# BacTech Environmental Corporation

## Consolidated Financial Statements

December 31, 2013 and 2012

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*December 31, 2013*


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MNP LLP

## Independent Auditor's Report

To the Shareholders of BacTech Environmental Corporation

We have audited the accompanying consolidated financial statements of BacTech Environmental Corporation, which comprise the consolidated statement of financial position as at December 31, 2013, and the consolidated statements of loss and comprehensive loss, changes in equity (deficiency in assets), and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

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



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## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of BacTech Environmental Corporation as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

## Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which highlights the existence of a material uncertainty relating to conditions that cast significant doubt on BacTech Environmental Corporation's ability to continue as a going concern.

## Other Matters

The consolidated financial statements as at December 31, 2012 and for the year then ended were audited by MSCM LLP of Toronto, Canada, prior to its merger with MNP LLP. MSCM LLP expressed an unmodified opinion on those statements on April 29, 2013.

MNP LLP

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

Toronto, Ontario
May 20, 2014

# BacTech Environmental Corporation
## Consolidated Statements of Financial Position
(expressed in Canadian dollars, unless otherwise stated)

| | As at December 31 2013 $ | As at December 31 2012 $ |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash | **11,071** | 409,583 |
| Other receivable *(note 5)* | **42,824** | 56,324 |
| Prepaid expenses | **6,545** | 16,955 |
| Total current assets | **60,440** | 482,862 |
| | | |
| Deferred assessment and evaluation costs *(note 7)* | **1,361,242** | 842,144 |
| Equipment (note 8) | **-** | 315 |
| Total assets | **1,421,682** | 1,325,321 |
| | | |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities *(notes 9 and 10)* | **712,005** | 366,518 |
| Bridge loan (*note 12*) | **600,000** | - |
| Current portions payable to Aquila Resources Inc. *(note 6)* | **73,513** | 73,103 |
| Debentures payable *(note 11)* | **555,232** | - |
| Total current liabilities | **1,940,750** | 439,621 |
| | | |
| Payable to Aquila Resources Inc. *(note 6)* | **69,873** | 67,163 |
| Debentures payable *(note 11)* | **-** | 435,284 |
| Total liabilities | **2,010,623** | 942,068 |
| | | |
| **Equity (deficiency in assets)** | | |
| Share capital *(note 13)* | **2,423,269** | 2,378,769 |
| Contributed surplus reserves | **713,631** | 549,790 |
| Warrant reserve | **817,968** | 799,259 |
| Deficit | **(4,543,809)** | (3,344,565) |
| Total equity (deficiency in assets) | **(588,941)** | 383,253 |
| | | |
| | **1,421,682** | 1,325,321 |

**Nature of Operations and Going Concern (*note 1*)**
**Subsequent Events (*note 23*)**

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

Approved by the Board

Signed: *"Jay Naster"* — **Director**

Signed: *"M. Ross Orr"* — **Director**

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

| | Years ended December 31 | |
|---|---|---|
| | **2013** | 2012 |
| | **$** | $ |
| **Net Revenue** | **-** | - |
| **Expenses** | | |
| Operating and administrative costs (*note 18*) | **934,825** | 1,220,124 |
| Finance charges *(note 19)* | **264,419** | 157,272 |
| **Net loss and comprehensive loss for the year** | **(1,199,244)** | (1,377,396) |
| **Basic and diluted loss per share *(note 16)*** | **(0.02)** | (0.03) |
| **Weighted average number of common shares outstanding (note 16)** | **48,905,027** | 41,424,355 |

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

# BacTech Environmental Corporation
## Consolidated Statements of Changes in Equity (Deficiency in Assets)
(Expressed in Canadian dollars, unless otherwise stated)

| | Share Capital | Contributed Surplus Reserve | Warrant Reserve | Deficit | Total Equity |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **Balance, December 31, 2012** | 1,631,624 | 165,719 | 72,591 | (1,967,169) | (97,235) |
| Common shares issued pursuant to private placement | 791,126 | - | 658,874 | - | 1,450,000 |
| Common shares issued pursuant to private placement | 46,800 | - | 30,200 | - | 77,000 |
| Extension of convertible debenture | - | 19,200 | - | - | 19,200 |
| Convertible debenture issue costs | - | (8,337) | (8,337) | - | (16,674) |
| Value attributed to equity component of convertible debenture financing | - | 99,720 | 99,720 | - | 199,440 |
| Finders warrants | - | - | 13,711 | - | 13,711 |
| Expired warrants | - | 67,500 | (67,500) | - | - |
| Share based payments | - | 205,988 | - | - | 205,988 |
| Share issue costs | (90,781) | - | - | - | (90,781) |
| Net loss for the year | - | - | - | (1,377,396) | (1,377,396) |
| **Balance, December 31, 2012** | 2,378,769 | 549,790 | 799,259 | (3,344,565) | 383,253 |
| Common shares issued pursuant to private placement | 46,000 | - | 54,000 | - | 100,000 |
| Expired warrants | - | 35,291 | (35,291) | - | - |
| Share based payments | - | 105,350 | - | - | 105,350 |
| Share issue costs | (1,500) | - | - | - | (1,500) |
| Value attributed to conversion feature on Bridge Loan (note 12) | - | 23,200 | - | - | 23,200 |
| Net loss for the year | - | - | - | (1,199,244) | (1,199,244) |
| **Balance, December 31, 2013** | 2,423,269 | 713,631 | 817,968 | (4,543,809) | (588,941) |

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

# BacTech Environmental Corporation

## Consolidated Statements of Cash Flows

(Expressed in Canadian dollars, unless otherwise stated)

| | Year ended December 31, 2013 | Year ended December 31, 2012 |
|---|---|---|
| | $ | $ |
| **Cash flow from operating activities** | | |
| Cash paid to suppliers, employees and consultants | **(530,306)** | (1,210,283) |
| | **(530,306)** | (1,210,283) |
| **Cash flow from financing activities** | | |
| Repayment of payable to Aquila Resources Inc. | **-** | (51,254) |
| Proceeds from issue of bridge loan | **600,000** | - |
| Proceeds from issue of debentures | **-** | 549,800 |
| Proceeds from issue of common shares, net | **88,500** | 1,436,219 |
| | **688,500** | 1,934,765 |
| **Cash flow from investing activities** | | |
| Deferred development expenditures, net | **(556,706)** | (414,013) |
| | **(556,706)** | (414,013) |
| **Increase (decrease) in cash** | **(398,512)** | 310,469 |
| **Cash, beginning of year** | **409,583** | 99,114 |
| **Cash, end of year** | **11,071** | 409,583 |

*The accompanying notes are an integral part of these consolidated 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 completed a divisive reorganization by way of a Plan of Arrangement whereby a newly formed subsidiary, the Company, was granted rights and interests in REBgold’s existing and proposed tailings remediation projects and an exclusive, perpetual, royalty-free license to use REBgold’s proprietary bioleaching technology for reclamation of historic mine tailings. REBgold retained the primary rights to the bioleaching technology. The technology utilizes bacteria to extract precious and base metals and has been traditionally used to treat difficult-to-treat sulphide ores and concentrates. During the year ended December 31, 2013, REBgold amalgamated with Aquila Resources Inc. and is hereinafter referred to as “Aquila”.

The business plan for the Company is to apply 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, Suite 300, Toronto, Ontario, M5C 1N7.

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

The Company has no sources of recurring revenue, has incurred losses amounting to $4,543,809 since its inception, has a working capital deficit of $1,880,310 at December 31, 2013, 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 consolidated financial statements do not include any adjustments to the carrying values of the Company’s assets, liabilities, and expenses and the related statement of financial position and statement of loss classifications that would be necessary if the going concern assumption were inappropriate. Such adjustments have not been quantified by management but could be material.

The Company funded its operations for the year ended December 31, 2013 from existing cash reserves, a bridge loan of $600,000, and one private placement for gross proceeds of $100,000. 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 and abatement ventures amenable to the application of the Company’s technology license, and in seeking new equity financing to enable it to service the Company’s liabilities and its ongoing administrative costs. There can be no assurance that the Company will be successful in these initiatives.

## 2. Basis of Consolidation and Presentation

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

**Statement of Compliance**

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC") effective December 31, 2013.

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

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on May 20, 2014.

**Basis of Preparation and Presentation**

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

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

**Basis of Consolidation**

These consolidated financial statements comprise the financial statements of the Company and its subsidiary, BacTech Manitoba Corp. Accounting policies of the subsidiary have been changed where necessary to ensure consistency with the policies adopted by the Company.

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

## 3. Significant Accounting Policies

**Measurement Uncertainty**

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

## 3. 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 deferred assessment and evaluation costs that are included in the statements of financial position;
- the inputs used in accounting for share based payment transactions in net loss and comprehensive loss;
- management's assumption of no material restoration, rehabilitation, and environmental provision based on the facts and circumstances that existed during the year; and
- the inputs used in determining the fair value of the convertible debentures and the bridge loan.

### 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 and comprehensive loss for the year.

### 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.

## 3. Significant Accounting Policies - continued

### Impairment of Assets

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

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

### 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 consolidated statements of financial position at fair value with changes in fair value recognized in the consolidated statement of loss and comprehensive loss.

*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 consolidated statements of loss and comprehensive loss.

## 3. Significant Accounting Policies - continued

**Financial Instruments - continued**

*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 consolidated statements of loss and comprehensive loss.

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 | Loans and receivables |

| **Financial liabilities:** | **Classification:** |
|---|---|
| Accounts payable and accrued liabilities | Other financial liabilities |
| Payable to Aquila Resources Inc. | Other financial liabilities |
| Debentures payable | Other financial liabilities |
| Bridge loan | Other financial liabilities |

**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.

## 3. Significant Accounting Policies - continued

### Exploration and Development Activities

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

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

### Government Grants

Government grants are recognized in the consolidated 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 unless their effect would be anti-dilutive.

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

No deferred income tax is recognized for temporary differences arising from the initial recognition of assets or liabilities that affect either accounting 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 that are expected to be applied to taxable income in the years in which the temporary differences are expected to be recovered or settled.

## 3. Significant Accounting Policies - continued

### Income Taxes - continued

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

### Investment Tax Credits

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

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

### 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.

## 4. Current and Future Changes in Accounting Policies

### Standards and amendments effective in the current year

The IASB issued new standards and amendments effective for, and adopted in the current year. The adoption of the following accounting policies had no impact on the Company's consolidated financial statements:

IFRS 10 Consolidated Financial Statements (“IFRS 10”) establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27 “Consolidated and Separate Financial Statements” and SIC-12 “Consolidated – Special Purpose Entities” .

IFRS 11 Joint Arrangements (“IFRS 11”) establishes principles for financial reporting by parties to a joint arrangement. IFRS 11 supersedes the current IAS 31 “Interests in Joint Ventures” and SIC-13 “Jointly Controlled Entities – Non-Monetary Contributions by Venturers”.

IFRS 12 Disclosure of Interests in Other Entities (“IFRS 12”) applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity.

IFRS 13 Fair Value Measurements (“IFRS 13”) defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS13 applies to IFRS that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances.

IFRIC Interpretation 21 Levies was issued by the IFRIC in May 2013. The Interpretation on the accounting for levies imposed by governments clarifies the obligating event that gives rise to a liability to pay a levy.

# 4. Current and Future Changes in Accounting Policies - continued

**Standards issued but not yet effective**

IFRS 9 Financial Instruments ("IFRS 9") was issued by the IASB on November 12, 2009 and revised October 2010, 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, 2018.

# 5. Other Receivables

Other receivables consist of the following:

| | **As at December 31 2013** | As at December 31 2012 |
|---|---|---|
| | **$** | $ |
| Sales tax receivable | **32,824** | 56,324 |
| Subscription receivable | **10,000** | - |
| Total other receivables | **42,824** | 56,324 |

# 6. Payable to Aquila Resources Inc.

| | **As at December 31 2013** | As at December 31 2012 |
|---|---|---|
| | **$** | $ |
| Debenture payable *(note 11)* | **69,873** | 67,163 |
| Accrued interest on debenture | **3,690** | 3,280 |
| Plan of Arrangement loan | **69,823** | 69,823 |
| | **143,386** | 140,266 |
| Less current portion | **73,513** | 73,103 |
| | **69,873** | 67,163 |

The balance is unsecured, non-interest bearing, and has no set terms of repayment except for the debenture payable component (note 11).

# 7. Deferred Assessment and Evaluation Costs

The mineral reclamation properties and deferred assessment and evaluation costs are comprised as follows:

| | **Snow Lake $** | **Total $** |
|---|---|---|
| **Balance December 31, 2011** | **341,259** | **341,259** |
| Third party project contribution | (300,000) | (300,000) |
| Additions | 800,885 | 800,885 |
| **Balance, December 31, 2012** | **842,144** | **842,144** |
| Additions | 556,706 | 556,706 |
| Recovery (SR&ED) | (37,608) | (37,608) |
| **Balance, December 31, 2013** | **1,361,242** | **1,361,242** |

**Snow Lake Concentrate Stockpile – Manitoba**

In the 1950's, a gold mine was owned by Nor-Acme Mines 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 2011, the Company 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.

The current remediation agreement requires the operation of a bioleaching plant by December 31, 2014, however, the Company is currently in negotiations to extend this deadline.

## 8. Equipment

Equipment consists of the following:

| Cost | Equipment<br>$ | Total<br>$ |
|---|---|---|
| Balance, December 31, 2011 | **2,794** | **2,794** |
| Additions | **-** | **-** |
| Balance, December 31, 2012 | **2,794** | **2,794** |
| Additions | **-** | **-** |
| Balance, December 31, 2013 | **2,794** | **2,794** |

| Accumulated Depreciation | Equipment | Total |
|---|---|---|
| Balance, December 31, 2011 | **1,379** | **1,379** |
| Additions | **1,100** | **1,100** |
| Balance, December 31, 2012 | **2,479** | **2,479** |
| Additions | **315** | **315** |
| Balance, December 31, 2013 | **2,794** | **2,794** |
| **Net book value at December 31, 2011** | **1,415** | **1,415** |
| **Net book value at December 31, 2012** | **315** | **315** |
| **Net book value at December 31, 2013** | **Nil** | **Nil** |

## 9. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

| | **As at December 31 2013**<br>**$** | As at December 31 2012<br>$ |
|---|---|---|
| Trade payables | **435,355** | 333,703 |
| Accrued liabilities other | **276,650** | 32,815 |
| Total | **712,005** | 366,518 |

## 10. Related Party Transactions

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

| | **December 31 2013** | December 31 2012 |
|---|---:|---:|
| | **$** | $ |
| Aggregate compensation included in salaries and management fees | **285,000** | 242,772 |
| Share-based compensation | **24,500** | 103,524 |
| Total | **287,900** | 346,296 |

Included in accounts payable and accrued liabilities is $187,030 due to related parties.

## 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 interest at a fixed rate of 12% per year payable quarterly starting September 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 proceeds between the liability and equity components. Under this method, the fair value of the liability component (the "Debenture Liability") of $385,560 was computed as the present value of future principal and interest payments discounted at a rate of 42% per annum. The residual value of $199,440 was attributed to the equity components and allocated equally between the 2,925,000 warrants issued and the option to convert the debentures into 2,925,000 common shares (the "Conversion Feature") as their exercise prices and expected lives were equal. The transaction costs totaling $48,910, comprised of a cash commission of $32,500 and 210,000 finder's warrants valued at $13,711 *(note 13)*, were then allocated proportionally to each component with the Debenture Liability being allocated $32,240 and the remaining $16,670 allocated equally between the warrants and the Conversion Feature.

| | **As at December 31 2013** | As at December 31 2012 |
|---|---:|---:|
| | **$** | $ |
| Face value of debentures | **585,000** | 585,000 |
| Discount on face value of debentures | **(199,440)** | (199,440) |
| Transactions costs allocated to debentures | **(32,240)** | (32,240) |
| Accumulated accretion | **201,912** | 81,964 |
| | **555,232** | 435,284 |

## 11. Debentures Payable - continued

**Aquila Resources Inc.'s Convertible Debentures - Maturing April 13, 2015**

Under the Plan of Arrangement ("Arrangement") completed with Aquila, the Company assumed 20% of Aquila Resources Inc.'s ("Aquila") 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 Aquila 20% of the principal plus 20% of the interest accrued from December 2, 2010 to maturity, and Aquila 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 $1.00 per common share (the "Conversion Price") or in the event that the closing price of Aquila's common shares on the TSX-V is at or greater than $1.50, Aquila 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 Aquila issued in the event of a conversion, one-fifth of a common share of the Company will be issued.

On October 13, 2011, Aquila 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 0.5 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%.

On April 17, 2012, Aquila 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 agreed to extend the maturity date of the debentures held to April 13, 2015 and the expiry date of the warrants held by that holder to April 13, 2015. The fair value of the extension of the convertible debentures was determined by revaluing the debt using discounted cash flows and a discount rate of 35%. The fair value of the debt was determined to be $314,000 with the residual $96,000 allocated to the conversion feature and applied as a discount on the face value of the debentures, of which $19,200 was attributed to the Company.

Despite the modifications in 2011 and 2012, these debentures continue to bear interest at 18% per year payable semi-annually.

## 11. Debentures Payable - continued

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

| | $ |
|---|---|
| **Carrying value, December 31, 2011** | 78,363 |
| Accretion related to warrant extension | (19,200) |
| Accretion expense | 8,000 |
| **Carrying value, December 31, 2012** | 67,163 |
| Accretion expense | 6,400 |
| **Carrying value, December 31, 2013** | 73,563 |

## 12. Bridge Loan

On July 3, 2013, the Company announced that it had arranged a bridge loan that will enable the Company to complete its technical preparations for the Snow Lake project. Specifically, the Company plans to use the funds to complete its front end engineering design (F.E.E.D.) study which remains an integral part of the Snow Lake Project financing package.

The bridge loan allows the Company to receive up to $600,000 comprised of (a) an initial $300,000 within 10 days of closing, and (b) a second $300,000 can be drawn after BacTech has confirmed that the underlying contract with the Province of Manitoba can be used as collateral for the loan. The full $600,000 has been received. All loans are subject to interest at the rate of 10% per annum, and was to be repaid initially by November 20, 2013, subject to the Company's right to extend repayment which is currently due by the Company. In addition the loans are convertible into common stock in the context of the price of BacTech shares at the time of filing the loan agreement with the Canadian Securities Exchange which was 8 cents per share (the "Conversion Feature"). The Company is currently in discussions with the lender to convert the bridge loan to equity with an additional capital infusion into the Company. In the event the Company made an early repayment of the loans provided, the Company would be obligated to issue 1,000,000 share purchase warrants to the lender exercisable 1 year from the date of the first closing at a price of $0.10 per share.

The Company used the residual value method to allocate the proceeds between the liability and equity components. Under this method, the fair value of the liability component (the "Bridge Loan") of $576,800 was computed as the present value of future principal and interest payments discounted at a rate of 25% per annum. The residual value of $23,200 was attributed to the Conversion Feature and is recorded in the contributed surplus reserve. Accretion expense of $23,200 was recorded to December 31, 2013.

The Company is currently in the process of negotiation the extension or conversion of the loan.

## 13. Share Capital

**Authorized:**

Unlimited common shares without par value

**Issued and outstanding:**

| | Number of shares | Amount $ |
|---|---|---|
| **Balance, December 31, 2011** | **38,383,361** | **1,631,624** |
| Private placement *(i)* | 705,000 | 77,000 |
| Private placement *(ii)* | 9,666,666 | 1,450,000 |
| Warrants issued in private placements | - | (689,074) |
| Share issue costs | - | (90,781) |
| **Balance, December 31, 2012** | **48,755,027** | **2,378,769** |
| Private placement *(iii)* | 1,000,000 | 100,000 |
| Warrants issued in private placement | - | (54,000) |
| Share issue costs | - | (1,500) |
| **Balance, December 31, 2013** | **49,755,027** | **2,423,269** |

(i) 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.

(ii) On October 3, 2012, BacTech closed the first tranche of a private placement of common share units at a price of $0.15 per Unit. Each unit consisted of one common share and one non-transferable common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of $0.17 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, the holder shall not directly or indirectly own more than 19.99% of the issued and outstanding common shares of BacTech. The fair value of common share purchase warrants issued in this placement was estimated at $658,874. The common shares and warrants are subject to a four month hold period. The Company paid finder's fees of $87,000 in connection with this private placement.

Option Three Advisory Services Limited (“Option Three”) has subscribed for $1,450,000 (9,666,666 units). As part of its subscription for units, Option Three and the Company have also entered into an Exclusivity Agreement whereby, subject to applicable law, Option Three will be entitled to nominate a member to the Board of Directors of BacTech for so long as it 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 and together with its affiliates, indirectly or directly hold more than 19.99% of the issued and outstanding common shares of BacTech without the prior approval of BacTech.

## 13. Share Capital - continued

(iii) On November 7, 2013, the Company completed a private placement and issued 1,000,000 units at a price of $0.10 per unit for aggregate gross proceeds of $100,000. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at $0.15 for 24 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 $54,000.

## 14. Warrant Reserve

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

| | **December 31, 2013** | | **December 31, 2012** | |
|---|---|---|---|---|
| | **Number Outstanding** | **Weighted Average Exercise Price $** | **Number Outstanding** | **Weighted Average Exercise Price $** |
| Balance, beginning of year | 13,266,667 | 0.18 | 1,612,500 | 0.30 |
| Issued | 1,000,000 | 0.15 | 13,154,167 | 0.18 |
| Expired | (465,000) | 0.28 | (1,500,000) | 0.30 |
| Balance, end of year | 13,801,667 | 0.18 | 13,266,667 | 0.18 |

The exercise price, expiry date, and the fair value assigned to warrants issued and outstanding as at December 31, 2013 are as follows:

| **Expiry Date** | **Weighted Average Exercise Price $** | **Fair Value $** | **Warrants Outstanding** | **Contractual Life (years)** |
|---|---|---|---|---|
| April 25, 2014 | 0.20 | 105,095 | 3,135,000 | 0.32 |
| September 28, 2014 | 0.17 | 658,873 | 9,666,667 | 0.74 |
| November 8, 2016 | 0.15 | 54,000 | 1,000,000 | 2.86 |
| | 0.18 | 817,968 | 13,801,667 | 0.80 |

The fair values of the warrants issued during the years ended December 31, 2013 and 2012, were estimated using the Black-Scholes option pricing model with the following assumptions:

| | **2013** | **2012** |
|---|---|---|
| Risk free interest rate | 1.26% | 1.0%-1.7% |
| Expected dividend yield | Nil | Nil |
| Expected volatility | 213% | 262%-282% |
| Expected life | 3 years | 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.

## 14. Warrant reserve - continued

**Aquila Warrants**

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

Upon the exercise of any Aquila warrants following the Arrangement, Aquila shall pay to the Company 17% of the exercise proceeds as consideration for the issuance of the Company's common shares. Aquila 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, 2013, Aquila had 2,111,500 common share purchase warrants (with exercise prices ranging from $1.00 to $1.20) which are subject to the Arrangement. The Company's obligation, if these warrants were exercised prior to expiry, would be to issue 4,223,000 common shares in return for its portion of the aggregate exercise price of $329,592.

## 15. Stock Options

The Company has a stock option plan (the "Plan"), under which the Company may grant options to directors, officers, employees, and third party service providers. Under the terms of the Plan that was re-approved by the shareholders on July 26, 2013, 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.

| | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | Number Outstanding | Weighted Average Exercise Price $ | Number Outstanding | Weighted Average Exercise Price $ |
| Balance, beginning of year | 3,500,000 | 0.15 | 2,000,000 | 0.15 |
| Granted | 750,000 | 0.20 | 1,500,000 | 0.20 |
| Expired/Cancelled | (100,000) | 0.20 | - | - |
| Balance, end of year | 4,150,000 | 0.18 | 3,500,000 | 0.17 |

## 15. Stock Options - continued

Options to purchase common shares outstanding at December 31, 2013 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 | 1.93 |
| March 17, 2016 | 0.20 | 50,000 | 50,000 | 2.19 |
| July 8, 2017 | 0.20 | 1,400,000 | 1,400,000 | 3.52 |
| March 17, 2018 | 0.20 | 750,000 | 743,750 | 4.21 |
| | 0.18 | 4,150,000 | 4,143,750 | 2.88 |

During the year ended December 31, 2013, the Company granted 750,000 options (for the year ended December 31, 2012 – 1,500,000). The Company recognized a total expense of $105,350 for the year ended December 31, 2013 (2012 - $205,988) in respect of the options vesting during the year. Share based payments expense is included in general and administrative costs.

The fair values of the options issued during the years ended December 31, 2013 and 2012 were estimated using the Black-Scholes option pricing model with the following assumptions:

| | 2013 | 2012 |
|---|---|---|
| Risk free interest rate | 1.34% | 1.14% |
| Expected dividend yield | Nil | Nil |
| Expected volatility | 253% | 262% - 282% |
| Expected life | 2.4 years | 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.

## 16. Loss per Share

The calculation of basic and diluted loss per share for the year ended December 31, 2013 was based on the loss attributable to common shareholders of $1,199,244 (2012 – $1,377,396) and the weighted average number of common shares outstanding of 48,905,027 (2012 -41,424,355). Diluted loss per share did not include the effect of share purchase options and warrants as they are anti-dilutive.

## 17. Income Taxes

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

| | **2013** **$** | 2012 $ |
|---|---|---|
| **Loss before recovery of income taxes** | **(1,199,244)** | (1,377,396) |
| Expected income tax recovery | **(317,800)** | (365,010) |
| Tax rate changes and other adjustments | **28,720** | (116,040) |
| Non-deductible expenses | **36,920** | 80,700 |
| Change in tax benefits not recognized | **252,160** | 400,350 |
| **Recovery of income taxes** | **-** | - |

The 2013 statutory tax rate of xxxx% differs from the 2011 statutory tax rate of 26.25% because of the reduction in federal and provincial substantively enacted tax rates.

**Deferred income tax**

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

| | **2013** **$** | 2012 $ |
|---|---|---|
| **Deferred income tax assets** | | |
| Non-capital losses carried forward | **3,089,100** | 2,482,860 |
| SR&ED pool | **593,610** | 294,410 |
| Research and development tax credits | **122,950** | 63,160 |
| Donations | **3,000** | 3,000 |
| Share issue costs | **72,560** | 102,300 |
| Mineral interests | **90,420** | 90,420 |
| Equipment and intangible assets | **1,957,850** | 1,957,630 |
| Debentures payable | **61,750** | **-** |

## 17. Income Taxes - continued

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

| | |
|---|---|
| 2030 | **$ 162,300** |
| 2031 | **1,223,470** |
| 2032 | **746,560** |
| 2033 | **956,780** |
| | **$ 3,089,100** |

Share issue and financing costs will be fully amortized by December 31, 2017.

Research and development tax credits expire ifrom 2031 to 2032.

The remaining deductible temporary differences may be carried forward indefinitely.

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.

## 18. Operating and Administrative

Operating and administrative expense consists of the following:

| | for the year ended December 31 | |
|---|---|---|
| | **2013** | 2012 |
| | **$** | $ |
| Salaries and management fees (note 10) | **417,524** | 389,736 |
| Share based payments (note 10) | **105,350** | 205,988 |
| Professional fees | **203,854** | 167,765 |
| Shareholder information and filing fees | **63,612** | 177,483 |
| Travel | **39,535** | 151,300 |
| General office expenses | **112,092** | 123,360 |
| Depreciation | **315** | 1,100 |
| Foreign exchange (gain) loss | **(7,457)** | 3,392 |
| **Total** | **934,825** | 1,220,124 |

## 19. Finance Charges

Finance charges consist of the following:

| | **for the year ended December 31** | |
|---|---|---|
| | **2013** | 2012 |
| | **$** | $ |
| Interest and bank charges | **4,111** | 5,169 |
| Debenture interest | **84,960** | 62,139 |
| Bridge loan interest | **25,800** | - |
| Accretion on debenture | **149,548** | 89,964 |
| **Total** | **264,419** | 157,272 |

## 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 subscriptions receivable and sales tax receivable is remote.

***Liquidity risk***

As at December 31, 2013, the Company had a cash balance of $11,071 (December 31, 2012 - $409,583) to settle current liabilities of $1,940,750 (December 31, 2012 - $439,621). 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 payable and a bridge loan bearing interest at a fixed rate between 10% and 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.

## 20. Financial Risk Factors - continued

***(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, 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, assessment and evaluation, and development of mineral reclamation properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

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

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

## 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.

## 23. Subsequent Events

The Company is in negotiations with its bridge loan lender to convert the bridge loan to equity, where the terms and the timing of the transaction has yet to be confirmed.

On May 7, 2014, the Company completed a private placement for gross proceeds of $75,000 by issuing 7,500,000 units at $0.01 per unit. Each unit comprised one common share and one common share purchase warrant. Each warrant exercisable for one common share of the Company at an exercise price of $0.05 for a period of 3 years.