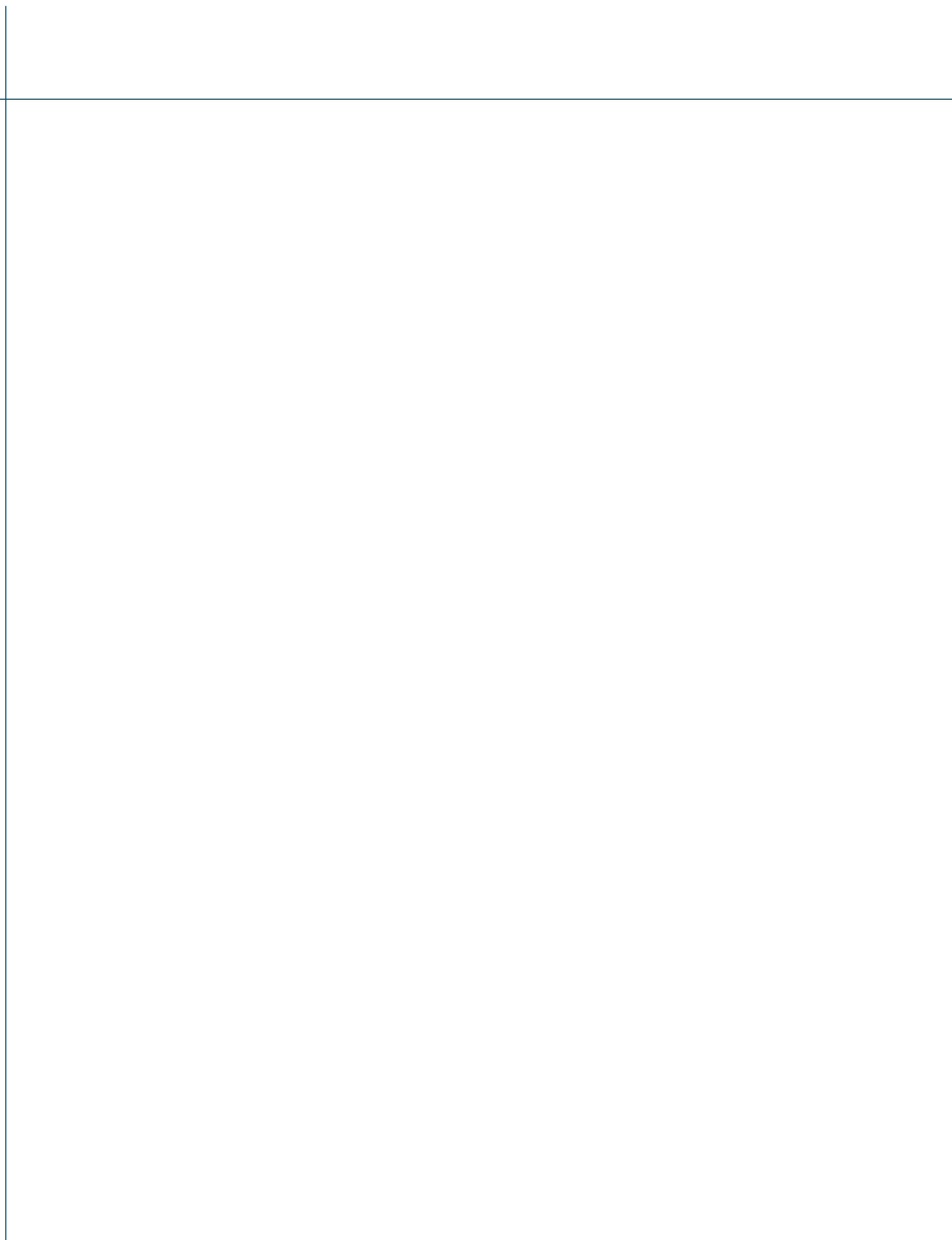
BioteQ Environmental Technologies Inc.

2006 Annual Report



Global Operations

Operations

Developing Projects

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President's Message

Dear Shareholder:

It is my pleasure to update you on BioteQ's successes and aspirations in this annual letter.

Fiscal 2006 was full of many accomplishments, several of which will begin to bear fruit during 2007. The past year was a busy one for BioteQ, where we solidified BioteQ's foundation for future growth. We did so by achieving an operating profit from our existing plants and entering into five new agreements for development projects, with mining companies from China, Mexico, Australia, and South America, creating a truly global organization.

Most important to our company this past year was achieving our first profit, after all corporate costs, in the third quarter. This is a major accomplishment and we expect more consistent results given the various projects that are planned to commence in 2007. More importantly, profitability truly validates the Company's business model and reveals the financial leverage that just a handful of existing projects can contribute to the bottom line.

Our second major accomplishment in 2006 was our ability to increase the number of projects in our pipeline from around the world. BioteQ is currently conducting business on four continents: North America, South America, Asia, and Australia. Not only does this show geographic diversification, but also exposes the need for our technology on a global basis. Here is a brief overview of some of the key regions where BioteQ has development projects:

China

We began 2006 by entering into a commercial agreement with Jiangxi Copper Corporation ("JCC") in China and capped the year off by expanding upon that relationship by entering into a definitive joint venture agreement, encompassing a total of six sites. Our first project with JCC at their Dexing Mine is currently under construction and expected to begin operation in 2007. We are very excited about this opportunity on many fronts. Firstly, we are grateful that we have begun building our presence in China with its largest copper producer, a major endorsement for BioteQ. Secondly, this opportunity will provide a commercial demonstration of sustainable water treatment for the entire Chinese mining industry – a large market opportunity for us.

Similar to our other customers, JCC is a leader in its industry. It is China's largest copper producer, it is also an important producer of sulphur, gold and silver and is one of the state supported key enterprises. JCC, based in Guixi City, has over 30,000 employees and is involved in all aspects of mining including exploration, mining, milling, smelting and refining. We believe that partnering with such large companies validates our business model and provides for stable growth in the future.

Chile

BioteQ has been in discussions for several years with Codelco Chile, the largest copper producer in the world, having approximately 20% of the total global copper reserves. During 2006 we signed a development agreement for a project at the Andina Division, a major step for BioteQ in entering the market in Chile. Currently, testwork is being conducted to evaluate our technology for application at Andina. If the testwork is successful, then a larger scale demonstration of our technology would be carried out. We are highly encouraged by the results so far and remain optimistic about a definitive project in the future. Although the sales cycle on this project is longer than most, due to the potential scale of operation, it is important to remember that the potential economic benefit of this project could be significantly larger than current BioteQ projects in operation.

Mexico

We currently have two development agreements in place with Columbia Metals Corporation Limited, both of which are undergoing testwork and development engineering. One of the important factors with this relationship is that although the project economics are based on copper recovery, Columbia is in the business of mining gold. Many of the known large gold deposits in the world are complexed with copper, which can lead to inefficient and costly processing for gold recovery by cyanide leaching. BioteQ has developed a new process, by combining our core technology with the SART technology developed jointly by SGS Lakefield and TeckCominco, offering a cost effective method to recover copper from the cyanide leach solution. At the same time, the cyanide can be recovered for recycle to the gold leaching operation. This cyanide, which had been associated with the copper, would have previously been lost. This technology development has the potential to overcome the technical, environmental and economic impediments to the development of some of the world's large copper-gold systems.

We are very excited about these two opportunities in Mexico and we believe the new technology could be a fertile source of new projects for BioteQ, both in Mexico and globally. We expect the first plant to be constructed by the end of 2007.

Australia

Australia is a new geographic market for BioteQ. We ended 2006 by signing a definitive agreement for a water treatment plant that includes copper and cobalt recovery for a subsidiary of Aditya Birla Minerals Limited. The copper-cobalt recovery plant, located in Queensland, Australia, will be built, owned and operated by BioteQ, and will be similar in size to our Raglan operation in Quebec. We anticipate plant construction and operation in 2007.

Development Pipeline

As many of these and other development projects get closer to becoming operating plants, it is very important to make sure the Company has sufficient funds to react to opportunities as they develop. Adequate capitalization is a key item to our negotiation process when proposing new ventures. As a result, in order to bolster BioteQ's balance sheet, we returned to the equity markets in December and raised $20 million. Not only does this give the Company the necessary funding but it has also broadened our shareholder base.

The combined cash on hand and the equity financing that closed in December gave the Company $27 million in cash in the treasury at the year-end. These funds provide the management team the financial flexibility for the next growth phase of the business. The current operations provide an excellent foundation and the new capital will ensure the financial strength required to complete our construction and ongoing sales objectives in 2007 and into 2008.

Currently there are five construction projects underway, with three expected to begin operation during the second half of 2007. Specifically, we are expecting the Dexing project for Jiangxi Copper, the Wellington Oro site for the U.S. Environmental Protection Agency (EPA), and the Mt. Gordon project in Australia for Aditya Birla all to be operational by the end of 2007. In addition we expect substantial completion of the Lluvia de Oro project with Columbia Metals in Mexico and the North Mine project with Inco this fiscal year for operation in 2008. Looking a little further out, we have identified development projects, such as the Codelco project, that we expect to advance toward construction in 2008 for operation in 2009.

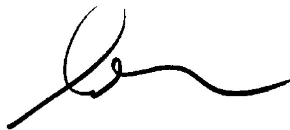
The Company is continuing to build momentum with new projects and it is important to understand that our philosophy is quality over quantity. We are a small, yet fast growing Company, we like to focus our resources, both personnel and capital, on a few quality projects per year, and make sure those get off the ground smoothly, rather than undertake too many projects and exhaust our resources. That being said, our goal is to construct three or more projects annually. Simultaneously, in addition to overseeing the construction of projects, we continue to develop our project pipeline for the future. We are now focused on prioritizing our pipeline to meet corporate goals and to meet the environmental needs of our customers over the next five years.

While on the subject of potential business, BioteQ is working on a new growth initiative which incorporates a new process and has the potential to enable the Company to monetize the value of treated water, and not limit our economics solely to resalable metals from acid drainage sources. We believe this new application will be an additional contributor to both revenue and earnings fairly quickly because it can be applied to hundreds of sites worldwide and is not restricted to mining. We have initiated development of this new process with our existing customers and the feedback to date has been very positive.

As the Company continues to build its footprint in the water treatment business globally, one thing is for certain, the value of water continues to gain momentum and we believe BioteQ is in position to benefit from this growth.

I am pleased with the Company's progress in 2006. Our future outlook is very promising thanks to a solid foundation of existing operations and developing projects, the dedication of our employees and the support of our business partners and customers to make water a priority for the future. We appreciate the continued support from our Board of Directors and from our shareholders and hope to build value as we execute our business plan in 2007 and beyond.

On behalf of the Board of Directors,



Brad Marchant
President and CEO

Management's Discussion and Analysis March 9, 2007

(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 a majority of independent directors, 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, 2006, which has been prepared in accordance with Generally Accepted Accounting Principles in Canada ("Canadian GAAP"). 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. The Company's Annual Information Form ("AIF") may also be found on SEDAR.

Description of Business

BioteQ Environmental Technologies Inc. ("BioteQ") is an industrial process technology company headquartered in Vancouver, British Columbia, Canada. BioteQ has developed technologies for water treatment, sludge processing 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.

Technologies

BioteQ's core technologies include the BioSulphide® Process, which can utilize either Sulphur Reduction or Sulphate Reduction, and are applied in a number of situations in mining and other industrial sectors. The ChemSulphide™ Process is used in place of the BioSulphide® Process where the production of biological sulphide is not warranted. Applications of BioteQ's sulphide technologies include treatment of acid drainage or industrial wastewater and groundwater for the selective recovery of valuable metals to provide a revenue source from the water. In addition, sulphide technologies can be used to replace or augment lime based treatment facilities to reduce or eliminate waste sludge production and the associated liabilities. 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.

BioteQ has also developed technology for the conversion of some forms of waste sludge into value-added construction materials, again to eliminate the potential long-term liability of sludge products and create a revenue source from the waste products. BioteQ's Sulf-IX™ technology is a recent development using ion-exchange to meet new regulations for the reduction of the sulphate content of treated water and produce water acceptable for industrial, agricultural and residential use.

Business Models

BioteQ will finance, build and operate or provide turn-key plants for the treatment of acid mine drainage and other acidic/metal effluents using its commercially proven technology. Typical business models for BioteQ's projects include:

- **Build, Own and Operate** - Where BioteQ provides the capital and operating costs for the treatment plant and charges a fee for water treatment and/or retains the metals recovered from the water. After capital payback, the metal revenues are shared with the property owner.
- **Joint Venture -** Where BioteQ shares the capital and operating costs with the property owner, operates the plant, and shares in the process benefits and metals recovered.
- **Turn-Key Plant - W**here BioteQ designs, builds and operates the plant on a fee basis.

In all cases BioteQ will provide a process guarantee. Potential revenue streams are plant sales, recovered metals, water treatment fees, process license fees and the sale of value-added co-products and treated water.

Projects

BioteQ has several projects at various stages: operational, construction and developmental. The following chart summarizes the major projects:

Company	Location	Name	First Year of Operation*
OPERATIONS			
Blue Note Metals (now operating 2 lime plants only)	New Brunswick	Caribou	2002
Phelps Dodge	Arizona	Bisbee	2004
Falconbridge/Xstrata	Northern Quebec	Raglan	2004
CONSTRUCTION PROJECTS			
Phelps Dodge (built, awaiting client infrastructure)	Oklahoma	Blackwell	2007/8
Aditya Birla	Australia	Mt Gordon	2007
Breckenridge/Summit County/US EPA	Colorado	Wellington Oro	2007
Jiangxi Copper	Jiangxi, China	Dexing	2007
Columbia Metals	Mexico	Lluvia de Oro	2007/8
DEVELOPMENT PROJECTS**			
Inco	Ontario	North Mine	2008
Columbia Metals	Mexico	La Jojoba	2008
EPCOR	Britannia, BC	Britannia	2008
Codelco/IM2	Chile	Andina	2009
Barrick Gold	Dominican Republic	Pueblo Viejo	2010
Jiangxi Copper	China	Five sites TBA	various

* future dates based on current project estimates

** potential projects, construction contracts not finalized

BioteQ has constructed and commissioned commercial treatment plants using its sulphide technology at three sites: Bisbee, Arizona (Phelps Dodge), Raglan in northern Quebec (Falconbridge/Xstrata) and the Caribou Mine in New Brunswick (acquired by Blue Note Metals Inc. on August 1, 2006 from Breakwater Resources Ltd.). A fourth treatment plant was commissioned in 2005 at the Caribou site to reprocess 50,000 tonnes of tailings annually for metals removal and final tailings disposal. With the change of ownership in 2006, this plant was sold to the new owner and BioteQ's sulphide plant was removed from the site. The Company continues to manage two lime treatment plants at the Caribou site. A fifth BioteQ plant (its second with Phelps Dodge) has been completed and is ready for installation and commissioning in Blackwell, Oklahoma, subject to completion of site infrastructure and permitting by Phelps Dodge.

The Company also has several new projects currently in the construction/development schedule. The Company has engineered a plant for construction at a Superfund site in Colorado (Wellington Oro), which was approved by the U.S. Environmental Protection Agency ("US EPA"), and which is now in the initial stages of procurement and construction engineering. The Company also completed an engineering study for Inco (now CVRD-INCO) for a water treatment plant at Sudbury, Ontario and is currently working on the construction engineering, subject to a final operating agreement. The joint venture with Jiangxi Copper has been formed and the first project, at their Dexing mine site, is scheduled for completion this fiscal year. The definitive joint venture, which was signed in November

2006, includes an additional five sites for BioteQ to evaluate. The Company also signed agreements for preliminary engineering of a new application of BioteQ's technology for two gold mines in Mexico with Columbia Metals Corporation Ltd, which is based in Toronto. A recent agreement anticipates construction of the first plant Lluvia de Oro, in Sonora, Mexico, for completion in late 2007. BioteQ has also advanced its relationship with Codelco Chile, one of the world's largest copper producers, through their wholly owned subsidiary IM2, for the development of water treatment and metal recovery technologies for the Andina division. BioteQ has also entered into a new geographic market recently by signing a definitive agreement for a water treatment plant in Australia with Birla Mt Gordon, a subsidiary of Aditya Birla. The copper-cobalt recovery plant, to be located near Mt Isa in Queensland, will be built, owned and operated by BioteQ and is expected to be in operation in 2007. Work has continued on the Britannia project in 2006 to evaluate the potential for expansion of the existing lime treatment plant to include a novel method of producing saleable construction products from lime sludge. An internal pilot plant and feasibility study was completed in early 2007. A decision to proceed to the next stage is expected in 2007 for possible construction in 2008. Engineering and pilot work on the Pueblo Viejo project with Barrick Gold Corporation, has been completed and BioteQ awaits Barrick's decision on the progress of their gold project, which if approved, could involve BioteQ in a future year.

Operations

Overall Performance

Three-Year Comparative Information - $

	2006	2005	2004
Revenues	4,519,728	2,755,970	1,034,182
Operating costs	2,868,188	3,220,047	686,412
General and administrative and other	3,400,131	2,326,718	1,962,023
Net loss	1,748,591	2,790,795	1,614,253
Net loss per share (basic and diluted)	0.04	0.10	0.06
Total assets	33,733,391	11,504,022	7,589,703
Total long-term financial liabilities	0	359,042	334,462
Total liabilities	1,391,464	1,653,500	676,609
Shareholders' equity	32,341,927	9,850,522	6,913,094

Comparison of the years

Until fiscal 2003, the Company was developing its BioSulphide process. During the three years 2004 to 2006, the Company's existing sulphide plants commenced operations (in late 2004) and matured into steady producers for BioteQ. The Caribou site water management contract also started in the fourth quarter of 2004. Therefore, the results for 2005 represent the first full year of operations and the 2004 revenues, operating costs and net losses are not directly comparable. In 2005, revenues were lower and operating costs and losses were higher than budget, due largely to mechanical issues at the Bisbee site and extraordinarily high costs at Caribou due to record precipitation. Revenue improvements in 2006 and lower operating costs produced a much improved net operating result. The increase in revenues was very largely due to Bisbee and Raglan. Copper revenues at Bisbee increased from $614,000 in 2005 to $1,966,000 in 2006. Copper production was 41% higher due to mechanical improvements made in 2005

and early 2006, coupled with the benefit of increased operating experience. Copper prices also contributed greatly, with an average price 80% higher in 2006. Raglan revenues increased from $832,000 in 2005 to $1,208,000 in 2006. The improvement was very largely due to an increase of 60% in water volumes being processed and a price increase of 5.7% on treatment fees charged.

General and administrative and other costs increased in 2006 due largely to an increase in marketing and development costs, stock-based compensation charges and general and administrative costs. Marketing and development increased by $586,000 in 2006, the largest part being due to a royalty due on government grants received some years ago. The 2% royalty is based on revenues, which increased in the year, resulting in payments of $39,000 in development costs. In addition, an accounting accrual of $251,000 was made at the year-end to record the unpaid balance of the grants received, on the basis of reasonable certainty of future revenue streams, considering the increased stability of the Company. Marketing costs also were higher in 2006 due to three particular areas of emphasis. Australia, China and South America developments incurred costs of $221,000 in the year, however, two projects for construction in 2007 have resulted. Marketing and development costs in 2006 also include an amount of $66,000 relating to a large development project from 6 years ago. The supplier's claim for reimbursement was only recently documented to properly support their claim.

Stock based compensation charges increased by $352,000 in 2006, reflecting the fair value charges for stock options granted in 2006. These charges are calculated using the Black-Scholes option pricing model and, due to BioteQ's historical stock performance, indicate current fair values which are considerably higher than in the past. New options issued were higher in 2006 due to a 50% increase in the number of employees and also due to directors and officers old options, which had been issued in 2001, reaching the end of their five year life. They were exercised before expiry and new options were issued. These charges will continue to be high in 2007 for the same reasons, as the vesting periods are reached.

General and administrative costs increased by $489,000 over 2005. This increase was largely due to an increase in employees, an increase in legal and professional services and general office expense. More information is provided below with the table-"Schedule of general and administrative costs".

Assets increased largely due to an equity financing in late 2006 for net proceeds of $18.4 million and the exercise of warrants and options during the year, which resulted in additional cash of $5.1 million. Total liabilities and long-term financial liabilities have reduced in 2006 due to the conversion of Series 'A' debentures with a face value of $400,000 to common shares. Shareholder equity changes in 2006 are the result of the above-mentioned financing and warrant and option exercises, stock based compensation charges of $429,168 and the net loss for the year.

The Company did not achieve the small profit expected for 2006, although it did record a profitable third quarter. Two projects, Blackwell and Wellington Oro, which were budgeted for 2006 were delayed until 2007 by the clients and the Bisbee plant did not achieve consistent operations until the third quarter. New projects are underway which are expected to start contributing to revenues in 2007 and, with existing operations, the Company is forecasting a profitable 2007.

At December 31, 2006, the Company had 33 full time employees and one part-time employee, compared to 22 full time and one part time employee at the end of 2005. The increase in full time staff is the result of hiring a Controller and project/marketing assistance in the Vancouver head office, 6 extra personnel at operating plants (3 of which were just new to the BioteQ payroll), a construction manager, a new engineer for the China project and one laboratory technician.

Operating Results

Financial data for the last eight quarters (unaudited)

Quarter ended	Dec 06	Sept 06	Jun 06	Mar 06	Dec 05	Sept 05	Jun 05	Mar 05
Total revenues ($000's)	1,175	1,313	1,286	745	681	815	671	589
Plant & other operating expenses ($000's)	736	537	854	741	1,163	698	799	560
Net income(loss) before G&A, Amortization & other($000's)	439	776	432	4	(482)	117	(128)	29
General & administrative, amortization & other ($000's)	1,347	698	748	607	649	639	566	473
Net Income (loss) ($000's)	(908)	78	(316)	(603)	(1,131)	(522)	(694)	(444)
Loss per share	$0.02	$0.00	$0.01	$0.02	$0.04	$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.

Revenues have increased every quarter in 2006 over 2005. Generally, this reflects improved performance at both the Raglan and Bisbee plants, but also an improved copper price for Bisbee concentrate. Caribou revenues were similar to 2005. The quarters' revenues vary due to the Raglan seasonal operation from approximately May to October, due to sub-arctic conditions in Northern Quebec. Operating expenses decreased in the third and fourth quarters of 2006, due to the changing contract for Caribou, and Raglan operations being only one month in the fourth quarter. Amortization of property plant and equipment was very similar each quarter and year.

General & administrative expenses, amortization & other in the fourth quarter of 2006 show an increase of $649,000 over the third quarter, of which approximately $400,000 could be considered unusual expenditures. The accrual for payment of royalties on future sales contributed $251,000 (part of marketing and development costs, referred to previously) and general and administrative costs were higher by $205,000 (see details below). Higher stock based compensation charges of $330,000, referred to previously, was incurred in Q4 and these costs will continue into 2007.

Schedule of general and administrative expenses (unaudited)

	3 months ended Dec 31		Year ended Dec 31	
	2006	2005	2006	2005
Management and office services	295,408	201,317	915,224	762,655
Rent	34,351	23,735	114,661	96,283
Legal, audit and professional	111,383	57,035	317,381	150,935
Travel	45,442	35,174	104,020	121,110
Investor relations	43,860	21,855	96,188	61,514
Directors fees and expenses	22,000	28,649	68,318	79,869
Office and other expenses	99,648	59,719	366,195	221,049
Total for the periods	$652,092	$427,484	$1,981,987	$1,493,415

The increase in general and administrative costs for the year over 2005 is largely due to the following. Management and office services increased in 2006 due to the addition of a Controller early in 2006 and a project manager in mid year. The last quarter was high due to the payment of year-end bonuses. Rent increased due to a full year of a renewed

office lease at higher rates and somewhat more space. New laboratory space in 2007 will increase the rental costs by 15%. Legal, audit and professional increased over 2005 due particularly to higher legal fees for off-shore and other agreements and also for extra costs in the last quarter related to the December 2006 financing, including one-time reviews of past quarters financial results. Investor relations costs increased due to the engagement of a US firm in the fourth quarter. Office and other expenses increased as a result of higher Quebec capital taxes by $60,000, due to the increased capital from the December financing. Also, advertising, insurance and transfer agent, and AGM costs all increased in 2006. We expect general and administrative costs in 2007 to be less than 2006.

Fourth Quarter

A summary of the fourth quarter plant operating results by project is shown below:

	Revenues	Plant Operating Costs	Plant Operating Profit
Bisbee	636,000	377,000	259,000
Raglan	263,000	172,000	91,000
Caribou	256,000	215,000	41,000
Other	20,000	(28,000)	48,000
Total	$1,175,000	$736,000	$439,000

Bisbee plant operating costs were approximately $85,000 higher than normal due to preventative maintenance and property tax charges in December. Raglan operations are seasonal and revenues include only five weeks of water treatment activity. Operating costs include seasonal shutdown costs and a year-end bonus. Caribou results reflect the first full quarter of the new operating agreement with Blue Note Metals.

Operating 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.

The Phelps Dodge Project – Bisbee, Arizona

In August 2004, the Company completed commissioning of a copper recovery plant using the BioSulphide® Process 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. Revenues and expenses are shared equally between the joint venture members.

Operating statistics	Operations Qtr 4 2006	Operations Qtr 4 2005	Operations Year 2006	Operations Year 2005
Water treated (millions of gallons)	232	57	517	309
Mechanical availability (%)	98	52	88	61
Copper produced (pounds in concentrate)	290,000	171,000	1,208,000	938,000
Copper recovery	>99%	>99%	>99%	>99%

Copper production at the site during the year was 40% better than the previous year. Mechanical performance improved radically in the second half of the year and produced over double the amount of copper than 2005. Process consistency with the production of hydrogen sulphide from the bioreactor was also much improved in the second half of the year. Both these improvements can be related to the efforts of the operating personnel under new leadership at the site.

The lower copper grades previously reported continued through the fourth quarter and reduced the copper grade by approximately 15% over the first half of the year and also 2005. To our advantage, there was also lower ferric iron in the water, which consumes less sulphide and reduces operating costs. It also avoids the need for a ferric removal stage being built into the process, which had been discussed previously. BioteQ believes that grades will improve with more attention to water distribution on the low-grade stockpile, which will be addressed in 2007.

The expected plant production for 2007 is 1.5 million pounds of copper, producing revenue for BioteQ's share of approximately $2,000,000. Revenue for 2006 met expectations of almost $2,000,000 through a copper shortfall being offset by price increases.

The Falconbridge/Xstrata Project – Raglan Mine, Quebec

BioteQ's Raglan plant located in Northern Quebec at the Raglan Mine, which is owned by Falconbridge/Xstrata, was designed, built and is operated by BioteQ for fees, to recover nickel from mine wastewater using BioteQ's ChemSulphide™ process. The nickel concentrate produced by the plant is shipped with other nickel concentrate produced at the mine. In 2006, over 11,600 kilograms of nickel was removed from the wastewater, which allowed discharge of treated water directly into the environment. No sludge is created for storage, as in a conventional lime treatment plant. The plant was commissioned and reported limited operations in 2004. The first year of full operation, which is seasonal from May to October, was in 2005.

Preparations for the 2006 operating season started in March, the plant began discharging clean water at the end of April, approximately 3 weeks earlier than in 2005.

Operating statistics (seasonal) (discharge commenced in 2006 in late April and in 2005 on May 20). Both years ended early November.	Operations Qtr 4 2006	Operations Qtr 4 2005	Operations Year 2006	Operations Year 2005
Water treated (cubic meters)	170,000	119,000	816,000	508,000
Days operated (some partial)	38	38	186	170
Nickel recovery	>99%	>99%	>99%	>99%

The plant finished its operating season successfully with 60% more water treated than 2005 and 15% more than the volume target from the client. BioteQ had been requested to increase the plant's throughput in 2006 to 700,000 cubic meters of water, from 500,000 treated in 2005. With some relatively minor plant upgrades, the plant exceeded the client's target. Discharged water was significantly below the allowable discharge quality limits. After a start-up period in April, process availability was approximately 87%, the same as in 2005. Operating costs were close to expectations and included expenditures on improving operating procedures by the documentation of health, safety and management standards to become ISO 14001 compliant. The independent verification of procedures and systems was completed in 2006 and will form the basis of improving systems reliability at all BioteQ's sites.

Revenues of $1,100,000 were expected in 2006 for both the fixed fees and water treatment fees and were actually $1,208,000. Revenues for 2007 are expected to be higher, in the range of $1,290,000, for processing a similar quantity of water as in 2006.

The Caribou Mine Project, 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 replaced previous agreements for the Caribou sites. BioteQ 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, had not been operating, pending expansion engineering, for possible treatment of old tailings with elevated metal content or zinc recovery from the mine drainage. The change in ownership to Blue Note Metals Inc. in August 2006 caused a termination in the CanZinco contract and a new one-year deal for similar services with Blue Note, who intend to return both sites to producing zinc mines. At the same time, BioteQ was paid out for its capital investment in the sites, with the exception of the BioSulphide plant which has been retained by BioteQ. This small plant is maintained to provide a critical back-up supply of biomass for the existing Bisbee plant and will be used as the start-up supply of biomass for future BioSulphide plants.

BioteQ had been improving the water treatment capacity at the two lime plant sites during 2005 through a number of process changes. A new high density sludge circuit had been built, as well as installing a new lamella clarifier to produce a higher density sludge for more economic handling, and an improvement to water quality. The changes have allowed the plants to treat double the amount of water in 2006, with discharge water meeting all regulatory standards. The water treatment contract is now on a cost plus 10% basis, which produces lower revenue, but assures a small profit.

General

Disclosure Controls and Procedures

As at the financial year ended December 31, 2006, 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, 2006 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.

Financial Instruments

Effective January 1, 2007, the following new accounting pronouncements came into effect: CICA Handbook section 1530 "Comprehensive Income" and CICA Handbook Section 3855 "Financial Instruments-Recognition and Measurement". CICA Handbook Section 3855 introduces new requirements for the recognition and measurement of financial instruments. CICA Handbook section 1530 introduces a new requirement to temporarily present certain gains and losses outside net income in a location called "Other Comprehensive Income". The Company will adopt these standards effective January 1, 2007 and does not expect the adoption of these standards to have a material impact on the Company's financial statements.

Related party transactions

At December 31, 2005, a director held $100,000 of the Company's convertible debentures issued on September 5, 2002. All the outstanding debentures were converted to common shares of the Company during 2006, of which the director received 153,846 shares.

Risks and uncertainties

Companies operating in the process technology sector face many and varied risks. While the company strives to manage such risks to the extent possible and practical, risk management cannot eliminate risk totally. Following are the risk factors which the Company's management believes are most important in the context of the Company's business. It should be noted that this list may not be exhaustive and other risks may apply. An investment in the Company may not be suitable for all investors.

Dependence on Key Personnel

The Company is substantially dependent upon a number of key employees and consultants. The loss of any one or more of the Company's key employees or consultants could have a material adverse effect on its business. Additionally, the Company's ability to develop, manufacture and market its products and compete with current and future competitors depends, in large part, on its ability to attract and retain qualified personnel. Competition for qualified personnel in the Company's industry may prove to be intense, and it may have to compete for personnel with companies that have substantially greater financial and other resources than it does. Failure to attract and retain qualified personnel could have a material adverse effect on the Company's business operating results and financial condition.

Securities of the Company and Dilution

The Company anticipates generating cash flow from all plants built, but not sufficient cash flow to provide for all future financing requirements. It is anticipated that each project built will be financed largely by presently available resources and debt, but some equity may be required. There can be no assurance that such financings will be available if needed or that, if available, on terms satisfactory to the Company. The issuance of common shares in the capital of the Company in the future could result in further dilution to the Company's shareholders.

Competition

Although the Company is not currently aware of any competitors, there is a possibility that other companies will compete with the Company and such competitors may possess greater financial resources and technical facilities. Increased competition could result in significant price competition, reduced profit margins or loss of market share. The Company may not be able to compete successfully with existing or future competitors and cannot ensure that competitive pressures will not materially and adversely affect its business, operating results and financial condition.

Uncertain Profitability of Commercial Application

The Company believes there are many sites which can benefit from the Company's process. The Company has built three significant commercial plants, one is awaiting installation and commissioning and several more are in the engineering stage or at the start of construction. Until the Company has completed these revenue generating plants the Company's success cannot be assured. The Company currently derives its revenue from a limited number of sources (contracts). The loss of any one contract could result in a materially adverse effect on the Company's financial condition.

Technology Risk

The Company has completed the construction and commissioning of a number of plants. The operating and engineering data from these plants is used in estimates for new projects under evaluation and/or in the design engineering stage. Notwithstanding the foregoing, each new commercial venture undertaken by the Company has the inherent technical risk of any continuous biological and/or chemical process, which could include the loss of the biological feedstock.

Intellectual Property Protection

The Company cannot provide any assurance that any further intellectual property applications will be approved. Even if they are approved, such patents, trademarks or other intellectual property registrations may be successfully challenged by others or invalidated. The success of the Company and its ability to compete are substantially dependent on its internally developed technologies and processes which the Company will need to protect through a combination of patent, copyright, trade secret and trademark law.

The trademark, copyright and trade secret positions of the Company's business are uncertain and involve complex and evolving legal and factual questions. In addition, there can be no assurance that competitors will not seek to apply for and obtain trademarks and trade names that will prevent, limit or interfere with the Company's BioSulphide®, ChemSulphide®, or Sulf-IX™ processes. Litigation or regulatory proceedings, which could result in substantial cost and uncertainty to the Company, may also be necessary to enforce the intellectual property rights of the Company or to determine the scope and validity of other parties' proprietary rights. There can be no assurance that the Company will have the financial resources to defend its patents, trademarks and copyrights from infringement or claims of invalidity.

The patent positions of emerging companies can be highly uncertain and involve complex legal and factual questions. Thus, there can be no assurance that any patent applications made by or on behalf of the Company will result in the issuance of patents, that the Company will develop additional proprietary products that are patentable, that any patents issued or licensed to the Company will provide the Company with any competitive advantages or will not be challenged by any third parties, that the patents of others will not impede the ability of the Company to do business or that third parties will not be able to circumvent the patents assigned or licensed to the Company. Furthermore, there can be no assurance that others will not independently develop similar products, duplicate any of the Company's products or, if patents are issued and licensed to the Company, design around the patented product developed for the benefit of the Company.

Since patent applications are maintained in secrecy for a period of time after filing, and since publication of discoveries in the scientific or patent literature often lags behind actual discoveries, the Company cannot be certain that the investors of the patents were the first creators of inventions covered by pending applications, or that it was the first to file patent applications for such inventions. There can be no assurance that the Company's patents, if issued, would be valid or enforceable by a court or that a competitor's technology or product would be found to infringe such patents.

The Company is not currently aware of any claims asserted by third parties that the Company's intellectual property infringes on their intellectual property. However, in the future, a third party may asset a claim that the Company infringes on their intellectual property. If the Company is forced to defend against these claims, which may be with or without any merit or whether they are resolved in favour or against the Company, the Company may face

costly litigation and diversion of management's attention and resources. As a result of such a dispute, the Company may have to develop costly non-infringement technology or enter into license agreements which may not be available at favourable terms.

Access to Proprietary Information

The Company generally controls access to and distribution of its technologies, documentation and other proprietary information. Despite efforts by the Company to protect its proprietary rights from unauthorized use or disclosure, parties may attempt to disclose, obtain or use its solutions or technologies. There can be no assurance that the steps the Company has taken or will be taking will prevent misappropriation of its solutions or technologies, particularly in foreign countries where laws or law enforcement practices may not protect proprietary rights as fully as in the United States or Canada.

Commodity Prices

On occasion, the Company will be selling recovered metals obtained from treated water to generate revenue. These recovered metals face commodity pricing risks and thus their prices may vary based on world supply and demand. There can be no assurance that the price of metals will maintain at current buying rates.

Currency Risk

Commodities are priced in United States dollars. Therefore, any devaluation of the United States dollar would adversely affect the Company's future revenues. Further, since a significant portion of the Company's expenses are in Canadian and other currencies, a significant increase in the value of such currencies relative to the United States dollar coupled with unstable or declining base metal prices could have an adverse affect on the Company's results of operations to the extent that sales of base metals are not hedged.

Environmental Regulation

The Company's business and operations are subject to environmental regulation in various jurisdictions in which it operates. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's business and operations.

Management of Growth

The Company could experience growth that could put a significant strain on each of the Company's managerial, operational and financial resources. The Company must implement and constantly improve its operational and financial systems and expand, train and manage its employee base to manage growth. The Company might also establish additional water treatment facilities which would create additional operational and management complexities. In addition, the Company expects that it's operational and management systems will face increased strain as a result of the expansion of the Company's technologies and services. The Company might not be able to effectively manage the expansion of its operations and systems, and its procedures and controls might not be adequate to support its operations. In addition, management might not be able to make and execute decisions rapidly enough to exploit market opportunities for the expansion of the Company's technologies and services. If the Company is unable to manage its growth effectively, its business, results of operations and financial condition will suffer.

Conflicts of Interest

Certain of the directors, officers and other members of management of the Company and its subsidiaries, Biomet and BioteQ Arizona, Inc. serve (and may in the future serve) as directors, officers, promoters and members of management of other companies and therefore it is possible that a conflict may arise between their duties as a director, officer or member of management of the Company or Biomet or BioteQ Arizona, Inc. and their duties as a director, officer, promoter or member of management of such other companies.

The directors and officers of the Company are aware of the existence of laws governing accountability of directors and officers for corporate opportunity and requiring disclosures by directors of conflicts of interest and the Company will rely upon such laws in respect of any directors' and officers' conflicts of interest or in respect of any breaches of duty by any of its directors or officers. All such conflicts will be disclosed by such directors or officers in accordance with the Business Corporations Act (British Columbia) and they will govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law.

Possible Volatility of Share Price

The market price of the Company's common shares could be subject to wide fluctuations in response to, and may be adversely affected by, quarterly variations in operating results, announcements of technological innovations or new products by the Company or its competitors, changes in financial estimates by securities analysts, or other events or factors. In addition, the financial markets have experienced significant price and volume fluctuations. This volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to their operating performance. Broad market fluctuations or any failure of the Company's operating results in a particular quarter to meet market expectations may adversely affect the market price of the Company's common shares.

Lack of Dividends

No dividends have been paid to date on the Company's common shares. The Company anticipates that for the foreseeable future the Company's earnings, if any, will be retained for use in its business and that no cash dividends will be paid on the common shares.

Possible Loss of Investment

There can be no assurance of the Company's success and, therefore, any investors in securities of the Company could potentially lose their entire investment.

Dilution

There are a number of outstanding securities and agreements pursuant to which common shares of the Company may be issued in the future which will result in dilution to the Company's shareholders.

Liquidity and Capital Resources

At the year-end, the Company had 59,770,025 (fully diluted-68,235,171) common shares issued and outstanding, compared to 42,368,727 (fully diluted-52,937,444) for 2005. During the year, there was one equity financing which resulted in 11,478,571 shares being issued for cash proceeds (net) of $18,378,037. The financing was completed at a price of $1.75 per share, with issue costs of $2,103,263, including 7% cash commission to the agent, and also 1,142,857 warrants to buy the same number of common shares for 2 years at $1.75 per share. The net cash proceeds of the financing amounted to approximately $18.3 million and is to be used for general working capital purposes, including the development of new business opportunities and capital assets. Additional cash was received during the year from options and warrants which were exercised to issue 5,307,343 shares, for cash proceeds of $5,063,665. An additional 615,384 shares were issued in the conversion of Series A debentures to common shares. At the current date of March 9, 2007, the issued shares are 60,365,169 and fully diluted are 68,513,371. There were 4,295,970 warrants and 3,852,232 options outstanding to buy the same numbers of common shares. The increase in the number of issued shares in 2007 is due to the exercise of 353,333 options for cash of $256,649 and the exercise of 241,811 warrants for cash of $406,820. New options totaling 278,200 were granted subsequent to the year-end.

At December 31, 2006, the Company had cash and short-term investments, consisting of major bank paper, of $27,199,914, an increase of $21,481,339 from December 31, 2005. Equity issues noted above were responsible for new cash of $23,441,702, The Company used its cash resources to fund its 2006 operating loss of $852,334, net of non-cash items, changes in non-cash working capital of $504,974 and to fund property, plant & equipment and intangible asset changes of $424,410.

Working capital at the year-end was $27,042,022, which had increased from December 31, 2005 by $22,163,958. The change was caused by substantially the same factors as affected cash, noted above. Additional funds of $6.2 million may be available from the exercise of outstanding warrants, which are all in the money at the present time. Of these resources, approximately $10 million has been committed to the construction of three new projects in 2007, the Dexing, Lluvia de Oro and Mt. Gordon projects. In addition, $50,000 has been committed to a basic engineering study. The balance is largely uncommitted, with the exception of a commitment to repay the HSBC 3 year bank loan by payments of $17,200 per month until January 2009 and commitments for office and laboratory lease payments of approximately $13,000 per month until 2008. Also the Company is committed to repayment of government assistance in the form of a 2% royalty on corporate gross revenues. The maximum amount that could become payable is $460,297. The Company expects its existing and new operations, some of which are planned to be contributing before the end of the year, to provide the necessary cash flow in 2007 to fund other corporate expenditures such as general and administrative, marketing and development expenses and interest costs.

Management believes that the current working capital, together with the cash flow from operations, is sufficient to support the Company's operating requirements and new project capital in the foreseeable future. In the longer term, the Company expects it will continue to grow through developing new projects, which will likely require additional equity or debt financing, depending on project scope and commercial terms. Management believes such funding will be available if its existing projects are proven to be successful, but recognizes the market uncertainty of such arrangements.

Management's Report to the Shareholders

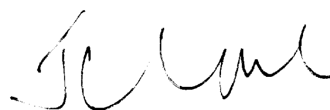
The accompanying consolidated financial statements, management's discussion and analysis and all information in the Annual Report have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. The consolidated financial statements were prepared in accordance 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, the majority 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

PricewaterhouseCoopers LLP
Chartered Accountants
PricewaterhouseCoopers Place
250 Howe Street, Suite 700
Vancouver, British Columbia
Canada V6C 3S7
Telephone +1 604 806 7000
Facsimile +1 604 806 7806

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, 2006 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, 2006 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.
March 9, 2007

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.

Consolidated Balance Sheets
As at December 31, 2006 and 2005

	2006 $	2005 $
Assets		
Current assets		
Cash	1,914,068	5,718,575
Short-term investments	25,285,846	-
Trade receivables	521,273	227,631
Receivable from joint venture partner	64,790	-
Taxes receivable	186,447	-
Inventory (note 6)	251,652	20,230
Prepaid expenses	120,246	88,990
Other	89,164	117,096
	28,433,486	6,172,522
Property, plant and equipment (note 7)	5,042,592	5,263,521
Intangible asset (note 8)	224,542	-
Deferred financing costs	32,771	67,979
	33,733,391	11,504,022
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	992,794	607,502
Deferred revenue	-	110,641
Bank loan (note 9)	398,670	576,315
	1,391,464	1,294,458
Liability component of Series A debentures (note 10)	-	359,042
	1,391,464	1,653,500
Shareholders' Equity		
Capital stock, warrants and contributed surplus (note 11)	43,834,716	19,498,592
Equity component of Series A debentures (note 10)	-	96,128
Deficit	(11,492,789)	(9,744,198)
	32,341,927	9,850,522
	33,733,391	11,504,022

Commitments (note 16)

Subsequent events (note 17)

Approved by the Board of Directors

"George W. Poling" "Clement A. Pelletier"

George W. Poling, Director Clement A. Pelletier, Director

Consolidated Statements of Operations and Deficit
For the years ended December 31, 2006 and 2005

	2006 $	2005 $
Revenue	4,519,728	2,755,970
Operating expenses		
Plant and other operating costs	2,868,188	3,220,047
Amortization of property, plant and equipment	391,377	377,321
Amortization of intangible asset	23,228	-
Amortization of deferred financing costs	36,208	21,029
General and administrative expenses	1,981,987	1,493,415
Stock-based compensation charge	429,168	77,658
Marketing and development costs	842,434	256,153
Loss on disposal of plant	6,192	-
	6,578,782	5,445,623
Loss from operations	2,059,054	2,689,653
Interest income	(348,852)	(36,295)
Interest expense	55,183	75,881
Foreign exchange (gain) loss	(16,794)	61,556
Loss for the year	1,748,591	2,790,795
Deficit - Beginning of year	9,744,198	6,953,403
Deficit - End of year	11,492,789	9,744,198
Loss per share - basic and diluted	(0.04)	(0.10)
Weighted average number of shares outstanding	39,842,920	29,036,609

Consolidated Statements of Cash Flows
For the years ended December 31, 2006 and 2005

	2006 $	2005 $
Cash flows from operating activities		
Loss for the year	(1,748,591)	(2,790,795)
Items not affecting cash		
Amortization of property, plant and equipment	391,377	377,321
Amortization of intangible asset	23,228	-
Amortization of deferred financing costs	36,208	21,029
Accretion of Series A debentures (note 10)	10,084	24,580
Stock-based compensation charge	429,168	77,658
Loss on disposal of plant	6,192	-
	(852,334)	(2,290,207)
Change in non-cash working capital items	(504,974)	380,214
	(1,357,308)	(1,909,993)
Cash flows from financing activities		
Issuance of common shares and warrants	19,999,999	5,749,999
Share issuance costs	(1,621,962)	(542,384)
Proceeds from exercise of warrants and options	5,063,664	442,950
Repayment of bank loan	(177,645)	576,315
Deferred financing costs	(1,000)	(7,445)
	23,263,056	6,219,435
Cash flows from investing activities		
Purchase of property, plant and equipment	(596,486)	(516,025)
Proceeds from disposal of property, plant and equipment	419,847	-
Purchase of short-term investments	(25,285,846)	-
Purchase of intangible assets	(247,770)	-
	(25,710,255)	(516,025)
(Decrease) increase in cash	(3,804,507)	3,793,417
Cash - Beginning of year	5,718,575	1,925,158
Cash - End of year	1,914,068	5,718,575
Supplemental cash flow information		
Interest paid	45,099	51,301
Withholding taxes paid and receivable	186,447	-
Non-cash financing and investing activities		
Debenture converted to common shares (note 10)	465,254	-
Warrants issued in settlement of issue costs (note 11)	393,801	205,580
Units issued in settlement of issue costs (note 11)	87,500	103,500

Notes to Consolidated Financial Statements
December 31, 2006 and 2005

1 Company operations

BioteQ Environmental Technologies Inc. (BioteQ or the company) and its wholly owned subsidiary Biomet Mining Corporation (Biomet), have acquired and developed processes to treat metal-laden, sulphate-rich waste water streams for acid neutralization and metal recovery. Three commercial scale plants have been built using its patented BioSulphide® or Chemsulphide™ technology and others are 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 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 represent investment in banker's acceptances with maturity dates of more than 90 days. Short-term investments are carried at cost which approximates fair value.

Inventory

Work-in-progress and inventory of copper concentrate are recorded at the lower of cost and net realisable value. Spare parts are valued at the lower of cost or replacement cost. Work in progress and concentrate inventory includes all direct costs incurred in production, including direct labour, materials and directly attributable overhead costs.

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;

Notes to Consolidated Financial Statements
December 31, 2006 and 2005

- revenue from construction and sale of plants recognized on a percentage of completion basis, based on performance as services are provided or contract milestones are met. If it is determined during the performance of the contract that a loss will result, a provision for the estimated loss is immediately recognized;

- revenue from contracts with multiple deliverables requires the identification of separate units of accounting and revenue is allocated among the separate units based on their relative fair values. The amount allocated to each unit is recognized when each unit or service is delivered, provided all other revenue recognition criteria are met;

- Contingent revenue attributable to the achievement of developmental milestones is recognized only on the achievement of the applicable milestone.

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 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 except when the effect would be anti-dilutive. For the years ended December 31, 2006 and 2005, the company excluded potential common share equivalents of 2,180,037 and 912,803 respectively, 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 awards to employees and non-employees granted after January 1, 2001 using the fair value based method prescribed under the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments". Under this method, stock-based awards are measured at the fair value of the equity instrument issued and stock-based compensation expense is recorded over the period that the services are provided. Contributed surplus is credited when stock-based compensation expense is recorded in the consolidated statement of operations and deficit. The fair value of stock-based awards to non-employees is periodically remeasured until the services are provided, or the options vest, and any change therein is recognized over the period.

Intangible assets

The costs of acquiring intangible assets from arm's length third parties are capitalized. Costs are amortized on a straight-line basis over the intangible assets' estimated useful lives. Intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable, in which case the intangible assets are tested for impairment by comparing the estimate of future expected cash flows directly associated with their use to their net carrying amount. If the expected future cash flows are not sufficient to recover the intangible assets, an estimate of fair value is computed. When the net carrying amount of the intangible assets exceeds their fair value, an impairment loss is recorded in the consolidated statement of operations and deficit for an amount equal to the excess.

Notes to Consolidated Financial Statements
December 31, 2006 and 2005

Financial Instruments

Effective January 1, 2007, the following new accounting pronouncements came into effect: CICA Handbook Section 1530 "Comprehensive Income" and CICA Handbook Section 3855 "Financial Instruments - Recognition and Measurement". CICA Handbook Section 3855 introduces new requirements for the recognition and measurement of financial instruments. CICA Handbook Section 1530 introduces a new requirement to temporarily present certain gains and losses outside net income in a location called "Other Comprehensive Income". The company will adopt these standards effective January 1, 2007 and does not expect the adoption of these standards to have a material impact on the company's financial statements.

3 Agreements

The company has a number of revenue generating agreements. The most significant are as follows:

Raglan agreement

On April 15, 2003, the company entered into a 10-year agreement to construct and operate a water treatment plant to remove nickel from mine water at the Raglan mine owned by Xstrata plc 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. In addition, an operating fee is charged of $1.06 per cubic meter of water treated, increasing up to a maximum of 3% per annum. In 2006, the fee was increased to $1.12 per cubic meter. The operating fee was chargeable when the plant reached certain operating criteria, which occurred in July 2004. The fees are subject to certain conditions and performance criteria that must be met by either Xstrata plc or by the company. After 63 months from installation of the plant, Xstrata plc 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. At December 31, 2006, the cost of the plant, including commissioning costs, amounted to $1,983,825 (2005- $1,959,434) and net book value after accumulated depreciation, amounted to $1,692,667 (2005 - $1,766,774).

Caribou agreement

In 2004, the company signed a six-year agreement to control all aspects of water management at the Caribou sites with Canzinco Ltd. (a wholly owned subsidiary of Breakwater Resources Ltd). The agreement provided for the operation of mine dewatering, water collection and treatment at both the Caribou and Restigouche sites in New Brunswick, as well as a tailings handling process to allow treatment of tailings concurrently with acidic mine drainage. The agreement replaced all previous agreements regarding the Caribou site. The small BioteQ Biosulphide plant had not been operated since 2002, pending decisions regarding site water management.

In August 2006, the assets of Canzinco Ltd. (Canzinco) were sold to Blue Note Metals Inc. (Blue Note) who plan to return both sites to operation. As a result of the transaction, BioteQ's contract with Canzinco was terminated and a new operating contract was signed with Blue Note. On termination of the Canzinco contract, BioteQ received a payment of $419,847 to recover capital costs for fixed capital equipment provided by BioteQ at the sites, amounting to $511,708, which had a net book value of $426,039. BioteQ chose to retain ownership of its BioSulphide® plant, which has a net book value of $231,154 at December 31, 2006.

The new contract with Blue Note provides for a similar scope of services at the two sites and is for an initial term of one year. The payment terms in the new contract are such that BioteQ charges a monthly amount based on the actual cost to treat water plus a 10% fee.

Dexing agreement

During 2006, BioteQ signed a definitive joint venture agreement with Jiangxi Copper Corporation ("JCC") for the operation of a water treatment facility located at JCC's Dexing mine in Jiangxi Province, China. The joint venture agreement which forms an equal share joint venture company between BioteQ and JCC will be called JCC-BioteQ Environmental Technologies Co. Ltd., and will build and operate water treatment plants using BioteQ's technology. The agreement includes a license contract whereby BioteQ will provide its patented technology on a royalty-free basis to the joint venture company for use at the Dexing project, which has begun the construction phase for operation in 2007 as well as five additional sites owned and operated by JCC. At December 31, 2006, $56,061 had been spent by BioteQ on plant engineering and is included in property, plant and equipment.

4 Interest in Joint Venture

During 2003, the company signed agreements with Phelps Dodge Corporation (PD) for the construction and 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 plant was constructed by BioteQ and commissioning completed in August 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 $3,152,972 and the net book value amounted to $2,807,149 (2005 - $2,852,088).

Notes to Consolidated Financial Statements
December 31, 2006 and 2005

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

	2006 $	2005 $
Consolidated balance sheets		
Current assets	85,000	-
Long-term assets	1,896,000	1,941,000
Current liabilities	36,000	-
Consolidated statements of operations		
Sales	1,966,000	614,000
Operating income (loss)	910,000	(446,000)
Net income (loss)	735,000	(587,000)
Consolidated statements of cash flows		
Operating activities	870,000	(412,000)
Investing activities	(129,000)	(14,000)
Financing activities	(741,000)	381,000

5 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 3l, 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 2006, based on gross revenues for the year, the total repayment made or accrued was $90,395 (2005 - $55,122). Of these amounts, $30,129 (2005 - $33,624) was recorded as an increase in property, plant and equipment and $60,266 (2005 - $21,498) was recorded as an increase in development expenses. At December 31, 2006, an additional $251,410 was accrued with respect to repayment of IRAP contributions.

6 Inventory

	2006 $	2005 $
Work in progress	145,769	2,126
Inventory of spare parts	20,628	18,104
Inventory of copper concentrate	85,255	-
	251,652	20,230

7 Property, plant and equipment

			2006
	Cost $	Accumulated amortization $	Net $
Pilot plants	351,193	351,193	-
Office equipment	152,271	85,204	67,067
Vehicle	21,020	6,306	14,714
Water treatment plants - net	5,442,991	847,833	4,595,158
Construction in progress	365,653	-	365,653
	6,333,128	1,290,536	5,042,592

			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

Notes to Consolidated Financial Statements
December 31, 2006 and 2005

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 $73,469 has been repaid subsequently and charged back to the plant costs.

Amortization expense for the year ended December 31, 2006 amounted to $391,377 (2005 - $377,321).

8 Intangible asset

	Cost $	Accumulated amortization $	Net $
Intellectual property	247,770	23,228	224,542

BioteQ had a continuing obligation to pay royalties under a cooperative development agreement which expired. The agreement was replaced in March 2006 with a new marketing and royalty agreement under which BioteQ has paid a one time lump sum of $247,770 for the use of certain technology. The one time payment allows BioteQ to build one plant each year until 2014 using this technology. The payment has been capitalized as an intangible asset, and will be amortized over 8 years.

Under the old agreement, royalties of $57,541 were paid during 2005, based on the plants capacity and were only made for specific technology if used in plants built by the company. The one time payments were accounted for depending on the nature of the contracts. During 2005, $36,274 was charged to plant assets.

9 Bank loan

In October 2003, the company signed a financing agreement for a $800,000 demand non-revolving loan to 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. The capital amount repaid during 2006 was $173,533. Capital repayments in 2007 will be $185,449, in 2008, $198,183 and $15,038 in 2009.

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 Xstrata plc 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.

During 2006, all outstanding debentures, at the holders option, were converted to 615,384 common shares of BioteQ, at a price of $0.65 per common share. The remaining liability and equity components of the debentures were transferred to capital stock, after accretion of interest on the liability component to the date of conversion.

Previously, the debentures were accounted for in accordance with their substance and were presented in the financial statements in their component parts, measured at their respective fair values at the time of issue. The liability component was 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 at December 31, 2005	359,042

Interest expense on the liability component is $16,344 (2005 - $64,580), of which $10,084 (2005 - $24,580) represents accretion of the liability component.

Notes to Consolidated Financial Statements
December 31, 2006 and 2005

11 Capital stock, warrants and contributed surplus

Authorized
100,000,000 common shares without par value

Issued and outstanding

	Common shares		Warrants	Contributed surplus	
	Number of shares	Amount $	Amount $	Amount $	Total $
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
Stock-based compensation	-	-	-	429,168	429,168
Debentures	615,384	465,254	-	-	465,254
Exercise of warrants	2,948,408	3,773,155	(269,268)	-	3,503,887
Exercise of options	2,358,935	1,866,197	-	(306,419)	1,559,778
Shares issued for cash	11,428,571	19,999,999	-	-	19,999,999
Share issuance costs	-	(2,103,263)	-	-	(2,103,263)
Units issued in settlement of issue costs	50,000	87,500	-	-	87,500
Warrants issued in settlement of issue costs	-	-	393,801	-	393,801
Balance - December 31, 2006	59,770,025	40,939,344	2,045,488	849,884	43,834,716

On December 7, 2006 the company completed a short-form prospectus financing at $1.75 per share for gross proceeds of $19,999,999. Issue costs were $2,103,263 of which $393,801 was settled with the issue of 1,142,857 warrants and $87,500 was settled with the issue of 50,000 common shares.

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. On May 1, 2006 at the company's annual and special meeting, the shareholders approved a new 10% rolling stock option plan. Under the new plan, the company may grant stock options to purchase shares up to 10% of the company's issued and outstanding share capital from time to time and at December 31, 2006, 5,977,003 options are available for issue, of which 3,927,365 have been issued. Options vest at the rate of 33% every six months from award and have a maximum term of five years from the date of the grant. Vesting rules remain unchanged. A summary of the change in the company's stock option plan for the year is as follows:

	2006		**2005**	
	Number	**Weighted average exercise price $**	**Number**	**Weighted average exercise price $**
Outstanding - January 1	3,610,000	0.69	3,725,000	0.66
Options exercised	(2,358,935)	0.66	(90,000)	0.59
Options granted	2,818,000	1.58	400,000	0.93
Options forfeited	(141,700)	1.04	(425,000)	0.72
Outstanding - December 31	3,927,365	1.34	3,610,000	0.69
Exercisable at December 31	2,137,828	1.11	3,183,500	0.66
Available for future grant pursuant to company's stock option plan at December 31	2,049,638		815,714	

Notes to Consolidated Financial Statements
December 31, 2006 and 2005

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 $
2005	0.50 - 1.00	3,610,000	1.7	0.69
2006	0.50 - 1.00	1,134,365	0.71	1.53
	1.00 - 1.50	800,000	1.34	4.27
	1.50 - 2.00	1,993,000	1.70	4.47
		3,927,365	1.34	3.60

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:

	2006	2005
Expected dividend yield	0%	0%
Expected stock price volatility	32%	45%
Risk-free interest rate	4.23%	3.79%
Expected life of options (years)	3	3

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

	Weighted average fair value $	Weighted average exercise price $
2005	0.90	0.93
2006	0.45	1.58

$40,000 of the total stock-based compensation charge which amounted to $429,168 for the year relates to stock options granted to non-employees.

b) Warrants

As at December 31, 2006, the following warrants were outstanding:

	2006		2005	
	Number	**Weighted average exercise price $**	**Number**	**Weighted average exercise price $**
Outstanding - January 1	6,343,332	1.20	9,617,104	0.97
Issued	1,142,857	1.75	3,948,332	1.19
Exercised	(2,948,408)	1.19	(454,500)	0.86
Cancelled	-	-	(6,767,604)	0.90
Outstanding - December 31	4,537,781	1.37	6,343,332	1.20

Warrants expire as follows:

	Number	**Exercise price $**
December 8, 2007	119,959	0.90
December 8, 2007	3,274,965	1.25
December 7, 2008	1,142,857	1.75
	4,537,781	

On December 7, 2006 the company issued the agent for a prospectus financing, common share purchase warrants to buy 1,142,857 shares at a price of $1.75 for 2 years from the issue date. The company has treated these costs as share issue costs based on their fair value. The fair value of the warrants granted was estimated on the date of grant using Black-Scholes option pricing model with the same assumptions than used for stock options granted during the year, with only one exception, estimated useful life of warrants was two years.

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. The fair value of the warrants granted was estimated on the date of grant using Black-Scholes option pricing model with the same assumptions than used for stock options granted during the year, with only one exception; the estimated useful life of warrants was two years.

Notes to Consolidated Financial Statements
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c) Escrow shares

The common shares issued include 7,000,000 (2005 - 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 Toronto Venture 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 held $100,000 of the convertible debentures (note 10) issued on September 5, 2002. The debentures were converted to common shares of the company during 2006.

13 Income taxes

As at December 31, 2006, 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 $10,096,000 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	2,283,000
2026	2,416,000
	10,096,000

In addition, BioteQ has available US tax losses from 2004 and 2005 of $1,240,000 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, 2006, the company's future tax assets and liabilities were as follows:

	2006 $	2005 $
Property, plant and equipment	(74,000)	(94,000)
Financing costs	619,000	294,000
Research and development expense carry-forwards	370,000	365,000
Non-capital loss carry-forwards	3,959,000	3,291,000
	4,874,000	3,856,000
Valuation allowance	(4,874,000)	(3,856,000)
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 34.12% (2005 - 34.87%) statutory tax rate, at December 31 is:

	2006 $	2005 $
Income tax recovery at statutory rates	(597,000)	(973,000)
Change in valuation allowance	612,000	1,144,000
Share issue costs	(542,000)	(195,000)
Non-deductible expenses	154,000	40,000
Tax rate differences	375,000	(17,000)
Other	(2,000)	1,000
	-	-

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, taxes receivable, 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.

Notes to Consolidated Financial Statements
December 31, 2006 and 2005

Credit risk exposure

Financial instruments that potentially subject the company to a significant concentration of credit risk consist primarily of cash, short-term investments and trade receivables. The company limits its exposure to credit loss by depositing its cash and short-term investments with high quality financial institutions. The credit risk on trade receivables is generally the carrying value net of any provision for doubtful debts. The company has adopted a policy of dealing only with credit worthy counterparties and where appropriate obtaining sufficient collateral or other security, as a means of mitigating the risk of financial loss from any defaults.

Interest rate exposure

The bank loan bears interest at a fixed rate. The bank loan's fair value approximates its carrying value.

15 Segmented information

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

	2006 $	**2005** $
Revenue		
Canada	2,399,293	1,920,961
U.S.	2,120,435	835,009
	4,519,728	2,755,970
Property, plant and equipment		
Canada	2,215,656	2,411,434
U.S.	2,770,875	2,852,087
Other	56,061	-
	5,042,592	5,263,521

During 2006, revenue was derived from three clients which was individually greater than 10% of total revenues. These three clients contributed: $1,965,927, $1,208,239 and $694,465.

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.

16 Commitments

The company has commitments of $234,655 ($156,580 in 2007 and $78,075 in 2008) under operating leases for office and laboratory premises.

The company is committed to repayment of government assistance in the form of a quarterly 2% royalty on corporate gross revenues. The maximum remaining to be paid is $460,297 of which $251,410 has been accrued at December 31, 2006.

The company has committed approximately $2,000,000 to capital expenditures on the new Dexing joint venture project.

The company has committed to spend a maximum amount of $100,000 for a basic engineering study for a potential new project. The customer will contribute 50% of the amount spent on the study

17 Subsequent events

In January and February 2007, 178,200 stock options were granted for the purchase of 178,200 common shares and 353,333 options were exercised for the issue of 353,333 common shares for cash consideration of $256,649. Warrants were exercised for the issue of 241,811 shares for cash consideration of $406,820.

In February 2007, the company signed a definitive agreement with Columbia Metals Corporation Limited for the construction and operation of a copper recovery and water treatment plant. BioteQ's cost of the plant is expected to be approximately $5,300,000.

In January 2007, BioteQ agreed to construct a water treatment plant for Birla Mt Gordon Pty Ltd at the Mt. Gordon site in Queensland, Australia, with an expected cost of $2,700,000.

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
Independent Consultant and Professor Emeritus
University of British Columbia
Vancouver, British Columbia

Kelvin P.M. Dushnisky [1,2,3]
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]
Chairman of the Board of Directors
Goldcorp Inc.
Vancouver, British Columbia

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

Officers

George W. Poling
Chairman of the Board

P. Bradley Marchant
President & CEO

Richard W. Lawrence
Executive Vice President

John C. York
Chief Financial Officer and Secretary

David Kratochvil
Vice President, Projects

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

Head Office

Suite 1700, 355 Burrard Street
Vancouver, British Columbia
Canada, V6C 2G8
Telephone: 604-685-1243
Fax: 604-685-7778
Email: bioteq@bioteq.ca
www.bioteq.ca

Investor Relations

Telephone: 1-800-537-3073
Email: investor@bioteq.ca

Legal Counsel

McCullough O'Connor Irwin
Vancouver, British Columbia

Auditors

PricewaterhouseCoopers
Vancouver, British Columbia

Banker

HSBC Bank Canada
Vancouver, British Columbia

Transfer Agent

Pacific Corporate Trust Company
Vancouver, British Columbia

Stock Exchange

TSX Venture Exchange
Symbol: BQE

Annual Meeting

2pm, April 23, 2007
The Conference Centre
Second Floor
888 Dunsmuir St.
Vancouver, British Columbia

BioteQ
Suite 1700, 355 Burrard Street
Vancouver, British Columbia
Canada, V6C 2G8

Telephone: 604-685-1243
Fax: 604-685-7778
Email: bioteq@bioteq.ca

www.bioteq.ca