BacTech Environmental Corporation

Consolidated Financial Statements

For the year ended December 31, 2016 and 2015

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For the year ended December 31, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of BacTech Environmental Corporation

We have audited the accompanying consolidated financial statements of Bactech Environmental Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity (deficiency) and consolidated statements of cash flows for the years 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

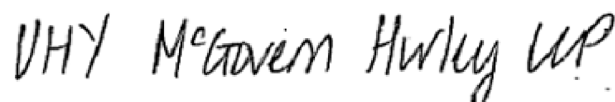
Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Bactech Environmental Corporation and its subsidiaries as at December 31, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that BacTech Environmental Corporation had continuing losses during the year ended December 31, 2016 and a working capital deficiency and shareholders' deficiency as at December 31, 2016. These conditions along with other matters set forth in Note 1 indicate the existence of material uncertainties which cast significant doubt about the ability of BacTech Environmental Corporation to continue as a going concern.

UHY McGovern Hurley LLP



Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
May 1, 2017

BacTech Environmental Corporation

Consolidated Statements of Financial Position

(Expressed in Canadian dollars, unless otherwise stated)

	As at December 31, 2016 $	As at December 31, 2015 $
Assets		
Current assets		
Cash	**1,103**	7,650
Other receivable *(note 5)*	**24,005**	6,490
Prepaid expenses	**76,052**	9,415
Total current assets	**101,160**	23,555
Total assets	**101,160**	23,555
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities *(notes 7 and 8)*	**1,861,442**	1,279,015
Loan payable (*note 9)*	**150,000**	210,000
Current portion payable to Aquila Resources Inc. *(note 6)*	**91,471**	91,471
Total current liabilities	**2,102,913**	1,580,486
Payable to Aquila Resources Inc. *(note 6)*	**69,823**	69,823
Total liabilities	**2,172,736**	1,650,309
Equity (deficiency)		
Share capital *(note 10)*	**4,430,282**	4,007,574
Option reserve *(note 12)*	**236,888**	156,668
Warrant reserve *(note 11)*	**249,672**	86,372
Deficit	**(6,988,418)**	(5,877,368)
Total deficiency	**(2,071,576)**	(1,626,754)
Total liabilities and deficiency	**101,160**	23,555

Nature of Operations and Going Concern (*note 1*)
Commitments and Contingencies *(note 19)*
Subsequent events *(note 21)*

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

Approved by the Board

Signed: *"Ross Orr"* — **Director**

Signed: *"Jay Naster"* — **Director**

BacTech Environmental Corporation

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars, unless otherwise stated)

	Year ended December 31	
	2016	2015
	$	$
Expenses		
Operating and administrative costs (*note 14*)	**967,697**	616,342
Finance charges *(note 15)*	**42,795**	45,287
Project Expenditures *(note 20)*	**159,538**	-
Net loss and comprehensive loss for the year	**(1,170,030)**	(661,929)
Basic and diluted loss per share *(note 13)*	**(0.02)**	(0.02)
Weighted average number of common shares Outstanding (*note 13*)	**47,237,223**	42,316,166

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

BacTech Environmental Corporation

Consolidated Statements of Changes in Equity (Deficiency)

(Expressed in Canadian dollars, unless otherwise stated)

	Share Capital $	**Option Reserve** $	**Warrant Reserve** $	**Deficit** $	**Total Equity** $
Balance, December 31, 2014	3,957,574	358,480	86,372	(5,417,551)	(1,015,125)
Shares issued for debt *(note 10(i))*	50,000	-	-	-	50,000
Expired stock options	-	(201,812)	-	201,812	-
Net loss for the year	-	-	-	(661,629)	(661,629)
Balance, December 31, 2015	4,007,574	156,668	86,372	(5,877,368)	(1,626,754)
Shares issued pursuant to private placement *(note 10(ii and (iii)))*	433,259	-	217,300	-	650,559
Expired stock options	-	(4,980)	-	4,980	-
Expired Warrants	-	-	(54,000)	54,000	-
Share based payments	-	85,200	-	-	85,200
Share issue costs	(10,551)	-	-	-	(10,551)
Net loss for the year	-	-	-	(1,170,030)	(1,170,030)
Balance, December 31, 2016	4,430,282	236,888	249,672	(6,988,418)	(2,071,576)

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 2016	Year ended December 31 2015
	$	**$**
Cash flow from operating activities		
Cash paid to suppliers, employees and consultants	**(586,555)**	(202,922)
	(586,555)	(202,922)
Cash flow from financing activities		
Gross proceeds from private placements	**650,559**	-
Share issue costs from private placements	**(10,551)**	-
Proceeds from loans payable	**-**	210,000
Repayment of loans payable	**(60,000)**	-
	580,008	210,000
Cash flow from investing activities		
Deferred development expenditures, net	**-**	-
	-	-
(Decrease) increase in cash	**(6,547)**	7,078
Cash, beginning of year	**7,650**	572
Cash, end of year	**1,103**	7,650

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 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 could potentially be extracted include gold, silver, cobalt, nickel, copper, uranium and zinc. The Company's head office is located at 20 Eglinton Avenue West, Suite 1820, Toronto, Ontario, M4R 1K8.

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 $6,988,418 since its inception, has a working capital deficit of $2,001,753 at December 31, 2016, 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 materially 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, 2016 from existing cash reserves, and $650,559 in gross proceeds from private placements. 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. (see Note 21)

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, 2016.

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 1, 2017.

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 subsidiaries, BacTech Manitoba Corp. and Empresa Minera Ambiental Bactech S.A. 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

Critical Judgements and Estimation Uncertainties

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates and these differences could be material.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

- Assets' carrying values and impairment charges
  In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

- Capitalization of deferred assessment and evaluation costs
  Management has determined that deferred assessment and evaluation costs incurred during the year have future economic benefits and are economically recoverable. In making this judgement, management has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits.

- Impairment of deferred assessment and evaluation costs
  While assessing whether any indications of impairment exist for deferred assessment and evaluation assets, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of assessment and evaluation assets. Internal sources of information include the manner in which assessment and evaluation assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates may include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's deferred assessment and evaluation assets.

3. Significant Accounting Policies - continued

Critical Judgements and Estimation Uncertainties – continued

- Estimation of decommissioning and restoration costs and the timing of expenditure
  The cost estimates are updated annually to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at their estimated fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

- Taxes, income taxes and deferred taxes
  The Company is subject to income and other taxes in various jurisdictions. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax filings are subject to audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made. Any estimates for value added and withholding taxes have been included in accounts payable and accrued liabilities.

- Share-Based Payments
  Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

- Contingencies
  Refer to Notes 19.

Foreign Currency Translation

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

3. Significant Accounting Policies - continued

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. As at December 31, 2016 and 2015, no such material obligation has been identified.

Impairment of Assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets and its deferred 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.

3. Significant Accounting Policies - continued

Financial Instruments

Financial assets

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

Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for the purpose of being sold or repurchased in the near term. They are carried in the 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.

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.

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.

3. Significant Accounting Policies - continued

Financial Instruments – continued

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
Loan payable	Other financial liabilities

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.

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, Option Reserve and Warrant Reserve

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. Equity-settled share-based payment transactions with parties other than employees are measured at fair value of the goods or services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments grants, measured at the date the entity obtains the goods or the counterparty renders the service. The value of options outstanding is recorded in the option reserve. The value of expired options is transferred to deficit. The value of warrants outstanding is recorded in the warrant reserve. The value of expired warrants is transferred to deficit.

3. Significant Accounting Policies - continued

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.

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

Future Changes

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after January 1, 2017 or later periods. Many are not applicable or do not have significant impact of the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 9 – Financial Instruments ("IFRS 9") was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. 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. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. 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. Earlier adoption is permitted.

5. Other Receivables

Other receivables consist of the following:

	December 31, 2016	December 31, 2015
	$	$
Sales tax receivable	**15,955**	6,490
Other receivable	**8,050**	-
Total other receivables	**24,005**	6,490

6. Payable to Aquila Resources Inc.

	December 31, 2016	December 31, 2015
	$	$
Plan of Arrangement loan	**69,823**	69,823
Net accruals/receivables	**9,471**	9,471
Debenture payable	**82,000**	82,000
	161,294	161,294
Less current portion	**91,471**	91,471
	69,823	69,823

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

Under the Plan of Arrangement ("Arrangement") completed with Aquila, the Company assumed 20% of Aquila Resources Inc.'s ("Aquila") debenture payable obligation which consisted of 43 $10,000 unsecured convertible debentures, initially maturing on October 13, 2011 but were extended to April 13, 2015 over a series of extension agreements, with an interest rate of 18% per year payable semi-annually. The Company is obligated to pay to

Aquila the Company's principal portion to Aquila which is $82,000 plus 20% of the interest accrued from December 2, 2010. The Debenture has reached it's maturity date and Aquila has repaid the debenture obligation to the debenture holders.

7. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following as at:

	December 31 2016	December 31 2015
	$	$
Trade payables	**427,200**	444,745
Accrued liabilities other	**1,434,242**	834,270
Total	**1,861,442**	1,279,015

Included in accrued liabilities, there are certain liablities totaling approximately $150,000, that due to the length of time passed since the Company recorded them, are uncollectable by the vendor and the Company will not be required to pay.

8. Related Party Transactions

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

	December 31 2016	December 31 2015
	$	$
Salaries and management fees	**285,000**	285,000
Share-based compensation	**30,800**	-
Total	**315,800**	285,000

Included in accounts payable and accrued liabilities is $842,355 due to related parties at December 31, 2016 (2015 - $639,709). Please refer to note 10 for additional related party transactions.

9. Loan Payable

On January 20, 2015, the Company arranged for a loan from a third party. The purpose of the loan is to provide working capital for future exploration and development projects.

The terms of the loan payable are as follows; (i) Total amount available of loan is $150,000, (ii) bonus shares of 200,000 common shares of the Company for every $50,000 tranche, up to a total of 600,000 common shares can be issued if the full amount is drawn down, (iii) a 1% Net Profit Interest ("NPI") in a future remediation project, and (iv) earns interest at a rate of 12% per annum. The loan was due 120 days from the date of the first advance which was May 20, 2015. If the loan is not repaid at maturity or reorganized, interest will be 1.5% per month compounded. The loan has not been repaid and continues to accrue interest.

The 600,000 common shares have not been issued and the value of the shares is included in accounts payable and accrued liabilities on the consolidated statement of financial position. The shares have been valued at $13,000 based on the quoted market value of the common shares and forms part of finance charges for fiscal 2015.

On October 8, 2015, the Company arranged for an additional loan from another third party. The loan earned interest at 15%, was unsecured and due on demand. The purpose of the loan was to provide working capital to complete an agreement with the Bolivian Government. Total amount available of the loan was $350,000 but only $102,000 was advanced on the loan. The loan was repaid in full during the year ended December 31, 2016 plus the accrued interest.

10. Share Capital

Authorized: Unlimited common shares without par value

Issued and outstanding:	**Number of shares**	**Amount**
		$
Balance, December 31, 2014	**41,393,944**	**3,957,574**
Private placement, shares for debt *(i)*	1,000,000	50,000
Balance, December 31, 2015	**42,393,944**	**4,007,574**
Private placement *(ii)*	13,138,986	328,298
Private placement *(iii)*	2,500,000	94,410
Balance, December 31, 2016	**58,032,930**	**4,430,282**

(i) On February 2, 2015, the Company settled $50,000 of accrued salaries and management fees by issuing one million common shares of the Company at a price of $0.05 per common share based on the quoted market value of the common shares. The following insiders participated; President and Chief Executive Officer, 500,000 common shares issued in settlement of $25,000 of accrued fees, and Chief Financial Officer, 500,000 common shares issued in settlement of $25,000 of accrued fees.

(ii) Between June 8 and September 27, 2016, the Company completed four tranches of a private placement for total gross proceeds of $525,559 and issued 13,138,986 units at $0.04 per unit. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of $0.10 for a period of 2 years. 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 $190,700. Share issue costs incurred on this private placement amounted to $6,561.

Related parties to the corporation participated in this transaction by purchasing 5,225,000 of the total units issued for this private placement for gross proceeds of $209,000.

(iii) On December 20, 2016, the Company completed the first tranche of a private placement for total gross proceeds of $125,000 and issued 2,500,000 units at $0.05 per unit. Each unit consisted of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at an exercise price of $0.10 for a period of 2 years. 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 $26,600. Share issue costs incurred on this private placement amounted to $3,990.

11. Warrant Reserve

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

	December 31, 2016		December 31, 2015	
	Number Outstanding	**Weighted Average Exercise Price $**	**Number Outstanding**	**Weighted Average Exercise Price $**
Balance, beginning of year	1,600,000	0.31	1,600,000	0.31
Issued	14,388,986	0.10	-	-
Expired	(200,000)	0.75	-	-
Balance, end of year	15,788,986	0.11	1,600,000	0.31

The exercise price, expiry date, and the fair value assigned to warrants issued and outstanding as at December 31, 2016 are as follows:

Expiry Date	**Weighted Average Exercise Price $**	**Fair Value $**	**Warrants Outstanding**	**Contractual Life (years)**
May 23, 2017	0.25	32,372	1,400,000	0.39
June 8, 2018	0.10	10,400	650,000	1.44
June 23, 2018	0.10	14,000	875,000	1.48
August 14, 2018	0.10	123,200	7,700,000	1.62
September 28, 2018	0.10	43,100	3,913,986	1.74
December 19, 2018	0.10	26,600	1,250,000	1.97
	0.11	249,672	15,788,986	1.55

The fair values of the warrants issued during the year ended December 31, 2016 were estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2016
Risk free interest rate	0.57%
Expected dividend yield	Nil
Expected volatility	187%
Expected life	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.

12. 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 3, 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, 2016		**December 31, 2015**	
	Number Outstanding	**Weighted Average Exercise Price $**	**Number Outstanding**	**Weighted Average Exercise Price $**
Balance, beginning of year	230,000	1.00	708,000	0.88
Granted	2,850,000	0.07	-	-
Expired/Cancelled	(10,000)	1.00	(478,000)	0.82
Balance, end of year	3,070,000	0.14	230,000	1.00

Options to purchase common shares outstanding at December 31, 2016 carry exercise prices and remaining terms to maturity as follows:

Expiry Date	**Weighted Average Exercise Price $**	**Grant Date Fair Value $**	**Number of Options Outstanding**	**Number of Options Exercisable**	**Weighted Average Contractual Life (years)**
July 8, 2017	1.00	123,593	180,000	180,000	0.52
March 17, 2018	1.00	28,095	40,000	40,000	1.21
March 15, 2021	0.07	62,700	2,850,000	2,850,000	4.21
	0.14	214,388	3,070,000	3,070,000	3.95

During the period ended December 31, 2016, the Company granted 2,850,000 new options (2015 – Nil). The Company recognized a total expense of $62,700 for the year ended December 31, 2016 (2015 - $Nil) 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 year ended December 31, 2016 were estimated using the Black-Scholes option pricing model with the following assumptions:

	2016
Risk free interest rate	0.89%
Expected dividend yield	Nil
Expected volatility	156%
Expected life	5 years

13. Loss per Share

The calculation of basic and diluted loss per share for the year ended December 31, 2016 was based on the loss attributable to common shareholders of $1,070,030 (2015 – $661,629) and the weighted average number of common shares outstanding of 47,237,223 (2015 – 42,316,166). Diluted loss per share did not include the effect of share purchase options and warrants as they are anti-dilutive.

14. Operating and Administrative

Operating and administrative expense consists of the following:

	Year ended December 31	
	2016	2015
	$	$
Salaries and management fees (*note 8*)	**372,017**	299,870
Share based payments (*note 8*)	**85,200**	-
Professional fees	**303,367**	222,385
Shareholder information and filing fees	**158,822**	22,758
Travel	**25,015**	20,790
General office expenses	**23,276**	50,539
Total	**967,697**	616,342

15. Finance Charges

Finance charges consist of the following:

	Year ended December 31	
	2016	2015
	$	$
Interest and bank charges	**15,895**	5,349
Loan payable interest	**26,900**	20,800
Debenture and bridge loan interest	**-**	4,100
Accretion on debenture	**-**	15,038
Total	**42,795**	45,287

16. 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, 2016, the Company had a cash balance of $1,103 (2015 - $7,650) to settle current liabilities of $2,102,913 (2015 - $1,580,486). 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, a loan payable bearing interest at 12% per annum. 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.

17. Capital Management

The Company defines capital as share capital, warrant reserve, and option reserve. 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.

The Company's capital management objectives, policies and processes have remained unchanged during the years ended December 31, 2016 and 2015.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the Canadian Securities Exchange ("CSE"). The impact of any violation of CSE is not known and is ultimately dependent on the discretion of the CSE.

18. 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:

	2016 **$**	2015 $
Loss before recovery of income taxes	**(1,170,030)**	**(661,629)**
Expected income tax recovery	**(310,000)**	**(175,000)**
Tax rate changes and other adjustments	**(3,000)**	**(17,000)**
Non-deductible expenses	**23,000**	**-**
Change in tax benefits not recognized	**290,000**	**192,000**
Recovery of income taxes	**-**	**-**

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:

	2016 **$**	2015 $
Non-capital losses carried forward	**4,934,400**	3,971,400
SR&ED pool	**593,600**	593,600
Research and development tax credits	**122,900**	122,900
Donations	**3,000**	3,000
Share issue costs	**16,500**	39,300
Mineral interests	**1,535,400**	1,535,400
Equipment and intangible assets	**1,957,800**	1,957,800

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

2030	**$ 162,302**
2031	**1,223,466**
2032	**746,564**
2033	**961,929**
2034	**200,078**
2035	**677,027**
2036	**963,027**
Total	**$ 4,934,393**

Share issue and financing costs will be fully amortized by December 31, 2020.

Research and development tax credits expire from 2031 to 2032.

The remaining deductible temporary differences are expected to carry 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.

19. Commitments and Contingencies

Management contract

The Company currently has an employment agreement with the provision of termination and change of control benefits with an officer of the Company. The agreement for the officer provides that in the event that their employment is terminated by the Company other than for cause then the officer shall be entitled to a lump sum payment amount equal to 12 months base salary plus 1 month salary for each year of service from December 2, 2010, to a max of 36 months base salary. If a change of control were to occur, the officer would be entitled to 2 years of compensation (salary plus bonus), or the equivalent of $450,000. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements.

Environmental matters

The Company's exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

20. Bolivia project

On May 24, 2016, BacTech announced that its 98% owned Bolivian subsidiary Empresa Minera Ambiental BacTech S.A. ("EMABSA"), had signed an Association Contract with Corporación Minera de Bolivia ("COMIBOL"), the state mining company of Bolivia. On September 15, 2016, the Bolivian government approved and ratified the agreement.

The ten-year contract calls for the environmental remediation and restoration of the "Antigua" tailings and an option on the "Nuevo" tailings, both situated at the Telamayu mill site. Telamayu is situated near the town of Atocha in the Department of Potosi. The agreement envisions three phases, with the first phase focused on the completion of a technical study on the Antigua tails. Included in the study will be the drilling of a grid of 10 metre holes, that will provide information for a NI 43-101 study. In addition, tailings material will be used in metallurgical studies to determine the optimal flow chart for the proposed plant.

The Company is obligated to carry out an investigation of building a processing plant at Telamayu. Phase one is the completion of drilling, assay and metallurgical work to confirm economic viability of the project. To complete this the Company was required to put up a performance bond of $42,000, which is included in prepaids. If the project is deemed viable, the Company will continue its work and will be subject to additional performance bonds.

21. Subsequent event

Private Placement Financing

On January 19, 2017 and February 21, 2017, the Company completed two more tranches of a private placement for total gross proceeds of $72,500 and issued 1,450,000 units at $0.05 per unit. Each unit consisted of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at an exercise price of $0.10 for a period of 2 years. All securities issued in connection with the offering and the underlying securities were subject to a four month hold period.

Debenture Financing

On April 20, 2017, the Company closed the first tranche of a debenture financing. The amount closed was $195,000.

The unsecured debentures have a 2-year term and pay interest of 12% per annum. Interest payments will be paid at Maturity. In addition, each $10,000 amount of the debentures includes 40,000 common shares of the Company.

Options

Subsequent to year end, 300,000 0ptions were granted and issued to certain consultants of the Company with an exercise price of $0.07 per share for a period of 5 years from date of issue.