BIOMASS SECURE POWER INC.

CONSOLIDATED ANNUAL FINANCIAL REPORT

(Stated in United States Dollars)

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

MORGAN & COMPANY LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Biomass Secure Power Inc.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Biomass Secure Power Inc. which comprise the consolidated statements of financial position as at June 30, 2016 and 2015 and the consolidated statements of loss and comprehensive loss, changes in deficiency and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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, these consolidated financial statements present fairly, in all material respects, the financial position of Biomass Secure Power Inc. as at June 30, 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Vancouver, Canada *"Morgan & Company LLP"*

October 27, 2016 Chartered Professional Accountants

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BIOMASS SECURE POWER INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Stated in U.S. Dollars)

	As at June 30, 2016	As at June 30, 2015
ASSETS		
Current assets		
Cash	**$ 418**	$ 1,041
Recoverable GST	**12,904**	12,651
Total current assets	**13,322**	13,692
Non-current assets		
Equipment	**-**	87
Intellectual property (Note 5)	**1**	1
Total non-current assets	**1**	88
TOTAL ASSETS	**$ 13,323**	$ 13,780
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**$ 68,152**	$ 64,413
Loans, advances payable, and convertible debt (Note 6)	**224,488**	238,154
Due to related parties (Note 7)	**953,109**	674,762
Total current liabilities	**1,245,749**	977,329
DEFICIENCY		
Share capital (Note 8)	**7,970,030**	7,944,930
Equity portion of convertible debt	**12,326**	12,326
Accumulated deficit	**(9,214,782)**	(8,920,805)
Total deficiency	**(1,232,426)**	(963,549)
TOTAL LIABILITIES AND DEFICIENCY	**$ 13,323**	$ 13,780

Nature of operations and going concern (Note 1)

Approved by the Board of Directors on October 27, 2016:

"*James Carroll*"	"*George Pappas*"
James Carroll, Director	George Pappas, Director

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

BIOMASS SECURE POWER INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
For the years ended June 30, 2016 and 2015
(Stated in U.S. Dollars)

		2016		2015
Expenses				
Depreciation	**$**	**87**	$	927
Consulting		**-**		643
Foreign exchange gain		**(23,766)**		(35,097)
General and administration		**16,573**		18,071
Interest and financing costs		**14,797**		43,743
Management fees (Note 7)		**240,000**		240,000
Professional fees		**44,609**		65,874
Shareholder matters		**742**		5,110
Travel		**935**		11,057
Net loss and comprehensive loss for the year	**$**	**(293,977)**	$	(350,328)
Loss per share				
Basic and Diluted	**$**	**(0.00)**	$	(0.00)
Weighted average number of shares outstanding		**614,332,671**		609,066,564

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

BIOMASS SECURE POWER INC.

CONSOLIDATED STATEMENTS OF CHANGES IN DEFICIENCY

For the years ended June 30, 2016 and 2015

(Stated in U.S. Dollars)

	Share capital			Equity Portion of		
	Number	Amount	Share Subscriptions	Convertible Debt	Accumulated Deficit	Total
Balance, June 30, 2014	606,441,908	$ 7,920,200	$ 35,000	$ 12,326	$ (8,609,497)	$ (641,971)
Common shares issued for cash	1,750,000	43,750	(35,000)	-	-	8,750
Common shares issued for debt	5,000,000	20,000	-	-	-	20,000
Common shares returned for cancellation	(3,000,000)	(39,020)	-	-	39,020	-
Net loss for the year ended June 30, 2015	-	-	-	-	(350,328)	(350,328)
Balance, June 30, 2015	610,191,908	7,944,930	-	12,326	(8,920,805)	(963,549)
Common shares issued for cash	4,770,993	19,100				19,100
Shares for debt	1,200,000	6,000				6,000
Net loss for the year ended June 30, 2016	-	-	-	-	(293,977)	(293,977)
Balance, June 30, 2016	**616,162,901**	**$ 7,970,030**	**$ -**	**$ 12,326**	**$ (9,214,782)**	**$ (1,232,426)**

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

BIOMASS SECURE POWER INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30, 2016 and 2015

(Stated in U.S. Dollars)

		2016		2015
Cash Flows Provided By (Used In) Operating Activities				
Net Loss for the year	**$**	**(293,977)**	$	(350,328)
Items not involving cash				
Depreciation		**87**		927
Accrued interest		**14,797**		25,448
Foreign exchange change on loans payable		**(18,035)**		(32,514)
Accrued management fees		**240,000**		240,000
Amortization of deferred financing costs		**-**		8,684
Accretion included in interest		**-**		9,611
Change in non-cash operating working capital items:				
Recoverable GST		**(253)**		(1,519)
Accounts payable and accrued liabilities		**(688)**		(113,934)
Due to related parties		**57,540**		127,004
Cash used in operating activities		**(529)**		(86,621)
Cash Flows Provided By (Used In) Financing Activities				
Loan repayments to related parties		**(19,194)**		(11,430)
Issuance of share capital		**19,100**		8,750
Repayment of convertible debenture		**-**		(31,873)
Cash used in financing activities		**(94)**		(34,553)
Decrease in cash		**(623)**		(121,174)
Cash, beginning of year		**1,041**		122,215
Cash, end of year	**$**	**418**	$	1,041
Supplemental Cash Flow Information				
Interest paid in cash	**$**	**-**	$	-
Income taxes paid in cash	**$**	**-**	$	-
Shares issued for				
Settlement of advances payable	**$**	**6,000**	$	-
Settlement of convertible debenture	**$**	**-**	$	20,000

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

1. CORPORATE INFORMATION AND GOING CONCERN

Biomass Secure Power Inc. ("the Company") was incorporated under the British Columbia *Business Corporation Act* on August 24, 1989. On June 30, 2009, the Company acquired all the outstanding shares of 0625920 BC Ltd. ("0625920") and on that date, the Company was legally amalgamated with 0625920 B.C. Ltd. ("0625920") under the British Columbia *Business Corporations Act* (the "Amalgamation"). The amalgamated Company continued operations as Biomass Secure Power Inc. (the "Company").

The consolidated financial statements of the Company comprise the Company and its wholly-owned subsidiary Biomass Power Louisiana LLC, a company incorporated in the State of Louisiana, United States of America on February 1, 2013.

The Company is listed on the OTC-BB Pink Sheets, having the symbol BMSPF.OTC and its primary business is the development of a wood pellet plant in Louisiana.

The address of the Company's registered office is Suite 800, 885 West Georgia Street, Vancouver, British Columbia, Canada, V6C 3H1. The address of the Company's principal place of business is 40218 Wellsline Road, Abbotsford, British Columbia, V3G 2K7.

Going Concern of Operations

The consolidated financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realization of assets and discharge of liabilities in the normal course of business. The Company has not generated revenues from operations. The Company is considered to be in the development stage as it has not realized any income from its current business activities. The underlying value of the Company's intangible assets and its proposed business operations is dependent upon management's ability to implement the Company's business plan in the future and the ability of the Company to raise financing to implement that business plan.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. This assumes the Company will operate for the foreseeable future and will be able to realize its assets and meet its obligations in the normal course of operations. The Company has incurred operating losses since inception, and as at June 30, 2016, had a working capital deficit of $1,238,426 and an accumulated deficit of $9,214,782. These factors may cast significant doubt on the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances, asset sales or a combination thereof. There is no assurance that such financing will be sufficient to sustain operations in the foreseeable future. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts that might be necessary, should the Company be unable to continue as a going concern. Such adjustments could be material.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

Statement of Compliance

The consolidated financial statements of the Company for the year ending June 30, 2016 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The consolidated financial statements of the Company as at June 30, 2016 were authorized for issue by the Board of Directors on October 27, 2016.

Basis of measurement

The consolidated financial statements have been prepared using the historical cost convention using the accrual basis of accounting except for financial instruments which have been measured at fair value. In the opinion of management all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been made.

The consolidated financial statements are presented in United States dollars, which is also the Company's functional currency, and all values are rounded to the nearest dollar, unless otherwise indicated.

Preparation of consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Presentation Currency and Functional Currency

The Company's presentation currency is the United States dollar. The functional currency of the Company is the United States dollar.

b) Foreign Currency Transactions

Transactions in foreign currencies are translated to United States dollars, the functional currency of each company in the group, as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into United States dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into United States dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income. Exchange gains and losses arising on the retranslation of monetary available-for–sale financial assets are treated as a separate component of the change in fair value and recognized in net income. Exchange gains and losses on non-monetary available-for-sale financial assets form part of the overall gain or loss recognized in respect of the financial instrument.

Non-monetary assets and liabilities that are measured at historical cost are translated into United States dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or revalued amount are translated into United States dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net income or other comprehensive loss consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

c) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value. For cash flow statement presentation purposes, cash and cash equivalents includes bank overdrafts. As at June 30, 2016, and 2015, the Company had no cash equivalents.

d) Equipment

Recognition and Measurement

On initial recognition, equipment is valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses, with the exception of land which is not depreciated.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) equipment.

Subsequent Costs

The cost of replacing part of an item of equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its costs can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Major Maintenance and Repairs

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Gains and Losses

Gains and losses on disposal of an item of plant and equipment are determined by comparing the proceeds from disposal with the carrying amount, and are recognized net within other income in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

d) Equipment - Continued

Depreciation

Depreciation is recognized in profit or loss and is provided for over the asset's estimated useful life, as follows:

Equipment	33.33% Straight line basis

Depreciation methods, estimated useful lives and residual values are reviewed at each year end and adjusted if appropriate. The effect of any changes in estimate is accounted for on a prospective basis.

e) Intangible Assets

Recognition and Measurement

Intangible assets are comprised of acquired intellectual property. Such intellectual property is valued at cost and amortized over its useful live. Impairment is recorded if the carrying amount of the assets exceeds the recoverable amount.

Amortization

Amortization is recognized in profit or loss and is provided for over the asset's estimated useful life, as follows:

Intellectual property	10% Straight line basis

Amortization method, estimated useful lives and residual values are reviewed at each year end and adjusted if appropriate. The effect of any changes in estimate is accounted for on a prospective basis.

f) Impairment of Non-Financial Assets

Carrying values of long-lived non-financial assets are reviewed at each reporting period as to whether indicators of impairment exist. If any indication of impairment exists an estimate of an asset's recoverable amount is calculated. An impairment loss is recognized when the carrying value of an asset or its cash-generating unit exceeds the recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell.

Intangible assets are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Impairment losses recognized in prior periods are assessed each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. The amount of the reversal cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior periods.

g) Financial Instruments

Financial instruments are classified into one of five categories: fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the statements of financial position at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value depend on their initial classification. Fair value through profit or loss financial assets are measured at fair value and changes in fair value are recognized in net income or loss. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income or loss until the instrument is derecognized or impaired.

Disclosures about the inputs to financial instrument fair value measurements are made within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

The Company has classified cash (Level 1) as fair value through profit or loss and other receivables are classified as loans and receivables. Current liabilities are classified as other financial liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

h) Provisions

Provisions are recognized for liabilities on uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

i) Income Taxes

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive loss/income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss of the current year and any adjustment to income taxes payable in respect of previous years.

Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transactions affects neither accounting of taxable profit or loss.

Recognition of deferred tax assets on unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

j) Share capital and warrants

Share Capital

Equity instruments are contracts that give a residual interest in the net assets of the Company. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares and share warrants are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Warrants

The Company uses the residual value method to value any warrants issued as part of private placement units. The fair value of warrants is calculated by deducting the fair value of the share component of the unit from the total unit price. The fair value assigned to warrants is recorded as a reduction to share capital and an increase in warrant reserve. If the warrants are exercised the entry is reversed. If the warrants expire unexercised, the value is reallocated to retained earnings / deficit.

The fair value of warrants determined to be financial instruments is calculated and recorded as a derivative liability as discussed above under derivative financial instruments.

k) Share-based payments

Options

From time to time the Company may grant stock options to directors, employees, consultants and service providers.

Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in Share-based Payment Reserve over the vesting period, described as the period during which all the vesting conditions are to be satisfied. The Company uses the Black-Scholes option pricing model to estimate the fair value of each stock option at the grant date. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

k) Share-based payments - Continued

Options - Continued

Where the terms and conditions of options are modified before they vest, the increase in fair value of the options, measured immediately before and after the modification, is also charged to the Share-based Payment Reserve over the remaining vesting period.

For equity-settled share-based payments to non-employees, the Company measures the value of the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations. Amounts related to the issuance of shares are recorded as a reduction of share capital.

All equity-settled share based payments are reflected in Share-based Payment Reserve, until exercised. Upon exercise shares are issued from treasury and the amount reflected in Share-based Payment Reserve is credited to Share Capital along with any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of the vesting and recognized the amount that otherwise would have been recognized for the services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

The Company had no cash-settled share based payment transactions during the year.

l) Share issuance costs

Costs directly identifiable with the raising of share capital financing are charged against share capital. Share issuance costs incurred in advance of share subscriptions are recorded as equity. Share issuance costs related to uncompleted share subscriptions are charged to operations.

m) Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing the net income (loss) available to common shareholders of the Company by the weighted average number of shares outstanding during the reporting period.

Diluted earnings (loss) per common share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and share purchase warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting period.

n) Standards, Amendments and Interpretations

New standards, interpretations and amendments not yet effective

Certain pronouncements were issued by the IASB of the IFRS Interpretations Committee that are mandatory for accounting periods beginning in future years.

Accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements. The following new standards, interpretations and amendments, which have not been applied in these consolidated financial statements:

IFRS 9 *Financial Instruments* is part of the IASB's wider project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized costs and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The effective date of this amendment is fiscal periods commencing after January 1, 2018. The Company early adopted IRFS 9.

IFRS 15 Revenue from Contracts with Customers provides guidance on how and when revenue from contracts with customers is to be recognized, along with new disclosure requirements in order to provide financial statement users with more informative and relevant information. Effective date is January 1, 2018.

IFRS 16, Leases is effective for annual periods commencing on or after January 1, 2019, this replaces existing lease accounting guidance. All leases will be required to be reported on the statement of financial position unless certain requirements for exclusion are met.

(Stated in US Dollars)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and judgments.

The effect of a change in an accounting estimate is recognized prospectively by including it in the consolidated financial statements in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustments to the carry amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are discussed below:

Functional Currency – Management has concluded the functional currency of the Company, being the currency of the primary economic environment in which the Company operates, is the United States dollar. In determining the function currency management considered the currency that revenue will primarily be derived in and the currency that mainly influences the cost of providing goods and services in each jurisdiction in which the Company operates. The United States dollar is the dominant currency.

Income Taxes – Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, recognition of the tax losses also depends on the probability of the Company being able to generate profits in the future to utilize the losses before they expire in the respective jurisdictions.

Accrued Liabilities – The Company has applied judgment in recognizing accrued liabilities, including judgment as to whether the Company has a present obligation (legal or constructive) as a result of a past event; whether it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and whether a reliable estimate can be made of the amount of the obligation.

5. INTELLECTUAL PROPERTY

In fiscal 2011, the Company acquired the net assets of 062590 BC Ltd. ("062590"), through the issuance of 225,269,250 common shares with a fair value of $968,658 (0.0042 per share). The purchase price of $968,658 was allocated to the intellectual property assets ("IP") acquired from 062590.

Pursuant to the Company's policy, upon completion of the Agreement management completed an impairment assessment of the IP and determined the fair value of the IP to be nominal due to the lack of a certain future cash flow emanating from the IP. As a result the Company recognized a post-acquisition impairment of $968,657 charged to operations for the year ended June 30, 2011.

Carrying amounts		
At June 30, 2015	$	1
At June 30, 2016	**$**	**1**

6. LOANS, ADVANCES PAYABLE AND CONVERTIBLE DEBT

	June 30, 2016	June 30, 2015
Return of share subscription	**$ -**	$ 6,000

On August 23, 2012 the Company, with the mutual agreement of two shareholders, rescinded the issuance of 1,111,110 common shares issued on April 27, 2011 at $0.0054 per share. The shares were issued pursuant to an exemption which is not available in the province the investors are resident in. Subsequent to this transaction, on October 9, 2015, the debt was exchanged for 1,200,000 common shares of the company at a price of $.005 per share prompting a reclassification of $6,000 into share capital.

	June 30, 2016	June 30, 2015
Convertible debenture	**-**	-

On August 25, 2011 the Company entered into a $35,000 convertible debenture (the "Note") with interest at 8% per annum, due 9 months after issuance. The Note has the following conversion and other terms:

a) The Company may prepay the Note at any time by paying the accrued interest plus a premium on the principal of 30% if paid in the period ending 90 days following the date of the Note, 35% if paid in the period 91 days to 120 days following the date of the Note, 45% if paid in the period 121 days to 150 days following the date of the Note or 50% if paid in the period 151 days to 180 days following the date of the Note. After 180 days the Company has no right of prepayment.

b) At any time during the period beginning on the date which is 180 days following the date of the Note to the complete satisfaction of the Note, the Note is convertible into shares of common stock of the Company at a price that is 55% of the average of the three trading prices for the common stock during the ten trading day period prior to the date of conversion;

c) The Note holder is limited to convert no more than 4.99% of the issued and outstanding common stock at the time of conversion;

d) In the event of default the Note is immediately due and payable at the minimum amount of 150% times the sum of outstanding principal plus unpaid interest. The Note holder can request payment in shares.

The debenture was due on May 25, 2012. The Note holder agreed to defer the due date until such time as the cease trade order, issued by the British Columbia Securities Commission, has been revoked. The revocation of the cease trade order was issued of September 7, 2012. The convertible debenture was repaid during the year ended June 30, 2015.

	June 30, 2016	June 30, 2015
Demand Promissory Notes	**124,557**	128,071

The Company has entered into a number unsecured demand promissory notes (including $95,000 payable in Canadian dollars) due on the earlier of demand or dates up to December 2013, with interest at 12%. The promissory notes have not been paid subsequent to their due dates.

	June 30, 2016	June 30, 2015
Unsecured Non-transferable Convertible Debentures	**99,931**	104,083

Unsecured non-transferable convertible debentures in the amount of $120,083 ($130,000 payable in Canadian dollars), without interest and due March 1, 2015 ("Maturity Date"), convertible at the option of the holder at $0.10 per share, unless converted at Maturity Date, at which date it shall be converted at $0.09. If the Company obtains a listing on the TSX Venture Exchange the amount shall be converted at a date immediately prior to the effective date of the listing. In the year ended June 30, 2016, the maturity date was extended to February 1, 2017.

	June 30, 2016	June 30, 2015
Total	**$ 224,488**	$ 238,154

7. DUE TO RELATED PARTIES

The Company is indebted to directors and officers of the Company for operating expenses paid by those individuals on behalf of the Company, cash advances and accrued management fees. The amounts are payable on demand, unsecured and without interest.

	June 30, 2016	June 30, 2015
Balance, beginning	**$ 674,762**	$ 420,416
Accrued management and director fees	**240,000**	240,000
Accrued professional fees	**30,000**	30,000
Expenses paid on behalf of the Company	**27,541**	35,483
Repayment – cash	**(19,194)**	(51,137)
Balance, ending	**$ 953,109**	$ 674,762

(Stated in US Dollars)

7. DUE TO RELATED PARTIES - Continued

Goods or services rendered

Key management includes directors (executive and non-executive) and senior management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). The compensation paid or payable to key management for employee services is disclosed in the table below. All amounts owing are unsecured, non-interest bearing and have no specific terms of repayment.

Except as disclosed elsewhere in these consolidated financial statements, the Company incurred the following general and administrative costs with related parties during 2016 and 2015:

		2016		2015
Goods or services rendered:				
Management fees paid or accrued to an officer of the Company	**$**	**120,000**	$	120,000
Management fees paid or accrued to directors who are also officers of the Company	**$**	**120,000**	$	120,000
Accounting fees included in professional fees for CFO services paid or accrued	**$**	**30,000**	$	30,000

Transactions with related parties were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

8. SHARE CAPITAL

a) Authorized

The Company is authorized to issue an unlimited number of no par value common shares.

b) Issued

Share issuances in the year ended June 30, 2016

On Oct 9, 2015 the company issued 1,200,000 common shares at $.005 per share, to settle an advance of $6,000.

On Oct 19, 2015, the Company issued 4,770,993 common shares at $.004 per share, for total consideration of $19,100. The shares were purchased by a spouse of an officer of the Company.

Share issuances in the year ended June 30, 2015

On July 17, 2014 the Company issued 1,750,000 common shares at $0.025 per share, for total consideration of $43,750 for cash, of which $35,000 had been recorded as share subscriptions as at June 30, 2015.

On January 15, 2015 the Company issued 5,000,000 common shares, valued at $0.004 per share, as part repayment of a convertible debenture (Note 7) in the amount of $35,000 plus accrued interest. The payment also included a cash payment of $31,873.

On January 19, 2015 the Company cancelled 3.000,000 common shares pursuant to settlement of a legal action brought against the Company regarding trading restrictions on certain previously issued stock. Pursuant to the settlement agreement the plaintiff returned 12,030,868 common stock to the Company, of which 9,030,868 common stock has been reissued subject to trading restrictions and 3,000,000 common stock have been cancelled. The cancellation is valued in these financial statements at the average issue price of common shares.

c) Share Purchase Warrants

Share issuances in the year ended June 30, 2015

During the year ended June 30, 2014 the Company issued 104,000 share purchase warrants issued as agent warrants regarding the issue of convertible debentures. The warrants entitled the holder to acquire one common share at a price of C$0.10 per share to June 4, 2015. The estimated fair value of these warrants at the grant date was $Nil, determined using the Black-Scholes model using the following weighted average assumptions: Average risk-free interest rate – 1.08%; Expected life – 1 year; Share price volatility – 72%; and Expected dividend yield - 0%. During the year ended June 30, 2016 these warrants expired unexercised.

(Stated in US Dollars)

9. INCOME TAXES

Current income tax provision

The Company's provision for income taxes differs from the amounts computed by applying the statutory income tax rates to the loss as a result of the following:

		2016		2015
Statutory rates		26%		26%
Income tax benefit at Canadian statutory rate	$	(68,000)	$	(91,000)
Foreign income taxes at other than Canadian statutory rates		(37,000)		(40,000)
Expiry of non-capital losses		-		58,000
Change in deferred tax assets not recognized		105,000		73,000
Deferred income tax provision (recovery)		-	$	-

Deferred income taxes

Deferred income taxes reflect the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets, which have been offset by a full valuation allowance and are not recorded in the Company's consolidated financial statements due to the uncertainty of realization, were as follows:

Deferred income tax assets		2016		2015
Equipment	$	174,000	$	174,000
Operating losses carry forward		1,907,000		1,845,000
Intangible assets		189,000		189,000
Less: unrecognized deferred tax assets		(2,270,000)		(2,208,000)
		-	$	-

The Company has approximately $6.75 million (2014: $7 million) of non-capital losses which are available to reduce taxable income of future years. These losses expire in various amounts from 2026 to 2036.

10. CAPITAL MANAGEMENT

The Company monitors its cash, common shares, warrants and stock options as capital. The Company's objectives when maintaining capital are to maintain sufficient capital base in order to meet its short-term obligations and at the same time preserve investor's confidence required to sustain future development and production of the business.

The Company is not exposed to any externally imposed capital requirements.

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed through its operations to the following financial risks:

- Market Risk
- Credit Risk
- Liquidity Risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is present throughout these consolidated financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies, and processes for managing those risks or the methods used to measure them from previous years unless otherwise stated.

General Objectives, Policies and Processes

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below:

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT - Continued

General Objectives, Policies and Processes - Continued

i) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of three types of risk as follows:

Foreign Currency Risk

Foreign currency risk is the risk that a variation in exchange rates between the US dollar and the Canadian dollar or other foreign currencies will affect the Company's operations and financial results. The Company could have exposure to foreign currency risk. The Company's functional currency is US dollars but it raises some of its capital in Canadian dollars. The Company has not hedged its exposure to currency fluctuations.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company does not have any borrowings. Interest rate risk is limited to potential decreases on the interest rate offered on cash, cash equivalents and short-term deposits held with Canadian financial institutions. The Company considers this risk to be immaterial.

Equity risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets.

ii) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which are potentially subject to credit risk for the Company consist primarily of cash and other receivables. Cash and equivalents and short-term deposits are maintained with financial institutions of reputable credit and may be redeemed upon demand.

The carrying amount of financial assets represents the maximum credit exposure. The Company has gross credit exposure at June 30, 2016 and June 30, 2015 relating to cash of $418 and $1,041 respectively. All cash, cash equivalents and short-term deposits are held at a Canadian chartered bank. The Company considers credit risk to be minimal.

iii) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to ensure that is will always have sufficient cash to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The key to success in managing liquidity is the degree of certainty in the cash flow projections. If future cash flows are fairly uncertain, the liquidity risk increases.

Typically, the Company ensures that is has sufficient cash on demand to meet expected operational expenses for a period of 180 days. To achieve this objective, the Company prepares annual operating and capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on explorations projects to further manage expenditures.

The Company monitors its risk of shortage of funds by monitoring the maturity dates of existing trade and other accounts payable.

Determination of Fair Value

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The Consolidated Statement of Financial Position carrying amounts for cash, other receivables, accounts payable and accrued liabilities approximate fair value due to their short-term nature. Due to the use of subjective judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT - Continued

Fair Value Hierarchy

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable marker data (unobservable inputs).

12. SEGMENTED REPORTING

The Company is organized into business units based on business activities and has one reportable operating segment, being that of development of a wood pellet plant.