

# **BacTech Environmental Corporation**

## **Condensed Consolidated Interim Financial Statements**

For the three months ended March 31, 2013

(Unaudited)

## **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, MSCM LLP, has not performed a review of these unaudited condensed consolidated interim financial statements, in accordance with standards established by the Institute of Chartered Accountants for a review of condensed consolidated interim financial statements by an entity's auditor.

BacTech Environmental Corporation  
May 29, 2013

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

	As at March 31 2013 \$	As at December 31 2012 \$
<b>Assets</b>	(unaudited)	(audited)
<b>Current assets</b>		
Cash	14,443	409,583
Other receivable ( <i>note 5</i> )	12,283	56,324
Prepaid expenses	10,234	16,955
Total current assets	36,960	482,862
Deferred assessment and evaluation costs ( <i>note 7</i> )	1,230,958	842,144
Equipment ( <i>note 8</i> )	40	315
Total assets	1,267,958	1,325,321
<b>Equity and Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities ( <i>note 9</i> )	574,885	366,518
Current portions payable to REBgold Corporation ( <i>note 6</i> )	66,882	73,103
Total current liabilities	641,767	439,621
Payable to REBgold Corporation ( <i>note 11</i> )	68,763	67,163
Debentures payable ( <i>note 11</i> )	465,271	435,284
Total liabilities	1,175,801	942,068
<b>Capital and Reserves</b>		
Share capital ( <i>note 12</i> )	2,378,769	2,378,769
Contributed surplus reserves	668,340	549,790
Warrant reserve	769,059	799,259
Deficit	(3,724,011)	(3,344,565)
Total share capital and reserves	92,157	383,253
	1,267,958	1,325,321

**Nature of Operations and Going Concern (note 1)**

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

## BacTech Environmental Corporation

### Condensed Consolidated Interim Statements of Income (Loss) and Comprehensive Income (Loss)

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

	Three months ended	
	March 31	
	2013	2012
	\$	\$
<b>Net Revenue</b>	-	-
<b>Expenses</b>		
Operating and administrative costs <i>(note 16)</i>	324,471	199,540
Finance charges <i>(note 17)</i>	54,975	7,806
	<b>379,446</b>	207,346
<b>Net income (loss) and comprehensive net income for the period</b>	<b>(379,446)</b>	(207,346)
<b>Basic and diluted income (loss) per share <i>(note 15)</i></b>	<b>(0.01)</b>	(0.01)
<b>Weighted average number of common shares outstanding</b>	<b>48,755,027</b>	38,947,361

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

**BacTech Environmental Corporation**  
**Condensed Consolidated Interim Statements of Changes in Shareholders' Equity**  
(Unaudited, expressed in Canadian dollars, unless otherwise stated)

	Share Capital	Contributed Surplus Reserve	Warrant Reserve	Deficit	Total Equity
	\$	\$	\$	\$	\$
<b>Balance, December 31, 2011</b>	1,631,624	165,719	72,591	(1,967,169)	(97,235)
Common shares issued pursuant to private placement	46,800	-	30,200	-	77,000
Share issue costs	(3,656)	-	-	-	(3,656)
Net income (loss) for the period	-	-	-	(207,346)	(207,346)
<b>Balance, March 31, 2012</b>	1,674,768	165,719	102,791	(2,174,515)	(231,237)
Common shares issued pursuant to private placement	791,126	-	658,874	-	1,450,000
Value attributed to equity component of convertible debenture financing	-	99,720	99,720	-	199,440
Convertible debenture issue costs	-	(8,337)	(8,337)	-	(16,674)
Extension of convertible debenture	-	19,200	-	-	19,200
Finders warrants	-	-	13,711	-	13,711
Expired warrants	-	67,500	(67,500)	-	-
Share based payments	-	205,988	-	-	205,988
Share issue costs	(87,125)	-	-	-	(87,125)
Net income (loss) for the period	-	-	-	(1,170,050)	(1,170,050)
<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	-	88,350	-	-	88,350
Net income (loss) for the period	-	-	-	(379,446)	(379,446)
<b>Balance, March 31, 2013</b>	2,378,769	668,340	769,059	(3,724,011)	92,157

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)

	<b>Three months ended March 31, 2013</b>	<b>Three months ended March 31, 2012</b>
	\$	\$
<b>Cash flow from operating activities</b>		
Cash paid to suppliers, employees and consultants	(200,849)	(157,390)
	<b>(200,849)</b>	<b>(157,390)</b>
<b>Cash flow from financing activities</b>		
Proceeds (repayment) of payable to REBgold Corporation	-	21,584
Proceeds from issue of common shares, net	-	73,344
	-	94,928
<b>Cash flow from investing activities</b>		
Deferred development expenditures	(194,291)	(18,334)
	<b>(194,291)</b>	<b>(18,334)</b>
<b>Increase (decrease) in cash</b>	<b>(395,140)</b>	<b>(80,796)</b>
<b>Cash, beginning of period</b>	<b>409,583</b>	<b>99,114</b>
<b>Cash, end of period</b>	<b>14,443</b>	<b>18,318</b>

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

# **BacTech Environmental Corporation**

Notes to the Unaudited Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 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 Corporation 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. 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'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 \$3,724,011 since its inception, has a working capital deficit of \$605,677 at March 31, 2013, 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 income (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 three months ended March 31, 2013 from existing cash reserves held at the end of the prior year. 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.

## **2. Basis of Consolidation and Presentation**

### **Statement of Compliance and Conversion to International Financial Accounting Standards ("IFRS")**

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

# **BacTech Environmental Corporation**

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

*For the three months ended March 31, 2013*

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Note 2 and 3 in its audited annual consolidated financial statements for the year ending December 31, 2012. These condensed consolidated interim financial statements do not include all of the information required for full annual 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 unaudited condensed consolidated interim financial statements are comprised of the financial statements of the Company and its subsidiary (BacTech Manitoba Corp.), for the three months ended March 31, 2013. Accounting policies of the subsidiary have been changed where necessary to ensure consistency with the policies adopted by the Company and its subsidiary.

A subsidiary is an entity controlled, either directly or indirectly, by the Company, where control is the power to govern the financial and operating policies of the entity. All inter-company balances and transactions, including unrealized profits arising from inter-group transactions, are eliminated on consolidation. The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Company. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill.

## **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, 2012, have been applied in preparing these condensed consolidated interim financial statements.

### **Measurement and 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 condensed consolidated interim 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

## **BacTech Environmental Corporation**

Notes to the Unaudited Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2013

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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.

Critical accounting estimates:

Significant assumptions about the future that management have 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 accounts receivable that are included in the condensed consolidated interim statements of financial position;
- the recoverability of assessment and evaluation expenditures incurred;
- the inputs used in accounting for share based payment transactions in net income (loss);
- inputs used in determining the fair value of the convertible debentures;
- management's assumption of no material restoration, rehabilitation and environmental provision, based on the facts and circumstances that existed during the period; and
- management's position that there is no income tax provisions required within these condensed consolidated interim financial statements.

### **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

## BacTech Environmental Corporation

Notes to the Unaudited Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2013

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.

### 5. Other Receivables

Other receivables consist of the following:

	As at March 31 2013 \$	As at December 31 2012 \$
Sales tax receivable	12,283	56,324
Other receivables	12,283	56,324

### 6. Payable to REBgold Corporation

	As at March 31 2013 \$	As at December 31 2012 \$
Debenture payable ( <i>note 11</i> )	68,763	67,163
Accrued interest on debenture ( <i>note 11</i> )	6,970	3,280
Plan of Arrangement loan	69,823	69,823
Other	(9,911)	-
	135,645	140,266
Less current portion	66,882	73,103
	68,763	67,163

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

## BacTech Environmental Corporation

Notes to the Unaudited Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2013

### 7. Deferred Assessment and Evaluation Costs

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

	<b>Snow Lake</b>	<b>Total</b>
<b>Balance December 31, 2011</b>	<b>\$ 341,259</b>	<b>\$ 32,553</b>
Third party project contribution	(300,000)	(300,000)
Additions	800,885	308,706
<b>Balance, December 31, 2012</b>	<b>\$ 842,144</b>	<b>842,144</b>
Additions	388,814	388,814
<b>Balance, March 31, 2013</b>	<b>\$ 1,230,958</b>	<b>\$ 1,230,958</b>

#### Snow Lake Concentrate Stockpile – Manitoba

In the 1950's, a gold mine owned by The Britannia Mining and Smelting Company was opened and operated 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.

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.

## BacTech Environmental Corporation

Notes to the Unaudited Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2013

### 8. Equipment

Equipment consists of the following:

<b>Cost</b>	<b>Equipment</b>	<b>Total</b>
Balance, December 31, 2011	\$ 2,794	\$ 2,794
Additions	-	-
Balance, December 31, 2012	2,794	2,794
Additions	-	-
Balance, March 31, 2013	\$2,794	\$2,794

<b>Accumulated Depreciation</b>	<b>Equipment</b>	<b>Total</b>
Balance, December 31, 2011	\$1,379	\$1,379
Additions	1,100	1,100
Balance, December 31, 2012	2,479	2,479
Additions	275	275
Balance, March 31, 2013	\$2,754	\$2,754

Net book value at December 31, 2011	\$1,415	\$1,415
Net book value at December 31, 2012	\$315	\$315
Net book value at March 31, 2013	\$40	\$40

### 9. Accounts Payable and Accruals

Accounts payable and accruals consist of the following:

	<b>As at March 31 2013</b>	<b>As at December 31 2012</b>
	<b>\$</b>	<b>\$</b>
Trade payables	483,175	333,703
Accrued liabilities other	91,710	32,815
Total	574,885	366,518

## BacTech Environmental Corporation

Notes to the Unaudited Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2013

### 10. Related Party Transactions

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

	As at March 31 2013 \$	As at March 31 2012 \$
Aggregate compensation included in salaries and management fees	71,250	52,500
Aggregate compensation included in professional fees	-	-
Share-based compensation	20,385	-
Total	91,635	52,500

### 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.

The Debentures mature on April 25, 2014 and bear an 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.

## BacTech Environmental Corporation

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2013

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	As at March 31 2013 \$	As at December 31 2012 \$
Face value of debentures	585,000	585,000
Discount on face value of debentures	(199,440)	(199,440)
Transactions costs allocated to debentures	(32,240)	(32,240)
Accumulated accretion	111,951	81,964
	465,271	435,284

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### REBgold Corporation's Convertible Debentures - Maturing April 13, 2015

Under the Plan of Arrangement ("Arrangement") completed with REBgold, the Company assumed 20% of REBgold Corporations Inc.'s ("REBgold") 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 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 \$1.00 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 \$1.50, 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.

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

## BacTech Environmental Corporation

Notes to the Unaudited Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2013

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:

<b>Carrying value, December 31, 2011</b>	<b>\$ 78,363</b>
Accretion related to warrant extension	(19,200)
Accretion Expense	8,000
<b>Carrying value, December 31, 2012</b>	<b>\$ 67,163</b>
Accretion Expense	1,600
<b>Carrying value, March 31, 2013</b>	<b>\$ 68,763</b>

## 12. Share Capital

### Authorized:

Unlimited common shares without par value

### Issued and outstanding:

	Number of shares	Amount \$
<b>Balance, December 31, 2011</b>	<b>38,383,361</b>	<b>1,631,624</b>
Private placement (i)	705,000	77,000
Private placement (ii)	9,666,666	1,450,000
Warrants issued in private placements	-	(689,074)
Share issue costs	-	(90,781)
<b>Balance, December 31, 2012 and March 31, 2013</b>	<b>48,755,027</b>	<b>2,378,769</b>

- (i) On January 18, 2012, the Company completed a private placement and issued 705,000 units at a price of \$0.20 per unit for aggregate gross proceeds of \$141,000, of which \$64,000 was received prior to December 31, 2011. 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.
- (ii) 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

## BacTech Environmental Corporation

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2013

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.

### 13. Warrant reserve

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

	March 31, 2013		December 31, 2012	
	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
Balance, beginning of period	13,266,667	\$ 0.18	1,612,500	\$ 0.30
Issued	-	-	13,154,167	0.18
Expired	(352,500)	0.30	(1,500,000)	0.30
Balance, end of period	12,914,167	\$ 0.18	13,266,667	\$ 0.18

The exercise price, expiry date, and the fair value assigned to warrants issued and outstanding as at March 31, 2013 are as follows:

Expiry Date	Weighted Average Exercise Price \$	Fair Value \$	Warrants Outstanding	Contractual Life (years)
June 29, 2013	0.20	4,416	97,500	0.25
July 15, 2013	0.20	675	15,000	0.59
April 25, 2014	0.20	105,095	3,135,000	1.07
September 28, 2014	0.17	658,874	9,666,667	1.50
	0.18	769,060	12,914,167	1.42

The fair values of the warrants issued during the year ended December 31, 2012 and 2011, as well as for the three months ended March 31, 2013 were estimated using the Black-Scholes option pricing model with the following assumptions:

## BacTech Environmental Corporation

Notes to the Unaudited Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2013

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Risk free interest rate	1.0%-1.7%
Expected dividend yield	Nil
Expected volatility	102%-282%
Expected life	1-2 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 warrants at the date of issue.

### REBgold Warrants

Pursuant to the Arrangement completed with REBgold in December 2010, REBgold 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 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.

As of March 31, 2013, REBgold had 4,777,833 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 9,595,667 common shares in return for its portion of the aggregate exercise price of \$829,835.

## 14. 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 approved by the shareholders on November 10, 2010, 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 the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2013

	March 31, 2013		December 31, 2012	
	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
Balance, beginning of period	3,500,000	\$ 0.15	2,000,000	\$ 0.15
Granted	750,000	0.20	1,500,000	0.20
Exercised	-	-	-	-
Expired/Cancelled	(100,000)	0.20	-	-
Balance, end of period	4,150,000	\$ 0.18	3,500,000	\$ 0.17

Options to purchase common shares outstanding at March 31, 2013 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)
March 17, 2018	0.20	750,000	731,250	4.96
July 9, 2017	0.15	1,400,000	1,400,000	4.28
December 6, 2015	0.15	1,950,000	1,950,000	2.68
March 10, 2016	0.20	50,000	50,000	2.95
	0.18	4,150,000	4,131,250	3.64

During the period ended March 31, 2013, the Company granted 750,000 options (for the year ended December 31, 2012 – 1,500,000). The Company recognized a total expense of \$88,350 for the three month period ended March 31, 2013 (for the year ended December 31, 2012 - \$205,988) in respect of the options vesting during the year. Share based payments expense is included in general and administrative costs.

	2012 - 2010
Risk free interest rate	1.14-2.48%
Expected dividend yield	Nil
Expected volatility	124 - 282%
Expected life	1 to 5 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.

## BacTech Environmental Corporation

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2013

### 15. (Loss) Earnings per Share

The calculation of basic and diluted loss per share for the three months ended March 31, 2013 was based on the loss attributable to common shareholders of \$379,446 (2011 – \$207,346) and the weighted average number of common shares outstanding of 48,755,027 (2012 -38,947,361). Diluted loss per share did not include the effect of share purchase options and warrants as they are anti-dilutive.

### 16. General and Administrative

General and administrative expense consists of the following:

	Three months ended	
	March 31	
	2013	2012
	\$	\$
Salaries and management fees	130,973	82,947
Share based payments	88,350	-
Professional fees	36,749	5,896
Shareholder information and filing fees	26,189	58,305
Travel	14,878	26,870
General office expenses	26,547	25,521
Depreciation	275	275
Foreign exchange (gain)/loss	510	(274)
<b>Total</b>	<b>324,471</b>	<b>199,540</b>

### 17. Finance Charges

Finance charges consist of the following:

	Three months ended	
	March 31	
	2013	2012
	\$	\$
Interest and bank charges	2,148	916
Debenture interest	21,240	3,690
Accretion on debenture	31,587	3,200
<b>Total</b>	<b>54,975</b>	<b>7,806</b>

## **BacTech Environmental Corporation**

Notes to the Unaudited Condensed Consolidated Interim Financial Statements  
For the three months ended March 31, 2013

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### **18. 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 is remote.

#### ***Liquidity risk***

As at March 31, 2013, the Company had a cash balance of \$14,443 (December 31, 2012 - \$409,583) to settle current liabilities of \$641,767 (December 31, 2012 - \$439,621). 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 payables bearing interest at a fixed rate of 18% and 12% 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.

### **19. 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.

## **BacTech Environmental Corporation**

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

*For the three months ended March 31, 2013*

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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 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.

### **20. 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. All revenues have been derived from those technologies and property.