Non-consolidated Financial Statements of

GRADEK ENERGY INC.

Years ended December 31, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Gradek Energy Inc.

We have audited the accompanying non-consolidated financial statements of Gradek Energy Inc., which comprise the non-consolidated balance sheets as at December 31, 2013 and 2012 and the non-consolidated statements of comprehensive operations and deficit and non-consolidated cash flows for each of the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Non-consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the non-consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements.

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

Opinion

In our opinion, the non-consolidated financial statements present fairly, in all material respects, the non-consolidated financial position of Gradek Energy Inc. as at December 31, 2013 and 2012, and its non-consolidated results of operations and its non-consolidated cash flows for the years then ended, in accordance with Canadian accounting standards for private enterprises.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 in the financial statements which indicates that Gradek Energy Inc. is a development stage company that has generated limited revenue and has relied upon financing to fund its development. The Company has incurred significant losses since inception, negative cash flows and has negative working capital and a significant deficit. The ability of the Company to continue as a going concern is largely dependent on its ability to obtain adequate financing. These conditions, along with other matters as set forth in Note 1 in the non-consolidated financial statements, indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

KPMG LLP*

April 30, 2014

Montréal, Canada

*CPA auditor, CA, public accountancy permit No. A109612

GRADEK ENERGY INC.

Non-consolidated Balance Sheets

December 31, 2013 and 2012

	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	$ 541,534	$ 1,113,753
Prepaid expenses	–	18,052
Other receivables (note 2)	1,242,271	1,906,059
	1,783,805	3,037,864
Investment in subsidiary	1	1
Property, plant and equipment (note 3)	4,583,613	4,314,814
Due from parent company (note 7)	165,368	165,368
Deferred financing costs	449,592	553,333
	$ 6,982,379	$ 8,071,380
Liabilities and Shareholder's Deficit		
Current liabilities:		
Accounts payable and accrued liabilities (note 4)	$ 1,210,477	$ 458,696
Other liabilities (note 5)	2,298,859	1,013,813
	3,509,336	1,472,509
Long-term debt (note 6)	257,745	237,553
Due to related parties (note 7)	414,286	260,386
Deferred credits	2,050,893	2,057,895
Convertible debentures (note 8)	9,691,408	9,404,996
Shareholder's deficit:		
Share capital (note 9)	1,000	1,000
Deficit	(8,942,289)	(5,362,959)
	(8,941,289)	(5,361,959)
Going concern (note 1 (a))		
Commitments and contingencies (note 15)		
	$ 6,982,379	$ 8,071,380

See accompanying notes to non-consolidated financial statements.

On behalf of the Board:

______________________ Director

______________________ Director

GRADEK ENERGY INC.

Non-consolidated Statements of Comprehensive Operations and Deficit

Years ended December 31, 2013 and 2012

	2013	2012
Revenue:		
Other income (note 2)	$ 660,437	$ 1,112,677
Finance income	7,055	16,343
	667,492	1,129,020
Expenditures:		
Research and development	3,273,166	2,106,287
Operating and administrative	444,576	1,138,091
Finance costs (note 10)	529,080	454,122
	4,246,822	3,698,500
Net comprehensive loss	(3,579,330)	(2,569,480)
Deficit, beginning of year	(5,362,959)	(2,793,479)
Deficit, end of year	$ (8,942,289)	$ (5,362,959)

See accompanying notes to non-consolidated financial statements.

GRADEK ENERGY INC.

Non-consolidated Statements of Cash Flows

Years ended December 31, 2013 and 2012

		2013		2012
Cash provided by (used in):				
Operating:				
Net comprehensive loss	$	(3,579,330)	$	(2,569,480)
Items not involving cash:				
Amortization of property, plant and equipment		692,039		276,151
Amortization of deferred financing costs		103,741		97,312
Amortization of deferred credits		(247,463)		(98,275)
Accretion of interest free loan		20,192		8,972
Interest on convertible debentures		286,412		263,691
Interest on other liabilities		47,964		55,497
		(2,676,445)		(1,966,132)
Change in non-cash operating working capital:				
Decrease in other receivables		663,788		1,205,041
Increase in accounts payable and accrued liabilities		797,962		309,011
Decrease (increase) in prepaid expenses		18,052		(18,052)
		(1,196,643)		(470,132)
Financing:				
Increase in other liabilities		2,141,610		265,000
Repayment of other liabilities		(904,528)		(210,472)
Increase in due to related parties		153,900		–
Proceeds from convertible debentures		–		1,500,000
Deferred financing fees paid for convertible debentures		–		(104,450)
Proceeds from long-term debt		–		279,423
		1,390,982		1,729,501
Investing:				
Purchase of property, plant and equipment		(1,007,019)		(1,491,405)
Increase in deferred credits		240,461		546,335
Proceeds on sale of marketable securities		–		20,615
		(766,558)		(924,455)
(Decrease) increase in cash and cash equivalents		(572,219)		334,914
Cash and cash equivalents, beginning of year		1,113,753		778,839
Cash and cash equivalents, end of year	$	541,534	$	1,113,753
Supplemental cash flow information:				
Property, plant and equipment included in accounts payable and accrued liabilities	$	95,492	$	141,673

See accompanying notes to non-consolidated financial statements.

Gradek Energy Inc. (the "Company") is a privately-held development stage company incorporated on May 15, 2001 under the *Canadian Business Corporations Act.* The Company is in the process of commercializing the manufacturing, sale and supply of Re-usable Hydrocarbon Sorbent Technology beads and the fabrication, modification and supply of parts and equipment required to construct full scale processing plants.

1. Significant accounting policies:

These non-consolidated financial statements are prepared in accordance with Canadian accounting standards for private enterprises. The Company's significant accounting policies are as follows:

(a) Going concern:

These non-consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. To date the company has generated limited revenue and has relied upon financing to fund its operations, research and development activities and construction of its facilities primarily through government financial assistance, investment tax credits, convertibles debentures and advances from shareholders. The ability of the Company to continue as a going concern and realize its assets and discharge its liabilities in the normal course of business is dependent upon future events, including successful completion of its development activities, commercialization of the technology and obtaining adequate financing. Management is of the opinion that sufficient working capital will be obtained from future cash flows to meet the Company's liabilities and commitments as they become payable and is presently in the process of obtaining additional financing. The Company is a development stage company, has incurred, since inception, significant negative cash flows and has negative working capital and a significant deficit. The ability to continue operations in the future depends upon the successful completion of financing arrangements. These conditions indicate the existence of material uncertainties that may cast doubt about the Company's ability to continue as a going concern.

These non-consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these non-consolidated financial statements, then adjustments would be necessary to the carrying value of assets, the reported revenues and expenses, and the balance sheet classifications used to reflect these on a liquidation basis which could differ significantly from accounting principles applicable to a going concern.

1. Significant accounting policies (continued):

(b) Cash and cash equivalents:

Cash and cash equivalents include cash on hand and short-term deposits which are highly liquid with original maturities of less than three months at the date of acquisition. These financial assets are convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

(c) Investment in subsidiary:

The Company accounts for its investment in its subsidiary using the cost method.

(d) Property, plant and equipment:

Property, plant and equipment are stated at cost, less accumulated amortization. Amortization is provided using the following method and annual rates once the property, plant and equipment is available for its intended use:

Asset	Basis	Rate
Computer equipment	Straight-line	2 years
Rolling stock	Straight-line	3 years
Furniture and fixtures	Straight-line	5 years
Machinery and equipment	Straight-line	5 years
Extraction equipment	Straight-line	5 years
Buildings	Straight-line	15 years

In the year of acquisition, depreciation is provided at 50% of the above rates.

The carrying amount of an item of property, plant and equipment is tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the asset's carrying amount is not recoverable and exceeds its fair value.

1. Significant accounting policies (continued):

(e) Foreign currency translation:

Monetary items denominated in a foreign currency and non-monetary items carried at market are adjusted at the balance sheet date to reflect the exchange rate in effect at that date. Exchange gains and losses are included in the determination of net income for the period.

(f) Research and development:

Research expenditures are expensed in the period in which they are incurred. Development expenditures that meet the criteria for deferral are capitalized; otherwise they are expensed in the period in which they are incurred. There are currently no development expenditures that have been capitalized.

(g) Deferred financing costs:

Financing costs, which are associated with convertible debentures, are deferred and amortized using the straight-line method.

(h) Deferred credits:

Deferred credits pertain to government assistance and investment tax credits obtained by the Company for capital expenditures. They are deferred and amortized to income on the same basis as the related item of property, plant and equipment is depreciated.

(i) Convertible debentures:

The Company accounts for convertible debt instruments by measuring the equity component as nil.

(j) Financial instruments:

The Company's financial instruments consist of cash and cash equivalents, marketable securities, trade and other receivables, trade and other payables, other liabilities, due to subsidiary company, due to parent company, due to shareholder and long-term debt. Cash and cash equivalents, trade and other receivables and trade and other payables fair value approximate cost. The fair value of due to parent company, due to shareholder and long-term debt approximates the carrying value given that the interest rates of each debt are variable.

1. Significant accounting policies (continued):

(k) Related party transactions:

Monetary related party transactions and non-monetary related party transactions that have commercial substance are measured at the exchange amount when they are in the normal course of business, except when the transaction is an exchange of a product or property held for sale in the normal course of operations. Where the transaction is not in the normal course of operations, it is measured at the exchange amount when there is a substantive change in the ownership of the item transferred and there is independent evidence of the exchange amount.

All other related party transactions are measured at the carrying amount.

(l) Income taxes:

The Company uses the taxes payable method to account for income taxes whereby the expense (income) of the year consists only of the cost (benefit) of current income taxes for that year, determined in accordance with the rules established by taxation authorities.

(m) Use of estimates:

The preparation of the non-consolidated financial statements in conformity with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the non-consolidated financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

2. Other receivables and other income:

The detail of other receivables is as follows:

	2013	2012
Investment tax credits	$ 1,215,819	$ 1,843,369
Sales taxes	26,452	62,690
	$ 1,242,271	$ 1,906,059

2. Other receivables and other income (continued):

Income for the year ended December 31, 2013 is entirely comprised of investment tax credits related to current expenses and revenues. During the year, $314,921 (2012 - $184,356) of investment tax credits receivable relating to previous claims were expensed and applied against other income.

3. Property, plant and equipment:

			2013
	Cost	Accumulated amortization	Net book value
Buildings	$ 177,182	$ 5,906	$ 171,276
Extraction equipment	4,113,419	411,342	3,702,077
Furniture and fixtures	31,241	17,551	13,690
Rolling stock	115,237	115,237	–
Computer equipment	81,873	76,396	5,477
Machinery and equipment	1,233,185	542,092	691,093
	$ 5,752,137	$ 1,168,524	$ 4,583,613

			2012
	Cost	Accumulated amortization	Net book value
Construction in progress - equipment	$ 3,430,503	$ –	$ 3,430,503
Furniture and fixtures	31,241	11,303	19,938
Rolling stock	115,237	96,031	19,206
Computer equipment	81,873	63,622	18,251
Machinery and equipment	1,132,445	305,529	826,916
	$ 4,791,299	$ 476,485	$ 4,314,814

4. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities as at December 31, 2013 are government remittances payable of $17,920 (2012 - $77,215) relating to payroll taxes, health taxes and workers' safety insurance.

5. Other liabilities:

The detail of other liabilities is as follows:

	2013	2012
Amount payable to a creditor bearing interest at prime plus 2%	$ 1,007,249	$ 959,285
Loan from Investissement Québec bearing interest at the prime rate plus 3%	741,610	–
Loan from Investissement Québec bearing interest at the prime rate plus 3.5%	550,000	–
Loan from Investissement Québec bearing interest at the prime rate plus 5.5%	–	54,528
	$ 2,298,859	$ 1,013,813

The loans from Investissement Québec are specifically attributed to help finance the investment tax credits relating to research and development costs incurred.

6. Long-term debt:

The detail of long-term debt is as follows:

	2013	2012
Interest free loan from Minister of Economic Development repayable in five equal annual installments of $80,971. The first installment is due on August 15, 2017.	$ 404,859	$ 404,859
Fair value adjustment on the interest free loan (i)	(147,114)	(167,306)
	$ 257,745	$ 237,553

(i) The fair value of the interest free loan was determined using a similar rate as the pre-existing loan from other government authorities and the capital repayment schedule as per the agreement.

7. Due to related parties and due from parent company:

Amounts due to related parties consist of amounts due to the subsidiary company, parent company and shareholder. The detail of these amounts is as follows:

	2013	2012
Due to subsidiary company for which interest terms are not yet established repayable in full upon revenue generation	$ 199,000	$ 199,000
Due to parent company for which interest and repayment terms are not yet established	2,000	2,000
Due to an officer of the Company for which interest and repayment terms are not yet established	63,286	59,386
Due to an officer of the Company for which interest and repayment terms are not yet established	150,000	–
	$ 414,286	$ 260,386

The amount due from the parent company is non-interest bearing and has no specific terms of repayment.

8. Convertible debentures:

The detail of convertible debentures is as follows:

	2013	2012
Principal	$ 9,000,000	$ 9,000,000
Accrued interest	691,408	404,996
	$ 9,691,408	$ 9,404,996

8. Convertible debentures (continued):

During the year ended December 31, 2011, the Company signed an agreement with the Dundee Corporation and Gradek Energy Canada Inc. (GEC) which restated, consolidated, amended and replaced all previously issued convertible secured debentures. Under this agreement the Company and GEC promise to pay Dundee Corporation (the "Holder") at the earlier of April 30, 2018 or not less than six months from the receipt date that is set forth in a written notice sent by the Holder the total amount of $7.5 million plus applicable interest bearing the Royal Bank of Canada prime rate compounded daily calculated from the date of issuance of November 29, 2011. The Holder may at its option elect to convert the debenture, in whole or in part, at any time and from time to time from the date of issuance to the maturity date of April 30, 2018.

The debenture is convertible into 1 common share unit meaning a unit of 1 common share of the Company and 1 warrant at a conversion price of $2.33. Should the conversion rights be exercised by the Holder pursuant to a forced conversion or a prepayment event under specific articles of the agreement, in each such case, the exercise of each warrant entitles the Holder to acquire 1 common share of the Company or GEC, or such combination of common shares of Company or GEC at the option of the Holder, for an exercise price of $2.79 per underlying share.

The warrants may only be exercised in GEC pursuant to a primary or secondary public offering (IPO) of GEC or a combination of hereof:

The Holder shall have a 3-month period following an IPO to exercise its warrants as follows:

Up to and including October 31, 2014 (the "First Period") each warrant shall entitle the Holder to acquire one common share of GEC at an exercise price equal to the IPO price per share, less 15%. Should an IPO commence within the 3-month period prior to the expiry of the First Period, then the First Period shall be extended accordingly to provide the Holder with a clear 3-month period from the close of the IPO to exercise the warrants.

Should an IPO of GEC have not commenced within the First Period but occurs prior to January 30, 2018 (the "Second Period") then for each 3/4 of a warrant held by the Holder, it shall be entitled to acquire 1 common share of GEC at the IPO price per share less 15%. Should an IPO commence within the 3-month period prior to the expiry of the Second Period, then the Second Period shall be extended accordingly to provide the Holder with a clear 3-month period from the close of the IPO to exercise the warrants.

If, by the expiry of the Second Period, GEC has not commenced an IPO, then for each ½ warrant held by the Holder, it shall be entitled to acquire 1 common share of the Company at the conversion price of $2.33.

8. Convertible debentures (continued):

Should the conversion rights be exercised by the Holder pursuant to a forced conversion or a prepayment event triggered by a 60-day written notice submitted to the Holder by the Company or GEC then, in each such case, the exercise of each warrant entitles the Holder to acquire one common share of the Company or GEC, or such combination of common shares of the Company or GEC at the option of the Holder, for an exercise price of $2.79 per underlying share. However, in an event of a forced conversion the Holder shall be entitled to exercise its conversion rights at the conversion price of $2.33 during the said 60-day period provided in the notice.

All unexercised warrants shall lapse on April 30, 2018.

On May 14, 2012, the Company issued an additional $1.5 million of convertible debentures to the Dundee Corporation bearing the same terms and conditions as described above except for the conversion price which is $1.25 per common share unit.

The convertible debentures are hypothecated for the total sum of $9 million plus interest thereon bearing the rate of 25% to and in favor of the Holder by the universality of the Company's present and future, wherever located, of any nature and kind whatsoever movable property. The convertible debentures are also hypothecated by all of the issued and outstanding shares of GEC owned by the Company.

9. Share capital:

	2013	2012
Authorized:		
Unlimited number of Class A, Class B, Class C, Class D, Class E and Class F common shares all voting, participating, without par value		
Issued:		
6,800,000 Class A common shares	$ 1,000	$ 1,000

10. Finance costs:

	2013	2012
Interest on convertible debentures	$ 286,412	$ 263,691
Amortization of deferred financing costs	103,741	97,312
Interest on contractor loans	47,964	55,497
Other finance costs	24,930	28,650
Accretion of interest free loan	20,192	8,972
Interest on other liabilities	45,841	–
	$ 529,080	$ 454,122

11. Related party transactions:

RHST Development Inc., the parent company, provides valuable know how in the various extraction methods under the terms of a licensing agreement expiring only under specific default conditions. The costs of these services has been determined to be a 4% royalty calculated based on the net sales of all licensed products manufactured and sold by the Company payable monthly for all sales made during the previous month.

The Company, granted to GEC, its subsidiary company, a license to use its polymer product strictly for its sale, distribution and commercialization and an exclusive license to use, develop, manufacture, produce, sell, distribute and commercialize the process and know-how for its product in Canada expiring only under specific default conditions. In return for a royalty calculated based on the net sales of all licensed products manufactured and sold by GEC and all affiliates and sub-licensees payable monthly for all sales made during the previous month.

The Company, is engaged in the manufacture, production, sale, distribution and commercialization of RHST beads (the "Beads") to GEC, under the terms of a supply agreement expiring only under specific default conditions. The price of the Beads supplied to GEC shall be equal to the total costs of manufacturing the Beads plus a profit margin.

12. Income taxes:

For income tax purposes, the Company has losses which can be applied to reduce future years' taxable income. These losses expire as follows:

	Federal	Provincial
2024	$ 113,876	$ –
2025	69,146	41,145
2026	53,676	53,676
2027	81,103	81,103
2028	188,815	188,815
2029	234,156	234,156
2030	1,404,361	3,160,731
2031	2,651,029	4,083,185
2033	2,067,667	1,950,912
	$ 6,863,829	$ 9,793,723

As at December 31, 2013, the Company also had approximately $800,000 (2012 - $725,000) of unused investment tax credits. The potential income tax benefit arising from this difference has not been recognized in these financial statements.

13. Lease commitments:

The Company's total commitments, under various operating leases and a property lease agreement, exclusive of occupancy costs, are as follows:

2014	$ 131,300
2015	50,400

14. Financial risks and concentration of risk:

(a) Currency risk:

The Company is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates. The Company purchases fixed assets denominated in U.S. dollars and euros. The Company does not currently enter into forward contracts to mitigate this risk.

14. Financial risks and concentration of risk (continued):

(b) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Company deals with creditworthy counterparties to mitigate the risk of financial loss from defaults.

(c) Liquidity risk:

Liquidity risk is the risk that the Company will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Company manages its liquidity risk by monitoring its operating requirements. The Company prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

(d) Cash flow risk:

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount, such as a debt instrument held with a floating interest rate.

(e) Interest rate risk:

The Company's long-term debt has a variable interest rate based on the bank prime rate plus a margin. As a result, the Company is exposed to interest rate risk due to fluctuations in the the bank prime rate.

15. Commitments and contingencies:

(a) The Corporation has granted a total of 1,050,000 options subject to the Corporation obtaining the required corporate approvals and consents to certain of its Executive Officers. The Officers will be eligible to participate in the stock option plan which the Corporation intends to implement in the context of a private placement.

(b) The Company has been named a defendant in three legal actions claiming total damages in the amount of $425,000. Management is of the opinion that there is a strong defense against these claims. Accordingly, no provision for losses has been reflected in the accounts of the Company for these matters.