

**HARMONIC ENERGY, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**FINANCIAL STATEMENTS**  
**JULY 31, 2016**

**HARMONIC ENERGY, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**BALANCE SHEETS (unaudited)**  
**AS OF JULY 31, 2016 AND JULY 31, 2015**

|  | July 31,<br>2016  | July 31,<br>2015  |
|--|-------------------|-------------------|
| <b>ASSETS</b>  |                   |                   |
| Current Assets   |                   |                   |
| Cash and equivalents   | \$ 296            | \$ 6,469          |
| Prepaid expenses   | 484               | 484               |
| Deferred financing costs, net of amortization  | 0                 | 0                 |
| Total Current Assets   | 780               | 6,953             |
| Other Assets   |                   |                   |
| License agreement  | 175,000           | 175,000           |
| <b>TOTAL ASSETS</b>  | <b>\$ 175,780</b> | <b>\$ 181,953</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>  |                   |                   |
| Liabilities  |                   |                   |
| Current Liabilities  |                   |                   |
| Accrued expenses   | \$ 81,684         | \$ 74,078         |
| Accrued consulting fees-related party  | 20,841            | 177,916           |
| Accrued expenses-related   | 338               | 338               |
| Accrued interest   | 32,500            | 21,218            |
| Note payable   | 62,500            | 62,500            |
| Advances from JM Trading Ltd.  | 11,145            | 0                 |
| Convertible note payable, net of debt discount   | 107,470           | 107,470           |
| Derivative liability   | 3,759             | 15,892            |
| Total Current Liabilities  | 320,237           | 459,412           |
| Long-term Liabilities  |                   |                   |
| Note payable   | -                 | -                 |
| Total Liabilities  | 320,237           | 459,412           |
| Stockholders' Equity (Deficit)   |                   |                   |
| Common Stock, \$.001 par value, 100,000,000 shares authorized, 8,631,802 and 5,431,233 and shares issued and outstanding | 8,631             | 5,431             |
| Additional paid-in capital   | 2,071,895         | 1,850,095         |
| Stock warrants   | 249,409           | 249,409           |
| Deficit  | (2,474,392)       | (2,382,394)       |
| Total Stockholders' Equity (Deficit)   | (144,457)         | (277,459)         |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>  | <b>\$ 175,780</b> | <b>\$ 181,953</b> |

*See accompanying notes to financial statements.*

**HARMONIC ENERGY, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**STATEMENTS OF OPERATIONS (unaudited)**  
**FOR THE YEARS ENDED JULY 31, 2016 AND 2015**

|  | Year ended July<br>31, 2016 | Year ended July<br>31, 2015 |
|--|-----------------------------|-----------------------------|
| <b>REVENUES</b>  | \$ 0                        | \$ 0                        |
| <b>EXPENSES</b>  |                             |                             |
| Professional fees  | 9,893                       | 1,163                       |
| Consulting fees  | 67,925                      | 260,557                     |
| General and administrative   | 15,030                      | 11,556                      |
| <b>TOTAL EXPENSES</b>  | 92,848                      | 273,276                     |
| <b>LOSS FROM OPERATIONS</b>  | (92,848)                    | (273,276)                   |
| <b>OTHER INCOME (EXPENSE)</b>  |                             |                             |
| Interest expense   | (7,015)                     | (7,023)                     |
| Interest expense – related party   | (4,268)                     | (4,000)                     |
| Financing costs  | 0                           | 0                           |
| Amortization of debt discount  | 0                           | 0                           |
| Change in value of derivative liability  | 12,133                      | 0                           |
|  | 850                         | (11,023)                    |
| <b>LOSS BEFORE PROVISION FOR INCOME TAXES</b>  | (91,998)                    | (284,299)                   |
| <b>PROVISION FOR INCOME TAXES</b>  | 0                           | 0                           |
| <b>NET LOSS</b>  | \$ (91,998)                 | \$ (284,299)                |
| <b>NET LOSS PER SHARE: BASIC AND DILUTED</b>   | \$ (0.02)                   | \$ (0.05)                   |
| <b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING: BASIC AND DILUTED (adjusted to reflect a 14:1 reverse stock split)</b> | 5,697,947                   | 5,431,233                   |

*See accompanying notes to financial statements.*

**HARMONIC ENERGY, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT) (unaudited)**  
**FOR THE PERIOD FROM MAY 1, 2007 (INCEPTION) TO JULY 31, 2016**

|  | Common Stock |          | Additional Paid-in | Stock      | Deferred Stock-    | Deficit                                  | Total        |
|--|--------------|----------|--------------------|------------|--------------------|--|--------------|
|  | Shares       | Amount   | Capital            | Warrants   | Based Compensation | Accumulated during the Development Stage |              |
| Inception, May 1, 2007   | 0            | \$ 0     | \$ 0               | \$ 0       | \$ 0               | \$ 0                                     | \$ 0         |
| Contributed capital  | -            | -        | 300                | -          | -                  | -  | 300          |
| Issuance of common stock for cash at \$0.001                               | 4,213,858    | 4,213    | (213)              | -          | -                  | -  | 4,000        |
| Issuance of common stock for cash at \$0.004                               | 1,675,008    | 1,675    | 10,250             | -          | -                  | -  | 11,925       |
| Net loss for the period ended July 31, 2007                                | -            | -        | -                  | -          | -                  | (153)                                    | (153)        |
| Balance, July 31, 2007   | 5,888,866    | 5,888    | 10,337             | 0          | 0                  | (153)                                    | 16,072       |
| Net loss for the year ended July 31, 2008                                  | -            | -        | -                  | -          | -                  | (15,709)                                 | (15,709)     |
| Balance, July 31, 2008   | 5,888,866    | 5,888    | 10,337             | 0          | 0                  | (15,862)                                 | 363          |
| Net loss for the year ended July 31, 2009                                  | -            | -        | -                  | -          | -                  | (68,873)                                 | (68,873)     |
| Balance, July 31, 2009   | 5,888,866    | 5,888    | 10,337             | 0          | 0                  | (84,735)                                 | (68,510)     |
| Conversion of shareholder loan and accrued interest to contributed capital | -            | -        | 1,210              | -          | -                  | -  | 1,210        |
| Issuance of common stock for cash  | 13,655,462   | 13,655   | 51,345             | -          | -                  | -  | 65,000       |
| Net loss for the year ended July 31, 2010                                  | -            | -        | -                  | -          | -                  | (37,864)                                 | (37,864)     |
| Balance, July 31, 2010   | 19,544,328   | 19,543   | 62,892             | 0          | 0                  | (122,599)                                | (40,164)     |
| Net loss for the year ended July 31, 2011                                  | -            | -        | -                  | -          | -                  | (24,772)                                 | (24,772)     |
| Balance, July 31, 2011   | 19,544,328   | 54,724   | 27,711             | 0          | 0                  | (147,371)                                | (64,936)     |
| Cancellation of shares   | (15,089,286) | (15,089) | 15,089             | -          | -                  | -  | 0            |
| Stock split – 5:1 – par value adjustment                                   | -            | (35,180) | 35,180             | -          | -                  | -  | 0            |
| Common stock and stock warrants issued for cash at \$0.75 per unit         | 47,619       | 47       | 250,544            | 249,409    | -                  | -  | 500,000      |
| Offering costs associated with issuance of common stock and warrants       | -            | -        | (68,491)           | -          | -                  | -  | (68,491)     |
| Forgiveness of debt and expenses paid by shareholders                      | -            | -        | 80,991             | -          | -                  | -  | 80,991       |
| Net loss for the year ended July 31, 2012                                  | -            | -        | -                  | -          | -                  | (241,552)                                | (241,552)    |
| Balance, July 31, 2012   | 4,502,661    | 4,502    | 341,024            | 249,409    | 0                  | (388,923)                                | 206,012      |
| Common stock issued for services   | 785,714      | 785      | 1,429,215          | -          | (455,833)          | -  | 974,167      |
| Net loss for the year ended July 31, 2013                                  | -            | -        | -                  | -          | -                  | (1,133,126)                              | (1,133,126)  |
| Balance, July 31, 2013   | 5,288,375    | 5,287    | 1,770,239          | 249,409    | (455,833)          | (1,522,049)                              | 47,053       |
| Common stock issued for services   | 142,858      | 144      | 79,856             | -          | -                  | -  | 80,000       |
| Amortization of stock based compensation                                   | -            | -        | -                  | -          | 260,476            | -  | 260,476      |
| Net loss for the period ended July 31, 2014                                | -            | -        | -                  | -          | -                  | (576,046)                                | (576,046)    |
| Balance, July 31, 2014   | 5,431,233    | \$ 5,431 | \$ 1,850,095       | \$ 249,409 | \$ (195,357)       | \$ (2,098,095)                           | \$ (188,517) |
| Amortization of stock based compensation                                   | -            | -        | -                  | -          | 195,357            | -  | 195,357      |
| Net loss for the period ended July 31, 2015                                | -            | -        | -                  | -          | -                  | (284,299)                                | (284,299)    |
| Balance, July 31, 2015   | 5,431,233    | \$ 5,431 | \$ 1,850,095       | \$ 249,409 | \$ 0               | \$ (2,382,394)                           | \$ (277,459) |
| Issuance of common shares for debt   | 3,200,569    | 3,200    | 221,800            | -          | -                  | -  | 225,000      |
| Net loss for the period ended July 31, 2016                                | -            | -        | -                  | -          | -                  | (91,998)                                 | (91,998)     |
| Balance, July 31, 2016   | 8,631,802    | \$ 8,631 | \$ 2,071,895       | \$ 249,409 | \$ 0               | \$ (2,474,392)                           | \$ (144,457) |

**HARMONIC ENERGY, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**STATEMENTS OF CASH FLOWS (unaudited)**  
**FOR THE YEARS ENDED JULY 31, 2016 AND 2015**

|  | Year ended July<br>31, 2016 | Year ended July<br>31, 2015 |
|--|-----------------------------|-----------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                      |                             |                             |
| Net loss for the period  | \$ (91,998)                 | \$ (284,299)                |
| Change in non-cash working capital items                         |                             |                             |
| Amortization of debt discount                                    | 0                           | 0                           |
| Change in fair value of derivative liability                     | (12,133)                    | 0                           |
| Amortization of deferred financing costs                         | 0                           | 0                           |
| Stock-based compensation   | 0                           | 195,357                     |
| Loss on stock issuance   | 0                           | 0                           |
| Changes in assets and liabilities:                               |                             |                             |
| (Increase) in prepaid expenses                                   | 0                           | 0                           |
| Increase (decrease) in accrued expenses                          | 75,531                      | 66,000                      |
| Increase in accrued interest                                     | 11,282                      | 11,023                      |
| Increase in accrued interest – related party                     | 0                           | 0                           |
| Net Cash Used in Operating Activities                            | <u>(17,318)</u>             | <u>(11,919)</u>             |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                      |                             |                             |
| (Increase) in advance to director                                | 0                           | 0                           |
| Acquisition of license agreement                                 | 0                           | 0                           |
| Net Cash Used in Investing Activities                            | <u>0</u>                    | <u>0</u>                    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                      |                             |                             |
| Proceeds from issuance of common stock and stock warrants        | 0                           | 0                           |
| Proceeds from note payable                                       | 0                           | 12,500                      |
| Advances from JM Trading Ltd.                                    | 11,145                      | 0                           |
| Deferred financing costs   | 0                           | 0                           |
| Offering costs   | 0                           | 0                           |
| Proceeds from note payable – related party                       | 0                           | 0                           |
| Net Cash Provided by Financing Activities                        | <u>11,145</u>               | <u>12,500</u>               |
| <b>NET INCREASE (DECREASE) IN CASH</b>                           | <b>(6,173)</b>              | <b>581</b>                  |
| Cash, beginning of period  | 6,469                       | 5,888                       |
| <b>Cash, end of period</b>                                       | <u><u>\$ 296</u></u>        | <u><u>\$ 6,469</u></u>      |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>                       |                             |                             |
| Interest paid  | \$ 0                        | \$ 0                        |
| Income taxes paid  | \$ 0                        | \$ 0                        |
| <b>SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES:</b> |                             |                             |
| Conversion of accrued consulting fees to shares                  | <u><u>\$ 225,000</u></u>    | <u><u>\$ 0</u></u>          |

*See accompanying notes to financial statements.*

**HARMONIC ENERGY, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JULY 31, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Business

Harmonic Energy, Inc. (the Company), formerly known as Aviation Surveillance Systems, Inc. and Fairytale Ventures, Inc., was incorporated in the State of Nevada on May 1, 2007. The Company is currently developing a new business focused on the disposition and recycling of scrap tires through tire re-manufacturing and carbonization of scrap tire components. The Company has not realized significant revenues to date and therefore is classified as a development stage company.

Basis of Presentation

The accompanying unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission (“SEC”). The Company has adopted a July 31 fiscal year end.

Fair Value of Financial Instruments

The Company’s financial instruments consist of cash and cash equivalents, prepaid expenses, deferred financing costs, license agreement, accrued expenses, accrued interest, note payable, convertible note payable, and license fees payable. The carrying amount of these financial instruments approximates fair value due either to length of maturity or interest rates that approximate prevailing market rates unless otherwise disclosed in these financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Basic (Loss) per Common Share

Basic (loss) per share is calculated by dividing the Company’s net loss applicable to common shareholders by the weighted average number of common shares during the period. Diluted earnings per share is calculated by dividing the Company’s net income available to common shareholders by the diluted weighted average number of shares outstanding during the year. The diluted weighted average number of shares outstanding is the basic weighted number of shares adjusted for any potentially dilutive debt or equity. There are 666,667 common stock warrants outstanding as of July 31, 2016.

Revenue Recognition

The Company recognizes revenue when products are fully delivered or services have been provided and collection is reasonably assured.

**HARMONIC ENERGY, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JULY 31, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Advertising Costs

The Company's policy regarding advertising is to expense advertising when incurred. The Company has not incurred any advertising expense as of July 31, 2016 and 2015.

Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents to the extent the funds are not being held for investment purposes.

Long-Lived Assets

In accordance with ASC 350, the Company regularly reviews the carrying value of intangible and other long-lived assets for the existence of facts or circumstances, both internally and externally, that may suggest impairment. If impairment testing indicates a lack of recoverability, an impairment loss is recognized by the Company if the carrying amount of a long-lived asset exceeds its fair value.

Reclassifications

Certain accounts and financial statement captions in the prior periods have been reclassified to conform to the current period financial statements.

Income Taxes

Income taxes are computed using the asset and liability method. Under the asset and liability method, deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the currently enacted tax rates and laws. A valuation allowance is provided for the amount of deferred tax assets that, based on available evidence, are not expected to be realized.

Stock-Based Compensation

Stock-based compensation is accounted for at fair value in accordance with ASC Topic 718. To date, the Company has not adopted a stock option plan and has not granted any stock options. As of July 31, 2016, the Company has not issued any stock-based payments to its employees.

Recent Accounting Pronouncements

Harmonic Energy does not expect the adoption of recently issued accounting pronouncements to have a significant impact on the Company's results of operations, financial position or cash flow.

**NOTE 2 – LICENSE AGREEMENT**

On March 14, 2012, the Company entered into a License Purchase Agreement with Kouei International, Inc. The Company acquired the exclusive rights in North America and Europe to use the Tyrolysis™ technology owned by Kouei Industries Co., Ltd. of Japan. Kouei International holds these rights under license from Kouei Industries and, pursuant to the agreement, has assigned them to the Company. The Tyrolysis™ technology is a comprehensive 'closed-loop' solution for the management of scrap tires, which allows for all scrap tires to be either re-manufactured into new tires or reduced, through a carbonization process, into marketable chemical products such as diesel fuel, carbon black and syn-gas.

Under the terms of the agreement, the Company was required to pay a total of \$525,000 of which \$175,000 was due within 90 days of the closing of the agreement (which has been paid), as well as \$175,000 due 90 days after the first payment and \$175,000 due 90 days after the second payment has been made.

**HARMONIC ENERGY, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JULY 31, 2016**

**NOTE 2 – LICENSE AGREEMENT (CONTINUED)**

On May 30, 2012, Kouei Industries agreed to extend the second payment due date to June 30, 2013 and the third payment due date to September 30, 2013. All other terms of the agreement remained the same.

In addition, the Company is to pay a royalty of 3% of all revenues in respect of gross sales for a period of 5 years, and a royalty of \$2.50 per remanufactured passenger tire and a royalty of \$3.00 per remanufactured light truck and truck tire at the end of each month for a period of 5 years. There have been no revenues generated from the license agreement as of July 31, 2015.

On June 18, 2013, the Company entered into a settlement agreement with Kouei Industries forgiving the second and third payments discussed above totaling \$350,000. The forgiveness of this debt was offset by the reduction of the value of the intangible asset recorded as part of this agreement. As of July 31, 2016, the carrying value of the license agreement is \$175,000 and the license fee payable is \$0.

**NOTE 3 – ACCRUED EXPENSES**

Accrued expenses consisted of the following as of July 31, 2016 and July 31, 2015:

|                                   | July 31, 2016    | July 31, 2015    |
|-----------------------------------|------------------|------------------|
| Accrued legal fees                | \$ 22,106        | \$ 16,500        |
| Accrued accounting and audit fees | 14,578           | 12,578           |
| Accrued consulting fees           | 45,000           | 45,000           |
| Other                             | 0                | 0                |
| Total Accrued Expenses            | <u>\$ 81,684</u> | <u>\$ 74,078</u> |

**NOTE 4 – LOAN PAYABLE – RELATED PARTY**

On June 14, 2010, the Company signed a promissory note for \$20,000 with an officer. The loan was due on June 14, 2011, bore 6% interest and was unsecured. The terms of the notes were revised to adjust maturity to due on demand during the year ended July 31, 2011. Interest expense on this loan was \$1,200 for the years ended July 31, 2012 and 2011. During the year ended July 31, 2012, the shareholder forgave the balance of the loan and all accrued interest. The forgiveness of debt of \$22,554 was recorded as contributed capital.

In association with the change in control during the year ended July 31, 2012, the selling shareholders paid certain legal and accounting expenses on behalf of the company. A total of \$58,437 was paid by the shareholder and has been recorded as contributed capital.

**NOTE 5 – NOTE PAYABLE**

On January 9, 2013, the Company signed a promissory note for \$50,000. The loan was due on January 9, 2014, bears interest at 8% and is unsecured. Finance costs related to the issuance of the note in the amount of \$5,000 have been deferred and are being amortized over the term of the note payable. Amortization of the financing costs of \$3,750 was recorded during the period ended July 31, 2015.

On January 9, 2014, the promissory note was acquired by a non-related lender and the maturity date was extended to January 9, 2015. All other loan terms remained the same.

On April 14, 2016 the company received advances from JM Trading Ltd. in the amount of \$ 2,286 bearing interest at 8% per annum, due on demand.

On April 22, 2016, the Company received advances from JM Trading Ltd. in the amount of \$ 6,500 bearing interest at 8% per annum, and due on demand.

During the quarter ended July 31, 2016, the Company received advances from JM Trading Ltd in the amount of 2,359. These advances are non-interest bearing and due on demand.



**HARMONIC ENERGY, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JULY 31, 2016**

**NOTE 6 – CONVERTIBLE NOTE PAYABLE**

On May 22, 2013, the Company issued a convertible note payable in the amount of \$62,470. Initially, the Company received \$25,000. The note bears interest at 7% per annum and is due on May 22, 2014. The note is convertible into shares of common stock of the Company at a price equal to 90% of the current market price of the shares on the date of conversion. The balance of the note was \$25,000 as of July 31, 2014. On September 6, 2013, the Company received the balance of \$37,470.

The Company applied ASC subtopic 815-40 in the valuation of the beneficial conversion feature related to the convertible note payable. The Company has a derivative liability resulting from the issuance of the convertible note valued initially at \$20,420 using the Black-Scholes option pricing model. The derivative liability was revalued at July 31, 2016 per the guidance in ASC 815-40 at \$ 3,759. Consequently, the Company has adjusted the fair value of the derivative liability at July 31, 2016.. The Company used the following assumptions to value the derivative liability.

|                           | July 31,<br>2016 | July 31,<br>2015 |
|---------------------------|------------------|------------------|
| Note proceeds             | \$ 62,470        | \$ 62,470        |
| Stock price at grant date | \$ 0.10          | \$ 0.02          |
| Exercise price            | \$ 0.09          | \$ 0.018         |
|                           | 1.00             |                  |
| Term                      | years            | .05 years        |
| Risk-free interest rate   | 0.28%            | 0.02%            |
| Volatility                | 161%             | 161%             |

**NOTE 7 – CAPITAL STOCK**

The Company has 90,000,000 shares of \$0.001 par value common stock and 10,000,000 shares of \$0.001 par value preferred stock authorized.

On May 14, 2007, the Company received \$4,000 from its founders for 58,994,015 shares of its common stock. On June 22, 2007, the Company completed an unregistered private offering under the Securities Act of 1933, as amended, relying upon the exemption from registration afforded by Rule 504 of Regulation D promulgated there under. The Company sold 23,450,110 shares of its \$0.001 par value common stock at a price of \$0.004 per share for \$11,925 in cash.

On July 21, 2008, the Company effect a forward split on the basis of 1.84356289 shares for 1.

On May 1, 2009, the Company effected a forward split on the basis of 1.6 shares for 1.

On March 15, 2010, the Company sold 191,176,470 shares of common stock for total cash proceeds of \$65,000.

On November 3, 2011, a shareholder of the company voluntarily returned 1,250,000 shares of common stock to treasury for cancellation.

On February 22, 2012, a shareholder of the company voluntarily returned 210,000,000 shares of common stock to treasury for cancellation.

**HARMONIC ENERGY, INC.**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**JULY 31, 2016**

**NOTE 7 – CAPITAL STOCK (CONTINUED)**

On March 12, 2012, the Company the Company effected a forward split on the basis of 5 shares for 1.

All share and per share data in the accompanying financial statements and footnotes has been adjusted retrospectively for.

On March 27, 2012, the Company received subscription proceeds of \$500,000 related to a subscription agreement for 666,667 shares of common stock and common stock warrants \$0.75 per unit. The common stock warrants were valued using the Black-Scholes valuation method. The valuation was made using the following assumptions and the proceeds were allocated based on the fair value of the common stock and common stock warrants:

|                           |         |
|---------------------------|---------|
| Stock price at grant date | \$ 1.00 |
| Exercise price            | \$ 1.12 |
| Term                      | 4 years |
| Risk-free interest rate   | 0.37%   |
| Volatility                | 284%    |

During the year ended July 31, 2014, the Company issued 11,000,000 shares of common stock to two consultants for services rendered and future services. The stock was valued at the fair market value on the date of the agreements which totaled \$1,430,000. A loss on the issuance of the stock of \$760,000 was recorded for the difference in the value of the services and the fair market value of the stock. As of July 31, 2015, \$260,476 has been recorded as deferred stock-based compensation for future services.

During the period ended July 31, 2015 the Company issued 2,000,000 shares of common stock for consultants for services rendered and future services. The stock was valued at the fair market value on the date of the agreements which totaled \$80,000. As of July 31, 2015, \$nil has been recorded as deferred stock-based compensation for future services.

On June 10, 2016 the Company effected a 14:1 reverse stock split. All share and per share data in the accompanying financial statements and footnotes has been adjusted retrospectively for the effects of the stock split.

On July 20, 2016, the Company issued 3,200,569 shares of common stock of the company to an officer of the company in exchange for \$225,000 of accrued consulting fees.

As of July 31, 2016 and July 31, 2015 the Company had 76,037,262 and 74,037,262 shares of common stock issued and outstanding, respectively. There were no shares of preferred stock issued and outstanding as of July 31, 2015 and July 31, 2014.

**NOTE 8 – COMMITMENTS AND CONTINGENCIES**

Harmonic Energy neither owns nor leases any real or personal property. An officer has provided office services without charge. There is no obligation for this arrangement to continue. Such costs are immaterial to the financial statements and accordingly are not reflected herein. The officers and directors are involved in other business activities and most likely will become involved in other business activities in the future.

The services rendered by our President and CEO, Jamie Mann, are governed by a Consulting Agreement with his consultancy firm, JM Trading Co., Ltd. The Agreement is for a term of two (2) years commencing retroactively effective December 20, 2011. Under the Agreement, Mr. Mann will be paid a consulting fee of \$60,000 per year in equal monthly installments of \$5,000 per month. In addition, Mr. Mann is to be provided a company car and reimbursement of all expenses incurred in the course of his duties. On December 20, 2013 the agreement was renewed for a fee of \$65,000 per year in equal monthly installments of \$5,416.66 per month.

**HARMONIC ENERGY, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JULY 31, 2016**

**NOTE 9 – GOING CONCERN**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principle, which contemplate continuation of the Company as a going concern. However, the Company has an accumulated deficit of \$2,474,392 as of July 31, 2016. The Company currently has a working capital deficit, and has not completed its efforts to establish a stabilized source of revenues sufficient to cover operating costs over an extended period of time.

Management anticipates that the Company will be dependent, for the near future, on additional investment capital to fund operating expenses. The Company intends to position itself so that it may be able to raise additional funds through the capital markets. In light of management's efforts, there are no assurances that the Company will be successful in this or any of its endeavors or become financially viable and continue as a going concern.

**NOTE 10 – INCOME TAXES**

As of July 31, 2016, the Company had net operating loss carry forwards of approximately \$2,474,392 that may be available to reduce future years' taxable income in various amounts through 2032. Future tax benefits which may arise as a result of these losses have not been recognized in these financial statements, as their realization is determined not likely to occur and accordingly, the Company has recorded a valuation allowance for the deferred tax asset relating to these tax loss carry-forwards.

The provision for Federal income tax consists of the following for the years ended July 31:

|  | 2016        | 2015        |
|--|-------------|-------------|
| Federal income tax benefits attributable to: |             |             |
| Current operations                           | \$ 31,300   | \$ 59,500   |
| Less: valuation allowance                    | (31,300)    | (59,500)    |
| Net provision for Federal income taxes       | <u>\$ 0</u> | <u>\$ 0</u> |

The cumulative tax effect at the expected rate of 34% of significant items comprising our net deferred tax amount is as follows as of July 31, 2015, and July 31, 2014:

|                                     | July 31, 2016 | July 31, 2015 |
|-------------------------------------|---------------|---------------|
| Deferred tax asset attributable to: |               |               |
| Net operating loss carryover        | \$ 841,314    | \$ 810,014    |
| Less: valuation allowance           | (841,314)     | (810,014)     |
| Net deferred tax asset              | <u>\$ 0</u>   | <u>\$ 0</u>   |

Due to the change in ownership provisions of the Tax Reform Act of 1986, net operating loss carry forwards of \$2,474,392 for Federal income tax reporting purposes are subject to annual limitations. Should another change in ownership occur net operating loss carry forwards may be further limited as to use in future years.

#### **NOTE 11 – SUBSEQUENT EVENTS**

In accordance with ASC Topic 855-10, the Company has analyzed its operations subsequent to July 31, 2016 to the date these financial statements were issued, and has determined that it does not have any material subsequent events to disclose in these financial statements other than the events described above.