BioteQ

Environmental Technologies Inc.

Annual Report

2004

Company Profile

BioteQ is a Canadian industrial process company that has developed the patented the BioSulphide Process^{TM} for water treatment and sulphide reagent production. BioteQ is currently focused on applications of its technology in the mining industry where BioteQ's process plants allow the treatment of acid contaminated water with concurrent recovery of saleable metals from the water. Water from our process plants can be discharged to the environment or recycled for industrial re-use. In addition, chemical grade sulphide reagent can be produced on demand from BioteQ's process. Potential revenue streams from BioteQ's water treatment technologies are plant sales, recovered metals, treatment fees, and sulphide reagent sales.

BioteQ's process plants can treat metal-laden acid contaminated water, including acid rock drainage (ARD), contaminated surface and ground waters, metallurgical bleed streams and sulphate-rich municipal and industrial water. BioteQ is currently focused on metal contaminated mine drainage, one of the most significant challenges facing the mining industry worldwide. BioteQ's technologies can offer significant environmental and economic benefits when compared with conventional lime addition to treat the same acid waste streams, including:

- reduction or elimination of metal-laden sludge by-products,
- sale of valuable contained metals which can off-set treatment costs or, in some cases, result in a profit from the water treatment plant,
- overall reduction of long term water treatment costs and environmental liability.

BioteQ's business plan is to focus on its core water treatment technologies in the development, construction and operation of waste water treatment plants. The company can operate on three commercial bases: design, build, own and operate; design, build and transfer; and third party process license. The company has built and owns three commercial water treatment plants in the US and Canada – at the Caribou Mine in New Brunswick (Breakwater Resources Ltd.), the Raglan Mine in northern Quebec (Falconbridge Limited), and at the Copper Queen Mine in Bisbee, Arizona (joint venture with Phelps Dodge Corporation). Our fourth plant is currently under construction, also with Phelps Dodge Corp, and is located in the city of Blackwell, Oklahoma.

BioteQ is based in Vancouver, Canada with a branch office in Montreal. The company is listed on the TSX Venture Exchange under the symbol BQE.

Annual Meeting

The Annual General Meeting of the Shareholders will be held on April 21, 2005, at 2pm at the Conference Centre, Second Floor, 888 Dunsmuir Street, Vancouver, BC, Canada.

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PRESIDENT'S MESSAGE – 2004 Annual Report

2004 Highlights
During 2004 the company operated water treatment plants at three sites: Caribou in New Brunswick (Breakwater Resources), the Raglan Mine in northern Quebec (Falconbridge) and the Copreco joint venture with Phelps Dodge Corp in Bisbee, Arizona. Operation of these plants during 2004 demonstrated the revenue potential of our technologies, as well as confirmed the dedication of our employees towards safe and profitable water treatment operations. In 2004, our financial statements show that we were cash flow positive from the operations, a significant milestone in our long term business plan.

Expectations for 2005
We expect to complete the construction of our fourth plant, at Blackwell, Arizona, which is our second plant built with Phelps Dodge Corp, and will complete an expansion at Caribou to allow treatment of tailings sands concurrently with acid water treatment at the Caribou site. In addition, we expect to begin detailed engineering and construction on a fifth plant during 2005. Our current cash position, debt facilities available and cash flow from operations will allow continued new growth in 2005 using our existing financial capacity.

Safety
While the company continued to grow during 2004 and maintained three operating sites as well as construction projects, we had only one safety incident reported. Our objective in 2005 is to maintain our growth in operations and new plants while reducing reported safety incidents to zero.

Personnel
The continued success of the company depends on the continued success of our highly professional and dedicated personnel. We made one significant addition to our staff in late 2004, Bruce Chamberlain, a chemical engineer recently with Noranda operations, joined us as Manager, Operations.

I would like to thank our employees, directors and business partners for their dedication and accomplishments during 2004. I look forward to continued growth during 2005 and invite you to attend our Annual General Meeting on April 21, 2005, at 2pm at the Conference Centre, Second Floor, 888 Dunsmuir Street, Vancouver. B.C.

On behalf of the Board of Directors

Brad Marchant
President & CEO

Vancouver, Canada
March 11, 2005

BioteQ has elected to minimize the costs of preparing and distributing hard copies of our annual report. As a result, we have enclosed a copy of our audited financial statements and MD&A report and have updated our website, www.bioteq.ca , with further information to provide a more dynamic means to communicate with our shareholders. We are in the process of revamping our website which we intend to revise more frequently with production results, technologies and developing projects.

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

This discussion should be read in conjunction with the consolidated financial statements and accompanying notes for the year ended December 31,2004. Certain statements contained in the Management's Discussion and Analysis constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of the date the statements were made and readers are advised to consider such forward-looking statements in light of the risks.

Additional information may be found on the Company's website www.bioteq.ca and also on SEDAR at www.sedar.com

Description of Business

BioteQ is a Canadian industrial process technology company located in Vancouver, BC, Canada, that has developed the patented BioSulphide® Process for water treatment and sulphide reagent production. BioteQ's process plants allow the treatment of acid contaminated water with concurrent recovery of saleable metals from the water. Water from the process plants meets discharge water quality criteria. In addition, chemical grade sulphide reagent can be produced on demand

BioteQ has constructed and commissioned 3 commercial treatment plants using its technology as well as managing two lime treatment plants under contract. A fourth BioteQ plant construction is in progress and is scheduled for commissioning in 2005. The first BioteQ plant was constructed at the Caribou Mine in New Brunswick for selective copper and zinc recovery, which successfully demonstrated the technology. Construction of treatment plants for Falconbridge Limited in northern Quebec and in joint venture with Phelps Dodge Corporation in southern Arizona were completed during 2004 and both plants are generating revenue from their operations. As a result, BioteQ considers that it is out of the development stage effective January 1, 2004. BioteQ is evaluating several potential commercial projects in North America and elsewhere for possible application of its metal recovery process. In addition, the biological technology that is an integral part of the BioSulphide® Process can be utilized commercially to generate sulphide reagent on demand and can also be modified to remove sulphate from contaminated water, and both are potential future markets for the Company. BioteQ will operate on three commercial bases: design, build, own and operate; design, build and transfer with a service contract; or third party license. Potential revenue streams are plant sales, recovered metals, treatment fees and process licenses.

Operations

Overall Performance

Three-Year Comparative Information

	2004	2003	2002
Revenues	1,034,182	89,239	-
Operating costs	686,412	25,550	-
Net loss	1,614,253	1,174,305	1,081,034
Total assets	7,589,703	6,848,858	2,535,111
Total long-term financial liabilities	334,462	309,882	285,302
Total liabilities	676,609	1,372,702	551,748
Shareholders' equity	6,913,094	5,476,156	1,983,363

During the years until 2003, the company was developing its process. In 2003, the company commenced construction of two sizable water treatment plants, which became operational in the third quarter of 2004, approximately 3 months later than anticipated last year-end. Funds to construct the plants were raised through equity financings. The Company's growth is predicated on new projects being developed. Currently, one new project is underway, one is subject to our internal evaluation and a number are believed to be close to a decision by the property owner. With its current projects, the Company is forecasting a small profit from its 2005 operations after covering all administrative and other costs, before depreciation and other non cash charges.

At December 31, 2004, the Company had 18 full time employees, including 3 who work on a seasonal basis, compared to 10 employees at the end of 2003. The increase is due to operating personel required for the newly commenced operations.

Operating Results

Financial data for the last eight quarters

Quarter ended	Dec 04	Sept-04	Jun-04	Mar-04	Dec-03	Sep-03	Jun 03	Mar 03
Total revenues ($000's)	564	283	114	73	89	0	0	0
Operating expenses($000's)	458	190	31	7	26	0	0	0
Net loss ($000's)	545	401	336	332	283	286	314	291
Loss per share	$0.02	$0.01	$0.01	$0.01	$0.01	$0.02	$0.02	$0.02

There were no discontinued or extraordinary items. Fully diluted earnings (loss) per share are not presented as the exercise of warrants or stock options would be anti-dilutive.

(Expressed in Canadian dollars unless otherwise noted) March 11, 2005

Revenues and operating expenses are not comparable due to the start-up of operations during the latter half of 2004 of two significant commercial plants. Prior to that period, revenues were largely from the fixed monthly fees from the Raglan plant. During the third quarter, revenues commenced from water treatment at the Raglan and Bisbee plants. Both experienced some difficulties, which resulted in less than anticipated production, although both enjoyed sustained periods of good results. The Raglan plant in the north of Quebec is a seasonal operation and shut down at the beginning of November due to winter conditions. In addition, in the fourth quarter BioteQ assumed operating responsibility for water treatment at the Caribou and Restigouche sites of Breakwater Resources Ltd and commenced charging fees.

The net loss increased in the last two quarters due to non-operating expenditures. In the third quarter, development and marketing costs were particularly high by approximately $100,000, due largely to unrecovered engineering and pilot test work on the Britannia project. Although unrecoverable, this expenditure may generate some benefit in the future. In the fourth quarter, additional administrative labour costs and audit and other year-end accruals increased costs by over $160,000. For 2005, general and administrative expenses are expected to be slightly higher than 2004, averaging about $100,000 a month, due largely to the addition of a Manager of Operations at the start of the year.

Marketing and development costs averaged approximately $22,000 per month in 2004 and are expected to reduce to $12,000 per month in 2005, due to lower unrecoverable costs. Whenever possible, the Company charges for engineering, laboratory and pilot testing on development projects.

Amortization of property plant and equipment has significantly increased due to the new operating plants in the last two quarters. Charges in 2005 are expected to amount to approximately $70,000 per quarter, compared to an average of $46,000 for 2004. The Company adopted the CICA recommendation to expense stock options commencing January 1, 2004 which resulted in significant stock based compensation charges averaging approximately $65,000 per quarter. These charges were largely the result of options granted in 2003 with vesting periods, and consequent charges, throughout 2004 (ending in the fourth quarter). Stock based compensation charges are currently expected to reduce to approximately $20,000 per quarter in 2005.

Schedule of general and administrative expenses

	3 months ended Dec 31		**Year ended Dec 31**	
	2004	**2003**	**2004**	**2003**
Management and office services	190,902	83,334	530,170	376,571
Rent	16,117	14,310	85,783	73,915
Legal and audit	61,562	55,750	142,435	124,575
Travel	15,310	31,394	67,614	86,176
Transfer agent, filing fees and AGM	-1,517	2,610	30,506	20,506
Insurance	23,075	14,060	86,739	70,064
Investor relations	15,864	15,200	55,871	62,427
Directors fees and expenses	15,680	20,524	60,555	66,917
Office and other expenses	61,023	45,109	100,478	104,301
Total for the periods	398,016	282,291	1,160,151	985,452

The increase in the year and period costs for general and administrative expenses is largely due to management and office services. Pay increases occurred at the start of 2004, one additional person was added in accounting support for the last quarter and additional administrative cost was incurred in the last half of the year with the start up of operations.

Projects

During the year, the Company commissioned both the Bisbee and Raglan plants. Two new contracts were signed late in the year. The Company is providing its technology for a water treatment plant located in Blackwell, Oklahoma, which is a second plant for Phelps Dodge Corp and will recover zinc and cadmium from groundwater. The plant is scheduled for commissioning in late 2005. The other new project is at the Caribou site and is referred to below. In addition, the company was part of a bid team that was awarded a contract to design, build and operate a water treatment plant at the Britannia minesite in British Columbia. The lead proponent, EPCOR Water Services, is currently constructing a conventional lime treatment plant as a first stage at Britannia, with BioteQ providing senior design review, while BioteQ evaluates further potential applications of its BioSulphide® technology at the Britannia site.

The Breakwater Resources Project – Caribou Mine, New Brunswick

The Company's plant has not operated since late 2002, due to the site owner shutting down mine water collection and treatment while underground workings were filled with contaminated water. Treatment through their lime plant was recommenced by the site owner during 2004

Earlier in the year, the company initiated a new agreement for the operation of mine dewatering, water collection and treatment at both the Caribou and Restigouche sites owned by CanZinco in New Brunswick, which replaces previous agreements with respect to the Caribou site. The detailed operating agreement commenced on October 1, 2004 and BioteQ now controls all collection and treatment of acidic mine drainage and management of sludge products. The existing employees at the sites were hired by BioteQ.

The six year contract for all water management will simplify operation of the BioteQ plant for metal recovery. The new contract also deals with the treatment of tailings, stored at the Caribou site by a previous operator, for which additional fees will be charged. It is anticipated that tailings treatment will commence in 2005. Based on the result of a test recovery of 1000 tonnes of material and preliminary process engineering, plans indicate processing 50,000 tonnes of tailings annually. However this would require some modifications to the biological reduction plant to enable treatment of the mine drainage in conjunction with the tailings. Detailed engineering and cost estimation must be finalized prior to the project obtaining approval to proceed by BioteQ's board. All metals recovered in the BioteQ plant would be owned by BioteQ. Total revenues expected during 2005 from the contract with CanZinco is $1,100,000.

The Phelps Dodge Project – Bisbee, Arizona

In August 2003, the Company initiated construction of a copper recovery plant at the Bisbee site in a joint venture with Phelps Dodge Corporation. The joint venture company, Copreco LLC, operates the plant at Bisbee to recover copper selectively from circulating water from existing stockpiles. The design capacity of the plant is approximately 2.7 million pounds per year of copper recovered, depending on water availability and metal content.

During the third quarter, there was official acceptance by Copreco of the finished plant and commissioning of the plant was completed on August 31, 2004.

Since September 1, 2004, operations and costs of the plant are equally shared with Phelps Dodge. The plant suffered from two production interruptions in the months of September and October which lost 28 days. The lost production time related to a construction deficiency identified during a planned maintenance shutdown. Repairs were completed and the plant started up again on October 24. From November to January the Bisbee plant reported excellent operating results with 94% availability, over 99% copper recovery with the best daily production of 6,200 pounds of copper reached during January. The process plant was taken off-line again in February to make more permanent repairs to the deficiency identified in October. The plant has since returned to normal operation.

The plant production is limited by the availability of water and the copper and other metal content. Since start-up in September the copper grade has been above expectations, but the water availability has been well below plant design. The joint venture is considering changes to the low-grade stockpile operation to increase both water flow and grade. The expected plant production for 2005 is presently 2,000,000 pounds copper. The joint venture is currently concentrating on personnel training and reducing operating costs. The joint venture is also exploring the possibility of making use of excess bioreactor capacity to produce additional sulphide that could be sold or used to recover other metals.

Operating statistics in 2004	Operations Qtr 3 (September only)	Operations Qtr 4
Water treated (millions of gallons)	11.6	93
Days operated (some partial)	21	67
Copper produced (pounds, in concentrate)	35,300	297,000
Copper recovery	>99%	>99%

The total capital cost of the Bisbee plant, including commissioning, is US$3,214,000. BioteQ's contract for construction of the plant included a capital cost guarantee of US$1,900,000 to our joint venture partner, Phelps Dodge, resulting in their maximum contribution of US$950,000. BioteQ has incurred the extra costs of US$1,288,000 (net of additional shared costs of $26,000). BioteQ's excess contribution of US$644,000 has been included in property, plant and equipment, with the result that BioteQ now has Can$2,990,000 invested in the plant. The overrun of costs was due to construction management and indirect costs, as well as a longer period for plant commissioning. Based on recent performance, the company expects to receive $250,000 in revenue per quarter from its operations at Bisbee during 2005.

The Falconbridge Project – Raglan Mine, Quebec

BioteQ's treatment plant at the Raglan Mine in Northern Quebec owned by Falconbridge Limited was largely completed in late 2003. Under the terms of the contract, payment of a monthly fixed fee of $24,500 commenced in November 2003. Due to the normal winter freeze-up, the plant was not operated until the second quarter of 2004.

The plant started the commissioning process with the availability of spring run-off water on June 16 and discharge grade performance was achieved on July 16. From that time until winter shutdown in early November production was affected by plant availability, the sources of which have been identified and addressed. During July, 30,000 cubic meters of treated water were produced, which met the stringent water quality discharge regulations at the Raglan site. This water was treated in a closed loop without discharge to the environment, pending permit approval. The Ministry of Environment issued a Certificate of Authorization to Falconbridge for discharge to the environment on August 16, 2004. Since that time plant performance and availability has been hampered by various process upsets, such that only 63,000 cubic meters of water were treated to discharge criteria in the third quarter. The plant has been running well since process modifications were completed during September/October, however minor short-term process upsets have continued and, although solved quickly, have limited production.

Water treatment in the 2004 operating season totaled 78,589 cubic meters for which payment was received, compared to the expected 530,000 cubic meters. These results are very disappointing, however there were sufficient periods of excellent operations to show that the process works and provides a superior water treatment solution, eliminates production of sludge and produces a high grade nickel concentrate product. The process upsets we encountered during this short start-up year have been addressed for 2005 operations. During the year, the company has received the continuing fixed monthly fee of $24,500 and treatment fees have been charged at the rate of $1.06 cubic meter of water treated.

Total costs incurred in 2004, including minor completion capital and plant commissioning, were $256,000, giving a total plant cost of $1,826,000. Activities at the site are scheduled to commence during March 2005 for minor plant modifications followed by operator training and plant restart during April/May. The Company has increased the manpower budget for the project for 2005 to ensure operating reliability. BioteQ is expecting the plant to contribute revenues of $800,000 for 2005, with an operating season of June to November.

Risks and uncertainties

The Company's growth is dependant on being able to develop new projects for its technology and being competitive and innovative in its area of expertise. To achieve growth, the Company must be able to find or train people with the necessary skills, and be able to retain them.

Any new commercial application of the BioSulphide® Process will have certain construction and process risks associated with building and operating a new plant. Revenue will depend on the successful operation of the plants and may fluctuate with the price of the commodities being recovered and variable exchange rates. Over 25% of the Company's revenue in 2005 is expected to fluctuate with the price of copper and the US $ exchange rate. Operating costs will be largely dependent on the cost of consumables, labour and power, which may fluctuate.

The economics of some projects under review by the Company are based largely on estimates of the prices for the metals to be recovered from treating water. Although there is often a significant amount of data upon which estimates can be based, there can never be absolute certainty as to the continuity of flow of water to be treated and the concentrations of all metals contained.

Liquidity and Capital Resources

During the years until 2003, the company was developing its process. In 2003, the company commenced construction of two sizable water treatment plants, which became operational in the third quarter of 2004. Funds to construct the plants were raised through equity financings.

At the year-end, the Company had 35,320,339 (fully diluted-49,277,828) common shares issued and outstanding, compared to 31,351,685 (fully diluted-46,546,443) for 2003. During the year, there was an equity financing and 4,650,000 warrants expired At the current date of March 11, 2005, the issued shares are 35,578,539 and fully diluted are 48,455,028. The increase in the number of issued shares in 2005 is due to the exercise of 258,200 warrants for $0.75 each.

At December 31, 2004, the Company had cash of $1,925,158, a decrease of $873,068 from December 31, 2003. During the year, the Company received $2,752,722 (net) from a new equity financing (3,800,000 units at $0.80) and also received $36,375 from the exercise of warrants. The Company used its cash resources to fund its 2004 operating loss of $1,120,155, net of non-cash items (2003-$1,067,663), and to fund the building of water treatment plants with expenditures in 2004 of $2,046,055 (2003-$2,831,601). The 2004 expenditures related to completing construction of the Bisbee and Raglan plants. Non-cash working capital changes in the current period absorbed $467,444 of cash flow, due largely to the reduction in accounts payable as construction projects were completed. The comparable figure for 2003 was a contribution of $331,356, due to the creation of construction accounts payable.

Working capital at the year-end was $2,041,176, which had decreased from December 31, 2003 by $405,624. These resources are largely uncommitted at present. The Company has no long-term debt with the exception of convertible debentures, which if unconverted into common shares, mature for repayment of $400,000 in October 2007. Annual interest amounts to $40,000. The only other corporate commitments are for office lease payments of $6,600 per month until August 2006 and repayment of government assistance in the form of a 2% royalty on corporate gross revenues. The maximum remaining to be repaid is $605,814. The Company expects its existing operations to provide the necessary cash flow in 2005 to fund other corporate expenditures such as general and administrative and marketing and development expenses. Additional funds amounting to $600,000 are available on a 3 year term HSBC Bank loan, subject to satisfactory performance of the Raglan plant. Also, through HSBC Bank USA, BioteQ has arranged project financing of US$800,000 based on performance of the Bisbee plant. This financing is subject to completion of documentation and ongoing plant performance.

Management believes that the current working capital, together with the cash flow from operations, is sufficient to support the Company's normal operating requirements on an ongoing basis. New projects could require additional equity or debt financing, depending on project scope and commercial terms.

Management's Report to the Shareholders

The accompanying consolidated financial statements, management's discussion and analysis and all information in the Annual Report have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles and, where appropriate, reflect management's best estimates and judgements. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements and management's discussion and analysis within reasonable limits of materiality and for the consistency of financial data included in the text of the Annual Report with that contained in the consolidated financial system.

To assist management in the discharge of these responsibilities, the Company maintains a system of internal controls designed to provide reasonable assurance that its assets are safeguarded; that only valid and authorized transactions are executed; and that accurate, timely and comprehensive financial information is prepared.

The Company's Audit Committee is appointed annually by the Board of Directors and is comprised of Directors, all of whom are neither employees nor officers of the Company. The Audit Committee meets with management as well as with external auditors to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements, the independent auditors' report and the management's discussion and analysis. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements and management discussion and analysis for presentation to the shareholders. The external auditors have direct access to the Audit Committee of the Board of Directors.

The consolidated financial statements have been independently audited by PricewaterhouseCoopers LLP. Their report outlines the nature of their audits and expresses their opinion on the consolidated financial statements of the Company.

(signed) "P. Bradley Marchant"	(signed) "John C. York"
P. Bradley Marchant President and Chief Executive Officer	John C. York Chief Financial Officer

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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, 2004 and 2003 and the consolidated statements of operations and deficit and cash flows for the 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, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, B.C.
February 18, 2005

BioteQ Environmental Technologies Inc.

Consolidated Balance Sheets

As at December 31, 2004 and 2003

	2004 $	2003 $
Assets		
Current assets		
Cash	1,925,158	2,798,226
Trade receivables	172,981	56,362
Receivable from joint venture partner	173,020	424,009
Other	112,164	231,023
	2,383,323	3,509,620
Property, plant and equipment (note 8)	5,124,817	3,261,804
Deferred financing costs	81,563	77,434
	7,589,703	6,848,858
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	342,147	1,062,820
Liability component of Series A debentures (note 9)	334,462	309,882
	676,609	1,372,702
Shareholders' Equity		
Capital stock, warrants and contributed surplus (note 10)	13,770,369	10,373,161
Equity component of Series A debentures (note 9)	96,128	96,128
Deficit	(6,953,403)	(4,993,133)
	6,913,094	5,476,156
	7,589,703	6,848,858

Going concern (note 2)

Commitments (note 15)

Subsequent events (note 16)

Approved by the Board of Directors

"A.T. Kana" ______________________ Director

"P. B. Marchant" ______________________ Director

BioteQ Environmental Technologies Inc.

Consolidated Statements of Operations and Deficit

For the years ended December 31, 2004 and 2003

	2004 $	2003 $
Revenue	1,034,182	89,239
Operating expenses		
Operating costs	686,412	25,550
Amortization of property, plant and equipment	183,042	22,390
Amortization of deferred financing costs	24,382	11,914
General and administrative expenses	1,160,151	985,452
Stock-based compensation charge	262,094	-
Marketing and development costs	265,213	187,208
	2,581,294	1,232,514
Loss from operations	1,547,112	1,143,275
Interest income	(32,313)	(36,393)
Interest expense	69,528	67,423
Foreign exchange loss	29,926	-
Loss for the year	1,614,253	1,174,305
Deficit - Beginning of year		
As reported	4,993,133	3,818,828
Stock-based compensation charge (notes 4 and 10)	346,017	-
As restated	5,339,150	3,818,828
Deficit - End of year	6,953,403	4,993,133
Loss per share - basic and diluted	(0.06)	(0.06)
Weighted average number of shares outstanding	26,224,825	18,408,647

BioteQ Environmental Technologies Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2004 and 2003

	2004 $	2003 $
Cash flows from operating activities		
Loss for the year	(1,614,253)	(1,174,305)
Items not affecting cash		
Amortization of property, plant and equipment	183,042	85,979
Amortization of deferred financing costs	24,382	11,914
Accretion of Series A debentures (note 9)	24,580	24,580
Stock-based compensation	262,094	-
Other	-	(15,831)
	(1,120,155)	(1,067,663)
Change in non-cash working capital items	(467,444)	331,356
	(1,587,599)	(736,307)
Cash flows from financing activities		
Issuance of common shares and warrants	3,040,000	5,105,299
Share issuance costs	(287,278)	(568,370)
Exercise of warrants and options	36,375	71,500
Financing costs	(28,511)	(18,752)
	2,760,586	4,589,677
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,046,055)	(2,831,601)
(Decrease) increase in cash	(873,068)	1,021,769
Cash - Beginning of year	2,798,226	1,776,457
Cash - End of year	1,925,158	2,798,226
Supplemental cash flow information		
Interest paid	44,948	42,843
Non-cash financing and investing activities		
Share capital issued in exchange for settlement of accounts payable	-	58,669
Units issued in settlement of issue costs (note 10)	92,000	228,695
Warrants issued in settlement of issue costs (note 10)	35,719	153,546

1 Company operations

BioteQ Environmental Technologies Inc. (BioteQ or the company) acquired, through its wholly owned subsidiary Biomet Mining Corporation (Biomet), 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. After further process development, the result is the BioSulphide® Process (the Process), which has been developed to the stage of building three commercial scale plants. As a result, and with revenues now being generated from commercial operations, the company considers it is out of the development stage commencing January 1, 2004.

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

2 Going concern

The company may require further capital to continue the commercialization and marketing of the 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 financial statements do not reflect adjustments to carrying values of assets and liabilities that may be necessary should the company be unable to 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 achieve cash flows from operations and arrange additional financing through equity and/or debt to establish process plants and maintain general operations. The company has raised working capital through the sale of equity and issuance of debt, but may require additional project financing to establish process plants. There is no assurance that this financing, or cash flow from operations, will be available to the company; accordingly, there is doubt about the company's ability to continue as a going concern.

3 Significant accounting policies

Generally accepted accounting principles

These consolidated 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 and its wholly owned subsidiaries, Biomet and BioteQ Arizona, Inc. The accounts of the joint venture in which the company holds an interest are proportionately consolidated. All 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 and 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.

Short-term investments

Short-term investments are recorded at the lower of cost or net realizable value.

Property, plant and equipment

Expenditures on property, plant and equipment are stated at cost, net of grants and contractual amounts received under feasibility studies. Amortization has been provided for in the financial statements using the following rates and methods:

Office equipment	5 years straight-line
Pilot plants	5 years straight-line
Water treatment plants	10 - 20 years straight-line

Costs relating to property, plant and equipment in the course of construction are capitalized. Upon commissioning, these costs will be amortized over the useful life of the asset.

The company evaluates the carrying value of property, plant and equipment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The company recognizes an impairment loss when it is probable that estimated future non-discounted cash flows of the underlying asset will be less than the carrying value of the asset.

Financing costs

Costs incurred to obtain debt financing are deferred and amortized over the terms of the underlying debt. Costs incurred to obtain equity financing are applied against the proceeds when the related shares are issued.

Revenue

Revenue from the company's water treatment plants varies depending on the company's agreement with the various mining companies and can include:

- revenue from managing and operating the plants recognized as the services are performed
- revenue from concentrate sales recognized when the title of the concentrate passes to the customer and collection of proceeds is reasonably assured
- lease revenue on the plants recognized over the term of the lease contract.

Fees from engineering services are recognized as the services are rendered.

Development costs

The company expenses all costs associated with 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.

Government assistance

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 either recorded as a reduction of the cost of the applicable property, plant and equipment 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 an increase to expense, in the year it is incurred, as determined by the original accounting treatment of the assistance.

Foreign currency translation

The company's foreign subsidiaries and joint venture are considered to be integrated foreign operations. Foreign denominated monetary assets and liabilities of the Canadian and foreign operations are translated in Canadian dollars at the rates of exchange prevailing at the balance sheet dates. Other assets and liabilities are translated at the exchange rates prevailing when the assets were acquired or the liabilities incurred. Revenues and expenses are translated at the average exchange rate prevailing during the year, except for depreciation and amortization which are translated at the same rates as those used in the transition of the corresponding assets. Foreign exchange gains and losses are included in the determination of net earnings or net loss.

Loss per share

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, warrants or equivalents by application of the treasury stock method. For the years ended December 31, 2004 and 2003, the company excluded potential common share equivalents from the loss per share calculation as they were considered anti-dilutive.

Future income taxes

The company accounts for income taxes using the liability method of tax allocation. Future income taxes are recognized for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in rates is included in income in the period that includes the enactment date. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

Stock-based compensation

The company accounts for all stock-based payments using the fair value based method. Under the fair value based method, stock-based payments are measured at the fair value of the equity instruments issued.

4 Change in accounting policy

Stock-based compensation

Effective January 1, 2004, the company adopted the amended recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3870, “Stock-based compensation and other stock-based payments”, which require that the fair value of all stock-based compensation is estimated using the Black-Scholes model at the date of grant and is recorded in the statement of operations over the vesting periods. Upon adopting this new standard, the company elected to retroactively adjust retained earnings without restatement of the prior period retained earnings. On January 1, 2004, the company increased the deficit by $346,017 and increased contributed surplus by the same amount.

Asset retirement obligations

In March 2003, the CICA issued Handbook Section 3110, “Asset Retirement Obligations”, which addresses financial accounting and reporting for legal obligations associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development or normal life of the assets. The standard requires an entity to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and when a reasonable estimate of fair value can be made. The standard defines fair value as the amount at which the liability could be settled in a current transaction between willing parties, other than in a forced or liquidation transaction.

An entity is required to capitalize the amount of the asset retirement obligation as part of the cost of the related property, plant and equipment, and amortize it over its useful life. The company adopted these new recommendations as of January 1, 2004. The effect of adopting the new recommendations did not have any impact on the consolidated financial statements as at the initial adoption date.

5 Agreements

Raglan agreement

On April 15, 2003, the company entered into a 10-year agreement to construct and operate a BioSulphide® plant at the Raglan mine owned by Falconbridge Limited (Falconbridge) in northern Quebec.

The contract provides for a plant with a design capacity to treat at least 530,000 cubic meters of water per year. Construction of the plant was largely completed in November 2003, but was not operated until the spring thaw in June 2004. Under the contract, the company charges a fixed monthly fee of $24,500 and an operating fee of $1.06 per cubic meters of water treated, escalatable by up to a maximum of 3% per annum. The operating fee is chargeable when the plant reaches certain operating criteria, which occurred in July. The fees are subject to certain conditions and performance criteria that must be met by either Falconbridge or by the company. After 63 months from installation of the plant, Falconbridge has the option to purchase the plant at BioteQ's cost, less straight-line depreciation at 5% per annum, in which case the contract would cease and BioteQ would be entitled to an ongoing technology fee. The cost of the plant, including commissioning costs, amounted to $1,827,000 at December 31, 2004.

Caribou agreement

In 2001, the company entered into a development agreement with Breakwater Resources Ltd. (Breakwater). The agreement provided for the installation of a BioSulphide® plant at Breakwater's Caribou mine in New Brunswick. Construction of the plant was completed in 2001 and commissioned in 2002.

During 2003, the BioSulphide® plant was not operated due to the site owner shutting down minewater collection and treatment while underground workings were filled with contaminated water. On January 26, 2004, the company signed a new agreement to control all aspects of water management at the site. As a result, a definitive Operating Agreement was signed with CanZinco Ltd. (a wholly owned subsidiary of Breakwater), dated October 1, 2004, which provides for the operation of mine dewatering, water collection and treatment at both the Caribou and Restigouche sites in New Brunswick, as well as treatment of tailings concurrently with acidic mine drainage for selective metal recovery. Recovered metals are owned by BioteQ. The agreement replaces all previous agreements regarding the Caribou site. The contract is for an initial term of six years and is renewable on mutual consent.

The SOQUEM Inc. Partnership

In March 2003, the company signed a memorandum of understanding with SOQUEM Inc., a wholly owned subsidiary of SGF Mineral Inc., to build and operate BioSulphide® plants in Quebec. During 2004, the company incurred costs of $8,429 (2003 - $33,694) in researching potential plant sites in Quebec. If results of the research are positive, the company and SOQUEM Inc. will form a partnership to build and operate the plants.

Debt financing agreement

In October 2003, the company signed a financing agreement for a $800,000 demand non-revolving loan. Proceeds from the loan will be used to refinance the Raglan plant.

The first advance of $200,000 was received on February 23, 2004 and has been repaid. The second advance of $600,000 is receivable when the Raglan plant commences operations and meets certain performance criteria. Interest will be charged, at the company's option, at the prime rate plus 1.5% or at the bank's fixed cost of funds plus 3%. Repayment will be over 39 months from the date of the advance.

As security for the loan, the company has provided a first charge over all its property in Quebec and a general security interest in all personal property of the company. The company has also assigned the monthly fixed fee payments from Falconbridge as security for the monthly repayment to the lender.

6 Interest in Joint Venture

In June 2003, the company signed an operating agreement with Phelps Dodge Corporation (PD) for the operation of a 50:50 joint venture water processing project at PD's Bisbee property in southern Arizona. The plant recovers copper from a low-grade process stream. The operating and capital costs of the project will be shared equally; however, the company provided a capital cost guarantee to PD that PD's contribution would not exceed 50% of US$1,900,000, the estimated capital cost before contingency.

During July 2003, the company completed a construction contract with the joint venture operating company, Copreco, LLC, for the construction, management and commissioning of the Bisbee plant. The company managed the project during construction and also manages the operation of the plant during the first year. The construction of the plant has been completed at a total cost, including commissioning, of US$3,214,000. The funding limit for PD resulted in BioteQ incurring all the extra costs of $1,288,000 (net of additional shared costs of $26,000). BioteQ's excess contribution of $644,000 has been included with property, plant and equipment. In July 2004, construction of the plant was accepted by the joint venture members and commissioning was accepted on August 31 2004. The plant is operational from that date, with one half of revenues and costs being recorded in the statement of operations.

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

	2004 $	2003 $
Consolidated balance sheets		
Current assets	42,000	-
Long-term assets	2,095,000	1,211,000
Current liabilities	8,000	424,000
Consolidated statements of operations		
Sales	242,000	-
Operating income	15,000	-
Net earnings (loss)	(29,000)	-
Consolidated statements of cash flows		
Operating activities	(20,000)	-
Investing activities	(1,355,000)	(787,000)
Financing activities	1,410,000	787,000

7 Government assistance

In June 2001, the company entered into an agreement with the National Research Council Canada, Industrial Research Assistance Program (IRAP) to provide funds to assist in developing and operating the process plant at the Caribou mine.

By the year ended December 31, 2003, the total IRAP contribution received was finalized at $417,774, of which, $253,257 (61% of the total funds) was recorded as a reduction of property, plant and equipment and $164,517 (39% of the total funds) was recorded as a reduction of development expenses.

The IRAP contribution is repayable in the form of a royalty at 2% of all gross revenues of the company commencing from April 1, 2004. This repayment is calculated and paid quarterly until April 1, 2010. The maximum repayment will be $626,661. For the period of April 1 to December 31, 2004, the total repayment made or accrued was $20,847 of which $12,716 was recorded as an increase in property, plant and equipment and $8,131 was recorded as an increase in development expenses.

8 Property, plant and equipment

			2004
	Cost $	**Accumulated amortization** $	**Net** $
Pilot plants	351,193	351,193	-
Office equipment	87,400	42,490	44,910
Water treatment plants - net	5,308,694	228,787	5,079,907
Water treatment plant in progress	-	-	-
	5,747,287	622,470	5,124,817

			2003
	Cost $	**Accumulated amortization** $	**Net** $
Pilot plants	351,193	351,193	-
Office equipment	73,939	28,652	45,287
Water treatment plants - net	2,044,071	56,514	1,987,557
Water treatment plant in progress	1,228,960	-	1,228,960
	3,698,163	436,359	3,261,804

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 $221,414 has been offset against the cost of the water treatment plant at the Caribou Mine. Amortization expense for the year ended December 31, 2004 amounted to $183,042 (2003 - $85,979). In 2003, $63,589 related to the amortization of the pilot plants and the Caribou Mine water treatment plant and was included within development costs on the statement of operations.

9 Series A debentures

On September 5, 2002, the company completed a private placement of unsecured Series A debentures (debentures) of $400,000 to fund working capital and plant construction. After deducting issue costs of $86,329, the proceeds of the issue amounted to $313,671. Each debenture matures on October 31, 2007 and bears interest at the rate of 10% per annum, payable semi-annually. The principal is convertible at the option of the holder into common shares of BioteQ at $0.65 per common share. Under the terms of the Trust Indenture, the conversion price is adjusted if the company declares and pays a stock dividend, subdivides its outstanding common shares into a greater number of common shares, or consolidates its outstanding common shares into a lesser number of common shares. The conversion price will also be adjusted when the company fixes a record date for dividend distribution or the issuance of equity instruments with exercise prices less than the fair value at the grant date. After two years from the issuance date, the company may redeem the debentures if the common shares have traded for 30 consecutive days at 200% of the conversion price.

The debentures are being accounted for in accordance with their substance and are presented in the financial statements in their component parts, measured at their respective fair values at the time of issue. The liability component has been calculated as the present value of the required interest payments discounted at a rate approximating the interest rate that would have been applicable to non-convertible debt at the time the debentures were issued.

	$
Issue price in 2002	400,000
Less: Liability component	(277,109)
Shareholders' equity component	122,891
Less: Issue costs applicable to shareholders' equity component	(26,763)
Net amount classified as shareholders' equity at issuance in 2002	96,128
Convertible debenture	277,109
Accretion from inception	57,353
Total liability component Series A debentures	334,462

Interest expense on the liability component is $64,580 (2003 - $64,580), of which $24,580 (2003 - $24,580) represents accretion of the liability component. All cash interest incurred to date related to the debentures has been paid.

10 Capital stock, warrants and contributed surplus

Authorized
100,000,000 common shares without par value

Issued and outstanding

	Common stock		Warrants	Contributed surplus	
	Number of shares	**Amount $**	**Amount $**	**Amount $**	**Total $**
Balance - December 31, 2003	31,351,685	9,109,346	1,206,299	57,516	10,373,161
Stock-based compensation adjustment (notes 4 and 10(a))	-	-	-	346,017	346,017
Stock-based compensation	-	-	-	262,094	262,094
Exercise of warrants	53,654	36,375	-	-	36,375
Private placement for cash	3,800,000	2,880,827	159,173	-	3,040,000
Share issuance costs	-	(393,268)	(21,729)	-	(414,997)
Units issued in settlement of issue costs	115,000	82,839	9,161	-	92,000
Warrants issued in settlement of issue costs	-	-	35,719	-	35,719
Balance - December 31, 2004	35,320,339	11,716,119	1,388,623	665,627	13,770,369

On July 14, 2004, the company completed a "bought deal" private placement of 3,800,000 units at $0.80 per unit for gross proceeds of $3,040,000, of which $2,880,827 was attributable to the common shares and $159,173 was attributable to the transferable common share purchase warrants. Issue costs were $414,997 of which $92,000 was settled with the issue of 115,000 units and $35,719 was settled with the issue of 380,000 warrants. Each unit comprises one common share and one half of one transferable common share purchase warrant. Each whole warrant will entitle the holder to acquire one additional common share at a price of $1.15 during the first year and $1.25 in the second year. All securities issued in connection with this private placement carry a four month hold period.

a) Stock options

The company has a stock option plan available to directors, employees and consultants. Under the plan, 4,540,714 shares are available for issue (2003 - 3,790,714). 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:

	2004		**2003**	
	Number	**Weighted average exercise price $**	**Number**	**Weighted average exercise price $**
Outstanding - January 1	3,250,000	0.64	2,600,000	0.61
Options granted	475,000	0.83	850,000	0.72
Options cancelled	-	-	(200,000)	0.65
Outstanding - December 31	3,725,000	0.66	3,250,000	0.64
Exercisable at December 31	3,341,667	0.64	2,000,000	0.63
Available for future grant pursuant to company's stock option plan at December 31	815,714		540,714	

The following table summarizes information about common share options outstanding at December 31:

	Range of exercise prices $	**Number outstanding at December 31**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price $**
2003	0.50 - 0.72	3,250,000	3.1	0.64
2004	0.50 - 0.93	3,725,000	2.2	0.66

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

	2004	**2003**
Expected dividend yield	0%	0%
Expected stock price volatility	48%	73%
Risk-free interest rate	3.08%	3.90%
Expected life of options (years)	3	3

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

	Weighted fair value average price $	**Weighted average exercise price $**
2003	0.72	0.72
2004	0.77	0.83

b) Warrants

As at December 31, 2004, the following warrants were outstanding:

	2004		**2003**	
	Number	**Weighted average exercise price $**	**Number**	**Weighted average exercise price $**
Outstanding - January 1	11,944,758	0.84	4,845,154	0.74
Granted	2,395,000	0.90	7,229,604	0.90
Exercised	(63,654)	0.69	-	-
Cancelled	(4,659,000)	0.75	(130,000)	0.50
Outstanding - December 31	9,617,104	0.97	11,944,758	0.84

On January 15, 2003, the company granted the agent for a private placement, common share purchase warrants to buy 94,000 common shares at a price of $0.65 within the first year and $0.75 within the second year from the grant date. The company has treated these costs as share issue costs based on their fair value.

In October and November 2003, the company granted the agent for the private placement, common share purchase warrants to buy 376,471 common shares at a price of $0.85 within the first year and $1.00 within the second year from the grant date. The company has treated these costs as share issue costs based on their fair value.

On November 18, 2003, the company granted the agent for the public offering, common share purchase warrants to buy 285,714 common shares at a price of $0.85 within the first year and $1.00 within the second year from the grant date. The company has treated these costs as share issue costs based on their fair value.

On July 14, 2004, the company granted the agent for the private placement, common share purchase warrants to buy 380,000 common shares at a price of $1.15 within the first year and $1.25 within the second year from the grant date. The company has treated these costs as share issue costs based on their fair value.

c) Escrow shares

The shares issued at December 31, 2004 include 7,000,000 performance shares which will be released from escrow based upon the cash flow performance of the company determined annually in accordance with the policies of the exchange. The company must generate a cash flow of $0.30 for each performance share to be released from escrow. Any performance shares that have not been released within 10 years from issuance will be cancelled and returned to the company's treasury.

11 Related party transactions and balances

At December 31, 2004, a director holds $100,000 of the convertible debentures (note 9) issued on September 5, 2002.

12 Income taxes

As at December 31, 2004, the company has approximately $919,000 of research and development expenditures available for unlimited carry-forward, and $86,000 of investment tax credits, expiring 2008 to 2010, all of which may be used to reduce future Canadian income taxes otherwise payable.

The company has accumulated losses of approximately $5,699,000 for Canadian income tax purposes which may be deducted in the calculation of taxable income in future years. The losses expire as follows:

	$
2005	312,000
2007	466,000
2008	1,036,000
2009	1,145,000
2010	1,310,000
2011	1,430,000
	5,699,000

In addition, BioteQ incurred a US tax loss in 2004 of $416,000 from its US branch operations. These losses can be carried forward for 20 years from the year incurred, to offset against future US taxable income.

As at December 31, 2004, the company's future tax assets and liabilities were as follows:

	2004 **$**	**2003** **$**
Property, plant and equipment	22,000	78,000
Financing costs	239,000	272,000
Research and development expense carry-forwards	366,000	372,000
Non-capital loss carry-forwards	2,085,000	1,577,000
	2,712,000	2,299,000
Valuation allowance	(2,712,000)	(2,299,000)
Total future tax assets	-	-

No income tax benefits related to the future tax assets have been recognized in the accounts as their realization does not meet the requirements of "more likely than not" under the liability method of tax allocation.

The reconciliation of income tax attributable to operations computed at the statutory tax rates to income tax expense (recovery), using a 35.62% (2003 - 37.62%) statutory tax rate, at December 31 is:

	2004 **$**	**2003** **$**
Income tax recovery at statutory rates	(574,907)	(441,774)
Change in valuation allowance	413,000	586,624
Share issue costs	(112,484)	(209,321)
Difference between current and future tax rates	-	45,980
Non-deductible expenses	106,792	18,491
Tax rate differences in other jurisdictions	30,989	-
Other	136,610	-
	-	-

13 Financial instruments

Fair value of financial instruments

The company's financial instruments include cash, short-term investments, trade receivables, receivable from joint venture partner, government grant receivable, sales tax receivable and other, and accounts payable and accrued liabilities. Given the short-term nature of these items, the fair values of these financial instruments approximate their carrying values.

Credit risk exposure

The company's exposure to credit risk is as indicated by the carrying value of its receivables. The company mitigates this risk by reviewing and monitoring these balances.

Interest rate exposure

The Series A debentures bear interest at a fixed rate. Management considers that no events have occurred subsequent to the issuance of these debentures that would indicate that the fair value differs substantially from the carrying value.

14 Segmented information

The company currently has one operating segment (see note 1). Geographic disclosures are as follows:

	2004 **$**	**2003** **$**
Revenue		
Canada	693,205	49,000
U.S.	320,728	10,169
Other	20,249	30,070
	1,034,182	89,239
Property, plant and equipment		
Canada	2,176,220	2,032,844
U.S.	2,948,597	1,228,960
	5,124,817	3,261,804

During 2004, the company's first year out of the development stage, revenue was derived from four clients which was individually greater than 10% of total revenues. These four clients contributed: $377,304, $241,802, $199,266 and $114,132.

15 Commitments

The company has the following minimum commitments under operating leases for premises and office equipment:

	$
2005	80,000
2006	53,000
	133,000

16 Subsequent events

Subsequent to the year-end, 258,200 warrants were exercised for cash consideration of $193,650 and 822,800 warrants were cancelled.

Corporate Information

Directors

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Vancouver, B.C.

George W. Poling
Chairman of the Board
President and Chief Executive Officer
Trigon Exploration Canada Ltd.
Kelowna, B.C.

Kelvin P.M. Dushnisky
Vice President, Regulatory Affairs
Barrick Gold Corporation
Toronto, Ontario

Anthony T. Kana
Chartered Accountant
Retired
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Clement A. Pelletier
President & CEO
Rescan Environmental Services Ltd.
Vancouver, B.C.

Ian W. Telfer
President & CEO
Goldcorp Inc..
Vancouver, B.C.

Kenneth F. Williamson
Independent Consultant
Dwight, Ontario

Officers and Management

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Richard W. Lawrence
Executive Vice President

John C. York
Chief Financial Officer

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Stock Exchange

Toronto Venture Exchange
Symbol: "BQE"

Website

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