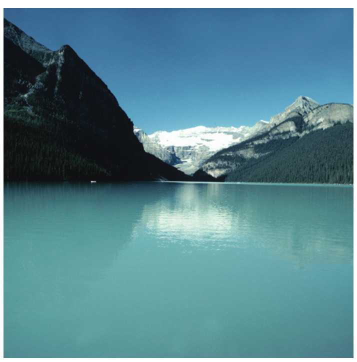
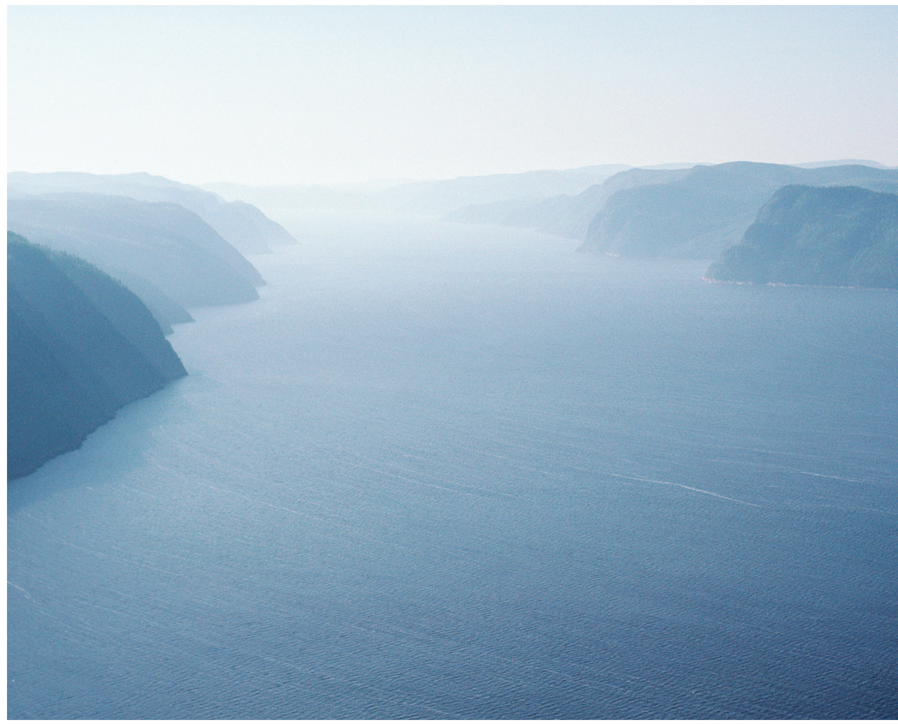
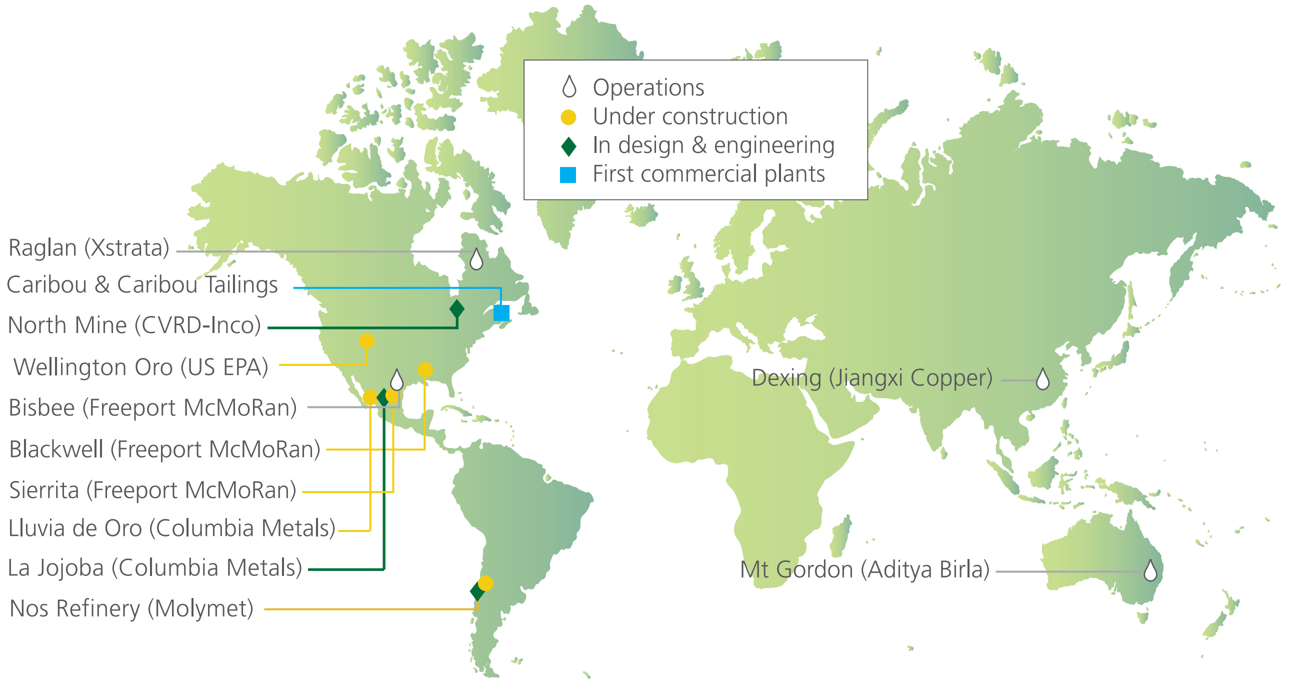
Investing in growth





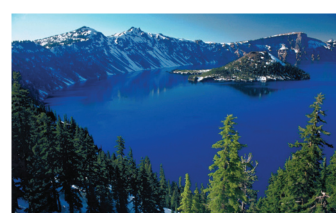
BioteQ Environmental Technologies Inc.
2007 Annual Report

BIOTEQ'S GLOBAL OPERATIONS



CORPORATE PROFILE

BioteQ builds, owns, and operates water treatment plants that use patented technology to remove dissolved metals and sulphate from contaminated water, producing saleable metal products and clean water that can be discharged to the environment. The Company provides plants as a joint venture partner, as a build-own-operate service provider, or as a turn-key plant sale with operating contract, and earns revenue through the sale of metals recovered, plant sales and from water treatment fees. BioteQ provides water treatment solutions for acid mine drainage, sulphate compliance, industrial wastewater treatment, mineral processing, and treatment of contaminated groundwater. The Company's customers include the world's leading mining companies, utility operators, and environmental regulators.



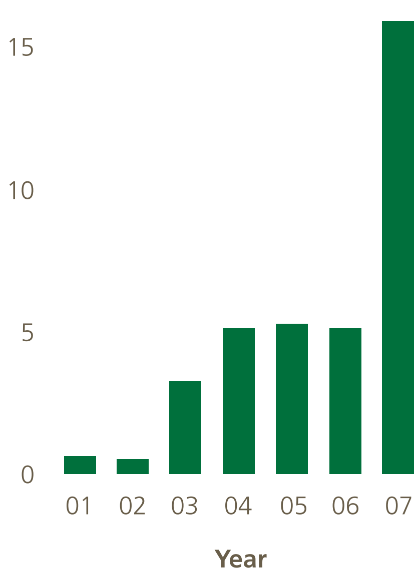
ACHIEVEMENTS AND GOALS

2007 Achievements

- Processed a total of 4.46 billion litres of contaminated water with 98% operating availability
- Recovered 1.4 million pounds of copper at Bisbee, Arizona, an increase of 18% over 2006
- Processed 920,000 cubic meters of water at Raglan Quebec, an increase of 12% over 2006
- Initiated commissioning of 2 new plants – Mount Gordon, Australia; and Dexing, China
- Initiated construction of a new SART technology plant at Lluvia de Oro, Mexico to recover copper from cyanide solution and regenerate cyanide for gold extraction
- Launched new sulphate removal technology, Sulf-IX™, with agreement to jointly engineer, construct, and operate a Sulf-IX™ demonstration plant for sulphate removal at Freeport McMoRan's Sierrita mine site in Arizona
- Continued to build a strong project development pipeline, including a development agreement with Molymet for 2 plants in Chile
- Increased the operations and engineering staff base by 40%
- Increased BioteQ's engineering and construction capacity through an option agreement to purchase Dennerik Engineering and Fabricating Company Limited
- Expanded BioteQ's stock liquidity through move to the Toronto Stock Exchange (TSX: BQE)
- Named one of British Columbia's Top 25 Exporters
- Named to British Columbia's Top 100 Strongest and Fastest Growing Companies list

Investing in Growth

Value of Plant & Equipment
$millions



Strategic Goals

- Focus on operations, to ensure reliable and consistent operating results
- Retain and attract skilled and talented staff
- Invest in new plants that will contribute to revenue growth and cash flow to add long-term shareholder value
- Maintain a solid customer base of the world's leading mining companies, utility operators, and regulators
- Expand our presence in key markets – Canada, the US, Mexico, China, Australia, and Chile
- Innovate to develop new solutions to contaminated wastewater problems

CEO's MESSAGE

To our Shareholders,

We are pleased to report that BioteQ Environmental Technologies enjoyed another successful year of operating results in 2007, and established a strong foundation for future revenue growth through our investments in new plants. In 2007, our water treatment plants delivered 98% operating availability, and collectively:

- processed a total of 4.46 billion litres of contaminated water. This is an increase of 12% over 2006;
- removed 12,500 kilograms of nickel from wastewater in the pristine Canadian Arctic, 7.5% more than 2006; and
- recovered 1.4 million pounds of copper in Bisbee, Arizona, 18% more than 2006.

BioteQ is in the business of water and the environment, having developed and commercialized unique process technologies that address the global mining industry's most difficult environmental liabilities – metal and sulphate contaminated wastewater produced by acid mine drainage and mineral processing.

We build, own, and operate water treatment plants that use patented technology to remove toxic metals and sulphate from contaminated water, producing saleable metal products, and clean water that can be safely discharged to the environment. BioteQ's business model meets the test of environmental sustainability – the by-products we recover help offset the cost of water treatment; at the same time, we remove toxic metals and sulphate from the environment.

BioteQ works with the world's leading mining companies, utility operators and regulators. Companies like Freeport McMoRan, Xstrata, Aditya Birla, Molymet, Jiangxi Copper Company, EPCOR and the US Environmental Protection Agency have chosen BioteQ because we provide a complete outsourcing solution for their water treatment needs. BioteQ provides the technology and technical know-how to reduce or eliminate the environmental liability associated with their contaminated water. In doing so, we have the opportunity to work with established international customers who have multiple sites where our technology could be deployed.

"These investments will contribute to long term revenue growth and enhanced shareholder value."

Since going public in December 2000, BioteQ has proven the commercial application of its technologies, generated stable operating revenues that produce positive cash flow from operating activities, developed a strong pipeline of projects, and built a solid customer base. The company is now investing in new operating plants and technologies that are expected to contribute to revenue growth and cash flow, and add long-term value for shareholders.

The value of water

As a water company, we are often asked about the value of water, and whether water should become a traded commodity. The public policy discussion about the value of water is likely to become more pronounced around the globe as supplies of clean water diminish due to climate change and contamination, while competing demands for water rise due to population growth and economic activity.

Because water is essential for life, some argue that water should be free – that access to clean water is a basic human right. Others argue that water has costs – costs for treatment, and costs for distribution and delivery – and these costs must be borne by water users.

So far, water has not become a traded commodity. And while society may not yet be ready to "pay for water", we are prepared to pay for treatment plants and equipment that supply clean water – today. This is a measure of water's value.

The growth of the water industry is testament to this. And as a provider of water treatment solutions, BioteQ has benefited from this growth.

Investing in growth

2007 was a year of significant growth for BioteQ. In addition to operating our existing water treatment plants at Raglan, Quebec (for Xstrata), and Bisbee, Arizona (our joint venture with Freeport McMoRan), we initiated construction of five new plants, and continued to develop our project pipeline. We are confident that these investments will contribute to long term revenue growth and enhanced shareholder value.

Diversified markets

Our new projects are taking us into new markets, both geographically and technically, allowing us to diversify our sources of revenue. This diversification positions BioteQ to generate steady, long-term income, and provides a buffer against changing commodity prices.

First, we have diversified our geographic markets. In addition to our experience in Canada and the US, we now have experience doing business in China, Australia, Mexico and Chile. In China we have found an excellent partner with local-market knowledge, access to a large and motivated labour pool, and strong interest in our technology from government and industry. The Dexing plant is the first of six sites identified in our joint venture agreement with Jiangxi Copper Company, China's largest copper producer. We are looking forward to doing more projects in China – we believe it is a market that holds tremendous opportunity for BioteQ.

> " In addition to diversifying our geographic markets, we have also diversified our portfolio of technology. "

Australia, to our surprise, has been the most difficult new market for us. With a shortage of construction labour throughout the country, construction costs have been a challenge to manage, resulting in significantly higher than expected project costs as well as delays in project completion.

Our projects in Mexico and Chile have progressed very well and we have found readily available qualified labour as well as excellent cooperation with our partners and local regulators. We are actively looking for more opportunities in Mexico and Chile to augment our existing project pipeline.

Our geographic focus for new business development remains Canada, the US, Mexico, China, Australia, and Chile. These are markets that we know and understand, and where there is a need for our water treatment technology.

In addition to diversifying our geographic markets, we have also diversified our portfolio of technology, in order to add strength to our income earning capacity and diversify our revenue structure. Our project in Mexico is a new application of BioteQ's core technology, using our biogenic sulphide reagent from the BioSulphide® process to recover copper from cyanide solution used in the gold leaching process, incorporating the SART process to regenerate cyanide so that it can be recycled to extract gold. This innovative use of water treatment technology can change the project economics of what were once considered marginal gold mining sites, and has the added benefit of reducing cyanide consumption and the associated environmental impact of the gold mining process. When operational later in 2008, this plant will provide a combination of water treatment fees and revenues from copper.

To further diversify our water treatment solutions, we have introduced a new technology to remove sulphate from water. Sulphate is a form of salt that affects the taste and odour of drinking water. There are growing concerns about its impact on water quality and long-term health effects. As a result, regulators in our key markets are imposing tighter regulations for sulphate discharge. BioteQ's new Sulf-IX™ ion exchange process provides a less expensive but very effective alternative to reverse osmosis treatment for sulphate removal, producing clean water that can be discharged to the environment and a clean gypsum product that is commonly used in the manufacture of fertilizers and construction products. The first commercial scale demonstration plant is currently under construction with Freeport McMoRan at their Sierrita mine site in southern Arizona and a second plant will be built in Chile for Molymet, replacing an existing reverse osmosis plant.

We are excited about the market potential for Sulf-IX™, and are targeting our business development activities to increase our position in this market, which potentially includes municipal water utilities, and heavy industry such as mining, pulp & paper, and chemical manufacturing.

Strong balance sheet

Our expansion has been supported by a strong balance sheet; we ended the year with $25 million in the bank, which has been invested in major bank short-term investments that are readily available to us. The capital raise in late 2006 has provided us with the cash that we need to finance our new plants, and the new plants are anticipated to generate the cash flow required to finance future capital investment. We have a strong financial footing to build from.

"We have the team, the technology, and the experience to drive further expansion."

Building the team

As BioteQ commissions new plants, we have aligned our managerial focus to reflect the growing importance of operations. Dr. David Kratochvil was appointed President and Chief Operating Officer in January of 2008, responsible for overseeing our operations and construction projects. David has been a key member of our senior management team since joining BioteQ in 2001, and brings a depth of experience in building and operating our plants to his new role. I remain actively involved as CEO in BioteQ, focused on corporate strategy and new business development to ensure continued growth.

To support our growth in construction and operations, we have added new resources in engineering and administration at the Vancouver head office, and new operating staff at our plants. We ended the year with over 50 staff, including our plant in China, and an option to purchase Dennerik Engineering and Fabricating, with an additional 21 staff. The majority of Dennerik's staff are presently dedicated to BioteQ projects – they have provided engineering and construction support for our new projects in Australia and Mexico.

Future plans

BioteQ's goal is to build four new plants each year and we are aggressively pursuing new business opportunities to fill our project pipeline. Our development priorities are for plants that generate a long-term revenue stream to BioteQ, with balanced revenue from water treatment fees and metal sales. We believe this will provide the best long-term value for the company and our shareholders.

In 2008, we expect our new plants in China, Australia, and Mexico to contribute new operating revenue to the company. We have recently announced a new construction project in Chile that will come online in 2009. Our business development activities remain focused on our key markets and we are working to fill the development pipeline for 2010 and beyond.

These are exciting times for BioteQ – we have exceptional personnel, proven technology, stable operating revenues, a strong development pipeline, and a solid customer base. The company is generating positive cash flow from operating activities, and has a strong balance sheet to support future earnings growth. We have the team, the technology, and the experience to drive further expansion in 2008 and beyond.

On behalf of the Board of Directors,

Brad Marchant
CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS March 7, 2008

(All figures expressed in Canadian Dollars unless otherwise noted)

The following Management's Discussion and Analysis provides information that management believes is relevant to an assessment and understanding of the Company's consolidated results of operations and financial condition. Management has prepared this document in conjunction with its broader responsibilities for the accuracy and reliability of the financial statements, the development and maintenance of appropriate information systems and internal controls to ensure that the financial information is complete and reliable. The Audit committee of the Board of Directors, consisting of independent directors, 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 years ended December 31, 2006 and 2007, 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, sulphate reduction, and lime sludge processing. 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. The Company is listed on the Toronto Stock Exchange (TSX) under the symbol BQE.

Technologies

BioteQ's technologies are used in industrial wastewater treatment applications. The BioSulphide® Process uses biological sulphide to selectively recover metals from acid waste water and can be applied 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, such as the application of SART technology for copper-gold ore processing in mining.

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 in treated water, producing water acceptable for industrial, agricultural and residential use.

Business Models

BioteQ finances, builds and operates or provides turn-key plants for the treatment of acid mine drainage and other industrial 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 may be 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 – where BioteQ designs, builds and operates the plant on a fee basis.

In all cases BioteQ will provide a process guarantee. Potential revenue streams are recovered metals, water treatment fees, process license fees, plant sales, 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, including estimates of future projects on the basis of mature operations. Actual results may vary based on volume and grade of water treated:

Company	Project	Business Model	Metal recovered	Production (lb) (BQE share)	Capital Costs (BQE Share)	Operating Costs p.a. (BQE share excl. refining)	Current Status & estimates
OPERATING PROJECTS							
Freeport McMoRan	Bisbee, AZ.	50/50 JV	copper	710,000	$3,200,000	$1,400,000	Operating since 2004
Xstrata	Raglan,Que.	Build, Own, Operate for Fees	nickel	920,000 (Cubic meters of water)	$1,800,000	$410,000	Operating since 2004
CONSTRUCTION PROJECTS (Estimates – full year at design capacity)							
Aditya Birla	Mt. Gordon, Australia	Build, Own, Operate (90% of metal)	copper cobalt	1,400,000 135,000	$8,500,000	$2,000,000 $2,300,000	Commissioning in progress
Jiangxi Copper	Dexing, China	50/50 JV	copper	1,800,000	$1,800,000	$2,100,000	Commissioning in progress
Columbia Metals	Lluvia de Oro, Mexico	Build, Own, Operate plus fee	copper cyanide	900,000 2,800,000	$5,200,000	$500,000 $1,000,000	2Q 2008 commissioning to commence
Freeport McMoRan	Blackwell, OK	Plant sale	zinc, cadmium	Fixed fees	no cost	-	Plant constructed 2006, awaiting infrastructure
US EPA	Wellington Oro, CO	Plant sale	zinc, cadmium	Fixed fees	no cost	-	Q3 2008 commissioning to commence
Molymet	Nos Refinery, Chile (Stage 1 calcium removal)	Build, Own, Operate	sulphate	700,000 (Cubic meters of water)	$4,000,000	$800,000	Construction to start Q4 2008, subject to detailed engineering
Freeport McMoRan	Sierrita, AZ	Plant sale	sulphate	Fixed fees	No cost	-	Construction to commence Q3 2008
DEVELOPMENT PROJECTS (Estimates – full year at design capacity)							
Molymet	Nos Refinery, Chile	Build, Own, Operate	copper	900,000	$4,000,000	$1,100,000	2009
Columbia Metals	La Jojoba, Mexico	Build, Own, Operate plus fee	copper cyanide	1,650,000 2,300,000	$2,000,000	$1,800,000	2009
Jiangxi Copper	China	50/50 JV	copper				Five other potential projects in the JV- evaluation underway.
CVRD-Inco	North Mine, ON	Build, Own, Operate	nickel	850,000	$6,500,000	$1,200,000	2009

Operating Projects:

BioteQ has constructed and commissioned commercial treatment plants using its sulphide technology at three sites: Bisbee in Arizona (Freeport McMoRan), Raglan in northern Quebec (Xstrata) and two plants at the Caribou Mine in New Brunswick (acquired by Blue Note Metals Inc. on August 1, 2006 from Breakwater Resources Ltd.). The Company's contract to manage two lime treatment plants at the Caribou site ended on July 31, 2007 when the mine restarted. A fifth BioteQ plant (its second with Freeport McMoRan) has been completed and is ready for installation and commissioning in Blackwell, Oklahoma, subject to completion of site infrastructure and permitting by Freeport McMoRan.

Construction projects:

The Company also has several new projects currently in the construction schedule, two of which are currently being commissioned:

- BioteQ is finalizing commissioning of its new water treatment plant for recovery of copper and cobalt at the Mt. Gordon copper mine near Mt. Isa in Queensland, Australia. This build-own-operate project with Birla Mt. Gordon, a subsidiary of Aditya Birla, takes BioteQ into a new geographic market for its ChemSulphide™ Process. Construction has been largely completed since the year-end and the plant is currently producing copper concentrate during final commissioning of plant components. The plant will be considered fully commissioned when it operates for 14 days at 75 % of capacity. This is expected to occur at the start of the second quarter of 2008, at which time revenues will be recorded. The cobalt circuit is also expected to be commissioned in Q2. The original capital cost estimate of $4.3 million has grown to an estimate after commissioning of $8,500,000. This increase is the result of several factors, primarily the significant inflation in labour costs in Australia, extensive re-furbishment of used equipment not anticipated in the original estimate, design changes to meet local regulatory requirements and the incremental costs of an evaporation circuit. Scarce labour supply has both increased costs and lengthened the time for completion. In spite of the increased capital costs, current copper and cobalt prices are anticipated to provide the project with a 3 year payback.

- BioteQ is finalizing commissioning of a new ChemSulphide™ water treatment plant for recovery of copper at the Dexing mine site in China. The project is the first of six under the joint venture agreement with Jiangxi Copper Company, China's largest copper producer. Plant construction is finished and commissioning is underway, with copper production in progress. Operation at initial design expectations and revenue recognition is anticipated in the second quarter. The initial budget for the plant was $4.2 million, to be shared 50:50 with Jiangxi Copper Company Ltd. BioteQ estimates its share of construction costs, including all design and engineering, to be $1.8 million. BioteQ and Jiangxi Copper Company are now evaluating new sites where BioteQ's technology may be applied.

- BioteQ is presently constructing a water treatment plant at the Lluvia de Oro gold mine site near Sonora, Mexico, owned by Columbia Metals Corporation Ltd. of Toronto. The plant is a new application of BioteQ's technology, designed to recover copper from cyanide solution as well as recycle cyanide for use in gold extraction, using BioteQ's ChemSulphide™ Process in combination with the SART process, which was co-developed by SGS Lakefield and Teck Corporation. Completion of construction is anticipated for Q2 2008 at an estimated cost to BioteQ of $5.2 million.

- BioteQ has engineered a plant for construction at a site in Colorado (Wellington Oro), which is administered under the U.S. Environmental Protection Agency ("US EPA") Superfund program, established to address abandoned hazardous waste sites in the USA. Selection of BioteQ's plant was approved by the EPA as the best available technology and the plant is now in construction. BioteQ is providing the engineering and procurement of the plant equipment and the commissioning and operator training, on a progress fee for service basis. Construction is expected to be complete in mid 2008, with commissioning scheduled for Q3.

- BioteQ signed a construction and operating agreement in February 2008 with Molibdenos y Metales S.A. (Molymet), for the development of a water treatment plant at Molymet's Nos Refinery near Santiago, Chile. This plant will apply BioteQ's new Sulf-IX™ ion exchange technology for final water treatment to remove sulphate from solution, replacing an existing reverse osmosis plant. The plant will be built in three stages to allow gradual replacement of the existing reverse osmosis technology. The estimated capital cost for all three stages is $8 million, with a plant capacity of 700,000 cubic meters of water. The first stage of engineering for the design report to remove calcium is in progress. Completion of the final stage of the project is scheduled for 2010, subject to detailed engineering.

- BioteQ has signed a third agreement with Freeport McMoRan, this time to build a demonstration plant for sulphate removal at their Sierrita copper mine in southern Arizona, using BioteQ's proprietary Sulf-IX™ ion-exchange technology. The plant is expected to start construction in late 2008 and is expected to have a total capacity of 125 gallons per minute. Freeport McMoRan will be responsible for all capital and operating costs. BioteQ is providing the technology on a fee for service basis.

Development projects:
The Company has several projects in development:

- BioteQ has signed a development agreement with Molibdenos y Metales S.A. (Molymet), for a water treatment plant at Molymet's Nos refinery near Santiago, Chile to recover copper from a wastewater stream from their hydrometallurgical molybdenum refining process.

- BioteQ has signed a development agreement with Columbia Metals to provide copper recovery and cyanide regeneration treatment at the La Jojoba gold mine site, adjacent to the Lluvia de Oro site in Sonora, Mexico. The companies are working toward a final construction agreement for the site.

- Under the JV agreement with Jiangxi Copper Company, five sites other than at Dexing were anticipated for BioteQ's technology. Evaluation has commenced.

- The Company has completed an engineering study for Inco (now CVRD Inco) for a water treatment plant to recover nickel from acidic underground mine water at the North Mine in Sudbury, Ontario. The project is subject to a final construction and operating agreement.

Operations

Overall Performance

Three-Year Comparative Information - $

	2007	2006	2005
Revenues	4,630,272	4,519,728	2,755,970
Operating costs	2,281,072	2,868,188	3,220,047
General and administrative expenses	2,274,739	1,981,987	1,493,415
Other expenses	4,241,821	1,418,144	833,303
Net loss	4,167,360	1,748,591	2,790,795
Net loss per share (basic and diluted)	0.08	0.04	0.10
Cash flow from (used in) operating activities	191,708	(852,334)	(2,290,207)
Total assets	42,479,297	33,733,391	11,504,022
Total long-term financial liabilities	0	0	359,042
Total liabilities	3,098,124	1,391,464	1,653,500
Shareholders' equity	39,381,173	32,341,927	9,850,522

BioteQ enjoyed a successful year of operations in 2007, with good results from the Bisbee and Raglan plants contributing to positive cash flow from operating activities of $2,349,000 (Revenues less Operating costs). The Company's overall net loss is primarily due to non-cash accounting items such as amortization and stock-based compensation. BioteQ's strong balance sheet enabled it to make significant investments in new plants and equipment during 2007 that establish a strong foundation for revenue growth in 2008.

Comparison of the years

BioteQ's financial results for the past 3 years include full-year contributions from the Company's Bisbee, Raglan and Caribou operations during 2005 and 2006; and full-year contributions from Bisbee and Raglan, and a partial-year contribution from the Caribou site in 2007, reflecting the end of the Company's operating agreement at the Caribou site as of July 31, 2007.

During 2007, BioteQ's plants generated $4,630,000 in revenues, an increase of 2.5% over the prior year, and up from $2,756,000 in 2005. Total revenues for the year remained stable, despite having fewer operations contributing to revenue for the full year, because of the record performances of the Bisbee and Raglan plants.

The Bisbee plant produced improved results in revenue and operating costs during 2007. Copper revenues at Bisbee increased from $1,966,000 in 2006 to $2,368,000 in 2007. Copper production increased by 18% due to mechanical availability improvements and because the price of copper (in Canadian dollars), net of smelting and refining costs, increased by 2%. Operating costs increased by 16% in 2007, which in part reflects the variable cost of producing 18% more copper.

Raglan revenues increased from $1,208,000 in 2006 to $1,407,000 in 2007, which was largely due to processing 13% more water during the operating season. This improvement was in spite of actually operating for 8% fewer days, caused by a slower than usual spring thaw in the Arctic. Raglan's operating costs, which are largely the cost of labour, decreased by 20% in 2007, due to improved utilization of labour resources and a shorter operating season.

Caribou revenues and costs were over $1 million dollars in 2005 and 2006, but reduced to less than $500,000 as the contract for services at the site was completed in mid 2007.

General and administrative costs have increased with the growth of the Company and showed an increase of $293,000 over 2006. This increase was largely due to the original listing fee of $170,000 on acceptance to the TSX exchange and related legal costs, and because of increased investor relations costs of approximately $100,000 from the hiring of a US-based financial, communications and media agency for 2007.

Other expenses increased by $2,824,000 in 2007 due largely to an increase in the non-cash accounting charges of stock-based compensation and an escrow share modification, which accounted for an increase over 2006 of $3,501,000. Interest income increased by $832,000 which offset some of the increased expenses. The non-cash cost of stock-based compensation charges increased by $1,401,000 compared to 2006 due to director and employee options granted in the past eighteen months being expensed over their vesting periods and also due to options issued to consultants which are revalued as BioteQ's stock price varies. The rapid increase in BioteQ's stock price has resulted in new stock options having a significant value attributed to them under the accepted Black Scholes model for stock option valuation. The non-cash charge of $2,100,000 related to the modification of an escrow share agreement and is a one-time charge. The offsetting credit is to Share Capital, which therefore results in no change in Shareholders Equity. The escrow shares were already included in BioteQ's issued and outstanding number of shares, therefore no change results. Interest income increased by $832,000 over 2006 due to increased cash resources from an $18 million financing in December 2006. Surplus funds are invested in major bank short-term paper, and are readily accessible to the Company. In addition, interest expense declined by $32,000 due to elimination of the Series A Debentures in mid 2006. The Company recognized a foreign exchange loss of $291,000 during 2007, as a result of holding US dollar receivables and bank balances which depreciated prior to receipt or use of the funds.

Cash flow from operating activities indicates the progress the Company has made in recent years. Operations, after all costs, contributed positive cash flow of $191,708 during 2007. Although profitability was not achieved in 2007, due to unusual non-cash charges and somewhat delayed projects, BioteQ's projects currently being commissioned or under construction should all be contributing by mid-year to a profitable 2008 based on current metal prices.

Assets increased in 2006 due to an equity financing late in the year, and increased in 2007 by $8,700,000, due to the exercise of warrants and options which generated additional cash of $7.3 million, other changes in working capital and repayment of the small bank loan. Total liabilities increased to $3,098,124 due to payables relating to the construction projects which are in progress. Shareholder equity changes in 2007 are the result of the above-mentioned warrant and option exercises, and the net loss for the year, offset by the credit in share capital for stock-based compensation and escrow modification charges of $3,930,000.

At December 31, 2007, the Company had 54 full time employees and 1 part-time employee, compared to 33 full time and 1 part time employee at the end of 2006. The increase in full time staff is the result of hiring 2 people in business/ corporate development and an administrative assistant, in the Vancouver head office, 16 operating personnel at new plants and 3 engineers.

Operating Results

Financial data for the last eight quarters (unaudited)

Quarter ended ($000's except per share details)	Dec 07	Sept 07	Jun 07	Mar 07	Dec 06	Sept 06	Jun 06	Mar 06
Total revenues	1,137	1,304	1,072	1,117	1,175	1,313	1,286	745
Plant & other operating expenses	563	464	598	656	736	537	854	741
Net income before G&A and Amortization & other	574	840	474	461	439	776	432	4
General & administrative	608	527	606	534	663	458	458	403
Amortization and other	649	2,814	535	243	684	240	290	204
Net Income (loss)	(683)	(2,501)	(667)	(316)	(908)	78	(316)	(603)
Loss per share	$0.01	$0.05	$0.01	$0.01	$0.02	$0.00	$0.01	$0.02

Revenues varied in each quarter for several reasons:

- The Caribou project was operational through Q1 2007, winding down in Q2 and finished in Q3. Removing the impact of $200,000-300,000 of Caribou revenues per quarter indicates the generally improving performance of both the Bisbee and Raglan operations.
- Raglan operates seasonally from approximately May to October, due to sub-Arctic conditions in Northern Quebec. Results for Q2 2007 were negatively affected by an unusually slow spring thaw.
- Revenue in Q4 2007 reflect engineering fees for procurement activities for the Wellington Oro project.

Operating expenses are affected by similar reasons as revenue noted above. Net income before G&A and amortization & other shows the positive cash contribution being made by plant operations.

General & administrative expenses changed in the various quarters due to the following. December 2006 included an extra $100,000 for capital taxes and legal costs as a result of the late 2006 financing. A US based financial communications and media agency was hired in the fourth quarter of 2006 which increased costs by approximately $35,000 per quarter thereafter. The second quarter of 2007 includes TSX original listing fees and associated legal costs of approximately $200,000. The fourth quarter of 2007 includes $60,000 of professional fees for financial services.

Amortization & other in the third quarter of 2007 reflects the one-time non-cash charge of $2,100,000 for escrow share modification mentioned in the comparison of years. The fourth quarter of 2006 reflects an accrual of $251,000 for payment of IRAP government grant royalties on future sales (part of marketing and development costs). Stock based compensation charges increased throughout 2007 as the effect of 2006 grants was accounted for as options vested and new grants in 2007 attracted increasingly high charges from the accepted model for valuation of options.

Liquidity and Capital Resources

At the year-end, the Company had 65,483,883 (fully diluted-70,039,535) common shares issued and outstanding, compared to 59,770,025 (fully diluted-68,235,171) for 2006. Additional cash was received during the year from options and warrants which were exercised to issue 5,713,858 shares, for cash proceeds of $7,275,879. At the current date of March 7, 2008, the issued shares are 65,552,216 and fully diluted are 70,039,535. There were 96,951 warrants and 4,390,368 options outstanding to buy the same numbers of common shares. The increase in the number of issued shares in 2008 is due to the exercise of 8,333 options for cash of $14,166 and the exercise of 60,000 warrants for cash of $105,000. No new options were granted subsequent to the year-end.

At December 31, 2007, the Company had cash and short-term investments, consisting of major bank paper, of $25,375,265, a decrease of $1,824,649 from December 31, 2006. During the year equity issues noted above were responsible for new cash of $7,275,879, which together with the surplus cash from operating activities of $191,708 and changes in non-cash working capital items of $341,383, were used to fund the Company's new construction projects for $9,234,949 and repayment of a bank loan of $398,670.

Working capital at the year-end was $23,354,661, which had decreased from December 31, 2006 by $3,687,361. The change was caused by substantially the same factors as affected cash, noted above. Additional 2007 current liabilities related to projects under construction, amounting to $1,920,000. Additional funds of $3,900,000 may be available from the exercise of outstanding warrants and exercisable options which are in the money at the present time. Of these resources, approximately $5,175,000 has been committed to complete the construction or commissioning of the three new projects due to start up in the first two quarters of 2008: the Dexing, Lluvia de Oro, and Mt. Gordon projects. The balance is largely uncommitted. The other three construction projects in progress in 2008, the Wellington Oro project in Colorado, and the Blackwell project in Oklahoma and the Sierrita project in Arizona are on a fee for service basis and do not require capital contribution from BioteQ. The Molymet project is in the early stages and could require an estimated $8,000,000 from late 2008 through 2010, including $4 million for stage 1.

Contractual obligations of BioteQ at December 31, 2007 are presented in the table below:

		Payments due by period		
Contractual obligations	Total	Less than 1 year	1-3 years	After 3 years
Operating leases	$113,000	$113,000	-	-
Purchase obligations	$700,000	$700,000	-	-
Total contractual obligations	$813,000	$813,000	-	-

In addition, the Company is committed to repayment of Government assistance in the form of a quarterly remittance of 2% of corporate revenues. The maximum possible repayment amounts to $460,297, of which $181,551 has been accrued at December 31, 2007.

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.

Operating Projects

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

2007	Revenues		Plant Operating Costs		Plant Operating Profit	
	Quarter 4	Full year	Quarter 4	Full year	Quarter 4	Full year
Bisbee	482,000	2,368,000	255,000	1,231,000	227,000	1,137,000
Raglan	374,000	1,407,000	93,000	408,000	281,000	999,000
Caribou	0	436,000	0	347,000	0	89,000
Other	281,000	419,000	215,000	295,000	66,000	124,000
Total	$1,137,000	$4,630,000	$563,000	$2,281,000	$574,000	$2,349,000

Raglan operations are seasonal from about May to October and fourth quarter revenues include only six weeks of water treatment activity. Caribou lime plant operations ceased on July 31. Other revenues and operating costs in the fourth quarter reflect procurement activity for fees for the Wellington Oro project.

The Freeport McMoRan Project – Bisbee, Arizona

In August 2004, the Company completed commissioning of a copper recovery plant at the Bisbee site, using BioteQ's BioSulphide® process, in a 50/50 joint venture with Phelps Dodge Corporation (now Freeport McMoRan). 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 acid water which leaches from existing low-grade stockpiles. No sludge is produced in the treatment process. The design capacity of the plant is approximately 2.7 million pounds per year of copper recovered. The actual copper recovered is dependent on water availability and the amount of copper and other metals contained therein. Revenues and expenses are shared equally between the joint venture members.

Plant operating results (total for the JV)	Operations Qtr 4 2007	Operations Qtr 4 2006	Operations Year 2007	Operations Year 2006
Water treated (millions of gallons)	179	232	767	517
Mechanical availability (%)	91	98	97	88
Copper produced (pounds in concentrate)	343,000	290,000	1,421,000	1,208,000
Copper recovery	>99%	>99%	>99%	>99%

Copper production at the site during the year and the fourth quarter was 18% better than the previous year. Mechanical availability in 2007 (hours actually operated divided by total hours in the period) was 10% better than in 2006, achieving an impressive 97% for the year, in spite of achieving only 91% in the fourth quarter as a result of a planned maintenance shutdown. The bioreactor operated consistently well in producing hydrogen sulphide and copper production was only limited by the available flow of water and the grade of copper and other metals contained in the water. The lower copper grades previously reported continued through the quarter. BioteQ believes that the leach rate could improve with changes to the water distribution on the low-grade stockpile, which are being discussed by the joint venture.

The expected plant production for 2008 is approximately 1.5 million pounds of copper, producing revenue for BioteQ's share of approximately $2,000,000. Revenue for 2007 exceeded expectations of $2,000,000 by 18% through a small copper shortfall being offset by a price increase.

The Xstrata Project – Raglan Mine, Quebec

BioteQ's Raglan plant located in Northern Quebec at the Raglan Mine, which is owned by Xstrata (formerly Falconbridge), 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 2007, over 12,500 kilograms of nickel was removed from the wastewater, which allowed discharge 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.

Operating statistics (seasonal) (discharge commenced in 2007 on April 13 and in 2006 in late April). Both years ended early November	Operations Qtr 4 2007	Operations Qtr 4 2006	Operations Year 2007	Operations Year 2006
Water treated (cubic meters)	248,000	170,000	920,000	816,000
Days operated (some partial)	44	38	171	186
Nickel recovery	>99%	>99%	>99%	>99%

The plant successfully completed its third full operating season with 12% more water treated than 2006. Preparations for the 2007 operating season started in March, and the plant began discharging clean water on April 13, but by May 5 had processed all available water under the ice cover. The storage pond which holds the water was affected by prolonged winter conditions with slower than usual thaw. The plant was able to restart on June 18 and operated at a consistently high rate until the season close on November 13. The plant was operating throughout the period at about 240 cubic meters per hour, which is twice the original design capacity and discharged water was better than the allowable discharge quality limits. When water was available to process, the plant availability was approximately 96%, an improvement over 2006 of 87%. Operating costs were close to expectations.

Revenues of $1,278,000 were expected in 2007 for both the fixed fees and water treatment fees and were actually $1,407,000. BioteQ expects to process at least the same amount of water in 2008 as in 2007.

The Caribou Mine Project, New Brunswick

BioteQ commenced operating all mine dewatering, water collection and treatment at both the Caribou and Restigouche sites in New Brunswick in late 2004, when they were owned by CanZinco Ltd, a subsidiary of Breakwater Resources Ltd, under a contract for fees and retention of any metals recovered, which replaced previous agreements for the Caribou sites. BioteQ operated all collection and treatment of acidic mine drainage and management of sludge products through CanZinco's two lime plants. The change in ownership of the mine property to Blue Note Metals Inc. in August 2006 caused a termination in the CanZinco contract and a new one-year contract for similar services with Blue Note, who are returning both sites to producing zinc mines. The one year agreement ended on July 31, 2007 and BioteQ now has no responsibilities for the Caribou sites. BioteQ was paid $419,000 in 2006 for certain fixed assets as part of the agreed change to the operating contract for the Caribou sites.

During the year until the end of the contract, BioteQ met all the customer water treatment expectations at the two sites, including dewatering of the Caribou underground mine as a precursor to the restart of operations by Blue Note.

General

Disclosure Controls and Procedures

As at the financial year ended December 31, 2007, 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, 2007 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 adopted 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.

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, 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 processes. The Company has built three significant commercial plants, one is awaiting installation and commissioning and several more are in the engineering stage or under construction or being commissioned. 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 assert 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 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 its subsidiaries 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.

Outlook

The global mining industry has enjoyed strong growth in the past several years, due to rising demand for base metals and robust commodity prices. Mining activity generates large volumes of wastewater that can become contaminated through process streams or the natural process of acid mine drainage, which is estimated to affect more than 70 percent of the world's mine sites. Because the resulting water is toxic to the environment, it is fully regulated in most jurisdictions, creating a long-term environmental liability for mining firms at active as well as closed mining industry sites.

Because water management is one of the mining industry's most challenging long-term liabilities, demand for innovative water treatment solutions has grown, in response to tightening regulations for water quality and use, and bonding requirements for environmental mitigation costs. BioteQ has benefited from this growth by providing unique technologies and operating expertise for leading mining firms looking for a sustainable, outsourced solution to their water treatment needs. The Company works with mining firms, metal processors, utility operators, and regulators.

2007 was a year of growth for BioteQ, with significant investment in new plants, entry into new geographic markets, acquisition of new customers, and application of new technologies. Building on the growing demand from the mining industry and its solid customer base, going forward the Company has the capacity to build four new plants annually, and increase its market footprint in Canada, the US, Mexico, China, Australia, and Chile. BioteQ will continue to look for a three year pay-back on capital on new projects, with a balanced portfolio of revenues from metal recovery and water treatment fees, to ensure that new plants contribute to long-term cash flow and add value to the Company. BioteQ expects that new operating plants will contribute to a profitable 2008.

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 Consolidated Financial Statements have been independently audited by PricewaterhouseCoopers LLP. Their report for 2007 outlines the nature of their audits and expresses their opinion on the Consolidated Financial Statements of the Company.

The Company's Audit Committee is appointed annually by the Board of Directors and is comprised of Directors who 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 and Management's Discussion and Analysis have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in Note 2 of the notes to the Consolidated Financial Statements of the Company.

P. Bradley Marchant
Chief Executive Officer

John C. York
Vice President Finance and
Chief Financial Officer

March 7, 2008

PRICEWATERHOUSECOOPERS

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Auditors' Report

To the Shareholders of
BioteQ Environmental Technologies Inc.

We have audited the consolidated balance sheets of **BioteQ Environmental Technologies Inc.** as at December 31, 2007 and 2006 and the consolidated statements of operations, comprehensive loss 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, 2007 and 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 7, 2008

BioteQ Environmental Technologies Inc.

Consolidated Balance Sheets

As at December 31, 2007 and 2006

	2007 $	2006 $
Assets		
Current assets		
Cash and cash equivalents	1,758,744	1,914,068
Short-term investments	23,616,521	25,285,846
Trade receivables	339,217	521,273
Receivable from joint venture partners	153,318	64,790
Taxes receivable	146,831	186,447
Inventory (note 6)	49,380	251,652
Prepaid expenses	164,594	120,246
Other receivables	224,180	89,164
	26,452,785	28,433,486
Property, plant and equipment (note 7)	15,832,942	5,042,592
Intangible asset (note 8)	193,570	224,542
Deferred financing costs	-	32,771
	42,479,297	33,733,391
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	3,098,124	992,794
Bank loan (note 9)	-	398,670
	3,098,124	1,391,464
Shareholders' Equity		
Capital stock, warrants and contributed surplus (note 10)	55,041,322	43,834,716
Deficit	(15,660,149)	(11,492,789)
	39,381,173	32,341,927
	42,479,297	33,733,391

Commitments (note 14)

Subsequent events (note 15)

Approved by the Board of Directors

P.B. Marchant Director

G.W. Poling Director

The accompanying notes are an integral part of these consolidated financial statements.

BioteQ Environmental Technologies Inc.

Consolidated Statements of Operations, Comprehensive Loss and Deficit

For the years ended December 31, 2007 and 2006

	2007 $	2006 $
Revenue	4,630,272	4,519,728
Operating expenses		
Plant and other operating costs	2,281,072	2,868,188
General and administrative expenses	2,274,739	1,981,987
Marketing and development costs	749,493	842,434
Operating expenses before amortization and stock-based compensation	5,305,304	5,692,609
Amortization of property, plant and equipment (note 7)	364,599	391,377
Amortization of intangible asset (note 8)	30,971	23,228
Stock-based compensation charge (note 10)	1,830,727	429,168
Modification of escrowed shares (note 10)	2,100,000	-
Loss before the under noted	(5,001,329)	(2,016,654)
Interest income	1,180,679	348,852
Loss on disposal of plant	-	(6,192)
Interest expense	(22,707)	(55,183)
Deferred financing costs written-off	(32,771)	(36,208)
Foreign exchange (loss) gain	(291,232)	16,794
Loss and comprehensive loss for the year	(4,167,360)	(1,748,591)
Deficit - Beginning of year	(11,492,789)	(9,744,198)
Deficit - End of year	(15,660,149)	(11,492,789)
Loss per share - basic and diluted	(0.08)	(0.04)
Weighted average number of shares outstanding	55,010,825	39,842,920

The accompanying notes are an integral part of these consolidated financial statements.

BioteQ Environmental Technologies Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2007 and 2006

	2007 $	2006 $
Cash flows from (used in) operating activities		
Loss for the year	(4,167,360)	(1,748,591)
Items not affecting cash		
Amortization of property, plant and equipment	364,599	391,377
Amortization of intangible asset	30,971	23,228
Deferred financing costs written-off	32,771	36,208
Accretion of Series A debentures	-	10,084
Stock-based compensation charge	1,830,727	429,168
Modification of escrowed shares	2,100,000	-
Loss on disposal of plant	-	6,192
	191,708	(852,334)
Change in non-cash working capital items	341,383	(504,974)
	533,091	(1,357,308)
Cash flows from (used in) financing activities		
Issuance of common shares and warrants	-	19,999,999
Share issuance costs	-	(1,621,962)
Proceeds from exercise of warrants and options	7,275,879	5,063,664
Repayment of bank loan	(398,670)	(177,645)
Deferred financing costs	-	(1,000)
	6,877,209	23,263,056
Cash flows from (used in) investing activities		
Purchase of property, plant and equipment	(9,234,949)	(596,486)
Proceeds from disposal of property, plant and equipment	-	419,847
Short-term investments	1,669,325	(25,285,846)
Purchase of intangible asset	-	(247,770)
	(7,565,624)	(25,710,255)
Decrease in cash and cash equivalents	(155,324)	(3,804,507)
Cash and cash equivalents - Beginning of year	1,914,068	5,718,575
Cash and cash equivalents - End of year	1,758,744	1,914,068
Supplemental cash flow information		
Interest paid	22,707	45,099
Withholding taxes paid and receivable	146,831	186,447
Non-cash operating, financing and investing activities		
Debentures converted to common shares (note 10)	-	465,254
Warrants issued in settlement of issue costs (note 10)	-	393,801
Units issued in settlement of issue costs (note 10)	-	87,500
Increase in accounts payable and accrued liabilities related to purchase of property, plant and equipment	1,920,000	-

The accompanying notes are an integral part of these consolidated financial statements.

BioteQ Environmental Technologies Inc.

Notes to Consolidated Financial Statements
December 31, 2007 and 2006

1 Company operations

BioteQ Environmental Technologies Inc. and its wholly owned subsidiaries Biomet Mining Corporation (“Biomet”), BioteQ Arizona, Inc., BioteQ Water (Australia) Pty Ltd. and BioteQ Water Mexico S.A. de C.V. (“BioteQ” or the “Company”). The Company has 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 recovered metals, treatment fees, plant sales 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, BioteQ Arizona, Inc., BioteQ Water (Australia) Pty Ltd. and BioteQ Water Mexico S.A. de C.V. The accounts of the joint ventures 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 and cash equivalents

Cash comprises unrestricted bank deposits, some of which are interest bearing and are classified as held-for-trading. Cash equivalents consist of money market accounts and banker’s acceptances that are readily convertible to known amounts of cash and are held to their original maturities within 90 days from their date of purchase. They are carried at cost plus accrued interest which approximates fair value.

BioteQ Environmental Technologies Inc.
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Short-term investments

The Company's investments consist of money market accounts and banker's acceptances and are classified as held-to-maturity for accounting purposes and carried on the balance sheets at amortized cost using the effective interest method, plus accrued interest. Investments with maturities of greater than 90 days and less than one year are classified as short-term investments.

Inventory

Work in progress and inventory of copper concentrate are recorded at the lower of cost and net realizable value. Spare parts are valued at the lower of cost or replacement cost. Work in progress and concentrate inventory include 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 recoverability of long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. When such a situation occurs, the estimated undiscounted future cash flows anticipated to be generated during the remaining life of the asset are compared to its net carrying value. When the net carrying amount of the asset is less than the undiscounted future cash flows, an impairment loss is recognized to the extent by which the carrying amount of long-lived assets exceeds its fair value.

Revenue

Revenue from the Company's water treatment plants varies depending on the Company's agreements with various mining and other 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;

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- lease revenue on the plants recognized over the term of the lease contract;

- fees from engineering services which are recognized as the services are rendered.

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 ventures are considered to be integrated foreign operations. Foreign denominated monetary assets and liabilities of the Canadian and foreign operations are translated into 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 translation 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, 2007 and 2006, the Company excluded potential common share equivalents of 1,729,868 and 2,180,037, 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 (temporary differences) and for the benefits of loss carry-forwards. 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 tax rates is included in income in the period that

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includes the substantial enactment date. Future income tax assets are evaluated, and if realization is not considered to be more likely than not, a valuation allowance is provided.

Stock-based compensation

The Company accounts for all stock-based awards using the fair value 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 for employees are measured at the fair value of the equity instrument issued and stock-based compensation expense is recorded over the period in which the related employee services are provided. Contributed surplus is credited when stock-based compensation expense is recorded in the statements of operations. The fair value of stock-based awards to non-employees is measured at the earliest of the date at which the services are provided, the date which a performance commitment is reached, or the option grant date if the options are fully vested and non-forfeitable.

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 statements of operations for an amount equal to the excess.

Financial instruments

The Company has adopted CICA Handbook Section 3855, "Financial Instruments - Recognition and Measurement" effective January 1, 2007 on a retroactive basis without restatement. This section provides guidance on the recognition and measurement of financial assets, financial liabilities and derivative financial instruments. This new standard requires that all financial assets and liabilities be classified as either: held-to-maturity, held-for-trading, loans and receivables, available-for-sale, or other financial liabilities. The initial and subsequent recognition of the financial instrument depends on its initial classification.

The Company has classified its financial instruments as follows:

a) Cash and cash equivalents: the Company designated its cash and cash equivalents as held-for-trading, which are measured at fair value.

b) Accounts receivable: the Company classified its trade receivables, receivable from joint venture partners and taxes receivable as loans and receivables, which are measured at amortized cost using the effective interest method.

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c) Short-term investments: the Company classified its short-term investments as held-to-maturity which are measured at amortized cost using the effective interest method. The carrying value of short-term investments approximates fair value due to their short-term nature.

d) Accounts payable and accrued liabilities and bank loan: the Company classified these as other financial liabilities, which are measured at amortized cost using the effective interest method.

The Company's new policy for transaction costs is to expense them in the period incurred. The impact of this new policy resulted in expensing deferred financing costs amounting to $32,771 in the statement of operations in 2007. Other than this adjustment, the adoption of the new accounting policy had no material effect on the Company.

The Company also adopted CICA Handbook Section 3861, "Financial Instruments - Disclosure and Presentation" effective January 1, 2007 which establishes standards for presentation of financial instruments and non-financial derivatives, and identifies information that should be disclosed regarding the significance of financial instruments to an entity's financial position, performance and cash flows. The adoption of this standard did not have a material effect on the Company's financial statements.

Comprehensive income

The Company adopted the new recommendations of the CICA Handbook Section 1530, "Comprehensive Income." This section establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles. The Company had no other comprehensive income or loss transactions during 2007 and no opening or closing balances for accumulated other comprehensive income or loss. As a result, the adoption of this Handbook section had no significant impact on the Company's financial statements.

The Company adopted CICA Handbook Section 3251, "Equity" effective January 1, 2007 which describes the changes in how to report and disclose equity and changes in equity as a result of the new requirement of Section 1530. The adoption of this standard had no impact on the Company's financial statements.

BioteQ Environmental Technologies Inc.
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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 Nickel 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 it was not operated until the spring thaw in June 2004. Under the contract, the Company charges a fixed monthly fee which has increased from $24,500 to $31,860 due to the cost of increased capacity requested by the client. In addition, an operating fee is charged of $1.06 per cubic meter of water treated, increasing up to a maximum of 2% 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 Nickel or by the Company. After 63 months from the plant installation date of November 2003, Xstrata Nickel 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, 2007, the cost of the plant, including commissioning costs, amounted to $1,985,209 (2006 - $1,983,825) and net book value after accumulated depreciation amounted to $1,594,834 (2006 - $1,692,667).

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. ("Canzinco ") (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 were sold to Blue Note Metals Inc. ("Blue Note") which planned 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 $215,844 at December 31, 2007 (2006 - $231,154).

BioteQ Environmental Technologies Inc.

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The new contract with Blue Note provided for a similar scope of services at the two sites and was for an initial term of one year. The payment terms in the new contract allowed BioteQ to charge a monthly amount based on the actual cost to treat water plus a 10% fee. The contract was not renewed after the one year term expiring July 31, 2007.

Mt Gordon agreement

In May 2007, BioteQ finalized the full scope of an agreement with Birla Mt Gordon Pty Ltd ("Birla") for the development and operation of a water treatment plant at Birla's Mt Gordon copper mine in Queensland, Australia.

The contract provides for a plant to recover copper, cobalt and nickel from contaminated water at the rate of 250 cubic meters per hour. In addition, BioteQ is to provide an evaporation system to reduce water inventory in Birla's pit by 1 gigaliter annually and also sufficient capacity in the system to maintain at least a zero discharge water balance at the site. BioteQ will retain the proceeds from all minerals extracted from the water until an amount equivalent to BioteQ's capital cost plus 30% has been recovered. Thereafter, Birla will be entitled to a net profits interest of 10%.

At December 31, 2007, the cost of all construction in progress amounted to $7,403,557. Commissioning of certain parts of the plant commenced during the year and full commissioning of the copper circuit and evaporation system commenced after the year-end. The separate cobalt recovery circuit is expected to be in commissioning in the second quarter of 2008.

Lluvia agreement

In February 2007, BioteQ signed an agreement with Columbia Metals Corporation Limited ("Columbia") for the construction of a copper recovery and cyanide regeneration plant at Columbia's mine site in Sonora, Mexico.

The contract provides for BioteQ to construct a plant to treat the solution from Columbia's gold heap leach operation to regenerate cyanide and recover copper, prior to gold recovery by Columbia. BioteQ will receive a share of all metal revenues produced at the property until it has recovered an amount equal to its capital cost plus a return of 30% ("Return on Capital"). During this period, each party is responsible for its own operating costs. BioteQ's share of the property's revenues will be based on the amount of capital ultimately contributed by each party in bringing the property into production. This was estimated in the agreement to amount to a split of 66.67% to Columbia and 33.33% to BioteQ. After BioteQ has recovered its Return on Capital, BioteQ's revenue will accrue in one of two ways, at BioteQ's option. Either BioteQ will charge a fee of $0.85 per pound of regenerated cyanide and also retain all the copper recovered up to 1 million pounds per annum, and thereafter on a sliding scale, or it will charge an operating fee calculated as 15% of the operating expenses of its plant.

At December 31, 2007, the plant was under construction and had incurred costs of $1,332,743.

BioteQ Environmental Technologies Inc.
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4 Interest in Joint Ventures

Bisbee agreement

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 $3,156,915 (2006 - $3,152,972) and the net book value amounted to $2,468,888 (2006 - $2,807,149).

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

	2007 $	2006 $
Consolidated balance sheets		
Current assets	24,000	85,000
Long-term assets	1,775,000	1,896,000
Current liabilities	7,000	36,000
Consolidated statements of operations		
Sales	2,368,000	1,966,000
Operating income	1,137,000	910,000
Net income	981,000	735,000
Consolidated statements of cash flows		
Operating activities	1,159,000	860,000
Investing activities	-	(129,000)
Financing activities	(1,159,000)	(731,000)

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 is called JCC-BioteQ Environmental Technologies Co. Ltd., which 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 as well as five additional sites owned and operated by JCC. At December 31, 2007, the plant was largely complete and the commissioning stage had commenced.

The cost of the plant, including BioteQ's engineering and site costs, in construction in progress at December 31, 2007 amounted to $1,631,625.

BioteQ Environmental Technologies Inc.

Notes to Consolidated Financial Statements

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BioteQ's 50% of the joint venture in the consolidated financial statements is as follows:

	2007 **$**
Consolidated balance sheets	
Current assets	1,000,000
Long-term assets	1,183,000
Current liabilities	355,000
Consolidated statements of operations	
Sales	-
Expenses, exchange loss	(96,000)
Net loss	(96,000)
Consolidated statements of cash flows	
Operating activities	(741,000)
Investing activities	(1,183,000)
Financing activities	1,961,000

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. Of this amount, $30,129 was recorded as an increase in property, plant and equipment and $60,266 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. During 2007, based on gross revenues for the year, the total repayment made or accrued was $92,605 which was charged to the accrual made at December 31, 2006.

BioteQ Environmental Technologies Inc.

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6 Inventory

	2007 $	2006 $
Work in progress	-	145,769
Inventory of spare parts	25,380	20,628
Inventory of copper concentrate	24,000	85,255
	49,380	251,652

7 Property, plant and equipment

			2007
	Cost $	Accumulated amortization $	Net $
Pilot plants	372,113	353,263	18,850
Office equipment	184,404	114,993	69,411
Vehicles	137,795	14,811	122,984
Water treatment plants - net	5,484,593	1,187,026	4,297,567
Construction in progress	11,324,130	-	11,324,130
	17,503,035	1,670,093	15,832,942

			2006
	Cost $	Accumulated amortization $	Net $
Pilot plants	351,193	351,193	-
Office equipment	152,271	85,204	67,067
Vehicles	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

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 originally 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, 2007 amounted to $364,599 (2006 - $391,377).

BioteQ Environmental Technologies Inc.

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8 Intangible asset

	Cost $	Accumulated amortization $	Net $
Intellectual property			
December 31, 2007	247,770	54,200	193,570
December 31, 2006	247,770	23,228	224,542

BioteQ used to have 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.

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 with repayment over 39 months through payments of $17,200 per month. The loan was repaid in December 2007. The capital amount repaid during 2007 was $398,670.

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

BioteQ Environmental Technologies Inc.

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10 Capital stock, warrants and contributed surplus

Authorized

Unlimited common shares without par value

Issued and outstanding

	Common shares		Warrants	Contributed surplus	
	Number of shares	Amount $	Amount $	Amount $	Total $
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
Stock-based compensation	-	-	-	1,830,727	1,830,727
Modification of escrow shares	-	210,000	-	1,890,000	2,100,000
Exercise of warrants	4,380,829	6,536,479	(609,473)	-	5,927,006
Exercise of options	1,333,029	1,872,449	-	(523,576)	1,348,873
Balance - December 31, 2007	65,483,883	49,558,272	1,436,015	4,047,035	55,041,322

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 September 5, 2002, the Company completed a private placement of unsecured Series A 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 holder's 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.

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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, 2007, 6,548,388 options are available for issue, of which 4,398,701 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. A summary of the change in the Company's stock option plan for the year is as follows:

	2007		2006	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Outstanding - January 1	3,927,365	1.34	3,610,000	0.69
Options exercised	(1,333,029)	1.01	(2,358,935)	0.66
Options granted	1,846,165	3.86	2,818,000	1.58
Options forfeited	(41,800)	2.23	(141,700)	1.04
Outstanding - December 31	4,398,701	2.49	3,927,365	1.34
Exercisable at December 31	2,472,292	1.52	1,775,257	1.02
Available for future grant pursuant to Company's stock option plan at December 31	2,149,687		2,049,638	

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 $
2006	0.50 - 1.00	1,134,365	0.71	0.69
	1.00 - 1.50	800,000	1.34	1.34
	1.50 - 2.00	1,993,000	1.70	1.72
		3,927,365	1.34	1.34

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	Range of exercise prices $	Number outstanding at December 31	Weighted average remaining contractual life (years)	Weighted average exercise price $
2007	0.50 - 1.00	288,533	1.41	0.84
	1.00 - 1.50	683,334	3.27	1.34
	1.50 - 2.00	1,633,669	3.49	1.72
	2.00 - 2.50	275,200	4.07	2.33
	4.00 - 4.50	1,517,965	4.63	4.20
		4,398,701	3.75	2.49

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:

	2007	2006
Expected dividend yield	-	-
Expected stock price volatility	36% - 42%	32%
Risk-free interest rates	4.15% - 4.75%	4.23%
Expected life of options (years)	3	3
Forfeiture rate	7.4%	-

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 $
2006	0.45	1.58
2007	1.19	3.86

Of the total stock-based compensation charge, which amounted to $1,830,727 for the year, $412,673 relates to stock options granted to non-employees.

BioteQ Environmental Technologies Inc.

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b) Warrants

As at December 31, 2007, the following warrants were outstanding:

	2007		2006	
	Number	**Weighted average exercise price $**	**Number**	**Weighted average exercise price $**
Outstanding - January 1	4,537,781	1.37	6,343,332	1.20
Issued	-	-	1,142,857	1.75
Exercised	(4,380,829)	1.35	(2,948,408)	1.19
Cancelled	(1)	-	-	-
Outstanding - December 31	156,951	1.75	4,537,781	1.37

The outstanding warrants have an exercised price of $1.75 and expire on December 7, 2008.

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 two 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 as used for stock options granted during the year, except that the estimated useful life of warrants was two years.

c) Escrow shares

At December 31, 2007, the common shares issued include 6,300,000 (2006 - 7,000,000) performance shares which were to 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. Any performance shares not released within 10 years from issuance on December 20, 2000 would be cancelled and returned to the Company's treasury. At the Company's annual general meeting on April 23, 2007, the shareholders approved a change in the escrow arrangement to a time release method. The time release formula would allow release of the escrow shares over a period of 36 months, on the basis of 10% of the shares on the date specified in the news release announcing the conversion, and 30% of the original number of the escrow shares every 12 months thereafter. The three time releases of 30% are also subject to the Company building and operating a total of three new water treatment plants in each period of 12 months. The new plants are cumulative in qualifying for each release of 30%.

BioteQ Environmental Technologies Inc.
Notes to Consolidated Financial Statements
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The change in the escrow arrangement has been approved by all parties to the original escrow contract and represents a modification of the escrowed shares, which has resulted in additional stock-based compensation expense of $2,100,000 during the year. The first release of 10% took place in October 2007.

d) Options agreement

In June 2007, the Company entered into an option agreement to purchase an engineering and fabricating company for 1,000,000 shares of BioteQ and $500,000 in cash, at the sole option of BioteQ. The agreement has a term of three years from the date of the agreement, with a possible extension of two years for additional consideration of 500,000 shares of BioteQ for each year extended. There was nominal cost for the option. In order for the option to be exercised, BioteQ's shares are required to be trading for at least $3.00 at the exercise date.

11 Income taxes

As at December 31, 2007, 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 $11,278,000 for Canadian income tax purposes which may be deducted in the calculation of taxable income in future years. The losses expire as follows:

	$
2008	1,036,000
2009	1,145,000
2010	1,310,000
2014	1,440,000
2015	2,283,000
2026	2,416,000
2027	1,648,000
	11,278,000

In addition, BioteQ has available U.S. tax losses from 2005 of $790,000 from its U.S. branch operations. These losses can be carried forward for 20 years from the year incurred, to offset against future U.S. taxable income.

BioteQ Environmental Technologies Inc.

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

As at December 31, 2007, the Company's future tax assets and liabilities were as follows:

	2007 $	2006 $
Property, plant and equipment	(77,000)	(80,000)
Financing costs	335,000	563,000
Research and development expense carry-forwards	304,000	341,000
Non-capital loss carry-forwards	3,369,000	3,644,000
	3,931,000	4,468,000
Valuation allowance	(3,931,000)	(4,468,000)
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% (2006 - 34.12%) statutory tax rate, for the year ended December 31 is as follows:

	2007 $	2006 $
Income tax recovery at statutory rates	(1,422,000)	(597,000)
Change in valuation allowance	(537,000)	612,000
Share issue costs	-	(542,000)
Non-deductible expenses	1,345,000	154,000
Tax rate differences	681,000	375,000
Other	(67,000)	(2,000)
	-	-

12 Financial instruments

Fair value of financial instruments

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

BioteQ Environmental Technologies Inc.
Notes to Consolidated Financial Statements
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Credit risk exposure

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and cash equivalents, 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 and is concentrated with two main clients. 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.

13 Segmented information

The Company currently has one operating segment. Geographic disclosures are as follows:

	2007 $	2006 $
Revenue		
Canada	1,842,754	2,399,293
U.S.	2,782,718	2,120,435
Other	4,800	-
	4,630,272	4,519,728
Property, plant and equipment		
Canada	2,225,949	2,215,656
U.S.	3,124,105	2,770,875
China	1,663,657	56,061
Australia	7,486,488	-
Mexico	1,332,743	-
	15,832,942	5,042,592

During 2007, revenue was derived from two clients that individually accounted for greater than 10% of total revenues. These two clients contributed $2,368,296 and $1,407,105.

During 2006, revenue was derived from three clients that individually accounted for greater than 10% of total revenues. These three clients contributed $1,965,927, $1,208,289 and $694,465.

BioteQ Environmental Technologies Inc.

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

14 Commitments

The Company has commitments in 2008 of $113,720 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 amount remaining to be paid is $367,692, of which $158,805 has been accrued at December 31, 2007.

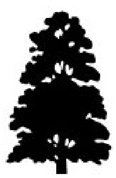
The Company has committed approximately $5,175,000 to capital expenditures to complete the current construction projects.

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.

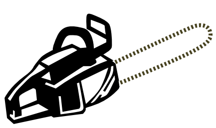
15 Subsequent events

In January 2008, warrants were exercised for the issue of 60,000 shares for cash consideration of $105,000.

By choosing Post Consumer Recycled fiber instead of virgin paper for this printed material the following savings to our natural resources were realized

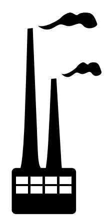


Trees Saved
5.2



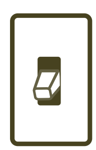
Wood Saved
2,981 lbs.

Water Saved
4,383 gals.



Emissions Reduced
902 lbs.

Landfill Reduced
464 lbs.



Energy Reduced
7,224 btu (000)

Cover: 100lb Sterling Ultra Gloss Cover - 10% PC, FSC Certified
Insides: 60lb Save-a-Tree Offset - 100% PC, FSC Certifed

CORPORATE INFORMATION

Directors as of Dec 31,2007

P. Bradley Marchant [4]
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

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

Officers

P. Bradley Marchant
CEO

David Kratochvil
President & COO

Richard W. Lawrence
Executive Vice President

John C. York
VP Finance & CFO

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Investor Relations

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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

Toronto Stock Exchange (TSX)
Symbol: BQE

Annual Meeting

2pm, April 23, 2008
The Conference Centre
Second Floor
888 Dunsmuir St.
Vancouver, British Columbia

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