

# **BacTech Environmental Corporation**

## **Condensed Consolidated Interim Financial Statements**

For the three months ended March 31, 2014 and 2013

(Unaudited)

# BacTech Environmental Corporation

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*For the three months ended March 31, 2014*

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## **Notice of No Auditor Review of Condensed Consolidated Interim Financial Statements**

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor, MNP LLP, has not performed a review of these unaudited condensed consolidated interim financial statements, in accordance with standards established by the Institute of Chartered Professional Accountants for a review of condensed consolidated interim financial statements by an entity's auditor.

BacTech Environmental Corporation  
May 29, 2014

**BacTech Environmental Corporation**  
**Condensed Consolidated Interim Statements of Financial Position**  
(expressed in Canadian dollars, unless otherwise stated)

	As at March 31 2014 \$	As at December 31 2013 \$
<b>Assets</b>	(undaudited)	(audited)
<b>Current assets</b>		
Cash	3,061	11,071
Other receivable ( <i>note 5</i> )	13,950	42,824
Prepaid expenses	6,545	6,545
Total current assets	23,556	60,440
Deferred assessment and evaluation costs ( <i>note 7</i> )	1,407,357	1,361,242
Total assets	1,430,913	1,421,682
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities ( <i>notes 9 and 10</i> )	873,898	712,005
Bridge loan ( <i>note 12</i> )	600,000	600,000
Current portions payable to Aquila Resources Inc. ( <i>note 6</i> )	77,543	73,513
Debentures payable ( <i>note 11</i> )	584,220	555,232
Total current liabilities	2,135,661	1,940,750
Payable to Aquila Resources Inc. ( <i>note 6</i> )	69,873	69,873
Total liabilities	2,205,534	2,010,623
<b>Equity (deficiency in assets)</b>		
Share capital ( <i>note 13</i> )	2,423,269	2,423,269
Contributed surplus reserves	713,631	713,631
Warrant reserve	817,968	817,968
Deficit	(4,729,489)	(4,543,809)
Total equity (deficiency in assets)	(774,621)	(588,941)
	1,430,913	1,421,682

**Nature of Operations and Going Concern (*note 1*)**  
**Subsequent Events (*note 22*)**

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

Approved by the Board

Signed: "Jay Naster"  
**Director**

Signed: "M. Ross Orr"  
**Director**

## BacTech Environmental Corporation

### Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(Unaudited, expressed in Canadian dollars, unless otherwise stated)

	Three months ended March 31	
	2014	2013
	\$	\$
<b>Net Revenue</b>	-	-
<b>Expenses</b>		
Operating and administrative costs <i>(note 17)</i>	117,113	341,471
Finance charges <i>(note 18)</i>	68,567	54,975
<b>Net loss and comprehensive loss for the year</b>	<b>(185,680)</b>	<b>(396,446)</b>
<b>Basic and diluted loss per share <i>(note 16)</i></b>	<b>(0.00)</b>	<b>(0.01)</b>
<b>Weighted average number of common shares outstanding <i>(note 16)</i></b>	<b>49,755,027</b>	<b>48,755,027</b>

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

## BacTech Environmental Corporation

### Condensed Consolidated Interim Statements of Changes in Equity (Deficiency in Assets)

(Unaudited, expressed in Canadian dollars, unless otherwise stated)

	Share Capital	Contributed Surplus Reserve	Warrant Reserve	Deficit	Total Equity
	\$	\$	\$	\$	\$
<b>Balance, December 31, 2012</b>	2,378,769	549,790	799,259	(3,344,565)	383,253
Expired warrants	-	30,200	(30,200)	-	-
Share based payments	-	105,350	-	-	105,350
Net loss for the year	-	-	-	(396,446)	(396,446)
<b>Balance, March 31, 2013</b>	2,378,769	685,340	769,059	(3,741,011)	92,157
Common shares issued pursuant to private placement	46,000	-	54,000	-	100,000
Expired warrants	-	5,091	(5,091)	-	-
Share issue costs	(1,500)	-	-	-	(1,500)
Value attributed to conversion feature on Bridge Loan (note 12)	-	23,200	-	-	23,200
Net loss for the year	-	-	-	(802,798)	(802,798)
<b>Balance, December 31, 2013</b>	2,423,269	713,631	817,968	(4,543,809)	(588,941)
Net loss for the year	-	-	-	(185,680)	(185,680)
<b>Balance, March 31, 2014</b>	2,423,269	713,631	817,968	(4,729,489)	(774,621)

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

**BacTech Environmental Corporation**  
**Condensed Consolidated Interim Statements of Cash Flows**  
(Unaudited, expressed in Canadian dollars, unless otherwise stated)

	Three months ended March 31 2014	Three months ended March 31 2013
	\$	\$
<b>Cash flow from operating activities</b>		
Cash paid to suppliers, employees and consultants	38,105	(200,849)
	<b>38,105</b>	<b>(200,849)</b>
<b>Cash flow from financing activities</b>	-	-
<b>Cash flow from investing activities</b>		
Deferred development expenditures, net	(46,115)	(194,291)
	<b>(46,115)</b>	<b>(194,291)</b>
<b>Increase (decrease) in cash</b>	<b>(8,010)</b>	<b>(395,140)</b>
<b>Cash, beginning of year</b>	<b>11,071</b>	<b>409,583</b>
<b>Cash, end of year</b>	<b>3,061</b>	<b>14,443</b>

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

## Notes to Condensed Consolidated Interim Financial Statements

*For the three months ended March 31, 2014 and 2013*

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### 1. Nature of Operations and Going Concern

BacTech Environmental Corporation (the "Company" or "BEC") was incorporated by REBgold Corporation ("REBgold" and formerly BacTech Mining Corporation) on October 5, 2010 under the Canada Business Corporations Act. REBgold completed a divisive reorganization by way of a Plan of Arrangement whereby a newly formed subsidiary, the Company, was granted rights and interests in REBgold's existing and proposed tailings remediation projects and an exclusive, perpetual, royalty-free license to use REBgold's proprietary bioleaching technology for reclamation of historic mine tailings. REBgold retained the primary rights to the bioleaching technology. The technology utilizes bacteria to extract precious and base metals and has been traditionally used to treat difficult-to-treat sulphide ores and concentrates. During the year ended December 31, 2013, REBgold amalgamated with Aquila Resources Inc. and is hereinafter referred to as "Aquila".

The business plan for the Company is to apply bioleaching technology to abatement and reclamation projects to remove the harmful elements such as arsenic and sulphur from the environment, where this can be assisted by a positive cash flow from metal recovery. Examples of metals which can be extracted include gold, silver, cobalt, nickel, copper, uranium and zinc. The Company's head office is located at 50 Richmond Street East, Suite 300, Toronto, Ontario, M5C 1N7.

The accompanying Condensed Consolidated Interim financial statements of the Company have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business.

The Company has no sources of recurring revenue, has incurred losses amounting to \$4,729,489 since its inception, has a working capital deficit of \$2,112,105 at March 31, 2014, and is dependent on financings to fund its operations. The ability of the Company to continue as a going concern is dependent upon the continuing financial support of shareholders or other investors, obtaining new financing on commercial terms acceptable to the Company to enable it to monetize its intellectual property assets, and upon attaining profitable operations once such assets can be monetized, all of which outcomes are uncertain and which, taken together, cast significant doubt over the ability of the Company to continue as a going concern. These Condensed Consolidated Interim financial statements do not include any adjustments to the carrying values of the Company's assets, liabilities, and expenses and the related statement of financial position and statement of loss classifications that would be necessary if the going concern assumption were inappropriate. Such adjustments have not been quantified by management but could be material.

The Company funded its operations for the period ended March 31, 2014 from existing cash reserves and receivables. The Company does not have sufficient cash reserves to fund its administrative costs and fully fund all project development initiatives for the coming twelve month period, and to repay its liabilities to trade creditors and debt holders. Management is actively involved in identifying reclamation and abatement ventures amenable to the application of the Company's technology license, and in seeking new equity financing to enable it to service the Company's liabilities and its ongoing administrative costs. There can be no assurance that the Company will be successful in these initiatives.



**Notes to Condensed Consolidated Interim Financial Statements**

*For the three months ended March 31, 2014 and 2013*

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**2. Basis of Consolidation and Presentation**

**Statement of Compliance with International Financial Accounting Standards (“IFRS”)**

**Statement of Compliance**

These condensed consolidated interim financial statements of the Company have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Company reported in Note 2 and 3 in its audited annual consolidated financial statements for the year ending December 31, 2013. These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements

These condensed consolidated interim financial statements were authorized for issuance by the Board of Directors of the Company on May 29, 2013

**Basis of Preparation and Presentation**

These condensed consolidated interim financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting except for cash flow information.

The condensed consolidated interim financial statements are presented in Canadian dollars, which is also the Company's functional currency.

**Basis of Consolidation**

These condensed consolidated interim financial statements comprise the financial statements of the Company and its subsidiary, BacTech Manitoba Corp. Accounting policies of the subsidiary have been changed where necessary to ensure consistency with the policies adopted by the Company.

Intercompany balances and transactions, including unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the Condensed Consolidated Interim financial statements.

**3. Significant Accounting Policies**

The accounting policies as reported in Note 2 and 3 of the audited annual consolidated financial statements for the year ended December 31, 2013, have been applied in preparing these condensed consolidated interim financial statements.

**Measurement Uncertainty**

The preparation of these Condensed Consolidated Interim financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These Condensed Consolidated Interim financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods, if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic

**Notes to Condensed Consolidated Interim Financial Statements**

*For the three months ended March 31, 2014 and 2013*

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conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**Critical accounting estimates:**

Significant assumptions about the future that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- the recoverability of deferred assessment and evaluation costs that are included in the statements of financial position;
- the inputs used in accounting for share based payment transactions in net loss and comprehensive loss;
- management's assumption of no material restoration, rehabilitation, and environmental provision based on the facts and circumstances that existed during the year; and
- the inputs used in determining the fair value of the convertible debentures and the bridge loan.

**4. Future Changes in Accounting Policies**

IFRS 9 Financial Instruments (“IFRS 9”) was issued by the IASB on November 12, 2009 and revised October 2010, and will replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

**5. Other Receivables**

Other receivables consist of the following:

	<b>As at March 31 2014 \$</b>	<b>As at December 31 2013 \$</b>
Sales tax receivable	<b>13,950</b>	32,824
Subscription receivable	-	10,000
Total other receivables	<b>13,950</b>	42,824

**Notes to Condensed Consolidated Interim Financial Statements**

For the three months ended March 31, 2014 and 2013

**6. Payable to Aquila Resources Inc.**

	As at March 31 2014 \$	As at December 31 2013 \$
Debenture payable (note 11)	75,163	69,873
Accruals	2,380	3,690
Plan of Arrangement loan	69,873	69,823
	<b>147,416</b>	143,386
Less current portion	77,543	73,513
	<b>69,873</b>	69,873

The balance is unsecured, non-interest bearing, and has no set terms of repayment except for the debenture payable component (note 11).

**7. Deferred Assessment and Evaluation Costs**

The mineral reclamation properties and deferred assessment and evaluation costs are comprised as follows:

	Snow Lake \$	Total \$
<b>Balance, December 31, 2012</b>	<b>842,144</b>	<b>842,144</b>
Additions	556,706	556,706
Recovery (SR&ED)	(37,608)	(37,608)
<b>Balance, December 31, 2013</b>	<b>1,361,242</b>	<b>1,361,242</b>
Additions	46,115	46,115
<b>Balance, March 31, 2014</b>	<b>1,407,357</b>	<b>1,407,357</b>

**Snow Lake Concentrate Stockpile – Manitoba**

In the 1950's, a gold mine was owned by Nor-Acme Mines at Snow Lake, Manitoba. Approximately 10% of the ore was classified as arsenopyrite (arsenic bearing) and refractory in nature, which required additional treatment to liberate the gold for recovery. Given the high levels of arsenic that reported to the concentrate, conventional roasting or smelting were ruled out as process options and the concentrate was treated by direct cyanidation to recover as much gold as possible. The residue was stockpiled at the mine site to await future technologies capable of extracting the remaining gold values.

The Company approached the Manitoba Ministry of Innovation, Energy and Mines in April 2010 and outlined a plan whereby the Company, at its own expense, would use samples obtained from the concentrate stockpile to determine whether the material was amenable to bioleaching for liberating and extracting the gold while stabilizing the arsenic as a ferric-arsenate. The Manitoba government granted approval for the Company to conduct the sampling program, subject to oversight by an independent engineering consulting firm which the government engaged to ensure that there would be no adverse environmental impacts from drilling through the arsenopyrite.

**Notes to Condensed Consolidated Interim Financial Statements**

*For the three months ended March 31, 2014 and 2013*

In February 2011, BacTech tendered a proposal for the remediation of the arsenopyrite stockpile at Snow Lake under a request for proposals from Manitoba Innovation, Energy and Mines, and in April 2011, the Company was awarded the contract by the Mines Branch of the Manitoba Department of Innovation, Energy and Mines. BacTech has proposed a “no cost to the taxpayer” approach to the clean up. The Company will recover payable metals for its own account from the stockpile while treating the contained arsenic.

The current remediation agreement requires the operation of a bioleaching plant by December 31, 2014, however, the Company is currently in negotiations to extend this deadline.

**8. Equipment**

Equipment consists of the following:

<b>Cost</b>	<b>Equipment</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>
Balance, December 31, 2012	<b>2,794</b>	<b>2,794</b>
Additions	-	-
Balance, December 31, 2013	<b>2,794</b>	<b>2,794</b>
Additions	-	-
Balance, March 31, 2014	<b>2,794</b>	<b>2,794</b>

<b>Accumulated Depreciation</b>	<b>Equipment</b>	<b>Total</b>
Balance, December 31, 2012	<b>2,479</b>	<b>2,479</b>
Additions	<b>315</b>	<b>315</b>
Balance, December 31, 2013	<b>2,794</b>	<b>2,794</b>
Additions	-	-
Balance, March 31, 2014	<b>2,794</b>	<b>2,794</b>

<b>Net book value at December 31, 2012</b>	<b>315</b>	<b>315</b>
<b>Net book value at December 31, 2013</b>	<b>Nil</b>	<b>Nil</b>
<b>Net book value at March 31, 2014</b>	<b>Nil</b>	<b>Nil</b>

**Notes to Condensed Consolidated Interim Financial Statements**

*For the three months ended March 31, 2014 and 2013*

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**9. Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities consist of the following:

	As at March 31 2014 \$	As at December 31 2013 \$
Trade payables	498,758	435,355
Accrued liabilities other	375,140	276,650
<b>Total</b>	<b>873,898</b>	<b>712,005</b>

**10. Related Party Transactions**

Related party transactions consist of the following for the three months ended:

	March 31 2014 \$	March 31 2013 \$
Aggregate compensation included in salaries and management fees	71,250	71,250
Share-based compensation	-	24,300
<b>Total</b>	<b>71,250</b>	<b>95,550</b>

Included in accounts payable and accrued liabilities is \$273,935 due to related parties.

**11. Debentures Payable**

**Convertible Debenture – Maturing April 25, 2014**

Between April 25, 2012 and May 3, 2012, the Company closed two tranches totaling \$585,000 of subscriptions of a private placement whereby the Company issued 58.5 units, with each unit being comprised of a 2-year \$10,000 principal convertible redeemable debenture ("Debenture") and 50,000 common share purchase warrants. Refer to note 22 for subsequent event.

The Debentures mature on April 25, 2014 and bear interest at a fixed rate of 12% per year payable quarterly starting September 30, 2012. Under the terms of the 2-year Debentures, the holders of the Debentures have the option to convert their Debentures in full into common shares at a price of \$0.20 per share. Each warrant is exercisable for one common share at a price of \$0.20 per common share until April 25, 2014.

The Company used the residual value method to allocate the proceeds between the liability and equity components. Under this method, the fair value of the liability component (the "Debenture Liability") of \$385,560 was computed as the present value of future principal and interest payments discounted at a rate of 42% per annum. The residual value of \$199,440 was attributed to the equity components and allocated equally between the 2,925,000 warrants issued and the option to convert the debentures into 2,925,000 common shares (the "Conversion Feature") as their exercise prices and expected lives were equal. The transaction costs totaling \$48,910, comprised of a cash commission of \$32,500 and 210,000 finder's warrants valued at \$13,711, were

**Notes to Condensed Consolidated Interim Financial Statements**

*For the three months ended March 31, 2014 and 2013*

then allocated proportionally to each component with the Debenture Liability being allocated \$32,240 and the remaining \$16,670 allocated equally between the warrants and the Conversion Feature.

	<b>As at March 31 2014 \$</b>	<b>As at December 31 2013 \$</b>
Face value of debentures	<b>585,000</b>	<b>585,000</b>
Discount on face value of debentures	<b>(199,440)</b>	<b>(199,440)</b>
Transactions costs allocated to debentures	<b>(32,240)</b>	<b>(32,240)</b>
Accumulated accretion	<b>230,900</b>	<b>201,912</b>
	<b>584,220</b>	<b>555,232</b>

**Aquila Resources Inc.'s Convertible Debentures - Maturing April 13, 2015**

Under the Plan of Arrangement ("Arrangement") completed with Aquila, the Company assumed 20% of Aquila Resources Inc.'s ("Aquila") debenture obligation which consists of 43 \$10,000 unsecured convertible debentures, initially maturing on October 13, 2011 but having been extended to April 13, 2012, and bearing interest at 18% per year payable semi-annually. On December 1, 2010, 20% of the book value of the debenture obligation was \$66,642 and was attributed to the Company; this will accrete to \$86,000 over the remaining life of the debenture. Upon maturity, the Company will pay to Aquila 20% of the principal plus 20% of the interest accrued from December 2, 2010 to maturity, and Aquila will repay the debenture obligation and accrued interest to the debenture holders.

The convertible debentures may be converted by the holders at any time at a price of \$1.00 per common share (the "Conversion Price") or in the event that the closing price of Aquila's common shares on the TSX-V is at or greater than \$1.50, Aquila shall have the right, in its sole discretion, to redeem the convertible debentures through the issuance of common shares at the Conversion Price. For every share of Aquila issued in the event of a conversion, one-fifth of a common share of the Company will be issued.

On October 13, 2011, Aquila extended the expiry date of \$410,000 principal amount of these convertible debentures and 4.1 million of the common share purchase warrants originally issued in October 2010. Each holder of debentures and warrants was offered the choice to either (i) extend the maturity date of the debentures held by that holder to April 13, 2012, in which case the expiry date of the warrants held by that holder would also be extended to April 13, 2012, or (ii) accept payment in full of the debentures on the original maturity date of October 13, 2011, in which case the warrants held by that holder would also expire on the original expiry date of October 13, 2011. The holder of \$20,000 principal amount of the debentures elected to be repaid, and the balance of \$410,000 principal amount of debentures was extended and remains outstanding. The fair value of the extension of the warrants was calculated using the Black-Scholes option pricing model at \$32,000. The assumptions used to determine the value were: expected dividend yield - 0%; weighted expected volatility - 142.7%; risk-free interest rate - 1.1%; and an expected life of 0.5 years. The \$32,000 was then applied as a discount on the face value of the debentures, of which \$6,400 was attributed to the Company. The effective interest rate of the extended debentures is 36.4%.

On April 17, 2012, Aquila extended the expiry of these convertible debentures and 4.1 million of the common share purchase warrants originally issued in October 2010. Each holder of debentures and warrants agreed to extend the maturity date of the debentures held to April 13, 2015 and the expiry date of the warrants held by that holder to April 13, 2015. The fair value of the extension of the convertible debentures was determined by revaluing the debt using discounted cash flows and a discount rate of 35%. The fair value of the debt was

## Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2014 and 2013

determined to be \$314,000 with the residual \$96,000 allocated to the conversion feature and applied as a discount on the face value of the debentures, of which \$19,200 was attributed to the Company.

Despite the modifications in 2011 and 2012, these debentures continue to bear interest at 18% per year payable semi-annually.

The proportionate share of the debenture has been attributed to the Company as follows:

	\$
<b>Carrying value, December 31, 2012</b>	67,163
Accretion expense	6,400
<b>Carrying value, December 31, 2012</b>	73,563
Accretion expense	1,600
<b>Carrying value, March 31, 2014 (note 6)</b>	75,163

## 12. Bridge Loan

On July 3, 2013, the Company announced that it had arranged a bridge loan that will enable the Company to complete its technical preparations for the Snow Lake project. Specifically, the Company plans to use the funds to complete its front end engineering design (F.E.E.D.) study which remains an integral part of the Snow Lake Project financing package.

The bridge loan allows the Company to receive up to \$600,000 comprised of (a) an initial \$300,000 within 10 days of closing, and (b) a second \$300,000 can be drawn after BacTech has confirmed that the underlying contract with the Province of Manitoba can be used as collateral for the loan. The full \$600,000 has been received. All loans are subject to interest at the rate of 10% per annum, and was to be repaid initially by November 20, 2013, subject to the Company's right to extend repayment which is currently due by the Company. In addition the loans are convertible into common stock in the context of the price of BacTech shares at the time of filing the loan agreement with the Canadian Securities Exchange which was 8 cents per share (the "Conversion Feature"). The Company is currently in discussions with the lender to convert the bridge loan to equity with an additional capital infusion into the Company. In the event the Company made an early repayment of the loans provided, the Company would be obligated to issue 1,000,000 share purchase warrants to the lender exercisable 1 year from the date of the first closing at a price of \$0.10 per share.

The Company used the residual value method to allocate the proceeds between the liability and equity components. Under this method, the fair value of the liability component (the "Bridge Loan") of \$576,800 was computed as the present value of future principal and interest payments discounted at a rate of 25% per annum. The residual value of \$23,200 was attributed to the Conversion Feature and is recorded in the contributed surplus reserve. Accretion expense of \$23,200 was recorded for the year ended December 31, 2013.

The Company is currently in the process of negotiation the extension or conversion of the loan.

**Notes to Condensed Consolidated Interim Financial Statements**

For the three months ended March 31, 2014 and 2013

**13. Share Capital**

**Authorized:**

Unlimited common shares without par value

**Issued and outstanding:**

	Number of shares	Amount \$
<b>Balance, December 31, 2012</b>	<b>48,755,027</b>	<b>2,378,769</b>
Private placement (i)	1,000,000	100,000
Warrants issued in private placement	-	(54,000)
Share issue costs	-	(1,500)
<b>Balance, December 31, 2013 and March 31, 2014</b>	<b>49,755,027</b>	<b>2,423,269</b>

- (i) On November 7, 2013, the Company completed a private placement and issued 1,000,000 units at a price of \$0.10 per unit for aggregate gross proceeds of \$100,000. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at \$0.15 for 24 months from the date of closing. All securities issued in connection with the offering and the underlying securities were subject to a four month hold period. The fair value of common share purchase warrants issued in this placement was estimated at \$54,000.

**14. Warrant Reserve**

The movements in the number and estimated fair value of outstanding broker warrants and share purchase warrants are as follows:

	March 31, 2014		December 31, 2013	
	Number Outstanding	Weighted Average Exercise Price \$	Number Outstanding	Weighted Average Exercise Price \$
Balance, beginning of year	13,801,667	0.18	13,266,667	0.18
Issued	-	-	1,000,000	0.15
Expired	-	-	(465,000)	0.28
Balance, end of year	13,801,667	0.18	13,801,667	0.18

The exercise price, expiry date, and the fair value assigned to warrants issued and outstanding as at March 31, 2014 are as follows:

Expiry Date	Weighted Average Exercise Price \$	Fair Value \$	Warrants Outstanding	Contractual Life (years)
April 25, 2014	0.20	105,095	3,135,000	0.07
September 28, 2014	0.17	658,873	9,666,667	0.25
November 8, 2016	0.15	54,000	1,000,000	2.66
	0.18	817,968	13,801,667	0.56



## Notes to Condensed Consolidated Interim Financial Statements

*For the three months ended March 31, 2014 and 2013*

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The fair values of the warrants issued during the period ended March 31, 2014 and December 31, 2013, were estimated using the Black-Scholes option pricing model with the following assumptions:

	<b>2014 and 2013</b>
Risk free interest rate	1.26%
Expected dividend yield	Nil
Expected volatility	213%
Expected life	3 years

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Option pricing models require the input of subjective assumptions regarding the expected volatility. Changes in assumptions can materially affect the estimate of fair value, and therefore, use of Black-Scholes option pricing model may not provide a realistic measure of the fair value of the Company's warrants at the date of issue.

### **Aquila Warrants**

Pursuant to the Arrangement completed with Aquila in December 2010, Aquila has certain obligations pursuant to the Aquila warrants in existence at the time of the Arrangement, which upon being exercised, shall be satisfied by the issuance of one common share from Aquila and two common shares of the Company in accordance with the terms of the Arrangement and share consolidation of Aquila.

Upon the exercise of any Aquila warrants following the Arrangement, Aquila shall pay to the Company 17% of the exercise proceeds as consideration for the issuance of the Company's common shares. Aquila shall retain the balance of the aggregate exercise price as consideration for the issuance of its common shares from the exercise of the warrant.

As of March 31, 2014, Aquila had 2,111,500 common share purchase warrants (with exercise prices ranging from \$1.00 to \$1.20) which are subject to the Arrangement. The Company's obligation, if these warrants were exercised prior to expiry, would be to issue 4,223,000 common shares in return for its portion of the aggregate exercise price of \$329,592.

## **15. Stock Options**

The Company has a stock option plan (the "Plan"), under which the Company may grant options to directors, officers, employees, and third party service providers. Under the terms of the Plan that was re-approved by the shareholders on July 26, 2013, the Company is authorized to issue a maximum of 10% of the issued and outstanding shares.

The purpose of the Plan is to attract, retain and motivate directors, officers, and certain third party service providers by providing them with the opportunity to acquire a proprietary interest in the Company and benefit from its growth. The options granted under the Plan are non-assignable, have a term of 5 years and vest over periods of up to two years from the date of issue.

## BacTech Environmental Corporation

### Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2014 and 2013

	March 31, 2014		December 31, 2013	
	Number Outstanding	Weighted Average Exercise Price \$	Number Outstanding	Weighted Average Exercise Price \$
Balance, beginning of year	4,150,000	0.18	3,500,000	0.15
Granted	-	-	750,000	0.20
Expired/Cancelled	(200,000)	0.18	(100,000)	0.20
Balance, end of year	3,950,000	0.18	4,150,000	0.18

Options to purchase common shares outstanding at March 31, 2014 carry exercise prices and remaining terms to maturity as follows:

Expiry Date	Weighted Average Exercise Price \$	Number of Options Outstanding	Number of Options Exercisable	Weighted Average Contractual Life (years)
December 6, 2015	0.15	1,875,000	1,875,000	1.68
March 17, 2016	0.20	50,000	50,000	1.95
July 8, 2017	0.20	1,275,000	1,275,000	3.28
March 17, 2018	0.20	750,000	750,000	3.96
	0.18	3,950,000	3,950,000	2.63

During the three months ended March 31, 2014, the Company granted no new options (for the year ended December 31, 2013 – 750,000). The Company recognized a total expense of nil for the three months ended March 31, 2014 (2013 - \$105,350) in respect of the options vesting during the year. Share based payments expense is included in general and administrative costs.

The fair values of the options issued during the periods ended March 31, 2014 and December 31, 2013 were estimated using the Black-Scholes option pricing model with the following assumptions:

	2014 and 2013
Risk free interest rate	1.34%
Expected dividend yield	Nil
Expected volatility	253%
Expected life	2.4 years

Option pricing models require the input of subjective assumptions regarding the expected volatility. Changes in assumptions can materially affect the estimate of fair value, and therefore, use of Black-Scholes option pricing model, may not provide a realistic measure of the fair value of the Company's options at the date of issue.

**Notes to Condensed Consolidated Interim Financial Statements**

*For the three months ended March 31, 2014 and 2013*

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**16. Loss per Share**

The calculation of basic and diluted loss per share for the three months ended March 31, 2014 was based on the loss attributable to common shareholders of \$185,680 (2013 – \$396,446) and the weighted average number of common shares outstanding of 49,755,027 (2013 - 48,755,027). Diluted loss per share did not include the effect of share purchase options and warrants as they are anti-dilutive.

**17. Operating and Administrative**

Operating and administrative expense consists of the following:

	<b>For the three months ended March 31</b>	
	<b>2014</b>	2013
	\$	\$
Salaries and management fees (note 10)	<b>79,540</b>	130,973
Share based payments (note 10)	-	105,350
Professional fees	<b>7,361</b>	36,749
Shareholder information and filing fees	<b>5,345</b>	26,189
Travel	<b>1,821</b>	14,878
General office expenses	<b>20,883</b>	26,547
Depreciation	-	275
Foreign exchange loss	<b>2,163</b>	510
<b>Total</b>	<b>117,113</b>	341,471

**18. Finance Charges**

Finance charges consist of the following:

	<b>For the three months ended March 31</b>	
	<b>2014</b>	2013
	\$	\$
Interest and bank charges	<b>740</b>	2,148
Debenture interest	<b>21,240</b>	21,240
Bridge loan interest	<b>15,000</b>	-
Accretion on debenture	<b>31,587</b>	31,587
<b>Total</b>	<b>68,567</b>	54,975

**Notes to Condensed Consolidated Interim Financial Statements**

*For the three months ended March 31, 2014 and 2013*

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**19. Financial Risk Factors**

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

***Credit risk***

The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to subscriptions receivable and sales tax receivable is remote.

***Liquidity risk***

As at March 31, 2014, the Company had a cash balance of \$3,061 (December 31, 2012 - \$11,071) to settle current liabilities of \$2,135,661 (December 31, 2013 - \$1,940,750). The Company does not have sufficient cash reserves to fund its administrative costs and fully fund all project development initiatives for the coming twelve month period, and to repay its liabilities to trade creditors and debt holders. Management is actively involved in identifying reclamation ventures amenable to the application of the Company's technology and in seeking new equity financing to enable it to service the Company's liabilities and its ongoing administrative costs. There can be no assurance that the Company will be successful in these initiatives.

***Market risk***

***(a) Interest rate risk***

The Company has cash earning interest at a variable interest rate and debentures payable and a bridge loan bearing interest at a fixed rate between 10% and 18% per year. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions.

***(b) Foreign currency risk***

The Company's functional currency is the Canadian dollar. Major purchases are transacted in Canadian dollars. The Company funds certain operations and administrative expenses using United States dollars. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk.

***(c) Price risk***

The Company is not exposed to price risk with respect to commodity prices because the Company is not a producing entity.

**20. Capital Management**

The Company defines capital as share capital, warrants, and contributed surplus. The Company's objective when managing capital is to safeguard its accumulated capital in order to provide an adequate return to shareholders by maintaining a sufficient level of funds, in order to support the acquisition, assessment and evaluation, and development of mineral reclamation properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company is currently in the early stages of evaluation and assessment of projects; as such, the Company is dependent on external financing to fund its activities. In order to carry out the assessment and evaluation of the

## **Notes to Condensed Consolidated Interim Financial Statements**

*For the three months ended March 31, 2014 and 2013*

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projects and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties, if it feels there is sufficient geologic or economic potential, and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company does not have externally imposed capital requirements.

### **21. Segmented Information**

The Company has one global operating segment, being the development of projects where the Company can use its bacterial technologies and related intellectual property.

### **22. Subsequent Events**

The Company is in negotiations with its bridge loan lender to convert the bridge loan to equity, where the terms and the timing of the transaction has yet to be confirmed.

The convertible debentures matured on April 25, 2014. In conjunction with the bridge loan negotiations as noted above, the Company is in negotiations with its debenture holders to convert the debenture into equity or extend repayment options.

On May 21, 2014, the Company completed a private placement for gross proceeds of \$70,000 by issuing 7,000,000 units at \$0.01 per unit. Each unit comprised one common share and one common share purchase warrant. Each warrant exercisable for one common share of the Company at an exercise price of \$0.05 for a period of 3 years.