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

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

| | | |
|---|---|---|
| **Statement of Comprehensive Income (loss)** | | |
| Net income (loss) for the period | **(227,955)** | **(872,125)** |
| Other comprehensive income | - | - |
| **Comprehensive income (loss) for the period** | **(227,955)** | **(872,125)** |

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** $ |
|---|---|---|---|---|---|
| **Balance, October 5, 2010** | - | - | - - | - | - |
| 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) |
| **Balance, December 31, 2010** | 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) |
| **Balance, September 30, 2011** | 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)

| | Three months ended September 30 2011 | Nine months ended September 30 2011 |
|---|---|---|
| | **$** | **$** |
| **Cash flow from operating activities** | | |
| Cash paid to suppliers, employees and contractors | **(403,542)** | **(700,858)** |
| | **(403,542)** | **(700,858)** |
| **Cash flow from financing activities** | | |
| 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** |
| **Cash flow from investing activities** | | |
| Deferred development expenditures | **(80,705)** | **(243,617)** |
| | **(80,705)** | **(243,617)** |
| **Increase (decrease) in cash** | **(337,621)** | **(125,140)** |
| **Cash, beginning of period** | **451,881** | **239,400** |
| **Cash, end of period** | **114,260** | **114,260** |

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

## 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.

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.

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.

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 *(note 9)* | $ | 463,984 |
| Accounts payable transferred from REBgold | $ | (49,946) |
| Book value of debentures payable assumed from REBgold *(note 12)* | $ | (66,642) |
| Loan payable to REBgold *(note 8)* | $ | (250,000) |
| Value attributed to common shares issued *(note 12)* | **$** | **97,396** |

**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.

## 6. Cash Position

Cash consists of the following:

| | As at September 30 2011 $ | As at December 31 2010 $ |
|---|---|---|
| **Cash** | 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 *(note 12)* | 85,250 | 68,480 |
| Accrued interest on debenture *(note 12)* | 5,160 | 1,290 |
| Plan of Arrangement loan *(note 5)* | 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.

## 9. Deferred Exploration Costs

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

| | Cobalt Tailings | Snow Lake | Total |
|---|---|---|---|
| **Balance, October 5, 2010** | - | - | - |
| 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) |
| **Balance December 31, 2010** | **-** | **32,553** | **32,553** |
| Net expenditures on property | - | 243,617 | 243,617 |
| Recovered during period | - | - | - |
| Written off during period | - | - | - |
| **Balance, September 30, 2011** | **-** | **276,170** | **276,170** |

**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.

**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.

## 10. Equipment

Equipment consists of the following:

| Cost | Equipment | Total |
|---|---|---|
| **Balance, October 5, 2010** | **$ -** | **$ -** |
| Additions | 2,794 | 2,794 |
| Disposals | - | - |
| Other | - | - |
| Balance, December 31, 2010 | **2,794** | **2,794** |
| Additions | - | - |
| Disposals | - | - |
| Other | - | - |
| Balance, September 30, 2011 | **$2,794** | **$2,794** |

| Accumulated Depreciation | Equipment | Total |
|---|---|---|
| Balance, October 5, 2010 | **$ -** | **$ -** |
| Additions | **279** | **279** |
| Disposals | - | - |
| Other | - | - |
| Balance, December 31, 2010 | **279** | **279** |
| Additions | **825** | **825** |
| Disposals | - | - |
| Other | - | - |
| Balance, September 30, 2011 | **$1,104** | **$1,104** |

| | | |
|---|---|---|
| Net book value at October 5, 2010 | **$ -** | **$ -** |
| Net book value at December 31, 2010 | **$2,515** | **$2,515** |
| Net book value at September 30, 2011 | **$1,690** | **$1,690** |

## 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 |
| Total | 200,832 | 111,774 |

## 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, 2011but 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:

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

## 13. Share Capital

**Authorized:**

Unlimited common shares without par value

**Issued and outstanding:**

| | Number of shares | Amount $ |
|---|---|---|
| **Balance, October 5, 2010** | **-** | **-** |
| 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) |
| **Balance, December 31, 2010** | **29,246,673** | **357,190** |
| 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) |
| **Balance, September 30, 2011** | **38,128,361** | **1,345,862** |

(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

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

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

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

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

**REBgold Warrants**

Pursuant to the Arrangement 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.

| | 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 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 |
| **Total** | **217,911** | **776,549** |

## 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 |
| Accreation on debenture | 5,590 | 16,770 |
| **Total** | **10,044** | **30,176** |

## 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.

## *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.

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.

***(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.

## *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.

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