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ARTHUR ANDERSEN

BIOPROGRESS TECHNOLOGY INTERNATIONAL, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 1999 AND 1998
TOGETHER WITH AUDITORS' REPORT

ARTHUR ANDERSEN

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of
BioProgress Technology International, Inc:

We have audited the accompanying consolidated balance sheets of BioProgress Technology International, Inc. (a Nevada corporation) and subsidiaries as of December 31, 1999 and 1998 (as restated-see note 2), and the related consolidated statements of operations, changes in stockholders' equity 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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BioProgress Technology International, Inc. and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

Arthur Andersen LLP

ARTHUR ANDERSEN LLP

New York, New York
March 29, 2000

BIOPROGRESS TECHNOLOGY INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1999 AND 1998

ASSETS	1999	1998
CURRENT ASSETS:		
Cash and cash equivalents	$ 5,818	$ 82,119
Marketable securities (Note 5)	367,306	-
Accounts receivable	201,803	12,675
Prepaid expenses and other current assets	61,174	52,357
Total current assets	636,101	147,151
PROPERTY, PLANT AND EQUIPMENT, net (Notes 2 and 4)	326,629	156,792
GOODWILL, net	6,103,565	6,781,739
INTANGIBLE ASSETS, net (Note 6)	1,232,289	32,569
Total assets	$ 8,298,584	$ 7,118,251
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Deferred revenue	$ 1,221,954	$ 114,456
Accounts payable	387,912	287,315
Amounts owed to related parties (Note 10)	780,850	758,365
Accrued expenses and other current liabilities	362,855	53,716
Total current liabilities	2,753,571	1,213,852
LONG-TERM DEBT (Note 8)	-	1,914
Total liabilities	2,753,571	1,215,766
Redeemable convertible preferred stock, Series A, par value $1.00 (Note 11)	51,475	100,000
Redeemable convertible preferred stock, Series B, par value $2.50 (Note 11)	75,120	-
	126,595	100,000
STOCKHOLDERS' EQUITY:		
Common stock, $0.001 par value- 50,000,000 shares authorized; 36,002,800 (1998: 28,484,214) shares issued and outstanding (Note 3)	$ 36,002	$ 28,484
Additional paid-in capital (Note 3)	9,861,562	7,186,660
Accumulated deficit	(4,481,241)	(1,404,297)
Accumulated other comprehensive gain (loss)	2,095	(8,362)
Total stockholders' equity	5,418,418	5,802,485
Total liabilities and stockholders' equity	$ 8,298,584	$ 7,118,251

The accompanying notes to the consolidated financial statements are an integral part of these consolidated balance sheets.

BIOPROGRESS TECHNOLOGY INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
DECEMBER 31, 1999 AND 1998

	1999	1998
NET REVENUE	$ 293,582	$ 28,118
COST AND EXPENSES:		
Cost of revenues	21,458	42,287
General and administrative expenses	1,602,322	318,545
Unrealized loss on marketable securities	752,694	-
Professional fees	334,637	258,195
Management fee	600,000	314,377
Total cost and expenses	3,311,111	933,404
Loss from operations	(3,017,529)	(905,286)
Dividends payable and accretion of preferred stock	(59,415)	-
Loss applicable to common shareholders	(3,076,944)	(905,286)
NET LOSS PER COMMON SHARE – BASIC AND DILUTED	$ (0.10)	$ (0.06)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES	30,159,566	14,317,657

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

BIOPROGRESS TECHNOLOGY INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
DECEMBER 31, 1999 AND 1998

	Common Shares	Common Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity (Deficit)
BALANCE at December 31, 1997	15,750,000	$ 15,750	$ 312,421	$ (499,011)	$ (2,226)	$ (173,066)
Net loss	-	-	-	(905,286)	-	(905,286)
Currency translation adjustment	-	-	-	-	(6,136)	(6,136)
Comprehensive loss						(911,422)
Issuance of common shares	7,343,936	7,344	647,911	-	-	655,255
Issuance of 5,390,278 common shares par value $0.001 for purchase of BTII in reverse acquisition	5,390,278	5,390	6,226,328	-	-	6,231,718
BALANCE at December 31, 1998	28,484,214	28,484	7,186,660	(1,404,297)	(8,362)	5,802,485
Net loss	-	-	-	(3,017,529)	-	(3,017,529)
Currency translation adjustment	-	-	-	-	10,457	10,457
Comprehensive loss						(3,007,072)
Dividends payable	-	-	-	(34,000)	-	(34,000)
Conversion of Series A preferred stock to common stock	2,935,138	2,935	1,171,120	-	-	1,174,055
Accretion of preferred stock to redemption rate at December 31, 1999	-	-	-	(25,415)	-	(25,415)
Debt to equity conversion	2,708,448	2,708	755,657	-	-	758,365
Issuance of common shares	1,875,000	1,875	748,125	-	-	750,000
BALANCE at December 31, 1999	36,002,800	$ 36,002	$ 9,861,562	$(4,481,241)	$ 2,095	$ 5,418,418

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

BIOPROGRESS TECHNOLOGY INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
DECEMBER 31, 1999 AND 1998

	Common Shares	Common Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity (Deficit)
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Currency translation adjustment	-	-	-	-	(6,136)	(6,136)
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BALANCE at December 31, 1998	28,484,214	28,484	7,186,660	(1,404,297)	(8,362)	5,802,485
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BALANCE at December 31, 1999	36,002,800	$ 36,002	$ 9,861,562	$(4,481,241)	$ 2,095	$ 5,418,418

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

BIOPROGRESS TECHNOLOGY INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
DECEMBER 31, 1999 AND 1998

	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (3,017,529)	$ (905,286)
Adjustments to reconcile net loss to net cash used in operating activities-		
Changes in operating assets and liabilities-		
Depreciation and amortization	888,998	40,742
Unrealized loss on marketable securities	752,694	-
Increase in accounts receivable	(189,128)	(12,675)
Decrease (increase) in prepaid expenses and other current assets	(8,816)	(51,704)
Increase in deferred revenue	(12,502)	79,343
Increase in accounts payable	1,476	261,864
Increase in accrued expenses and other current liabilities	1,054,075	568,349
Net cash used in operating activities	(530,732)	(19,367)
CASH FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(244,381)	-
Purchase of intangibles	(650,880)	-
Net cash used in investing activities	(895,261)	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of preferred stock	1,175,235	100,000
Proceeds from sale of intangibles	164,000	-
Net cash provided by financing activities	1,339,235	100,000
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	10,457	-
Net (decrease) increase in cash and cash equivalents	(76,301)	80,633
CASH AND CASH EQUIVALENTS, beginning of year	82,119	1,486
CASH AND CASH EQUIVALENTS, end of year	$ 5,818	$ 82,119
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ -	$ 1,995

NON CASH TRANSACTIONS
During the year the Company purchased patents, licenses and trademarks from Trutona International Inc. (see note 10). Non cash consideration provided was $750,000 in shares of the Company's common stock.

During the year, the Company sold a license to Consolidated EcoProgress Technologies, Inc., and received consideration of $1,120,000 in shares of common stock in Consolidated EcoProgress (see note 10).

The Company issued equity for debt of $758,365 (see note 10). The total number of common shares allocated was 2,708,448.

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

BIOPROGRESS TECHNOLOGY INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

1. BACKGROUND AND ORGANIZATION

History

BioProgress Technology International, Inc. (the "Company"), was incorporated in California on March 5, 1990, under the name of U.S. Flywheel, Inc., as a subsidiary of Sunbird Technologies, Inc., a Utah corporation ("Sunbird Technologies"). In June, 1991, the Company acquired three patents and a license relating to flywheel technology from Sunbird Technologies and its affiliates in exchange for common shares of the Company's common stock. These shares of common stock were subsequently distributed to the shareholders of Sunbird Technologies after registration with the U.S. Securities and Exchange Commission ("Commission"). The Company subsequently transferred its flywheel technology to a partnership (the "Partnership") in exchange for a minority interest in the Partnership. The Partnership interest of the Company was subsequently sold, after which the Company began its search for a business in which to engage.

The Company changed its name to Famous Sam's Group, Inc. and briefly traded as a restaurateur under the name of Famous Sam's. The business subsequently ceased to trade and in 1997 the Company acquired its interest in BioProgress Technology, Inc., as described in note 3.

Operations

The Group's primary operations are in the United Kingdom. The principal activities of the Group are the development, manufacture, and sale of non-gelatin encapsulation materials for the dietary supplement, pharmaceutical and recreational industries, cosmetics and other related applications.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries: BioProgress Technology, Inc., BioProgress Technology Limited, and DHA Nutrition Limited. All significant intercompany transactions and balances have been eliminated.

The 1998 financial statements have been restated to reflect an adjustment to the purchase price as a result of the reverse acquisition and to reflect the appropriate number of shares outstanding and earnings per share.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the prior year's financial statements in order to ensure consistent presentation with the current year.

BIOPROGRESS TECHNOLOGY INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is provided for using the straight-line method over the estimated useful lives of the respective assets, ranging from 4 to 7 years. Amortization of leasehold improvements is provided for over the related lease term.

Cash and Cash Equivalents

Cash and cash equivalents represent all highly liquid investments with maturities of three months or less when purchased.

Revenue Recognition

Revenue is recognized as products are shipped or services are performed. Cash received from the sale of licenses is recognized as deferred income and recognized over the term of the license agreement.

Marketable Securities

Marketable securities represent the Company's investment in the common stock of Consolidated EcoProgress Technology Inc, as described in note 5. Management considers these securities as trading securities. The value of the investment is marked to market value at each period end with any unrealized gain or loss included in the statement of operations in the period to which it relates.

Intangibles

Licenses are included at cost and depreciated in equal annual installments over a period of 10 years which is their estimated useful economic life. Provisions are made for any known impairments.

Goodwill

Goodwill is being amortized on a straight-line basis over a period of 10 years. The amortization charge for 1999 and 1998 was $678,174 and $0, respectively.

Long-Lived Assets

The provisions of Statement of Financial Accounting Standards (SFAS) No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" requires, among other things, that an entity review its long lived assets and certain related intangibles for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. Management does not believe that any such change in circumstances has occurred.

Earnings Per Share

Effective for the year ended December 31, 1998 the Company adopted SFAS No. 128 "Earnings per share". The adoption of SFAS No. 128 requires the presentation of basic earnings per share and diluted earnings per share. Basic and diluted loss per common share was calculated based upon the net loss available to common stockholders divided by the weighted average number of shares of common stock outstanding during the period. There are 3,000,000 stock options outstanding at December 31, 1999 which are not included in the earnings per share calculation.

BIOPROGRESS TECHNOLOGY INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

Foreign Currency Translation

The financial statements of the foreign subsidiaries are translated into U.S. dollars using the exchange rate in effect at year end for balance sheet accounts and the average exchange rate in effect during the year for revenue and expense accounts with currency translation adjustments reflected in other comprehensive loss in stockholders' equity. Gains and losses from foreign currency transactions, such as those resulting from the settlement of foreign receivables or payables, are included in the consolidated statement of operations. The functional currency of foreign operations is the local currency.

Income Taxes

The Company applies the deferred method of accounting for income taxes whereby deferred taxes are recognized for tax consequences of temporary differences by applying enacted statutory tax rates to differences between financial statements carrying amounts and the tax bases of existing assets and liabilities.

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for derivative instruments and hedging activities". SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded on the balance sheet as either an asset or liability measured at its fair value. The statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement or other comprehensive income (depending on the type of hedge). To adopt hedge accounting a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

SFAS No. 137 delayed the effective date of SFAS No. 133 to fiscal years beginning after June 15, 2000. A company may implement the statement as of the beginning of any fiscal quarter after issuance, however, SFAS No. 133 can not be applied retroactively. The Company has not yet determined the timing of the adoption of SFAS No. 133.

3. ACQUISITIONS

On October 30, 1997, the Company entered into a letter of intent with BioProgress Technology, Inc., a Colorado corporation ("BioProgress Technology"), which was followed on November 17, 1997, by a formal agreement (the "Reorganization Agreement"). Pursuant to the Reorganization Agreement, the Company agreed to acquire all of the outstanding capital stock of BioProgress Technology in exchange for 4,000,000 post split shares of Common Stock. Immediately prior to closing, the Company effected a one for five (1:5) reverse stock split.

In conjunction with the execution and delivery of the Reorganization Agreement, the Company entered into an agreement (the "BTL Option Agreement") with certain of the shareholders of BioProgress Technology Limited, an entity incorporated in the United Kingdom ("BTL"), which gave the Company the option of acquiring all or any part, on a pro-rata basis, of the issued and outstanding common shares of BTL on or before June 30, 1998. The Company was required under the BTL Option Agreement to issue 1½ shares of Common Stock for each outstanding share of BTL, which then had 10,100,000 shares outstanding; thus, if the option had been exercised in full and in accordance with the original terms of this agreement, the Company would have issued 15,150,000 shares of Common Stock. BTL was required to have no more than

10,100,000 shares outstanding, and the Company was required to have no more than 5,000,000 shares of Common Stock issued and outstanding and to have completed or be in a position to complete the sale of such number of shares of Common Stock at a price of no less than $5.00 per share so as to generate no less than $4,000,000 net of all costs. The terms and conditions of the BTL Option Agreement were not met; however, the Company and original signatories elected to amend the agreement and go forward with the acquisition of BTL.

On June 30, 1998, the Company and BTL amended the BTL Option Agreement. First, the maximum number of shares BTL was allowed to have outstanding at the closing date was raised from 10,100,000 to 16,000,000. Second, the requirement that the Company have no more than 5,000,000 shares of Common Stock issued and outstanding and to have completed or be in a position to complete the sale of such number of shares of Common Stock at a price of no less than $5.00 per share so as to generate no less than $4,000,000 net of all costs was waived. Third, the Company undertook to assume debt up to a maximum of $1,000,000, satisfying such through the issuance of shares of Common Stock valued at the average market price on the closing date. The Company acquired approximately 62% of BTL on November 11, 1998, and acquired the remaining 38% of BTL on December 31, 1998, issuing a total of 23,093,936 shares of Common Stock as sole consideration for the acquisition.

The acquisition of BTL was treated as a reverse acquisition of the Company by BTL. The shareholders of BTL received approximately 81% of the post acquisition shares of the Company and therefore, BTL is the accounting acquirer. Common stock and additional paid-in capital were restated in 1997 such that the total dollar value of common stock and additional paid-in capital for 1997 was split to reflect the same ratio as the Company's common stock and additional paid-in capital at that time. The Company's financial results are included in the consolidated financial statements for a period of two weeks during 1998. Goodwill generated in the acquisition of $6,781,739 will be amortized on a straight-line basis over a period of 10 years.

On July 31, 1998, the Company agreed to acquire DHA Nutrition Limited (UK), an entity organized in the United Kingdom ("DNL"), in exchange for consideration of 400,000 shares of Common Stock. These shares are restricted from sale, assignment or disposal for 18 months beginning July 31, 1998. The acquisition closed on August 12, 1998. The number of shares, which the Company issued in the acquisition of DNL, may be increased in the event that DNL's cumulative gross revenues in respect of its Feed Supply sales exceed $8,319,000 in the period from October 1, 1999 to September 30, 2000. In this event, the Company will issue to the former DNL shareholders an additional 400,000 shares of Common Stock. Further, and in addition to the foregoing shares, if DNL's cumulative gross revenues in respect of its Food Supply sales exceed $831,900 in the period October 1, 1999 to September 30, 2000, the Company will issue an additional 200,000 shares of Common Stock.

The acquisition of DNL was accounted for as a purchase. DNL's financial results of operations are included in the consolidated financial statements for a period of five months in 1998.

BIOPROGRESS TECHNOLOGY INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost and consist of the following:

	1999	1998	Estimated Useful Lives
Leasehold improvements	$ 129,117	$ -	7 years
Plant and machinery	234,638	155,188	4
Equipment under capital leases	4,021	4,021	4
Office equipment	36,807	18,189	4
Laboratory equipment	41,065	26,353	6
	445,648	203,751	
Less- Accumulated depreciation	(119,019)	(46,959)	
Total	$ 326,629	$ 156,792	

The depreciation expense was $74,544 and $40,741 for 1999 and 1998, respectively.

5. MARKETABLE SECURITIES

Marketable securities in the balance sheet represent shares in Consolidated EcoProgress Technologies Inc., which are classified as trading securities. The investment is marked to market value at each period end, and an unrealized loss of $752,694 has been reflected in the statement of operations during 1999.

6. INTANGIBLE ASSETS

	1999	1998
Trademarks, licenses, patents	$ 1,368,569	$ 32,569
Less accumulated amortization	(136,280)	-
Net intangible assets	$ 1,232,289	$ 32,569

The licenses were purchased from Trutona International, Inc., a related party as disclosed in note 10 and are being depreciated in equal annual installments over a period of 10 years which is their estimated useful economic life. The amortization expense for the year was $136,280 and $0 for 1999 and 1998, respectively.

7. OPERATING LEASE OBLIGATIONS

The Company leases its facilities under a non-cancelable operating lease that expires in 2014. Minimum future lease payments under non-cancelable operating leases as of December 31, 1999 are summarized as follows-

	1999
2000	$ 67,200
2001	67,200
2002	67,200
2003	67,200
2004	67,200
Thereafter	616,000
	$ 952,000

Rental expenses under operating leases totaled $56,000 and $0 for the years ended December 31, 1999 and 1998, respectively.

8. LONG-TERM DEBT

Long-term debt consists of capital lease obligations. The equipment lease obligations are payable in monthly installments of $210, through May 2000. The debt is collateralized by the related equipment. The Company's lease obligations are due as follows-

	1999	1998
1999	$ -	$ 2,520
2000	1,050	1,914

9. INCOME TAXES

The Company does not have any income taxes payable in 1999 or 1998. The Company has no net operating loss carryforwards available in the U.S. but has tax losses of approximately $1,862,000 and $1,335,000 for 1999 and 1998, respectively, available to carry forward against taxable profits in the U.K., subject to agreement with the U.K. tax authorities. The Company had deferred tax assets (DTAs) at December 31, 1999 and 1998, respectively, of approximately $559,000 and $400,000 representing the tax effect of the U.K. tax losses available to carryforward. Due to uncertainty regarding the ultimate amount of income tax benefits to be derived from the tax losses, the Company has recorded valuation allowances against the entire DTAs.

10. RELATED PARTIES

The Jade Partnership International, Inc.

On April 1, 1998, the Company entered into a consulting and option agreement with The Jade Partnership International, Inc. ("Jade"), a Delaware Corporation.

Certain directors of the Company are controlling shareholders in Jade. The Company has a contract with Jade, under which Jade assists the Company in obtaining equity and debt financing, and provides general business management, administration services, international licensing and sales and marketing strategies. In the opinion of management, all transactions are at arms length. This agreement provides that the Company is to pay $50,000 per month as a fee to Jade which, at the option of Jade, is convertible into Common Stock of the Company at a price of $0.28 per share. On December 16, 1999, Jade elected to convert $356,595 of fees outstanding into 1,273,556 shares of the Common Stock of the Company. The Company incurred management charges of $600,000 during the year and paid $122,675 to Jade in respect of the balance outstanding; the balance due to Jade by the Group at December 31, 1999 was $780,850.

The executive offices of the Company located at 9055 Huntcliff Trace, Atlanta, Georgia are provided free by Jade on a month-to-month basis.

Ormiston-Gore Securities Limited

Ormiston-Gore Securities Limited ("OGSL"), is a related party by virtue of its shareholding in the Company.

On April 1, 1998, the Company entered into a financial consulting agreement with OGSL, a Bahamian investment and financial services company.

OGSL, under this contract, provided services for BTL in obtaining equity and debt financing and also loaned $230,746 to the Company. All services had been rendered as of November 12, 1998. The Company agreed to pay OGSL a fee of $10,000 per month which, at the option of OGSL, was convertible into common stock of the Company at a price of $0.28 per share. The Company agreed to pay OGSL the sum of $171,023 for fees. OGSL elected to convert this amount into 610,798 shares of the Common Stock of the Company on December 16, 1999.

OGSL elected to convert the outstanding loan of $230,746 into shares of the Common Stock of the Company at a price of $0.28 per share, receiving 824,094 shares on December 16, 1999.

In addition, OGSL has entered into a lease agreement dated March 1, 1999 with the Company for the rental of the premises in March, Cambridgeshire, U.K.. The term of the lease is 15 years and the rental per month is $5,600 with a security deposit of $16,800. Details of the operating lease obligations are disclosed in Note 7.

Trutona International, Inc.

Certain directors of the Company are also directors of Trutona International, Inc. ("Trutona"), a privately held Atlanta based corporation.

On February 15, 1999, the Company acquired from Trutona patents, licenses and trademarks relating to a broad range of products, including a range of flushable and biodegradable disposable products designed by Trutona. The consideration payable to Trutona by the Company was $1,500,000 in the acquisition, of which $750,000 was paid through the delivery of 1,875,000 shares of Common Stock at an agreed price of $0.40, with the remainder paid in cash.

In connection with the acquisition of the above patents, licenses and trademarks, the Company has recognized license fee revenues of $88,862 in the year relating to a previous license agreement between Trutona and Consolidated EcoProgress Technology Inc. that has been assigned to the Company.

Consolidated EcoProgress Technologies, Inc

Consolidated EcoProgress Technologies, Inc, ("EcoProgress"), is a related party by virtue of its shareholding in the Company.

On April 5, 1999, the Company completed the sale of a license to EcoProgress, a Canadian company with securities traded on the Vancouver Stock Exchange. The license was sold for the sum of $1,500,000 and granted EcoProgress the exclusive right to manufacture, sell and distribute in the U. S. a line of flushable and biodegradable disposable products utilizing the intellectual property that the Company recently acquired from Trutona International Inc (see note 10). EcoProgress paid $380,000 in cash and the remaining $1,120,000 was paid through the issuance of 1,066,666 shares of free trading common stock in EcoProgress at an agreed price of $1.05 per share.

BIOPROGRESS TECHNOLOGY INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

11. REDEEMABLE CONVERTIBLE PREFERRED STOCK

The Series A and B redeemable convertible preferred stock are recorded in the accompanying balance sheet outside the stockholders' equity section due to their mandatory redemption feature.

	Series A redeemable convertible preferred stock	Series B redeemable convertible preferred stock
Number of shares authorized	1,250,000	3,750,000
Number of shares issued	1,215,235	24,000
Number of shares converted	1,174,055	-
Subscription price per share	$ 1.00	$ 2.50
Value based on redemption rate at December 31, 1999	$ 51,475	$ 75,120
Proceeds from issuance	$ 1,215,235	$ 60,000
Conversion date and rate to common shares		
By December 31, 1999	1:2.5	1:2.5
From January 1, 2000 on or before December 31, 2000	1:1.0	1:2.5
From January 1, 2001 on or before December 31, 2001	1:0.5	1:1.0
From January 1, 2002 on or before December 31, 2002	-	1:0.5
Expiry of conversion rights	After 12/31/2001	After 12/31/2002
Conversion at discretion of	Holder	Holder
Redemption date and amount per share		
On or before December 31, 1999	$ 1.25	$ 3.13
From January 1, 2000 on or before December 31, 2000	$ 1.56	$ 3.13
From January 1, 2001 on or before December 31, 2001	$ 1.95	$ 3.91
From January 1, 2002 on or before December 31, 2002	$ -	$ 4.88
Redemption at discretion of	Company	Company
Mandatory redemption date	After March 31, 2002	After March 31, 2003
Mandatory redemption price	$ 2.07	$ 5.19
Dividend rate	4% per annum of subscription amount computed quarterly in arrears March, June, September and December	4% per annum of subscription amount computed quarterly in arrears March, June, September and December
Voting rights	None	None
Preferential liquidation rights	None	None

A charge has been accreted to accumulated deficit to reflect the $0.25 premium on Series A redeemable convertible preferred shares and the $0.63 premium on Series B redeemable convertible preferred shares. At December 31, 1999 management had approved dividends of $34,000 on the Series A redeemable convertible preferred stock. The payment of the dividend is entirely at the discretion of management.

12. STOCK OPTION PLAN

The Company granted 3,000,000 stock options to executives on January 25, 1999.

The following table summarizes information about stock options outstanding at December 31, 1999-

Exercise Price	Number Outstanding as of December 31, 1999	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable as of December 31, 1999	Weighted Average Exercise Price of Exercisable Options
$0.35	600,000	1 year	$0.35	600,000	$0.35
$0.75	600,000	1 year	$0.75	600,000	$0.75
$1.25	600,000	1 year	$1.25	600,000	$1.25
$1.75	600,000	1 year	$1.75	600,000	$1.75
$2.25	600,000	1 year	$2.25	600,000	$2.25
	3,000,000	5.0 years		3,000,000	

As permitted under SFAS No. 123 "Accounting for Stock Based Compensation", the Company has elected to follow Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB No. 25") in accounting for share-based awards to employees, for options granted. There is no compensation charge arising as no stock options have been granted during the year at less than fair market value.

Pro-forma information regarding net loss and net loss per share is required by SFAS No. 123 and has been determined as if the Company had accounted for its employee share options and the options granted by shareholders under the fair value method consistent with the method prescribed by that Statement. The fair value of these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions for 1999:

- risk-free interest rate of 7%;
- dividend yield of 0%;
- volatility factor of 100%; and
- an expected life of the option of three years.

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Had the Company's option plan and the options granted by shareholders been accounted for under SFAS No. 123, the Company's charge to income for 1999 would have been $561,244. Net loss and loss per share would have been increased to the following pro-forma amounts.

	Year ended December 31,1999
Pro-forma net loss	($3,638,188)
Pro-forma net loss per share applicable to common stockholders – basic and diluted	($0.12)

13. SUBSEQUENT EVENTS

In the first quarter of 2000, the Company has received subscriptions for 2,900,924 redeemable convertible preferred Series B stock, par value $2.50 and to date has received cash of $4,088,406.

On February 18, 2000, an agreement was signed with a Fortune 500 company in respect of a specific product application.

On March 7, 2000, the Company signed an agreement with JT USA LP and Dye Precision Inc to develop a commercially viable non-gelatin paintball for exclusive distribution by JT Racing.