

# **BacTech Environmental Corporation**

## **Consolidated Financial Statements**

For the years ended December 31, 2019 and 2018

# BacTech Environmental Corporation

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*For the years ended December 31, 2019 and 2018*

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*Audit. Tax. Advisory.*

## **Independent Auditor's Report**

To the Shareholders of BacTech Environmental Corporation

### **Opinion**

We have audited the consolidated financial statements of BacTech Environmental Corporation and its subsidiary (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity (deficiency) and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### **Basis for opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Material uncertainty related to going concern**

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss during the year ended December 31, 2019 and, as of December 31, 2019, the Company's current liabilities exceeded its current assets. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that material uncertainties exist that cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### **Other information**

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially

inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Responsibilities of management and those charged with governance for the consolidated financial statements**

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty

exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner of the audit resulting in this independent auditor's report is Glen McFarland.

**McGovern Hurley LLP**



**Chartered Professional Accountants  
Licensed Public Accountants**

Toronto, Ontario  
May 26, 2020

# BacTech Environmental Corporation

## Consolidated Statements of Financial Position

(Expressed in Canadian dollars, unless otherwise stated)

	As at December 31 2019 \$	As at December 31 2018 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	5,017	25,900
Other receivables (note 5)	4,144	1,160
Prepaid expenses	25,000	112,749
<b>Total current assets</b>	<b>34,161</b>	<b>139,809</b>
<b>Total assets</b>	<b>34,161</b>	<b>139,809</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (notes 7 and 8)	2,780,514	2,320,409
Payable to Aquila Resources Inc. (note 6)	161,294	161,294
Loan payable (note 9)	150,000	150,000
Current portion of debentures (note 10)	961,788	692,110
<b>Total current liabilities</b>	<b>4,053,596</b>	<b>3,323,813</b>
Liabilities- discontinued operations (note 20)	180,647	-
Debentures (note 10)	-	66,035
<b>Total liabilities</b>	<b>4,234,243</b>	<b>3,389,848</b>
<b>Equity (deficiency)</b>		
Share capital (note 11)	5,470,659	5,411,894
Option reserve (note 13)	148,887	180,715
Warrant reserve (note 12)	485,743	425,370
Deficit	(10,305,371)	(9,268,018)
<b>Total deficiency</b>	<b>(4,200,082)</b>	<b>(3,250,039)</b>
<b>Total liabilities and deficiency</b>	<b>34,161</b>	<b>139,809</b>

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

**Commitments and Contingencies (note 19)**

**Subsequent Event (note 22)**

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

Approved by the Board

Signed: "Ross Orr"

**Director**

Signed: "Jay Richardson"

**Director**

**BacTech Environmental Corporation**  
**Consolidated Statements of Loss and Comprehensive Loss**  
(Expressed in Canadian dollars, unless otherwise stated)

	<b>Year ended</b>	
	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
	\$	\$
<b>Expenses</b>		
Operating and administrative costs <i>(note 15)</i>	<b>522,459</b>	733,065
Finance charges <i>(note 16)</i>	<b>293,600</b>	222,783
Project expenditures	<b>14,564</b>	120,500
<b>Other Income</b>		
Gain from settlement of debt	-	(47,763)
License fee	<b>(20,000)</b>	-
Net loss for the year from continuing operations	<b>(810,623)</b>	(1,028,585)
<b>Discontinued Operations</b> <i>(Note 20)</i>		
Loss from discontinued operations	<b>273,988</b>	245,193
<b>Net loss and comprehensive loss for the year</b>	<b>(1,084,611)</b>	(1,273,778)
<b>Basic and diluted loss per share</b> <i>(note 14)</i>	<b>(0.01)</b>	(0.02)
<b>Weighted average number of common shares</b>		
<b>Outstanding</b> <i>(note 14)</i>	<b>98,769,034</b>	82,337,456

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

**BacTech Environmental Corporation**  
**Consolidated Statements of Changes in Equity (Deficiency)**

(Expressed in Canadian dollars, unless otherwise stated)

	Share Capital #	Share Capital \$	Option Reserve \$	Warrant Reserve \$	Deficit \$	Total Equity \$
<b>Balance, December 31, 2017</b>	67,970,430	4,820,489	205,120	306,780	(8,240,795)	(2,908,406)
Shares issued pursuant to private placement ( <i>note 11(i)</i> )	16,568,851	331,410	-	248,500	-	579,910
Shares issued pursuant to private placement ( <i>note 11(iv)</i> )	8,760,000	128,600	-	90,400	-	219,000
Shares issued pursuant to debenture financing ( <i>note 10(d)</i> )	340,000	11,900	-	8,890	-	20,790
Shares issued for debt ( <i>note 11(ii)</i> )	2,264,475	79,257	-	-	-	79,257
Exercised warrants ( <i>note 11(iii)</i> )	1,000,000	65,000	-	(15,000)	-	50,000
Expired options	-	-	(28,905)	-	28,905	-
Expired warrants	-	-	-	(217,650)	217,650	-
Share based payments	-	-	4,500	-	-	4,500
Share issue costs	-	(24,762)	-	3,450	-	(21,312)
Net loss for year	-	-	-	-	(1,273,778)	(1,273,778)
<b>Balance, December 31, 2018</b>	96,903,756	5,411,894	180,715	425,370	(9,268,018)	(3,250,039)
Shares issued pursuant to private placement ( <i>note 11(v)</i> )	4,250,000	60,800	-	24,200	-	85,000
Share issue costs	-	(2,035)	-	-	-	(2,035)
Expired options	-	-	(31,828)	-	31,828	-
Expired warrants	-	-	-	(15,430)	15,430	-
Warrants issued pursuant to debenture financing ( <i>note 10(e)</i> )	-	-	-	14,800	-	14,800
Warrants issued pursuant to debenture extension ( <i>note 10(a)</i> )	-	-	-	36,803	-	36,803
Net loss for year	-	-	-	-	(1,084,611)	(1,084,611)
<b>Balance, December 31, 2019</b>	101,153,756	5,470,659	148,887	485,743	(10,305,371)	(4,200,082)

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



# BacTech Environmental Corporation

## Consolidated Statements of Cash Flows

(Expressed in Canadian dollars, unless otherwise stated)

	Year ended December 31 2019 \$	Year ended December 31 2018 \$
<b>Cash flow from operating activities</b>		
Cash paid to suppliers, employees and consultants	(168,048)	(726,375)
Net cash used in discontinued operations	(87,800)	(176,000)
<b>Net cash used in operating activities from continuing operations</b>	<b>(253,848)</b>	<b>(902,375)</b>
<b>Cash flow from financing activities</b>		
Gross proceeds from debenture financing	150,000	85,000
Gross proceeds from warrant exercise	-	50,000
Gross proceeds from private placements	85,000	798,910
Share issue costs from financings	(2,035)	(28,112)
<b>Net cash provided by financing activities</b>	<b>232,965</b>	<b>905,798</b>
<b>Increase (decrease) in cash</b>	<b>(20,883)</b>	<b>3,423</b>
<b>Cash, beginning of the year</b>	<b>25,900</b>	<b>22,477</b>
<b>Cash, end of the year</b>	<b>5,017</b>	<b>25,900</b>

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

## Notes to Consolidated Financial Statements

*For the years ended December 31, 2019 and 2018*

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### **1. Nature of Operations and Going Concern**

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

The business plan for the Company is to apply bioleaching technology to abatement and reclamation projects to remove the harmful elements such as arsenic and sulphur from the environment, where this can be assisted by a positive cash flow from metal recovery. Examples of metals which could potentially be extracted include gold, silver, cobalt, nickel, copper, uranium and zinc. The Company's head office is located at 37 King Street East, Suite 409, Toronto, Ontario, M5C 1E9.

The accompanying consolidated 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 a net loss of \$1,084,611 during the year ended December 31, 2019, has a working capital deficit of \$4,200,082 at December 31, 2019, has past due loans and debentures 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 materially uncertain and which, taken together, cast significant and substantial doubt over the ability of the Company to continue as a going concern. These consolidated financial statements do not include any adjustments to the carrying values of the Company's assets, liabilities, and expenses and the related statement of financial position and statement of loss classifications that would be necessary if the going concern assumption were inappropriate. Such adjustments have not been quantified by management but could be material.

The Company funded its operations for the year ended December 31, 2019 from existing cash reserves, debenture financing for gross proceeds of \$150,000, equity private placement for gross proceeds of \$85,000 and accounts receivable. The Company does not have sufficient cash reserves to fund its administrative costs and fund any project development initiatives for the coming twelve month period, nor to repay its liabilities to trade creditors and debt holders. These matters represent material uncertainties that cast significant and substantial doubt about the Company's ability to continue as a going concern. Management is actively involved in identifying reclamation and abatement ventures amenable to the application of the Company's technology license, and in seeking new equity financing to enable it to service the Company's liabilities and its ongoing administrative costs. There can be no assurance that the Company will be successful in these initiatives.

**Notes to Consolidated Financial Statements**

*For the years ended December 31, 2019 and 2018*

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**2. Basis of Consolidation and Presentation**

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

**Statement of Compliance**

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”) effective December 31, 2019.

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

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on May 26, 2020.

**Basis of Preparation and Presentation**

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

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

**Basis of Consolidation**

These consolidated financial statements comprise the financial statements of the Company and its subsidiary, Empresa Minera Ambiental BacTech S.A. incorporated in Bolivia. Accounting policies of the subsidiary have been changed where necessary to ensure consistency with the policies adopted by the Company.

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

**3. Significant Accounting Policies**

**Measurement Uncertainty**

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

**Notes to Consolidated Financial Statements**

*For the years ended December 31, 2019 and 2018*

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**3. Significant Accounting Policies - continued**

**Critical Judgements and Estimation Uncertainties**

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates and these differences could be material.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

- Assets' carrying values and impairment charges:

In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount and fair value less costs to sell in the case of assets and at objective evidence of significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

- Impairment of deferred assessment and evaluation costs:

While assessing whether any indications of impairment exist for deferred assessment and evaluation assets, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of assessment and evaluation assets. Internal sources of information include the manner in which assessment and evaluation assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates may include, but are not limited to, estimates of the discounted future after-tax cash flows expected to be derived from the Company's properties, costs to sell the properties, and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources (neither of which the Company presently has) and/or adverse current economics can result in a write-down of the carrying amounts of the Company's deferred assessment and evaluation assets.

- Estimation of decommissioning and restoration costs and the timing of expenditure:

The cost estimates are updated annually to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations) and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements and constructive obligations are measured at their estimated fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of a mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

**Notes to Consolidated Financial Statements**

*For the years ended December 31, 2019 and 2018*

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**3. Significant Accounting Policies - continued**

**Critical Judgements and Estimation Uncertainties - continued**

- Taxes, income taxes and deferred taxes:

The Company is subject to income and other taxes in various jurisdictions. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax filings are subject to audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made. Any estimates for value added and withholding taxes have been included in accounts payable and accrued liabilities.

- Share-Based Payments:

Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

- Assets and liabilities held for sale and Discontinued operations

The Company applied judgment in the application of its accounting policies in determining that the dissolution of the subsidiary (Note 20) is probable and met the held for sale criteria as at December 31, 2019 .

- Commitments and Contingencies refer to Note 19.

**Foreign Currency Translation**

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

**Notes to Consolidated Financial Statements**

*For the years ended December 31, 2019 and 2018*

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**3. Significant Accounting Policies - continued**

**Environmental Liability, Contingency, and Other Provisions**

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

A legal or constructive obligation to incur restoration, rehabilitation, or environmental costs may arise when environmental disturbance is caused by the exploration, development, or ongoing production of a mineral property interest. Such costs, discounted to their net present value, are provided for and capitalized to the carrying amount of the asset as soon as the obligation to incur such costs arises. Discount rates using a pretax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against net loss over the economic life of the related asset, through depreciation using either a unit-of-production or the straight-line method, as appropriate. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. As at December 31, 2019 and 2018, no such material obligation has been identified.

**Impairment of Assets**

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

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

**Notes to Consolidated Financial Statements**

*For the years ended December 31, 2019 and 2018*

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**3. Significant Accounting Policies - continued**

**Financial Instruments**

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss (“FVTPL”), at fair value through other comprehensive income (loss) (“FVTOCI”) or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company’s business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

Measurement

*Financial assets at FVTOCI*

Elected investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently, they are measured at fair value, with gains or losses recognized in other comprehensive loss. The Company does not have any assets or liabilities measured at FVTOCI.

*Financial assets and liabilities at amortized cost*

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively. Financial assets and liabilities measured at amortized cost are subsequently measured at the end of each reporting period of amortized cost using the effective interest rate (“EIR”) method. Amortized cost is calculated by taking into account any discounts to premiums on acquisitions and any fees or costs that are an integral part of the EIR. The EIR amortization is included in accretion in the consolidated statements of loss.

*Financial assets and liabilities at FVTPL*

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of loss. The Company does not have any assets or liabilities measured at FVTPL.

*Impairment of financial assets at amortized cost*

The Company’s only financial asset subject to impairment are the receivables, which are measured at amortized cost. The Company recognizes an allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve-month expected credit losses. The Company shall recognize in the consolidated statements of comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

**Notes to Consolidated Financial Statements**

*For the years ended December 31, 2019 and 2018*

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**3. Significant Accounting Policies - continued**

Derecognition

*Financial assets*

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of loss.

*Financial liabilities*

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of loss.

**Exploration and Development Activities**

Deferred assessment and evaluation costs include the direct costs related to mineral properties, including costs of acquiring mining properties and deferred exploration and development costs. These costs are capitalized and accumulated on a property by property basis and will be depreciated on the unit of production method based upon estimated proven and probable mineral reserves, or written off if the properties are abandoned or the carrying value is determined to be in excess of possible recoverable amounts. Costs for general exploration prior to obtaining legal rights to explore the subject property are expensed as incurred.

**Loss per Share**

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

**Share Based Payments, Option Reserve and Warrant Reserve**

The fair values of employee share option plan issuances are measured at the date of grant of the options using the Black-Scholes pricing model, taking into consideration the terms and conditions upon which the options were granted. The resulting cost, as adjusted for the expected and actual level of vesting of the options, is charged to income over the period in which the options vest. At the end of each reporting period before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the number of equity instruments that will ultimately vest. Equity-settled share-based payment transactions with parties other than employees are measured at fair value of the goods or services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments grants, measured at the date the entity obtains the goods or the counterparty renders the service. The value of options outstanding is recorded in the option reserve. The value of expired options is transferred to deficit. The value of warrants outstanding is recorded in the warrant reserve. The value of expired warrants is transferred to deficit.



**Notes to Consolidated Financial Statements**

*For the years ended December 31, 2019 and 2018*

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**3. Significant Accounting Policies - continued**

**Income Taxes**

Income tax on the net loss for the years presented comprises current and deferred tax. Current income tax expense is the expected tax payable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regard to previous periods. Deferred income tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

No deferred income tax is recognized for temporary differences arising from the initial recognition of assets or liabilities that affect either accounting or taxable profit or loss.

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

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

**Investment Tax Credits**

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

The investment tax credits recoverable are comprised of federal and provincial investment tax credit claims with respect to qualifying scientific research and development expenditures incurred by the Company. The benefit to these investment tax credits is accrued when there is reasonable assurance that the credits will be realized. The amount recoverable is deducted from the related project expenditures on the consolidated statements of loss and comprehensive loss.

**Cash**

Cash comprises cash in bank and in hand.

**Discontinued Operations**

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a transaction or disposed by dissolution rather than through continuing use. This condition is met when the sale or dissolution is highly probable, the asset is available for immediate sale or disposal in its present condition and the sale or disposal is expected to be completed within one year from the date of classification. Non-current assets and disposal groups are classified and presented as discontinued operations if the assets or disposal groups are disposed of or classified as held for sale and:

- the assets or disposal groups are a major line of business or geographical area of operations;
- the assets or disposal groups are part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- the assets or disposal groups are a subsidiary acquired solely for the purpose of resale.

## Notes to Consolidated Financial Statements

*For the years ended December 31, 2019 and 2018*

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The assets or disposal groups that meet these criteria are measured at the lower of the carrying amount and fair value less cost of disposal, with impairments recognized in the consolidated statement of loss and comprehensive loss. An impairment loss is recognized for any initial or subsequent write-down of the asset or disposal group to fair value less costs to dispose. Non-current assets and liabilities held for sale are presented separately in current assets and liabilities within the consolidated statement of financial position. Assets held for sale are not depreciated, depleted or amortized. The comparative period consolidated statement of financial position is not restated.

The results of discontinued operations are shown separately in the consolidated statements of loss and comprehensive loss and cash flows and comparative figures are restated.

## 4. Future Changes in Accounting Policies

### Future Changes

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after January 1, 2020 or later periods. Many are not applicable or do not have significant impact on the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IAS 1 – Presentation of Financial Statements (“IAS 1”) and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”) were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted.

### Adoption of New Accounting Standard

During the year ended December 31, 2019, the Company adopted a number of new IFRS standards, interpretations, amendments and improvements of existing standards. These new standards and changes did not have any material impact on the Company’s financial statements.

IFRS 16 “Leases” (“IFRS 16”) - IFRS 16 replaces IAS 17 “Leases” and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is not substantially changed. The standard is effective for annual periods beginning on or after January 1, 2019.

In line with the option under IFRS 16, the accounting standard is being applied using the modified retrospective method. Applying this method, the comparative information for the 2018 fiscal year has not been reinstated. The previous determination pursuant to IAS 17 and IFRIC 4 of whether a contract is a lease has been maintained for the existing contracts. In the context of initial application, the Company has exercised the option not to apply the new recognition requirements to short term leases and to leases of low-value assets. There were no new leases agreements entered into during the period being reported.

The Company adopted all the requirements of IFRS 16, Leases as of January 1, 2019. The Company has elected to apply the practical expedient to exclude leases with terms less than 12 months. Management’s

**Notes to Consolidated Financial Statements**

*For the years ended December 31, 2019 and 2018*

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assessment is that there will not be a change in the valuation of prior period balances nor impact the current disclosure and accounting of such items under this accounting policy.

IFRIC 23 – Uncertainty Over Income Tax Treatments (“IFRIC 23”) was issued in June 2018 and clarifies the accounting for uncertainties in income taxes. The interpretation committee concluded that an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, then the entity shall determine taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates.

**5. Other Receivables**

Other receivables consist of the following:

	<b>December 31 2019</b>	December 31 2018
	\$	\$
Sales tax receivable	<b>4,114</b>	1,160
<b>Total other receivables</b>	<b>4,114</b>	1,160

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

	<b>December 31 2019</b>	December 31 2018
	\$	\$
Plan of Arrangement loan	<b>69,823</b>	69,823
Net accruals/receivables	<b>9,471</b>	9,471
Aquila Debenture payable	<b>82,000</b>	82,000
<b>Total Payable to Aquila Resources Inc.</b>	<b>161,294</b>	161,294

The balance is unsecured, non-interest bearing, and is due on demand.

Under the Plan of Arrangement (“Arrangement”) completed with Aquila, the Company assumed 20% of Aquila Resources Inc.’s (“Aquila”) debenture payable obligation which consisted of 43 \$10,000 unsecured convertible debentures, initially maturing on October 13, 2011, but extended to April 13, 2015 over a series of extension agreements, with an interest rate of 18% per year payable semi-annually. The Company is obligated to pay the principal portion to Aquila which is \$82,000 plus 20% of the interest accrued from December 2, 2010. The Debenture has reached its maturity date and Aquila has repaid the debenture obligation to the debenture holders.

**Notes to Consolidated Financial Statements**

*For the years ended December 31, 2019 and 2018*

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**7. Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities consist of the following as at:

	<b>December 31 2019</b>	December 31 2018
	\$	\$
Trade payables	<b>586,185</b>	595,446
Accrued liabilities - other	<b>949,966</b>	761,363
Accrued liabilities – Related parties	<b>1,244,363</b>	963,600
<b>Total</b>	<b>2,780,514</b>	2,320,409

Included in accrued liabilities are certain liabilities totaling approximately \$163,000, that due to the length of time passed since the Company recorded them, are considered uncollectable by the vendor and the Company is not expecting to pay.

**8. Related Party Transactions**

In accordance with IAS 24, key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company. Related party transactions are in the normal course of business and are recorded at the amount agreed to between the parties.

Related party transactions consist of the following for the year ended:

	<b>December 31 2019</b>	December 31 2018
	\$	\$
Salaries and management fees	<b>285,000</b>	285,000
Share-based compensation	-	3,000
<b>Total</b>	<b>285,000</b>	288,000

Included in accounts payable and accrued liabilities is \$1,244,363 due to related parties at December 31, 2019 (2018 - \$963,600). Please refer to additional related party transactions in Share Capital Note 11 for additional related party transactions.

**9. Loan Payable**

On January 20, 2015, the Company arranged for a loan from a third party. The purpose of the loan was to provide working capital for future exploration and development projects.

The terms of the loan payable are as follows; (i) Total amount available of loan is \$150,000, (ii) bonus shares of 200,000 common shares of the Company for every \$50,000 tranche, up to a total of 600,000 common shares can be issued if the full amount is drawn down, (iii) a 1% Net Profit Interest (“NPI”) in a future remediation project, and (iv) earns interest at a rate of 12% per annum. The loan was due 120 days from the date of the first advance which was May 20, 2015. If the loan is not repaid at maturity or reorganized, interest will be 1.5% per month compounded. The loan has not been repaid and continues to accrue interest. Interest expense for the year ended December 31, 2019 was \$69,280 (2018 - \$26,900). The 600,000 common shares have not been issued and the value of the shares is included in accounts payable

**Notes to Consolidated Financial Statements**

*For the years ended December 31, 2019 and 2018*

and accrued liabilities on the consolidated statement of financial position. The shares have been valued at \$13,000 based on the quoted market value of the common shares at the time of draw down and forms part of finance charges for fiscal 2015.

**10. Debentures**

Debentures consist of the following as at:

	<b>December 31 2019</b>	December 31 2018
	\$	\$
Debentures with Bonus Interest (a)	<b>436,887</b>	427,130
Debentures with warrant and Net Smelter Return (“NSR”) (b)	<b>200,000</b>	173,230
Debenture with NSR with a maturity date of November 29, 2019 (c)	<b>100,000</b>	91,750
Debenture with NSR with a maturity date of May 14, 2020 (d)	<b>79,835</b>	66,035
Debentures with warrant (e)	<b>145,066</b>	-
Total	<b>961,788</b>	758,145
Less Current Portion	<b>961,788</b>	692,110
Total Long Term Portion	-	66,035

**(a) Debentures with Bonus Interest**

Between April 19, 2017 and June 26, 2017, BacTech completed three tranches of a debenture financing for gross proceeds of \$445,000 and accompanied by the issuance of 1,780,000 common shares which are included as a bonus equity interest. The debentures have a 2-year term and pay 12% interest annually. The debenture included a 20% common stock bonus interest payment (issued at \$0.05 per share). For example, a \$10,000 debenture would be accompanied by 40,000 common shares of BacTech, subject to a 4-month restriction on resale from the date of closing.

The fair value of the bonus shares was determined by reference to the trading prices of the Company’s common shares on the date the tranches were closed. The Company issued 1,780,000 common shares in connection with the debenture financing with an aggregate value of \$70,100. Transaction costs included a cash commission of \$8,400 and 84,000 broker warrants that have expired unexercised during the year ended December 31, 2019. Each broker warrant entitled the holder to purchase one common share at an exercise prices of \$0.10 for a period of 12 months and were valued at \$350. The aggregate transaction cost, which included the bonus shares, cash commission and warrants, was recorded against the debenture and is being amortized over the life of the debenture and shown as accretion expense.

For the debenture holders that have reached their maturity date in fiscal 2019, the Company requested that the debenture holders extend the term of the debentures for an additional 12 months. In consideration of the extension of the maturity date, the Company has offered to issue a common share purchase warrant allowing the investors to purchase a common share of the Company at five cents for a period of three years for each \$0.05 of debenture held. In fiscal 2019, \$145,000 of the debenture holders formally accepted the terms to extend the maturity date for one year. A total of 3,596,00 warrants were issued at a value of \$36,803 (Note 12). These costs are being amortized through accretion expenses and loss of modification of debenture.

## BacTech Environmental Corporation

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### Notes to Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

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For further information on the maturity date extension , please see Subsequent Events Note 21.

	<b>December 31 2019</b>	December 31 2018
	\$	\$
Face value of debentures	<b>445,000</b>	445,000
Transactions costs allocated to debentures	<b>(78,850)</b>	(78,850)
Cost of extension of maturity date	<b>(36,803)</b>	-
Loss on modification of debenture	<b>14,409</b>	-
Accumulated accretion	<b>93,131</b>	60,980
Balance	<b>436,887</b>	427,130

#### **(b) Debentures with Warrants and Net Smelter Royalty**

Between August 14, 2017 and September 22, 2017, BacTech completed two tranches of a debenture financing for one debenture holder for gross proceeds of \$200,000. The debentures were accompanied by the issuance of 1,666,760 common share purchase warrants and NSR of 0.834% on project in Bolivia. The debenture has a 2-year term and pays 12% interest annually.

The fair value of the common share purchase warrants was determined by reference to the fair market value of the warrants issued in connection with the debenture financing with an aggregate value of \$73,700 (note 12). Each warrant entitles the holder to purchase one common share at an exercise price of \$0.05 for a period of 5 years from the date of issue. The NSR was estimated to have a fair value of \$Nil. The aggregate value of the transaction costs which includes the warrants is recorded against the debenture and is being amortized over the life of the debenture. For further information on the maturity date, please see Subsequent Events Note 21.

	<b>December 31 2019</b>	December 31 2018
	\$	\$
Face value of debentures	<b>200,000</b>	200,000
Transactions costs allocated to debentures	<b>(73,700)</b>	(73,700)
Accumulated accretion	<b>73,700</b>	46,930
Balance	<b>200,000</b>	173,230

## BacTech Environmental Corporation

### Notes to Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

#### (c) Debenture with Net Smelter Royalty with maturity date of November 29, 2019

On November 29, 2017, BacTech completed a debenture financing for one debenture holder for gross proceeds of \$100,000. The debenture was accompanied by the issuance of 400,000 common shares which are included as a bonus equity interest and NSR of 0.50% in relation to the project in Bolivia. The debenture has a 2-year term and pays 12% interest annually.

The fair value of the bonus shares was determined by reference to the trading prices of the Company's common shares on the date the financing closed. The Company issued 400,000 common shares in connection with the debenture financing with an aggregate value of \$18,000. The NSR was estimated to have a fair value of \$Nil. The aggregate value of the transaction costs which includes the bonus shares is recorded against the debenture and is being amortized over the life of the debenture.

	<b>December 31 2019</b>	December 31 2018
	\$	\$
Face value of debentures	<b>100,000</b>	100,000
Transactions costs allocated to debentures	<b>(18,000)</b>	(18,000)
Accumulated accretion	<b>18,000</b>	9,750
Balance	<b>100,000</b>	91,750

#### (d) Debentures with Net Smelter Royalty with maturity date of May 14, 2020

On May 14, 2018, the Company closed the final tranche of its debenture financing for gross proceeds of \$85,000. The debentures were accompanied by the issuance of 340,000 common shares which are included as a bonus equity interest and a Net Smelter Royalty of 2.5% in relation to the Company's Telamayú Tailings project. The debenture has a 2-year term and pays 12% interest annually. The 340,000 common shares issued in this tranche were with a 4-month hold.

The fair value of the bonus shares was determined by reference to the trading prices of the Company's common shares on the date the financing closed. The Company issued 340,000 common shares in connection with the debenture financing with an aggregate value of \$11,900. Transaction costs included a cash commission of \$6,800 and 170,000 broker warrants (note 12). Each broker warrant entitles the holder to purchase one common share and one new warrant at an exercise price of \$0.05 for a period of 24 months from the date of closing the debenture and are valued at \$8,890 (note 12). Each new warrant entitles the holder to purchase one common share at a price of \$0.05 per new warrant for a period of 24 months from the date of closing the debenture. The NSR was estimated to have a fair value of \$Nil. The aggregate value of the transaction costs which includes the bonus shares, commission and broker warrants is recorded against the debenture and is being amortized over the life of the debenture.

	<b>December 31 2019</b>	December 31 2018
	\$	\$
Face value of debentures	<b>85,000</b>	<b>85,000</b>
Transactions costs allocated to debentures	<b>(27,590)</b>	<b>(27,590)</b>
Accumulated accretion	<b>22,425</b>	<b>8,625</b>
Balance	<b>79,835</b>	<b>66,035</b>

**Notes to Consolidated Financial Statements**

*For the years ended December 31, 2019 and 2018*

**(e) Convertible Debentures with Warrants**

On May 1, 2019, the Company closed a \$150,000 Senior Bridge Debenture. The Senior Bridge Debenture is for one year and will pay 12% interest on redemption. In addition, the Company will issue a total of 1,500,000 common share purchase warrants with a two-year term would allow the holder to buy additional shares at \$0.05 per share. The Senior Bridge Debentures are convertible at a price of \$0.03 at the option of the debenture holder.

The fair value of the common share purchase warrants was estimated using the Black-Scholes valuation model to be of \$14,800 (note 12). Each warrant entitles the holder to purchase one common share at an exercise price of \$0.05 for a period of 2 years from the date of issue. The aggregate value of the transaction costs which includes the warrants is recorded against the debenture and is being amortized over the life of the debenture.

	<b>December 31 2019</b>	December 31 2018
	\$	\$
Face value of debentures	<b>150,000</b>	-
Transactions costs allocated to debentures	<b>(14,800)</b>	-
Accumulated accretion	<b>9,866</b>	-
Balance	<b>145,066</b>	-

**11. Share Capital**

Authorized share capital is made up of unlimited common shares without par value:

- (i) On April 5, 2018 and April 19, 2018, the Company completed a private placement for total gross proceeds of \$579,910 through the issue of 16,568,851 units at a price of \$0.035 per unit. Each unit consisted of one common share of the Company, one full common share purchase warrant exercisable at \$0.05 for 2 years and a NSR in relation to the Telamayu project. No value was placed upon the NSR at this time since the project is not in production and the project does not have a current value on the consolidated statement of financial position. The fair value of common share purchase warrants issued in this placement was estimated at \$248,500,

Share issue costs incurred on this private placement included cash cost of \$13,792 and the issue of 114,000 broker warrants valued at \$3,450. Each broker warrant entitles the holder to purchase one common share and one common share purchase warrant at an exercise prices of \$0.05 and expire on March 30, 2020. Each common share purchase warrant entitles the holder to purchase one common share at a price of \$0.05 per warrant for a period of 24 months from the date of closing the private placement. A family member of a director of the Company participated in the financing for \$10,000 (refer to Note 8).

- (ii) On May 14, 2018, the Company issued 2,264,475, common shares of the Company at a fair market value of \$0.035 per common share for an aggregate value of \$79,257 to settle \$113,224, of which \$100,000 was owed to officers of the Company, (Note 8). The gain from settlement of the debt of \$33,967 is recognized in the consolidated statement of loss.
- (iii) On September 21, 2018, a total of 1,000,000 warrants were exercised for 1,000,000 common shares of the Company for gross proceeds of \$50,000. The fair market value adjustment from the exercise of the warrants was \$15,000.



**Notes to Consolidated Financial Statements**

*For the years ended December 31, 2019 and 2018*

- (iv) On December 4, 2018, the Company completed a private placement for total gross proceeds of \$219,000 through the issue of 8,760,000 units at a price of \$0.025 per unit. Each unit consisted of one common share of the Company and one full common share purchase warrant exercisable at \$0.05 for 2 years. The fair value of common share purchase warrants issued in this placement was estimated at \$90,400 using the Black-Sholes option pricing model (see note 12).
- (v) On July 26, 2019, the Company completed a private placement for total gross proceeds of \$85,000 through the issue of 4,250,000 units at a price of \$0.02 per unit. Each unit consisted of one common share of the Company and one-half of one common share purchase warrant exercisable at \$0.05 for 2 years. The fair value of common share purchase warrants issued in this placement was estimated at \$24,200 using the Black-Sholes option pricing model (see note 12).

A family member of a director of the Company participated in the financing for \$10,000 (refer to Note 8).

**12. Warrant Reserve**

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

	Year ended December 31, 2019		Year ended December 31, 2018	
	Number Outstanding	Weighted Average Exercise Price \$	Number Outstanding	Weighted Average Exercise Price \$
Balance, beginning of year	27,004,908	0.05	16,864,746	0.10
Issued	7,221,000	0.05	25,613,148	0.05
Exercised	-	-	(1,000,000)	0.05
Expired	(725,000)	0.10	(14,472,986)	0.10
Balance, end of year	33,500,908	0.05	27,004,908	0.05

## BacTech Environmental Corporation

### Notes to Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

The exercise price, expiry date, and the fair value assigned to warrants issued and outstanding as at December 31, 2019 are as follows:

<b>Expiry Date</b>	<b>Weighted Average Exercise Price</b>	<b>Grant Date Fair Value</b>	<b>Warrants Outstanding</b>	<b>Remaining Contractual Life (yr)</b>
	<b>\$</b>	<b>\$</b>		
August 14, 2022	0.05	10,170	333,500	2.62
September 22, 2022	0.05	63,530	1,333,260	2.73
March 30, 2020	0.05	3,450	114,000	0.25
March 30, 2020	0.05	34,247	2,283,434	0.25
April 19, 2020	0.05	199,253	13,285,714	0.30
May 11, 2020	0.05	8,890	170,000	0.36
December 5, 2020	0.05	90,400	8,760,000	0.93
May 1, 2021	0.05	14,800	1,500,000	1.33
July 16, 2021	0.05	24,200	2,125,000	1.54
April 19, 2022	0.05	16,839	1,736,000	2.30
May 12, 2022	0.05	19,964	1,860,000	2.36
	0.05	485,743	33,500,908	0.93

The fair values of the warrants issued during the year ended December 31, 2019 and 2018 were estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2019	2018
Risk free interest rate	1.55%	1.81% -1.92%
Expected dividend yield	Nil	Nil
Exercise price	\$0.015- \$0.05	\$0.025-\$0.04
Share price	\$0.05-\$0.03	\$0.05
Expected volatility	108%-194%	175% - 174%
Expected life	2 to 3 years	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.

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*For the years ended December 31, 2019 and 2018*

**13. Stock Options**

The Company has a stock option plan (the “Plan”), under which the Company may grant options to directors, officers, employees, and third party service providers. Under the terms of the Plan that was re-approved by the shareholders on July 18, 2018, 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.

	Year ended December 31, 2019		Year ended December 31, 2018	
	Number Outstanding	Weighted Average Exercise Price \$	Number Outstanding	Weighted Average Exercise Price \$
Balance, beginning of year	5,500,000	0.08	5,390,000	0.09
Granted	-	-	150,000	0.07
Expired/Cancelled	(1,000,000)	0.07	(40,000)	1.00
Balance, end of year	4,500,000	0.08	5,500,000	0.08

Options to purchase common shares outstanding at December 31, 2019 carry exercise prices and remaining terms to maturity as follows:

Expiry Date	Weighted Average Exercise Price \$	Grant Date Fair Value \$	Number of Options Outstanding	Number of Options Exercisable	Remaining Weighted Average Contractual Life (yr.)
March 15, 2021	0.07	63,662	2,150,000	2,150,000	1.21
April 1, 2022	0.07	10,425	300,000	300,000	2.25
October 24, 2022	0.10	70,300	1,900,000	1,900,000	2.82
October 2, 2023	0.07	4,500	150,000	150,000	3.76
	0.08	148,887	4,500,000	4,500,000	2.04

For the year ended December 31, 2019, the Company did not grant new options and did not have any share based payment expenses. During the year ended December 31, 2018, 150,000 new options were granted. The Company recognized a total share based payment expense of \$4,500 for the year ended December 31, 2018 in respect of the options vested during the year. Share based payments expense is included in operating and administrative costs.

## BacTech Environmental Corporation

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### Notes to Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

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The fair values of the options issued for the year ended December 31, 2018 were estimated using the Black-Scholes option pricing model with the following assumptions:

	2018
Risk free interest rate	2.42%
Expected dividend yield	Nil
Exercise price	\$0.07
Share price	\$0.03
Expected volatility	297%
Expected life	5 years

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### 14. Loss per Share

The calculation of basic and diluted loss per share for the year ended December 31, 2019 was based on the loss attributable to common shareholders of \$1,084,611 (2018 – \$1,273,778) and the weighted average number of common shares outstanding of 98,769,034 (2018 – 82,337,456) and did not include the effect of share purchase options and warrants outstanding as they would be anti-dilutive.

### 15. Operating and Administrative

Operating and administrative expense consists of the following:

	Year ended December 31	
	2019	2018
	\$	\$
Salaries and management fees (note 8)	288,953	289,753
Share based payments (Note 8 and 13)	-	4,500
Professional fees	72,884	162,729
Shareholder information and filing fees	137,045	190,550
Travel	10,566	51,249
General office expenses	12,727	32,024
Foreign exchange gain/loss	284	2,260
<b>Total</b>	<b>522,459</b>	<b>733,065</b>

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**Notes to Consolidated Financial Statements**

For the years ended December 31, 2019 and 2018

**16. Finance Charges**

Finance charges consist of the following:

	Year ended December 31	
	2019	2018
	\$	\$
Interest and bank charges	7,473	6,201
Loan payable interest ( <i>note (9)</i> )	69,280	26,900
Debenture interest ( <i>note (10)</i> )	111,601	95,817
Accretion expense ( <i>note (10)</i> )	105,246	93,865
<b>Total</b>	<b>293,600</b>	<b>222,783</b>

**17. Financial Risk Factors**

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

***Credit risk***

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

***Liquidity risk***

As at December 31, 2019, the Company had a cash balance of \$5,017 (December 31, 2018 - \$25,900) as against current liabilities of \$4,234,243 (December 31, 2018 - \$3,323,813). The Company does not have sufficient cash reserves to fund its administrative costs and fund any 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, a loan payable and debentures bearing interest at 12% per annum. 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.

# BacTech Environmental Corporation

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## Notes to Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

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### *(c) Price risk*

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

### *Classification of financial instruments*

Financial assets included in the statement of financial position are as follows. All of the financial assets are reflected at amortized costs, as at:

	<b>December 31 2019</b>	<b>December 31 2018</b>
Financial assets at amortized cost:		
Cash	\$ 5,017	\$ 25,900
Other receivables	\$ 4,144	\$ 1,160

Financial liabilities included in the statement of financial position are as follows. All of the financial liabilities are reflected at amortized costs, as at:

	<b>December 31 2019</b>	<b>December 31 2018</b>
Financial liabilities at amortized cost:		
Payable to Aquila Resources Inc.	\$ 161,294	\$ 161,294
Accounts payable and accrued liabilities	\$ 2,780,514	\$ 2,320,409
Loan payable	\$ 150,000	\$ 150,000
Debentures	\$ 961,788	\$ 758,145

### *Fair value*

The consolidated statements of financial position carrying amounts for cash, receivables and trade payables, approximate fair value due to their short-term nature.

The following provides a description of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**Notes to Consolidated Financial Statements**

*For the years ended December 31, 2019 and 2018*

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**18. Capital Management**

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

The Company is currently in the early stages of evaluation and assessment of projects; as such, the Company is dependent on external financing to fund its activities. In order to carry out the assessment and evaluation of the 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. The Company's capital management objectives, policies and processes have remained unchanged during the year ended December 31, 2019 and year ended December 31, 2018.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the Canadian Securities Exchange ("CSE"). The impact of any violation of CSE policy is not known and is ultimately dependent on the discretion of the CSE.

**19. Commitments and Contingencies**

**Management contract**

The Company currently has an employment agreement with the provision of termination and change of control benefits with an officer of the Company. The agreement for the officer provides that in the event that their employment is terminated by the Company other than for cause then the officer shall be entitled to a lump sum payment amount equal to 12 months base salary plus 1 month salary for each year of service, to a max of 36 months base salary. If a change of control were to occur, the officer would be entitled to 2 years of compensation (salary plus bonus), or the equivalent of \$450,000. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements.

**Environmental matters**

The Company's exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

**Notes to Consolidated Financial Statements**

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**20. Discontinued operations - Bolivia project**

On May 24, 2016, BacTech announced that its 98% owned Bolivian subsidiary Empresa Minera Ambiental BacTech S.A. ("EMABSA"), had signed an Association Contract with Corporación Minera de Bolivia ("COMIBOL"), the state mining company of Bolivia. On September 15, 2016, the Bolivian government approved and ratified the agreement.

The ten-year contract called for the environmental remediation and restoration of the "Antigua" tailings and an option on the "Nuevo" tailings, both situated at the Telamayu mill site. The agreement envisions three phases, with the first phase focused on the completion of a technical study on the Antigua tails.

On September 9, 2019, BacTech announced that it will not proceed with the reclamation of the Telamayu tailings project in Bolivia. After completing metallurgical test work on the project and evaluating the economics of the project it was decided that the project would be too difficult to finance. BacTech is abandoning the Bolivian subsidiary which is inactive. Management believes that there will be no impact on the business of the Company and accounts payable amounts will not be pursued by vendors.

As part of the private placements completed in 2017 and 2018, the Company issued a Net Smelter Return Royalty to certain debenture investors on the Bolivia Project. The total NSR issued was 4.73%.

The following liabilities have been included in the Company's balance sheet.

	December 31 2019 \$
Accruals of discontinued operations	<b>180,647</b>

Project expenditures for this entity are included in discontinued operations in the consolidated statement of loss for the year ended December 31, 2019 were \$273,998 (2018 - \$245,193).

**21. Income Taxes**

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

	2019 \$	2018 \$
<b>Loss before recovery of income taxes</b>	<b>(1,084,611)</b>	<b>(1,273,778)</b>
Expected income tax recovery	<b>(287,000)</b>	<b>(338,000)</b>
Adjustment to expected income tax benefit:		
Tax rate changes and other adjustments		
Non-deductible expenses	<b>1,000</b>	<b>2,000</b>
Other	<b>(1,000)</b>	<b>(7,000)</b>
Change in tax benefits not recognized	<b>287,000</b>	<b>343,000</b>
<b>Recovery of income taxes</b>	<b>-</b>	<b>-</b>



## BacTech Environmental Corporation

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### Notes to Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

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Share issue and finance costs will be fully amortized by December 31, 2023.

Research and development tax credits expire 2030 to 2038.

The remaining deductible temporary differences are expected to carry forward indefinitely.

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

	<b>2019</b>	2018
	<b>\$</b>	<b>\$</b>
Non-capital losses carried forward	<b>7,372,000</b>	7,213,000
SR&ED pool	<b>594,000</b>	594,000
Research and development tax credits	<b>123,000</b>	123,000
Donations	<b>3,000</b>	3,000
Share issue and finance costs	<b>236,000</b>	226,000
Mineral interests	<b>1,535,000</b>	1,535,000
Equipment and intangible assets	<b>1,958,000</b>	1,958,000
Equipment and intangible assets	<b>11,841,000</b>	11,652,000

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

2030	<b>\$ 162,000</b>
2031	<b>1,223,000</b>
2032	<b>747,000</b>
2033	<b>962,000</b>
2034	<b>200,000</b>
2035	<b>677,000</b>
2036	<b>987,000</b>
2037	<b>919,000</b>
2038	<b>556,000</b>
2039	<b>939,000</b>
Total	<b>\$ 7,372,000</b>

**Notes to Consolidated Financial Statements**

*For the years ended December 31, 2019 and 2018*

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**22. Subsequent events**

**Debentures**

Subsequent to December 31, 2019, the Company commenced contacting debenture holders of the Company to extend the maturity of the debentures. The Company is offering to settle the outstanding interest and or principal, or a combination thereof, through the issuance of shares at a price of 5 cents for share at the holder's option. There can be no assurance that the debenture holders will agree to any extension or settlement.

**Private Placement**

On March 20, 2020, the Company completed a private placement for total gross proceeds of \$64,000 through the issue of 4,266,667 units at a price of \$0.015 per unit. Each unit consisted of one common share of the Company and one full common share purchase warrant exercisable at \$0.05 for 2 years.

**Form 1-A Regulation A Offering**

On April 2, 2020, the Company announced that it had filed a Form 1-A Regulation A Offering with the Securities Exchange Commission ("SEC") in the United States to raise up to US\$1 million dollars for the Company's bioleach, mineralized material processing plant planned for the Ponce Enriquez region of Ecuador. BacTech has received a Letter of Interest from Continuation Capital, a U.S. institutional investor, to potentially fund all or part of this Tier 2 offering. There can be no assurance that the Letter of Interest will result in any financing arrangement.