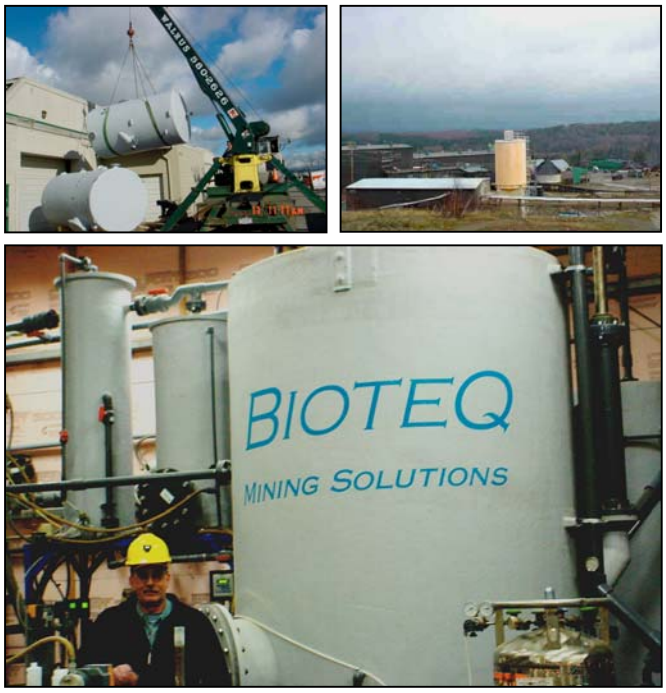
BIOTEQ

BIOTEQ ENVIRONMENTAL TECHNOLOGIES INC

ANNUAL REPORT

2001



Corporate Profile

BioteQ is a Canadian industrial process company that has developed and patented the BioSulphide Process™ for water treatment and maintains a technology partnership with Paques, based in the Netherlands, for the Thiopaq Process. Together, the BioSulphide/Thiopaq 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 to meet discharge water criteria. Potential revenue streams are from the sale of recovered metals and water treatment fees.

BioteQ has completed construction and is commissioning the first commercial plant using this innovative technology. The plant is located at the Caribou Mine near Bathurst, New Brunswick. The company is actively evaluating other projects worldwide for potential application of the technology. There are now over 30 projects in various stages of review and development in Canada, the United States and elsewhere. BioteQ will operate on three commercial bases: design, build, own and operate; design, build and transfer with process royalties; or third party license.

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

Annual Meeting

The Annual General Meeting of Shareholders will be held on April 15, 2002, at 2 pm at the Conference Centre, Second Floor, 888 Dunsmuir Street, Vancouver B.C.

Contents

Front Cover Photos: BioteQ's first commercial plant located at the Caribou Mine, New Brunswick, Canada

PRESIDENT'S MESSAGE TO SHAREHOLDERS

The Company reached a significant milestone in its development during 2001; converting from research and development activities to the role of commercial operator. BioteQ has now shown that we can finance, design, construct and operate a commercial wastewater treatment plant utilizing our patented technology. With the completion of the Caribou plant, the Company will proceed with its business plan to construct, own and operate plants around the world to treat acid contaminated water with concurrent recovery of saleable metal products. Our first commercial plant will provide the springboard for BioteQ to accelerate commercial applications of our technologies.




HIGHLIGHTS IN 2001

2001 was a very successful year for BioteQ to advance the commercialization plan for the BioSulphide Process™. Highlights from BioteQ, and our wholly owned subsidiary Biomet, during 2001 include:

COMMERCIAL PLANTS

- Completion of our first commercial agreement to construct a water treatment plant using the BioSulphide/Thiopaq technology for acid water treatment and selective metal recovery. The agreement is with Breakwater Resources Limited, based in Toronto, for a project at their Caribou Mine located near Bathurst, New Brunswick.
- Completion of an independent review of the Caribou Project by Hatch Engineering to confirm the projected capital and operating costs. This was critical for project financing purposes.
- Design, procurement, construction and commissioning of the Caribou plant within the capital budget and original project schedule.
- Completion of a Letter of Intent with Phelps Dodge Miami Inc., a subsidiary of Phelps Dodge Mining Company located near Phoenix, for the construction and operation of a copper recovery plant on a joint venture basis.
- Development of an extensive project list to evaluate and develop potentially commercial projects in a systematic fashion, which has created an exciting project pipeline.

TECHNOLOGY HIGHLIGHTS

- Completion of a cooperation agreement with Paques BioSystems BV of the Netherlands. During the last 15 years Paques has been involved in the commercial development of biotechnologies complimentary to the BioSulphide Process™. Paques has built 24 commercial plants using sulphur related biotechnology and offers BioteQ extensive commercial experience in the design, equipment supply, construction and operation of commercial biological process plants.
- Independent reports were completed by the Canadian Institute for Market Intelligence in cooperation with the National Research Council, to evaluate the commercial potential of BioteQ's proprietary partial oxidation burner technology for use as a hydrogen source in fuel cell applications. The reports indicate that the burner is highly competitive for hydrogen production from various fossil fuels with added advantages of waste heat recovery and reduced CO_2 emissions compared with more conventional steam reforming plants.

- The company reached agreement with Chemeffco (Pty) Ltd, a subsidiary of JCI based in Johannesburg, South Africa, for the purchase of Chemeffco's patented GypCIX water treatment technologies. The technologies are complimentary to BioteQ's existing technology and provide BioteQ a wider range of potential water treatment applications.

Personnel Highlights

- BioteQ was pleased to contract the services of David Kratochvil, PhD P.Eng., in the position of Manager, Engineering and Development. David consulted to Biomet for 2 years prior to joining the company on a full time basis in early 2001. David has played a key role in the commercialization of the BioSulphide Process™ and provides the company with exceptional engineering expertise and project development experience.
- Steve Hubbard has joined BioteQ, initially as a construction consultant for the Caribou Project and more recently on a full time basis to manage our water treatment operations in Eastern Canada. Steve brings almost 30 years of project construction and operations experience to the company, which will be critical in the growth of our commercial operations.
- The Board of Directors was enhanced early in 2001 to provide a broader industrial and financial basis of senior corporate management. Additions to the board included:

  Geoffrey Donohue, C.P.A. (Aust)
  Kelvin Dushnisky, M.Sc. LLB
  Kenneth Williamson, P.Eng. MBA

Expectations for 2002

Based on our progress at Caribou during 2001 and the development of our project pipeline, the management team is looking forward to a very active 2002. Our expectations for the next year include:

1. Completion of a second commercial agreement and the construction of our second commercial facility
2. Completion of an expansion study for Caribou and, if positive, expansion construction at Caribou
3. Completion of engineering for a third commercial site
4. Continued development of our burner technology
5. Continued development of the GypCIX water treatment process purchased from Chemeffco
6. Ongoing evaluation and development of new commercial targets.

I would like to recognize the special efforts and dedication of David Kratochvil and Steve Hubbard in completing the Caribou project construction and commissioning this past year. In addition, the contribution of Breakwater Resources Ltd, their management and the staff at the Caribou Mine is greatly appreciated and provided BioteQ an opportunity to build the plant at Caribou.

The company must be extra diligent and resourceful this next year to continue the development of BioteQ within the constraints of an unpredictable marketplace and low base metal prices. I am confident in the abilities of BioteQ's technologies and personnel to continue with our growth plan during 2002 and build value for our shareholders.

P. Bradley Marchant
President and CEO
Vancouver, Canada,
February 28, 2002

Biological Technologies

BioteQ maintains three primary water treatment technologies:

1. **The BioSulphide Process™** - to neutralize acidic water with concurrent selective recovery of metals from the contaminated solutions and reduce the Total Dissolved Solids (TDS) in the treated water.
2. **The BioSulphide/Thiopaq Process** – to recover metal products selectively from acidic water.
3. **The GypCIX Process** – to reduce Total Dissolved Solids (TDS) in industrial or municipal wastewater to meet more stringent new regulations (see Other Technologies)



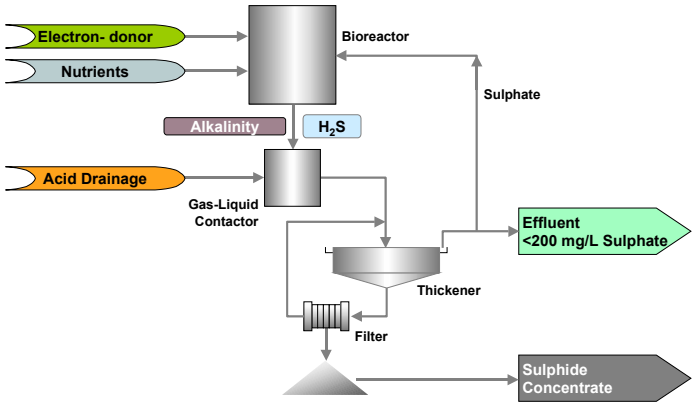

The BioSulphide and BioSulphide -Thiopaq Technologies

BioteQ's patented BioSulphide Process^{TM} is an integrated biological and chemical process and was originally developed as an alternative water treatment process to neutralize acidic water with concurrent selective recovery of metals from the contaminated solutions. Acid and metal contaminated drainage is a common industrial waste product particularly in the mining industry where it is called acid rock drainage, or ARD. The current estimated clean up costs for acidic drainage from mining alone in the US and Canada is $US 72 billion and $5 billion, respectively. Industry currently uses lime to treat acid drainage. This treatment method produces water that usually meets discharge requirements but contains high concentrations of sulphate (water hardness or TDS). In addition, lime treatment produces a sludge product that contains the toxic metals that were present in the contaminated water. The sludge products must be stored and monitored in perpetuity.

The Company has a commercial technology agreement with Paques of the Netherlands, which owns the similar Thiopaq® biogenic H_2S production technology. The agreement allows BioteQ and Paques to utilize the synergies and benefits of both BioSulphide and Thiopaq® technologies in commercial operations. In addition to the treatment of acidic water for metal recovery, the BioSulphide-Thiopaq technology has applications in process metallurgy for metal winning and solution control.

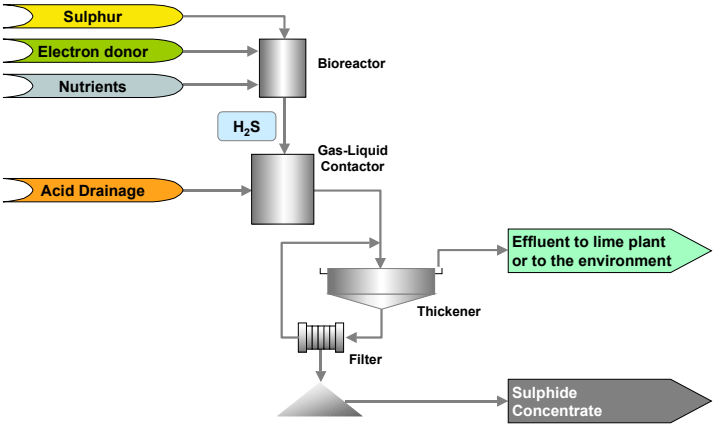
The BioSulphide and BioSulphide/Thiopaq processes have two stages: chemical and biological. Metals such as copper, nickel and zinc can be separated from contaminated water into saleable metal products in the chemical stage by precipitation with biogenic sulphide produced in the biological stage.

In the **BioSulphide Process™**, the biological and chemical stages are fully integrated. Following metal precipitation, part or all of the feed water is passed through a bioreactor to reduce the contained sulphate and to produce the sulphide used in the chemical stage. Hydrogen or an organic electron donor is supplied to the bioreactor. Hydrogen can be provided using BioteQ's POS burner or by steam reforming. Biogenic alkalinity is produced, helping to neutralize acidity.



BioSulphide Process™ for Sulphate Reduction

In the BioSulphide-Thiopaq technology, elemental sulphur is reduced to produce the sulphide for metal precipitation. The bioreactor is operated independently of the chemical stage and none of the feed water is passed to the bioreactor. The bioreactor size is, therefore, usually significantly smaller than a sulphate reduction bioreactor. However, no alkalinity is produced by the reduction of sulphur and needs to be added externally if required for control of metal precipitation. Sulphate in the feed water is not reduced. The bioreactor is fed either with hydrogen or with an organic electron donor.



Single-Stage BioSulphide-Thiopaq® Process

The BioSulphide and BioSulphide-Thiopaq technologies can be **integrated with other water treatment technologies** to improve overall water treatment. For example, BioSulphide-Thiopaq technology can be introduced upstream of an exisiting lime treatment plant to recover metals contained in the contaminated water. Lime plant economics are improved with lower lime consumption and the volume and toxicity of the of sludge is reduced significantly.

APPLICATIONS OF BIOSULPHIDE AND BIOSULPHIDE -THIOPAQ TECHNOLOGIES

- Treatment of surface water and groundwater contaminated with metals and sulphate
- Treatment of refinery/smelter waste streams
- Treatment of industrial and municipal water with high TDS due to sulphate

- Recovery of metals for revenue as an alternative to conventional processes
- Process control by treatment of metallurgical bleed streams
- SO_x removal and treatment

ADVANTAGES

- Selective recovery of metals into saleable grade concentrates to offset water treatment costs
- Production of discharge quality water
- Reduced lime consumption with associated CO_2 emission credits
- Reduced lime sludge production and removal of toxic, mobile metals from the sludge – resulting in reduced long term sludge liability
- Reduction of sulphate in effluents to significantly lower concentrations than possible by lime treatment – to meet new sulphate and TDS regulations

OTHER TECHNOLOGIES

HYDROGEN PRODUCTION

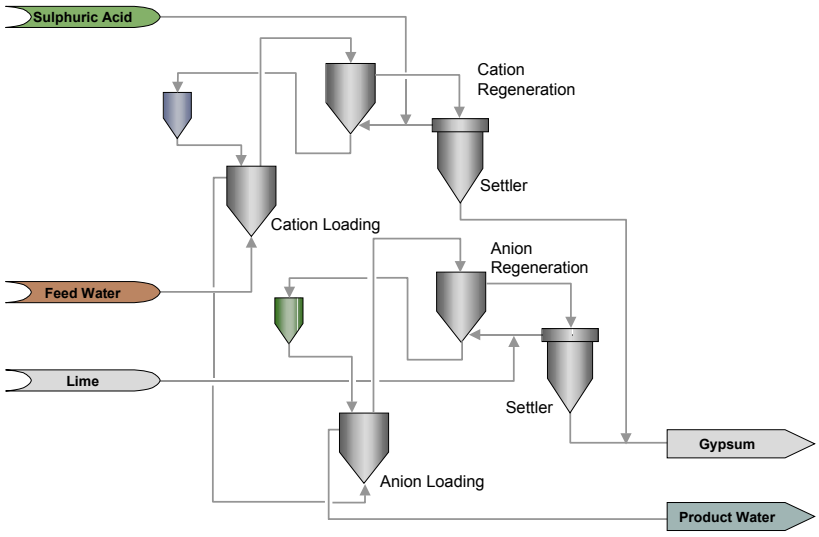
Hydrogen provides an efficient electron donor for sulphate reduction and can be supplied by steam reforming or from the **partial oxidation system (POS)** developed by BioteQ to provide the gas, using most fossil fuels (diesel, natural gas, propane). The POS has the added advantage of supplying excess heat to maintain the biological sulphate reduction reactor at an optimum temperature for bacterial growth. The soot produced in the burner might also have potential value as carbon black used in a number of industrial sectors.

Independent reports were completed by the Canadian Institute for Market Intelligence in cooperation with the National Research Council, to evaluate the commercial potential of POS technology for use as a hydrogen source in fuel cell applications. The reports indicate that the burner is potentially highly competitive for hydrogen production from various fossil fuels with added advantages of waste heat recovery and reduced CO_2 emissions compared with more conventional steam reforming plants. The Company anticipates completing an independent feasibility study of the commercial potential for our POS burner in conjunction with fuel cell technology

THE GYPCIX PROCESS - SULPHATE REMOVAL AND DESALINATION

GypCIX is a low cost ion-exchange technology for the removal of sulphate, calcium, magnesium and other ions from water. Products of the process are reusable/dischargeable water and solid gypsum that might also have value, depending on local market potential. It has the potential of being the most cost-effective alternative for sulphate removal.

Feed water, typically lime plant effluent or other process water high in TDS and magnesium or calcium hardness, is first passed through a series of contactors containing cation exchange resin to remove primarily calcium and magnesium, and then through contactors containing anion exchange resin to remove sulphate. Unlike conventional ion exchange technologies that typically use caustic soda and hydrochloric acid for resin regeneration, GypCIX utilizes lower cost lime and sulphuric acid. GypCIX has been successfully piloted at 50 USGPM scale.



GypCIX Process Schematic

Treatment of water using GypCIX can:

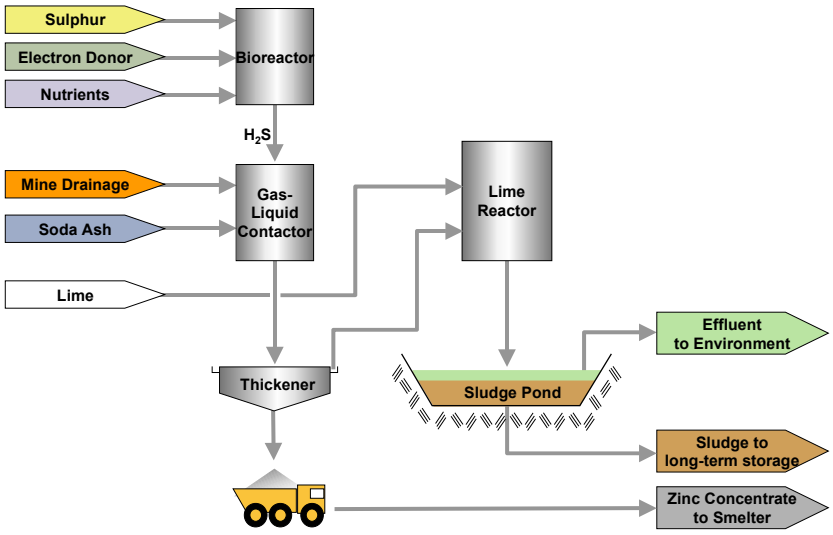
- Permit water discharge to the environment where sulphate and/or hardness is a limiting factor
- Allow treatment of process waters to reduce scaling and other problems by removing calcium, magnesium and sulphate so that water can be recirculated for reuse
- Reduce the concentration of many other cations or anions to low levels
- Reduce water treatment costs significantly compared with technologies such as Nanofiltration, Reverse Osmosis or Conventional Ion Exchange
- Result in water recoveries to up to 97%, allowing greater water reuse.

PROJECT DESCRIPTIONS

THE CARIBOU PROJECT

In June 2001 the Company announced the signing of a final agreement with Breakwater Resources Ltd., owner of the Caribou Mine in New Brunswick, for the installation of a commercial BioSulphide - Thiopaq plant at Caribou. The first stage commercial plant was designed to recover copper and zinc selectively from 185,000 gallons per day of acidic drainage at Caribou, augmenting an existing lime treatment plant. This will result in discharge quality water, as well as reducing the environmental impact of the sludge from the existing lime plant by reducing its volume and recovering potentially toxic metals before the sludge is produced. Future expansion plans allow for re-treatment of contaminated tailings concurrently with acidic drainage to recover additional copper and zinc and render the tailings inert for disposal.

The BioSulphide-Thiopaq Process will be introduced at Caribou in **two stages**. In **Stage 1**, the plant has a designed capacity to treat all of the existing acidic drainage at Caribou. The process plant will recover a saleable zinc/copper concentrate and remove cadmium and lead from the wastewater prior to it entering the existing lime treatment plant for iron and aluminum removal. The treated water will be discharged to local receiving waters within the guidelines of existing permits. Significant lime savings and sludge volume reductions are anticipated. The total installed construction cost of the plant was $540,000.



Stage 1 BioSulphide / Thiopaq Treatment Plant at Caribou

On mutual agreement, BioteQ and Breakwater will expand the first stage plant to allow the re-treatment of contaminated tailings, produced by the previous operators at Caribou, and currently stored at a site separate from the main tailings impoundment. The contaminated tailings contain significant levels of mobile metals that pose a potential environmental hazard. These metals will be leached in a controlled manner utilizing existing acid drainage and recovered in a BioSulphide - Thiopaq plant. The treated tailings could then be deposited in the existing tailings impoundment.

Feasibility engineering for the **Stage 2** plant is scheduled for completion in the first quarter of 2002. The initial scoping study showed that the plant would have a designed capacity of 2100 m^3/day and will allow the processing of 210 tonnes/day of contaminated tailings. In addition to treating the ongoing acid drainage at Caribou as described above, the Stage 2 plant will recover copper and zinc selectively from the leached tailings and reduce cadmium and lead levels in the treated tailings. The plant has the potential to recover approximately 1 million pounds of copper and 4.2 million pounds of zinc annually, over a period of 5 years.

For the planned expansion, the Company will build, own and operate the plant and receive 75% of the recovered copper and zinc concentrates until capital repayment, currently estimated by the Company at $Cdn 2.8 million subject to detailed engineering, after which the recovered metals would be shared equally. In addition, BioteQ will receive a treatment fee of $100,000 annually and will share in any operating cost savings in the existing lime plant.

THE PHELPS DODGE MIAMI PROJECT

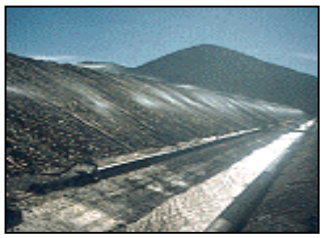
BioteQ has agreed to joint venture terms with Phelps Dodge Miami Inc. to construct and operate a BioSulphide/Thiopaq plant for selective recovery of copper from acidic groundwater prior to treatment in an existing lime plant.

The proposed plant will be designed to treat all of the groundwater from the Kiser Basin Well Field on an ongoing basis. The copper concentrate that will be produced will be refined locally at Phelps' Miami smelter. BioteQ and Phelps will be conducting detailed engineering in early 2002 to determine the optimum plant capacity, operating costs and capital costs. Based on current estimates the plant would recover between 1 million and 3 million pounds of copper per year at a direct operating cost of $US 0.18 per pound of copper.

Detailed engineering is scheduled to commence in the second quarter of 2002.

PROJECT PIPELINE

Based on current zinc prices the Company is not expecting any activity at the Red Dog and Berkeley Pit projects during 2002. The Company has, however, been evaluating new potential commercial projects for water treatment. These projects 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 over 30 projects in Canada, USA, Australia and South America.



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, 2001.

DESCRIPTION OF BUSINESS

BioteQ is a Canadian industrial process company that has, through its wholly owned subsidiary Biomet, developed and patented the BioSulphide Process™ ("the Process") for water treatment. The Process allows the treatment of acid contaminated water with concurrent recovery of saleable metals from the water. During the latter part of 2001, the Company completed construction of its first commercial plant and in 2002 has been commissioning the plant. The Company is also continuing to market its Process at a number of other sites.

OPERATING RESULTS

In December 2000, the Company completed it's 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.

During 2001, consolidated costs of operations are not comparable with the year 2000. Until December 31, 2000, the majority of Biomet's costs associated with developing the Process had been deferred. On January 1, 2001, the Company adopted the provisions of Accounting Guideline No.11 "Enterprises in the Development Stage". As a result, the Company has written-off to opening deficit all deferred costs to December 31, 2000 amounting to $1,852,474. The costs shown in the Consolidated Statement of Operations for 2000 are general and administrative expenses which do not relate directly to the process development.

During 2001, consolidated costs of operations reflected a full year of general and administrative expenses of $645,862 arising from the management of the public Company. In addition, starting in 2001, development expenses are being expensed in the Statement of Operations, in accordance with new Accounting Guidelines for "Enterprises in the Development Stage". Development expenses amounted to $277,702, of which $183,000 related to engineering costs incurred in marketing the Company's technology and $70,000 related to the amortization of the Company's pilot test plants. During 2001, the Company received Scientific Research tax credit refunds relating to expenditures incurred during 1999. $200,352 of the refund was credited to the Statement of Operations and $7,094 was recorded as a reduction in the cost of the applicable capital assets. No further refunds of this nature are available to the Company.

LIQUIDITY AND CAPITAL RESOURCES

During 2001, the Company raised $961,554, net of expenses, from a private placement of Special Warrants (subsequently exercised to obtain common shares) and a public offering of common shares, both at a price of $0.50 per share. Options were also exercised, contributing cash of $195,000. The Company spent $540,000 on designing and constructing its first water treatment plant and $137,637 on commissioning the plant. The Company is expecting to receive a government grant of $187,004, which is recorded as a reduction of the cost and as a receivable at the year-end.

At December 31, 2001 the Company had cash of $595,625 and working capital of $467,129. The Company is now focused on completion of a commercial agreement to build a second plant for application of the BioSulphide Process™. The Company believes financing would be available for this purpose and for additional working capital to provide a contingency against delays in achieving the Company's goals.

Risks and Uncertainties

The Company is at an early stage in its development and is currently commissioning its first commercial plant. Until full plant capacity is achieved, as demanded by higher water flow in the Spring, there will be some uncertainty as to the plant capability, even though extensive testing has been carried out.

Any new commercial application of the BioSulphide Process™ will be subject to certain commodity pricing risks. Revenue will fluctuate with the price of the commodities being recovered and the exchange rate for the United States dollar. Operating costs will be largely dependent on the cost of consumables, which may fluctuate. The Company will be selecting projects which demonstrate good profit margins which should allow for the adverse effect of price changes.

Outlook

The year 2002 will probably determine if the Company can develop into a profitable operation. The Company is anticipating it will be completing construction and operating one new commercial plant before the end of the year. It could be the expansion case at the existing Caribou plant, or perhaps as a result of finalizing a contract based on the Letter of Intent signed with Phelps Dodge Miami Inc. subsequent to the year-end. General and administrative expenses during 2002 are expected to be somewhat less than 2001, due to lower legal fees and investor relations charges. Also, a small amount of revenue is expected to be generated from the first stage Caribou plant on completion of commissioning, starting in the second quarter. The Company has achieved its goals to date and is confident that it will be successful in achieving its expectations for 2002.

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.

P. Bradley Marchant
President and CEO

John York
Chief Financial Officer

BioteQ Environmental Technologies Inc.

(formerly Venturecorp Capital Inc.)
(a development stage company)

Consolidated Financial Statements
December 31, 2001 and 2000

February 1, 2002
(except for note 14, which is as of March 8, 2002)

Auditors' Report

To the Board of Directors of
BioteQ Environmental Technologies Inc.

We have audited the consolidated balance sheets of **BioteQ Environmental Technologies Inc.** (formerly Venturecorp Capital Inc.) (a development stage company) as at December 31, 2001 and 2000 and the consolidated statements of operations and deficit and cash flows for the years ended December 31, 2001 and 2000. 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, 2001 and 2000 and the results of its operations and its cash flows for the years ended December 31, 2001 and 2000 in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Vancouver, B.C.

BioteQ Environmental Technologies Inc.

(formerly Venturecorp Capital Inc.)
(a development stage company)
Consolidated Balance Sheets
As at December 31, 2001 and 2000

	2001 $	2000 $
Assets		
Current assets		
Cash	595,625	618,384
Government grant receivable (note 6)	187,004	-
Other	78,030	28,535
	860,659	646,919
Capital assets (note 7)	625,401	191,522
Deferred development costs (note 8)	-	1,852,474
	1,486,060	2,690,915
Liabilities		
Current liabilities		
Accounts payable and accruals	393,530	234,401
Shareholders' Equity		
Capital stock and contributed surplus (note 9)	3,830,324	2,655,770
Deficit	(2,737,794)	(199,256)
	1,092,530	2,456,514
	1,486,060	2,690,915

Going concern (note 2)

Commitments (note 13)

Subsequent events (note 14)

Approved by the Board of Directors

_____ Director _____ 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, 2001 and 2000

	2001 $	2000 $
General and administrative expenses		
Management services	222,598	24,000
Legal and audit	116,754	84,673
Investor relations	113,367	-
Rent	38,846	-
Travel	41,970	-
Office costs and other	22,917	13,797
Directors fees and expenses	51,104	-
Insurance	20,189	-
Transfer agent and filing fees	13,334	-
Amortization	4,783	-
	645,862	122,470
Development expenses	277,072	-
Scientific research tax credit refund (note 11)	(200,352)	-
Interest income - net of expense of $6,518	(36,518)	-
Loss for the year	686,064	122,470
Deficit - Beginning of year		
As previously reported	199,256	-
Prior period adjustment (note 12)	-	76,786
Change in accounting policy (note 3)	1,852,474	-
As restated	2,051,730	76,786
Deficit - End of year	2,737,794	199,256
Loss per share - basic and diluted	(0.07)	(0.03)

BioteQ Environmental Technologies Inc.

(formerly Venturecorp Capital Inc.)
(a development stage company)
Consolidated Statements of Cash Flows
For the years ended December 31, 2001 and 2000

	2001 $	2000 $
Cash flows from operating activities		
Loss for the year	(686,064)	(122,470)
Items not affecting cash		
Amortization	75,021	-
Stock-based compensation	18,000	-
Change in non-cash working capital items	109,634	72,625
	(483,409)	(49,845)
Cash flows from financing activities		
Issuance of common shares for cash	845,000	89,402
Share issuance costs	(206,790)	-
Issuance of special warrants for cash	550,000	-
Special warrant issuance costs	(31,656)	-
Repayment of amounts due to shareholder	-	(27,922)
Cash received through acquisition of BioteQ	-	1,143,786
	1,156,554	1,205,266
Cash flows from investing activities		
Purchase of capital assets	(702,998)	(98,627)
Deferred development costs	-	(611,953)
Cash receipts from third parties credited to deferred development costs/capital assets	7,094	146,998
	(695,904)	(563,582)
(Decrease) increase in cash	(22,759)	591,839
Cash - Beginning of year	618,384	26,545
Cash - End of year	595,625	618,384
Supplemental cash flow information		
Share capital issued in exchange for shareholder loan	-	60,598
Interest paid	6,518	1,300
Government assistance receivable credited to capital assets	187,004	-

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 comparative financial statements presented are those of Biomet.

BioteQ is a company in the development stage. 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™ (the Process), has been developed through the operation of pilot plants and an independent pre-feasibility study for commercial application. The first plant was built in the latter part of 2001 and is now being commissioned. The company is continuing to commercialize the Process through marketing efforts.

The principal operations of the company will be to establish process plants and earn revenues from recovered metals, fees or licenses.

2 Going concern

The company requires capital to finalize the commercialization and marketing of 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. Such adjustments could be material.

The company's ability to carry on as a going concern is dependent upon its ability to arrange additional financing to meet its ongoing needs and to successful commercialize and market the BioSulphide Process. Management of the company has plans to raise the required additional financing through the sale of equity or project financing. However, there is no assurance that this financing will be available to the company, accordingly, there is doubt about the company's ability to continue as a going concern.

3 Change in accounting policy

On January 1, 2001, the company adopted the provisions of Accounting Guideline No. 11 (AcG-11) "Enterprises in the Development Stage". AcG-11 requires that all development stage companies must comply with the CICA Handbook Section 3450 (Section 3450) "Research and Development Costs".

Under Section 3450, companies may only capitalize development costs if they meet the following criteria: the product or process is clearly defined and costs attributable thereto can be defined; the technical feasibility of the process has been established; management of the company has indicated its intention to produce and market the process; the future market has been clearly defined; and adequate resources exist, or are expected to be available, to complete the project.

At January 1, 2001, it was determined that adequate resources did not exist in order to support continued deferral of the research and development costs, as required by Section 3450. Accordingly, this change in accounting policy has been applied retroactively without restatement, and therefore the full amount of the deferred development costs recorded at December 31, 2000, $1,852,474, has been charged to opening deficit.

Subsequent to January 1, 2001, the company has changed its accounting policy for research and development costs (note 4).

4 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.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

Cash

Cash consists of cash on deposit and term deposits with maturities at the date of acquisition of three months or less.

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. Until December 31, 2000, amortization on capital assets was being charged to deferred development costs. Subsequently, as a result of the change in accounting policy (note 3), amortization is being charged to the statement of operations.

Costs relating to capital assets in the course of construction will be capitalized. Upon commissioning, these costs will be amortized over the useful life of the asset.

Deferred development costs

The company continues to develop its BioSulphide Process™. The majority of costs incurred since inception by the company have been associated with the development of this Process. As a result, prior to January 1, 2001, all expenses incurred by the company were deferred with the exception of legal, audit, and other administrative expenses that are not attributable to the development of the Process (note 12).

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

Beginning January 1, 2001, in accordance with Section 3450 of the CICA Handbook, the company expenses all costs associated with research and development activities in the statement of operations in the period in which they are incurred, unless the criteria for deferral of development costs have been met.

Loss per share

During the year, the company adopted the CICA Handbook Section 3500, Earnings Per Share on a retroactive basis. The new standard requires the presentation of both basic and diluted earnings per share on the face of the income statement.

Under the new section, loss per share is calculated using the weighted average number of shares outstanding during the period, excluding performance based escrow shares, and diluted loss per share is calculated to reflect the dilutive effect of exercising outstanding stock options by application of the treasury stock method. The effect of adopting this new policy for the year ended December 31, 2001 was to increase basic and diluted loss per share by $0.03 and the effect of restating the prior year was to increase previously reported basic and diluted loss per share by $0.02. For the years ended December 31, 2001 and 2000, the company excluded potential common share equivalents from the loss per share calculation as they were considered anti-dilutive.

Stock options

The company has a stock option plan, which is described in note 9. No compensation expense is recognized for this plan when stock options are issued to employees. Stock options issued to consultants in exchange for services are accounted for at fair value. Consideration paid on exercise of stock options is credited to share capital.

Financial instruments

The fair values of other assets and accounts payable and accrued liabilities approximate their carrying value, due to their immediate or short-term nature.

Government assistance and investment tax credits

Government assistance is recorded when reasonable assurance exists that the company has complied with the terms and conditions of the approved grant program. Government assistance is recorded as either a reduction of the cost of the applicable capital assets or credited in the statement of operations as determined by the nature of the assistance. Where assistance is contingently repayable, the repayment of these funds is treated as either an increase in the cost of the asset or as a royalty expense, in the year that it is incurred, as determined by the original accounting treatment of the assistance.

Investment tax credits are accounted for using the cost reduction approach. Investment tax credits arising from research and development are deducted from the related costs in the period during which the expenditures are incurred provided there is reasonable assurance of realization. Investment tax credits arising from the acquisition of capital assets are deducted from the cost of those assets with amortization calculated on the net amount.

5 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	1,089,395
Net assets acquired	
Cash	771,280
Accounts payable	(81,885)
Due from Biomet (cash advances)	400,000
	1,089,395

Prior to the reverse take-over on December 20, 2000, the legal parent, BioteQ had incurred administrative costs in the year ended December 31, 2000 of $166,095, being largely legal and accounting 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 cost of $201,000, and also raised cash from the issue of convertible notes of $300,000, which was loaned to Biomet.

6 Development Agreement and government grant receivable

On June 6, 2001, the company entered into a Development Agreement with Breakwater Resources Ltd. (Breakwater), which was replaced by an Agreement dated August 14, 2001 (the Agreement). The Agreement outlines the terms and conditions for installation of commercial BioSulphide Process™ plants at Breakwater's Caribou Mine in New Brunswick.

The Agreement consists of two phases. Under the first phase, the company is required to construct a BioSulphide Process™ plant and operate the plant until it is commissioned and achieves certain performance criteria. This plant will be used to treat the acid mine drainage at the Caribou Mine. When the plant meets the specified performance criteria for a period of 60 days, Breakwater will become the operator, responsible for all costs. The company will be entitled to 50% of the cost savings realized by Breakwater, as a result of its use of the BioSulphide Process™ plant. As at December 31, 2001, the plant construction was complete and the plant was being commissioned.

Breakwater has committed that upon completion of the performance criteria by the first plant, the second phase of the Agreement will proceed, which provides for the construction of a larger plant. Under the second phase, Breakwater has agreed to provide payment of $550,000 in financing to facilitate construction of the larger BioSulphide Process™ plant. The second phase includes both the treatment of the acid mine drainage treated in the first phase and the treatment of mine tailings deposited by previous operators at the Caribou site. Under the second phase, the company is entitled to 50% of the cost savings realized by Breakwater, 50% of the Net Smelter Return earned from the BioSulphide Process™ plant, and a treatment fee of $100,000 per year. During the initial period while capital is being repaid, the company is entitled to 75% of the Net Smelter Return earned from the plant.

Government grant receivable

The company has entered into an agreement with National Research Council Canada, Industrial Research Assistance Program (IRAP), to provide funds to assist in developing and operating the BioSulphide water treatment plant at the Caribou Mine.

The maximum IRAP contribution is the lesser of $390,780 and 33% of the total cost incurred in the performance of the work. Funding for the project is repayable in the form of royalties at 2% of all gross revenues of the company from January 1, 2003. This repayment will be calculated and paid quarterly for 10 years. The maximum repayment will be $586,170.

At December 31, 2001, reasonable assurance existed that the company had complied with the terms and conditions of the first phase of the IRAP grant. As a result, government assistance of $187,004 (2000 - $nil) has been recorded as a receivable and as a reduction of the cost of the water treatment plant at the Caribou Mine.

7 Capital assets

	2001 $	2000 $
Pilot plants	351,193	358,287
Less: Accumulated amortization	(241,054)	(170,816)
	110,139	187,471
Office equipment	36,599	11,241
Less: Accumulated amortization	(11,973)	(7,190)
	24,626	4,051
Water treatment plant - Caribou Mine - net	490,636	-
	625,401	191,522

To date the company has received $258,537 from third parties and $22,764 in investment tax credits which are offset against the cost of the pilot plants. Government assistance of $187,004 has been offset against the cost of the water treatment plant at the Caribou Mine. Amortization expense for the year ended December 31, 2001 amounted to $75,021 (2000 - $73,906). In 2001, $70,238 (2000 - $73,906) relates to the depreciation of plants under development and has been included within development expenses on the statement of operations.

The recoverability of the water treatment plant is dependent upon successful commercialization of the BioSulphide Process, the successful operation of the plant and attainment of set performance criteria in the early stages of operation.

The recoverability of the company's pilot plants is dependent on the outcome of current marketing and proposal efforts. Management currently anticipates these future cash flows will cover the current carrying value of the assets and no write down is required. The outcome of the above is currently unknown and there is uncertainty as to the recoverability of the assets.

8 Development costs

Cumulative development costs incurred to date are as follows (notes 3 and 4):

	2001 $	2000 $
Laboratory process development		
Labour costs	734,822	706,602
Laboratory operations	308,636	304,584
Patents	33,546	32,615
Other	56,350	56,350
Investment tax credit	(67,287)	(67,287)
	1,066,067	1,032,864
Amortization of capital assets	248,244	178,006
Pilot plants		
Labour costs	149,033	149,033
Pilot plant operations	437,495	437,495
Other	66,670	47,370
	653,198	633,898
Marketing - engineering labour	154,331	-
Interest	7,706	7,706
	2,129,546	1,852,474

Development costs to December 31, 2000 were deferred. In 2001, these deferred costs were written off and charged to opening deficit as a change in accounting policy as described in note 3. All development costs incurred during the year have been charged to the statement of operations.

The company has had the following cumulative transactions since inception with related parties:

	2001 $	2000 $
Included in cumulative development costs:		
Intangible assets purchased from shareholders	20	20
Interest charged by a shareholder	4,284	4,284
Provision of engineering services by shareholders	265,383	257,323
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.

9 Capital stock and contributed surplus

Authorized
100,000,000 common shares without par value

Issued and outstanding

	Number of shares (a)	**Amount $**
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 March 31, 2000 and pre-December 20	300,401	1,593,849
Deemed number of shares to adjust for recapitalization (a)	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
Share issuance costs	-	(27,474)
Balance - December 31, 2000	15,905,884	2,655,770
Shares issued for cash		
Stock options	300,000	60,000
Underwriters oversubscription option	270,000	135,000
Public offering (d)	1,300,000	650,000
Shares issued on exercise of special warrants (c)	1,100,000	550,000
Share issuance costs	-	(238,446)
Contributed surplus	-	18,000
Balance - December 31, 2001	18,875,884	3,830,324

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.

c) On June 18, 2001, the company completed a private placement of 1,100,000 special warrants at a price of $0.50 for gross proceeds of $550,000, with issue costs of approximately $32,000. The special warrants entitle the holder, upon exercise, to obtain common shares of the company, without payment of any further consideration. On November 27, 2001, the special warrants were exercised and 1,100,000 common shares of the company were issued.

d) In December 2001, the company completed a public offering of 1,300,000 common shares at $0.50 per share. The prospectus document also qualified the issuance of 1,100,000 common shares upon the exercise of 1,100,000 previously issued special warrants at $0.50 per share (the Offering). Gross proceeds from the Offering were $650,000 with issue costs of $206,446 relating to agent's commissions and other expenses of the Offering.

Stock options

The company has a stock option plan available to directors, 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 and have a maximum term of five years from the date of the grant. A summary of the change in the company's stock option plan for the year is as follows:

	Number of shares outstanding	Weighted average exercise price $
Balance - December 31, 2000	200,000	0.20
Exercised	(200,000)	0.20
Granted	750,000	0.60
Granted	1,400,000	0.65
Balance - December 31, 2001	2,150,000	0.63

716,666 options were exercisable at December 31, 2001. The weighted average remaining life is 4.2 years.

Stock options outstanding as at December 31 are as follows:

Year granted	Range of exercise price $	Number of options outstanding	Weighted average remaining life (years)	Weighted average exercise price $
2000	0.20	200,000	0.1	0.20
2001	0.54 - 0.67	2,150,000	4.2	0.63

During the period, Underwriter options were exercised to purchase 100,000 common shares at a price of $0.20 per share, which were issued in relation to the company's initial public offering in December 1999. The Underwriter has received in connection with the December 2000 financing, 240,000 share purchase warrants entitling the purchase of 240,000 common shares at $0.50 per share until December 2002, which are outstanding at December 31, 2001. In addition, the agent for the company's December 2001 public offering has been granted an option for 2 years to acquire 130,000 common shares at the offering price of $0.50.

During the year, the company granted 300,000 options to a consultant in return for investor relations services. At the date of grant the market value of the underlying shares was $0.67 and the option exercise price was $0.58. At December 31, 2001, 200,000 options had vested. The company has recorded an expense of $18,000 during the year based on the intrinsic value of the options at the date of grant with a credit to contributed surplus. If the company had used an option pricing model to fair value the options at the date of grant, the expense would have been $80,000.

The company plans to adopt the new provisions of the CICA Handbook Section 3870, Stock-based Compensation and Other Stock-based Arrangements effective January 1, 2002.

Subsequent to the year-end, 50,000 options to purchase 50,000 common shares were granted to a new employee at the market price of $0.50 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.

666,663 seed shares which are being released pro rata to the seed shareholders as to one half on each of the first, second, and third anniversaries of the completion of the company's qualifying transaction, which occurred on December 20, 2000.

Weighted average number of shares

The deemed shares issued on December 20, 2000 has been used as the weighted average number of shares for periods prior to January 1, 2001.

10 Tax loss carryforward

As at December 31, 2001, the company has approximately $1,260,000 of research and development expenditures available for unlimited carryforward, undeducted expenditures for tax purposes of $934,000 related primarily to share issue costs and capital assets and, $46,000 of investment tax credits, all of which may be used to reduce future Canadian income taxes otherwise payable. The investment tax credits expire at various dates commencing 2006 and the non-capital losses expire as follows:

The company has accumulated losses of approximately $1,428,000 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	43,000
2007	139,000
2008	844,000
	1,428,000

The potential income tax benefits relating to these losses, tax balances and temporary differences have not been recognized in the accounts as their realization is uncertain at this time.

11 Investment tax credits

During the year, the company received $207,446 in non-refundable Scientific Research tax credits from Canada Customs and Revenue Agency related to 1999 research and development expenditures. These credits were not deducted from the related costs during 1999, as reasonable assurance of realization did not exist. As a result, $200,352 has been credit to the 2001 statement of operations and $7,094 has been credited to capital assets.

12 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 restated its financial statements in 1999 by reducing its deferred development costs and increasing its opening deficit as at January 1, 2000 by $76,786.

13 Commitments

The company is committed to minimum annual lease payments for office premises as follows:

	$
2002	46,800
2003	7,800

14 Subsequent events

In February 2002, the company signed a letter of intent to form a joint venture with Phelps Dodge Miami Inc. for the construction and operation of a water treatment facility using BioteQ's patented biological reduction technology for the selective recovery of copper from a low-grade solution. The final decision to proceed with the project is subject to detailed engineering, joint venture project financing acceptable to both parties, the receipt of all necessary local, state and federal regulatory agency approvals, and other conditions specified in the letter of intent.

Corporate Information

Officers

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

directors

Geoffrey Donohue	Clement Pelletier
Kelvin Dushnisky	George Poling
Anthony Kana	Kenneth Williamson
Brad Marchant	

Share structure *(February 28, 2002)*

Float	11,209,221
Escrowed shares	666,663
Performance shares	7,000,000
Issued shares	18,875,884
Broker warrants	370,000
Employee options	2,200,000
Fully diluted	21,445,884

transfer agent

Pacific Corporate Trust
625 Howe Street, 10th 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
Website:	www.bioteq.ca

Corporate Counsel

McCullough O'Connor Irwin

Stock Exchange

Canadian Venture Exchange
Symbol: "BQE"