Annual Report 2005

BIOTEQ

ENVIRONMENTAL TECHNOLOGIES INC.

CONTENTS

The future of water treatment is here

President's Message

Building on our successes and lessons learned over the past five years, BioteQ is now entering an expansion phase which is consistent with its original business plan – that is, to build and operate water treatment plants using our proprietary technologies to recover saleable metal products from waste water and create truly sustainable treatment systems to meet tougher environmental regulations. As water treatment has evolved, BioteQ has transitioned from a research and development company to an operating company. BioteQ and the future of water treatment have arrived.

First, let me review our past accomplishments:

2001: Our first year as a public company, we signed our first commercial contract, with Breakwater Resources, to build a small plant at the Caribou mine in New Brunswick.

2002: The first year of operations at Caribou provided the technical confirmation of our technology and highlighted the potential environmental and economic benefits.

2003: The success at Caribou provided BioteQ with a demonstration plant to showcase our technology. This resulted in a commercial contract with Falconbridge to build and operate a plant at their Raglan mine site in northern Quebec. In addition, we signed a joint venture agreement with Phelps Dodge to build and operate a plant at their Bisbee site in Arizona. These two commercial contracts confirmed our business objective that BioteQ has technology that is of interest to major mining companies as an alternative to existing waste water treatment processes.

2004: The transition from a research and development company to an operating company continued with the commissioning of our Raglan and Bisbee plants. BioteQ operated at three sites and was cash flow positive from operations for the first time, which confirmed our business model that treatment of waste water could be profitable and at the same time could provide the owner with a better environmental solution. During the year we drew down our first project debt financing from HSBC to provide a financing alternative that allows BioteQ to be more aggressive in offering build-own-operate contract options to end-users.

2005: The final year of our transition to an operating company is now completed. We spent the year focusing on building a solid operating staff and management group which is essential for our future.

The changes made during 2005 should result in overall profitability from the Caribou operations in 2006. During 2005 at Caribou we were responsible for all aspects of water treatment at two sites, including operation of two lime plants. We modified the lime system at Caribou to incorporate High Density Sludge (HDS) technology to improve the environmental results and operating margins and successfully designed, built and commissioned our fourth operating plant, to treat tailings at the Caribou site for incremental fees.

At Raglan we increased the treatment capacity by 50%, from 120 m3 per hour to 180 m3 per hour, while maintaining a perfect record in treated water quality and exceptional nickel recovery. The improved operating results at Raglan translated into excellent financial performance for the site.

During the first half of the year at Bisbee we exceeded the design capacity of the bioreactor and achieved very high copper recovery levels which, when combined with increasing copper prices, promised a banner year for the Bisbee operation. However, overall operating results from Bisbee were disappointing for 2005 due to mechanical failures of two key process components later in the year which resulted in significant operating losses. These mechanical issues have now been resolved and improved technical and financial performance at Bisbee is expected during 2006.

Also in 2005 we completed construction of our fifth plant, the Blackwell project, which is our second project with Phelps Dodge. BioteQ constructed the process plant modules in Vancouver. Plant commissioning is scheduled for 2006 once the site infrastructure is completed by Phelps Dodge.

With an established track record in engineering, construction and operations, during the latter half of 2005 we again focused on new project growth. Our objective is to build at least 3 new plants in 2006 and continue to build on this experience in the future. New projects initiated during 2005 for development in 2006 and beyond included:

Britannia: BioteQ is part of a consortium with EPCOR and Stantec that won a bid to construct and operate a water treatment facility at the Britannia mine site, between Vancouver and Whistler.

Wellington Oro: Our proposal was selected by the US EPA for this site to treat contaminated ground water near the Town of Breckenridge in Colorado.

INCO: An agreement was signed to develop a nickel recovery plant at INCO's North Mine site in Sudbury

Jiangxi Copper: An agreement was signed for our first joint venture in China, with China's largest copper mining company, to recover copper at the Dexing mine site in Jiangxi Province.

Pueblo Viejo: Development work continued on this prospective plant with PlacerDome, located in the Dominican Republic, to complete a feasibility study in early 2006.

OUTLOOK FOR 2006

We have now 5 years of experience, some successes and some setbacks, which provide the company with the essential building blocks for growth. Our expectations for 2006 include:

At Caribou we expect a profitable operation while treating an increasing quantity of water, based on the operating modifications completed last year as well as modified contract terms with Breakwater. At Raglan we expect continued success and operating profit, based on the process capacity improvements made last year. At Bisbee we expect ongoing improvements in revenues and operating margins during the year. Based on current revenue projections, the combined results from our operations this year should put us in an overall cash flow positive position for the first time.

During 2006 we plan to commission three new plants: Blackwell, which was constructed in 2005, Wellington Oro and INCO North Mine. By year end we should have 7 operations contributing to our operating revenues. In addition, we plan to begin construction on our eighth plant, at the Dexing mine site of Jiangxi Copper, for commissioning in 2007. The recent financing completed in late 2005 combined with debt financing alternatives and cash flow from operations provides the company with sufficient resources to meet our 2006 growth plan.

In 2006 we expect to announce new projects that broaden our technology application and market scope where we can utilize our skills in the development and implementation of water treatment technologies. Some of these projects that are in the project pipeline for possible operation in 2007 or 2008 include the Britannia Project, which is the second stage of development at the Britannia site operated by EPCOR, which could revolutionize how industry and regulators look at acid drainage treatment in the future with the production of value-added construction materials from waste sludge. Finally, we hope to continue development of the Pueblo Viejo project in the Dominican Republic, which could be our largest project so far.

To meet our growth objectives we must constantly add new people, with new skills and experience, in engineering, construction, operations, marketing, project administration and reporting. At BioteQ we encourage skilled individuals who can work independently to meet BioteQ's corporate objectives and are willing to give the extra effort to make things happen. We must continue to maintain our excellent safety record to protect our most valuable asset, our personnel. During 2005 we adopted a new Health and Safety policy, which includes ISO 14001 compliance at all of our sites as a goal, and in 2006 we will continue towards the highest standard of health and safety practice at our operations and development projects.

Our Board of Directors has adopted a new corporate governance policy that provides clear guidance in all aspects of corporate governance for the future. Our shareholders, board and dedicated personnel have shown remarkable patience and support to bring the company to a point where the original business plan is now working and we have a clear growth plan ahead of us.

OUR CUSTOMERS

Finally, our customers. Our original customers: Breakwater Resources, Falconbridge and Phelps Dodge, provided us with the opportunity to demonstrate our technology and have provided unconditional support to allow BioteQ to learn how to build and operate our unique water treatment plants. In all cases, our primary obligation to our customers is the protection and improvement of the environment. Our goal is to offer technology that is both sustainable and financially attractive to our customers, but ultimately it is the protection of our environment that is the decisive motivation to include BioteQ in their plans for water treatment.

We now believe that the future of water treatment is here. Our job is to continue to build and operate water treatment plants, using the best available technology, to provide our customers with sustainable solutions for the long term protection of the environment.

On behalf of the Board of Directors

Brad Marchant
President & CEO

(All figures expressed in Canadian dollars unless otherwise noted)

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, 2005. Certain statements contained in Management's Discussion and Analysis constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of the date the statements were made and readers are advised to consider such forward-looking statements in light of the risks.

Additional information may be found on the company's website www.bioteq.ca 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 and reduction of total dissolved solids. Water from the process plants meets mandated discharge water quality criteria. In addition, biogenic sulphide reagent can be produced on demand to replace more expensive chemical reagents.

BioteQ has constructed and commissioned 3 commercial treatment plants using sulphide technology at sites of Phelps Dodge in Arizona, Falconbridge in northern Quebec and Breakwater Resources in New Brunswick. A fourth plant was recently commissioned at the Breakwater site to reprocess 50,000 tonnes of tailings annually. The Company is also managing two lime treatment plants under contract at the same site. A fifth BioteQ plant, also for Phelps Dodge, is scheduled for commissioning in Oklahoma in 2006. In 2005, the Company has been chosen to build a plant in 2006 at a Super Fund site in Colorado. The selection of the BioteQ proposal was approved by the US Environmental Protection Agency ("EPA"). Also in 2005, an agreement has been signed with Inco Ltd. to carry out an engineering study for a plant at Sudbury, Ontario. Subsequent to the year-end in January 2006, the Company signed an agreement with Jiangxi Copper to form a joint venture for the development and operation of a water treatment facility at their Dexing mine in China. BioteQ is also evaluating several potential commercial projects in North America and elsewhere for possible application of its metal recovery and water treatment 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 for other industrial purposes and can also be modified to remove sulphate from contaminated water. Both are potential future markets for the Company. BioteQ operates 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

	2005	2004	2003
Revenues	2,755,970	1,034,182	89,239
Operating costs	3,220,047	686,412	25,550
General and administrative and other	2,326,718	1,962,023	1,237,994
Net loss	2,790,795	1,614,253	1,174,305
Total assets	11,504,022	7,589,703	6,848,858
Total long-term financial liabilities	359,042	334,462	309,882
Total liabilities	1,653,500	676,609	1,372,702
Shareholders' equity	9,850,522	6,913,094	5,476,156

Comparison of the years

Until the start of fiscal 2003, the company was developing its process. In 2003, the Company commenced construction of two sizable water treatment plants, which were completed in the third quarter of 2004 and a revised Caribou site management contract did not start until the fourth quarter of 2004. The results for 2005 represent the first full year of operations and therefore the prior years revenues, operating costs and net losses are not directly comparative. In 2005, revenues were lower and operating costs and losses were considerably higher than expected, due largely to mechanical issues at the Bisbee site which hampered production and extraordinarily high costs at Caribou due to record precipitation and infrastructure improvements which were required for longer term profitable operation. Assets increased largely due to an equity financing in late 2005 which should provide sufficient funds for projects planned for 2006. A unit issue of 6,388,888 shares with one half warrant at $0.90 resulted in new funds amounting to $5,207,614(net). Total liabilities have increased in 2005 due largely to the Company taking down a loan facility of $600,000 for project working capital which is secured from fees paid for the Raglan plant. Monthly repayments are $17,200 with 3 years remaining on the term. Shareholder equity changes in 2005 are the result of the financing mentioned above, warrant and option exercises of $442,950, stock based compensation charges of $77,658 and the net loss for the year.

Currently, new projects are underway which should start contributing to revenues in 2007. With its current operating projects, the Company is forecasting a small net profit for 2006.

At December 31, 2005, the Company had 22 full time and 1 part time employee, compared to 18 employees at the end of 2004. The increase in full time staff is the result of hiring a Manager of Operations and 3 new engineering staff to assist with the new projects in 2006.

Operating Results

Financial data for the last eight quarters

Quarter ended	Dec 05	Sept 05	Jun 05	Mar 05	Dec 04	Sept 04	Jun 04	Mar 04
Total revenues ($000's)	681	815	671	589	564	283	114	73
Operating expenses($000's)	1,163	698	799	560	458	190	31	7
General & administrative, amortization & other ($000's)	649	639	566	473	651	494	419	398
Net loss ($000's)	1,131	522	694	444	545	401	336	332
Loss per share	$0.04	$0.02	$0.02	$0.02	$0.02	$0.01	$0.01	$0.01

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.

As previously stated, operations in 2004 are not directly comparable to 2005. The Bisbee plant commenced operating in September 2004, the Raglan plant had only completed construction and initial circuit testing and the Caribou site management contract did not start until the fourth quarter of 2004. In 2005, revenues have increased in each of the Company's first three fiscal quarters. In the fourth quarter of 2005, Raglan's treatment fees ceased on November 7, the end of the normal operating season and Bisbee's operations only restarted on November 2 after an 11 week shutdown from an agitator failure. Operating expenses were particularly high in the fourth quarter due to extraordinary expenses at the Caribou location to deal with record levels of precipitation and a provision for costs to complete the Blackwell project of $170,000. Contingent revenue of almost $300,000 cannot be booked until successful operations of the plant in 2006/7. Amortization of property plant and equipment was $99,000 for the quarter and $377,000 for the year to date compared to $183,000 for 2004. Amortization charges increased when operations commenced in 2004. In 2005, costs increased in the latter half of the year when the new Caribou tailings reprocessing assets started operations. Amortization charges for 2006 are expected to be approximately $400,000, which is slightly higher than 2005 due to plant additions during 2005.

General and administrative expenses have increased by $333,000 in 2005 over the previous year. Details are itemized below. Stock based compensation charges were lower at $78,000 for 2005 due to fewer options being granted in the last year with resulting lower charges through vesting in the current periods. Marketing and development costs were $256,000, similar to 2004 of $265,000. Costs were lower for 2005 until the last half of the year when expenditures increased due to travel costs related to obtaining the new project in China and piloting work for the Britannia enhancement project.

Schedule of general and administrative expenses

	3 months ended Dec 31		Year ended Dec 31	
	2005	**2004**	**2005**	**2004**
Management and office services	201,317	190,902	762,655	530,170
Rent	23,735	16,117	96,283	85,783
Legal and audit	57,035	61,562	150,935	142,435
Travel	35,174	15,310	121,110	67,614
Transfer agent, filing fees and AGM	2,454	-1,517	21,182	30,506
Insurance	21,414	23,075	77,421	86,739
Investor relations	21,855	15,864	61,514	55,871
Directors fees and expenses	28,649	15,680	79,869	60,555
Office and other expenses	35,851	61,023	122,446	100,478
Total for the periods	427,484	398,016	1,493,415	1,160,151

The increase in the year over 2004 for general and administrative expenses is largely due to management and office services and travel expenses. The former increased in 2005 due to the addition of a manager of operations on January 1 and additional accounting support throughout the year. Travel increased in association with the new manager of operations and also in connection with general corporate matters, including a financing later in the year.

PROJECTS

During the year, the Company's principle operations were the Bisbee and Raglan plants built by BioteQ and also the two lime treatment plants under contract at Caribou. Recently the Company signed preliminary agreements for the development of water treatment facilities for Inco in Sudbury, in October 2005 and Jiangxi Copper Corporation in China, in January 2006.

The Breakwater Resources Project – Caribou Mine, New Brunswick

BioteQ commenced operating all mine dewatering, water collection and treatment at both the Caribou and Restigouche sites owned by CanZinco Ltd, a subsidiary of Breakwater Resources Ltd, in New Brunswick in late 2004, under a contract for fees and retention of any metals recovered, which replaces previous agreements for the Caribou site. BioteQ now controls all collection and treatment of acidic mine drainage and management of sludge products through CanZinco's two lime plants. BioteQ's own biological plant, which was designed and built in 2001, is currently not operating, pending expansion engineering, now in progress, for possible treatment of old tailings with elevated metal content or zinc recovery from the mine drainage.

BioteQ gradually improved the two sites with lime plants during 2005 through a number of process changes. A new high density sludge circuit was built in the second quarter at Caribou and has resulted in a significant increase in water treatment capacity, while producing less sludge from acid mine water that contains more than double the metal content originally anticipated from historic records. The Restigouche site has continued to be difficult to manage due to a 65% increase in annual rainfall and the age of the lime plant, which produces excessive sludge. In the fourth quarter BioteQ has installed a new lamella clarifier, which will produce a higher density sludge for more economic handling, as well as improving water quality. Results to-date have been excellent, with consistently much better water quality than regulatory limits.

A new tailings re-treatment system was commissioned by BioteQ during the summer and successfully processed its annual commitment of 50,000 tonnes. The area of tailings being treated this year did not contain sufficient metals to warrant recovery for sale, however, an engineering review is currently underway to assess the economics of metal recovery from the tailings which will be treated in 2006. In addition, restart of metal recovery from mine drainage is being considered. Zinc prices have improved dramatically, but so have commodities which would be used in the process. Metal recovery 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. If metal recovery can be economically justified, it is a far better solution than lime treatment alone, in that a significant amount of metal contained in the water or tailings would be recovered for sale, and not be deposited in sludge for long term storage.

From a technical standpoint, the first year of operations was a success. Many improvements were made to the sites' treatment facilities, resulting in increased capacity and 30% more water being treated than the previous year (BioteQ took over in October 2004). Consistently, all criteria were met for metal levels in the discharge water. From a financial standpoint, the project did not meet budgeted expectations. Operating costs were much higher than expected and the record levels of precipitation in the latter part of the year resulted in higher costs than budgeted. BioteQ expects that the plant improvements made in 2005 and increased fees, which have been negotiated for 2006, will result in positive bottom line from the Caribou operations. Total revenues expected during 2006 from the contract with CanZinco are $1,300,000 (2005-actual was $1,068,000, compared to our expectation of $1,100,000).

The Phelps Dodge Project – Bisbee, Arizona

In August 2004, the Company completed commissioning of a copper recovery plant at the Bisbee site in a joint venture with Phelps Dodge Corporation. The plant was designed and built by BioteQ and is owned and operated by the joint venture company, Copreco LLC. BioteQ has operating responsibility for the plant which is designed to recover copper selectively from circulating water from existing low-grade stockpiles. The design capacity of the plant is approximately 2.7 million pounds per year of copper recovered, depending on water availability and the amount of copper and other metals contained therein.

Operating statistics	**Operations Q4 - 2005**	**Operations Q4 - 2004**	**Operations 2005**	**Operations 2004 (commenced Sept 1)**
Water treated (millions of gallons)	57	93	309	105
Days operated (some partial)	55	67	248	88
Copper produced (pounds in concentrate)	171,000	297,000	938,000	332,000
Copper recovery	>99%	>99%	>99%	>99%

Copper production at the site during the year was well below expectations due largely to two factors. The lining in the contactor tank showed signs of premature failure which caused lost operating time. A new stainless steel tank was ordered and was installed in January 2006. More significantly, an unusual and premature failure of the contactor agitator shaft caused an extended shutdown of close to 3 months. It was impossible to get a redesigned replacement from the manufacturer for an extended period due to previous commitments at the manufacturer. In the meantime, all equipment was reviewed and thorough preventative maintenance carried out.

The plant commenced operation again on November 2 and by year-end produced 171,000 pounds of copper in concentrate. The plant was restarted using chemical sulphide reagent pending activation of new biomass after the extended shutdown. Copper production is less than design using chemical sulphide, but is expected to return to bioreactor design capacity in the second quarter of 2006. In the current year, by March 6, 2006, the plant had produced 189,000 pounds of copper from 54 operating days. Ten days were lost at the start of the year, mainly to change the contactor tank.

Copper levels in the plant feed have remained steady and recoveries continued to be high. Ferric iron in the water has been higher than plant design and consumes the biogenic sulphide produced, which increases production costs. The economics of installing a ferric removal stage is being considered for later in 2006 to maximize the copper recovery capacity of the plant.

The expected plant production for 2006 is 2,000,000 pounds copper, producing revenue for BioteQ's share of approximately $2,000,000. Revenue for 2005 was expected to be approximately $1,000,000 and was actually $614,000.

The Falconbridge Project – Raglan Mine, Quebec

BioteQ's Raglan plant located in Northern Quebec at the Raglan Mine, which is owned by Falconbridge, was designed, built and is operated by BioteQ to recover nickel from mine wastewater on a fees basis. The nickel concentrate produced by the plant is shipped with other nickel concentrate produced at the mine. In 2005, over 10,000 kilograms of nickel was removed from the wastewater. The treated water is then released directly into the environment. No sludge is created for storage. The plant was commissioned and reported limited operations in 2004 before being shutdown in November due to normal seasonal operating constraints.

Preparations for the 2005 operating season started in March, the plant began operation in May and was ready to discharge water on May 20, approximately 2 months earlier than in 2004.

Operating statistics (seasonal) (discharge commenced in 2004 on August 16 and in 2005 on May 20). Both years ended early November	**Operations Q4 - 2005**	**Operations Q4 - 2004**	**Operations 2005**	**Operations 2004**
Water treated (cubic meters)	119,000	27,000	508,000	79,000
Days operated	38	22	170	52
Nickel recovery	>99%	>97%	>99%	>97%

The plant was first operated in 2004, which proved to be a "shakedown" season for successful operations in 2005. The plant operated extremely well during 2005 with respect to both volume of water treated and water quality, which remained consistently, and significantly, below the allowable discharge quality limits. Operating availability was 87% during 2005 with a large amount of the downtime caused by the site's generator, which had one breakdown, as well as regular servicing interruptions. A back-up generator unit is already on site for 2006 to mitigate possible downtime due to power source. Operating costs were somewhat higher than expected, due largely to being forced to rent an expensive replacement generator. The Company also incurred some expense in an effort to improve its operating procedures by the documentation of health, safety and management standards to become ISO 14001 compliant. The independent verification of procedures and systems is scheduled for later in 2006. This process at Raglan will form the basis of improving systems reliability at all BioteQ's sites.

Revenues of $800,000 were budgeted for 2005 and were actually $833,000. Revenues for 2006 are expected to be higher, in the range of $1,100,000. Due to our customer's satisfaction with the plant's performance in 2005, they are not planning to operate their conventional lime treatment plant in 2006. Instead, BioteQ has been requested to provide the capability to treat a larger quantity of water, up to 700,000 cubic meters. The Company is planning to accommodate the added capacity through modifications to the water feed system made in late 2005, provision of the back-up generator and other plant changes prior to the start of operations in 2006. We expect the plant to be able to treat approximately 30% more water in 2006 compared with 2005.

RISKS AND UNCERTAINTIES

The Company's success is dependant on being able to operate its projects profitably, grow with the development of new projects and be able to finance them and being competitive and innovative in its area of expertise. To operate successfully and achieve growth, the company must be able to find employees with the necessary skills, or train them, and be able to retain them.

At present, there are several technologies which are used to remove metals from solution. Some of these technologies also recover metals in a saleable form, but are economic only with high flows and high metal concentrations. BioteQ's technology can be used for such solutions and has the benefit of a significantly lower capital cost. For lower flows, or lower metal concentrations, the traditional process for water treatment uses lime, which results in clean water, but also a metal laden sludge for storage. In BioteQ's process, metals can be recovered to offset treatment costs, with little or no production of a metal contaminated sludge. There is always a risk that a better, cheaper process will be developed by others. At this time there is no competing technology known to the Company.

Any new commercial application of the BioSulphide® Process will have certain construction and process risks associated with building and operating a new plant. Construction costs are increasing rapidly in many parts of the world. The Company is expecting to start building a plant in China in 2006. Any project in a foreign country carries the additional risk of operating in a different jurisdiction. There could be both political and other risks. 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 2006 is expected to fluctuate with the price of copper and the US $ exchange rate. In addition, the variability of metal grades and volume of water being treated at all sites is affected by the vagaries of local precipitation and can result in changes in both revenues and/or costs. 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.

DISCLOSURE CONTROLS AND PROCEDURES

As at the financial year ended December 31, 2005, an evaluation was carried out under the supervision of and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as at December 31, 2005 to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities.

LIQUIDITY AND CAPITAL RESOURCES

At the year-end, the Company had 42,368,727 (fully diluted-52,937,444) common shares issued and outstanding, compared to 35,320,339 (fully diluted-49,277,828) for 2004. During the year, there was one equity financing and 6,767,604 warrants expired. At the current date of March 10, 2006, the issued shares are 43,643,727 and fully diluted are 51,662,444. The increase in the number of issued shares in 2006 is due to the exercise of 1,275,000 options for cash of $782,500

At December 31, 2005, the Company had cash of $5,718,575, an increase of $3,793,417 from December 31, 2004. During the year, the Company received $5,207,615 (net) from a new equity financing (6,388,888 units at $0.90) and also received $389,950 from the exercise of warrants and $53,000 from the exercise of options. In addition, the Company was able to draw down a 3 year term loan of $600,000 from HSBC Bank, repayable on demand, based on the Raglan plant fee structure. The Company used its cash resources to fund its 2005 operating loss of $2,290,207, net of non-cash items, and to fund the building of water treatment plants of $516,025. The plant expenditures related to improvements at the Raglan and Caribou plants. Non-cash working capital changes contributed $380,214 of cash flow in 2005.

Working capital at the year-end was $4,878,064, which had increased from December 31, 2004 by $2,836,888. These resources are largely uncommitted at present although the Company anticipates projects for 2006 which could consume a major part of the cash. The Company intends to source project debt financing for some part of these requirements. The Company has long-term debt in the form 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 Company also has a commitment to repay the HSBC 3 year bank loan by payments of $17,200 per month. Other corporate commitments are for office lease payments of $8,200 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 $550,692. The Company expects its existing operations to provide the necessary cash flow in 2006 to fund other corporate expenditures such as general and administrative, marketing and development expenses and interest costs. The plants projected to be built in 2006 are anticipated to be producing cash flow in the early part of 2007.

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.

P. Bradley Marchant
President and Chief Executive Officer

John C. York
Chief Financial Officer

BioteQ Environmental Technologies Inc.

Consolidated Financial Statements
December 31, 2005 and 2004

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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, 2005 and 2004 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, 2005 and 2004 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 17, 2006

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and the other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

BioteQ Environmental Technologies Inc.

Consolidated Balance Sheets

As at December 31, 2005 and 2004

	2005 $	2004 $
Assets		
Current assets		
Cash	5,718,575	1,925,158
Trade receivables	227,631	172,981
Receivable from joint venture partner	-	173,020
Other	226,316	112,164
	6,172,522	2,383,323
Property, plant and equipment (note 8)	5,263,521	5,124,817
Deferred financing costs	67,979	81,563
	11,504,022	7,589,703
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	607,502	342,147
Deferred revenue	110,641	-
Bank loan (note 9)	576,315	-
	1,294,458	342,147
Liability component of Series A debentures (note 10)	359,042	334,462
	1,653,500	676,609
Shareholders' Equity		
Capital stock, warrants and contributed surplus (note 11)	19,498,592	13,770,369
Equity component of Series A debentures (note 10)	96,128	96,128
Deficit	(9,744,198)	(6,953,403)
	9,850,522	6,913,094
	11,504,022	7,589,703

Going concern (note 2)

Commitments (note 16)

Subsequent events (note 17)

Approved by the Board of Directors

"George W. Poling" — George W. Poling, Director

"Clement A. Pelletier" — Clement A. Pelletier, Director

BioteQ Environmental Technologies Inc.

Consolidated Statements of Operations and Deficit

For the years ended December 31, 2005 and 2004

	2005 $	2004 $
Revenue	2,755,970	1,034,182
Operating expenses		
Operating costs	3,220,047	686,412
Amortization of property, plant and equipment	377,321	183,042
Amortization of deferred financing costs	21,029	24,382
General and administrative expenses	1,493,415	1,160,151
Stock-based compensation charge	77,658	262,094
Marketing and development costs	256,153	265,213
	5,445,623	2,581,294
Loss from operations	2,689,653	1,547,112
Interest income	(36,295)	(32,313)
Interest expense	75,881	69,528
Foreign exchange loss	61,556	29,926
Loss for the year	2,790,795	1,614,253
Deficit - Beginning of year		
As reported	6,953,403	4,993,133
Stock-based compensation charge (notes 4 and 11)	-	346,017
As restated	6,953,403	5,339,150
Deficit - End of year	9,744,198	6,953,403
Loss per share - basic and diluted	(0.10)	(0.06)
Weighted average number of shares outstanding	29,036,609	26,224,825

BioteQ Environmental Technologies Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2005 and 2004

	2005 $	2004 $
Cash flows from operating activities		
Loss for the year	(2,790,795)	(1,614,253)
Items not affecting cash		
Amortization of property, plant and equipment	377,321	183,042
Amortization of deferred financing costs	21,029	24,382
Accretion of Series A debentures (note 10)	24,580	24,580
Stock-based compensation	77,658	262,094
	(2,290,207)	(1,120,155)
Change in non-cash working capital items	380,214	(467,444)
	(1,909,993)	(1,587,599)
Cash flows from financing activities		
Issuance of common shares and warrants	5,749,999	3,040,000
Share issuance costs	(542,384)	(287,278)
Exercise of warrants and options	442,950	36,375
Bank loan	576,315	-
Financing costs	(7,445)	(28,511)
	6,219,435	2,760,586
Cash flows from investing activities		
Purchase of property, plant and equipment	(516,025)	(2,046,055)
Increase (decrease) in cash	3,793,417	(873,068)
Cash - Beginning of year	1,925,158	2,798,226
Cash - End of year	5,718,575	1,925,158
Supplemental cash flow information		
Interest paid	51,301	44,948
Non-cash financing and investing activities		
Units issued in settlement of issue costs (note 11)	103,500	92,000
Warrants issued in settlement of issue costs (note 11)	205,580	35,719

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, with others in progress.

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

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 has suffered continuous losses and has a deficit of $9,574,198 as at December 31, 2005 (2004 - $6,953,403).

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
Vehicle	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 agreements with 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;
- revenue from construction and sale of plants recognized on a percentage of completion basis. Where it is expected that a loss will be incurred on completion of a contract, a provision is made for the total estimated loss;
- Contingent revenue attributable to the achievement of developmental milestones is recognized only on the achievement of the applicable milstone.

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

Development costs

The company expenses all costs associated with development activities in the statements 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 statements 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, 2005 and 2004, 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.

Royalty agreements

BioteQ has paid royalties of $57,541 during the year as a result of a continuing obligation under a cooperative development agreement. The one-time payments, which are calculated based on the plant capacity, are only made for specific technology if used in plants built by the company and are accounted for depending on the nature of the contracts. During 2005, $36,274 was charged to plant assets.

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 statements of operations over the vesting periods. Upon adopting this new standard, the company elected to retroactively adjust the deficit without restatement of the prior period deficit. On January 1, 2004, the company increased the deficit by $346,017 and increased contributed surplus by the same amount.

Variable interest entities

On June 2003, the CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities" (AcG 15), which clarifies the application of consolidation principles to certain entities that are subject to control on a basis other than ownership of voting interest.

The guideline which came into effect on November 1, 2004 has had no impact on the consolidated financial statements of the company.

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, increasing up to a maximum of 3% per annum. The operating fee is chargeable when the plant reaches certain operating criteria, which occurred in July 2004. 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 original and ongoing cost of the plant, including commissioning costs before accumulated amortization, amounted to $1,959,000 and net book value, amounted to $1,694,962 (2004 - $1,713,744).

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 a new tailings handling process for incremental revenue, to allow 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 expiring October 1, 2010 and is renewable by mutual consent.

The original and ongoing cost of the plants before accumulated amortization amounted to $772,000 and the net book value amounted to $637,730 (2004 - $417,567).

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 waste-water stream. The operating and capital costs of the project have 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. The construction of the plant was completed in 2004 at a total cost, including commissioning, of US$3,207,000. The funding limit for PD resulted in BioteQ incurring an excess contribution of US$660,000 which has been included in 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 was operational from that date, with one half of revenues and costs being recorded in the statements of operations.

The original and ongoing cost of the plant before accumulated amortization amounted to $3,039,205 and the net book value amounted to $2,852,088 (2004 - $2,948,596).

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

	2005 $	2004 $
Consolidated balance sheets		
Current assets	-	42,000
Long-term assets	1,941,000	2,095,000
Current liabilities	-	8,000
Consolidated statements of operations		
Sales	614,000	242,000
Operating (loss) income	(446,000)	15,000
Deficit	(587,000)	(29,000)
Consolidated statements of cash flows		
Operating activities	(412,000)	(20,000)
Investing activities	(14,000)	(1,355,000)
Financing activities	381,000	1,410,000

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. During 2005, the total repayment made or accrued was $55,122 (2004 - $20,847) of which $30,624 (2004 - $12,716) was recorded as an increase in property, plant and equipment and $21,498 (2004 - $8,131) was recorded as an increase in development expenses.

8 Property, plant and equipment

			2005
	Cost $	**Accumulated amortization** $	**Net** $
Pilot plants	351,193	351,193	-
Office equipment	120,894	61,070	59,824
Vehicle	21,020	2,103	18,917
Water treatment plants - net	5,770,205	585,425	5,184,780
	6,263,312	999,791	5,263,521

			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
	5,747,287	622,470	5,124,817

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 and $43,340 has been repaid subsequently and charged back to the plant costs. Amortization expense for the year ended December 31, 2005 amounted to $377,321 (2004 - $183,042).

9 Bank loan

In October 2003, the company signed a financing agreement for a $800,000 demand non-revolving loan. Proceeds from the loan will be used as working capital for the development of new plants.

The first advance of $200,000 was received on February 23, 2004 and has been repaid. The second advance of $600,000 was received on September 23, 2005 when the Raglan plant achieved certain performance criteria. Interest is calculated at the fixed rate of 6.66% per annum and repayment will be over 39 months through payments of $17,200 per month.

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.

As this loan is demand in nature, the full amount outstanding has been classified as current.

10 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	81,933
Total liability component Series A debentures	359,042

Interest expense on the liability component is $64,580 (2004 - $64,580), of which $24,580 (2004 - $24,580) represents accretion of the liability component. All cash interest incurred to date related to the debentures has been paid.

11 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 11(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
Stock-based compensation	-	-	-	77,658	77,658
Exercise of warrants	454,500	462,415	(72,465)	-	389,950
Exercise of options	90,000	69,150	-	(16,150)	53,000
Private placement for cash	6,388,888	5,299,060	450,939	-	5,749,999
Share issuance costs	-	(784,689)	(66,775)	-	(851,464)
Units issued in settlement of issue costs	115,000	88,447	15,053		103,500
Warrants issued in settlement of issue costs	-	-	205,580	-	205,580
Balance - December 31, 2005	42,368,727	16,850,502	1,920,955	727,135	19,498,592

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 (=3,194,444 warrants). 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.

On December 8, 2005, the company completed a private placement of 6,388,888 units at $0.90 per unit for gross proceeds of $5,749,999, of which $5,299,060 was attributable to the common shares and $450,939 was attributable to the transferable common share purchase warrants. Issue costs were $851,464 of which $103,500 was settled with the issue of 115,000 units and $205,580 was settled with the issue of 638,888 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 $1.25. 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 (2004 - 4,540,714). 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:

	2005		2004	
	Number	**Weighted average exercise price $**	**Number**	**Weighted average exercise price $**
Outstanding - January 1	3,725,000	0.66	3,250,000	0.64
Options exercised	(90,000)	0.59	-	-
Options granted	400,000	0.93	475,000	0.83
Options cancelled	(425,000)	0.72	-	-
Outstanding - December 31	3,610,000	0.69	3,725,000	0.66
Exercisable at December 31	3,183,500	0.66	3,341,667	0.64
Available for future grant pursuant to company's stock option plan at December 31	840,714		815,714	

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 $**
2004	0.50 - 0.93	3,725,000	2.2	0.66
2005	0.50 - 1.00	3,610,000	1.7	0.69

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:

	2005	**2004**
Expected dividend yield	0%	0%
Expected stock price volatility	45%	48%
Risk-free interest rate	3.79%	3.08%
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 $**
2004	0.77	0.83
2005	0.90	0.93

b) Warrants

As at December 31, 2005, the following warrants were outstanding:

	2005		**2004**	
	Number	**Weighted average exercise price $**	**Number**	**Weighted average exercise price $**
Outstanding - January 1	9,617,104	0.97	11,944,758	0.84
Granted	3,948,332	1.19	2,395,000	0.90
Exercised	(454,500)	0.86	(63,654)	0.69
Cancelled	(6,767,604)	0.90	(4,659,000)	0.75
Outstanding - December 31	6,343,332	1.20	9,617,104	0.97

Warrants expire as follows:

	Number	Exercise price $
July 14, 2006	2,395,000	1.25
December 8, 2007	638,888	0.90
December 8, 2007	3,309,444	1.25
	6,343,332	

On December 8, 2005, the company granted the agent for a private placement, common share purchase warrants to buy 638,888 common shares at a price of $0.90 for two years 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 include 7,000,000 (2004 - 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 on December 20, 2000 will be cancelled and returned to the company's treasury.

12 Related party transactions and balances

At December 31, 2005, a director holds $100,000 of the convertible debentures (note 10) issued on September 5, 2002.

13 Income taxes

As at December 31, 2005, 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 $7,633,000 for Canadian income tax purposes which may be deducted in the calculation of taxable income in future years. The losses expire as follows:

	$
2007	466,000
2008	1,036,000
2009	1,145,000
2010	1,310,000
2014	1,440,000
2015	2,236,000
	7,633,000

In addition, BioteQ incurred a US tax loss in 2005 of $910,000 and in 2004 of $928,000 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, 2005, the company's future tax assets and liabilities were as follows:

	2005 $	2004 $
Property, plant and equipment	(94,000)	22,000
Financing costs	294,000	239,000
Research and development expense carry-forwards	365,000	366,000
Non-capital loss carry-forwards	3,291,000	2,085,000
	3,856,000	2,712,000
Valuation allowance	(3,856,000)	(2,712,000)
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 34.87% (2004 - 35.62%) statutory tax rate, at December 31 is:

	2005 **$**	**2004** **$**
Income tax recovery at statutory rates	(973,000)	(574,907)
Change in valuation allowance	1,144,000	413,000
Share issue costs	(195,000)	(112,484)
Non-deductible expenses	40,000	106,792
Tax rate differences in other jurisdictions	(17,000)	30,989
Other	1,000	136,610
	-	-

14 Financial instruments

Fair value of financial instruments

The company's financial instruments include cash, short-term investments, trade receivables, receivable from joint venture partner, accounts payable and accrued liabilities and bank loan. 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 and bank loan 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.

15 Segmented information

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

	2005 $	2004 $
Revenue		
Canada	1,920,961	693,205
U.S.	835,009	320,728
Other	-	20,249
	2,755,970	1,034,182
Property, plant and equipment		
Canada	2,411,434	2,176,220
U.S.	2,852,087	2,948,597
	5,263,521	5,124,817

During 2005, revenue was derived from three clients which was individually greater than 10% of total revenues. These three clients contributed: $1,068,295, $832,666 and $614,466.

Due to its location in the Canadian arctic, treatment fees for the Raglan plant are seasonal and are expected within the operating months of approximately May to October.

16 Commitments

The company has commitments of $53,000 in 2006 under operating leases for premises.

Cash on hand at December 31, 2005 of $5,718,575 is largely uncommitted, with the exception of a replacement tanks at Bisbee with a cost to BioteQ of $95,000. The company has capital projects it intends to build in 2006 and a significant amount of this cash will be required to complete these projects.

In January 2006, the company entered into an agreement with Jiangxi Copper Corporation for the development of a water treatment plant to recover metals at the Dexing copper mine. A basic engineering study will be performed by BioteQ, with costs of up to $100,000 to be shared. The agreement outlines the general terms of a joint venture agreement which will be finalized prior to completion of the study.

The company has the obligation under a cooperative development agreement to pay one-time royalty fees based on the plant capacity for specific technology if used in plants built by the company.

17 Subsequent events

In January and February 2006, 1,275,000 options were exercised for the issue of 1,275,000 common shares for cash consideration of $782,500.

Corporate Information

DIRECTORS

P. Bradley Marchant [4]
President & CEO of the Company
Vancouver, British Columbia

George W. Poling [1, 4]
Chairman of the Board of Directors of the Company
Senior Vice President
Rescan Environmental Services Limited
Vancouver, British Columbia

Kelvin P.M. Dushnisky [2, 3]
Senior Vice President, Corporate Affairs
Barrick Gold Corporation
Toronto, Ontario

Clement A. Pelletier [2, 4]
President & CEO
Rescan Environmental Services Ltd.
Vancouver, British Columbia

Ian W. Telfer [1, 3]
President & CEO
Goldcorp Inc.
Vancouver, British Columbia

Kenneth F. Williamson [1, 2, 3]
Independent Consultant
Dwight, Ontario

1 - member, Audit Committee
2 - member, Compensation Committee
3 - member, Corporate Governance Committee
4 - member, Technical Committee

OFFICERS AND MANAGEMENT

P. Bradley Marchant
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Richard W. Lawrence
Executive Vice President

John C. York
Chief Financial Officer

David Kratochvil
Manager, Engineering and Development

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TRANSFER AGENT
Pacific Corporate Trust Company
Vancouver, British Columbia

STOCK EXCHANGE
TSX Venture Exchange
Symbol: BQE

ANNUAL MEETING
2 pm, May 1, 2006
Vancouver Art Gallery
Heritage Courtroom # 302
750 Hornby Street
Vancouver, British Columbia

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BioteQ is a public company listed on the
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