

BacTech Environmental Corporation

Annual Consolidated Financial Statements
For the years ended December 31, 2021 and 2020

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For the years ended December 31, 2021 and 2020

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Audit. Tax. Advisory.

Independent Auditor's Report

To the Shareholders of BacTech Environmental Corporation

Opinion

We have audited the consolidated financial statements of BacTech Environmental Corporation and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity (deficiency) and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021 and 2020 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS")

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company's current liabilities exceeded its current assets, has past due liabilities, and has an accumulated deficit at December 31, 2021. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that material uncertainties exist that cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially

inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner of the audit resulting in this independent auditor's report Chris Milios.

McGovern Hurley LLP



**Chartered Professional Accountants
Licensed Public Accountants**

Toronto, Ontario
May 2, 2022

BacTech Environmental Corporation
Annual Consolidated Statements of Financial Position

(Expressed in Canadian dollars, unless otherwise stated)

	As at December 31 2021	As at December 31 2020
	\$	\$
Assets		
Current assets		
Cash	64,285	19,412
Sales taxes receivable	17,848	-
Prepays and deposits (note 22)	152,836	14,261
Total current assets	234,969	33,673
Total assets	234,969	33,673
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (notes 6 and 7)	1,149,737	1,666,791
Government assistance (note 20)	60,000	60,000
Payable to Aquila Resources Inc. (note 5)	161,294	161,294
Loan payable (note 8)	-	150,000
Debentures (note 9)	100,000	615,795
Total current liabilities	1,471,031	2,653,880
Liabilities related to abandoned subsidiary (note 19)	180,647	180,647
Total liabilities	1,651,678	2,834,527
Equity (deficiency)		
Share capital (note 10)	7,830,802	5,787,147
Option reserve (note 12)	528,200	223,787
Warrant reserve (note 11)	883,344	296,198
Deficit	(10,659,055)	(9,107,986)
Total deficiency	(1,416,709)	(2,800,854)
Total liabilities and deficiency	234,969	33,673

Nature of Operations and Going Concern (note 1)

Commitments and Contingencies (note 18)

Subsequent Events (note 22)

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

Approved by the Board

Signed: "Ross Orr"
 Director

Signed: "Jay Richardson"
 Director

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

	Year ended December 31	
	2021	2020
	\$	\$
Expenses		
Operating and administrative costs <i>(note 14)</i>	1,115,435	295,373
Finance charges <i>(note 15)</i>	235,410	222,233
Project expenditures	208,150	4,085
Total expense	1,558,995	521,691
Net loss for the year from operations	(1,558,995)	(521,691)
Other Income		
Gain from forgiveness of debt <i>(note 7)</i>	-	1,219,674
Gain (loss) from debenture conversion <i>(note 9(a))</i>	(37,400)	163,162
Net income (loss) and comprehensive income (loss) for the year	(1,596,395)	861,145
Basic and diluted (loss) income per share <i>(note 13)</i>	(0.01)	0.01
Weighted average number of common shares outstanding <i>(note 13)</i>	139,135,066	108,569,525

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

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

	Share Capital #	Share Capital \$	Option Reserve \$	Warrant Reserve \$	Deficit \$	Total Equity (deficiency) \$
Balance, December 31, 2019	101,153,756	5,470,659	148,887	485,743	(10,305,371)	(4,200,082)
Shares issued pursuant to private placement <i>(note 10(i))</i>	4,266,667	34,150	-	29,850	-	64,000
Shares issued pursuant to debenture conversion <i>(note 10(ii))</i>	8,160,616	244,819	-	-	-	244,819
Shares issued pursuant to private placement <i>(note 10(iii))</i>	3,333,333	65,880	-	-	-	65,880
Warrants issued pursuant to debenture extension <i>(note 9(a), (c) (d) and (e))</i>	-	-	-	116,845	-	116,845
Expired warrants	-	-	-	(336,240)	336,240	-
Share based payments <i>(note 12)</i>	-	-	74,900	-	-	74,900
Share issue costs	-	(28,361)	-	-	-	(28,361)
Net income for the year	-	-	-	-	861,145	861,145
Balance, December 31, 2020	116,914,372	5,787,147	223,787	296,198	(9,107,986)	(2,800,854)
Shares issued pursuant to private placement <i>(note 10(iv))</i>	6,300,000	121,557	-	-	-	121,557
Shares issued pursuant to private placement <i>(note 10(v))</i>	5,116,666	153,500	-	-	-	153,500
Shares issued pursuant to conversion of debenture <i>(note 10 (viii))</i>	680,000	71,400	-	-	-	71,400
Shares issued pursuant to private placement <i>(note 10(ix))</i>	3,312,500	175,600	-	155,650	-	331,250
Shares issued pursuant to conversion of debenture <i>(note 10 (x))</i>	12,000,854	632,425	-	567,660	-	1,200,085
Options exercised <i>(note 10(vi))</i>	1,800,000	140,000	-	-	-	140,000
Fair market value adjustment from exercise of options	-	62,796	(62,796)	-	-	-
Warrants exercised <i>(note 10(vii))</i>	11,631,167	581,559	-	-	-	581,559
Fair market value adjustment from exercise of warrants	-	121,929	-	(121,929)	-	-
Share issue costs	-	(17,111)	-	-	-	(17,111)
Share based payments <i>(note 12)</i>	-	-	398,300	-	-	398,300
Expired options	-	-	(31,091)	-	31,091	-
Expired warrants	-	-	-	(14,235)	14,235	-
Net loss for the year	-	-	-	-	(1,596,395)	(1,596,395)
Balance, December 31, 2021	157,755,559	7,830,802	528,200	883,344	(10,659,055)	(1,416,709)

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

BacTech Environmental Corporation
Annual Consolidated Statements of Cash Flows
(Expressed in Canadian dollars, unless otherwise stated)

	Year ended December 31 2021	Year ended December 31 2020
	\$	\$
Cash flow from operating activities		
Cash paid to suppliers, employees and consultants	(1,190,882)	(147,124)
Net cash used in operating activities	(1,190,882)	(147,124)
Cash flow from financing activities		
Gross proceeds from Government Assistance	-	60,000
Gross proceeds from exercise of warrants	581,559	-
Gross proceeds from exercise of options	140,000	-
Gross proceeds from private placements	606,307	129,880
Share issue costs from financings	(17,111)	(28,361)
Repayment of debenture <i>(note 9(e))</i>	(75,000)	-
Net cash provided by financing activities	1,235,755	161,519
Increase in cash	44,873	14,395
Cash, beginning of the year	19,412	5,017
Cash, end of the year	64,285	19,412

Non-Cash disclosure

Common shares and warrants issued in debenture settlements	1,234,085	-
Stock options expired	31,091	-
Warrants expired	14,235	-

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

Notes to Annual Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

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. The Company has the primary rights and know-how to use a 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.

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 annual 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 loss of 1,596,395, during the year ended December 31, 2021, has a working capital deficit of \$1,236,062 at December 31, 2021, 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 annual consolidated financial statements do not include any adjustments to the carrying values of the Company's assets, liabilities, and expenses and the related statement of financial position and statement of loss classifications that would be necessary if the going concern assumption were inappropriate. Such adjustments have not been quantified by management but could be material.

The Company funded its operations for the year ended December 31, 2021 from existing cash reserves, three equity private placements for gross proceeds of \$606,307, exercise of options for gross proceeds of \$140,000 and exercise of warrants for gross proceeds of \$581,559. The Company does not have sufficient cash reserves to fund its administrative costs and fund any project development initiatives for the coming twelve month year, 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 Annual Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

COVID-19 Pandemic

The Company is subject to various market, political and regulatory constraints as a result of the COVID-19 situation and additional business and financial risks that may result therefrom. The duration of the COVID-19 outbreak and the resultant travel restrictions, social distancing, Government response actions, business closures and disruptions, can all have an impact on the Issuer's operations and access to capital. There can be no assurance that the Issuer will not be impacted by adverse consequences that may be brought about by the COVID-19 pandemic on global financial markets, share prices and financial liquidity and that may severely limit the financing capital available to the Company. While it appears that the pandemic is continuing longer than might originally have been expected, adaptation to the new requirements of a pandemic affected world seems generally to be taking place.

2. Basis of Consolidation and Presentation

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

Statement of Compliance

These annual consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC") effective December 31, 2021.

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

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on May 2, 2022.

Basis of Preparation and Presentation

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

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

Basis of Consolidation

These annual consolidated financial statements comprise the financial statements of the Company and its subsidiaries, Empresa Minera Ambiental BacTech S.A. incorporated in Bolivia, and BacTechVerde S.A.S incorporated in Ecuador. 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 annual consolidated financial statements.

Notes to Annual Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

3. Significant Accounting Policies

Critical Judgements and Estimation Uncertainties

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

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

- Assets' carrying values and impairment charges:

In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount 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.

Notes to Annual Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

3. Significant Accounting Policies - continued

Critical Judgements and Estimation Uncertainties - continued

- Estimation of decommissioning and restoration costs and the timing of expenditure:

The cost estimates are updated annually to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations) and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements 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.

- 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 18.

Notes to Annual Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

3. Significant Accounting Policies - continued

Foreign Currency Translation

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

Environmental Liability, Contingency, and Other Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A legal or constructive obligation to incur restoration, rehabilitation, or environmental costs may arise when environmental disturbance is caused by the exploration, development, or ongoing production of a mineral property interest. Such costs, discounted to their net present value, are provided for and capitalized to the carrying amount of the asset as soon as the obligation to incur such costs arises. Discount rates using a pretax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against net loss over the economic life of the related asset, through depreciation using either a unit-of-production or the straight-line method, as appropriate. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. As at December 31, 2021 and 2020, no such material obligation has been identified.

Impairment of Assets

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

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

Notes to Annual Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

3. Significant Accounting Policies - continued

Financial Instruments

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss (“FVTPL”), at fair value through other comprehensive income (loss) (“FVTOCI”) or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company’s business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

Measurement

Financial assets at FVTOCI

Elected investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently, they are measured at fair value, with gains or losses recognized in other comprehensive loss. The Company does not have any assets or liabilities measured at FVTOCI.

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively. Financial assets and liabilities measured at amortized cost are subsequently measured at the end of each reporting period of amortized cost using the effective interest rate (“EIR”) method. Amortized cost is calculated by taking into account any discounts to premiums on acquisitions and any fees or costs that are an integral part of the EIR. The EIR amortization is included in accretion in the consolidated statements of loss.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of loss. The Company does not have any assets or liabilities measured at FVTPL.

Impairment of financial assets at amortized cost

The Company’s only financial asset subject to impairment are the receivables, which are measured at amortized cost. The Company recognizes an allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve-month expected credit losses. The Company shall recognize in the consolidated statements of comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Notes to Annual Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

3. Significant Accounting Policies - continued

Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of loss.

Financial liabilities

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of loss.

Exploration and Development Activities

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

Loss per Share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants, options, and convertible debentures outstanding that may add to the total number of common shares unless their effect would be anti-dilutive.

Share Based Payments, Option Reserve and Warrant Reserve

The fair values of employee share option plan issuances are measured at the date of grant of the options using the Black-Scholes pricing model, taking into consideration the terms and conditions upon which the options were granted. The resulting cost, as adjusted for the expected and actual level of vesting of the options, is charged to income over the period in which the options vest. At the end of each reporting period before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the number of equity instruments that will ultimately vest. Equity-settled share-based payment transactions with parties other than employees are measured at fair value of the goods or services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments grants, measured at the date the entity obtains the goods or the counterparty renders the service. The value of options outstanding is recorded in the option reserve. The value of expired options is transferred to deficit. The value of warrants outstanding is recorded in the warrant reserve. The value of expired warrants is transferred to deficit.

Notes to Annual Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

3. Significant Accounting Policies - continued

Income Taxes

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

No deferred income tax is recognized for temporary differences arising from the initial recognition of assets or liabilities that affect either accounting or taxable profit or loss.

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted that are expected to be applied to taxable income in the years in which the temporary differences are expected to be recovered or settled.

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

Investment Tax Credits

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

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

Cash

Cash comprises cash in bank and in hand.

Discontinued Operations

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a transaction or disposed by dissolution rather than through continuing use. This condition is met when the sale or dissolution is highly probable, the asset is available for immediate sale or disposal in its present condition and the sale or disposal is expected to be completed within one year from the date of classification. Events or circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset (or disposal group).

Notes to Annual Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

3. Significant Accounting Policies - continued

Non-current assets and disposal groups are classified and presented as discontinued operations if the assets or disposal groups are disposed of or classified as held for sale and:

- the assets or disposal groups are a major line of business or geographical area of operations;
- the assets or disposal groups are part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- the assets or disposal groups are a subsidiary acquired solely for the purpose of resale.

The assets or disposal groups that meet these criteria are measured at the lower of the carrying amount and fair value less cost of disposal, with impairments recognized in the consolidated statement of loss and comprehensive loss. An impairment loss is recognized for any initial or subsequent write-down of the asset or disposal group to fair value less costs to dispose. Non-current assets and liabilities held for sale are presented separately in current assets and liabilities within the consolidated statement of financial position. Assets held for sale are not depreciated, depleted or amortized. The comparative period consolidated statement of financial position is not restated.

The results of discontinued operations are Feshown separately in the consolidated statements of loss and comprehensive loss and cash flows and comparative figures are restated.

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, 2022 or later years. Many are not applicable or do not have significant impact (these included IFRS 9 and IFRS 16) on the Company and have been excluded. The following standards are likely to apply to the Company, have not yet been adopted and are being evaluated to determine their impact.

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended in January 2020 to provide a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments clarify that the classification of liabilities as current or noncurrent is based solely on a company’s right to defer settlement at the reporting date. The right needs to be unconditional and must have substance. The amendments also clarify that the transfer of a company’s own equity instruments is regarded as settlement of a liability, unless it results from the exercise of a conversion option meeting the definition of an equity instrument. The amendments are effective for annual periods beginning on January 1, 2023.

IAS 1 – In February 2021, the IASB issued ‘Disclosure of Accounting Policies’ with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments are effective for year ends beginning on or after January 1, 2023.

IAS 8 – In February 2021, the IASB issued ‘Definition of Accounting Estimates’ to help entities distinguish between accounting policies and accounting estimates. The amendments are effective for year ends beginning on or after January 1, 2023.

Amendments to IFRS 9 – The IASB completed the phase 2 amendments that arose from the implementation of IBOR reforms. The amendments provide a practical expedient for modification of a financial contract as well as a series of exemptions from regular, strict rules around hedge accounting. These amendments are effective for annual periods beginning on or after January 1, 2021.

Notes to Annual Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

4. Adoption and Future Changes in Accounting Standards - continued

IAS 12 – In May 2021, the IASB issued ‘Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction’ that clarifies how entities account for deferred tax on transactions such as leases and decommissioning obligations. The amendments are effective for year ends beginning on or after January 1, 2023.

IFRS 3 – Business Combinations (“IFRS 3”) was amended. The amendments introduce new exceptions to the recognition and measurement principles in IFRS 3 to ensure that the update in references to the revised conceptual framework does not change which assets and liabilities qualify for recognition in a business combination. An acquirer should apply the definition of a liability in IAS 37 – rather than the definition in the Conceptual Framework – to determine whether a present obligation exists at the acquisition date as a result of past events. For a levy in the scope of IFRIC 21, the acquirer should apply the criteria in IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. In addition, the amendments clarify that the acquirer should not recognize a contingent asset at the acquisition date. The amendments are effective for annual periods beginning on January 1, 2022.

IFRS 10 – Consolidated Financial Statements (“IFRS 10”) and IAS 28 – Investments in Associates and Joint Ventures (“IAS 28”) were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined, however early adoption is permitted.

5. Payable to Aquila Resources Inc.

REBgold completed a divisive reorganization by way of a Plan of Arrangement whereby a newly formed subsidiary, BacTech, was granted rights and interests in REBgold’s existing and proposed tailings remediation. During the year ended December 31, 2013, REBgold amalgamated with Aquila Resources Inc. and is hereinafter referred to as “Aquila”. The balance is unsecured, non-interest bearing, and is due on demand.

Notes to Annual Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

6. Accounts Payable and Accrued Liabilities

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

	December 31 2021	December 31 2020
	\$	\$
Trade payables	241,927	266,671
Sales tax payable	-	10,012
Accrued liabilities - other	907,810	1,320,598
Accrued liabilities - related parties	-	69,510
Total	1,149,737	1,666,791

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.

The amounts owing to related parties are unsecured, non-interest bearing and due on demand.

7. 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 year ended:

	December 31 2021	December 31 2020
	\$	\$
Salaries and management fees	170,500	80,250
Share based payments	275,500	60,000
Total	446,000	140,250

Included in accounts payable and accrued liabilities is \$20,110 due to related parties at December 31, 2021 (December 31, 2020 - \$69,510). Please refer to additional related party transactions disclosed in Share Capital Note 10(f).

The officers and a consultant of the Company forgave the debt owing to them from accrued salaries and management fees effective June 30, 2020. As a result, no salaries or fees were earned in the six months ended June 30, 2020 and all related debt owing to them from accrued salaries from previous years were written down to \$Nil. There was no transaction like this in 2021.

Notes to Annual Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

8. 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 repayment of loan payable was completed on November 1, 2021 through the issuance of 4,764,970 common shares and 4,764,970 warrants to settle the outstanding promissory note of \$150,000 and accumulated interest and penalty interest accumulated to the settlement date of \$326,497. For further information on the repayment of the debt see Equity note 10 (x).

9. Debentures

Debentures consist of the following as at:

	December 31 2021	December 31 2020
	\$	\$
Debentures with Bonus Interest (a)	100,000	354,635
Debentures with warrant and Net Smelter Return (“NSR”) (b)	-	-
Debenture with NSR with a maturity date of November 29, 2019 (c)	-	86,400
Debenture with NSR with a maturity date of May 14, 2020 (d)	-	65,470
Debentures with warrant with maturity of May 1, 2020 (e)	-	109,290
Total	100,000	615,795
Less Current Portion	100,000	615,795
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.

Notes to Annual Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

9. Debentures - continued

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 price of \$0.10 for a year 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. In consideration of the extension of the maturity date, the Company has offered to issue a common share purchase warrant allowing the debenture holders to purchase a common share of the Company at five cents for a year of three years for each \$0.05 of debenture held. In fiscal 2020, \$20,000 of the debenture holders formally accepted the terms to extend the maturity date. A total of 496,000 warrants were issued at a value of \$6,072.

These costs are being amortized through accretion expenses and loss of modification of debenture.

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 principal of the debenture and interest owing. For further information on the debenture conversion refer to Share Capital note 10(ii).

On April 19, 2021, an arm's length debenture holder agreed to convert \$25,000 face value of debentures and the \$9,000 of accrued interest. This transaction resulted in the issuance of 680,000 common shares and a 37,400 loss on redemption of debenture. For further information on the debenture conversion refer to Share Capital note 10(viii).

On November 1, 2021, the Company settled the repayment of certain debentures through the issuance of 3,564,822 common shares and 3,564,822 warrants to settle the outstanding debenture face value of \$232,500 and accumulated interest \$123,982. For further information on the repayment of the debt see Equity note 10 (x) .

	December 31	December 31
	2021	2020
	\$	\$
Face value of debentures	445,000	445,000
Transactions costs allocated to debentures	(78,850)	(78,850)
Cost of extension of maturity date	(42,878)	(42,878)
Loss on modification of debenture	14,409	14,409
Accumulated accretion	107,319	104,454
Redemptions and settlements	(345,000)	(87,500)
Balance	100,000	354,635

Notes to Annual Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

9. Debentures - continued

(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 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. Each warrant entitles the holder to purchase one common share at an exercise price of \$0.05 for a year 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.

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 Share Capital note 10(ii).

	December 31 2021	December 31 2020
	\$	\$
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)	(200,000)
Balance	-	-

(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.

The debenture holder reached their maturity date in fiscal 2019. The Company requested that the debenture holder extend the term of the debenture. In consideration of the extension of the maturity date, the Company has offered to issue a common share purchase warrant allowing the investor to purchase a common share of the Company at five cents for a year of three years for each \$0.05 of debenture held. In fiscal 2020, the debenture holder formally accepted the terms to extend the maturity date. A total of 2,480,000 warrants were issued at a value of \$21,300 (Note 11).

Notes to Annual Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

9. Debentures - continued

On November 1, 2021, the Company settled the repayment of this debenture through the issue of 1,470,795 common shares and 1,470,795 warrants to settle the outstanding debenture face value of \$100,000 and accumulated interest \$47,079. For further information on the repayment of the debt see Equity note 10 (ix)

	December 31 2021	December 31 2020
	\$	\$
Face value of debentures	100,000	100,000
Transactions costs allocated to debentures	(18,000)	(18,000)
Cost of extension of maturity date	(21,300)	(21,300)
Accumulated accretion	39,300	25,700
Repayment/Settlement	(100,000)	-
Balance	-	86,400

(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 Telamayau 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. Each broker warrant entitles the holder to purchase one common share and one new warrant at an exercise price of \$0.05 for a year of 24 months from the date of closing the debenture and are valued at \$8,890. Each new warrant entitles the holder to purchase one common share at a price of \$0.05 per new warrant for a year 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.

The debenture holders reached their maturity date in fiscal 2020. The Company requested that the debenture holders extend the term of the debentures. In consideration of the extension of the maturity date, the Company has offered to issue a common share purchase warrant allowing the investor to purchase a common share of the Company at \$0.05 for a year of two years for each \$0.05 of debenture held. In fiscal 2020, the debenture holders formally accepted the terms to extend the maturity date. A total of 2,108,000 warrants were issued at a value of \$28,400. (note 11)

Notes to Annual Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

9. Debentures - continued

On November 1, 2021, the Company settled the repayment of this debenture through the issue of 1,203,786 common shares and 1,203,786 warrants to settle the outstanding debenture face value of \$85,000 and accumulated interest \$35,379. For further information on the repayment of the debt see Equity note 10 (ix)

	December 31	December 31
	2021	2020
	\$	\$
Face value of debentures	85,000	85,000
Transactions costs allocated to debentures	(27,590)	(27,590)
Cost of extension of maturity date	(28,400)	(28,400)
Accumulated accretion	55,990	36,460
Repayment/Settlement	(85,000)	-
Balance	-	65,470

(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. 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.

The debenture holders reached their maturity date in fiscal 2020. The Company requested that the debenture holders extend the term of the debentures. In consideration of the extension of the maturity date, the Company has offered to issue a common share purchase warrant allowing the investor to purchase a common share of the Company at \$0.05 for a year of two years for each \$0.05 of debenture held. In fiscal 2020, the debenture holders formally accepted the terms to extend the maturity date. A total of 3,360,000 warrants were issued at a value of \$61,070. (Note 11)

During the year ended December 31, 2021, BacTech repaid the principal balance of \$75,000 plus interest to one of the convertible debenture holder.

On November 1, 2021, the Company settled the repayment of the remaining debenture through the issue of 996,480 common shares and 996,480 warrants to settle the outstanding debenture face value of \$75,000 and accumulated interest \$24,648. For further information on the repayment of the debt see Equity note 10 (ix)

Notes to Annual Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

9. Debentures - continued

	December 31 2021	December 31 2020
	\$	\$
Face value of debentures	150,000	150,000
Transactions costs allocated to debentures	(14,800)	(14,800)
Cost of extension of maturity date	(61,070)	(61,070)
Accumulated accretion	75,870	35,160
Redemption	(150,000)	-
Balance	-	109,290

10. Share Capital

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

- (i) 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-Scholes option pricing model (see note 11).
- (ii) 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 based on the market value of the Company's shares at August 20, 2020. This resulted in a gain on settlement of the debenture of \$163,162 for the year ended December 31, 2020.
- (iii) 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.. The share price for first tranche is US\$0.0150. On September 15, 2020, the Company closed its first tranche for gross proceeds \$65,800 (US\$50,000) through the issuance of 3,333,333 common shares.
- (iv) On February 2, 2021, the Company completed the second round of financing using the Regulation "A" exemption. In this round the Company raised US\$94,500 (\$121,557) at US\$0.015 per share through the issuance of 6,300,000 common shares.
- (v) On February 5, 2021, the Company completed a non-brokered private placement for gross proceeds of \$153,500 through the issuance of 5,116,666 common shares priced at \$0.03 per share. Four insiders participated in the financing for a total of \$39,000 resulting in the issuance of 1,300,000 common shares.
- (vi) During the year ended December 31, 2021, 1500,000 common stock options were exercised at a price of \$0.07 per share, 200,000 common stock options were exercised at \$0.10 per share and 100,000 common shares were exercised at a price of \$0.15 per share, providing total gross proceeds of \$140,000 to the Company.

Notes to Annual Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

10. Share Capital - continued

- (vii) During the year ended December 31, 2021, a total of 11,631,167 common share purchase warrants were exercised at price of \$0.05 per share, providing gross proceeds of \$581,559 to the Company.
- (viii) On April 19, 2021, an arm's length debenture holder agreed to convert \$25,000 face value of debentures and the \$9,000 of accrued interest through the issuance of 680,000 common shares of the Company at a fair market value of \$71,400 based on the market value of the Company's shares on April 19, 2021. This resulted in a loss on settlement of the debenture of \$37,400 for the year ended December 31, 2021. This transaction resulted in the issuance of 680,000 common shares (Note 9 (a) – Debentures).
- (ix) On October 13, 2021, the Company completed a private placement for gross proceeds of \$331,250 through the issuance of 3,312,500 Units. Each Unit, priced at \$0.10 per Unit, is comprised of one common share and one common share purchase warrant in the capital of the Company. Each whole Warrant will entitle the holder to acquire one additional common share in the capital of the Company at a price of \$0.20 for a period of two years from the date the Units are issued. If, during the exercise period of the Warrants, the Company's shares trade at \$0.40 per share or higher for a year of 20 consecutive trading days on the CSE, the Company may require that they be exercised or otherwise be early terminated.
- (x) On November 1, 2021, the Company reached agreements with 83.1% of its current debenture and loan holders to convert \$642,500 of the Company's outstanding debt and \$557,585 accrued interest into 12,000,854 Units.

Each Unit, priced at \$0.10 per Unit, is comprised of one common share and one common share purchase warrant in the capital of the Company. Each whole Warrant will entitle the holder to acquire one additional common share in the capital of the Company at a price of \$0.20 for a period of two years from the date the Units are issued. If, during the exercise period of the Warrants, the Company's shares trade at \$0.40 per share or higher for a year of 20 consecutive trading days on the CSE, the Company may require that they be exercised or otherwise be early terminated.

BacTech Environmental Corporation

Notes to Annual Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

11. Warrant Reserve

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

	Year ended December 31, 2021		Year ended December 31, 2020	
	Number Outstanding	Weighted Average Exercise Price \$	Number Outstanding	Weighted Average Exercise Price \$
Balance, beginning of year	21,598,427	0.05	33,500,908	0.05
Issued (Note 10 (ix) and (x))	15,313,354	0.20	12,710,667	0.05
Exercised (Note 10(vii))	(11,631,167)	0.05	-	-
Expired	(1,250,000)	0.05	(24,613,148)	0.05
Balance, end of year	24,030,614	0.15	21,598,427	0.05

The exercise price, expiry date, and the fair value assigned to warrants issued and outstanding as at December 31, 2021 are as follows:

Expiry Date	Weighted Average Exercise Price \$	Grant Date Fair Value \$	Warrants Outstanding	Remaining Contractual Life (yr)
September 22, 2022	0.05	63,530	1,333,260	0.73
April 19, 2022	0.05	12,028	1,240,000	0.30
May 12, 2022	0.05	23,006	2,108,000	0.36
June 25, 2022	0.05	3,035	248,000	0.48
May 1, 2022	0.05	30,035	1,680,000	0.33
May 13, 2022	0.05	28,400	2,108,000	0.36
October 14, 2023	0.20	155,650	3,312,500	1.79
November 1, 2023	0.20	567,660	12,000,854	1.84
	0.15	883,344	24,030,614	1.31

The fair values of the warrants issued during the years ended December 31, 2021 and 2020 were estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2021	2020
Risk free interest rate	0.72% to 1.07%	0.36% to 1.32%
Expected dividend yield	Nil	Nil
Exercise price	\$0.20	\$0.05
Share price	\$0.10 to \$0.12	\$0.01 to \$0.02
Expected volatility	247%	186 -254%
Expected life	2 years	2 to 3 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 Annual Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

12. Stock Options

The Company has a stock option plan (the “Plan”), under which the Company may grant options to directors, officers, employees, and third party service providers. Under the terms of the Plan that was re-approved by the shareholders on September 16, 2021, 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 years of up to two years from the date of issue.

	Year ended December 31, 2021		Year ended December 31, 2020	
	Number Outstanding	Weighted Average Exercise Price \$	Number Outstanding	Weighted Average Exercise Price \$
Balance, beginning of year	7,000,000	0.07	4,500,000	0.08
Granted	4,100,000	0.13	2,500,000	0.05
Exercised (<i>note 10 (vi)</i>)	(1,800,000)	0.08	-	-
Expired	(1,050,000)	0.07	-	-
Balance, end of year	8,250,000	0.10	7,000,000	0.07

Options to purchase common shares outstanding at December 31, 2021 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.)
October 24, 2022	0.10	62,900	1,700,000	1,700,000	0.81
October 2, 2023	0.07	1,500	50,000	50,000	1.75
August 20, 2030	0.05	74,900	2,500,000	2,500,000	8.64
March 26, 2026	0.12	217,120	2,200,000	2,200,000	4.24
August 10, 2026	0.15	68,940	700,000	700,000	4.61
September 16, 2026	0.15	102,840	1,100,000	1,100,000	4.71
	0.10	528,200	8,250,000	8,250,000	4.95

For the year ended December 31, 2021, the Company granted 4,100,000 options with a 5 year life and an exercise price ranging from \$0.12 to \$0.15. The Company recognized share based payment expense of \$398,300 for the year ended December 31, 2021.

Notes to Annual Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

12. Stock Options - continued

For the year ended December 31, 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 years up to and ended June 30, 2020. During the year ended December 31, 2020, the Company recognized a total share based payment expense of \$74,900 from the vesting of options granted.

The fair values of the options issued during the year ended December 31, 2021 and 2020 were estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2021	2020
Risk free interest rate	0.87% - 1.11%	0.41%
Expected dividend yield	Nil	Nil
Exercise price	\$0.12-\$0.15	\$0.05
Share price	\$0.10 – \$0.095	\$0.03
Expected volatility	223% - 224%	287%
Expected life	5 years	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.

13. Income (Loss) per Share

The calculation of basic and diluted loss per share for the year ended December 31, 2021 includes a net loss attributable to common shareholders of \$1,596,395 (2020 – net gain of \$861,145) and the weighted average number of common shares outstanding of 139,135,066 (2020 –108,569,525). 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.

14. Operating and Administrative

Operating and administrative expense consists of the following:

	Year ended December 31	
	2021	2020
	\$	\$
Salaries and management fees <i>(note 7)</i>	178,509	81,755
Share based payments <i>(note 12)</i>	398,300	74,900
Professional fees	322,907	57,570
Shareholder information and filing fees	135,865	53,600
Travel	32,356	655
General office expenses	47,498	26,893
Total	1,115,435	295,373

Notes to Annual Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

15. Finance Charges

Finance charges consist of the following:

	Year ended	
	December 31	
	2021	2020
	\$	\$
Interest and bank charges	3,988	3,720
Loan payable interest (note (8))	87,217	55,500
Debenture interest (note (9))	67,500	104,662
Accretion expense (note (9))	76,705	58,351
Total	235,410	222,233

16. Financial Risk Factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to sales tax receivable is remote.

Liquidity risk

As at December 31, 2021, the Company had a cash balance of \$64,285 (December 31, 2020 - \$19,412) against current liabilities of \$1,471,031 (December 31, 2020 - \$2,653,880). The Company does not have sufficient cash reserves to fund its administrative costs and fund any project development initiatives for the coming twelve month year, 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.

Market risk

(c) Interest rate risk

The Company has cash earning interest at a low variable interest rate 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.

Notes to Annual Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

16. Financial Risk Factors - continued

(b) Foreign currency risk

The Company's functional currency is the Canadian dollar. Major purchases are transacted in Canadian dollars. The Company funds certain operations and administrative expenses using United States dollars. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk.

(c) Price risk

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

As at December 31, 2021 and December 31, 2020 the Company does not have any financial instruments measured at fair value and that require classification within the fair value hierarchy.

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:

	December 31 2021	December 31 2020
Financial assets at amortized cost:		
Cash	\$ 64,285	\$ 19,412

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

	December 31 2021	December 31 2020
Financial liabilities at amortized cost:		
Payable to Aquila Resources Inc.	\$ 161,294	\$ 161,294
Accounts payable and accrued liabilities	\$ 1,149,737	\$ 1,666,791
Government assistance	\$ 60,000	\$ 60,000
Loan payable	-	\$ 150,000
Debentures	\$ 100,000	\$ 615,795

Notes to Annual Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

16. Financial Risk Factors - continued

Fair value

The annual 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).

As at December 31, 2021 and December 31, 2020 the Company does not have any financial instruments measured at fair value and that require classification within the fair value hierarchy.

17. 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 year ended December 31, 2021 and year ended December 31, 2020.

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.

Notes to Annual Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

18. Commitments and Contingencies

Management contract

The Company currently has employment agreements with the provision of termination and change of control benefits with the two officers of the Company. The agreements for each 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. As a triggering event has not taken place, the contingent payments have not been reflected in these annual 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.

19. Liabilities related to abandoned Subsidiary

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 envisioned three phases, with the first phase focused on the completion of a technical study on the Antigua tails.

On September 9, 2019, the Company announced that it would not proceed with the reclamation of the Telamayu tailings project in Bolivia. After completing metallurgical test work on the project and evaluating the economics of the project, it was decided that the project would be too difficult to finance. The Company has abandoned 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 beyond their recourse against the abandoned subsidiary.

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

	December 31 2021	December 31 2020
Liabilities related to abandoned subsidiary	180,647	180,647

Notes to Annual Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

20. Government assistance

Canada Business Emergency Account

In fiscal 2020, the Company received a \$60,000 emergency business loan under the federal government Canada Business Emergency Account (“CEBA”) initiative. In the event the Company repays the \$40,000 by December 31, 2022, there will be no interest payable on the loan and the remaining \$20,000 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%.

21. Income Tax

a) Provision for Income Taxes

Major items causing the Company's effective income tax rate to differ from the combined Canadian federal and provincial statutory rate of 26.5% (2021 - 26.5%) were as follows:

	2021	2020
	\$	\$
Loss before income taxes	(1,596,395)	(861,145)
Expected income tax recovery based on statutory rate	(423,000)	(228,000)
Adjustment to expected income tax benefit:		
Tax rate changes and other adjustments		
Non-deductible expenses	212,000	-
Other	(5,000)	(8,000)
Change in unrecorded Deferred tax asset	216,000	236,000
Deferred income tax recovery	-	-

b) Deferred Income tax

Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

Unrecognized Deferred Tax Assets	2021	2020
	\$	\$
Non-capital losses carried forward	8,089,000	8,440,000
SR&ED pool	594,000	594,000
Research and development tax credits	123,000	123,000
Donations	3,000	3,000
Share issue and finance costs	187,000	235,000
Mineral interests	1,535,000	1,535,000
Equipment and intangible assets	1,958,000	1,958,000
Equipment and intangible assets	12,489,000	12,888,000

BacTech Environmental Corporation

Notes to Annual Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

21. Income Tax - continued

Share issue and finance costs will be fully amortized by December 31, 2025.

Research and development tax credits expire 2031 to 2040.

The remaining deductible temporary differences are expected to carry forward indefinitely.

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available which the group can utilize the benefits therefrom.

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

2030	\$ 162,000
2031	1,223,000
2032	747,000
2033	962,000
2034	200,000
2035	677,000
2036	987,000
2037	919,000
2038	1,082,000
2039	939,000
2040	-
2041	191,000
Total	8,089,000

Notes to Annual Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

22. Subsequent Events

Private Placement

On March 1, 2022, the Company announced it had closed the first tranche of its previously announced financing for gross proceeds of \$1.21M at a price of \$0.20 per Unit.

On April 21, 2022, the Company announced it had received an additional \$900,000 in subscription agreements for a second tranche of this financing which will be closed in the coming week.

The issue price of the Units was \$0.20 per unit. Units are comprised of (i) one (1) common share in the capital of the Company (or its successor), (ii) one (1) transferable common share purchase warrant. Each whole Warrant shall entitle the holder thereof to acquire one (1) additional common share in the capital of the Company (or its successor) at a price of \$0.30 per Warrant Share until the date that is twenty-four (24) months from the Closing Date. If the holder of the warrant exercises the warrant in the first 6 months they will participate in an additional royalty to be issued by the Company. Only the people who exercise the warrant would participate in the new royalty to be issued. And (iii) a Royalty Certificate representing the Royalty Incentive.

Debenture

On April 21, 2022, the Company announced that it has arranged for a \$1M convertible debenture with an existing strategic investor. The terms of the convertible debentures call for a conversion at \$0.15 per share, an annual interest rate of 8% and a term of 18 months.

Land Purchase

The Company has an option to purchase a parcel of land to be used for the operations in Tenguel. The Company has placed total of USD 95,000 (\$126,825) non-refundable deposit with the vendor, as the Company completes the applications made to the Ministries of Mining, Water and Environment, for approval of a water usage license, and tailings approval for the post bioleach residues. This transaction is expected to close in quarter two of year 2022.

Exercise of Warrants

Subsequent to December 31, 2021, a total of 1,162,000 common share purchase warrants were exercised at price of \$0.05 per share, providing gross proceeds of \$80,600 to the Company.