

**EARLY WARNING REPORT PURSUANT TO  
PART 3 OF NATIONAL INSTRUMENT 62-103**

**1. Name and Address of Offeror:**

Option Three Advisory Services Limited  
72a High Street  
Battle, East Sussex  
TN33 0AG  
United Kingdom

("Option Three" or the "Offeror")

**2. Designation and number or principal amount of securities and the Offeror's securityholding percentage in the class of securities of which the Offeror acquired ownership or control in the transaction or occurrence giving rise to the obligation to file the news release, and whether it was ownership or control that was acquired in those circumstances:**

On October 3, 2012, Option Three acquired from treasury 9,666,666 units of BacTech Environmental Corporation ("**BacTech**" or the "**Company**") for Cdn\$1,450,000, or Cdn\$0.15 per unit, by way of a private placement transaction as previously announced by BacTech on August 27, 2012, and intends to subscribe for an additional 333,334 units of BacTech for Cdn\$50,000 as part of a second tranche of the previously announced private placement.

Each unit consists of one common share and one non-transferable common share purchase warrant. Each warrant entitles Option Three to purchase one common share of BacTech at a price of Cdn\$0.17 per common share for a period of 360 days from the first anniversary of the date of issue. The warrants can be exercised prior to the first anniversary of the date of issue provided that, after giving effect to the exercise, Option Three, nor any of its affiliates (as such term is defined in the *Securities Act* (Ontario)), shall not directly or indirectly own more than 19.99% of the then issued and outstanding common shares of BacTech. The common shares and warrants are subject to a four month hold period. A copy of a news release issued on October 3, 2012 is attached as Schedule "A".

**3. Designation and number or principal amount of securities and the Offeror's securityholding percentage in the class of securities immediately after the transaction or occurrence giving rise to the obligation to file the news release:**

After the issuance of 9,666,666 units of BacTech to Option Three, Option Three will own approximately 19.83% of BacTech's outstanding common shares, on an undiluted basis, and approximately 33.09% assuming only Option Three exercises its warrants. Prior to the subscription, Option Three owned no securities of BacTech.

**4. Designation and number or principal amount of securities and the percentage of outstanding securities of the class of securities referred to in paragraph 3 over which:**

(a) the Offeror, either alone or together with any joint actors, has ownership and control;

9,666,666 units (9,666,666 common shares and 9,666,666 warrants). Option Three does not own or control any securities of BacTech with any joint actors.

- (b) the Offeror, either alone or together with any joint actors, has ownership but control is held by other persons or companies other than the Offeror or any joint actor; and**

Not applicable.

- (c) the Offeror, either alone or together with any joint actors, has exclusive or shared control but does not have ownership.**

Not applicable.

- 5. The name of the market in which the transaction or occurrence that gave rise to the news release took place:**

The units were issued to Option Three by BacTech from treasury pursuant to a private placement transaction. The units have been concurrently listed on the Canadian National Stock Exchange Inc.

- 6. The value, in Canadian dollars, of any consideration offered per security if the Offeror acquired ownership of a security in the transaction or occurrence giving rise to the obligation to file a news release:**

Cdn\$0.15 per unit in cash.

- 7. Purpose of the Offeror and any joint actors in effecting the transaction or occurrence that gave rise to the news release, including any future intention to acquire ownership of, or control over, additional securities of the reporting issuer:**

The units were acquired by Option Three for investment purposes. Option Three will evaluate its investment in BacTech from time to time and may, based on such evaluation of market conditions and other circumstances, increase or decrease shareholdings in BacTech as circumstances require.

- 8. General nature and the material terms of any agreement, other than lending arrangements, with respect to securities of the reporting issuer entered into by the Offeror, or any joint actor, and the issuer of the securities or any other entity in connection with the transaction or occurrence giving rise to the news release, including agreements with respect to the acquisition, holding, disposition or voting of any of the securities:**

As part of its subscription for units, Option Three and the Company also entered into an exclusivity agreement whereby, among other things, and subject to applicable law, Option Three will be entitled to nominate a member of the board of directors of BacTech for so long as Option Three directly or indirectly holds at least 10% of the issued and outstanding common shares of BacTech, and Option Three has been given exclusivity for five years with respect to the investment in future projects in certain Eastern European countries. As part of this agreement, Option Three has also agreed to not, at any time, hold more than 19.99% of the issued and outstanding common shares of BacTech without the prior approval of BacTech.

**9. Names of any joint actors in connection with the disclosure required herein:**

Not applicable.

**10. In the case of a transaction or occurrence that did not take place on a stock exchange or other market that represents a published market for the securities, including an issuance from treasury, the nature and value, in Canadian dollars of the consideration paid by the Offeror:**

The units were purchased by the Offeror at a per unit price of Cdn\$0.15 for a total Cdn\$1,450,000 cash subscription and were issued from treasury of BacTech pursuant to a private placement offering.

**11. If applicable, a description of any change in any material fact set out in a previous report by the entity under the early warning requirements or Part 4 of National Instrument 62-103 in respect of the reporting issuer's securities:**

Not applicable.

**12. If applicable, a description of the exemption from securities legislation being relied on by the offeror and the facts supporting that reliance:**

The Offeror acquired the units in reliance upon the accredited investor exemption set forth in section 2.3 of National Instrument 45-106 – *Prospectus and Registration Exemptions*.

**DATED** this 3<sup>rd</sup> day of October, 2012.

Option Three Advisory Services Limited

"Elena Gerasimovskaya"

Elena Gerasimovskaya  
Director

"Timothy Lewin"

Timothy Lewin  
Director