

KLEANGAS ENERGY TECHNOLOGIES INC**Balance Sheet**

As of December 31, 2015

	<u>Dec 31, 15</u>
ASSETS	
Current Assets	
Cash	2,195
TOTAL ASSETS	<u>2,195</u>
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts payable and accrued expenses	3,088,990
Accrued expenses - officer	300,000
Convertible notes payable, net of original interest discount	709,998
Accrued interest - notes payable	61,019
Note payable	50,000
Derivative liability	5,713,050
Total Current Liabilities	<u>9,923,057</u>
 Total Liabilities	<u>9,923,057</u>
Equity	
Common stock	3,363
Preferred stock	8
Additional paid in capital	25,145,693
Retained Earnings	-34,111,297
Net loss	-958,629
Total Equity	<u>-9,920,862</u>
TOTAL LIABILITIES & EQUITY	<u>2,195</u>

KLEANGAS ENERGY TECHNOLOGIES INC**Profit & Loss**

January through December 2015

Jan - Dec 15

Revenues	-
Cost of Revenues	-
Gross profit	-
Expense	
Selling, general and administrative	144,026
Consulting	189,000
Professional fees	7,250
Total Operating Expenses	340,276
Operating Loss	(340,276)
Other Income/Expense	
Loss from change in derivative liabilities	-
Interest expense-amortization of debt discount	536,401
Interest expense-other	81,952
Total Other Expense	618,353
Net Income (loss)	<u>(958,629)</u>

KLEANGAS ENERGY TECHNOLOGIES INC**Statement of Cash Flows**

January through December 2015

	<u>Jan 1 - Dec 31, 2015</u>
OPERATING ACTIVITIES	
Net Loss	-958,629
Adjustments to reconcile Net loss to net cash provided by operations:	
Interest expense-amortization of debt discount	536,401
Original interest discount	
Changes in operating assets and liabilities	
Accounts payable and accrued expenses	369,672
Net cash used by Operating Activities	<u>-52,556</u>
FINANCING ACTIVITIES	
Proceeds from notes payable	43,750
Net cash provided by Financing Activities	<u>43,750</u>
Net cash increase for period	-8,806
Cash at beginning of period	11,001
Cash at end of period	<u><u>2,195</u></u>

KLEANGAS ENERGY TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Financial Statements (unaudited)

NOTE 1 – BUSINESS DESCRIPTION

Business

Kleangas Energy Technologies, Inc., (the "Company"), was incorporated in the State of Delaware on June 24, 2010. The Company acquired Green Day Technologies, Inc., a Florida corporation, as a wholly owned subsidiary on January 15, 2014 pursuant to a share exchange agreement. The Company acquired Second Cycle Recycling Inc. ("SCR"), a private corporation, as a wholly owned subsidiary on June 3, 2014 pursuant to a share exchange agreement.

The Company is in the GREEN ENERGY business and currently is selling wood pellets made from waste wood.

Green Day Technologies Inc. Share Exchange Agreement

The Board of Directors (the "Board") of the "Company", approved the execution of a share exchange agreement dated November 15, 2013 (the "Share Exchange Agreement") with Green Day Technologies Inc., a Florida corporation ("Green Day"). On December 18, 2013, the Company and Green Day entered into and executed an amendment to the Share Exchange Agreement (the "Amendment"). In accordance with the terms and provisions of the Amendment to Share Exchange Agreement: (i) the shareholders of Green Day (the "Green Day Shareholders") shall tender their shares of common stock to the Company in exchange for the issuance by the Company of its shares of restricted common stock on the basis of one share of common stock of Green Day for seventeen (17) shares of common stock of the Company; and (ii) the Green Day Shareholders shall tender to the Company their shares of preferred stock of the Company in exchange for the issuance by the Company of a corresponding share on a one to one basis of either its Series A, B, C or D Preferred stock. Effective January 15, 2014, Green Day became a wholly owned subsidiary of the Company.

Upon consummation of the Share Exchange and the Purchase Right, Green Day Management controls a majority of the issued and outstanding shares of common stock of the Company and Bo Linton was appointed as Chairman of the Board and Chief Executive Officer of Kleangas. It should be noted that voting control of the Company did not change as a result of the Share Exchange with Green Day due to the fact that each share of Series E Preferred Stock votes equivalent to 10,000,000 shares of common stock. As of the date of the Share Exchange there were 10,000,000 shares of Series E Preferred Stock outstanding. Therefor the Company did not account for the Share Exchange as a reverse merger.

Second Cycle Recycling Inc. Stock Purchase Agreement

On June 3, 2014, the Board of Directors of Kleangas Energy Technologies, Inc. a Delaware corporation (the "Company"), finalized and authorized the execution of that certain stock purchase agreement dated June 3, 2014 (the "Stock Purchase Agreement") with Lori Willis ("Willis"), the sole shareholder of record of Second Cycle Recycling Inc., a private corporation ("SCR"). In accordance with the terms and provisions of the Stock Purchase Agreement, the Company shall acquire from Willis 100% of the total issued and outstanding shares of common stock of SCR in consideration of the purchase price of \$300,000.00 (the "Purchase Price"), which shall include all the assets of SCR. Thus, SCR will become the wholly-owned subsidiary of the Company.

The Purchase Price shall be paid as follows: (i) issuance by the Company of 25,000,000 shares of its restricted common stock with a per share price of \$0.004 for aggregate valuation of \$100,000; and (ii) \$200,000 with (a) \$5,000 paid upon closing of the Stock Purchase Agreement, (b) \$2,000 per week until the new facility is generating sufficient revenue pursuant to which the remaining balance would be paid in full or payments would be accelerated, (c) \$500 per week to be applied to start-up expenses until the new facility is generating sufficient revenue pursuant to which the remaining balance would be paid in full or payments would be accelerated.

In further accordance of the terms and provisions of the Stock Purchase Agreement, the Company will invest \$500,000 worth of equity and equipment over the next twelvemonths to expand the operations of SCR. Willis agrees to a non-compete agreement for a minimum of two years. It is anticipated that the Company will enter into an employment agreement with Willis as soon as SCR achieves profitability.

The closing of the Stock Purchase Agreement occurred on June 16, 2014 with the issuance of the 25,000,000 shares and payment of the \$5,000 to Willis.

SCR is a paper pellet manufacturer that makes paper without a binder. The paper pellets are comprised 100% of paper without the use of gums, plastics or rubber to hold the pellets together. SCR has successfully infused fertilizer into its paper pellets. The pellets were tested by an independent lab. SCR will be applying for its land application permit with the State of Indiana and thus believes that this will open up markets into the horticulture, landscaping and farming industries. SCR has also successfully made kitty litter from its pellets and sells its products to pet store customers. The current products sold by SCR are animal bedding pellets, kitty litter, home heating pellets and absorbing pellets.

Basis of Presentation

The accompanying consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP") and are presented in U.S. dollars.

The accompanying unaudited quarterly financial statements have been prepared on a basis consistent with generally accepted accounting principles in the United States ("GAAP") for interim financial information and pursuant to the rules of the Securities and Exchange Commission ("SEC"). In the opinion of management, the accompanying unaudited financial statements reflect all adjustments, consisting of only normal and recurring adjustments, necessary for a fair presentation of the results of operations, financial position and cash flows for the periods presented. The results of operations for the periods are not necessarily indicative of the results expected for the full year or any future period. These statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2013 as filed with the SEC on April 16, 2014 (the "2013 Annual Report").

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of the financial statements in conformity with Generally Accepted Accounting Principles ("GAAP") 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 dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Earnings Per Share

FASB ASC 260, "Earnings per Share" provides for calculation of "basic" and "diluted" earnings per share. Basic net earnings per common share are determined by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Diluted net earnings per common share is computed by dividing net loss by the weighted average number of shares of common stock and potentially outstanding shares of common stock during each period.

Income Taxes

We use the asset and liability method of accounting for income taxes in accordance with ASC Topic 740, "Income Taxes." Under this method, income tax expense is recognized for the amount of: (i) taxes payable or refundable for the current year and (ii) deferred tax consequences of temporary differences resulting from matters that have been recognized in an entity's financial statements or tax returns. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is provided to reduce the deferred tax assets reported if based on the weight of the available positive and negative evidence, it is more likely than not some portion or all of the deferred tax assets will not be realized.

ASC Topic 740.10.30 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Topic 740.10.40 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We have no material uncertain tax positions for any of the reporting periods presented.

Fair Value Measurements

The Company adopted the provisions of ASC Topic 820, “Fair Value Measurements and Disclosures”, which defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value and expands disclosure of fair value measurements.

The estimated fair value of certain financial instruments, including cash and cash equivalents, accrued expenses are carried at historical cost basis, which approximates their fair values because of the short-term nature of these instruments. The carrying amounts of our short and long term credit obligations approximate fair value because the effective yields on these obligations, which include contractual interest rates taken together with other features such as concurrent issuances of warrants and/or embedded conversion options, are comparable to rates of returns for instruments of similar credit risk.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 describes three levels of inputs that may be used to measure fair value:

- Level 1 — quoted prices in active markets for identical assets or liabilities
- Level 2 — quoted prices for similar assets and liabilities in active markets or inputs that are observable
- Level 3 — inputs that are unobservable (for example cash flow modeling inputs based on assumptions)

The derivative liability in connection with the conversion feature of the convertible debt, classified as a level 3 liability, is the only financial liability measured at fair value on a recurring basis

Convertible Instruments

The Company evaluates and account for conversion options embedded in convertible instruments in accordance with ASC 815 “Derivatives and Hedging Activities”.

Applicable GAAP requires companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments according to certain criteria. The criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under other GAAP with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument.

Convertible Instruments

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The Company accounts for convertible instruments (when we have determined that the embedded conversion options should not be bifurcated from their host instruments) as follows: The Company records when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their stated date of redemption.

The Company accounts for the conversion of convertible debt when a conversion option has been bifurcated using the general extinguishment standards. The debt and equity linked derivatives are removed at their carrying amounts and the shares issued are measured at their then-current fair value, with any difference recorded as a gain or loss on extinguishment of the two separate accounting liabilities

Stock-Based Compensation

The Company recognizes compensation expense for stock-based compensation in accordance with ASC Topic 718. For employee stock-based awards, we calculate the fair value of the award on the date of grant using the Black-Scholes method for stock options and the quoted price of our common stock for unrestricted shares; the expense is recognized over the service period for awards expected to vest. For non-employee stock-based awards, we calculate the fair value of the award on the date of grant in the same manner as employee awards, however, the awards are revalued at the end of each reporting period and the pro rata compensation expense is adjusted accordingly until such time the nonemployee award is fully vested, at which time the total compensation recognized to date equals the fair value of the stock-based award as calculated on the measurement date, which is the date at which the award recipient's performance is complete. The estimation of stock-based awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from original estimates, such amounts are recorded as a cumulative adjustment in the period estimates are revised. We consider many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience.

NOTE 3 – GOING CONCERN

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the Company will continue to realize its assets and discharge its liabilities in the normal course of business. The Company has not generated any revenues since inception, has incurred losses since inception, and its current cash balances will not meet working capital needs. These factors, among others, raise substantial doubt regarding the Company's ability to continue as a going concern. The continuation of the Company as a going concern is dependent upon, among other things, the continued financial support from its shareholders or the attainment of profitable operations. There is no assurance that the Company will be able to generate revenues in the future. These financial statements do not give any effect to any adjustments that would be necessary should the Company be unable to continue as a going concern.

NOTE 4 – STOCKHOLDERS' DEFICIT

Preferred Stock

Effective July 11, 2014, the the Company amended its certificate of designation for common stock number and voting rights of the preferred stock series "A", "B", "C", "D", "E" and "F", number, voting rights, conversion rights, qualifications, limitations, restrictions and other characteristics (the "Amendment to Certificate of Designation"). The Amendment to Certificate of Designation was filed with the Secretary of State of Delaware on July 11, 2014 revising the number of shares in each series of the 10,001,000 shares of preferred stock previously designated as follows: (i) 200 shares shall be Series A; (ii) 100 shares shall be Series B; (iii) 5,300 shares shall be Series C; (iv) 400 shares shall be Series D; (v) 7,995,000 shares shall be Series E; and (vi) 12,720 shares shall be Series F. Thus, this leaves 1,987,280 shares of preferred stock authorized but undesignated as a series. The Amendment to the Certificate of Designation does not affect the number of total issued and outstanding preferred shares.

Preferred Series A Stock Par Value \$.000001

Each share of Series "A" Convertible Preferred Stock shall be convertible, at the option of the Holder into 10,000 shares of fully paid and non-assessable shares of the Company's Common Stock; provided, however that such conversion would not violate any applicable federal, state, or local law, regulation, or any judgment, writ, decree or order binding upon the Corporation or the Holder; or any provision of the Corporation's or Holder's if applicable, amended Articles of Incorporation or Bylaws, nor conflict with or contravene the provisions of any agreement to which the Corporation and the Holder are parties or which they are bound. The foregoing conversion shall be hereinafter referred to as the "Conversion Ratio" Said Conversion Ratio shall be subject to equitable adjustment at the reasonable discretion of the Board of Directors of the Corporation in the event of the occurrence of capital events which make such adjustments appropriate, such as a dividend payable to shares of common stock, combinations of common stock, a merger or consolidation, or the like. (See **Limitations on Conversion**)

Preferred Series B Stock Par Value \$.000001

Each share of Series "B" Convertible Preferred Stock shall be convertible, at the option of the Holder into 10,000,000 shares of fully paid and non-assessable shares of the Company's Common Stock; provided, however that such conversion would not violate any applicable federal, state, or local law, regulation, or any judgment, writ, decree or order binding upon the Corporation or the Holder; or any provision of the Corporation's or Holder's if applicable, amended Articles of Incorporation or Bylaws, nor conflict with or contravene the provisions of any agreement to which the Corporation and the Holder are parties or which they are bound. The foregoing conversion shall be hereinafter referred to as the "Conversion Ratio" Said Conversion Ratio shall be subject to equitable adjustment at the reasonable discretion of the Board of Directors of the Corporation in the event of the occurrence of capital events which make such adjustments appropriate, such as a dividend payable to shares of common stock, combinations of common stock, a merger or consolidation, or the like. (See **Limitations on Conversion**)

Preferred Series C Stock Par Value \$0.000001

Each share of Series "C" Convertible Preferred Stock shall be convertible, at the option of the Holder into Ten Thousand (\$10,000) worth shares of fully paid and non-assessable shares of the Company's Common Stock based upon the most recent 10 day average closing price effective the date of receipt of the conversion request; provided, however that such conversion would not violate any applicable federal, state, or local law, regulation, or any judgment, writ, decree or order binding upon the Corporation or the Holder; or any provision of the Corporation's or Holder's if applicable, amended Articles of Incorporation or Bylaws, nor conflict with or contravene the provisions of any agreement to which the Corporation and the Holder are parties or which they are bound. The foregoing

conversion shall be hereinafter referred to as the "Conversion Ratio" Said Conversion Ratio shall be subject to equitable adjustment at the reasonable discretion of the Board of Directors of the Corporation in the event of the occurrence of capital events which make such adjustments appropriate, such as a dividend payable to shares of common stock, combinations of common stock, a merger or consolidation, or the like. (See **Limitations on Conversion**)

Limitations on Conversion

No Conversion of any issued shares of Preferred Series "A, B & C" into common stock shall exceed 4.9% of the then issued and outstanding shares of common stock as reported by the Company's transfer agent, unless such conversion is submitted to and approved by the board of directors of the Company. The Company may request information from the holder of any preferred shares submitted for conversion as to that shareholders current ownership of common stock or other security of the Company.

Preferred Series D Stock Par Value \$.000001

Each share of Series "D" Preferred Stock is not convertible into Common stock. Preferred Stock "D" has voting rights as follows. One share of Series of "D" will be equivalent to voting 1,000,000 shares of common stock.

Preferred Series E Stock Par Value \$.000001

These shares are the former Series A shares of Kleangas Technologies Inc. Each share of Series "E" Preferred Stock is not convertible into Common stock. Preferred Stock "E" has voting rights as follows. One share of Series of "E" will be equivalent to voting 10,000,000 shares of common stock.

Preferred Series F Stock Par Value \$.000001

These 12,720 shares are the 2,000,000 of the former shares designated as "Series E", which were returned to treasury and cancelled on July 22, 2014. Series "F" shall have no voting rights.

Reissue of Preferred Stock

Shares of Preferred Stock acquired by the corporation by reason of redemption, purchase, conversion or otherwise can be reissued, as determined by the corporation and approved by the Board of Directress.

Mandatory Redemption

There shall be no mandatory redemption.

Common Stock

In the nine months ended September 30, 2014, the Company issued 1,704,912,581 shares of common stock of which 6,000,000 shares were to convertible note holders for the conversion of \$9,600 in convertible debt, 35,031,423 shares were issued for services, 25,000,000 shares were issued for the Second Cycle acquisition and 1,638,881,158 were issued for the Greenday acquisition.

On August 11, 2014 the Board of directors approved a change in the Certificate of Designation for the preferred shares of the Company which authorized the reduction in the number of Preferred E shares by 2,000,000 shares. This leaves a balance of 8,000,000 Preferred E shares authorized.

Preferred F shares: From those 2,000,000 shares 12,720 were reclassified as Preferred F Shares. The remaining 1,987,280 preferred shares are undesignated.

Preferred F shares have no voting rights. Preferred F shares convert based upon 70% of the lowest individual; daily VWAP in the (8) trading Days prior to the date the Conversion Notice is delivered to the Corporation.