

## **BACTECH MINING CORPORATION**

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### **Report to Shareholders for the Nine Month Period Ended September 30, 2004**

#### **Highlights**

- Continued progress at Tonkin Springs and McKinnon Creek
- New opportunity in the Philippines

#### **Management's Discussion and Analysis**

Management's discussion and analysis ("MD&A") should be read in conjunction with the unaudited interim financial statements of the Company for the nine month period ended September 30, 2004, and the MD&A and the audited financial statements for the transition period ended December 31, 2003. Additional information with respect to the Company is also available on SEDAR at [www.sedar.com](http://www.sedar.com), including the Annual Report and Annual Information Form. The date of this MD&A is November 25, 2004.

BacTech Mining Corporation ("BacTech") continues to focus on its strategy of acquiring equity interests in mining projects and transitioning to active mining operations. BacTech is in the development stage of operations whereby expenditures exceed revenues. While the strategy should provide more opportunity to create shareholder value, it will require significant financings and be subject to the risks associated with mineral prices, mineral resources and operations.

#### Corporate Profile

BacTech owns proprietary bioleaching technology that liberates precious and base metals from difficult to treat sulphide ores and concentrates. It has the advantages of improving metal recovery at significantly lower capital and operating costs when compared to traditional treatment methods such as smelting, roasting and pressure oxidation. Historically BacTech had operated as a licensor of its technology to third party mining companies. As of the beginning of 2003, the Company altered its business strategy to one that de-emphasizes licensing and focuses on acquiring equity interests in mining projects and transitioning to active mining operations. To better reflect this change in direction, on December 8, 2003 the Company changed its name to BacTech Mining Corporation.

BacTech is a Canadian listed public company with its shares traded on the TSX Venture Exchange under the symbol "BM". The origins of BacTech date back to research undertaken in Kings College, London, England, and subsequently Western Australia. In 1997, the Company was incorporated in Canada and began trading on the CDNX market.

The largest single shareholder of BacTech is Sun Valley Gold LLC, which controls of approximately 21% of the issued and outstanding common shares while management and directors control 8%.

The commercial application of bioleaching to the gold industry has been well demonstrated over the past fifteen years, and we expect its use will continue to expand. BacTech has already commercially proven its technology as a treatment process for gold with three commercial

plants, two in Australia and one in China. The Company has also successfully designed and operated a bioleach demonstration plant for copper liberation through its joint venture in Mexico with Industrias Peñoles S.A. de C.V. and Mintek of South Africa.

### Tonkin Springs

In July 2003, the Company acquired a 55% interest in the Tonkin Springs gold project in Nevada for a purchase cost of US\$1,750,000. In addition, the Company is obligated to expend the initial US\$12 million for development costs to bring the mine into commercial production. If the mine has not reached commercial production following these expenditures, the Company will be obligated to arrange financing for U.S. Gold's 45% share of any remaining development expenditures. The Company has paid a total of US\$1,250,000 to date towards the purchase cost, and the balance of US\$500,000 is due at the rate of US\$62,500 per month for the next eight months. BacTech is the operator of the joint venture.

The Company has made development expenditures amounting to \$3.2 million (US\$2.5 million) in the nine month period ended September 30, 2004 and \$5.3 million (US\$ 4.0 million) since the acquisition date, toward the Company's US\$12 million initial funding obligation.

An independent engineering firm, Micon International Limited, completed a feasibility study in April 2004. On the basis of the engineering and cost studies discussed in the feasibility study, Micon concluded that the Tonkin Springs project was both technically and economically viable and recommended commercial development. Bulk samples and recent drilling have provided new information to test some assumptions made in the Micon study, in particular assumptions that were dependent on historic metallurgical and mining information. Preliminary results from recent testing and assaying activities indicate that the production plan outlined in the feasibility study may not be achievable at the projected cost reported by Micon. Additional confirmatory work, including investigation of alternative processing options, is in progress and is expected to be completed during the first quarter of 2005.

Advancement of the environmental impact study announced in the first quarter of 2004 progressed during the quarter at a reduced pace, pending results of the current mining and metallurgical program. The Company also deferred its exploration program announced June 14, 2004 pending definitive results from this work program. In addition, given the increased level of exploration activity surrounding Tonkin Springs on the Cortez Trend in Nevada, the Company intends to restructure its current exploration program to include Lower Plate geology and is evaluating its options. The Company will require additional financing to complete further development and exploration work.

On September 30, 2004, the Company submitted a revised reclamation plan covering the eventual closure of the Tonkin Springs property to the US Bureau of Land Management (BLM). As a result, the Company is required to establish additional performance guarantees amounting to \$1.4 million (US\$1.1 million) in favour of BLM. These guarantees must be in the form of restricted cash deposits or letters of credit or performance bonds issued by financial institutions acceptable to BLM. Any cash outlays associated with providing the bonds will be borne entirely by the Company under the terms of the Tonkin Springs joint venture until the Company has funded its initial US\$12 million funding obligation. The Company is investigating a number of options for providing the required guarantees to BLM in a cost effective manner or alternatively funding any cash bonding requirements over the coming year.

### McKinnon Creek

In November 2003, the Company acquired an option to purchase the McKinnon Creek polymetallic deposit in southeastern British Columbia, Canada. The Company has paid \$317,000 to date to maintain the option.

The option expires in December 2004. Negotiations with the seller to extend the option through to December 2005 are underway, and the terms under which the Company would purchase the property are under negotiation. Work underway for the remainder of 2004 includes conceptual studies, a baseline environmental assessment to support permit applications, and bulk sampling and drilling of the underground resource to verify historical data and provide new samples for confirmatory metallurgical testing and environmental studies. Based on these activities, the Company expects to make a decision prior to the expiry date as to whether to seek an extension of the option.

### China Joint Venture

The Company reported in its MD&A for the period ended June 30, 2004 dated August 26, 2004 that it was considering participation in a newly formed joint venture company with Michelago Limited, an Australian public company, and Shandong Tarzan Biogold Co., Ltd. through an investment in Michelago. The Company has elected not to pursue this investment but is pursuing a relationship with Michelago that allows the Company the right to back into 30% of any refractory gold projects identified by Michelago in China.

### Philippines

In September 2004, the Company signed a joint venture memorandum of understanding with Medusa Mining Limited of Perth, Western Australia relating to the identification of refractory gold-copper deposits in the Philippines. The Dizon tailings project is the first project to be evaluated by the two parties under this agreement.

The Company is currently performing metallurgical testing on the Dizon project to determine the extent to which the tailings may be amenable to the Company's bioleaching technology and to gain a better understanding of the metal content of this ore body. The Company expects to make preliminary decisions as to the technological and economic viability of the project in the second quarter of 2005.

### Financing Activities

The Company received \$Nil as proceeds upon the exercise of stock options and common share warrants for common shares during the quarter and \$637,000 during the nine months ended September 30, 2004.

The Company is actively pursuing several financing opportunities to improve the Company's liquidity position going forward, with the intention of raising \$2.5 to \$4 million in the next two to three months. These opportunities have not generated firm commitments of funds to date, and there is no assurance that the Company will be successful in obtaining such financing on terms acceptable to the Company, if at all.

## Results of Operations

The Company is in the development stage of operations whereby expenditures exceed revenues. Operations and administrative expenditures are charged to income when incurred. Also due to the change in business strategy early in 2003 the Company is no longer licencing its technology for gold and/or other base metal products. Accordingly, there is no longer this source of income.

For the three months ended September 30, 2004, the Company incurred a loss of \$425,000, compared to a loss of \$334,000 during the same period of 2003. No revenues were earned from licensing technology or royalties during the current period, compared to \$150,000 in 2003. Operating and administrative expenses for the three month period were \$337,000 compared to \$401,000 in 2003.

For the nine months ended September 30, 2004, the Company incurred a loss of \$1,482,000, compared to a loss of \$1,064,000 during the same period of 2003. No revenues were earned from licensing technology or royalties during the current period compared to \$251,000 in 2003. Operating and administrative expenses for the six month period were \$1,218,000 compared to \$1,141,000 in 2003.

## Cash Flow Analysis

For the three month period ended September 30, 2004, there were no cash receipts from customers compared to \$71,000 in the same period in 2003. Significant outflows during the quarter included payments to suppliers of \$523,000 versus \$115,000 in 2003, and increased investment in the Company's mineral interests in Tonkin Springs and McKinnon Creek of \$969,000 versus \$735,000 in 2003. On the financing side, the Company received \$Nil as proceeds upon the exercise of stock options and common share warrants for common shares during the quarter compared to \$485,000 in 2003.

For the nine month period ended September 30, 2004, there were no cash receipts from customers compared to \$172,000 in the comparative period in 2003. Significant outflows during the nine month period included payments to suppliers of \$1,000,000 versus \$695,000 in 2003, and increased investment in the Company's mineral interests in Tonkin Springs and McKinnon Creek of \$3,337,000 versus \$1,179,000 in the comparative period in 2003. On the financing side, the Company received net proceeds of \$3,000,000 from the issue of a redeemable debenture with Prudent Global Income Fund in March 2004, and \$637,000 as proceeds upon the exercise of stock options and common share warrants for common shares during the nine month period compared to \$1,466,000 in the same period 2003.

### Quarterly Information (\$000's)

	2004				2003				2002		
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	-	-	-	-	150	-	102	2	-	126	49
Net Income(Loss) Basic and fully diluted loss per share	(425)	(624)	(433)	133	(334)	(322)	(409)	(303)	(359)	(264)	(356)
	(0.01)	(0.02)	(0.01)	0.00	(0.02)	(0.02)	(0.03)	(0.02)	(0.02)	(0.03)	(0.03)

As of the beginning of 2003, the Company altered its business strategy from selling licenses to one that focuses on acquiring equity interests in mining projects and subsequent conversion to a mine operator.

### Liquidity and Cash Resources

#### i) Comparison of current quarter with corresponding quarter ended September 30, 2003

The Company's cash position at September 30, 2004 was \$3,075,000, including a temporary investment of \$875,000, compared to \$90,000 in the prior period ended September 30, 2003. This cash increase was due largely to new financings in this time period resulting in net proceeds of \$10,523,000. The Company used the new financings to reduce outstanding accounts payable, to make payments of \$1,032,000 (US\$787,500) due to U.S. Gold in connection with the Tonkin Springs acquisition, and to fund metallurgical and development work on the Tonkin Springs and McKinnon Creek projects amounting to \$4,505,000. Ongoing operational costs absorbed \$2,038,000.

The Company will not be able to undertake substantive development or pre-operating work at its properties without new financing. The Company is pursuing several opportunities to raise capital, but there is no assurance that the Company will be successful in obtaining such financing on terms acceptable to the Company, if at all.

#### ii) Comparison of current quarter with financial year ended December 31, 2003

The Company's cash position at June 30, 2004 was \$3,075,000, including a temporary investment of \$875,000, compared to \$4,033,000 at December 31, 2003, including a temporary investment of \$1,000,000. The Company used the \$3,637,000 in new financing during the nine months ended September 30, 2004 to fund development work on the Tonkin Springs and McKinnon Creek projects and ongoing operational costs.

### Risks and Uncertainties

Reference is made to the "risk and uncertainties" section of the "Management Discussion and Analysis" included in the Annual Report and Annual Information Form for the period ended December 31, 2003 for further details.

## Outlook for 2004

For the remainder of 2004, the Company will focus on proceeding toward definitive conclusions with regards to the metallurgy of Tonkin Springs, McKinnon Creek and Dizon and on securing appropriate financing. The Company is also seeking to identify additional acquisition targets on a global basis.

### **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

Except for statements of historical fact relating to the Corporation, certain information contained herein constitutes "forward-looking statements" within the meaning of Section 21E of the United States Securities Exchange Act of 1934, as amended. Forward-looking statements are frequently characterized by words such as "plan," "expect," "project," "intend," "believe," "anticipate" and other similar words, or statements that certain events or conditions "may" or "will" occur. Forward-looking statements are based on the opinions and estimates of management at the date the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These factors include the inherent risks involved in the exploration and development of mineral properties, the uncertainties involved in interpreting drilling results and other ecological data, fluctuating metal prices, the possibility of project cost overruns or unanticipated costs and expenses, uncertainties relating to the availability and costs of financing needed in the future and other factors described in the section entitled "General Development of the Business of the Company - Risks of the Business" in the Corporation's annual information form dated May 17, 2004. Circumstances or management's estimates or opinions could change. The reader is cautioned not to place undue reliance on forward-looking statements.



**BACTECH MINING CORPORATION**  
**INTERIM FINANCIAL STATEMENTS**  
**(Unaudited)**

**For the nine months  
ended September 30, 2004**

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

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor, Moore Stephens Cooper Molyneux LLP, has not performed a review of these financial statements in accordance with standards established by the Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

BacTech Mining Corporation  
November 25, 2004

**BACTECH MINING CORPORATION**  
**Consolidated Balance Sheets**  
(in Canadian dollars)

	<b>September 30</b>	<b>December 31</b>
	<b>2004</b>	<b>2003</b>
	(unaudited)	(audited)
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 2,199,631	\$ 3,032,716
Temporary investment	875,000	1,000,000
Accounts receivable and prepaid expenses	270,551	126,527
	<u>3,345,182</u>	<u>4,159,243</u>
Equipment	28,109	20,631
Deferred financing costs	70,168	-
Mineral interests	8,221,826	4,356,923
Investments	25,000	-
Reclamation deposit	1,258,863	1,302,836
	<u>\$ 12,949,148</u>	<u>\$ 9,839,633</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 1,596,281	\$ 703,661
Due to US Gold Corporation	709,650	972,375
Convertible debt	-	1,103,813
	<u>2,305,931</u>	<u>2,779,849</u>
Debenture payable (Note 4)	2,793,000	-
Provision for reclamation liabilities (Note 5)	1,069,590	917,287
	<u>6,168,521</u>	<u>3,697,136</u>
<b>Shareholders' Equity</b>		
Share capital	13,038,342	11,174,003
Contributed surplus	2,186,675	1,931,002
Deficit	(8,444,390)	(6,962,508)
	<u>6,780,627</u>	<u>6,142,497</u>
	<u>\$ 12,949,148</u>	<u>\$ 9,839,633</u>

**BACTECH MINING CORPORATION**  
**Consolidated Statements of Operations and Deficit**  
**For the three and nine months ended September 30**  
**(in Canadian dollars, unaudited)**

	Three months ended September 30		Nine months ended September 30	
	2004	2003	2004	2003
Revenue	\$ -	\$ 149,656	\$ -	\$ 251,434
<b>Expenses</b>				
Operating and administrative costs	336,757	400,700	1,218,445	1,140,779
Amortization	5,014	172,172	14,432	217,062
Interest expense	85,814	26,471	195,110	76,672
Accretion expense	19,157	12,430	57,176	12,430
Foreign exchange	4,390	(126,999)	41,643	(127,127)
	<u>451,132</u>	<u>484,774</u>	<u>1,526,806</u>	<u>1,319,816</u>
Loss from operations	(451,132)	(335,118)	(1,526,806)	(1,068,382)
Interest income	<u>25,960</u>	<u>1,241</u>	<u>44,924</u>	<u>3,884</u>
Loss for period	(425,172)	(333,877)	(1,481,882)	(1,064,498)
Deficit, beginning of period	<u>(8,019,218)</u>	<u>(6,761,668)</u>	<u>(6,962,508)</u>	<u>(6,031,047)</u>
Deficit, end of period	\$ <u>(8,444,390)</u>	\$ <u>(7,095,545)</u>	\$ <u>(8,444,390)</u>	\$ <u>(7,095,545)</u>
Basic and fully diluted loss per share (Note 2)	\$ <u>(0.01)</u>	\$ <u>(0.02)</u>	\$ <u>(0.04)</u>	\$ <u>(0.08)</u>
Weighted average shares outstanding	<u>37,413,701</u>	<u>16,310,475</u>	<u>36,162,507</u>	<u>13,912,287</u>

**BACTECH MINING CORPORATION**  
**Consolidated Statements of Cash Flows**  
**For the three and nine months ended September 30**  
**(in Canadian dollars, unaudited)**

	Three months ended September 30		Nine months ended September 30	
	2004	2003	2004	2003
<b>Cash flows from operating activities</b>				
Cash receipts from customers	\$ -	\$ 71,341	\$ -	\$ 171,911
Cash paid to suppliers, employees and consultants	(523,464)	(114,575)	(999,840)	(695,410)
Interest income received	8,333	1,241	27,297	3,884
	<u>(515,131)</u>	<u>(41,993)</u>	<u>(972,543)</u>	<u>(519,615)</u>
<b>Cash flow from investing activities</b>				
Temporary investment	-	-	125,000	-
Purchase of equipment	-	-	(12,875)	(3,571)
Purchase of investment	-	-	(25,000)	-
Investment in mineral interests	(969,469)	(734,990)	(3,337,004)	(1,178,658)
Repayment of amounts due to US Gold Corporation	(247,500)	-	(247,500)	-
	<u>(1,216,969)</u>	<u>(734,990)</u>	<u>(3,497,379)</u>	<u>(1,182,229)</u>
<b>Cash flows from financing activities</b>				
Issue of debenture	-	-	3,000,000	-
Issue of common shares	-	485,000	636,837	1,466,920
	<u>-</u>	<u>485,000</u>	<u>3,636,837</u>	<u>1,466,920</u>
Increase (decrease) in cash during the period	(1,732,100)	(291,983)	(833,085)	(234,924)
Cash, beginning of period	<u>3,931,731</u>	<u>382,002</u>	<u>3,032,716</u>	<u>324,943</u>
Cash, end of period	\$ <u>2,199,631</u>	\$ <u>90,019</u>	\$ <u>2,199,631</u>	\$ <u>90,019</u>

**Notes:**

1. These financial statements should be read in conjunction with those for the three month period ended December 31, 2003 as set out in the Company's annual report. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using the same accounting policies and methods of computation as were used for the audited financial statements for the three month period ended December 31, 2003.

2. Basic earnings (loss) per share are determined by dividing the net earnings (loss) by the weighted average number of shares outstanding during the period. Diluted earnings (loss) per share are computed using the treasury stock method by dividing the net earnings (loss) by the sum of the weighted average number of common shares outstanding and all additional shares that would have been outstanding if potentially dilutive shares had been issued during the period.

3. During the period, 325,000 options were granted to employees and an officer of the Company. The fair value of the options granted has been estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

Dividend yield	Nil
Expected volatility	40.0%
Risk free interest rate	2.2%
Expected life – years	2.0

Compensation expense recorded under the fair value method of accounting was \$Nil for the three months ended September 30, 2004 (2003 - \$48,110) and \$48,673 for the nine months ended September 30, 2004 (2003 - \$103,870).

4. During the period the Company issued a debenture amounting to \$3,000,000, bearing interest at a fixed rate of 10% per year end and due on March 15, 2009. The debenture is redeemable after September 15, 2005 and may be repaid in cash, gold or BacTech common shares. If the Company chooses to redeem the debenture in BacTech common shares, the deemed price per share will be the lesser of the closing price on the trading day prior to the redemption date and 110% of the twenty day weighted average trading price prior to redemption, but in any event cannot be less than \$0.72.

As part of this financing transaction, the Company also issued 2,000,000 common share purchase warrants to the lender, each warrant entitling the holder to purchase common shares of BacTech at a price of \$1.00 prior to March 15, 2006. As a result, the debenture has been accounted for as having both a debt and an equity component in accordance with the accounting standards of the CICA. The warrants were valued at their estimated fair value of \$207,000 using the Black-Scholes option-pricing model with the following assumptions:

Dividend yield	Nil
Expected volatility	40.0%
Risk free interest rate	2.2%
Expected life – years	2.0

5. On September 30, 2004, the Company completed a review of its reclamation liabilities related to closure of the Tonkin Springs mine and revised its estimate of the net present value of these liabilities. This review resulted in an increase of \$120,897 in the estimated reclamation

provision, which is reflected in these financial statements as an increase in the provision for reclamation liabilities and an offsetting increase in the carrying value of the Company's mineral interests.

A summary of the changes in the provision for reclamation liabilities during the period is set out below.

Balance – January 1, 2004	\$917,287
Accretion expense	57,176
Foreign exchange gain	(25,770)
Impact of re-measurement of liability	<u>120,897</u>
Balance – September 30, 2004	<u>\$1,069,590</u>

The key assumptions on which the carrying value of this liability is based are set out below.

- (1) Total undiscounted amount of estimated cash flows related to reclamation activities - \$2.0 million.
- (2) Expected timing of cash flows – 2013, based on the expected life of mining property.
- (3) Risk-adjusted discount rate – 8.5%.

6. At November 25, 2004, the issued and outstanding common shares of the Company totaled 37,447,412. On a fully diluted basis there would be 65,379,147 common shares outstanding.