

# **BacTech Environmental Corporation**

## **Condensed Interim Consolidated Financial Statements**

For the three and nine months ended September 30, 2020 and 2019  
(Unaudited)

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*For the three and nine months ended September 30, 2020 and 2019*

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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  
November 30, 2020



## BacTech Environmental Corporation

### Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

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

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
			\$	\$
<b>Expenses</b>				
Operating and administrative costs (note 15)	135,667	153,000	229,231	447,165
Finance charges (note 16)	34,881	56,498	140,751	173,715
Project expenditures	2,425	3,625	3,807	8,125
Total expense	172,973	213,123	373,789	629,005
Net loss for the period from continuing operations	(172,973)	(213,123)	(373,789)	(629,005)
<b>Other Income</b>				
Gain from forgiveness of debt (Note 8)	-	-	1,219,674	-
Gain from debenture conversion (Note 8)	163,162	-	163,162	-
License fee	-	-	-	20,000
<b>Discontinued Operations (Note 20)</b>				
Loss from discontinued operations	-	(52,591)	-	(282,352)
<b>Net income (loss) and comprehensive income (loss) for the period</b>	<b>9,811</b>	<b>(265,714)</b>	<b>1,009,047</b>	<b>(891,357)</b>
<b>Basic and diluted income (loss) per share (note 14)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.01</b>	<b>(0.01)</b>
<b>Weighted average number of common shares</b>				
<b>Outstanding (note 14)</b>	<b>106,996,009</b>	<b>100,020,423</b>	<b>105,756,886</b>	<b>96,903,756</b>

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 Capital #	Share Capital \$	Option Reserve \$	Warrant Reserve \$	Deficit \$	Total Equity \$
<b>Balance, December 31, 2018</b>	96,903,756	5,411,894	180,715	425,370	(9,268,018)	(3,250,039)
Shares issued pursuant to private placement <i>(note 11(i))</i>	4,250,000	60,800	-	24,200	-	85,000
Warrants issued pursuant to debenture financing <i>(note 10(e))</i>	-	-	-	14,800	-	14,800
Expired warrants	-	-	-	(15,430)	15,430	-
Share issue costs	-	(2,035)	-	-	-	(2,035)
Net loss for the period	-	-	-	-	(891,357)	(891,357)
<b>Balance, September 30, 2019</b>	101,153,756	5,470,659	180,715	448,940	(10,143,945)	(4,043,631)
Expired options	-	-	(31,828)	-	31,828	-
Warrants issued pursuant to debenture extension <i>(note 10(a))</i>	-	-	-	36,803	-	36,803
Net loss for the period	-	-	-	-	(193,254)	(193,254)
<b>Balance, December 31, 2019</b>	101,153,756	5,470,659	148,887	485,743	(10,305,371)	(4,200,082)
Shares issued pursuant to private placement <i>(note 11(ii))</i>	4,266,667	34,150	-	29,850	-	64,000
Shares issued pursuant to private placement <i>(note 11(iv))</i>	3,333,333	65,880	-	-	-	65,880
Shares issued pursuant to debenture conversion <i>(note 11(iii))</i>	8,160,616	244,819	-	-	-	244,819
Share issue costs	-	(31,436)	-	-	-	(31,436)
Share based paymnets <i>(note 12)</i>	-	-	74,900	-	-	74,900
Expired warrants	-	-	-	(245,840)	245,840	-
Net income for the period	-	-	-	-	1,009,047	1,009,047
<b>Balance, September 30, 2020</b>	116,914,372	5,784,072	223,787	269,753	(9,050,484)	(2,772,872)

*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)

	Nine months ended September 30 2020	Nine months ended September 30 2019
	\$	\$
<b>Cash flow from operating activities</b>		
Cash paid to suppliers, employees and consultants	(98,856)	(153,976)
Net cash used in discontinued operations	-	(103,181)
<b>Net cash used in operating activities from continuing operations</b>	<b>(98,856)</b>	<b>(257,157)</b>
<b>Cash flow from financing activities</b>		
Gross proceeds from debenture financing	-	150,000
Gross proceeds from private placements	<b>129,880</b>	85,000
Share issue costs from financings	<b>(31,436)</b>	(2,500)
<b>Net cash provided by financing activities</b>	<b>98,444</b>	<b>232,500</b>
<b>Decrease in cash</b>	<b>(412)</b>	<b>(24,657)</b>
<b>Cash, beginning of the period</b>	<b>5,017</b>	<b>25,900</b>
<b>Cash, end of the period</b>	<b>4,605</b>	<b>1,243</b>

*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 nine months ended September 30, 2020 and 2019*

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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 37 King Street East, Suite 409, Toronto, Ontario, M5C 1E9.

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 realized net income \$1,009,047, which was mainly due to the one time/non-recurring forgiveness of accrued management salary and fees of \$1,219,674 (refer to Note 8) during the nine months ended September 30, 2020, has a working capital deficit of \$2,592,225 at September 30, 2020, 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 and substantial 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 nine months ended September 30, 2020 from existing cash, accounts receivable, two equity private placements for gross proceeds of \$129,880 and a government assistance loan of \$40,000. 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 and substantial 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 nine months ended September 30, 2020 and 2019*

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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, 2019. 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 November 30, 2020.

**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.

**Notes to Condensed Interim Consolidated Financial Statements**

*For the three and nine months ended September 30, 2020 and 2019*

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### **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.

#### **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 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:

- Impairment of deferred assessment and evaluation costs;
- Estimation of decommissioning and restoration costs and the timing of expenditure;
- Assets and liabilities held for sale and Discontinued operations; and
- Commitments and Contingencies refer to Note 19.

### **4. Adoption and Future Changes in Accounting Standards**

Certain pronouncements were issued by the IASB that are mandatory for accounting years on or after January 1, 2020 or later years. Many are not applicable or do not have significant impact on the Company and have been excluded. The following standard is likely to apply to the Company, has not yet been adopted and is being evaluated to determine its impact.

IAS 1 - Presentation of Financial Statements ("IAS 1") was amended in January 2020 to address inconsistencies with how entities apply the standard over classification of current and non-current liabilities. The amendment addresses whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. This amendment is effective for annual years beginning on or after January 1, 2022. Earlier adoption is permitted. The Company is evaluating the impact of the adoption of this amendment on its financial statements but does not expect the impact to be material.

#### **Adoption of Accounting Standards**

The Company has adopted IAS 1 that has been revised to incorporate a new definition of "material" and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, has been revised to refer to this new definition in IAS 1. The amendments were effective for annual years beginning on or after January 1, 2020. This adoption does not have a material effect on the Company.

**Notes to Condensed Interim Consolidated Financial Statements**

*For the three and nine months ended September 30, 2020 and 2019*

**5. Other Receivables**

Other receivables consist of the following:

	September 30 2020 \$	December 31 2019 \$
Sales tax receivable	-	4,114
<b>Total other receivables</b>	<b>-</b>	<b>4,114</b>

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

	September 30 2020 \$	December 31 2019 \$
Plan of Arrangement loan	69,823	69,823
Net accruals/receivables	9,471	9,471
Aquila Debenture payable	82,000	82,000
<b>Total Payable to Aquila Resources Inc.</b>	<b>161,294</b>	<b>161,294</b>

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.

**7. Accounts Payable and Accrued Liabilities**

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

	September 30 2020 \$	December 31 2019 \$
Trade payables	272,727	430,800
Sales tax payable	12,618	-
Accrued liabilities - other	1,286,691	1,105,351
Accrued liabilities – Related parties	-	1,244,363
<b>Total</b>	<b>1,572,036</b>	<b>2,780,514</b>

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.

**Notes to Condensed Interim Consolidated Financial Statements**

*For the three and nine months ended September 30, 2020 and 2019*

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**8. Related Party Transactions**

In accordance with IAS 24, key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company. Related party transactions are in the normal course of business and are recorded at the amount agreed to between the parties.

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

	<b>September 30 2020</b>	September 30 2019
	\$	\$
Salaries and management fees	<b>40,125</b>	142,500
Share based payments	<b>60,000</b>	-
Total	<b>100,125</b>	142,500

Included in accounts payable and accrued liabilities is \$17,665 due to related parties at September 30, 2020 (December 31, 2019 - \$1,244,363). Please refer to additional related party transactions in Share Capital Note 11 for additional related party transactions.

The officers and a consultant of the Company forgave the debts owing to them from accrued salaries and management fees effective June 30, 2020. As a result, no salaries or fees were earned in the first six months up to June 30, 2020 and all related debts owing to them from accrued salaries from previous years were written down to \$Nil.

**9. Loan Payable**

On January 20, 2015, the Company arranged for a loan from a third party. The purpose of the loan was 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 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 at the time of draw down and forms part of finance charges for fiscal 2015.

**Notes to Condensed Interim Consolidated Financial Statements**

*For the three and nine months ended September 30, 2020 and 2019*

**10. Debentures**

Debentures consist of the following as at:

	<b>September 30</b>	December 31
	<b>2020</b>	2019
	\$	\$
Debentures with Bonus Interest (a)	<b>357,500</b>	436,887
Debentures with warrant and Net Smelter Return (“NSR”) (b)		200,000
Debenture with NSR with a maturity date of November 29, 2019 (c)	<b>100,000</b>	100,000
Debenture with NSR with a maturity date of May 14, 2020 (d)	<b>85,000</b>	79,835
Debentures with warrant with maturity of May 1, 2020 (e)	<b>150,000</b>	145,066
Total	<b>692,500</b>	961,788
Less Current Portion	<b>692,500</b>	961,788
Total Long Term Portion	-	-

**(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 that have expired unexercised during the year ended December 31, 2019. 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.

For the debenture holders that have reached their maturity date in fiscal 2019, the Company requested that the debenture holders extend the term of the debentures for an additional 12 months. In consideration of the extension of the maturity date, the Company has offered to issue a common share purchase warrant allowing the investors to purchase a common share of the Company at five cents for a period of three years for each \$0.05 of debenture held. In fiscal 2019, \$145,000 of the debenture holders formally accepted the terms to extend the maturity date for one year. A total of 3,596,00 warrants were issued at a value of \$36,803 (Note 12). These costs are being amortized through accretion expenses and loss of modification of debenture. For further information on the maturity date, please see Subsequent Events Note 22.

On August 20, 2020, an arm’s length debenture holder agreed to convert \$87,500 face value of debentures and the related accrued interest at \$0.05 per share. This transaction resulted in the issuance of 3,083,352 common shares and reduced \$154,168 in debenture and interest owing. For further information on the debenture conversion refer to Captial note 11(iii).

## BacTech Environmental Corporation

### Notes to Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2020 and 2019

For further information on the maturity date extension , please see Subsequent Events Note 21.

	September 30 2020 \$	December 31 2019 \$
Face value of debentures	445,000	445,000
Transactions costs allocated to debentures	(78,850)	(78,850)
Cost of extension of maturity date	(36,803)	(36,803)
Loss on modification of debenture	14,409	14,409
Accumulated accretion	101,244	93,131
Redemptions	(87,500)	93,131
Balance	357,500	436,887

#### (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. The debentures were accompanied by the issuance of 1,666,760 common share purchase warrants and NSR of 0.834% on 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. The NSR was estimated to have a fair value of \$Nil. 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. For further information on the maturity date, please see Subsequent Events Note 22.

On August 20, 2020, an arm's length debenture holder agreed to convert \$200,000 face value of debentures and the related accrued interest at \$0.05 per share. This transaction resulted in the issuance of 5,076,264 common shares and reduced \$253,863 in debenture and interest owing. For further information on the debenture conversion refer to Capital note 11(iii).

	September 30 2020 \$	December 31 2019 \$
Face value of debentures	200,000	200,000
Transactions costs allocated to debentures	(73,700)	(73,700)
Accumulated accretion	73,700	73,700
Redemptions	(200,000)	-
Balance	-	200,000

## BacTech Environmental Corporation

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### Notes to Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2020 and 2019

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#### (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. The debenture was 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. The NSR was estimated to have a fair value of \$Nil. 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. For further information on the maturity date, please see Subsequent Events Note 22.

	September 30 2020	December 31 2019
	\$	\$
Face value of debentures	<b>100,000</b>	100,000
Transactions costs allocated to debentures	<b>(18,000)</b>	(18,000)
Accumulated accretion	<b>18,000</b>	18,000
Balance	<b>100,000</b>	100,000

#### (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. The debentures were 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 Telamayú 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. The NSR was estimated to have a fair value of \$Nil. 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. For further information on the maturity date, please see Subsequent Events Note 22.

## BacTech Environmental Corporation

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### Notes to Condensed Interim Consolidated Financial Statements

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	September 30 2020	December 31 2019
	\$	\$
Face value of debentures	85,000	85,000
Transactions costs allocated to debentures	(27,590)	(27,590)
Accumulated accretion	27,590	22,425
Balance	85,000	79,835

#### (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 would allow the holder to buy additional shares at \$0.05 per share. The Senior Bridge 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 estimated using the Black-Scholes valuation model to be 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. For further information on the maturity date, please see Subsequent Events Note 22.

	September 30 2020	December 31 2019
	\$	\$
Face value of debentures	150,000	150,000
Transactions costs allocated to debentures	(14,800)	(14,800)
Accumulated accretion	14,800	9,866
Balance	150,000	145,066

## 11. Share Capital

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

- (i) On July 26, 2019, the Company completed a private placement for total gross proceeds of \$85,000 through the issue of 4,250,000 units at a price of \$0.02 per unit. Each unit consisted of one common share of the Company and one-half of one 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 \$24,200 using the Black-Scholes option pricing model (see note 12).

A family member of a director of the Company participated in the financing for \$10,000 (refer to Note 8).



**Notes to Condensed Interim Consolidated Financial Statements**

*For the three and nine months ended September 30, 2020 and 2019*

- (ii) On February 13, 2020 and March 20, 2020, the Company completed a private placement for total gross proceeds of \$64,000 through the issue of 4,266,667 units at a price of \$0.015 per unit. Each unit consisted of one common share of the Company and one full common share purchase warrant exercisable at \$0.05 for two years. The fair value of common share purchase warrants issued in this placement was estimated at \$29,850 using the Black-Sholes option pricing model (see note 12).
- (iii) On August 20, 2020, the Company completed the redemption of \$287,500 debentures plus all of the accrued interest for a total value of \$407,981, through the issue of 8,160,616 common shares of the Company at a fair market value of \$244,819. This resulted in a gain on settlement of the debenture of \$163,162 for the nine months ended September 30, 2020.
- (iv) On July 15, 2020, the Company's Tier 2 Regulation A offering memorandum originally filed on April 2, 2020, with the United States Securities and Exchange Commission (SEC) was qualified. BacTech filed an offering to raise up to US\$1.0M to finance the bioleach test work, prefeasibility and feasibility studies and detailed engineering for its Ecuadorian environmental project. It is anticipated that the Company will draw down tranches on an "as needed basis" matching capital raises to project expenditures. The share price for first tranche is US\$0.0150. On September 15, 2020, the Company closed its first tranche for gross proceeds US\$50,000 through the issuance of 3,333,333 common shares.

**12. Warrant Reserve**

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

	<b>Nine months ended September 30, 2020</b>		<b>Year ended December 31, 2019</b>	
	<b>Number Outstanding</b>	<b>Weighted Average Exercise Price \$</b>	<b>Number Outstanding</b>	<b>Weighted Average Exercise Price \$</b>
Balance, beginning of period	33,500,908	0.05	27,004,908	0.05
Issued	4,266,667	0.05	7,221,000	0.05
Exercised	-	-	-	-
Expired	(15,853,148)	0.05	(725,000)	0.10
Balance, end of period	21,914,427	0.05	33,500,908	0.05

## BacTech Environmental Corporation

### Notes to Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2020 and 2019

The exercise price, expiry date, and the fair value assigned to warrants issued and outstanding as at September 30, 2020 are as follows:

<b>Expiry Date</b>	<b>Weighted Average Exercise Price</b> \$	<b>Grant Date Fair Value</b> \$	<b>Warrants Outstanding</b>	<b>Remaining Contractual Life (yr)</b>
August 14, 2022	0.05	10,170	333,500	1.87
September 22, 2022	0.05	63,530	1,333,260	1.98
December 5, 2020	0.05	90,400	8,760,000	0.18
May 1, 2021	0.05	14,800	1,500,000	0.58
July 16, 2021	0.05	24,200	2,125,000	0.79
April 19, 2022	0.05	16,839	1,736,000	1.55
May 12, 2022	0.05	19,964	1,860,000	1.61
February 14, 2022	0.05	14,925	2,133,333	1.37
March 21, 2022	0.05	14,925	2,133,334	1.47
	0.05	269,753	21,914,427	0.87

The fair values of the warrants issued during the nine months ended September 30, 2020 and year ended December 31, 2019 were estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2020	2019
Risk free interest rate	1.32%	1.55%
Expected dividend yield	Nil	Nil
Exercise price	\$0.05	\$0.05
Share price	\$0.015	\$0.05-\$0.03
Expected volatility	254%	108%-194%
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.

### 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.

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For the three and nine months ended September 30, 2020 and 2019

	Nine months ended September 30, 2020		Year ended December 31, 2019	
	Number Outstanding	Weighted Average Exercise Price \$	Number Outstanding	Weighted Average Exercise Price \$
Balance, beginning of period	4,500,000	0.08	5,500,000	0.08
Granted	2,500,000	0.05	-	-
Expired/Cancelled	-	-	(1,000,000)	0.07
Balance, end of period	7,000,000	0.07	4,500,000	0.08

Options to purchase common shares outstanding at September 30, 2020 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	Remaining Weighted Average Contractual Life (yr.)
March 15, 2021	0.07	63,662	2,150,000	2,150,000	0.45
April 1, 2022	0.07	10,425	300,000	300,000	1.50
October 24, 2022	0.10	70,300	1,900,000	1,900,000	2.07
October 2, 2023	0.07	4,500	150,000	150,000	3.01
August 20, 2030	0.05	74,900	2,500,000	2,500,000	9.89
	0.08	223,787	7,000,000	7,000,000	4.36

For the nine months ended September 30, 2020, the Company granted 2,500,000 options with a 10 year life and exercise price of \$0.05. These stock options were issued to those officers and consultants who forgave accrued salaries and fees for the periods up to and ended June 30, 2020.

During the nine months ended September 30, 2020, the Company recognized a total share based payment expense of \$74,900 from the vesting of options granted. For the year ended December 31, 2019, the Company did not grant new options and did not have any share based payment expenses.

The fair values of the options issued during the nine months ended September 30, 2020 were estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2020
Risk free interest rate	0.41%
Expected dividend yield	Nil
Exercise price	\$0.05
Share price	\$0.03
Expected volatility	287%
Expected life	10 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.

**Notes to Condensed Interim Consolidated Financial Statements**

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**14. Income (Loss) per Share**

The calculation of basic and diluted loss per share for the three months ended September 30, 2020 was based on the income attributable to common shareholders of \$9,811 (2019 – net loss of \$265,714) and the weighted average number of common shares outstanding of 106,996,009 (2019 – 100,020,423). For the nine months ended September 30, 2020 income attributable to common shareholders of \$1,009,047 (2019 – net loss of \$891,357) and the weighted average number of common shares outstanding of 105,756,886 (2019 – 96,903,756). The calculation of basic and diluted loss per share for the prior year 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 September 30		Nine months ended September 30	
	2020	2019	2020	2019
	\$	\$	\$	\$
Salaries and management fees (note 8)	41,631	71,250	41,631	213,750
Share based payments	74,900	-	74,900	-
Professional fees	10,786	8,150	50,882	67,235
Shareholder information and filing fees	3,383	73,329	46,417	144,775
Travel	-	(2,358)	360	10,327
General office expenses	4,967	2,629	15,041	13,181
Foreign exchange gain/loss	-	-	-	(2,103)
<b>Total</b>	<b>135,667</b>	<b>153,000</b>	<b>229,231</b>	<b>447,165</b>

**16. Finance Charges**

Finance charges consist of the following:

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
	\$	\$	\$	\$
Interest and bank charges	206	2,623	1,315	3,434
Loan payable interest (note (9))	14,925	6,725	41,625	20,175
Debenture interest (note (10))	19,750	29,400	79,600	82,200
Accretion expense (note (10))	-	17,750	18,211	67,906
<b>Total</b>	<b>34,881</b>	<b>56,498</b>	<b>140,751</b>	<b>173,715</b>

**Notes to Condensed Interim Consolidated Financial Statements**

*For the three and nine months ended September 30, 2020 and 2019*

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**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 September 30, 2020, the Company had a cash balance of \$4,605 (December 31, 2019 - \$5,017) as against current liabilities of \$2,796,477 (December 31, 2019 - \$4,234,243). 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.

While the multiple debt conversions and forgiveness have substantially improved the Company's Statement of Financial Position, its liquidity remains at a parlous low level and it continues to incur costs that will require continued success in additional financings. The addition of the Regulation A mechanism referred to above, substantially improves the prospects of such success.

***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.

***(c) Price risk***

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

## BacTech Environmental Corporation

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### Notes to Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2020 and 2019

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#### *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:

	September 30 2020	December 31 2019
Financial assets at amortized cost:		
Cash	\$ 4,605	\$ 5,017
Other receivables	\$ -	\$ 4,144

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

	September 30 2020	December 31 2019
Financial liabilities at amortized cost:		
Payable to Aquila Resources Inc.	\$ 161,294	\$ 161,294
Accounts payable and accrued liabilities	\$ 1,572,036	\$ 2,780,514
Government assistance	\$ 40,000	\$ -
Loan payable	\$ 150,000	\$ 150,000
Debentures	\$ 692,500	\$ 961,788

#### *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).

## 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.

## Notes to Condensed Interim Consolidated Financial Statements

*For the three and nine months ended September 30, 2020 and 2019*

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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 nine months ended September 30, 2020 and year ended December 31, 2019, with the exception of the Regulation A mechanism for new financings, discussed above, which has substantially enhanced the Company's prospect for a continuing ability to raise additional capital.

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 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. Discontinued operations - 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 called for the environmental remediation and restoration of the "Antigua" tailings and an option on the "Nuevo" tailings, both situated at the Telamayu mill site. The agreement envisions three phases, with the first phase focused on the completion of a technical study on the Antigua tails.

On September 9, 2019, BacTech announced that it will not proceed with the reclamation of the Telamayu tailings project in Bolivia. After completing metallurgical test work on the project and evaluating the

## Notes to Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2020 and 2019

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economics of the project it was decided that the project would be too difficult to finance. BacTech is abandoning the Bolivian subsidiary which is inactive. Management believes that there will be no impact on the business of the Company and accounts payable amounts will not be pursued by vendors.

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 was 4.73%.

The following liabilities have been included in the Company's balance sheet.

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	<b>September 30 2020</b>	December 31 2019 \$
Accruals of discontinued operations	<b>180,647</b>	180,647

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Project expenditures for this entity are included in discontinued operations in the condensed interim consolidated statement of loss for the nine months ended September 30, 2020 and were \$nil (2019 - \$282,352).

## 21. Government assistance

### *Canada Business Emergency Account*

The Company received a \$40,000 emergency business loan under the federal government Canada Business Emergency Account ("CEBA") initiative. In the event the Company repays the \$30,000 by December 31, 2022, there will be no interest payable on the loan and the remaining \$10,000 would be forgiven. In the event there is a loan balance outstanding on January 1, 2023, the loan would be renewed for a three year term with a fixed annual rate of interest of 5%.

## 22. Subsequent events

### **Debentures**

The Company commenced contacting debenture holders of the Company to extend the maturity of the debentures. The Company is offering to settle the outstanding interest and or principal, or a combination thereof, through the issuance of shares at a price of 5 cents for share at the holder's option. There can be no assurance that the debenture holders will agree to any extension or settlement.