs following the acquisition of Bioteq. As a result, the company has restated its financial statements by reducing its deferred development costs by \$76,786 in both 1999 and in 2000; increasing its beginning deficit by \$33,497 and \$76,786 in 1999 and 2000 respectively; and increasing the net loss for 1999 by \$43,288.

# Bioteq Environmental Technologies Inc.

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Notes to Consolidated Financial Statements

December 31, 2000

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## 11 Subsequent events

Subsequent to the year end the company entered into an office lease agreement with minimum annual payments as follows:

	\$
2001	49,500
2002	45,500
2003	4,000

## *Corporate Information*

### *Officers*

President & CEO	Brad Marchant
Chief Financial Officer and Secretary	John York
Executive Vice President	Richard Lawrence

### *directors*

Dohwan Hwang	George Poling
Anthony Kana	Gilbert Schneider
Brad Marchant	Vern Stromkins
Clement Pelletier	

### *Share structure (February 28, 2001)*

Float	8,375,884
Escrowed shares	1,000,000
Performance shares	7,000,000
Issued shares	<u>16,375,884</u>
Broker warrants	340,000
Employee options	450,000
Fully diluted	<u>17,165,884</u>

### *transfer agent*

Pacific Corporate Trust  
625 Howe Street, 10<sup>th</sup> Floor  
Vancouver, B.C., V6C 3B8

### *Auditors*

PriceWaterhouseCoopers

### *Corporate Address*

Suite 1150 – 355 Burrard Street  
Vancouver, B.C. Canada V6C 2G8

Telephone: 604 685-1243  
Facsimile: 604 685-7778  
Email: [bioteq@bioteq.ca](mailto:bioteq@bioteq.ca)  
Website: [www.bioteq.ca](http://www.bioteq.ca)

### *Annual General Meeting*

The Annual General Meeting of the shareholders will be held on April 10, 2001, at 2 pm at the Conference Centre, Second Floor, 888 Dunsmuir Street, Vancouver B.C.

### *Stock Exchange*

Canadian Venture Exchange  
Symbol: "BQE"