

# **BacTech Environmental Corporation**

## **Condensed Interim Financial Statements**

For the three and nine months ended September 30, 2011

**(Unaudited)**

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

The accompanying unaudited condensed 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 interim financial statements, in accordance with standards established by the Institute of Chartered Accountants for a review of condensed interim financial statements by an entity's auditor.

BacTech Environmental Corporation  
November 15, 2011

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

	As at September 30 2011 \$	As at December 31 2010 \$
<b>Assets</b>		(Note 22)
<b>Current assets</b>		
Cash ( <i>note 6</i> )	114,260	239,400
Other receivable ( <i>note 7</i> )	36,208	16,582
Prepaid expenses	9,056	8,203
	<b>159,524</b>	264,185
Deferred exploration costs ( <i>note 9</i> )	276,170	32,553
Equipment ( <i>note 10</i> )	1,690	2,515
	<b>437,384</b>	299,253
<b>Equity and Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities ( <i>note 11</i> )	200,832	111,774
Payable to REBgold Corporation ( <i>note 5 and 8</i> )	186,199	334,021
	<b>387,031</b>	445,795
<b>Capital and Reserves</b>		
Share capital ( <i>note 13</i> )	1,345,862	357,190
Reserves	134,185	53,837
Deficit	(1,429,694)	(557,569)
	<b>50,353</b>	(146,542)
	<b>437,384</b>	299,253

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

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

**BacTech Environmental Corporation**  
**Condensed Interim Statements of Income (Loss)**  
**and Comprehensive Income (Loss)**

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

	<b>Three months ended September 30 2011 \$</b>	<b>Nine months ended September 30 2011 \$</b>
<b>Net Revenue</b>	-	-
<b>Expenses</b>		
General and administrative costs <i>(note 17)</i>	217,911	776,549
Finance charges <i>(note 18)</i>	10,044	30,176
Property termination payments <i>(note 5)</i>	-	65,400
	<b>227,955</b>	<b>872,125</b>
<b>Net income (loss) for the period</b>	<b>(227,955)</b>	<b>(872,125)</b>
<b>Basic and diluted income (loss) per share <i>(note 16)</i></b>	<b>(0.01)</b>	<b>(0.03)</b>
<b>Weighted average number of common shares outstanding</b>	<b>37,994,472</b>	<b>33,956,407</b>
<b>Statement of Comprehensive Income (loss)</b>		
Net income (loss) for the period	(227,955)	(872,125)
Other comprehensive income	-	-
<b>Comprehensive income (loss) for the period</b>	<b>(227,955)</b>	<b>(872,125)</b>

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

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

	Share Capital \$	Warrant Reserve \$	Contributed Surplus Reserve \$	Deficit \$	Total Equity \$
<b>Balance, October 5, 2010</b>	-	-	-	-	-
Shares issued upon incorporation	100	-	-	-	100
Shares cancelled pursuant to Plan of Arrangement	(100)	-	-	-	(100)
Common Shares issued pursuant to Plan of Arrangement	97,396	-	-	-	97,396
Common Shares issued pursuant to private placement	277,049	26,151	-	-	303,200
Share issue costs	(17,255)	1,715	-	-	(15,540)
Share based payments	-	-	25,971	-	25,971
Net income (loss) for the period	-	-	-	(557,569)	(557,569)
<b>Balance, December 31, 2010</b>	357,190	27,866	25,971	(557,569)	(146,542)
Common Shares issued pursuant to private placement	527,445	72,555	-	-	600,000
Common shares issued on exercise of warrants	373,677	-	-	-	373,677
Common shares issued on exercise of options	30,000	-	-	-	30,000
Fair market value of options exercised	14,940	-	(14,940)	-	-
Common shares issued as Property Termination Payment	65,400	-	-	-	65,400
Share issue costs	(22,790)	-	-	-	(22,790)
Share based payments	-	-	22,733	-	22,733
Net income (loss) for the period	-	-	-	(872,125)	(872,125)
<b>Balance, September 30, 2011</b>	1,345,862	100,421	33,764	(1,429,694)	50,353

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

# BacTech Environmental Corporation

## Condensed Interim Statements of Cash Flows

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

	<b>Three months ended September 30 2011 \$</b>	<b>Nine months ended September 30 2011 \$</b>
<b>Cash flow from operating activities</b>		
Cash paid to suppliers, employees and contractors	(403,542)	(700,858)
	(403,542)	(700,858)
<b>Cash flow from financing activities</b>		
Proceeds (Repayment) of Payable to REBgold Corporation	19,916	(161,551)
Proceeds from issue of common shares, net	126,710	980,886
	146,626	819,335
<b>Cash flow from investing activities</b>		
Deferred development expenditures	(80,705)	(243,617)
	(80,705)	(243,617)
<b>Increase (decrease) in cash</b>	(337,621)	(125,140)
<b>Cash, beginning of period</b>	451,881	239,400
<b>Cash, end of period</b>	114,260	114,260

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

# **BacTech Environmental Corporation**

Notes to the Unaudited Condensed Interim Financial Statements  
For the three and nine months ended September 30, 2011

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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. Through the completion of the Plan of Arrangement transaction as described in note 5, the Company was granted a license to use REBgold Corporation'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's head office is located at 50 Richmond Street East, Toronto, Ontario, M5C 1N7.

The accompanying condensed 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 \$1,429,694 since its inception, has a working capital deficit of \$227,508 at September 30, 2011, 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 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 nine months ended September 30, 2011 with one private placement which generated \$600,000 in gross proceeds and through the exercise of options and warrants which generated gross proceeds of \$403,677. 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.

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

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

These condensed 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 expects to adopt in its financial statements as at and for the year ending December 31, 2011. These condensed interim financial statements do not include all of the information required for full annual financial statements.

## **BacTech Environmental Corporation**

Notes to the Unaudited Condensed Interim Financial Statements

*For the three and nine months ended September 30, 2011*

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The accounting policies set out below have been applied consistently to all periods presented in these condensed interim financial statements. They also have been applied in preparing an opening IFRS statement of financial position which is the date of incorporation, October 5, 2010. Refer to note 22 for the purposes of the transition to IFRS.

These condensed interim financial statements should be read in conjunction with the Company's 2010 Canadian GAAP annual financial statements and, in consideration of the IFRS transition, disclosures included in note 22 to these condensed interim financial statements. These are the Company's financial statements prepared using IFRS and they include certain disclosures that were not included in the most recent Canadian GAAP annual financial statements, but are required to be included in annual financial statements prepared in accordance with IFRS.

These condensed interim financial statements were authorized for issuance by the Board of Directors of the Company on November 26, 2011.

### **Basis of Preparation and Presentation**

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

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

### **3. Significant Accounting Policies**

The accounting policies as reported in note 2 and 3 of the condensed interim financial statements for the three month period ended March 31, 2011, have been applied in preparing these condensed consolidated interim financial statements.

#### **Measurement and Uncertainty**

The preparation of these condensed 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 interim financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed 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 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.

## **BacTech Environmental Corporation**

Notes to the Unaudited Condensed Interim Financial Statements

For the three and nine months ended September 30, 2011

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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 accounts receivable that are included in the condensed interim statements of financial position;
- the recoverability of exploration and evaluation expenditures incurred;
- the inputs used in accounting for share based payment transactions in net income (loss);
- 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 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 amortized costs 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, 2013. The company has yet to assess the impact of the new standard.

IFRS 10, 11, 12 and 13 were all issued in May 2010 and are effective for annual periods beginning January 1, 2013, with early adoption allowed.

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.

### **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.

## BacTech Environmental Corporation

Notes to the Unaudited Condensed Interim Financial Statements

For the three and nine months ended September 30, 2011

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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:

Mineral properties and deferred exploration costs transferred from REBgold ( <i>note 9</i> )	\$	463,984
Accounts payable transferred from REBgold	\$	(49,946)
Book value of debentures payable assumed from REBgold ( <i>note 12</i> )	\$	(66,642)
Loan payable to REBgold ( <i>note 8</i> )	\$	(250,000)
<hr/>		
Value attributed to common shares issued ( <i>note 12</i> )	\$	<b>97,396</b>

### Common Shares

Under the terms of the Arrangement, REBgold's shareholders received, in exchange for each existing common share of REBgold, one new common share of REBgold and one-fifth of a common share of the Company.

### Share Purchase Warrants

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 REBgold and the Company for the first 20 trading days subsequent to the Arrangement.

### 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.

### Debentures Payable (*note 12*)

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 remained indebted to the debenture holders for the full principal of the debenture. For every share of REBgold issued in the event of a conversion, one-fifth of a common share 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 March 2011, REBgold issued 6,106,780 common shares to Yamana, along with the Company issuing 1,221,356 common shares to Yamana.

## BacTech Environmental Corporation

Notes to the Unaudited Condensed Interim Financial Statements  
For the three and nine months ended September 30, 2011

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### 6. Cash Position

Cash consists of the following:

	As at September 30 2011 \$	As at December 31 2010 \$
<b>Cash</b>	114,260	239,400
	114,260	239,400

### 7. Other Receivables

Other receivables consist of the following:

	As at September 30 2011 \$	As at December 31 2010 \$
Subscriptions receivable	-	12,000
Sales tax receivable	36,208	4,582
Other receivables	36,208	16,582

### 8. Payable to REBgold Corporation

	As at September 30 2011 \$	As at December 31 2010 \$
Debenture payable ( <i>note 12</i> )	85,250	68,480
Accrued interest on debenture ( <i>note 12</i> )	5,160	1,290
Plan of Arrangement loan ( <i>note 5</i> )	69,823	250,000
Other	25,966	14,251
	186,199	334,021

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

## BacTech Environmental Corporation

Notes to the Unaudited Condensed Interim Financial Statements

For the three and nine months ended September 30, 2011

### 9. Deferred Exploration Costs

The mineral properties and deferred exploration costs are comprised as follows:

	<b>Cobalt Tailings</b>	<b>Snow Lake</b>	<b>Total</b>
<b>Balance, October 5, 2010</b>	-	-	-
Transferred under Plan of Arrangement	432,924	31,060	463,984
Net expenditures on property	-	1,493	1,493
Write-down of assets	(432,924)	-	(432,924)
<b>Balance December 31, 2010</b>	-	<b>32,553</b>	<b>32,553</b>
Net expenditures on property	-	243,617	243,617
Recovered during period	-	-	-
Written off during period	-	-	-
<b>Balance, September 30, 2011</b>	-	<b>276,170</b>	<b>276,170</b>

#### 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, 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.

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, 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, 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 BacTech and the Manitoba government. 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 Interim Financial Statements

*For the three and nine months ended September 30, 2011*

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### **Cobalt Tailings – Ontario**

In September 2008, REBgold announced the signing of a Memorandum of Understanding with Gold Bullion Development Corp. (“Gold Bullion”, TSX-V: GBB) of Cobalt, Ontario. The basis of the agreement entailed REBgold investigating the use of its proprietary bioleaching technology to treat certain tailings in the Cobalt Camp in north-eastern Ontario for the recovery of cobalt, nickel and silver. In addition, REBgold investigated the potential environmental remediation for the associated arsenic in the tailings. In the event of a positive outcome from the study, both parties would formalize the agreement through the creation of a Joint Venture. In January 2009, GBB informed REBgold that it could not proceed with the future joint venture terms of the Memorandum of Understanding and gave REBgold permission to begin discussions with potential new partners.

In April 2010, REBgold signed a Memorandum of Understanding with Blackstone Development Inc. of Cobalt, Ontario (the “Blackstone MOU”). Pursuant to the Plan of Arrangement, REBgold assigned its rights under the Blackstone MOU to BacTech Environmental Corporation. The Blackstone MOU outlined BacTech’s intent to gain access to Blackstone’s tailings inventory in the Cobalt Camp. Blackstone obtained ownership of the Cobalt tailings from Agnico Eagle Mines (“Agnico”) in 2006, subject to certain conditions. Subsequent to the Company signing the agreement with Blackstone, Blackstone’s rights to the tailings were revoked by Agnico.

The Company will continue to monitor events in the area to evaluate future opportunities with the objective of identifying potential cleanup sites for which it can apply the BacTech Bioleaching Technology in order to remediate arsenic laden mine tailings from the Cobalt/Coleman Townships of northern Ontario.

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. The amount of the deferred exploration expenses were written down in December 31, 2010.

## BacTech Environmental Corporation

Notes to the Unaudited Condensed Interim Financial Statements  
For the three and nine months ended September 30, 2011

### 10. Equipment

Equipment consists of the following:

<b>Cost</b>	<b>Equipment</b>	<b>Total</b>
<b>Balance, October 5, 2010</b>	<b>\$ -</b>	<b>\$ -</b>
Additions	2,794	2,794
Disposals	-	-
Other	-	-
<b>Balance, December 31, 2010</b>	<b>2,794</b>	<b>2,794</b>
Additions	-	-
Disposals	-	-
Other	-	-
<b>Balance, September 30, 2011</b>	<b>\$2,794</b>	<b>\$2,794</b>

  

<b>Accumulated Depreciation</b>	<b>Equipment</b>	<b>Total</b>
<b>Balance, October 5, 2010</b>	<b>\$ -</b>	<b>\$ -</b>
Additions	279	279
Disposals	-	-
Other	-	-
<b>Balance, December 31, 2010</b>	<b>279</b>	<b>279</b>
Additions	825	825
Disposals	-	-
Other	-	-
<b>Balance, September 30, 2011</b>	<b>\$1,104</b>	<b>\$1,104</b>

  

Net book value at October 5, 2010	<b>\$ -</b>	<b>\$ -</b>
Net book value at December 31, 2010	<b>\$2,515</b>	<b>\$2,515</b>
Net book value at September 30, 2011	<b>\$1,690</b>	<b>\$1,690</b>

## BacTech Environmental Corporation

Notes to the Unaudited Condensed Interim Financial Statements  
For the three and nine months ended September 30, 2011

### 11. Accounts Payable and Accruals

Accounts payable and accruals consist of the following:

	As at September 30 2011 \$	As at December 31 2010 \$
Trade payables	164,734	88,315
Accrued liabilities other	36,098	23,459
<b>Total</b>	<b>200,832</b>	<b>111,774</b>

### 12. Debentures Payable

#### Convertible Debentures - Maturing October 13, 2011

Under the Arrangement as described in note 5, the Company assumed 20% of REBgold's 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 \$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.

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

<b>Balance, October 5, 2010</b>	-
Book value attributed to the Company pursuant to the Plan of Arrangement	66,642
Accretion Expense	1,838
<b>Book Value, December 31, 2010</b>	<b>68,480</b>
Accretion Expense	16,770
<b>Book Value, September 30, 2011</b>	<b>85,250</b>

## BacTech Environmental Corporation

Notes to the Unaudited Condensed Interim Financial Statements  
For the three and nine months ended September 30, 2011

### 13. Share Capital

#### Authorized:

Unlimited common shares without par value

#### Issued and outstanding:

	Number of shares	Amount \$
<b>Balance, October 5, 2010</b>	-	-
Shares issued upon incorporation (i)	100	10
Shares cancelled pursuant to Plan of Arrangement (ii)	(100)	(10)
Shares issued pursuant to Plan of Arrangement (ii)	26,720,007	97,396
Private placement (iii)	2,526,666	277,049
Share issue costs (iii)	-	(17,255)
<b>Balance, December 31, 2010</b>	<b>29,246,673</b>	<b>357,190</b>
Common shares issued - Property Termination Payment (note 5)	1,221,356	65,400
Private placement (v)	3,000,000	527,445
Shares issued pursuant to exercise of warrants (iv)	4,510,332	373,677
Shares issued pursuant to exercise of options	150,000	44,940
Share issue costs (v)	-	(22,790)
<b>Balance, September 30, 2011</b>	<b>38,128,361</b>	<b>1,345,862</b>

- (i) On October 5, 2010, the Company issued 100 common shares of the Company upon incorporation to its parent company, REBgold Corporation, for a nominal value of \$10.
- (ii) Pursuant to the Arrangement as described in note 2, on December 2, 2010, the Company cancelled the initial 100 shares issued upon incorporation and issued 26,720,007 common shares of the Company to REBgold shareholders on the basis of one (1) share of the Company for each five (5) common shares of REBgold held as of the close of business on December 1, 2010.
- (iii) On December 22, 2010, the Company issued 2,526,666 units in a non-brokered private placement at a price of \$0.12 per unit for aggregate gross proceeds of \$303,200. 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 \$0.17 until December 22, 2011. All securities issued in connection with the offering and the underlying securities were subject to a four month hold period that expired on April 23, 2011. The fair value of common share purchase warrants issued in this placement was estimated at \$26,151. The Company incurred finder's commissions of \$9,940 (of which \$1,750 were included in December 31, 2010 accounts payable), legal costs of \$5,600 (all of which were included in December 31, 2010 accounts payable), and issued 82,833 finder's warrants. Each finder's warrant entitles the holder to purchase one common share at a price of \$0.17 until December 22, 2011. The fair value of the finder's warrants issued was estimated at \$1,715.
- (iv) Between January 1, 2011 and May 3, 2011, REBgold 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. As per the terms of the Arrangement, the Company is obligated to issue 4,510,331 common shares to these

## BacTech Environmental Corporation

Notes to the Unaudited Condensed Interim Financial Statements

For the three and nine months ended September 30, 2011

REBgold warrant holders, and the Company is entitled to 17% of the proceeds for a total of \$373,677 which has been paid by REBgold to the Company.

- (v) On June 30, 2011, the Company completed the first tranche of a private placement and issued 2,500,000 units at a price of \$0.20 per unit for aggregate gross proceeds of \$500,000. The second tranche was closed on July 15, 2011 and issued an additional 500,000 units at a price of \$0.20 for additional proceeds of \$100,000. 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 \$67,500. The Company incurred finder's commissions of \$22,500 and issued 112,500 finder's warrants. Each finder's warrant entitles the holder to purchase one common share at a price of \$0.20 for a period of 12 months from the date of closing. The fair value of the finder's warrants issued was estimated at \$5,055.

### 14. Warrants

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

	September 30, 2011		December 31, 2010	
	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
Balance, beginning of period	1,346,167	\$ 0.17	-	-
Issued	1,612,500	0.30	1,346,167	\$ 0.17
Exercised	-	-	-	-
Expired	-	-	-	-
Balance, end of period	2,958,667	\$ 0.24	1,346,167	\$ 0.17

The exercise price, expiry date, and the fair value assigned to warrants issued and outstanding as at September 30, 2011 are as follows:

Expiry Date	Weighted Average Exercise Price \$	Fair Value \$	Warrants Outstanding	Contractual Life (years)
December 22, 2011	0.170	26,151	1,263,334	0.23
December 22, 2011	0.170	1,715	82,833	0.23
June 29, 2012	0.300	56,250	1,250,000	0.75
June 29, 2012	0.200	4,380	97,500	0.75
July 15, 2012	0.300	11,250	250,000	0.79
July 15, 2012	0.200	675	15,000	0.79
	0.170	100,421	2,958,667	0.52

The fair values of the warrants issued during the year ended December 31, 2010 and for the nine months ended

## BacTech Environmental Corporation

Notes to the Unaudited Condensed Interim Financial Statements

For the three and nine months ended September 30, 2011

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September 30, 2011 were estimated using the Black-Scholes option pricing model with the following assumptions:

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Risk free interest rate	1.2% -1.7%
Expected dividend yield	Nil
Expected volatility	100%
Expected life	1 years

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

### REBgold Warrants

Pursuant to the Arrangement as described in note 5, 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 September 30, 2011, REBgold had 47,978,333 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 9,595,668 common shares in return for its portion of the aggregate exercise price of \$852,900.

## 15. Stock Options

The Company has a stock option plan (the "Plan"), under which the Company may grant options to directors, officers, employees, and third party service providers. Under the terms of the Plan that was 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.

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For the three and nine months ended September 30, 2011

	September 30, 2011		December 31, 2010	
	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
Balance, beginning of period	2,100,000	\$ 0.15	-	-
Granted	250,000	0.20	2,100,000	\$ 0.15
Exercised	(150,000)	0.20	-	-
Expired/Cancelled	(200,000)	0.16	-	-
Balance, end of period	2,000,000	\$ 0.15	2,100,000	\$ 0.15

Options to purchase common shares outstanding at September 30, 2011 carry exercise prices and remaining terms to maturity as follows:

Expiry Date	Weighted Average Exercise Price \$	Number of Options Outstanding	Number of Options Exercisable	Weighted Average Contractual Life (years)
December 6, 2015	0.15	1,950,000	1,950,000	4.19
March 10, 2016	0.20	50,000	50,000	4.45
	0.15	2,000,000	2,000,000	4.19

During the period ended September 30, 2011, the Company granted 250,000 (December 31, 2010 – 2,100,000) new options with a weighted-average exercise price of \$0.20 per share (December 31, 2010 - \$0.15). The Company recognized a total expense of \$22,733 for the nine month period ended September 30, 2011 (December 31, 2010 - \$25,971) in respect of the options vesting during the year. Share based payments expense is included in general and administrative costs.

	2011 - 2010
Risk free interest rate	1.60-2.40%
Expected dividend yield	Nil
Expected volatility	100%
Expected life	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.

### 16. (Loss) Earnings per Share

The calculation of basic and diluted loss per share for the three months ended September 30, 2011 was based on the loss attributable to common shareholders of \$227,955 and the weighted average number of common shares

## BacTech Environmental Corporation

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outstanding of 37,994,472. The calculation of basic and diluted loss per share for the nine months ended September 30, 2011 was based on the loss attributable to common shareholders of \$872,125 and the weighted average number of common shares outstanding of 33,956,407. Diluted loss per share did not include the effect of share purchase options and warrants as they are anti-dilutive.

### 17. General and Administrative

General and administrative expense consists of the following:

	Three months ended September 30	Nine months ended September 30
	2011	2011
	\$	\$
Salaries, management and consulting fees	83,963	344,864
Share based payments	(1,602)	22,733
Professional fees	17,357	69,168
Shareholder communications and filing fees	69,225	166,068
Travel	18,221	73,926
General office expenses	30,472	98,965
Depreciation	275	825
<b>Total</b>	<b>217,911</b>	<b>776,549</b>

### 18. Interest Expense

Interest expense consists of the following:

	Three months ended September 30	Nine months ended September 30
	2011	2011
	\$	\$
Interest income/(expense)charges	584	1,796
Debenture interest	3,870	11,610
Accretion on debenture	5,590	16,770
<b>Total</b>	<b>10,044</b>	<b>30,176</b>

### 19. Financial Risk Factors

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

#### *Credit risk*

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

## **BacTech Environmental Corporation**

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For the three and nine months ended September 30, 2011

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### ***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 September 30, 2011, the Company had a cash balance of \$114,260 (December 31, 2010 - \$239,400) to settle current liabilities of \$387,031 (December 31, 2010 - \$445,795). 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 earning interest at a variable interest rate and a portion of a debentures payable 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.

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

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

#### ***(c) Price risk***

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

## **20. Capital Management**

The Company defines capital as share capital, warrants, and contributed surplus. The Company's objective when managing capital is to safeguard its accumulated capital in order to provide an adequate return to shareholders by maintaining a sufficient level of funds, in order to support the acquisition, 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.

## **BacTech Environmental Corporation**

Notes to the Unaudited Condensed Interim Financial Statements

For the three and nine months ended September 30, 2011

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

### **21. Segmented Information**

The Company has one global operating segment, being the development of projects where the Company can use its bacterial technologies and related intellectual property. All revenues have been derived from those technologies and property.

### **22. Conversion to IFRS**

#### ***Overview***

The accounting policies as set out in note 2 and 3 of the condensed interim financial statements as at and for the three month period ended March 31, 2011, have been applied in preparing the consolidated condensed interim financial statements for the nine month period ended September 30, 2011. In Note 22 of the March 31, 2011 condensed interim financial statements, the Company reported the impact of the transition of IFRS at January 1, 2010 and December 31, 2010. There were no changes to the reconciliations previously reported.

#### ***Changes to accounting policies***

In preparing its IFRS statement of changes, the Company has adjusted amounts reported previously in the financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position and determination of net loss is set out in the following tables and accompanying notes.

The following summarizes the significant changes to the Company's accounting policies on adoption of IFRS:

##### ***(a) Impairment of (Non-Financial) Assets***

IFRS requires a write down of assets if the higher of the fair market value and the value in use of a group of assets is less than its carrying value. Value in use is determined using discounted estimated future cash flows. Current Canadian GAAP requires a write down to estimated fair value only if the undiscounted estimated future cash flows of a group of assets are less than its carrying value.

The Company's accounting policies related to impairment of non-financial assets have been changed to reflect these differences. There is no impact on the condensed interim financial statements.

##### ***(b) Decommissioning Liabilities (Asset Retirement Obligations)***

IFRS requires the recognition of a decommissioning liability for legal or constructive obligations, while current Canadian GAAP only requires the recognition of such liabilities for legal obligations. A constructive obligation exists when an entity has created reasonable expectations that it will take certain actions. In addition, the measurement, of such liabilities differs between IFRS and Canadian GAAP. The Company's accounting policies related to decommissioning liabilities have been changed to reflect these differences. There is no impact on the condensed interim financial statements.

## **BacTech Environmental Corporation**

Notes to the Unaudited Condensed Interim Financial Statements

For the three and nine months ended September 30, 2011

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### ***(c) Exploration and Evaluation***

On transition to IFRS, the Company elected to remain with the policy to capitalize exploration and evaluation expenditures as incurred. All capitalization of expenditures occurred subsequent to obtaining a right to the property to explore and evaluate. There is no impact on the condensed interim financial statements

### ***(d) Property, Plant and Equipment (PP&E)***

Under IFRS, componentization is required for PP&E. Asset componentization involves breaking down an asset into significant individual components that have different useful lives. Significant parts or components of the PP&E that have useful lives that are significantly different from the asset as a whole, are amortized over their useful lives. There is no impact on the condensed interim financial statements.

### ***(e) Share Based Payments***

The Company applied IFRS 2, Share Based Payments, to its share based payment arrangements at January 1, 2010, and adjusted the values it previously calculated under Canadian GAAP for its unvested awards. There is no impact on the condensed interim financial statements.

## ***Presentation***

Certain amounts in the condensed interim statements of financial position, statements of loss and comprehensive loss and statements of cash flows have been reclassified to conform to the presentation adopted under IFRS, which are as follows:

Contributed surplus has been reclassified to reserves in the statement of financial position and statement of changes in equity.

Warrants have been reclassified to reserves in the statement of financial position and statement of changes in equity.

The presentation of expenses in the statements of income (loss) and comprehensive income (loss) has been amended to use an analysis based consistently on their function.

## **BacTech Environmental Corporation**

Notes to the Unaudited Condensed Interim Financial Statements

*For the three and nine months ended September 30, 2011*

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### ***Reconciliation between IFRS and Canadian GAAP***

#### **Reconciliation of Shareholder's equity as at September 30, 2010:**

The September 30, 2010 Canadian GAAP statement of financial position has not been reconciled to IFRS since the Company was incorporated subsequent to September 30, 2010 on October 5, 2010. Therefore the opening IFRS statement of financial position will be on October 5, 2010, which is the Company's date of transition.

#### **Reconciliation of statement of income (loss) and comprehensive income (loss) for the period ended September 30, 2010:**

The Canadian GAAP interim statement of income (loss) and comprehensive income (loss) for the three month period and nine month period ended September 30, 2010 has not been reconciled to IFRS since the Company was incorporated subsequent to September 30, 2010 on October 5, 2010.



## **MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011**

*The following management discussion and analysis ("MD&A") of financial results is dated November 15 2011 and reviews the business of BacTech Environmental Corporation (the "Company" or "BacTech"), for the three and nine months ended September 30, 2011, and should be read in conjunction with the accompanying unaudited condensed interim financial statements and related notes for the three and nine months ended September 30, 2011. This MD&A and the accompanying unaudited condensed interim financial statements and related notes for the three and nine months ended September 30, 2011 have been reviewed by the Company's Audit Committee and approved by the Company's Board of Directors.*

*This MD&A contains certain forward looking statements, such as statements regarding potential mineralization, reserves and exploration results and future plans and objectives of the Company, that are subject to various risks and uncertainties. There can be no assurance that such statements will prove to be accurate, and actual results and future events could differ materially from those anticipated in such statements. Readers are cautioned not to place undue reliance on these forward looking statements.*

### **A. Core Business Strategy**

BacTech Environmental Corporation (the "Company" or "BEC") was incorporated by REBgold Corporation ("REBgold" and formerly known as BacTech Mining Corporation) on October 5, 2010 under the Canada Business Corporations Act. Through the completion of the Plan of Arrangement transaction as described below, the Company was granted a perpetual, exclusive, royalty free license to use REBgold Corporation's proprietary bioleaching technology in the remediation business for mining. The technology utilizes bacteria to liberate 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 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.

Bioleaching is an environmentally friendly process technology for treating difficult-to-treat sulphide ores and concentrates. By replacing smelting and/or roasting with a bioleach process, the production of sulphur dioxide emissions which is the primary source of acid rain, and arsenic trioxide is eliminated. Furthermore, the capital and operating costs of a bioleach facility are significantly less when compared to other existing treatment methods.

#### Plan of Arrangement

Effective December 2, 2010, REBgold completed a divisive reorganization by way of a Plan of Arrangement (the "Arrangement") whereby a newly formed subsidiary, BacTech Environmental

Corporation, was granted rights and interests in REBgold's existing and proposed tailings remediation projects and an exclusive, perpetual, royalty-free licence to use REBgold's proprietary bioleaching technology for reclamation of historic mine tailings and waste rock. REBgold retained the primary rights to the bioleaching technology, as well as all of REBgold's existing project assets.

REBgold shareholders voted in favour of the Arrangement at a special meeting of shareholders held on November 12, 2010. Subsequent to the Arrangement, BEC started to trade on the Canadian National Stock Exchange under the symbol "BAC" and REBgold continued to trade on the TSX Venture Exchange under the symbol "RBG".

Under the terms of the Arrangement, REBgold's shareholders received, in exchange for each existing common share of REBgold, one new common share of REBgold (formerly BacTech Mining Corporation) and one-fifth of a common share of BacTech Environmental Corporation.

The Notice of Meeting and Management Information Circular dated October 14, 2010 for REBgold (formally known as BacTech Mining Corporation) Plan of Arrangement (POA) were mailed to shareholders on October 21, 2010. The Notice of Meeting and Circular are posted on SEDAR (www.sedar.com) and on REBgold's website, [www.reb-gold.com](http://www.reb-gold.com).

## B. Mining Properties and Project

The mineral properties and deferred exploration costs are comprised as follows:

	<b>Cobalt Tailings</b>	<b>Snow Lake</b>	<b>Total</b>
<b>Balance, October 5, 2010</b>	-	-	-
Transferred under Plan of Arrangement	432,924	31,060	463,984
Net expenditures on property	-	1,493	1,493
Write-down of assets	(432,924)	-	(432,924)
<b>Balance December 31, 2010</b>	-	<b>32,553</b>	<b>32,553</b>
Net expenditures on property	-	243,617	243,617
Recovered during period	-	-	-
Written off during period	-	-	-
<b>Balance, September 30, 2011</b>	-	<b>276,170</b>	<b>276,170</b>

## Snow Lake Arsenopyrite Concentrate Stockpile - Manitoba

In early 2010, REBgold became aware of a reclamation opportunity in Snow Lake, Manitoba. In the 1950's, a gold mine named Nor-Acme 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. Based on historic data provided by the Manitoba Geological Survey (Economic Geology Report ER86-1), the stockpile was estimated at approximately 227,000 tonnes with an average grade of approximately 9.6 grams per tonne of gold. This is an historical estimate, dated 1996, and does not constitute a Resource as defined by National Instrument 43-101.

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 stockpile.

Pursuant to completion of the Plan of Arrangement on December 2, 2010, REBgold assigned its rights and commitments to BacTech Environmental Corporation. As such, accumulated development costs and expenditures that have been capitalized and deferred have been transferred to the Company's balance sheet as per the terms of the Arrangement.

In February 2011, BacTech tendered a proposal for the remediation of the arsenopyrite stockpile at Snow Lake under a request for proposals ("RFP") from Manitoba Innovation, Energy and Mines, and in April 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 BacTech and the Manitoba government. 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 stabilizing the contained arsenic as ferric arsenate.

In May 2011, BacTech announced the completion of a drill program carried out at the arsenopyrite concentrate stockpile. A total of 299.3 meters of sonic drilling were completed in 33 holes. The holes were drilled on a grid at 20 m spacing to obtain core from the entire stockpile. One half of the core was retained in Snow Lake as a permanent record, with half the core taken for geochemical, metallurgical and bioleach samples. Some 432 geochemical samples were taken at 50 cm intervals of which 236 were used for a resource calculation. Saskatchewan Research Council in Saskatoon completed the fire assaying. In July 2011 the Company released the drill results of the program. An average grade of 9.7 g/t gold was received from the 33-hole program, which is consistent with previous historic results. Given the large number of samples, the Company advises the reader to visit the BacTech website at [www.bactechgreen.com](http://www.bactechgreen.com) to view a complete list of the drill holes and related samples.

On October 17, 2011 the Company announced the results of a National Instrument 43-101 technical report for the Snow Lake, Manitoba, arsenopyrite residue stockpile (GRS) compiled by Ralph Newson, the independent qualified person who authored the report.

The technical report outlines a measured mineral resource of 265,000 tonnes grading 9.7 grams per tonne gold and 2.17 g/t silver for the stockpile. In addition, an indicated mineral reserve of 9,300 tonnes grading 9.2 g/t gold and 2.15 g/t silver is estimated, as is a further inferred mineral resource of 28,000 tonnes grading 7 g/t gold and 2.4 g/t silver. The samples were assayed at Inspectorate Exploration and Mining Services Ltd. in Richmond, B.C., an approved assay facility. The accompanying table outlines the total ounces for the various resource calculations.

	Tonnes	(g/t)	Gold Ounces	Silver (g/t)	Ounces
Measured resource	265,000	9.7	82,643	2.17	18,488
Indicated resource	9,300	9.2	2,750	2.15	642
Inferred resource	28,000	7.0	6,300	2.4	2,160

The author of the technical report recommended that a feasibility study be undertaken using the tonnage and grade estimations reported herein to investigate whether or not the measured mineral resource can be raised to a mineral reserve. The Company has begun the process of identifying a suitable engineering company to conduct a feasibility study.

In addition to the above study, the drill samples will be used to determine the metallurgical variability of the stockpile, evaluate pre-treatment scenarios and costs, continue bioleach work on a larger scale for gold extraction, as well as to study the detox/arsenic stability for the oxidized end product.

### Future Plans

If the results of the bioleach test program are positive, it is BacTech's intention to complete a feasibility study, seek permission and the necessary approvals to process the stockpile material, which would involve building a bioleach plant in the vicinity to reprocess the arsenopyrite concentrate, stabilize the arsenic, and recover a high percentage of the contained gold. The process will extract the gold and produce a stable residue in a manner which is economic, efficient, effective, and would result in a financial saving to the government of Manitoba. BacTech is committed to working with all parties associated with the potential reclamation of the Snow Lake site. Given the fact that the stockpile is already in a concentrate form, the capital cost associated with building a bioleach plant will be significantly reduced. In addition, Manitoba's low energy prices would provide for a beneficial reduction in operating costs, as power can consume as much as 40% of the operating costs for bioleaching.

The Company envisions the construction of a bioleach plant during 2012 in Snow Lake to treat 100 tonnes of stockpiled material per day, or 37,500 tonnes per year. The 6 - 7 year project would be the first operating bioleach plant of its kind in North America and could possibly be adapted, after completion of the Snow Lake clean up, to treat additional tailings issues in central Canada.

### **Cobalt Tailings**

In September 2008, REBgold announced the signing of a Memorandum of Understanding with Gold Bullion Development Corp. ("Gold Bullion", TSX-V: GBB) of Cobalt, Ontario. The basis of the agreement entailed REBgold investigating the use of its proprietary bioleaching technology to treat certain tailings in the Cobalt Camp in north-eastern Ontario for the recovery of cobalt, nickel and silver. In addition, REBgold investigated the potential environmental remediation for the associated arsenic in the tailings. In the event of a positive outcome from the study, both parties would formalize the agreement through the creation of a Joint Venture. In January 2009, GBB informed REBgold that it could not proceed with the future joint venture terms of the Memorandum of Understanding and gave REBgold permission to begin discussions with potential new partners.

In April 2010, REBgold Corporation signed a Memorandum of Understanding with Blackstone Development Inc. of Cobalt, Ontario (the "Blackstone MOU"). Pursuant to the Plan of Arrangement, REBgold Corporation assigned its rights under the Blackstone MOU to BacTech Environmental Corporation. The Blackstone MOU outlined REBgold's intent to gain access to Blackstone's tailings inventory in the Cobalt Camp. There are an estimated 18 million tonnes of tailings in the entire Cobalt Camp, with approximately 10-12 million tonnes of tailings on the Blackstone properties. Blackstone obtained ownership of the Cobalt tailings from Agnico Eagle Mines ("Agnico") in 2006, subject to certain conditions. Subsequent to the Company signing the agreement with Blackstone, Blackstone's rights to the tailings were revoked by Agnico.

The Company will continue to monitor events in the area to evaluate future opportunities with the objective of identifying potential cleanup sites for which it can apply the BacTech Bioleaching Technology in order to remediate arsenic laden mine tailings from the Cobalt/Coleman Townships of northern Ontario.

Through the predecessor company, REBgold Corporation, the Company completed some metallurgical test work in the area on local tailings during fiscal 2008 and 2009. The objective of the initial metallurgical test work was to test the effects of using both gravity and flotation techniques to upgrade the tailings to produce concentrates suitable for bioleach test work, which proved to be successful. The subsequent bioleaching study results were encouraging, with higher than anticipated cobalt and arsenic values reporting to a concentrate.

Pursuant to the Plan of Arrangement, REBgold assigned its rights and commitments to the Company. As such, accumulated development costs and expenditures that have been capitalized and deferred have been transferred to the Company's balance sheet as per the terms of the Arrangement. The Company has no access to the tailings at the present time or any formal agreement to grant access to the Company sometime in the future. As a result, the capitalized cost associated with the development of the Cobalt project has been expensed.

#### Future Plans

BacTech's goal of building a demonstration bioleach facility that would treat 100,000 tonnes of tailings per annum to demonstrate our ability to stabilize the arsenic, while also recovering quantities of cobalt, nickel and silver that remain in the tailings, is currently on hold until the ownership interest in the various tailings in the Cobalt area can be clarified and resolved. The Company will continue to monitor events in the area to evaluate future opportunities.

#### **Avalos Smelter Tailings, Chihuahua, Mexico**

On June 6, BacTech announced the signing of a Memorandum of Understanding ("MOU") with TW SEOP, S.C. (doing business as "Teamwork"), for a tailings project in Chihuahua, Mexico. The tailings are located at the closed Avalos smelter in the city of Chihuahua.

At the time of writing the report, there is nothing further to report other than what has been disclosed previously.

### **C. Results of Operations**

This analysis of the results of the Company's operations should be read in conjunction with the Company's unaudited condensed interim financial statements for the nine months ended September 30, 2011.

#### **Revenues**

The Company has no revenue or sources of recurring revenues at this time.

## **Operating and Administrative Costs**

Operating and administrative expenses were \$776,549 for the nine months ended September 30, 2011. For the three months ended September 30, 2011 expenses were \$217,911. This is the third period of operations; as a result, there are no prior year comparisons for the same period available. Significant components of this expense include:

1. Salaries, management fees and related costs were \$344,864 for the nine months ended September 30, 2011. These costs are for the salaries, wages and management consulting fees incurred directly in managing and operating the business of the company, which includes the investigation and evaluation of potential projects. As the Company further pursues the Snow Lake and Mexico project initiatives, it is expected that the level of spending will continue to increase in the next two quarters;
2. Share based payments, as explained in note 15 to the unaudited condensed interim financial statements, was \$22,733 for the nine months ended September 30, 2011. Yearly fluctuations in stock option expense are dependent on a number of factors including, but not limited to, number of options issued, valuation of options, vesting period and timing. For the current period ended September 30, 2011, 250,000 options were issued. For the period ended December 31, 2010, 2,100,000 options were issued. The expense for the current period is based on the valuations of options granted in both the current period which are recognized as an expense in the current period, based on the portion of options vested in the current period;
3. Professional fees were \$69,168 for the nine months ended September 30, 2011. The legal fees and professional fees were incurred on project related expenses, Plan of Arrangement and general corporate purposes;
4. Costs associated with shareholder information and investor relations were \$166,068 for the nine months ended September 30, 2011. Investor relations programs continue to be used by management to assist with raising awareness of the Company (explaining the Plan of Arrangement transaction), as well as support for capital financings through media publications and news releases.
5. Travel costs were \$73,926 for the nine months ended September 30, 2011. These are travel costs incurred by management when sourcing and evaluating projects, as well as capital raising tasks in the current period; and
6. General administrative expenses were \$98,965 for the nine months ended September 30, 2011. These are expenses for general corporate office overhead for the office in Toronto.

## **Finance Charges**

Debenture interest expense for the nine months ended September 30, 2011 was \$11,610. The debenture interest expense for the period reflects the interest expense from BEC's portion of the debenture issued by REBgold Corporation, as explained in note 5 and note 12 to the unaudited condensed interim financial statements for the nine months ended September 30, 2011.

Accretion expense is related to the Company's debentures as described in note 12 to the unaudited condensed interim financial statements for the nine months ended September 30, 2011. This expense reflects the difference, which is recognized as an expense over the life of the debenture, between the face value of the debenture and the fair value at which it is reported in the Company's balance sheet.

## D. Liquidity and Capital Resources

At September 30, 2011, the Company had cash of \$114,260 and a working capital deficit of \$227,508. The funds raised from the private placement completed in December 2010 and June 2011 were for general working capital.

On June 29, 2011, the Company issued 2,500,000 units in its first tranche of a non-brokered private placement at a price of \$0.20 per unit for aggregate gross proceeds of \$500,000. 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 until June 20, 2012. Subsequently, on July 15, 2011, the Company completed the second tranche for the private placement for total gross proceeds of \$100,000 under the same terms as the original tranche.

Between January 1, 2011 and May 3, 2011, REBgold 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. As per the terms of the Arrangement, the Company was obligated to issue 4,510,331 common shares to these REBgold warrant holders, and the Company is entitled to 17% of the proceeds for a total of \$373,677.

On December 22, 2010, the Company issued 2,526,666 units in a non-brokered private placement at a price of \$0.12 per unit for aggregate gross proceeds of \$303,200. 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 \$0.17 until December 22, 2011. All securities issued in connection with the offering and the underlying securities were subject to a four month hold period that expired on April 23, 2011.

<b>Share Capital</b>				
	<b>September 30, 2011</b>		<b>December 31, 2010</b>	
	<b>Number of shares</b>	<b>\$ Amount</b>	<b>Number of shares</b>	<b>\$ Amount</b>
Balance, beginning of period	29,246,673	357,190	-	-
Shares issued – property termination payment	1,221,356	65,400	-	-
Shares issued pursuant to exercise of REBgold warrant	4,510,332	373,677	-	--
Shares issued for cash pursuant to a private placement	3,000,000	600,000	2,526,666	303,200
Shares issued pursuant to the Plan of Arrangement	-	-	26,720,007	97,396
Exercise of option	150,000	30,000	-	--
Fair value from exercise of option	-	14,940	-	--
Less:				
Warrant fair value from shares issued	-	72,555	-	26,151
Share issue costs	-	22,790	-	17,255
Balance, end of period	38,128,361	1,345,862	29,246,673	357,190

## E. Quarterly Information

Selected quarterly information for the most recently completed quarter is presented below in Canadian currency (\$), and in accordance with Canadian generally accepted accounting principles. The Company started operations on October 5, 2010 and had its first period end December 31, 2010. As a result there are only three quarters to present.

	<b>2011</b>			<b>2010</b>
	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>
	\$000's	\$000's	\$000's	\$000's
Revenues	-	-	-	-
Operating loss	(228)	(339)	(305)	(558)
Loss for the period	(228)	(339)	(305)	(558)
Loss per share	(0.01)	(0.01)	(0.01)	(0.06)

## F. Proposed Transaction

### Plan of Arrangement

Effective December 2, 2010, REBgold completed a divisive reorganization by way of a Plan of Arrangement (the "Arrangement") whereby a newly formed subsidiary, BacTech Environmental Corporation ("BEC"), was granted rights and interests in REBgold's existing and proposed tailings remediation projects and an exclusive, perpetual, royalty-free licence to use REBgold's proprietary bioleaching technology for reclamation of historic mine tailings and waste rock. REBgold retained the primary rights to the bioleaching technology, as well as all of the 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, BacTech Environmental Corporation started to trade on the Canadian National Stock Exchange under the symbol "BAC" and REBgold continued to trade on the TSX Venture Exchange under the symbol "RBG".

Under the terms of the Arrangement, REBgold's shareholders received, in exchange for each existing common share of REBgold, one new common share of REBgold, and one-fifth of a common share of BacTech Environmental Corporation.

The Notice of Meeting and Management Information Circular dated October 14, 2010 for REBgold (formerly known as BacTech Mining Corporation") were mailed to shareholders on October 21, 2010. The Notice of Meeting and Circular are posted on SEDAR ([www.sedar.com](http://www.sedar.com)) and on REBgold's website, [www.reb-gold.com](http://www.reb-gold.com).

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 recorded on the books of Company, as follows:

Mineral properties and deferred exploration costs transferred from REBgold	\$ 463,984
Accounts payable transferred from REBgold	(49,946)
Book value of debentures payable assumed by REBgold	(66,642)
Loan payable to REBgold	<u>(250,000)</u>
Net reduction in contributed surplus	<u>\$ 97,396</u>

The Company assumed 20% of the face value of REBgold's convertible debentures liability. Upon maturity, BacTech Environmental Corporation will repay to REBgold, 20% of the principal plus 20% of the interest accrued from December 2, 2010 to maturity. REBgold remained indebted to the debenture holders for the full principal of the debenture. For every share of REBgold issued in the event of a conversion, one-fifth of a common share of BacTech Environmental Corporation will be issued. For additional information on the Debenture, please refer to Note 12 of the unaudited condensed interim financial statements for the period ended September 30, 2011.

#### **G. Off-Balance Sheet Arrangements**

The Company had no off-balance sheet arrangements as of December 31, 2010 or September 30, 2011.

#### **H. Financial Instruments**

The Company has not entered into any specialized financial arrangements to minimize its investment risk, currency risk or commodity risk.

#### **I. Changes in Accounting Policies including Initial Adoption**

##### **International Financial Reporting Standards ("IFRS")**

In February 2008, the CICA announced that Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises will be replaced by IFRS for fiscal years beginning on or after January 1, 2011. Accordingly, the conversion from Canadian GAAP to IFRS was applicable to the Company's financial statements starting with the first quarter of 2011.

The key IFRS dates were January 1, 2010, which was the transition date, and January 1, 2011, which was the changeover date. An opening balance sheet as of January 1, 2010, according to IFRS, has been prepared to facilitate the change over to IFRS reporting for 2011. The change over date is the date which the Company's financial statements will be prepared and reported according to IFRS.

IFRS has a similar conceptual framework to that of previous Canadian GAAP. There are differences in certain areas under recognition and measurement, as well as disclosure. In order for users to understand the impact of IFRS on the Company's financial statements, included in note 22 to the unaudited condensed interim financial statements for the nine months ended September 30, 2011, are the reconciliation adjustments between Canadian GAAP and IFRS. Overall, there is no significant change or adjustment to the financial statements, the only real impact is the reclassification of items on the financial statements and additional note disclosure.

#### **J. Outlook**

The current volatile state of the capital markets and the high price for precious and base metals has significantly increased the level of activity for companies in the resource sector. Even though there is a heightened interest from the capital markets to invest in companies in the resource sector, there can be no assurance that the Company will be successful in attracting either new financing or new opportunities to apply its technology.

#### **K. Risks**

The Company's strategy emphasizes developing properties in order to leverage its intellectual property and drive the creation of shareholder value. This strategy has required, and continues to require,

significant financings, and is subject to risks associated with mineral prices, mineral resources and operations. Due to the nature of the Company's business, the present stage of development of its mineral resource projects, and the constraints placed upon the Company's ability to move forward by its current liquidity situation, readers should carefully review and consider the financial, environmental and operational risk factors affecting the Company.

### **Need for Additional Financing**

The Company currently has no source of operating cash flow, and there is no assurance that additional funding will be available to the Company as and when needed for further exploration and development of its projects, or to fulfill its obligations to its existing creditors. Volatile markets may make it difficult or impossible for the Company to obtain adequate debt or equity financing in the future, or on terms acceptable to the Company. The failure to obtain additional financing could force the Company to liquidate its assets to satisfy creditor claims.

### **Dependence on Management**

The Company's business and operations are dependent on recruiting and retaining the services of a small number of key members of management and qualified personnel. The success of the operations and activities of the Company are dependent, to a significant extent, on the efforts and abilities of the management of the Company. Investors must be willing to rely, to a significant extent, on the discretion and judgment of the management of the Company. Furthermore, while the Company believes that it will be successful in attracting qualified personnel and retaining its current management team, there can be no assurance of such success. The Company does not maintain key employee insurance on any of its employees.

### **Competition**

The Company competes with other engineering companies for the acquisition of mineral rich mine tailings that can be developed economically. The Company competes with other engineering companies that have greater financial and technical resources and experience. Such competition may result in the Company being unable to acquire desired properties, to recruit or retain qualified employees, or to acquire the capital necessary to fund its operations and develop its properties. The inability of the Company to compete with other engineering companies for these resources would have a material adverse effect on the Company's results of operations and business.

Currently, the Company's bioleaching technology does not operate in an overly competitive marketplace; however the Company anticipates that it may face increased competition in the future, as advanced technologies become available. While management believes that the Company's technology is more advanced, commercially proven and better situated than its competitors, there can be no assurance that the Company will be able to effectively compete with companies who have or may develop similar technologies and may possess greater financial resources and technical facilities. Competitive pressures, or the inability of the Company to successfully license its technology on terms that are acceptable, may have a material adverse effect on the Company's business, operating results and financial condition.

### **Conflicts of Interest**

Certain of the Company's directors and officers may serve as directors or officers of other reporting companies, companies providing services to the Company, or companies in which they may have significant shareholdings. To the extent that such other companies may participate in ventures in which the Company may participate, the directors of the Company may have a conflict of interest in

negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms.

From time to time, several companies may participate in the acquisition, exploration and development of natural resource properties, thereby allowing for the participation in larger programs, permitting involvement in a greater number of programs and reducing financial exposure in respect of any one program. It may also occur that a particular company will assign all or a portion of its interest in a particular program to another of these companies due to the financial position of the company making the assignment.

In accordance with the laws of Canada, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at the time.

### **Potential Dilution**

The issue of Common Shares of the Company upon the exercise of outstanding options and warrants will dilute the ownership interest of the Company's current shareholders. The Company may also issue additional option and warrants or additional Common Shares from time to time in the future. If it does so, the ownership interest of the Company's then current shareholders could also be diluted. It is anticipated that BacTech will be issuing additional equity in the near term to fund the Company's activities.

### **L. Other MD&A Requirements**

Additional information related to the Company is filed electronically on the System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com).