BacTech Environmental Corporation

Condensed Consolidated Interim Financial Statements
For the three months and six months ended June 30, 2012
(Unaudited)

Notice of No Auditor Review of Condensed Consolidated Interim Financial Statements

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor, MSCM LLP, has not performed a review of these unaudited condensed consolidated interim financial statements, in accordance with standards established by the Institute of Chartered Accountants for a review of condensed consolidated interim financial statements by an entity's auditor.

BacTech Environmental Corporation
August 24, 2012

BacTech Environmental Corporation

Condensed Consolidated Interim Statements of Financial Position

(expressed in Canadian dollars, unless otherwise stated)

	As at June 30 2012 $	As at December 31 2011 $
Assets	(unaudited)	(audited)
Current assets		
Cash	**118,463**	99,114
Other receivable *(note 5)*	**17,444**	30,105
Prepaid expenses	**14,474**	15,283
	150,381	144,502
Deferred exploration costs *(note 7)*	**395,793**	341,259
Equipment *(note 8)*	**865**	1,415
	547,039	487,176
Equity and Liabilities		
Current liabilities		
Accounts payable and accrued liabilities *(note 9)*	**290,478**	381,691
Payable to REBgold Corporation *(note 6)*	**194,400**	202,720
	484,878	584,411
Debentures payable *(note 11)*	**367,090**	-
Capital and Reserves		
Share capital *(note 12)*	**1,674,643**	1,631,624
Contributed surplus reserves	**221,969**	165,719
Warrant reserve	**270,441**	72,591
Deficit	**(2,471,982)**	(1,967,169)
	(304,929)	(97,235)
	547,039	487,176

Nature of Operations and Going Concern (note 1)

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

BacTech Environmental Corporation
Condensed Consolidated Interim Statements of Income (Loss) and Comprehensive Income (Loss)
(Unaudited, expressed in Canadian dollars, unless otherwise stated)

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
	$	**$**	**$**	**$**
Net Revenue	**-**	-	**-**	-
Expenses				
Operating and administrative costs (*note 16*)	**256,520**	230,172	**456,060**	558,638
Finance charges *(note 17)*	**40,947**	9,798	**48,753**	20,132
Property termination payments	**-**	-	**-**	244,271
	297,467	239,970	**504,813**	823,041
Net income (loss) for the period	**(297,467)**	(239,970)	**(504,813)**	(823,041)
Basic and diluted income (loss) per share *(note 15)*	**(0.01)**	(0.01)	**(0.01)**	(0.03)
Weighted average number of common shares outstanding	**39,088,361**	34,037,393	**39,021,778**	32,266,600
Consolidated Statement of Comprehensive Income (loss)				
Net income (loss) for the period	**(297,467)**	(239,970)	**(504,813)**	(823,041)
Other comprehensive income	**-**	-	**-**	-
Comprehensive income (loss) for the period	**(297,467)**	(239,970)	**(504,813)**	(823,041)

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

BacTech Environmental Corporation

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

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

	Share Capital	Contributed Surplus Reserve	Warrant Reserve	Deficit	Total Equity
	$	$	**$**	$	$
Balance December 31, 2010	357,190	25,971	27,866	(557,569)	(146,542)
Common shares issued pursuant to private placement	439,370	-	60,630	-	500,000
Common shares issued on exercise of REBgold Corporation warrants	373,687	-	-	-	373,687
Common shares issued as Property Termination Payment	244,271	-	-	-	244,271
Share based payments	-	13,024	-	-	13,024
Net income (loss) for the period	-	-	-	(823,041)	(823,041)
Balance, June 30, 2011	1,414,518	38,995	88,496	(1,380,610)	161,399
Common shares issued pursuant to private placement	93,130	-	6,870	-	100,000
Common shares issued on exercise of warrants	43,350	-	-	-	43,350
Fair market value of warrants exercised	5,279	-	(5,279)	-	-
Expired warrants	-	22,587	(22,587)	-	-
Common shares issued on exercise of options	30,000	-	-	-	30,000
Fair market value of options exercised	14,940	(14,940)	-	-	-
Share issue costs	(33,593)	-	5,091	-	(28,502)
Share based payments	-	119,077	-	-	119,077
Future share issuance	64,000	-	-	-	64,000
Net income (loss) for the period	-	-	-	(586,559)	(586,559)
Balance, December 31, 2011	1,631,624	165,719	72,591	(1,967,169)	(97,235)
Common shares issued pursuant to private placement	46,800	-	30,200	-	77,000
Extension of REBgold warrant	-	-	19,200	-	19,200
Fair market value of warrants issued with debenture	-	-	204,700	-	204,700
Expired warrants	-	56,250	(56,250)	-	-
Share issue costs	(3,781)	-	-	-	(3,781)
Net income (loss) for the period	-	-	-	(504,813)	(504,813)
Balance, June 30, 2012	1,674,643	221,969	270,441	(2,471,982)	(304,929)

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

BacTech Environmental Corporation

Condensed Consolidated Interim Statements of Cash Flows

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

	Six months ended June 30, 2012	Six months ended June 30, 2011
	$	**$**
Cash flow from operating activities		
Cash paid to suppliers, employees and consultants	**(555,216)**	(84,385)
	(555,216)	(84,385)
Cash flow from financing activities		
Proceeds (repayment) of payable to REBgold Corporation	**6,080**	(181,467)
Net proceeds from issue of debenture	**549,800**	-
Proceeds from issue of common shares, net	**73,219**	845,677
	629,099	664,210
Cash flow from investing activities		
Deferred development expenditures	**(54,534)**	(162,912)
	(54,534)	(162,912)
Increase (decrease) in cash	**19,349**	416,913
Cash, beginning of period	**99,114**	34,968
Cash, end of period	**118,463**	451,881

The accompanying notes are an integral part of these condensed consolidated 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. REBgold Corporation completed a divisive reorganization by way of a Plan of Arrangement whereby a newly formed subsidiary, the Company, was granted rights and interests in REBgold's existing and proposed tailings remediation projects and an exclusive, perpetual, royalty-free license to use REBgold's proprietary bioleaching technology for reclamation of historic mine tailings. REBgold retained the primary rights to the bioleaching technology. The technology utilizes bacteria to extract precious and base metals and has been traditionally used to treat difficult-to-treat sulphide ores and concentrates. The business plan for the Company is to apply the bioleaching technology to abatement and reclamation projects to remove the harmful elements such as arsenic and sulphur from the environment, where this can be assisted by a positive cash flow from metal recovery. Examples of metals which can be extracted include gold, silver, cobalt, nickel, copper, uranium and zinc. The Company's head office is located at 50 Richmond Street East, Toronto, Ontario, M5C 1N7.

The accompanying condensed consolidated interim financial statements of the Company have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business.

The Company has no sources of recurring revenue, has incurred losses amounting to $2,471,982 since its inception, has a working capital deficit of $308,097 at June 30, 2012, and is dependent on financings to fund its operations. The ability of the Company to continue as a going concern is dependent upon the continuing financial support of shareholders or other investors, obtaining new financing on commercial terms acceptable to the Company to enable it to monetize its intellectual property assets, and upon attaining profitable operations once such assets can be monetized, all of which outcomes are uncertain and which, taken together, cast significant doubt over the ability of the Company to continue as a going concern. These condensed consolidated interim financial statements do not include any adjustments to the carrying values of the Company's assets, liabilities, and expenses and the related statement of financial position and statement of income (loss) classifications that would be necessary if the going concern assumption were inappropriate. Such adjustments have not been quantified by management but could be material.

The Company funded its operations for the six months ended June 30, 2012 from existing cash reserves, one private placement for common shares generating gross proceeds of $141,000 ($64,000 of which was received in the prior year and prior to closing), debenture financing generating gross proceeds of $585,000, and funding from a third party on certain project expenditures. 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 liabilities and its ongoing administrative costs. There can be no assurance that the Company will be successful in these initiatives.

2. Basis of Consolidation and Presentation

Statement of Compliance and Conversion to International Financial Accounting Standards (“IFRS”)

These condensed consolidated interim financial statements of the Company have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Company reported in Note 2 and 3 in its audited annual consolidated financial statements for the year ending December 31, 2011. These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

These condensed consolidated interim financial statements were authorized for issuance by the Board of Directors of the Company on August 24, 2012.

Basis of Preparation and Presentation

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

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

Basis of Consolidation

These unaudited condensed consolidated interim financial statements are comprised of the financial statements of the Company and its subsidiary (BacTech Manitoba Corp.), for the six months ended June 30, 2012. Accounting policies of the subsidiary have been changed where necessary to ensure consistency with the policies adopted by the Company and its subsidiary.

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

3. Significant Accounting Policies

The accounting policies as reported in Note 2 and 3 of the audited annual consolidated financial statements for the year ended December 31, 2011, have been applied in preparing these condensed consolidated interim financial statements.

Measurement and Uncertainty

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

Critical accounting estimates:

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

- the recoverability of accounts receivable that are included in the condensed consolidated interim statements of financial position;
- the recoverability of 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 consolidated interim financial statements.

4. Future Changes in Accounting Policies

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The Company intends to adopt those standards when they become effective.

IFRS 7 - Financial Instruments: Disclosures
The Accounting Standards Board ("AcSB") approved the incorporation of the IASB's amendments to IFRS 7 Financial Instruments: Disclosures and the related amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards into Part I of the Handbook. These amendments were made to Part I in January 2011 and are effective for annual periods beginning on or after July 1, 2011. Earlier application is permitted. The amendments relate to required disclosures for transfers of financial assets to help users of the financial statements evaluate the risk exposures relating to such transfers and the effect of those risks on an entity's financial position. The Company has not fully assessed the impact of adopting IFRS 7; however, it anticipates that the impact will be limited.

IFRS 9 - Financial Instruments
IFRS 9, Financial Instruments ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair

value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. The Company is assessing the impact of IFRS 9 on its results of operations and financial position.

IFRS 10 - Consolidated Financial Statements
IFRS 10, Consolidated Financial Statements ("IFRS 10") was issued by the IASB on May 12, 2011 and will replace portions of IAS 27 Consolidated and Separate Financial Statements and interpretation SIC-12 Consolidated - Special Purpose Entities. IFRS 10 incorporates a single model for consolidating all entities that are controlled and revises the definition of control to be "An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the current ability to affect those returns through its power over the investee". Along with control, the new standard also focuses on the concept of power, both of which will include a use of judgment and continuous reassessment as facts and circumstances change. IFRS 10 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company is assessing the impact of IFRS 10 on its results of operations and financial position.

IFRS 11 – Joint Arrangements
IFRS 11, Joint Arrangements ("IFRS 11") was issued by the IASB on May 12, 2011 and will replace IAS31, Interest in Joint Ventures. The new standard will apply to the accounting for interest in joint arrangements where there is joint control. Joint arrangements will be separated into joint ventures and joint operations. The structure of the joint arrangement will no longer be the most significant factor on classifying a joint arrangement as either a joint operation or a joint venture. Proportionate consolidation will be removed and replaced with equity accounting. IFRS 11 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company is assessing the impact of IFRS 11 on its results of operations and financial position.

IFRS 12 – Disclosure of Interest in Other Entities
IFRS 12, Disclosure of Interest in Other Entities ("IFRS 12") was issued by the IASB on May 12, 2011. The new standard includes disclosure requirements about subsidiaries, joint ventures and associates, as well as unconsolidated structured entities and replaces existing disclosure requirements. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company is assessing the impact of IFRS 12 on its consolidated financial statements.

IFRS 13 – Fair Value Measurement
IFRS 13, Fair Value Measurement ("IFRS 13") was issued by the IASB on May 12, 2011. The new standard converges IFRS and US GAAP on how to measure fair value and the related fair value disclosures. The new standard creates a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. The focus will be on an exit price. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company is assessing the impact of IFRS 13 on its consolidated results of operations and financial position.

IAS 1 – Presentation of Financial Statements
IAS 1, Presentation of Financial Statements ("IAS 1") amendment, issued by the IASB in June 2011, requires an entity to group items presented in the Statement of Comprehensive Income on the basis of whether they may be reclassified to earnings subsequent to initial recognition. For those items presented before taxes, the amendments to IAS 1 also require that the taxes related to the two separate groups be presented separately. The

amendments are effective for annual periods beginning on or after July 1, 2012, with earlier adoption permitted. The Company is assessing the impact of IAS 1 on its consolidated financial statements.

IAS 28 – Investments in Associates and Joint Ventures

IAS 28, Investments in Associates and Joint Ventures prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture). This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted. The Company is assessing the impact of IAS 28 on its consolidated financial statements.

5. Other Receivables

Other receivables consist of the following:

	As at June 30 2012	**As at December 31 2011**
	$	**$**
Sales tax receivable	17,444	30,105
Other receivables	17,444	30,105

6. Payable to REBgold Corporation

	As at June 30 2012	**As at December 31 2011**
	$	**$**
Debenture payable *(note 11)*	63,963	78,363
Accrued interest on debenture *(note 11)*	3,280	3,280
Plan of Arrangement loan	69,823	69,823
Other	57,334	51,254
	194,400	202,720

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

7. Deferred Exploration Costs

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

	Snow Lake	**Total**
Balance December 31, 2010	**$ 32,553**	**$ 32,553**
Net expenditures on property	308,706	308,706
Balance, December 31, 2011	**341,259**	**341,259**
Third party project contribution	(300,000)	(300,000)
Expenditures on property	354,534	354,534
Balance, June 30, 2012	**$ 395,793**	**$ 395,973**

Snow Lake Concentrate Stockpile – Manitoba

In the 1950's, a gold mine owned by The Britannia Mining and Smelting Company was opened and operated at Snow Lake, Manitoba. Approximately 10% of the ore was classified as arsenopyrite (arsenic bearing) and refractory in nature, which required additional treatment to liberate the gold for recovery. Given the high levels of arsenic that reported to the concentrate, conventional roasting or smelting were ruled out as process options and the concentrate was treated by direct cyanidation to recover as much gold as possible. The residue was stockpiled at the mine site to await future technologies capable of extracting the remaining gold values.

The Company approached the Manitoba Ministry of Innovation, Energy and Mines in April 2010 and outlined a plan whereby the Company, at its own expense, would use samples obtained from the concentrate stockpile to determine whether the material was amenable to bioleaching for liberating and extracting the gold while stabilizing the arsenic as a ferric-arsenate. The Manitoba government granted approval for the Company to conduct the sampling program, subject to oversight by an independent engineering consulting firm which the government engaged to ensure that there would be no adverse environmental impacts from drilling through the arsenopyrite.

In February 2011, BacTech tendered a proposal for the remediation of the arsenopyrite stockpile at Snow Lake under a request for proposals from Manitoba Innovation, Energy and Mines, and in April, was awarded the contract by the Mines Branch of the Manitoba Department of Innovation, Energy and Mines. BacTech has proposed a "no cost to the taxpayer" approach to the clean up. The Company will recover payable metals for its own account from the stockpile while treating the contained arsenic.

8. Equipment

Equipment consists of the following:

Cost	Equipment	Total
Balance, December 31, 2010	**$ 2,794**	**$ 2,794**
Additions	**-**	**-**
Disposals	**-**	**-**
Other	**-**	**-**
Balance, December 31, 2011	**2,794**	**2,794**
Additions	**-**	**-**
Disposals	**-**	**-**
Other	**-**	**-**
Balance, June 30, 2012	**$2,794**	**$2,794**

Accumulated Depreciation	Equipment	Total
Balance, December 31, 2010	**$ 279**	**$ 279**
Additions	**1,100**	**1,100**
Disposals	**-**	**-**
Other	**-**	**-**
Balance, December 31, 2011	**1,379**	**1,379**
Additions	**550**	**550**
Disposals	**-**	**-**
Other	**-**	**-**
Balance, June 30, 2012	**$1,929**	**$1,929**

Net book value at December 31, 2010	**$2,515**	**$2,515**
Net book value at December 31, 2011	**$1,415**	**$1,415**
Net book value at June 30, 2012	**$865**	**$865**

9. Accounts Payable and Accruals

Accounts payable and accruals consist of the following:

	As at June 30 2012	**As at December 31 2011**
	$	**$**
Trade payables	250,745	315,069
Accrued liabilities other	39,733	66,622
Total	290,478	381,691

10. Related Party Transactions

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

	June 30 2012	**June 30 2011**
	$	**$**
Aggregate compensation included in salaries and management fees	105,000	105,000
Aggregate compensation included in professional fees	-	-
Share-based compensation	-	-
Total	105,000	105,000

11. Debentures Payable

Convertible Debenture – Maturing April 25, 2014

Between April 25, 2012 and May 3, 2012, the Company closed two tranches totaling $585,000 of subscriptions of a private placement whereby the Company issued 58.5 units, with each unit being comprised of a 2-year $10,000 principal convertible redeemable debenture ("Debenture") and 50,000 common share purchase warrants.

The Debentures mature on April 25, 2014 and bear an interest at a fixed rate of 12% per year payable quarterly starting June 30, 2012. Under the terms of the 2-year Debentures, the holders of the Debentures have the option to convert their Debentures in full into common shares at a price of $0.20 per share. Each warrant is exercisable for one common share at a price of $0.20 per common share until April 25, 2014.

The Company used the residual value method to allocate the principal amount of the convertible debentures between the liability and equity components. Under this method, the value of the equity component of $239,900 was determined by deducting the fair value of the liability component of $345,100 from the face value of $585,000. The fair value of the liability component was computed as the present value of future principal and interest payments discounted at a rate of 48% per annum.

	As at June 30 2012 $	As at December 31 2011 $
Face value of debentures	585,000	-
Discount on face value of debentures	(239,900)	-
Accumulated accretion	21,990	-
	367,090	-

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

Under the Plan of Arrangement ("Arrangement") completed with REBgold, the Company assumed 20% of REBgold Corporations Inc.'s ("REBgold") debenture obligation which consists of 43 $10,000 unsecured convertible debentures, initially maturing on October 13, 2011 but having been extended to April 13, 2012, and bearing interest at 18% per year payable semi-annually. On December 1, 2010, 20% of the book value of the debenture obligation was $66,642 and was attributed to the Company; this will accrete to $86,000 over the remaining life of the debenture. Upon maturity, the Company will pay to REBgold 20% of the principal plus 20% of the interest accrued from December 2, 2010 to maturity, and REBgold will repay the debenture obligation and accrued interest to the debenture holders.

The convertible debentures may be converted by the holders at any time at a price of $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. 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.

On April 17, 2012, REBgold extended the expiry of these convertible debentures and 4.1 million of the common share purchase warrants originally issued in October 2010. Each holder of debentures and warrants accepted to extend the maturity date of the debentures held to April 13, 2015, in which case the expiry date of the warrants held by that holder would also be extended to April 13, 2015. The fair value of the extension of the warrants was calculated using the Black-Scholes option pricing model at $96,000. 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 3 more years. The $96,000 was then applied as a discount on the face value of the debentures, of which $19,200 was attributed to the Company.

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

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
Accretion related to warrant extension	(19,200)
Accretion Expense	4,800
Carrying value, June 30, 2012	$ 63,963

12. Share Capital

Authorized:

Unlimited common shares without par value

Issued and outstanding:

	Number of shares	Amount $
Balance, December 31, 2010	**29,246,673**	**357,190**
Common shares issued - Property Termination Payment *(v)*	1,221,356	244,271
Private placement *(i)*	3,000,000	532,500
Shares issued pursuant to exercise of REBgold warrants *(ii)*	4,510,332	373,687
Shares issued pursuant to exercise of warrants *(iii)*	255,000	43,350
Fair value of warrants exercised	-	5,279
Shares issued pursuant to exercise of options *(iv)*	150,000	30,000
Future share issuance *(vi)*	-	64,000
Fair value of options exercised	-	14,940
Share issue costs	-	(33,593)
Balance, December 31, 2011	**38,383,361**	**1,631,624**
Private placement *(vi)*	705,000	46,800
Share issue costs	-	(3,781)
Balance, June 30, 2012	**39,088,361**	**1,674,643**

(i) On June 29, 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 24 months from the date of closing. The fair value of the finder's warrants issued was estimated at $5,091.

(ii) 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 4,510,332 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.

(iii) During fiscal 2011, 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.

(iv) During fiscal 2011, 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.

(v) 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.

(vi) On January 18, 2012, the Company completed a private placement and issued 705,000 units at a price of $0.20 per unit for aggregate gross proceeds of $141,000, of which $64,000 was received prior to December 31, 2011. Each unit consisted of one common share and one half of one common share purchase warrant. Each warrant entitles the holder to purchase one common share at $0.30 for 12 months from the date of closing. All securities issued in connection with the offering and the underlying securities were subject to a four month hold period. The fair value of common share purchase warrants issued in this placement was estimated at $30,200.

13. Warrant reserve

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

	June 30, 2012		December 31, 2011	
	Number Outstanding	**Weighted Average Exercise Price**	**Number Outstanding**	**Weighted Average Exercise Price**
Balance, beginning of period	1,612,500	$ 0.30	1,346,167	$0.17
Issued	3,487,500	0.21	1,612,500	$ 0.30
Exercised	(1,250,000)	0.30	(255,000)	0.17
Expired	-	-	(1,091,167)	0.17
Balance, end of period	3,850,000	$ 0.22	1,612,500	$ 0.30

The exercise price, expiry date, and the fair value assigned to warrants issued and outstanding as at June 30, 2012 are as follows:

Expiry Date	Weighted Average Exercise Price $	Fair Value $	Warrants Outstanding	Contractual Life (years)
June 29, 2013	0.20	4,416	97,500	1.00
July 15, 2012	0.30	11,250	250,000	0.04
July 15, 2013	0.20	675	15,000	0.04
January 18, 2013	0.30	30,200	352,500	0.55
April 25, 2014	0.20	204,700	3,135,000	1.82
	0.22	251,241	3,850,000	1.56

The fair values of the warrants issued during the year ended December 31, 2011 and for the six months ended June 30, 2012 were estimated using the Black-Scholes option pricing model with the following assumptions:

Risk free interest rate	1.0%-1.7%
Expected dividend yield	Nil
Expected volatility	100%-210%
Expected life	1-2 years

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

REBgold Warrants

Pursuant to the Arrangement completed with REBgold in December 2010, REBgold has certain obligations pursuant to the REBgold warrants in existence at the time of the Arrangement, which upon being exercised, shall be satisfied by the issuance of one common share from REBgold and one-fifth of one common share of the Company in accordance with the terms of the Arrangement.

Upon the exercise of any REBgold warrants following the Arrangement, REBgold shall pay to the Company 17% of the exercise proceeds as consideration for the issuance of the Company's common shares. REBgold shall retain the balance of the aggregate exercise price as consideration for the issuance of its common shares from the exercise of the warrant.

As of June 30, 2012, REBgold had 4,797,833 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 9,595,667 common shares in return for its portion of the aggregate exercise price of $848,835.

14. Stock Options

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

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

	June 30, 2012		December 31, 2011	
	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
Balance, beginning of period	2,000,000	$ 0.15	2,100,000	$ 0.15
Granted	-	-	250,000	0.20
Exercised	-	-	(150,000)	0.20
Expired/Cancelled	-	-	(200,000)	0.16
Balance, end of period	2,000,000	$ 0.15	2,000,000	$ 0.15

Options to purchase common shares outstanding at June 30, 2012 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	3.68
March 10, 2016	0.20	50,000	50,000	3.95
	0.15	2,000,000	2,000,000	3.69

During the period ended June 30, 2012, the Company granted no new options (for the year ended December 31, 2011 – 250,000). The Company recognized a total expense of nil for the six month period ended June 30, 2012 (for the year ended December 31, 2011 - $132,101) 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	2.13-2.48%
Expected dividend yield	Nil
Expected volatility	124 - 134%
Expected life	1 to 5 years

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

15. (Loss) Earnings per Share

The calculation of basic and diluted loss per share for the three months ended June 30, 2012 was based on the loss attributable to common shareholders of $297,467 (2011 – $239,970) and the weighted average number of common shares outstanding of 39,088,361 (2011 -34,037,393). The calculation of basic and diluted loss per share for the six months ended June 30, 2012 was based on the loss attributable to common shareholders of $504,813 (2011 - $823,041) and the weighted average number of common shares outstanding of 39,021,778 (2011 - 32,266,600). Diluted loss per share did not include the effect of share purchase options and warrants as they are anti-dilutive.

16. General and Administrative

General and administrative expense consists of the following:

	Three months ended June 30		**Six months ended June 30**	
	2012	**2011**	**2012**	**2011**
	$	**$**	**$**	**$**
Salaries and management fees	**95,808**	112,819	**178,705**	260,901
Share based payments	**-**	13,025	**-**	24,335
Professional fees	**50,980**	14,526	**56,876**	51,811
Shareholder information and filing fees	**30,438**	22,956	**88,793**	96,843
Travel	**29,723**	22,986	**56,593**	55,705
Gerneral office expenses	**48,400**	43,585	**73,921**	68,493
Depreciation	**275**	275	**550**	550
Foreign exchange (gain)/loss	**896**	-	**622**	-
Total	**256,520**	230,172	**456,060**	558,638

17. Finance Charges

Finance charges consists of the following:

	Three months ended June 30		**Six months ended June 30**	
	2012	**2011**	**2012**	**2011**
	$	**$**	**$**	**$**
Interest and bank charges	**1,388**	338	**2,304**	1,212
Debenture interest	**15,969**	3,870	**19,659**	7,740
Accreation on debenture	**23,590**	5,590	**26,790**	11,180
Total	**40,947**	9,798	**48,753**	20,132

18. Financial Risk Factors

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

Credit risk

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

Liquidity risk

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 June 30, 2012, the Company had a cash balance of $118,463 (December 31, 2011 - $99,114) to settle current liabilities of $458,478 (December 31, 2011 - $584,411). The Company does not have sufficient cash reserves to fund its administrative costs and fully fund all project development initiatives for the coming twelve month period, and to repay its liabilities to trade creditors and debt holders. Management is actively involved in identifying reclamation ventures amenable to the application of the Company's technology and in seeking new equity financing to enable it to service the Company's liabilities and its ongoing administrative costs. There can be no assurance that the Company will be successful in these initiatives.

Market risk

(a) Interest rate risk

The Company has cash earning interest at a variable interest rate and debentures payables bearing interest at a fixed rate of 18% and 12% per year. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions.

(b) Foreign currency risk

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

(c) Price risk

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

19. Capital Management

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

20. Segmented Information

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