# BacTech Environmental Corporation

## Financial Statements

## December 31, 2011 and 2010

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*December 31, 2011*

# Independent Auditors' Report

To the Shareholders of
BacTech Environmental Corporation

## Report on the Financial Statements

We have audited the accompanying financial statements of BacTech Environmental Corporation, which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and October 5, 2010 and the statements of operations and comprehensive loss, changes in equity, and cash flows for the year ended December 31, 2011 and for the period from the date of incorporation on October 5, 2010 to December 31, 2010, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Financial Statements

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

## Auditors' Responsibility

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

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

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

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of BacTech Environmental Corporation as at December 31, 2011, December 31, 2010 and October 5, 2010 and its financial performance and its cash flows for the year ended December 31, 2011 and for the period from the date of incorporation on October 5, 2010 to December 31, 2010 in accordance with International Financial Reporting Standards.

**Emphasis of matter**

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

Signed: ***"MSCM LLP"***

**Chartered Accountants**
**Licensed Public Accountants**

Toronto, Ontario
April 25, 2012

**Statements of Financial Position**

| | **December 31, 2011** | December 31, 2010 *(Note 23)* | October 5, 2010 *(Note 23)* |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash | **$ 99,114** | $ 239,400 | $ 10 |
| Other receivables *(note 6)* | **30,105** | 16,582 | - |
| Prepaid expenses | **15,283** | 8,203 | - |
| | **144,502** | 264,185 | 10 |
| Deferred exploration costs *(note 8)* | **341,259** | 32,553 | - |
| Equipment *(note 9)* | **1,415** | 2,515 | - |
| | **$ 487,176** | $ 299,253 | $ 10 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities *(notes 10 and 11)* | **$ 381,691** | $ 111,774 | **$** - |
| Payable to REBgold Corporation *(note 7)* | **202,720** | 334,021 | - |
| | **584,411** | 445,795 | - |
| **Deficiency in assets** | | | |
| Share capital *(note 13)* | **1,567,624** | 357,190 | 10 |
| Shares to be issued *(note 24)* | **64,000** | - | - |
| Warrants reserve *(note 14)* | **72,591** | 27,866 | - |
| Contributed surplus reserve *(note 15)* | **165,719** | 25,971 | - |
| Deficit | **(1,967,169)** | (557,569) | - |
| | **(97,235)** | (146,542) | 10 |
| | **$ 487,176** | $ 299,253 | $ 10 |

**Plan of arrangement** *(note 5)*

**Going concern** *(note 1)*
**Subsequent events** *(note 24)*

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

Approved by the Board

Signed: "*John C. Gingerich*"

Director

Signed: "*M. Ross Orr*"

Director

**Statements of Operations and Comprehensive Loss**
*for the year ended December 31, 2011*
*(with comparatives for the period from the date of incorporation on October 5, 2010 to December 31, 2010)*

| | **2011** | 2010 *(Note 23)* |
|---|---|---|
| **Expenses** | | |
| Operating and administrative costs *(note 18)* | **$ 1,133,763** | $ 121,026 |
| Finance charges *(note 19)* | **31,566** | 3,619 |
| Write-down of mineral properties and deferred exploration costs *(note 8)* | **-** | 432,924 |
| Property termination costs *(note 5)* | **244,271** | - |
| **Net loss and comprehensive loss for the periods** | **$ (1,409,600)** | $ (557,569) |
| **Basic and diluted loss per common share** *(note 16)* | **$ (0.04)** | $ (0.06) |

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

**Statement of Changes in Equity**
*for the year ended December 31, 2011*
*(with comparatives for the period from the date of incorporation on October 5, 2010 to December 31, 2010)*

| | Share Capital | | Reserves | | | |
|---|---|---|---|---|---|---|
| | **Amount** | **Shares to be issued** | **Contributed surplus** | **Warrants** | **Deficit** | **Total** |
| **Balance, October 5, 2010** *(note 13(i) and note 23)* | **$ 10** | **$ -** | **$ -** | **$ -** | **$ -** | **$ 10** |
| Shares cancelled pursuant to Plan of Arrangement *(note 13(ii))* | (10) | - | - | - | - | (10) |
| Shares issued pursuant to Plan of Arrangement *(note 5 and note 13(ii))* | 97,396 | - | - | - | - | 97,396 |
| Shares issued pursuant to private placement *(note 13(iii))* | 277,049 | - | - | 26,151 | - | 303,200 |
| Share issue costs *(note 13(iii))* | (17,255) | - | - | 1,715 | - | (15,540) |
| Share based payments | - | - | 25,971 | - | - | 25,971 |
| Net and comprehensive loss for the period | - | - | - | - | (557,569) | (557,569) |
| **Balance, December 31, 2010** | **$ 357,190** | **$ -** | **$ 25,971** | **$ 27,866** | **$ (557,569)** | **$ (146,542)** |

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

**Statement of Changes in Equity - continued**
*for the year ended December 31, 2011*
*(with comparatives for the period from the date of incorporation on October 5, 2010 to December 31, 2010)*

| | Share Capital | | Reserves | | | |
|---|---|---|---|---|---|---|
| | **Amount** | **Shares to be issued** | **Contributed surplus** | **Warrants** | **Deficit** | **Total** |
| **Balance, December 31, 2010** | **$ 357,190** | **$ -** | **$ 25,971** | **$ 27,866** | **$ (557,569)** | **$ (146,542)** |
| Common Shares issued pursuant to private placement *(note 13(iv))* | 532,500 | - | - | 67,500 | - | 600,000 |
| Common Shares issued on exercise of REBgold warrants *(note 13(v))* | 373,687 | - | - | - | - | 373,687 |
| Common Shares issued on exercise of warrants *(note 13(vi))* | 43,350 | - | - | - | - | 43,350 |
| Fair value of warrants exercised *(note 13(vi))* | 5,279 | - | - | (5,279) | - | - |
| Expired warrants | - | - | 22,587 | (22,587) | - | - |
| Common shares issued on exercise of options *(note 13(vii))* | 30,000 | - | - | - | - | 30,000 |
| Fair value of options exercised *(note 13(vii))* | 14,940 | - | (14,940) | - | - | - |
| Common shares issued as property termination payment *(note 5)* | 244,271 | - | - | - | - | 244,271 |
| Share issue costs *(note 13(iv))* | (33,593) | - | - | 5,091 | - | (28,502) |
| Share based payments | - | - | 132,101 | - | - | 132,101 |
| Shares to be issued *(note 24)* | - | 64,000 | - | - | - | 64,000 |
| Net and comprehensive loss for the year | - | - | - | - | (1,409,600) | (1,409,600) |
| **Balance, December 31, 2011** | **$ 1,567,624** | **$ 64,000** | **$ 165,719** | **$ 72,591** | **$(1,967,169)** | **$ (97,235)** |

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

**Statements of Cash Flows**
*for the year ended December 31, 2011*
*(with comparatives for the period from the date of incorporation on October 5, 2010 to December 31, 2010)*

| | | 2011 | | 2010 |
|---|---|---|---|---|
| **Cash flow from operating activities** | | | | |
| Cash paid to suppliers, employees and consultants | **$** | **(816,670)** | $ | (38,842) |
| Interest paid | | **(17,683)** | | (491) |
| | | **(834,353)** | | (39,333) |
| **Cash flow from financing activities** | | | | |
| Proceeds from private placements | | **676,000** | | 291,200 |
| Proceeds from exercise of warrants | | **417,037** | | - |
| Proceeds from exercise of options | | **30,000** | | - |
| Share issue costs | | **(28,502)** | | (8,190) |
| Repayment of loan to REBgold Corporation | | **(180,177)** | | - |
| Repayment of debenture financing | | **(4,000)** | | - |
| | | **910,358** | | 283,010 |
| **Cash flow from investing activities** | | | | |
| Expenditures on mineral properties | | **(216,291)** | | (1,493) |
| Expenditures on equipment | | **-** | | (2,794) |
| | | **(216,291)** | | (4,287) |
| **(Decrease) increase in cash** | | **(140,286)** | | 239,390 |
| **Cash, beginning of period** | | **239,400** | | 10 |
| **Cash, end of period** | **$** | **99,114** | $ | 239,400 |
| **Non-cash transactions:** | | | | |
| Property termination payments *(note 5)* | **$** | **244,271** | $ | - |
| Stock-based compensation *(note 15)* | **$** | **132,101** | $ | - |
| Mineral properties acquired under Plan of Arrangement *(note 5)* | **$** | **-** | $ | 463,984 |
| Loan repayable to REBgold Corporation under Plan of Arrangement *(note 5)* | **$** | **-** | $ | 250,000 |
| Shares issued under Plan of Arrangement *(note 5)* | **$** | **-** | $ | 97,396 |
| Accounts payable transferred from REBgold Corporation under Plan of Arrangement *(note 5)* | **$** | **-** | $ | 49,946 |
| Debentures payable assumed from REBgold Corporation under Plan of Arrangement *(note 5)* | **$** | **-** | $ | 66,642 |

*The accompanying notes are an integral part of these 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 and its head office is located at 50 Richmond Street East, Suite 300, Toronto, Ontario, Canada. Through the completion of the Plan of Arrangement transaction as described in Note 5, the Company was granted a license to use REBgold's proprietary bioleaching technology in the mining remediation business. The technology utilizes bacteria to extract precious and base metals and has been traditionally used to treat difficult-to-treat sulphide ores and concentrates. The business plan for the Company is to apply the bioleaching technology to abatement and reclamation projects to remove the harmful elements such as arsenic and sulphur from the environments, where this can be assisted by a positive cash flow from metal recovery. Examples of metals which can be extracted include gold, silver, cobalt, nickel, copper, uranium and zinc.

The Company has no sources of recurring revenue, has incurred losses amounting to $1,967,169 since its inception, has a working capital deficit of $439,909 at December 31, 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 continued financial support of shareholders or other investors, obtaining new financing on commercial terms acceptable to the Company to enable it to utilize its bioleaching technology for the recovery of mineral reserves, all of which outcomes are uncertain. These financial statements do not include any adjustments to the carrying values of the Company’s assets, liabilities, and expenses or to their classifications in the statements of financial position and statements of operations and comprehensive loss that would be necessary if the going concern assumption were inappropriate. Such adjustments have not been quantified by management but could be material.

The Company funded its operations for the year ended December 31, 2011 with one private placement which generated $600,000 in gross proceeds, with the receipt of a $12,000 subscription receivable from the prior year, with the receipt in advance of $64,000 related to a private placement closing subsequent to year-end, and through the exercise of options and warrants which generated gross proceeds of $447,037, including the proceeds received upon the exercise of REBgold warrants. 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 financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). As these are the Company's first annual financial statements to be presented in accordance with IFRS. IFRS 1 - First-Time Adoption of International Financial Reporting Standards ("IFRS 1") has been applied and the impact of the transition from Canadian Generally Accepted Accounting Principles ("GAAP") to IFRS is explained in note 23.

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

These financial statements were authorized for issuance by the Board of Directors of the Company on April 25, 2012.

**Basis of Preparation and Presentation**

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

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

## 3. Summary of Significant Accounting Policies

**Measurement Uncertainty**

The preparation of these 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 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.

## 3. Summary of Significant Accounting Policies - continued

**Measurement Uncertainty - continued**

Critical accounting estimates:

Significant assumptions about the future that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- the recoverability of mineral property acquisition costs and mineral properties and deferred exploration costs that are included in the statements of financial position;
- the inputs used in accounting for share based payment transactions in net loss; and
- management's assumption of no material restoration, rehabilitation and environmental provision, based on the facts and circumstances that existed during the period.

**Foreign Currency Translation**

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

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

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

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

**Impairment of Assets**

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets and its deferred exploration costs to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use.

## 3. Summary of Significant Accounting Policies - continued

**Financial Instruments**

Financial assets

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

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

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

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

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

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

Financial liabilities

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

The Company's financial instruments consist of the following:

| **Financial assets:** | **Classification:** |
|---|---|
| Cash | Loans and receivables |
| Other receivables and prepaid expenses | Loans and receivables |

| **Financial liabilities:** | **Classification:** |
|---|---|
| Accounts payable and accrued liabilities | Other financial liabilities |
| Payable to REBgold Corporation | Other financial liabilities |

## 3. Summary of Significant Accounting Policies - continued

### Equipment

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

Equipment and fixtures - 5 years

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

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

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

### Exploration and Development Activities

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

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

### Government Grants

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

### Loss per Share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants, options, and convertible debentures outstanding that may add to the total number of common shares. Stock options and warrants outstanding are not included in the computation of diluted loss per share if their inclusion would be anti-dilutive.

## 3. Summary of Significant Accounting Policies - continued

### Share Based Payments

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

### Income Taxes

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

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

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

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

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period.

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.

### Cash

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

### Revenue Recognition

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

## 4. Future Changes in Accounting Policies

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

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

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

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

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

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

## 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.

## 5. Plan of Arrangement - continued

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

| | | **2010** |
|---|---|---|
| Mineral properties and deferred exploration costs transferred from REBgold *(note 8)* | $ | 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 7)* | | (250,000) |
| Value attributed to common shares issued *(note 13)* | **$** | **97,396** |

**Common shares** *(note 13(ii))*

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** *(note 14)*

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

**Stock options** *(note 15)*

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 remains 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 February 2011, REBgold issued 6,106,780 common shares to Yamana, along with the Company issuing 1,221,356 common shares valued at $244,271 to Yamana.

## 6. Other Receivables

Other receivables consist of the following:

| | December 31, 2011 | December 31, 2010 | October 5, 2010 |
|---|---|---|---|
| Subscriptions receivable | **$ -** | $ 12,000 | $ - |
| Sales tax receivable | **30,105** | 4,582 | - |
| | **$ 30,105** | $ 16,582 | $ - |

## 7. Payable to REBgold Corporation

| | December 31, 2011 | December 31, 2010 | October 5, 2010 |
|---|---|---|---|
| Debentures payable *(note 12)* | **$ 78,363** | $ 68,480 | **$ -** |
| Accrued interest on debenture *(note 12)* | **3,280** | 1,290 | **-** |
| Plan of Arrangement loan (*note 5)* | **69,823** | 250,000 | **-** |
| Other | **51,254** | 14,251 | **-** |
| | **$ 202,720** | $ 334,021 | **$ -** |

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

## 8. Deferred Exploration Costs

The deferred exploration costs are comprised as follows:

| | Snow Lake | Cobalt Tailings | Total |
|---|---|---|---|
| **Balance, October 5, 2010** | $ - | $ - | $ - |
| Plan of Arrangement transaction *(note 5)* | 31,060 | 432,924 | 463,984 |
| Additions | 1,493 | - | 1,493 |
| Write-down of assets | - | (432,924) | (432,924) |
| **Balance, December 31, 2010** | 32,553 | **-** | 32,553 |
| Additions | 308,706 | - | 308,706 |
| **Balance, December 31, 2011** | **$ 341,259** | **$ -** | **$ 341,259** |

## 8. Mineral Properties and Deferred Exploration Costs - continued

**Snow Lake Concentrate Stockpile - Manitoba**

In early 2010, REBgold became aware of a reclamation opportunity in Snow Lake, Manitoba. In the 1950's, a gold mine owned by The Britannia Mining and Smelting Company was opened and operated at Snow Lake, 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, BEC tendered a proposal for the remediation of the arsenopyrite stockpile at Snow Lake under a request for proposals from Manitoba Innovation, Energy and Mines, and in December 2011, was awarded the contract by the Mines Branch of the Manitoba Department of Innovation, Energy and Mines. The contract is subject to negotiating a suitable agreement between BEC and the Manitoba government. BEC has proposed a "no cost to the taxpayer" approach to the clean up. 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.

## 8. Mineral Properties and Deferred Exploration Costs - continued

**Cobalt Tailings - Ontario - continued**

In April 2010, the Company signed an agreement with Blackstone Development Inc. ("Blackstone") of Cobalt, Ontario, granting the Company access to Blackstone's considerable tailings inventory in the Cobalt camp in North-Eastern Ontario. Blackstone obtained ownership of the Cobalt tailings in 2006, subject to certain conditions. Subsequent to signing the agreement and subsequent to the Plan of Arrangement, Blackstone's rights to the tailings were revoked by the previous owners.

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.

## 9. Equipment

| Cost | Equipment and Fixtures |
|---|---|
| Balance, October 5, 2010 | $ - |
| Additions | 2,794 |
| Disposals | - |
| Other | - |
| Balance, December 31, 2010 | 2,794 |
| Additions | - |
| Disposals | - |
| Other | - |
| Balance, December 31, 2011 | $ 2,794 |

| Accumulated Depreciation | Equipment and Fixtures |
|---|---|
| Balance, October 5, 2010 | $ - |
| Additions | 279 |
| Disposals | - |
| Other | - |
| Balance, December 31, 2010 | 279 |
| Additions | 1,100 |
| Disposals | - |
| Other | - |
| Balance, December 31, 2011 | $ 1,379 |

## 9. Equipment - continued

| | | |
|---|---|---|
| Net book value at October 5, 2010 | $ | **-** |
| Net book value at December 31, 2010 | $ | **2,515** |
| Net book value at December 31, 2011 | $ | **1,415** |

## 10. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

| | **December 31, 2011** | December 31, 2010 | October 5, 2010 |
|---|---|---|---|
| Trade payables | **$ 315,069** | $ 90,024 | $ - |
| Accrued liabilities | **66,622** | 21,750 | - |
| | **$ 381,691** | $ 111,774 | $ - |

## 11. Related Party Transactions

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

The remuneration of key management of the Company for the periods ended December 31, 2011 and 2010 was as follows:

| | **2011** | 2010 |
|---|---|---|
| Aggregate compensation included in salaries and management fees | **$ 215,820** | $ 19,715 |
| Aggregate compensation included in deferred exploration costs | **$ 63,925** | $ - |
| Share-based compensation | **$ 62,480** | $ - |

During the year ended December 31, 2011, nil (2010 - 1,250,000) share options were granted to related parties valued at $nil (2010 - $77,938).

At December 31, 2011 the Company owed $54,720 (December 31, 2010 - $2,326, October 5, 2010 - $nil) to officers of the Company which has been recorded in accounts payable and accrued liabilities.

## 12. Debentures Payable

Under the Arrangement as described in note 5, the Company assumed 20% of REBgold's debenture obligation which consisted of 43 $10,000 unsecured convertible debentures, initially maturing on October 13, 2011 and bearing interest at 18% per year payable semi-annually. On December 1, 2010, 20% of the book value of the debenture obligation was $66,642 and was attributed to the Company; this will accrete to $86,000 over the remaining life of the debenture. Upon maturity, the Company will pay to REBgold 20% of the principal plus 20% of the interest accrued from December 2, 2010 to maturity and REBgold will repay the debenture obligation and accrued interest to the debenture holders.

The convertible debentures may be converted by the holders at any time at a price of $0.10 per common share (the "Conversion Price") or in the event that the closing price of REBgold's common shares on the TSX-V is at or greater than $0.15, REBgold shall have the right, in its sole discretion, to redeem the convertible debentures through the issuance of common shares at the Conversion Price. For every share of REBgold issued in the event of a conversion, one-fifth of a common share of the Company will be issued.

On October 13, 2011, REBgold extended the expiry date of $410,000 principal amount of these convertible debentures and 4.1 million of the common share purchase warrants originally issued in October 2010 (note 5). Each holder of debentures and warrants was offered the choice to either (i) extend the maturity date of the debentures held by that holder to April 13, 2012, in which case the expiry date of the warrants held by that holder would also be extended to April 13, 2012, or (ii) accept payment in full of the debentures on the original maturity date of October 13, 2011, in which case the warrants held by that holder would also expire on the original expiry date of October 13, 2011. The holder of $20,000 principal amount of the debentures elected to be repaid, and the balance of $410,000 principal amount of debentures was extended and remains outstanding. The fair value of the extension of the warrants was calculated using the Black-Scholes option pricing model at $32,000. The assumptions used to determine the value were: expected dividend yield - 0%; weighted expected volatility - 142.7%; risk-free interest rate - 1.1% and an expected life of .5 years. The $32,000 was then applied as a discount on the face value of the debentures, of which $6,400 was attributed to the Company. The effective interest rate of the extended debentures is 36.4%.

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

| | | |
|---|---|---|
| **Carrying value, October 5, 2010** | **$** | **-** |
| Carrying value attributed to the Company pursuant to the Arrangement *(note 5)* | | **66,642** |
| Accretion expense | | **1,838** |
| **Carrying value, December 31, 2010** | | **68,480** |
| Debenture repayment | | **(4,000)** |
| Accretion related to warrant extension | | **(6,400)** |
| Accretion expense | | **20,283** |
| **Carrying value, December 31, 2011** | **$** | **78,363** |

## 13. Share Capital

**Authorized:**

Unlimited common shares without par value

**Issued and outstanding:**

| | Number of Shares | | Amount |
|---|---|---|---|
| **Balance, October 5, 2010** | **-** | **$** | **-** |
| Shares issued upon incorporation *(i)* | 100 | | 10 |
| Shares cancelled pursuant to Plan of Arrangement *(ii)* | (100) | | (10) |
| Shares issued pursuant to Plan of Arrangement *(ii)* | 26,720,007 | | 97,396 |
| Private placement *(iii)* | 2,526,666 | | 303,200 |
| Warrants issued in private placement *(iii)* | - | | (26,151) |
| Share issue costs *(iii)* | - | | (17,255) |
| **Balance, December 31, 2010** | **29,246,673** | | **357,190** |
| Shares issued in settlement of property termination obligation *(Note 5)* | 1,221,356 | | 244,271 |
| Shares issued pursuant to private placement *(iv)* | 3,000,000 | | 600,000 |
| Warrants issued in private placement *(iv)* | - | | (67,500) |
| Shares issued to REBgold Corporation warrant holders pursuant to plan of arrangement *(v)* | 4,510,332 | | 373,687 |
| Shares issued pursuant to exercise of warrants *(vi)* | 255,000 | | 43,350 |
| Fair value of warrants exercised *(vi)* | - | | 5,279 |
| Shares issued pursuant to exercise of options *(vii)* | 150,000 | | 30,000 |
| Fair value of options exercised *(vii)* | - | | 14,940 |
| Share issue costs *(iv)* | - | | (33,593) |
| **Balance, December 31, 2011** | **38,383,361** | **$** | **1,567,624** |

**Activity:**

(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 5, 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.

## 13. Share Capital - continued

(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 entitled 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 expires on April 23, 2011. 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 entitled 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.

As at December 31, 2010, subscriptions totaling $12,000 had not yet been paid in cash to the Company and were included in subscriptions receivable (note 6).

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

(v) Between January 1, 2011 and May 3, 2011, REBgold Corporation warrant holders exercised a total of 22,051,667 warrants to purchase 22,051,667 REBgold common shares for gross proceeds of $2,198,100. Under the terms of the Arrangement, the Company was obligated to issue 1 common share for each 5 common shares issued by REBgold, which is a total of 4,510,331 of its common shares to be issued to these REBgold warrant holders. The Company was entitled to 17% of the gross proceeds on such warrant exercises. REBgold Corporation paid the Company a total of $373,687 in connection with these warrant exercises.

(vi) During the fiscal year, warrant holders exercised a total of 255,000 warrants to purchase 255,000 common shares of the Company for gross proceeds of $43,350. The weighted average share price at the time these warrants were exercised was $0.18. The fair value of the exercised warrants of $5,279, recognized at the time of the initial private placement, was reclassified from warrants reserve to share capital.

(vii) During the fiscal year, option holders exercised a total of 150,000 options to purchase 150,000 common shares of the Company for gross proceeds of $30,000. The weighted average share price at the time these options were exercised was $0.18. The fair value of the exercised options of $14,940, recognized at the time of the initial grant, was reclassified from contributed surplus to share capital.

## 14. Warrants Reserve

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

| | Number | Fair Value |
|---|---|---|
| **Balance, October 5, 2010** | **-** | **$ -** |
| Warrants issued pursuant to private placement *(note 13(iii))* | 1,263,334 | 26,151 |
| Broker warrants issued *(note 13(iii))* | 82,833 | 1,715 |
| **Balance, December 31, 2010** | **1,346,167** | **27,866** |
| Warrants issued pursuant to private placement *(note 13(iv))* | 1,500,000 | 67,500 |
| Broker warrants issued *(note 13(iv))* | 112,500 | 5,091 |
| Warrants exercised during the year *(note 13(vi))* | (255,000) | (5,279) |
| Expired during the year | (1,091,167) | (22,587) |
| **Balance, December 31, 2011** | **1,612,500** | **$ 72,591** |

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 to 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 December 31, 2011, REBgold had 47,778,333 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 9,555,667 common shares in return for its portion of the aggregate exercise price of $848,835.

## 14. Warrants Reserve - continued

The exercise price, contractual life, and the fair value assigned to warrants issued and outstanding as at December 31, 2011 are as follows:

| Warrants | Weighted Average Exercise Price | Fair Value | Weighted Average Contractual Life (years) |
|---|---|---|---|
| 1,250,000 | $ 0.30 | $ 56,250 | 0.50 |
| 97,500 | 0.20 | 4,416 | 1.50 |
| 250,000 | 0.30 | 11,250 | 0.54 |
| 15,000 | 0.20 | 675 | 1.54 |
| **1,612,500** | **$ 0.29** | **$ 72,591** | **0.57** |

The fair value of these warrants, issued during the year ended December 31, 2011 and period ended December 31, 2010, was estimated using the Black-Scholes option pricing model with the following assumptions:

| | **2011** | 2010 |
|---|---|---|
| Risk free interest rate | **1.44%-1.55%** | 1.66% |
| Expected dividend yield | **nil** | nil |
| Expected volatility | **102%** | 100% |
| Expected life | **1 - 2 years** | 1 year |

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

## 15. Contributed Surplus Reserve and Stock-Based Compensation

The movements in the contributed surplus are as follows:

| | **Fair Value** |
|---|---|
| **Balance, October 5, 2010** | **$ -** |
| Stock-based compensation | 25,971 |
| **Balance, December 31, 2010** | **25,971** |
| Stock-based compensation | 132,101 |
| Options exercised | (14,940) |
| Warrants expired | 22,587 |
| **Balance, December 31, 2011** | **$ 165,719** |

## 15. Contributed Surplus Reserve and Stock-Based Compensation - continued

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

The purpose of the Plan is to attract, retain and motivate directors, officers, and certain third party service providers by providing them with the opportunity to acquire a proprietary interest in the Company and benefit from its growth. The options granted under the Plan are non-assignable, have a term of 5 years and vest over periods of up to one year from the date of issue.

| | Number Outstanding | Weighted-Average Exercise Price |
|---|---|---|
| **Balance, October 5, 2010** | **-** | **$ -** |
| Granted | 2,100,000 | 0.15 |
| **Balance, December 31, 2010** | **2,100,000** | **0.15** |
| Granted | 250,000 | 0.20 |
| Exercised | (150,000) | 0.20 |
| Cancelled/expired | (200,000) | 0.16 |
| **Balance, December 31, 2011** | **2,000,000** | **$ 0.15** |

Options to purchase common shares outstanding at December 31, 2011 carry exercise prices and remaining terms to maturity as follows:

| Weighted Average Exercise Price | Options Outstanding | Options Exercisable | Weighted-Average Contractual Life (years) |
|---|---|---|---|
| $ 0.15 | 1,950,000 | 1,950,000 | 3.9 |
| 0.20 | 50,000 | 50,000 | 4.2 |
| **$ 0.15** | **2,000,000** | **2,000,000** | **3.9** |

## 15. Contributed Surplus Reserve and Stock-Based Compensation - continued

During the year ended December 31, 2011, the Company granted 250,000 new options at an exercise price of $0.20 which vested immediately. 200,000 of these options expire January 31, 2016 and 50,000 of these options expire March 10, 2016. The fair value of options vested during the year ended December 31, 2011, was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

| | **2011** | 2010 |
|---|---|---|
| Risk free interest rate | **2.13% - 2.48%** | 1.60% |
| Expected dividend yield | **nil** | nil |
| Expected volatility | **124% - 134%** | 142% |
| Expected life | **2.4 years** | 2 years |

The Company recognized a total expense of $132,101 (2010 - $25,971) in respect of the options vesting during the period. Stock-based compensation expense was included in operating and administrative costs (note 18).

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 per Share

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

| | **2011** | 2010 |
|---|---|---|
| Numerator: | | |
| Loss attributable to common shareholders | **$ (1,409,600)** | $ (557,569) |
| Denominator: | | |
| Weighted-average common shares outstanding | **34,888,631** | 8,962,025 |
| **Basic and diluted loss per common share** | **$ (0.04)** | $ (0.06) |

In the periods ended December 31, 2011 and 2010, the potential effect of the exercise of stock options, warrants and the portion of REBgold's convertible debentures attributable to the Company *(Note 12)*, was anti-dilutive.

## 17. Income Taxes

In the following tables, the Company has reallocated certain amounts reported for 2010 in connection with the Plan of Arrangement. This reallocation has resulted in an increase in the tax value of various resource pools, as well as other small adjustments.

The following table reconciles the expected income tax recovery at the Canadian Federal and Provincial statutory tax rate of 28.25% (2010 - 31%) to the amount recognized in the statements of operations:

| | **2011** | 2010 |
|---|---|---|
| **Loss before recovery of income taxes** | **$ (1,409,600)** | $ (557,569) |
| Expected income tax recovery | **$ (398,200)** | $ (172,800) |
| Tax effect of assets acquired through plan of arrangement | **-** | 149,400 |
| Recognition and reversal of temporary differences | **33,800** | 2,800 |
| Difference between current and future income tax rate | **41,900** | 149,500 |
| Plan of arrangement adjustment | **-** | (751,700) |
| Change in unrecognized temporary differences | **322,500** | 622,800 |
| **Recovery of income taxes** | **$ -** | $ - |

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 items:

| | **2011** | 2010 |
|---|---|---|
| **Deferred income tax assets** | | |
| Non-capital losses | **$ 1,411,900** | $ 162,300 |
| Mineral interests | **373,200** | 357,300 |
| Share issue costs | **39,800** | 16,400 |
| Equipment and intangible assets | **1,956,400** | 1,955,300 |
| | **$ 3,781,300** | $ 2,491,300 |

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

At December 31, 2011, the Company had non-capital losses in Canada of approximately $1,411,900 which are available under certain circumstances to reduce future taxable income. These losses expire as follows:

| | |
|---|---|
| 2030 | **$ 162,300** |
| 2031 | **1,249,600** |
| | **$ 1,411,900** |

## 18. Operating and Administrative

General and administrative expenses consist of the following:

| | 2011 | 2010 |
|---|---|---|
| Salaries and management fees | **$ 452,350** | $ 40,369 |
| General office expenses | **168,639** | 11,225 |
| Shareholder communication and filing fees | **162,861** | 5,660 |
| Share based payments | **132,101** | 25,971 |
| Travel | **114,202** | 5,476 |
| Professional fees | **103,020** | 32,046 |
| Depreciation *(note 9)* | **1,100** | 279 |
| Foreign exchange gain | **(510)** | - |
| | **$ 1,133,763** | $ 121,026 |

## 19. Finance Charges

Finance charges consist of the following:

| | 2011 | 2010 |
|---|---|---|
| Debenture interest | **$ 15,320** | $ 1,781 |
| Accretion on debenture payable | **13,883** | 1,838 |
| Other interest | **2,363** | - |
| | **$ 31,566** | $ 3,619 |

## 20. Financial Risk Factors

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

**Credit risk**

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

**Liquidity risk**

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet current liabilities when due. As at December 31, 2011, the Company had a cash balance of $99,114 (2010 - $239,400) to settle current liabilities of $584,411 (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.

## 20. Financial Risk Factors (continued)

**Market risk**

*(a) Interest rate risk*

The Company has cash balances earning interest at a variable interest rate and debentures payable through REBgold bearing interest at a fixed rate of 18% per year. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company had no such deposit certificates at the end of the reporting period.

*(b) Foreign currency risk*

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

*(c) Price risk*

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

## 21. Capital Management

The Company defines capital as share capital, warrants reserve, contributed surplus reserve, and deficit. The Company’s objective when managing capital is to safeguard its accumulated capital in order to provide an adequate return to shareholders by maintaining a sufficient level of funds, in order to support the acquisition, exploration, and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company is currently in the exploration stage; as such, the Company is dependent on external financing to fund its activities. In order to carry out exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties, if it feels there is sufficient geologic or economic potential, and if it has adequate financial resources to do so.

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

## 22. Segmented Information

The Company has one global operating segment, being the development of projects where the Company can use its bacterial technologies and related intellectual property. No revenues have been derived from those technologies and property to date.

## 23. Conversion to IFRS

**Overview**

These are the Company's first annual financial statements prepared in accordance with IFRS.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended December 31, 2011 and the comparative information presented in these financial statements for the period ended December 31, 2010. The Company was incorporated on October 5, 2010 and therefore the opening IFRS statement of financial position is at October 5, 2010, which is the Company's date of transition.

**First-time adoption of IFRS**

The adoption of IFRS requires the application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS as effective at the end of its first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment.

The Company has elected not to apply any optional exemptions in its preparation of an opening IFRS statement of financial position as at October 5, 2010, the Company's transition date.

IFRS 1 does not permit changes to estimates that have been made previously. Accordingly, estimates used in the preparation of the Company's opening IFRS statement of financial position as at the Transition Date are consistent with those that were made under Canadian GAAP.

**Changes to accounting policies**

In preparing its IFRS statements of financial position and statement of operations, 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. 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 financial statements.

**(b) Decommissioning liabilities (asset retirement obligations)**

IFRS requires the recognition of a decommissioning liability for legal or constructive obligations, while 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 financial statements.

## 23. Conversion to IFRS - continued

**Changes to accounting policies - continued**

**(c) Exploration and evaluation**

On transition to IFRS, the Company elected to continue its policy of capitalizing exploration and evaluation expenditures as incurred. All capitalized expenditures were incurred subsequent to obtaining a right to explore and evaluate the property. There is no impact on the 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 depreciated over their useful lives. There is no impact on the financial statements.

**Presentation**

Certain amounts in the 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:

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

## 23. Conversion to IFRS - continued

The Canadian GAAP statements of financial position have been reconciled to IFRS as follows:

| | Canadian GAAP | Transition to IFRS | IFRS | Canadian GAAP | Transition to IFRS | IFRS |
|---|---|---|---|---|---|---|
| | October 5, 2010 | | | December 31, 2010 | | |
| **Assets** | | | | | | |
| Cash | $ 10 | $ - | $ 10 | $ 239,400 | $ - | $ 239,400 |
| Other receivables | - | - | - | 16,582 | - | 16,582 |
| Prepaid expenses | - | - | - | 8,203 | - | 8,203 |
| | 10 | - | 10 | 264,185 | - | 264,185 |
| Deferred exploration costs | - | - | - | 32,553 | - | 32,553 |
| Equipment | - | - | - | 2,515 | - | 2,515 |
| | **$ 10** | **$ -** | **$ 10** | **$ 299,253** | **$ -** | **$ 299,253** |
| **Liabilities** | | | | | | |
| Accounts payable and accrued liabilities | $ - | $ - | $ - | $ 111,774 | $ - | $ 111,774 |
| Payable to REBgold Corporation | - | - | - | 334,021 | - | 334,021 |
| | - | - | - | 445,795 | - | 445,795 |
| **Deficiency in assets** | | | | | | |
| Share capital | 10 | - | 10 | 357,190 | - | 357,190 |
| Warrants reserve | - | - | - | 27,866 | - | 27,866 |
| Contributed surplus reserve | - | - | - | 25,971 | - | 25,971 |
| Deficit | - | - | - | (557,569) | - | (557,569) |
| | 10 | - | 10 | (146,542) | - | (146,542) |
| | **$ 10** | $ - | **$ 10** | **$ 299,253** | $ - | **$ 299,253** |

## 23. Conversion to IFRS - continued

The Canadian GAAP statement of loss and comprehensive loss for the period ended December 31, 2010 has been reconciled to IFRS as follows:

| | Canadian GAAP | IFRS Transition | IFRS |
|---|---|---|---|
| **Expenses** | | | |
| Operating and administrative costs | $ 121,026 | $ - | $ 121,026 |
| Interest expense | 3,619 | - | 3,619 |
| Write-down of mineral properties and deferred exploration | 432,924 | - | 432,924 |
| **Net loss and comprehensive loss for the period** | **$ (557,569)** | **$ -** | **$ (557,569)** |

## 24. Subsequent Events

**Private placement**

On January 18, 2012, the Company issued 705,000 units at $0.20 per unit for gross proceeds of $141,000. Each unit consisted of one common share and one half purchase warrant, with each whole warrant exercisable at $0.30 until January 18, 2013. Prior to December 31, 2011, the Company had collected $64,000 related to the private placement which was recorded at the end of the reporting period as shares to be issued.

**Extension of convertible debentures and warrants by REBgold Corporation**

On April 17, 2012, REBgold announced that it had extended the maturity date of the $410,000 principal amount of the outstanding convertible debentures and 4,100,000 common share purchase warrants described in Note 12, with an original maturity date of April 13, 2012 to April 13, 2015. Each debenture holder was offered the choice to either (i) further extend the maturity date of the debentures and expiry date of the related warrants held to April 13, 2015, or (ii) accept payment in full of the debentures outstanding on April 13, 2012, in which case the related warrants held would also expire on April 13, 2012. All holders of the outstanding debentures and warrants elected to extend the maturity date to April 13, 2015.

As a result of the Plan of Arrangement described in Note 5, the debentures are convertible into units comprised of one common share of REBgold and one-fifth of a common share of the Company at a conversion price of $0.10 per unit. The warrants are exercisable for units at a price of $0.12 per unit. The conversion price of the debentures and the exercise price of the warrants remain unchanged.