

**EARLY WARNING REPORT PURSUANT TO
NATIONAL INSTRUMENT 62-103**

Note: All security holdings and corresponding prices per security contained in this Early Warning Report are presented on a pro-forma basis reflecting a consolidation (the “**Consolidation**”) of the common shares of BacTech Environmental Corporation (“**BacTech**”, CNSX: BAC) effective as of July 24, 2014. Pursuant to the Consolidation, Option Three Advisory Services Limited (“**Option Three** or the “**Offeror**”) understands the 56,755,027 common shares of BacTech issued and outstanding prior to the Consolidation were consolidated to 11,351,005 common shares.

1. Name and Address of Offeror:

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

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 May 23, 2014, Option Three acquired ownership of 400,000 units (the “**Units**”) of BacTech for Cdn\$20,000, or Cdn\$0.05 per Unit, by way of a private placement financing (the “**May Subscription**”). Each Unit consists of one common share and one common share purchase warrant. Each warrant entitles Option Three to purchase one common share of BacTech at a price of Cdn\$0.25 per common share until May 23, 2017.

On September 22, 2014, Option Three entered into a debt forgiveness arrangement (the “**Debt Forgiveness Arrangement**”) with BacTech. Pursuant to the Debt Forgiveness Arrangement, 14,215,934 common shares of BacTech (the “**Consideration Shares**”) were issued to Option Three in exchange for the forgiveness of a debt of Cdn\$600,000 plus accrued and unpaid interest and penalties thereon (the “**Indebtedness**”) owed by BacTech to a non-resident third party under a convertible loan facility dated June 27, 2013, which facility was assigned by such third party to Option Three pursuant to an assignment and assumption agreement dated September 22, 2014. The total amount of Indebtedness forgiven in exchange for the issuance of the Consideration Shares was Cdn\$710,796.70, or Cdn\$0.05 per Consideration Share.

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:

Following the issuance of the Consideration Shares to Option Three under the Debt Forgiveness Arrangement, Option Three will own approximately 39.98% of BacTech's outstanding common shares, on an undiluted basis, and approximately 43.18% assuming only Option Three exercises its warrants.

Following the May Subscription and prior to the Debt Forgiveness Arrangement, Option Three owned 2,333,334 common shares of BacTech, representing approximately 20.56% of BacTech's then outstanding common shares.

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;**

See paragraph (3).

- (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 were concurrently listed on the Canadian National Stock Exchange (the "CNSX").

The Consideration Shares were issued to Option Three by BacTech from treasury pursuant to a debt forgiveness agreement dated September 22, 2014. The Consideration Shares have been concurrently listed on the CNSX.

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\$0.05 per Unit in cash under the May Subscription.

Cdn\$0.05 per Consideration Share as consideration for the forgiveness of the Indebtedness under the Debt Forgiveness Arrangement.

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 under the May Subscription for investment purposes. The Consideration Shares were acquired by Option Three under the Debt Forgiveness Arrangement as consideration for the forgiveness of the Indebtedness and 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 the Debt Forgiveness Arrangement, Option Three and BacTech also entered into a waiver and amendment agreement dated September 22, 2014, whereby BacTech and Option Three agreed to waive (with retroactive effect) and delete a provision under an exclusivity and governance agreement which restricted Option Three from, at any time, holding 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 Option Three at a per Unit price of Cdn\$0.05 for a total Cdn\$20,000 cash subscription and were issued from treasury of BacTech pursuant to a private placement offering.

The Consideration Shares were issued to Option Three as consideration for the forgiveness of the Indebtedness, with a value of Cdn\$0.05 per Consideration Share.

- 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:**

Option Three acquired the Units and Consideration Shares in reliance upon the accredited investor exemption set forth in section 2.3 of National Instrument 45-106 – *Prospectus and Registration Exemptions*.

[signature page follows]

DATED this 23rd day of September, 2014.

Option Three Advisory Services Limited

“Timothy Lewin”

Timothy Lewin
Director