

BacTech Environmental Corporation
Consolidated Financial Statements
December 31, 2012 and 2011

BacTech Environmental Corporation

Table of Contents

December 31, 2012

	Page
Independent Auditor's Report	1 - 2
Consolidated Financial Statements	
Statements of Financial Position	3
Statements of Operations and Comprehensive Loss	4
Statements of Changes in Equity (Deficiency in Assets)	5
Statements of Cash Flows	7
Notes to Financial Statements	8 - 33

Independent Auditor's Report

To the Shareholders of
BacTech Environmental Corporation

Report on the Consolidated Financial Statements

We have audited the accompanying financial statements of BacTech Environmental Corporation, which comprise the consolidated statements of financial position as at December 31, 2012 and 2011 and the consolidated statements of operations and comprehensive loss, changes in equity (deficiency in assets), and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of BacTech Environmental Corporation as at December 31, 2012 and 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1 in the financial statements which describes uncertainty regarding the Company's ability to continue as a going concern.

Signed: "*MSCM LLP*"

**Chartered Accountants
Licensed Public Accountants**

Toronto, Ontario
April 29, 2013



Accountants & Advisors for a Complex World®

BacTech Environmental Corporation

Consolidated Statements of Financial Position

December 31, 2012

	2012	2011
Assets		
Current assets		
Cash	\$ 409,583	\$ 99,114
Sales taxes receivable	56,324	30,105
Prepaid expenses	16,955	15,283
	482,862	144,502
Deferred exploration costs (note 7)	842,144	341,259
Equipment (note 8)	315	1,415
	\$ 1,325,321	\$ 487,176
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (notes 9 and 10)	\$ 366,518	\$ 381,691
Current portion of payable to REBgold Corporation (note 6)	73,103	202,720
	439,621	584,411
Payable to REBgold Corporation (notes 6 and 11(ii))	67,163	-
Debentures payable (note 11(i))	435,284	-
	942,068	584,411
Equity (deficiency in assets)		
Share capital (note 12)	2,378,769	1,567,624
Shares to be issued (note 12)	-	64,000
Warrants reserve (note 13)	799,259	72,591
Contributed surplus reserve (note 14)	549,790	165,719
Deficit	(3,344,565)	(1,967,169)
	383,253	(97,235)
	\$ 1,325,321	\$ 487,176

Plan of arrangement (note 5)

Going concern (note 1)

Commitments (note 19)

Subsequent event (note 23)

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

Approved by the Board

Signed: "Jay Naster"

Director

Signed: "M. Ross Orr"

Director

BacTech Environmental Corporation

Consolidated Statements of Operations and Comprehensive Loss

for the years ended December 31, 2012

	2012	2011
Expenses		
Operating and administrative costs (note 17)	\$ 1,220,124	\$ 1,133,763
Finance charges (note 18)	157,272	31,566
Property termination costs (note 5)	-	244,271
Net loss and comprehensive loss for the year	\$ (1,377,396)	\$ (1,409,600)
Basic and diluted loss per common share (note 15)	\$ (0.03)	\$ (0.04)

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

BacTech Environmental Corporation

Consolidated Statements of Changes in Equity (Deficiency in Assets) for the years ended December 31, 2012 and 2011

	Share Capital		Reserves			
	Amount	Shares to be issued	Contributed surplus	Warrants	Deficit	Total
Balance, December 31, 2010	\$ 357,190	\$ -	\$ 25,971	\$ 27,866	\$ (557,569)	\$ (146,542)
Common Shares issued pursuant to private placement <i>(note 12(i))</i>	532,500	-	-	67,500	-	600,000
Common Shares issued on exercise of REBgold warrants <i>(note 12(ii))</i>	373,687	-	-	-	-	373,687
Common Shares issued on exercise of warrants <i>(note 12(iii))</i>	43,350	-	-	-	-	43,350
Fair value of warrants exercised <i>(note 12(iii))</i>	5,279	-	-	(5,279)	-	-
Expired warrants	-	-	22,587	(22,587)	-	-
Common shares issued on exercise of options <i>(note 12(iv))</i>	30,000	-	-	-	-	30,000
Fair value of options exercised <i>(note 12(iv))</i>	14,940	-	(14,940)	-	-	-
Common shares issued as property termination payment <i>(note 5)</i>	244,271	-	-	-	-	244,271
Share issue costs <i>(note 12(i))</i>	(33,593)	-	-	5,091	-	(28,502)
Share based payments	-	-	132,101	-	-	132,101
Shares to be issued <i>(note 23)</i>	-	64,000	-	-	-	64,000
Net and comprehensive loss for the year	-	-	-	-	(1,409,600)	(1,409,600)
Balance, December 31, 2011	\$ 1,567,624	\$ 64,000	\$ 165,719	\$ 72,591	\$(1,967,169)	\$ (97,235)

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

BacTech Environmental Corporation

Consolidated Statements of Changes in Equity (Deficiency in Assets) - continued

for the years ended December 31, 2012 and 2011

	Share Capital		Reserves			
	Amount	Shares to be issued	Contributed surplus	Warrants	Deficit	Total
Balance, December 31, 2011	\$ 1,567,624	\$ 64,000	\$ 165,719	\$ 72,591	\$(1,967,169)	\$ (97,235)
Common Shares issued pursuant to private placement (<i>note 12(vi)</i>)	110,800	(64,000)	-	30,200	-	77,000
Common Shares issued pursuant to private placement (<i>note 12(vii)</i>)	791,126	-	-	658,874	-	1,450,000
Share issue costs (<i>notes 12(vi) and (vii)</i>)	(90,781)	-	-	-	-	(90,781)
Expired warrants	-	-	67,500	(67,500)	-	-
Share based payments	-	-	205,988	-	-	205,988
Value attributed to equity components of convertible debenture financing (<i>note 11(i)</i>)	-	-	99,720	99,720	-	199,440
Convertible debenture issue costs (<i>note 11(i)</i>)	-	-	(8,337)	(8,337)	-	(16,674)
Finders' warrants (<i>note 11(i)</i>)	-	-	-	13,711	-	13,711
Extension of convertible debenture (<i>note 11(ii)</i>)	-	-	19,200	-	-	19,200
Net and comprehensive loss for the year	-	-	-	-	(1,377,396)	(1,377,396)
Balance, December 31, 2012	\$ 2,378,769	\$ -	\$ 549,790	\$ 799,259	\$(3,344,565)	\$ 383,253

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

BacTech Environmental Corporation

Consolidated Statements of Cash Flows for the years ended December 31, 2012 and 2011

	2012	2011
Cash flow from operating activities		
Cash paid to suppliers, employees and consultants	\$ (1,151,475)	\$ (816,670)
Interest paid	(58,808)	(17,683)
	(1,210,283)	(834,353)
Cash flow from financing activities		
Proceeds from private placements	1,527,000	676,000
Proceeds from exercise of warrants	-	417,037
Proceeds from exercise of options	-	30,000
Proceeds from issue of debentures net of finders' fees	549,800	-
Share issue costs	(90,781)	(28,502)
Repayment of loan to REBgold Corporation	(51,254)	(180,177)
Repayment of debenture financing	-	(4,000)
	1,934,765	910,358
Cash flow from investing activities		
Expenditures on mineral properties	(414,013)	(216,291)
	(414,013)	(216,291)
Increase (decrease) in cash	310,469	(140,286)
Cash, beginning of year	99,114	239,400
Cash, end of year	\$ 409,583	\$ 99,114
Non-cash transactions:		
Property termination payments (note 5)	\$ -	\$ 244,271
Stock-based compensation (note 14)	\$ 205,988	\$ 132,101

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

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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 and its head office is located at 50 Richmond Street East, Suite 300, Toronto, Ontario, Canada. Through the completion of the Plan of Arrangement transaction as described in Note 5, the Company was granted a license to use REBgold's proprietary bioleaching technology in the mining remediation business. The technology utilizes bacteria to extract precious and base metals and has been traditionally used to treat difficult-to-treat sulphide ores and concentrates. The business plan for the Company is to apply the 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 has no sources of recurring revenue, has incurred losses amounting to \$3,344,565 since its inception, has working capital of \$43,241 at December 31, 2012, and is dependent on financings to fund its operations. The ability of the Company to continue as a going concern is dependent upon the continued financial support of shareholders or other investors, obtaining new financing on commercial terms acceptable to the Company to enable it to utilize its bioleaching technology for the recovery of mineral reserves, all of which outcomes are uncertain and raise substantial doubt as to the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments to the carrying values of the Company's assets, liabilities, and expenses or to their classifications in the consolidated statements of financial position and consolidated statements of operations and comprehensive loss 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 year ended December 31, 2012 with two private placements which generated \$1,591,000 in gross proceeds less the receipt of \$64,000 in 2011 and through the issuance of a convertible debenture for gross proceeds of \$585,000 less finders' fees of \$35,200. 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 mining 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 existing liabilities and its ongoing administrative costs. There can be no assurance that the Company will be successful in these initiatives.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

2. Basis of Consolidation and Presentation

Statement of Compliance

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC") effective December 31, 2012.

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

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on April 29, 2013.

Basis of Preparation and Presentation

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

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

Basis of consolidation

These consolidated 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 and its subsidiary.

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

3. Summary of Significant Accounting Policies

Measurement Uncertainty

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

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

3. Summary of Significant Accounting Policies - continued

Measurement Uncertainty - continued

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 mineral property acquisition costs and mineral properties and deferred exploration 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.

Foreign Currency Translation

The Company's exploration and development activities occur primarily in an economic environment where the functional currency is the Canadian dollar. Transactions in foreign currencies are translated to the functional currency at exchange rates in effect at the dates of the transactions. Monetary assets and liabilities denominated in a currency other than the Canadian dollar are translated into Canadian dollars at the exchange rate as at the end of the reporting period. Non-monetary assets and liabilities are translated at historical exchange rates at the transaction date. Depreciation is translated at historical exchange rates at the transaction date. The calculated exchange gains and losses are included in net loss and comprehensive loss for the year.

Environmental Liability, Contingency, and Other Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A legal or constructive obligation to incur restoration, rehabilitation, or environmental costs may arise when environmental disturbance is caused by the exploration, development, or ongoing production of a mineral property interest. Such costs, discounted to their net present value, are provided for and capitalized to the carrying amount of the asset as soon as the obligation to incur such costs arises. Discount rates using a pretax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against net loss over the economic life of the related asset, through depreciation using either a unit-of-production or the straight-line method, as appropriate. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. To date, no such obligation has been identified.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

3. Summary of Significant Accounting Policies - continued

Impairment of Assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets and its deferred exploration costs to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. Fair value is determined as the reasonable amount that would be obtained from the asset's arms length sale. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market conditions of the time value of money and the specific asset's risks. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount and an impairment loss is recognized in the profit or loss. To test impairment, assets are allocated to cash-generating units to which the exploration activity relates. For an asset that does not generate cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the new estimated net recoverable amount. The new carrying amount will not be greater than the carrying amount that would have existed if no impairment loss had been recognized in prior years. A reversal of an impairment loss is recognized in profit or loss.

Financial Instruments

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for the purpose of being sold or repurchased in the near term. They are carried in the consolidated statements of financial position at fair value with changes in fair value recognized in the consolidated statement of operations and comprehensive loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost using the effective interest method less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the consolidated statements of operations and comprehensive loss.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

3. Summary of Significant Accounting Policies - continued

Financial Instruments - continued

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive income. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the consolidated statements of operations and comprehensive loss.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at the end of each reporting period. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets described above.

Financial liabilities

Other financial liabilities - This category includes all other financial liabilities, all of which are recognized at amortized cost.

The Company's financial instruments consist of the following:

Financial assets:	Classification:
Cash	Loans and receivables
Other receivables	Loans and receivables

Financial liabilities:	Classification:
Accounts payable and accrued liabilities	Other financial liabilities
Payable to REBgold Corporation	Other financial liabilities
Debentures payable	Other financial liabilities

Equipment

Equipment is stated at cost less accumulated depreciation and any recognized impairment loss. Cost includes expenditures associated with bringing the asset to its operating location and condition. Except for land and assets in the course of construction, the costs of equipment are depreciated over their expected useful lives, on a straight-line basis at the following rate:

Equipment and fixtures - 5 years

The amount of depreciation of equipment is recorded on a straight-line basis over the lesser of mine life or estimated useful life of the asset to the residual value of the asset. Each part of the item of a building, plant or equipment with a cost that is significant in relation to the total cost of the item, is depreciated separately if their useful lives differ.

The Company reviews the useful life, depreciation method and residual value and carrying value of equipment at each reporting date.

Expenditures that extend the useful lives of the equipment are capitalized and depreciated over the remaining useful lives of the assets. Repairs and maintenance expenditures are expensed as incurred.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

3. Summary of Significant Accounting Policies - continued

Exploration and Development Activities

Deferred exploration costs include the direct costs related to mineral properties, including costs of acquiring mining properties and deferred exploration and development costs. These costs are capitalized and accumulated on a property by property basis and will be depreciated on the unit of production method based upon estimated proven and probable mineral reserves, or written off if the properties are abandoned or the carrying value is determined to be in excess of possible recoverable amounts.

Costs for general exploration prior to obtaining legal rights to explore the subject property are expensed as incurred.

Government Grants

Government grants are recognized in the consolidated financial statements in the period where it becomes reasonably certain that the conditions attaching to the grant will be met, and that the grant will be received. Grants relating to income are shown as a deduction in the reported expense. Grants relating to assets are deducted from the carrying amount of the asset.

Loss per Share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants, options, and convertible debentures outstanding that may add to the total number of common shares unless their effect would be anti-dilutive.

Share Based Payments

The fair values of employee share option plan issuances are measured at the date of grant of the options using the Black-Scholes pricing model, taking into consideration the terms and conditions upon which the options were granted. The resulting cost, as adjusted for the expected and actual level of vesting of the options, is charged to income over the period in which the options vest. At the end of each reporting period before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the number of equity instruments that will ultimately vest.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

3. Summary of Significant Accounting Policies - continued

Income Taxes

Income tax on the net loss for the years presented comprises current and deferred tax.

Current income tax expense is the expected tax payable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regard to previous periods.

Deferred income tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

No deferred income tax is recognized for temporary differences arising from the initial recognition of assets or liabilities that affect either accounting nor taxable profit or loss.

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted that are expected to be applied to taxable income in the years in which the temporary differences are expected to be recovered or settled.

A deferred income tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it provides a valuation allowance against that excess.

Investment tax credits

The Company claims research and development deductions and related investment tax credits for income tax purposes based on management's interpretation of the applicable legislation under The Canadian Income Tax Act. These claims are subject to review by the Canada Revenue Agency.

The investment tax credits recoverable are comprised of federal and provincial investment tax credit claims with respect to qualifying scientific research and development expenditures incurred by the Company. The benefit to these investment tax credits is accrued when there is reasonable assurance that the credits will be realized. The amount recoverable is deducted from the related deferred exploration costs on the statement of financial position.

Cash

Cash comprises cash at bank and in hand, money market deposits and other short term, highly liquid investments with original maturities of three months or less, and bank overdrafts.

Revenue Recognition

Revenue is recognized when the service is completed in the case of consulting activities and upon delivery of products or technology when all significant risks and rewards of ownership have passed to the customer and collection is reasonably assured.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

4. Future Changes in Accounting Policies

The IASB has issued a new standard, IFRS 9, Financial Instruments (IFRS 9), which will ultimately replace IAS 39, Financial Instruments: Recognition and measurement (IAS 39). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. Most of the disclosure requirement in IAS 39 for classification and measurement of financial liabilities were carried forward to IFRS 9. The standard becomes effective January 1, 2015. The Company has yet to assess the impact of the new standard.

IFRS 10, 11, 12 and 13 were all issued in May 2011 and are effective for annual periods beginning January 1, 2013, with early adoption allowed. The Company has yet to assess the impact, if any, of these new standards.

IFRS 10, Consolidated Financial Statements, replaces the consolidation guidance in IAS 27, Consolidated and Separate Financial Statements, and SIC-12 Consolidation - Special Purpose Entities, by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee.

IFRS 11, Joint Arrangements, introduces new accounting requirements for joint arrangements, replacing IAS 31, Interests in Joint Ventures. It eliminates the option of accounting for jointly controlled entities by proportionate consolidation.

IFRS 12, Disclosure of Interests in Other Entities, requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement.

IFRS 13, Fair Value Measurement, replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. It defines and provides guidance on determining fair value and requires disclosures about fair value measurements, but does not change the requirements regarding which items are measured or disclosed at fair value.

IAS 1, Presentation of Financial Statements ("IAS 1") amendment, issued by the IASB in June 2011, requires an entity to group items presented in the Statement of Comprehensive Income on the basis of whether they may be reclassified to earnings subsequent to initial recognition. For those items presented before taxes, the amendments to IAS 1 also require that the taxes related to the two separate groups be presented separately. The amendments are effective for annual periods beginning on or after July 1, 2012, with earlier adoption permitted. The Company is assessing the impact of IAS 1 on its results of operations and financial position.

IAS 28, Investments in Associates and Joint Ventures prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture). This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted. The Company is assessing the impact of IAS 28 on its results of operations and financial position.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

5. Plan of Arrangement

Effective December 2, 2010, REBgold Corporation ("REBgold") completed a divisive reorganization by way of a Plan of Arrangement (the "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, as well as all of REBgold's existing mining assets.

REBgold shareholders voted in favour of the Arrangement at a Special Meeting of Shareholders held on November 12, 2010. Subsequent to the Arrangement, REBgold continued to trade on the TSX Venture Exchange ("TSX V") under the symbol RBG, and the Company started to trade on the Canadian National Stock Exchange under the symbol BAC.

As the Arrangement resulted in no substantial change of ownership, the exchange of net assets pursuant to the Arrangement was measured at its net book value and was recorded on the books of the Company as follows:

	2010
Mineral properties and deferred exploration costs transferred from REBgold	\$ 463,984
Accounts payable transferred from REBgold	(49,946)
Book value of debentures payable assumed from REBgold (<i>note 11(ii)</i>)	(66,642)
Loan payable to REBgold (<i>note 6</i>)	(250,000)
Value attributed to common shares issued	\$ 97,396

Common shares

Under the terms of the Arrangement, REBgold's shareholders received, in exchange for each existing common share of REBgold, one pre-consolidation common share of REBgold and one-fifth of a common share of the Company. Effective May 30, 2012, REBgold completed a consolidation of its shares on the basis of one post-consolidation common share for each 10 pre-consolidation common shares.

Share purchase warrants (*note 13*)

All outstanding share purchase warrants of REBgold became exercisable for one common share of REBgold and one-fifth of a common share of the Company. The proceeds received by REBgold on the exercise of share purchase warrants are to be distributed 83% to REBgold and 17% to the Company as determined by the formula set out in the Arrangement which considers the volume weighted average trading price of the REBgold and Company for the first 20 trading days subsequent to the Arrangement. Subsequent to the REBgold share consolidation the exercise of one eligible warrant of REBgold will require the issuance of two shares of the Company.

Stock options

All outstanding stock options of REBgold remained exercisable for shares of REBgold under the original terms of the options. No shares of the Company are issuable upon the exercise of these options.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

5. Plan of Arrangement - continued

Debentures payable (note 11(ii))

The Company assumed 20% of the face value of REBgold's convertible debentures liability. Upon maturity, the Company will repay to REBgold 20% of the principal plus 20% of the interest accrued from December 2, 2010 to maturity. REBgold remains indebted to the debenture holders for the full principal of the debenture. Subsequent to the REBgold share consolidation, for every share of REBgold issued in the event of a conversion, two common shares of the Company will be issued.

Papua New Guinea arrangement

Pursuant to a settlement agreement between REBgold and Yamana Gold Inc. ("Yamana") dated July 8, 2010, REBgold agreed to issue to Yamana 6,106,780 common shares. These shares were not issued before the Arrangement and consequently, for every share of REBgold issuable, one-fifth of a common share of the Company became issuable. In February 2011, REBgold issued 6,106,780 common shares to Yamana, along with the Company issuing 1,221,356 common shares valued at \$244,271 to Yamana.

6. Payable to REBgold Corporation

	2012	2011
Debentures payable (note 11(ii))	\$ 67,163	\$ 78,363
Accrued interest on debenture (note 11(ii))	3,280	3,280
Plan of Arrangement loan (note 5)	69,823	69,823
Other	-	51,254
	140,266	202,720
Less: current portion	73,103	202,720
	\$ 67,163	\$ -

The balance is unsecured, non-interest bearing, and has no set terms of repayment.

7. Deferred Exploration Costs

The deferred exploration costs are comprised as follows:

	Snow Lake
Balance, December 31, 2010	\$ 32,553
Additions	308,706
Balance, December 31, 2011	341,259
Additions	800,885
Third party project contribution	(300,000)
Balance, December 31, 2012	\$ 842,144

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

7. Deferred Exploration Costs - continued

Snow Lake Concentrate Stockpile, Manitoba

In early 2010, REBgold became aware of a reclamation opportunity in Snow Lake, Manitoba. In the 1950's, a gold mine owned by The Britannia Mining and Smelting Company was opened and operated at Snow Lake. Approximately 10% of the ore mined was 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.

REBgold approached the Manitoba Ministry of Innovation, Energy and Mines in April 2010 and outlined a plan whereby REBgold, 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 REBgold 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.

Pursuant to the Plan of Arrangement, REBgold assigned its rights and commitments to the Company on December 2, 2010. The deferred exploration costs incurred by REBgold up to the date of the Plan of Arrangement were transferred to BEC as part of the Plan of Arrangement transaction as described in note 5.

In February 2011, BEC 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 December 2011, was awarded the contract by the Mines Branch of the Manitoba Department of Innovation, Energy and Mines. The contract is subject to negotiating a suitable agreement between BEC and the Manitoba government. BEC has proposed a "no cost to the taxpayer" approach to the clean up and committed to the commencement of a bioleaching plant by December 21, 2012; this was later extended to December 31, 2013 (note 23). The Company will recover payable metals for its own account from the stockpile while treating the contained arsenic. After the Company recoups all of its project-related capital expenses from the sale of the product, the Province of Manitoba shall receive a 2% Net Smelter Return ("NSR"). During the duration of the agreement, the Company has the right to purchase from the Province of Manitoba one half of the NSR (1%) for a cash payment of \$500,000. In addition to this NSR, a royalty of \$5 per ounce of gold recovered is payable by the Company to the Town of Snow Lake.

In December 2011, the Company entered into a Contribution Agreement with a third party whereby the third party contributed \$300,000 as reimbursement of certain costs related to the Preliminary Economic Assessment ("PEA") of the Snow Lake project which was released in October 2012. In consideration of the contribution, the Company agreed to permit the third party to (i) actively participate in the PEA, including dedicating engineering resources, managing detailed engineering and participating in hazard and operability reviews, and (ii) have access to certain project information. For a period of ninety days from the date of receipt of the PEA by the third party, the Company agreed not to initiate any further proposals by outside parties relating to direct participation in the development of the Snow Lake project. This ninety day period expired subsequent to the reporting date.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

8. Equipment

Cost	Equipment and fixtures
Balance, December 31, 2012 and 2011	\$ 2,794
Accumulated Depreciation	
Balance, December 31, 2010	\$ 279
Additions	1,100
Balance, December 31, 2011	1,379
Additions	1,100
Balance, December 31, 2012	\$ 2,479
Net book value at December 31, 2011	\$ 1,415
Net book value at December 31, 2012	\$ 315

9. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	2012	2011
Trade payables	\$ 333,703	\$ 315,069
Accrued liabilities	32,815	66,622
	\$ 366,518	\$ 381,691

10. Related Party Transactions

Related parties include the Board of Directors, officers, close family members, and enterprises which are controlled by these individuals as well as certain persons performing similar functions.

The remuneration of key management of the Company for the years ended December 31, 2012 and 2011 was as follows:

	2012	2011
Aggregate compensation included in salaries and management fees	\$ 242,772	\$ 215,820
Aggregate compensation included in deferred exploration costs	\$ -	\$ 63,925
Share-based payments	\$ 103,524	\$ 62,480

During the year ended December 31, 2012, 750,000 (2011 - nil) share options were granted to related parties valued at \$103,524 (2011 - \$nil).

At December 31, 2012 the Company owed \$13,039 (2011 - \$54,720) to officers of the Company which has been recorded in accounts payable and accrued liabilities.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

11. Debentures Payable

(i) Convertible Debentures - Maturing April 25, 2014

Between April 25, 2012 and May 3, 2012, the Company closed subscriptions of a private placement for gross proceeds of \$585,000 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.

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 totalling \$48,910, comprised of a cash commission of \$32,500 and 210,000 finder's warrants valued at \$13,711 (*note 13*), were 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.

	2012	2011
Face value of Debentures	\$ 585,000	\$ -
Discount on face value of Debentures	(199,440)	-
Transaction costs allocated to Debentures	(32,240)	-
Accretion	81,964	-
	\$ 435,284	\$ -

(ii) REBgold Corporation's Convertible Debentures - Maturing April 13, 2015

Under the Arrangement as described in note 5, the Company assumed 20% of REBgold's debenture obligation which consisted of 43 \$10,000 unsecured convertible debentures, initially maturing on October 13, 2011 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 REBgold 20% of the principal plus 20% of the interest accrued from December 2, 2010 to maturity and REBgold 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 \$0.10 per common share (the "Conversion Price") or in the event that the closing price of REBgold's common shares on the TSX-V is at or greater than \$0.15, REBgold 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 REBgold issued in the event of a conversion, one-fifth of a common share of the Company will be issued.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

11. Debentures Payable - continued

(ii) REBgold Corporation's Convertible Debentures - Maturing April 13, 2015 - continued

On October 13, 2011, REBgold 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 (note 5). 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, REBgold 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 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:

Carrying value, December 31, 2010	\$ 68,480
Debenture repayment	(4,000)
Accretion related to warrant extension	(6,400)
Accretion expense	20,283
Carrying value, December 31, 2011	78,363
Fair value of extension	(19,200)
Accretion expense	8,000
Carrying value, December 31, 2012 (note 6)	\$ 67,163

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

12. Share Capital

Authorized:

Unlimited common shares without par value

Issued and outstanding:

	Number of Shares	Amount
Balance, December 31, 2010	29,246,673	\$ 357,190
Shares issued in settlement of property termination obligation (<i>notes 5 and (v)</i>)	1,221,356	244,271
Shares issued pursuant to private placement (<i>i</i>)	3,000,000	600,000
Warrants issued in private placement (<i>i</i>)	-	(67,500)
Shares issued to REBgold Corporation warrant holders pursuant to plan of arrangement (<i>ii</i>)	4,510,332	373,687
Shares issued pursuant to exercise of warrants (<i>iii</i>)	255,000	43,350
Fair value of warrants exercised (<i>iii</i>)	-	5,279
Shares issued pursuant to exercise of options (<i>iv</i>)	150,000	30,000
Fair value of options exercised (<i>iv</i>)	-	14,940
Share issue costs (<i>i</i>)	-	(33,593)
Balance, December 31, 2011	38,383,361	1,567,624
Private placement (<i>vi</i>)	705,000	141,000
Private placement (<i>vii</i>)	9,666,666	1,450,000
Warrants issued in private placements (<i>(vi) and (vii)</i>)	-	(689,074)
Share issue costs (<i>(vi) and (vii)</i>)	-	(90,781)
Balance, December 31, 2012	48,755,027	\$ 2,378,769

Activity

- (i) On June 29, 2011, the Company closed the first tranche of a private placement and issued 2,500,000 units at a price of \$0.20 per unit for gross proceeds of \$500,000. The second tranche was closed on July 15, 2011 where the Company issued an additional 500,000 units at a price of \$0.20 per share. Each unit consisted of one common share and one half of one common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.30 for one year from the date of closing. The fair value of the common share purchase warrants issued in this placement was estimated to be \$67,500. The Company incurred finder's fees of \$22,500 and issued 112,500 finder's warrants in connection with this private placement. Each finder's warrant entitles the holder to purchase one common share at a price of \$0.20 for a period of one year from the date of closing. The fair value of these finder's warrants was estimated at \$5,091. The Company also incurred legal consulting fees in connection with this private placement totaling \$6,002.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

12. Share Capital - continued

Activity - continued

- (ii) Between January 1, 2011 and May 3, 2011, REBgold Corporation warrant holders exercised a total of 22,051,667 warrants to purchase 22,051,667 REBgold common shares for gross proceeds of \$2,198,100. Under the terms of the Arrangement, the Company was obligated to issue 1 common share for each 5 common shares issued by REBgold, which is a total of 4,510,332 of its common shares to be issued to these REBgold warrant holders. The Company was entitled to 17% of the gross proceeds on such warrant exercises. REBgold Corporation paid the Company a total of \$373,687 in connection with these warrant exercises.
- (iii) During fiscal 2011, warrant holders exercised a total of 255,000 warrants to purchase 255,000 common shares of the Company for gross proceeds of \$43,350. The weighted average share price at the time these warrants were exercised was \$0.18. The fair value of the exercised warrants of \$5,279, recognized at the time of the initial private placement, was reclassified from warrants reserve to share capital.
- (iv) During fiscal 2011, option holders exercised a total of 150,000 options to purchase 150,000 common shares of the Company for gross proceeds of \$30,000. The weighted average share price at the time these options were exercised was \$0.18. The fair value of the exercised options of \$14,940, recognized at the time of the initial grant, was reclassified from contributed surplus to share capital.
- (v) During fiscal 2011, pursuant to a settlement agreement between REBgold and Yamana dated July 8, 2010, REBgold agreed to issue to Yamana 610,678 common shares. These shares were not issued before the Arrangement and consequently, for every share of REBgold issuable, two common shares of the Company became issuable. In February 2011, REBgold issued 610,678 common shares to Yamana, along with the Company issuing 1,221,356 common shares valued at \$244,271 to Yamana.
- (vi) On January 18, 2012, the Company completed a private placement and issued 705,000 units at a price of \$0.20 per unit for gross proceeds of \$141,000, of which \$64,000 was received prior to January 1, 2012. Each unit consisted of one common share and one half of one common share purchase warrant. Each warrant entitles the holder to purchase one common share at \$0.30 for 12 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 \$30,200 (*note 13*). The Company incurred share issue costs of \$3,781 in connection with this private placement.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

12. Share Capital - continued

Activity - continued

(vii) On October 3, 2012, BacTech closed the first tranche of a private placement of common share units at a price of \$0.15 per Unit. Each unit consisted of one common share and one non-transferable common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.17 for a period of 360 days from the first anniversary of the date of issue. The warrants can be exercised prior to the first anniversary of the date of issue provided that, after giving effect to the exercise, the holder shall not directly or indirectly own more than 19.99% of the issued and outstanding common shares of BacTech. The fair value of common share purchase warrants issued in this placement was estimated at \$658,874 (*note 13*). The common shares and warrants are subject to a four month hold period. The Company paid finder's fees of \$87,000 in connection with this private placement.

Option Three Advisory Services Limited ("Option Three") has subscribed for \$1,450,000 (9,666,666) units. As part of its subscription for units, Option Three and the Company have also entered into an Exclusivity Agreement whereby, subject to applicable law, Option Three will be entitled to nominate a member to the Board of Directors of BacTech for so long as it directly or indirectly holds at least 10% of the issued and outstanding common shares of BacTech, and Option Three has been given exclusivity for five years with respect to the investment in future projects in certain Eastern European countries. As part of this agreement, Option Three has also agreed to not, at any time and together with its affiliates, indirectly or directly hold more than 19.99% of the issued and outstanding common shares of BacTech without the prior approval of BacTech.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

13. Warrants Reserve

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

	Number	Fair Value
Balance, December 31, 2010	1,346,167	\$ 27,866
Warrants issued pursuant to private placement (<i>note 12(i)</i>)	1,500,000	67,500
Broker warrants issued (<i>note 12(i)</i>)	112,500	5,091
Warrants exercised during the year (<i>note 12(iii)</i>)	(255,000)	(5,279)
Expired during the year	(1,091,167)	(22,587)
Balance, December 31, 2011	1,612,500	72,591
Warrants issued pursuant to private placement (<i>note 12(vi)</i>)	352,500	30,200
Warrants issued pursuant to private placement (<i>note 12(vii)</i>)	9,666,666	658,874
Fair value of warrants issued with convertible debenture financing (<i>note 11(i)</i>)	2,925,000	91,383
Fair value of broker warrants issued with convertible debenture financing (<i>note 11(i)</i>)	210,000	13,711
Expired during the year	(1,500,000)	(67,500)
Balance, December 31, 2012	13,266,666	\$ 799,259

Pursuant to the Arrangement as described in note 5, the Company has certain obligations pursuant to the REBgold warrants in existence at the time of the Arrangement, which upon being exercised, shall be satisfied by the issuance of one common share from REBgold and one-fifth of one common share of the Company in accordance with the terms of the Arrangement.

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

In May 2012, REBgold consolidated its shares on a basis of 1 share for every 10 outstanding; consequently, the exercise of an eligible post-consolidation REBgold warrant will require the issuance of 2 shares of the Company. As of December 31, 2012, REBgold had 4,777,833 common share purchase warrants outstanding which are subject to the Arrangement. The Company's obligation, if these warrants were exercised prior to expiry, would be to issue 9,555,667 common shares in return for its portion of the aggregate exercise proceeds of \$848,835.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

13. Warrants Reserve - continued

The exercise price, contractual life, and the fair value assigned to warrants issued and outstanding as at December 31, 2012 are as follows:

Warrants	Weighted Average Exercise Price	Fair Value	Weighted Average Contractual Life (years)
97,500	\$ 0.20	\$ 4,416	0.49
15,000	0.20	675	0.54
352,500	0.30	30,200	0.05
2,925,000	0.20	91,385	1.32
210,000	0.200	13,710	1.32
9,666,666	0.170	658,874	1.74
13,266,666	\$ 0.18	\$ 799,260	1.59

The fair value of these warrants, issued during the years ended December 31, 2012 and 2011, was estimated using the Black-Scholes option pricing model with the following assumptions:

	2012	2011
Risk free interest rate	1.00% - 1.70%	1.44% - 1.55%
Expected dividend yield	nil	nil
Expected volatility	262% - 282%	102%
Expected life	1 - 2 years	1 - 2 year

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, the use of the Black-Scholes option pricing model, as required by IFRS, may not provide a realistic measure of the fair value of the Company's warrants at the date of issue.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

14. Contributed Surplus Reserve and Stock-Based Compensation

The movements in the contributed surplus are as follows:

	Fair	Value
Balance, December 31, 2010	\$	25,971
Stock-based compensation		132,101
Options exercised		(14,940)
Warrants expired		22,587
Balance, December 31, 2011		165,719
Stock-based compensation		205,988
Warrants expired		67,500
Extension of convertible debentures <i>(note 11(ii))</i>		19,200
Conversion feature of convertible debentures issued <i>(note 11(i))</i>		91,383
Balance, December 31, 2012	\$	549,790

The Company has a stock option plan ("the Plan"), under which the Company may grant options to directors, officers, and consultants. Under the terms of the Plan that was approved by the shareholders on November 12, 2010, the Company is authorized to issue a maximum of 10% of the issued and outstanding common 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 one year from the date of issue.

	Number Outstanding	Weighted- Average Exercise Price
Balance, December 31, 2010	2,100,000	\$ 0.15
Granted	250,000	0.20
Exercised	(150,000)	0.20
Cancelled/expired	(200,000)	0.16
Balance, December 31, 2011	2,000,000	0.15
Granted	1,500,000	0.20
Balance, December 31, 2012	3,500,000	\$ 0.17

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

14. Contributed Surplus Reserve and Stock-Based Compensation - continued

Options to purchase common shares outstanding at December 31, 2012 carry exercise prices and remaining terms to maturity as follows:

Weighted Average Exercise Price	Options Outstanding	Options Exercisable	Weighted- Average Contractual Life (years)
\$ 0.15	1,950,000	1,950,000	2.9
0.20	50,000	50,000	3.2
0.20	1,500,000	1,500,000	4.5
\$ 0.17	3,500,000	3,500,000	3.6

During the year ended December 31, 2012, the Company granted 1,500,000 (2011 - 250,000) new options at an exercise price of \$0.20 (2011 - \$0.20) which vested immediately. The fair value of options vested during the year ended December 31, 2012, was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2012	2011
Risk free interest rate	1.14%	2.13% - 2.48%
Expected dividend yield	nil	nil
Expected volatility	262% - 282%	124% - 134%
Expected life	1 - 5 years	2.4 years

The Company recognized a total expense of \$205,988 (2011 - \$132,101) in respect of the options vesting during the year. Stock-based compensation expense was included in operating and administrative costs (note 17).

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 Consolidated Financial Statements

December 31, 2012 and 2011

15. Loss per Share

The following table sets forth the computation of basic and diluted loss per common share for the years ended December 31:

	2012	2011
Numerator:		
Loss attributable to common shareholders	\$ (1,377,396)	\$ (1,409,600)
Denominator:		
Weighted-average common shares outstanding	41,424,355	34,888,631
Basic and diluted loss per common share	\$ (0.03)	\$ (0.04)

In the years ended December 31, 2012 and 2011, the potential effect of the exercise of stock options, warrants, and convertible debentures was excluded as the effect was anti-dilutive.

16. Income Taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate on the net loss for the years ended December 31st is as follows:

	2012	2011
Loss before recovery of income taxes	\$ (1,377,396)	\$ (1,409,600)
Expected income tax recovery	\$ (365,010)	\$ (398,200)
Tax rate changes and other adjustments	(116,040)	41,900
Non-deductible expenses	26,110	775
Stock based payments	54,590	33,025
Change in tax benefits not recognized	400,350	322,500
Recovery of income taxes	\$ -	\$ -

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

16. Income Taxes - continued

The 2012 statutory tax rate of 26.50% differs from the 2011 statutory tax rate of 28.25% because of the reduction in federal and provincial substantively enacted tax rates.

Deferred income tax

Deferred income taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

	2012	2011
Deferred income tax assets		
Non-capital losses carried forward	\$ 2,482,860	\$ 1,411,900
SR&ED pool	\$ 294,410	\$ -
Research and development tax credits	\$ 63,160	\$ -
Donations	\$ 3,000	\$ -
Share issue costs	\$ 102,300	\$ 39,800
Mineral interests	\$ 90,420	\$ 373,200
Equipment and intangible assets	\$ 1,957,530	\$ 1,956,400

The Company's Canadian non-capital income tax losses expire as follows:

2030	\$ 162,300
2031	1,223,470
2032	1,097,090
	\$ 2,482,860

Share issue and financing costs will be fully amortized by December 31, 2016.

Research and development tax credits expire in 2031.

The remaining deductible temporary differences may be carried forward indefinitely.

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

17. Operating and Administrative Costs

Operating and administrative costs consist of the following:

	2012	2011
Salaries and management fees (<i>note 10</i>)	\$ 389,736	\$ 437,129
Share based payments (<i>note 10</i>)	205,988	132,101
Shareholder communication and filing fees	177,483	235,793
Professional fees	167,765	120,632
Travel	151,300	114,429
General office expenses	123,360	93,089
Foreign exchange gain	3,392	(510)
Depreciation (<i>note 8</i>)	1,100	1,100
	\$ 1,220,124	\$ 1,133,763

Certain prior year balances have been reclassified to conform with the current year's presentation.

18. Finance Charges

Finance charges consist of the following:

	2012	2011
Debenture interest	\$ 62,139	\$ 15,320
Accretion on debenture payable	89,964	13,883
Other interest	5,169	2,363
	\$ 157,272	\$ 31,566

19. Commitments

Operating Lease Commitments

Minimum payments due under operating leases in respect of office space are set out below:

2013	\$ 82,720
2014	82,720
2015	82,720
2016	82,720
2017	41,360
	\$ 372,240

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

20. 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 sales tax receivable is remote.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet current liabilities when due. As at December 31, 2012, the Company had a cash balance of \$409,583 (2011 - \$99,114) to settle current liabilities of \$439,621 (2011 - \$584,411). 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 existing 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 balances earning interest at a variable interest rate, convertible debentures bearing interest at a fixed rate of 12%, and debentures payable through REBgold bearing interest at a fixed rate of 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. The Company had no such deposit certificates at the end of the reporting period.

(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.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

21. Capital Management

The Company defines capital as share capital, warrants reserve, contributed surplus reserve, and deficit. 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, exploration, and development of mineral 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 exploration stage; as such, the Company is dependent on external financing to fund its activities. In order to carry out exploration 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.

22. 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. No revenues have been derived from those technologies and property to date.

23. Subsequent Event

An amendment to the December 2011 Snow Lake remediation agreement with the Mines Branch of the Manitoba Department of Innovation, Energy and Mines was executed subsequent to the reporting date wherein the latest commencement date of the treatment of arsenopyrite residue at the bioleaching plant was extended by one year from December 31, 2013 to December 31, 2014.