

# **BacTech Environmental Corporation**

**Condensed Interim Consolidated Financial Statements**  
For the three and six months ended June 30, 2019 and 2018  
(Unaudited)

# BacTech Environmental Corporation

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*For the three and six months ended June 30, 2019 and 2018*

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## **Notice of No Auditor Review of Condensed Interim Consolidated Financial Statements**

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

BacTech Environmental Corporation  
August 29, 2019



## BacTech Environmental Corporation

### Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

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

|   | Three months ended<br>June 30 |                  | Six months ended<br>June 30 |                  |
|---|-------------------------------|------------------|-----------------------------|------------------|
|   | 2019                          | 2018             | 2019                        | 2018             |
|   | \$                            | \$               | \$                          | \$               |
| <b>Expenses</b>                                       |                               |                  |                             |                  |
| Operating and administrative costs (note 15)          | 157,607                       | 201,129          | 294,165                     | 376,922          |
| Finance charges (note 16)                             | 60,406                        | 54,952           | 117,217                     | 105,699          |
| Project expenditures (note 20)                        | 78,727                        | 133,196          | 234,261                     | 191,756          |
| <b>Other Income</b>                                   |                               |                  |                             |                  |
| Gain from settlement of debt                          | -                             | (33,969)         | -                           | (47,763)         |
| License fee   | (20,000)                      |                  | (20,000)                    |                  |
| <b>Net loss and comprehensive loss for the period</b> | <b>(276,740)</b>              | <b>(355,308)</b> | <b>(625,643)</b>            | <b>(626,614)</b> |
| <b>Basic and diluted loss per share (note 14)</b>     | <b>(0.005)</b>                | <b>(0.005)</b>   | <b>(0.01)</b>               | <b>(0.01)</b>    |
| <b>Weighted average number of common shares</b>       |                               |                  |                             |                  |
| <b>Outstanding (note 14)</b>                          | <b>96,903,756</b>             | 82,966,198       | <b>96,903,756</b>           | 75,468,314       |

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

**BacTech Environmental Corporation**  
**Condensed Interim Consolidated Statements of Changes in Equity (Deficiency)**  
(Unaudited, expressed in Canadian dollars, unless otherwise stated)

|   | Share<br>Capital<br># | Share<br>Capital<br>\$ | Option<br>Reserve<br>\$ | Warrant<br>Reserve<br>\$ | Deficit<br>\$ | Total<br>Equity<br>\$ |
|---|-----------------------|------------------------|-------------------------|--------------------------|---------------|-----------------------|
| <b>Balance, December 31, 2017</b>                                   | 67,970,430            | 4,820,489              | 205,120                 | 306,780                  | (8,240,795)   | (2,908,406)           |
| Shares issued pursuant to private placement <i>(note 11(i))</i>     | 16,568,851            | 331,410                | -                       | 248,500                  | -             | 579,910               |
| Shares issued pursuant to debenture financing <i>(note 10(d))</i>   | 340,000               | 11,900                 | -                       | 8,890                    | -             | 20,790                |
| Shares issued for debt <i>(note 11(ii))</i>                         | 2,264,475             | 79,257                 | -                       | -                        | -             | 79,257                |
| Expired options   | -                     | -                      | (28,905)                | -                        | 28,905        | -                     |
| Expired warrants  | -                     | -                      | -                       | (24,750)                 | 24,750        | -                     |
| Share issue costs   | -                     | (24,762)               | -                       | 3,450                    | -             | (21,312)              |
| Net loss for period   | -                     | -                      | -                       | -                        | (626,614)     | (626,614)             |
| <b>Balance, June 30, 2018</b>                                       | 87,143,756            | 5,218,294              | 176,215                 | 542,870                  | (8,813,754)   | (2,876,375)           |
| Shares issued pursuant to private placement <i>(note 11(iv))</i>    | 8,760,000             | 128,600                | -                       | 90,400                   | -             | 219,000               |
| Exercised warrants <i>(note 11(iii))</i>                            | 1,000,000             | 65,000                 | -                       | (15,000)                 | -             | 50,000                |
| Expired warrants  | -                     | -                      | -                       | (192,900)                | 192,900       | -                     |
| Share based payments  | -                     | -                      | 4,500                   | -                        | -             | 4,500                 |
| Net loss for period   | -                     | -                      | -                       | -                        | (647,164)     | (647,164)             |
| <b>Balance, December 31, 2018</b>                                   | 96,903,756            | 5,411,894              | 180,715                 | 425,370                  | (9,268,018)   | (3,250,039)           |
| Expired warrants  | -                     | -                      | -                       | (15,430)                 | 15,430        | -                     |
| Warrants issued pursuant to debenture financing <i>(note 10(e))</i> | -                     | -                      | -                       | 14,800                   | -             | 14,800                |
| Net loss for period   | -                     | -                      | -                       | -                        | (625,643)     | (625,643)             |
| <b>Balance, June 30, 2019</b>                                       | 96,903,756            | 5,411,894              | 180,715                 | 424,740                  | (9,878,231)   | (3,860,882)           |

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

**BacTech Environmental Corporation**  
**Condensed Interim Consolidated Statements of Cash Flows**  
(Unaudited, expressed in Canadian dollars, unless otherwise stated)

|   | Six months ended<br>June 30<br>2019 | Six months ended<br>June 30<br>2018 |
|---|-------------------------------------|-------------------------------------|
|   | \$                                  | \$                                  |
| <b>Cash flow from operating activities</b>        |                                     |                                     |
| Cash paid to suppliers, employees and consultants | (165,579)                           | (542,795)                           |
|   | <b>(165,579)</b>                    | <b>(17,460)</b>                     |
| <b>Cash flow from financing activities</b>        |                                     |                                     |
| Gross proceeds from debenture financing           | 150,000                             | 85,000                              |
| Gross proceeds from private placements            | -                                   | 579,910                             |
| Share issue costs from financings                 | -                                   | (28,112)                            |
|   | <b>150,000</b>                      | <b>636,798</b>                      |
| <b>Increase (decrease) in cash</b>                | <b>(15,579)</b>                     | 94,003                              |
| <b>Cash, beginning of period</b>                  | <b>25,900</b>                       | 22,477                              |
| <b>Cash, end of period</b>                        | <b>10,321</b>                       | 116,480                             |

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

## Notes to Condensed Interim Consolidated Financial Statements

*For the three and six months ended June 30, 2019 and 2018*

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### **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 condensed interim 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 \$9,878,231 since its inception, has a working capital deficit of \$3,860,882 at June 30, 2019, has past due loans and debentures 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 condensed interim 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 six months ended June 30, 2019 from existing cash reserves, debenture financing and accounts receivable. The Company does not have sufficient cash reserves to fund its administrative costs and fund any project development initiatives for the coming twelve month period, nor to repay its liabilities to trade creditors and debt holders. These matters represent material uncertainties that cast significant doubt about the Company's ability to continue as a going concern. 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.



**Notes to Condensed Interim Consolidated Financial Statements**

*For the three and six months ended June 30, 2019 and 2018*

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**2. Basis of Consolidation and Presentation**

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

**Statement of Compliance**

These condensed interim consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Company reported in Note 2 and 3 in its audited annual consolidated financial statements for the year ending December 31, 2018. These condensed interim consolidated financial statements do not include all of the information required for full annual financial statements.

The accounting policies have been applied consistently to all periods presented in these condensed interim consolidated financial statements.

These condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on August 29, 2019.

**Basis of Preparation and Presentation**

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

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

**Basis of Consolidation**

These condensed interim consolidated financial statements comprise the financial statements of the Company and its subsidiary, Empresa Minera Ambiental BacTech S.A. incorporated in Bolivia. 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 condensed interim consolidated financial statements.

**3. Significant Accounting Policies**

**Measurement Uncertainty**

The preparation of these condensed interim 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 condensed interim 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.

## Notes to Condensed Interim Consolidated Financial Statements

*For the three and six months ended June 30, 2019 and 2018*

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### **Critical Judgements and Estimation Uncertainties**

The preparation of condensed interim 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 condensed interim consolidated financial statements and related notes to the condensed interim consolidated 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 and fair value less costs to sell in the case of assets and at objective evidence of 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.
- 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 (neither of which the Company presently has) and/or adverse current economics can result in a write-down of the carrying amounts of the Company's deferred assessment and evaluation assets.
- 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 and constructive obligations 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 a mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

## Notes to Condensed Interim Consolidated Financial Statements

*For the three and six months ended June 30, 2019 and 2018*

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- 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.
  
- Commitments and Contingencies  
Refer to Note 19.

## 4. 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, 2019 or later periods. Many are not applicable or do not have significant impact on the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IAS 1 – Presentation of Financial Statements (“IAS 1”) and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”) were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted.

**Notes to Condensed Interim Consolidated Financial Statements**

*For the three and six months ended June 30, 2019 and 2018*

**5. Other Receivables**

Other receivables consist of the following:

|                         | <b>June 30<br/>2019<br/>\$</b> | December 31<br>2018<br>\$ |
|-------------------------|--------------------------------|---------------------------|
| Sales tax receivable    | <b>4,907</b>                   | 1,160                     |
| Total other receivables | <b>4,907</b>                   | 1,160                     |

**6. Payable to Aquila Resources Inc.**

|                          | <b>June 30<br/>2019<br/>\$</b> | December 31<br>2018<br>\$ |
|--------------------------|--------------------------------|---------------------------|
| Plan of Arrangement loan | <b>69,823</b>                  | 69,823                    |
| Net accruals/receivables | <b>9,471</b>                   | 9,471                     |
| Aquila Debenture payable | <b>82,000</b>                  | 82,000                    |
|                          | <b>161,294</b>                 | 161,294                   |
| Less current portion     | -                              | -                         |
| Long term portion        | <b>161,294</b>                 | 161,294                   |

The balance is unsecured, non-interest bearing, and is due on demand.

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

**Notes to Condensed Interim Consolidated Financial Statements**

*For the three and six months ended June 30, 2019 and 2018*

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**7. Accounts Payable and Accrued Liabilities**

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

|                                       | <b>June 30<br/>2019</b> | December 31<br>2018 |
|---------------------------------------|-------------------------|---------------------|
|                                       | \$                      | \$                  |
| Trade payables                        | <b>730,844</b>          | 595,446             |
| Accrued liabilities - other           | <b>859,199</b>          | 761,363             |
| Accrued liabilities – Related parties | <b>1,102,526</b>        | 963,600             |
| <b>Total</b>                          | <b>2,692,565</b>        | 2,320,409           |

Included in accrued liabilities are certain liabilities totaling approximately \$163,000, that due to the length of time passed since the Company recorded them, are considered uncollectable by the vendor and the Company is not expecting to pay.

**8. Related Party Transactions**

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

|                              | <b>June 30<br/>2019</b> | June 30<br>2018 |
|------------------------------|-------------------------|-----------------|
|                              | \$                      | \$              |
| Salaries and management fees | <b>142,500</b>          | 142,500         |
| <b>Total</b>                 | <b>142,500</b>          | 142,500         |

Included in accounts payable and accrued liabilities is \$1,102,526 due to related parties at June 30, 2019 (2018 - \$888,490). Please refer to additional related party transactions in Share Capital Note 11 (i) - family member of a director participated in a private placement financing, and Share Capital- Note 11(ii) settlement of debt with officers of the Company.

**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. Interest expense for the six months ended June 30, 2019 was \$13,450 (2018 -\$13,450).

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 condensed interim 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.

# BacTech Environmental Corporation

## Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2019 and 2018

### 10. Debentures

Debentures consist of the following as at:

|  | <b>June 30<br/>2019</b> | December 31<br>2018 |
|--|-------------------------|---------------------|
|  | \$                      | \$                  |
| Debentures with Bonus Interest (a)                               | <b>445,000</b>          | 427,130             |
| Debentures with warrant and Net Smelter Return (“NSR”) (b)       | <b>191,650</b>          | 173,230             |
| Debenture with NSR with a maturity date of November 29, 2019 (c) | <b>96,250</b>           | 91,750              |
| Debenture with NSR with a maturity date of May 14, 2020 (d)      | <b>72,939</b>           | 66,035              |
| Debentures with warrant (e)                                      | <b>137,668</b>          | 173,230             |
| Total  | <b>943,501</b>          | 758,145             |
| Less Current Portion   | <b>943,501</b>          | 692,110             |
| Total Long Term Portion  | -                       | 66,035              |

#### (a) Debentures with Bonus Interest

Between April 19, 2017 and June 26, 2017, BacTech completed three tranches of a debenture financing for gross proceeds of \$445,000 and accompanied by the issuance of 1,780,000 common shares which are included as a bonus equity interest. The debentures have a 2-year term and pay 12% interest annually. The debenture included a 20% common stock bonus interest payment (issued at \$0.05 per share). For example, a \$10,000 debenture would be accompanied by 40,000 common shares of BacTech, subject to a 4-month restriction on resale from the date of closing.

The fair value of the bonus shares was determined by reference to the trading prices of the Company’s common shares on the date the tranches were closed. The Company issued 1,780,000 common shares in connection with the debenture financing with an aggregate value of \$70,100. Transaction costs included a cash commission of \$8,400 and 84,000 broker warrants (now expired unexercised). Each broker warrant entitled the holder to purchase one common share at an exercise prices of \$0.10 for a period of 12 months and were valued at \$350. The aggregate transaction cost, which included the bonus shares, cash commission and warrants, was recorded against the debenture and is being amortized over the life of the debenture and shown as accretion expense. The total transaction costs have been fully recognized through accretion expenses. For further information on the maturity date, please see Subsequent Events Note 21.

|  | <b>June 30<br/>2019</b> | December 31<br>2018 |
|--|-------------------------|---------------------|
|  | \$                      | \$                  |
| Face value of debentures                   | <b>445,000</b>          | 445,000             |
| Transactions costs allocated to debentures | <b>(78,850)</b>         | (78,850)            |
| Accumulated accretion                      | <b>78,850</b>           | 60,980              |
| Balance                                    | <b>445,000</b>          | 427,130             |

# BacTech Environmental Corporation

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## Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2019 and 2018

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### (b) Debentures with Warrants and Net Smelter Royalty

Between August 14, 2017 and September 22, 2017, BacTech completed two tranches of a debenture financing for one debenture holder for gross proceeds of \$200,000 and accompanied by the issuance of 1,666,760 common shares purchase warrants and NSR of 0.834% in relation to the project in Bolivia. The debenture has a 2-year term and pays 12% interest annually.

The fair value of the common share purchase warrants was determined by reference to the fair market value of the warrants issued in connection with the debenture financing with an aggregate value of \$73,700 (note 12). Each warrant entitles the holder to purchase one common share at an exercise price of \$0.05 for a period of 5 years from the date of issue. No value was placed upon the NSR at this time since the project is not in production and the project does not have a current value on the condensed interim consolidated statement of financial position. The aggregate value of the transaction costs which includes the warrants is recorded against the debenture and is being amortized over the life of the debenture.

|  | <b>June 30<br/>2019</b> | December 31<br>2018 |
|--|-------------------------|---------------------|
|  | \$                      | \$                  |
| Face value of debentures                   | <b>200,000</b>          | 200,000             |
| Transactions costs allocated to debentures | <b>(73,700)</b>         | (73,700)            |
| Accumulated accretion                      | <b>65,350</b>           | 46,930              |
| Balance                                    | <b>191,650</b>          | 173,230             |

### (c) Debenture with Net Smelter Royalty with maturity date of November 29, 2019

On November 29, 2017, BacTech completed a debenture financing for one debenture holder for gross proceeds of \$100,000 and accompanied by the issuance of 400,000 common shares which are included as a bonus equity interest and NSR of 0.50% in relation to the project in Bolivia. The debenture has a 2-year term and pays 12% interest annually.

The fair value of the bonus shares was determined by reference to the trading prices of the Company's common shares on the date the financing closed. The Company issued 400,000 common shares in connection with the debenture financing with an aggregate value of \$18,000. No value was placed upon the NSR at this time since the project is not in production and the project does not have a current value on the condensed interim consolidated statement of financial position. The aggregate value of the transaction costs which includes the bonus shares is recorded against the debenture and is being amortized over the life of the debenture.

|  | <b>June 30<br/>2019</b> | December 31<br>2018 |
|--|-------------------------|---------------------|
|  | \$                      | \$                  |
| Face value of debentures                   | <b>100,000</b>          | 100,000             |
| Transactions costs allocated to debentures | <b>(18,000)</b>         | (18,000)            |
| Accumulated accretion                      | <b>14,250</b>           | 9,750               |
| Balance                                    | <b>96,250</b>           | 91,750              |

**Notes to Condensed Interim Consolidated Financial Statements**

*For the three and six months ended June 30, 2019 and 2018*

**(d) Debentures with Net Smelter Royalty with maturity date of May 14, 2020**

On May 14, 2018, the Company closed the final tranche of its debenture financing for gross proceeds of \$85,000 and accompanied by the issuance of 340,000 common shares which are included as a bonus equity interest and a Net Smelter Royalty of 2.5% in relation to the Company's Telamayu Tailings project. The debenture has a 2-year term and pays 12% interest annually. The 340,000 common shares issued in this tranche were with a 4-month hold.

The fair value of the bonus shares was determined by reference to the trading prices of the Company's common shares on the date the financing closed. The Company issued 340,000 common shares in connection with the debenture financing with an aggregate value of \$11,900. Transaction costs included a cash commission of \$6,800 and 170,000 broker warrants (note 12). Each broker warrant entitles the holder to purchase one common share and one new warrant at an exercise price of \$0.05 for a period of 24 months from the date of closing the debenture and are valued at \$8,890 (note 12). Each new warrant entitles the holder to purchase one common share at a price of \$0.05 per new warrant for a period of 24 months from the date of closing the debenture. No value was placed upon the NSR at this time since the project is not in production and the project does not have a current value on the condensed interim consolidated statement of financial position. The aggregate value of the transaction costs which includes the bonus shares, commission and broker warrants is recorded against the debenture and is being amortized over the life of the debenture.

|  | <b>June 30<br/>2019</b> | December 31<br>2018 |
|--|-------------------------|---------------------|
|  | \$                      | \$                  |
| Face value of debentures                   | <b>85,000</b>           | <b>85,000</b>       |
| Transactions costs allocated to debentures | <b>(27,590)</b>         | <b>(27,590)</b>     |
| Accumulated accretion                      | <b>15,525</b>           | <b>8,625</b>        |
| Balance                                    | <b>72,935</b>           | <b>66,035</b>       |

**(e) Convertible Debentures with Warrants**

On May 1, 2019, the Company closed a \$150,000 Senior Bridge Debenture. The Senior Bridge Debenture is for one year and will pay 12% interest on redemption. In addition, the Company will issue a total of 1,500,000 common share purchase warrants with a two-year term and allow the holder to buy additional shares at \$0.05 per share. The Convertible debentures are convertible at a price of \$0.03 at the option of the debenture holder.

The fair value of the common share purchase warrants was determined by reference to the fair market value of the warrants issued in connection with the debenture financing with an aggregate value of \$14,800 (note 12). Each warrant entitles the holder to purchase one common share at an exercise price of \$0.05 for a period of 2 years from the date of issue. The aggregate value of the transaction costs which includes the warrants is recorded against the debenture and is being amortized over the life of the debenture.

|  | <b>June 30<br/>2019</b> | December 31<br>2018 |
|--|-------------------------|---------------------|
|  | \$                      | \$                  |
| Face value of debentures                   | <b>150,000</b>          | 200,000             |
| Transactions costs allocated to debentures | <b>(14,800)</b>         | (73,700)            |
| Accumulated accretion                      | <b>2,466</b>            | 46,930              |
| Balance                                    | <b>137,666</b>          | 173,230             |



## Notes to Condensed Interim Consolidated Financial Statements

*For the three and six months ended June 30, 2019 and 2018*

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### 11. Share Capital

Authorized share capital is made up of unlimited common shares without par value:

- (i) On April 5, 2018 and April 19, 2018, the Company completed a private placement for total gross proceeds of \$579,910 through the issue of 16,568,851 units at a price of \$0.035 per unit. Each unit consisted of one common share of the Company, one full common share purchase warrant exercisable at \$0.05 for 2 years and a NSR in relation to the Telamayu project. No value was placed upon the NSR at this time since the project is not in production and the project does not have a current value on the condensed interim consolidated statement of financial position. The fair value of common share purchase warrants issued in this placement was estimated at \$248,500,

Share issue costs incurred on this private placement included cash cost of \$13,792 and the issue of 114,000 broker warrants valued at \$3,450. Each broker warrant entitles the holder to purchase one common share and one common share purchase warrant at an exercise prices of \$0.05 and expire on March 30, 2020. Each common share purchase warrant entitles the holder to purchase one common share at a price of \$0.05 per warrant for a period of 24 months from the date of closing the private placement. A family member of a director of the Company participated in the financing for \$10,000 (refer to Note 8).

- (ii) On May 14, 2018, the Company issued 2,264,475, common shares of the Company at a fair market value of \$0.035 per common share for an aggregate value of \$79,257 to settle \$113,224, of which \$100,000 was owed to officers of the Company, (Note 8). The gain from settlement of the debt of \$33,967 is recognized in the condensed interim consolidated statement of loss and comprehensive loss.
- (iii) On September 21, 2018, a total of 1,000,000 warrants were exercised for 1,000,000 common shares of the Company for gross proceeds of \$50,000. The fair market value adjustment from the exercise of the warrants was \$15,000.
- (iv) On December 4, 2018, the Company completed a private placement for total gross proceeds of \$219,000 through the issue of 8,760,000 units at a price of \$0.025 per unit. Each unit consisted of one common share of the Company and one full common share purchase warrant exercisable at \$0.05 for 2 years. The fair value of common share purchase warrants issued in this placement was estimated at \$90,400 using the Black-Sholes option pricing model (see note 12).

**Notes to Condensed Interim Consolidated Financial Statements**

*For the three and six months ended June 30, 2019 and 2018*

**12. Warrant Reserve**

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

|                              | <b>Six months ended<br/>June 30, 2019</b> |   | <b>Year ended<br/>December 31, 2018</b> |   |
|------------------------------|---|---|---|---|
|                              | <b>Number<br/>Outstanding</b>             | <b>Weighted<br/>Average<br/>Exercise<br/>Price<br/>\$</b> | <b>Number Outstanding</b>               | <b>Weighted<br/>Average<br/>Exercise<br/>Price<br/>\$</b> |
| Balance, beginning of period | 27,004,908                                | 0.05  | 16,864,746                              | 0.10  |
| Issued                       | 1,500,000                                 | 0.05  | 25,613,148                              | 0.05  |
| Exercised                    | -   | -   | (1,000,000)                             | 0.05  |
| Expired                      | (725,000)                                 | 0.10  | (14,472,986)                            | 0.10  |
| Balance, end of period       | 27,779,908                                | 0.05  | 27,004,908                              | 0.05  |

The exercise price, expiry date, and the fair value assigned to warrants issued and outstanding as at June 30, 2019 are as follows:

| <b>Expiry Date</b> | <b>Weighted<br/>Average<br/>Exercise Price<br/>\$</b> | <b>Fair<br/>Value<br/>\$</b> | <b>Warrants<br/>Outstanding</b> | <b>Contractual<br/>Life<br/>(yr)</b> |
|--------------------|---|------------------------------|---------------------------------|--------------------------------------|
| August 14, 2022    | 0.05  | 10,170                       | 333,500                         | 3.13                                 |
| September 22, 2022 | 0.05  | 63,530                       | 1,333,260                       | 3.13                                 |
| March 30, 2020     | 0.05  | 3,450                        | 114,000                         | 0.75                                 |
| March 30, 2020     | 0.05  | 34,247                       | 2,283,434                       | 0.75                                 |
| April 19, 2020     | 0.05  | 199,253                      | 13,285,714                      | 0.81                                 |
| May 11, 2020       | 0.05  | 8,890                        | 170,000                         | 0.87                                 |
| December 5, 2020   | 0.05  | 90,400                       | 8,760,000                       | 1.44                                 |
| May 1, 2021        | 0.05  | 14,800                       | 1,500,000                       | 1.84                                 |
|                    | 0.05  | 424,740                      | 27,779,908                      | 1.20                                 |

The fair values of the warrants issued during the year ended December 31, 2018 and six months ended June 30, 2019 were estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

|                         | 2019    | 2018           |
|-------------------------|---------|----------------|
| Risk free interest rate | 1.55%   | 1.81% -1.92%   |
| Expected dividend yield | Nil     | Nil            |
| Exercise price          | \$0.015 | \$0.025-\$0.04 |
| Share price             | \$0.05  | \$0.05         |
| Expected volatility     | 180%    | 175% - 174%    |
| Expected life           | 2 years | 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.

## BacTech Environmental Corporation

### Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2019 and 2018

### 13. 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 18, 2018, 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.

|                              | Six months ended<br>June 30, 2019 |  | Year ended<br>December 31, 2018 |  |
|------------------------------|-----------------------------------|--|---------------------------------|--|
|                              | Number<br>Outstanding             | Weighted<br>Average<br>Exercise<br>Price<br>\$ | Number<br>Outstanding           | Weighted<br>Average<br>Exercise<br>Price<br>\$ |
| Balance, beginning of period | 5,500,000                         | 0.08   | 5,390,000                       | 0.09   |
| Granted                      | -                                 | -  | 150,000                         | 0.07   |
| Expired/Cancelled            | -                                 | -  | (40,000)                        | 1.00   |
| Balance, end of period       | 5,500,000                         | 0.08   | 5,500,000                       | 0.08   |

Options to purchase common shares outstanding at June 30, 2019 carry exercise prices and remaining terms to maturity as follows:

| Expiry Date      | Weighted<br>Average<br>Exercise<br>Price<br>\$ | Grant Date<br>Fair Value<br>\$ | Number<br>of<br>Options<br>Outstanding | Number<br>of<br>Options<br>Exercisable | Weighted<br>Average<br>Contractual<br>Life (yr.) |
|------------------|--|--------------------------------|--|--|--|
| March 15, 2021   | 0.07   | 84,390                         | 2,850,000                              | 2,850,000                              | 1.71   |
| April 1, 2022    | 0.07   | 10,425                         | 300,000                                | 300,000                                | 2.76   |
| October 24, 2022 | 0.10   | 81,400                         | 2,200,000                              | 2,200,000                              | 3.32   |
| October 2, 2023  | 0.07   | 4,500                          | 150,000                                | 150,000                                | 4.26   |
|                  | 0.08   | 180,715                        | 5,500,000                              | 5,500,000                              | 2.36   |

During the year ended December 31, 2018, 150,000 new options were granted. The Company recognized a total share based payment expense of \$4,500 for the year ended December 31, 2018 in respect of the options vested during the year. For the six months ended June 30, 2019, the Company did not grant new options and did not have any share based payment expenses. Share based payments expense is included in operating and administrative costs.

# BacTech Environmental Corporation

## Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2019 and 2018

The fair values of the options issued for the year ended December 31, 2018 were estimated using the Black-Scholes option pricing model with the following assumptions:

|                         | 2018    |
|-------------------------|---------|
| Risk free interest rate | 2.42%   |
| Expected dividend yield | Nil     |
| Exercise price          | \$0.07  |
| Share price             | \$0.03  |
| Expected volatility     | 297%    |
| Expected life           | 5 years |

### 14. Loss per Share

The calculation of basic and diluted loss per share for the six months ended June 30, 2019 was based on the loss attributable to common shareholders of \$625,643 (2018 – \$626,614) and the weighted average number of common shares outstanding of 96,903,756 (2018 – 75,468,314). For the three months ended June 30, 2019, basic and diluted loss per share was based on the loss attributable to common shareholders of \$276,740 (2018 – \$355,308) and the weighted average number of common shares outstanding of 96,903,756 (2018 – 82,966,198) and did not include the effect of share purchase options and warrants outstanding as they would be anti-dilutive.

### 15. Operating and Administrative

Operating and administrative expense consists of the following:

|  | Three months ended |                | Six months ended |                |
|--|--------------------|----------------|------------------|----------------|
|  | June 30            |                | June 30          |                |
|  | 2019               | 2018           | 2019             | 2018           |
|  | \$                 | \$             | \$               | \$             |
| Salaries and management fees ( <i>note 8</i> ) | 71,250             | 71,250         | 142,500          | 142,500        |
| Professional fees                              | 28,985             | 37,277         | 59,085           | 80,217         |
| Shareholder information and filing fees        | 39,558             | 62,454         | 71,446           | 116,748        |
| Travel   | 11,129             | 22,286         | 12,685           | 24,932         |
| General office expenses                        | 8,531              | 7,862          | 10,552           | 12,525         |
| Foreign exchange gain/loss                     | (1,846)            | -              | (2,103)          | -              |
| <b>Total</b>                                   | <b>157,607</b>     | <b>201,129</b> | <b>294,165</b>   | <b>376,922</b> |

**Notes to Condensed Interim Consolidated Financial Statements**

*For the three and six months ended June 30, 2019 and 2018*

**16. Finance Charges**

Finance charges consist of the following:

|   | Three months ended |               | Six months ended |                |
|---|--------------------|---------------|------------------|----------------|
|   | June 30            |               | June 30          |                |
|   | 2019               | 2018          | 2019             | 2018           |
|   | \$                 | \$            | \$               | \$             |
| Interest and bank charges               | 385                | 1,525         | 811              | 1,887          |
| Loan payable interest <i>(note (9))</i> | 6,725              | 6,725         | 13,450           | 13,450         |
| Debenture interest <i>(note (10))</i>   | 27,900             | 23,667        | 52,800           | 46,017         |
| Accretion expense <i>(note (10))</i>    | 25,396             | 23,035        | 50,156           | 44,345         |
| <b>Total</b>                            | <b>60,406</b>      | <b>54,952</b> | <b>117,217</b>   | <b>105,699</b> |

**17. 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 sales tax receivable is remote.

***Liquidity risk***

As at June 30, 2019, the Company had a cash balance of \$10,321 (December 31, 2018 - \$25,900) as against current liabilities of \$3,947,360 (December 31, 2018 - \$3,323,813 ). The Company does not have sufficient cash reserves to fund its administrative costs and fund any 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 and debentures 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.

# BacTech Environmental Corporation

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## Notes to Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2019 and 2018

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### *(c) Price risk*

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

### *Classification of financial instruments*

Financial assets included in the statement of financial position are as follows. All of the financial assets are reflected at amortized costs, as at:

|                                     | <b>June 30<br/>2019</b> | <b>December 31<br/>2018</b> |
|-------------------------------------|-------------------------|-----------------------------|
| Financial assets at amortized cost: |                         |                             |
| Cash                                | \$ 10,321               | \$ 25,900                   |
| Other receivables                   | \$ 4,907                | \$ 1,160                    |

Financial liabilities included in the statement of financial position are as follows. All of the financial liabilities are reflected at amortized costs, as at:

|  | <b>June 30<br/>2019</b> | <b>December 31<br/>2018</b> |
|--|-------------------------|-----------------------------|
| Financial liabilities at amortized cost: |                         |                             |
| Payable to Aquila Resources Inc          | \$ 161,294              | \$ 161,294                  |
| Accounts payable and accrued liabilities | \$ 2,692,565            | \$ 2,320,409                |
| Loan payable                             | \$ 150,000              | \$ 150,000                  |
| Debentures                               | \$ 943,501              | \$ 758,145                  |

### *Fair value*

The condensed interim consolidated statements of financial position carrying amounts for cash, receivables and trade payables, approximate fair value due to their short-term nature.

The following provides a description of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**Notes to Condensed Interim Consolidated Financial Statements**

*For the three and six months ended June 30, 2019 and 2018*

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**18. Capital Management**

The Company defines capital as shareholders' equity. The Company's objective when managing its capital is to restore its deficit to a positive balance 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 six months ended June 30, 2019 and year ended December 31, 2018.

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 policy is not known and is ultimately dependent on the discretion of the CSE.

**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, 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 condensed interim consolidated condensed interim consolidated financial statements.

**Net Smelter Return Royalty**

As part of the private placements completed in 2017 and 2018, the Company issued a Net Smelter Return Royalty to certain debenture investors on the Bolivia Project. The total NSR issued to date is 4.73%.

**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.

## Notes to Condensed Interim Consolidated Financial Statements

*For the three and six months ended June 30, 2019 and 2018*

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### **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 \$33,000, 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. If the project does not proceed, the performance bond will be forfeited by the Company.

On December 20, 2018, the Company received notice from COMIBOL that the Company was in breach of the contract. If COMIBOL were to terminate the agreement the performance deposit of \$30,000 would be forfeited. The Company has subsequently presented a draft defined feasibility study to COMIBOL. The Company's management does not believe that the contract has been breached. The Company is still negotiating with COMIBOL with regards to the alleged breach of contract in the hope of seeking a solution for both parties.

Total project expenditures incurred for the six months ended June 30, 2019 were \$234,261 (year ended December 31, 2018 – \$365,693). Of that expenditures incurred on the Bolivia project were \$229,761 with remainder of the expenditures on the other project in the amount of \$4,500.

As part of the private placements completed in 2017 and 2018, the Company issued a NSR Royalty to investors on the Bolivia Project. The total NSR Royalty issued to date is 4.73%.

### **21. Subsequent events**

#### **Debentures**

On April 25, 2019, the Company requested that debenture holders of the Company's 12% debentures maturing this year to extend the term of the debentures for an additional 12 months. In consideration of the extension of the maturity date to April 19, 2020, the Company will issue a common share purchase warrant allowing the investors to purchase a common share of the corporation at five cents for a period of three years for each \$0.05 of debenture held. The Company is currently negotiating with the debenture holders and finalizing the documentation required to complete this extension.

#### **Private Placement**

On July 26, 2019 the Company closed the first tranche of a \$125,000 private placement. The private placement is a unit financing with each \$0.02 unit consisting of one common share of the Company and one-half of a common share purchase warrant. One full warrant enables the holder to purchase one additional common share of the Company at five cents for a period of two years from closing. The first closing of the financing totaled \$75,000.