RDX TECHNOLOGIES CORPORATION
(FORMERLY RIDGELINE ENERGY SERVICES INC.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED
JUNE 30, 2014 AND 2013

The following discussion and analysis, prepared at August 29, 2014, should be read in conjunction with the interim financial statements for the three months ended June 30, 2014 and the annual financial statements for the year ended March 31, 2014 (the "Financial Statements"), both of which are prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are stated in Canadian dollars unless otherwise indicated.

Statements in this report that are not historical facts but are forward-looking involve known and unknown risks and uncertainties that could cause actual results to vary considerably from these statements.

Additional information relating to RDX Technologies Corporation is available on SEDAR at www.sedar.com.

Description of Business and Overview

RDX Technologies Corporation, together with its wholly owned subsidiaries, (the "Company", "we", "us" or "our") is a water treatment and energy technology company. The Company changed its name to RDX Technologies Corporation during August 2013 from Ridgeline Energy Services Inc. The Company is a reporting issuer in Alberta, British Columbia and Ontario, and trades on the TSX Venture Exchange under the symbol RDX, the OTCQX exchange under the symbol RGDEF and on the Frankfurt Stock Exchange under the symbol RL7. The Company's fiscal year end is March 31. In addition to the Company's headquarters in Scottsdale, Arizona, the Company has operating locations for its continuing operations in Carthage, Missouri, Santa Fe Springs, California, Scottsdale, Arizona and Deaver, Wyoming. At June 30, 2014, the Company also manages a domestic waste water treatment company (M2 Renewables, LLC) located in California through a management contract (see "Recent Developments" below).

The consolidated financial statements of the Company are stated in Canadian dollars and at June 30, 2014, include the accounts of the Company and its wholly owned subsidiaries:

- Ridgeline Water Inc. ("RWI" or "Ridgeline Water"), which incorporates a wholly owned subsidiary, Ridgeline Eau Claire Inc. ("REC"), and REC's 50% controlling interest in the Eau Claire Partnership ("ECP"). Following the acquisition of the non-controlling interest in the ECP on January 5, 2012, the Company owns 100% of the ECP.
- Danzik Hydrologic Sciences, LLC ("DHS").
- Ridgeline Energy Services (USA) Inc. ("RUSA").
- Changing World Technologies, L.P. ("CWT") and its wholly owned subsidiaries, Renewable Environmental Solutions, LLC, Thermo-Depolymerization Process, LLC and Tech, LLC. CWT was acquired on April 15, 2013.
- RDX Technologies USA Corporation, a Delaware corporation that was formed during May 2014 and became the parent of RUSA during July 2014.
- SFS Real Estate & Recovery, LLC, a Delaware limited liability company that was formed during May 2014 and became a wholly owned subsidiary of RDX Technologies USA Corporation during August 2014.
- RDX Energy Group, LLC, a Delaware limited liability company that was formed during June 2014 and became a wholly owned subsidiary of RDX Technologies USA Corporation during July 2014.
- RDX Applied Technologies I, LLC, a Delaware limited liability company that was formed during June 2014 and became a wholly owned subsidiary of RDX Technologies USA Corporation during July 2014.

During September 2013, the Company sold substantially all assets and liabilities related to the Company's Ridgeline Environment ("REI") and Ridgeline Greenfill ("RGI") business segments and re-aligned its reportable segments, as follows:

- Environmental and Reclamation – Primarily relates to the acquisition and liquidation of distressed biofuel and water treatment facilities, inclusive of engineering consulting services and the disposal of excess real property and equipment.
- Energy – Primarily relates to the production of refined fuel and related operations.
- Water – Primarily relates to waste water treatment services and related operations.
- Equipment Sales and Rentals – Primarily relates to the manufacture and sale of components and systems, including the sale of complete waste water treatment systems, and rentals of the same.
- Support Services – Relates to our manufacturing facilities and costs incurred to support our other operating segments.
- Management Contracts – Relates to various management contracts entered into by the Company.

Core Business

The Company generally operates in two separate industry segments, waste water and energy. The Company operates waste water treatment plants that allow for substantially smaller volumes than is typically found in a municipal or government operated environment. A typical municipal or government waste water treatment plant is built to handle waste water volumes in the tens of millions of gallons per day. Our Company targets waste water volumes ranging from 25,000 to 500,000 gallons per day, which cannot be efficiently treated with conventional treatment methods utilized by municipal and government installations. The Company generates revenues from the treatment and disposal of waste water received from customers.

The Company also targets waste water that contains materials that can be further refined into fuel products that qualify as waste to energy, renewable or bio based fuels. Our technology allows specific streams of materials in waste water to be mined and collected, efficiently, and at a very low cost. In most cases, waste water can be treated for fractions of a cent per gallon. Waste streams that can be gleaned from water mining include greases, vegetable or animal based oils, as well as hydrocarbon and other polymers found in waste water. These by-products that are gleaned from water mining can then be converted into fuel, which is then sold to end users. Our fuel can be used in boilers, heating equipment, generators, pumps and a wide variety of diesel consuming devices (excluding those used for transportation).

We are in the unique position of having a financial hedge on the single largest traded energy commodity in the world, diesel fuel. This allows us to sell diesel equivalent energy at a substantial discount to the Company's customers. RDX's fuel has substantially cleaner combustion characteristics than #4 or #6 fuel oil, coal or similar energy sources. Unlike other clean fuels such as natural gas, our fuel products do not require the use of pipelines or similar infrastructure, and can be delivered almost anywhere. Our fuels also avoid the volatility of the commodity market because we sell our fuel to our customers on a fixed contract basis. The Company generates revenues from the production of fuels from the mined waste streams.

It is the Company's plan to open waste water treatment facilities at or near the Company's current and future fuel customers either through the sale of franchises, which includes the sale of specific water treatment equipment to the franchisee, or by expanding operations internally. In some cases, waste water from a customer's site can be mined and converted to fuel and consumed on the same site utilizing the Company's technology.

The Company intends to exploit the profitability of our business model by steadily expanding the application of its waste water technology and fuel sales to include remote generators, temporary power, rental boilers, as well as hot oiler systems used in the oil and gas industry.

Our technology allows for the following applications:

- Industrial Waste Water Industry and Related Services
    - Interceptor Waste
    - Mining Industry Waste Water
    - Food Waste Water Processing
    - Soil Services
- Water generated in the oil and gas industry including Produced, Flowback, and Chemical Flood Water Treatment
- Refined Fuel

The Company expects to experience substantial growth in the future. The main reasons for this expected growth are: (i) water re-use and recycling is becoming a more cost effective way to deal with the increasing use of water in the oil and gas industry; (ii) the relationships the Company has built with its current clients in the oil and gas industry; (iii) increased demand in the Industrial Waste Water industry for more cost effective solutions; and (iv) the ability to extract brown grease from interceptor waste for conversion into fuel for sale.

The Technology

Over seven years ago Dennis M. Danzik, a noted American engineer, developed an innovative technology capable of extracting waste polymers from waste water. The polymers that Danzik identified in his studies were a part of both vegetable and mineral sources, in simple terms, fatty oils from plant growth as well as oils from hydrocarbons. Danzik's efforts led his laboratory team to develop a method of using bacteria and enzymes to separate the valuable oils from unwanted material such as carbohydrates, pectin and proteins that are also found in waste water sources.

Danzik's laboratory work continued on several different research tracks, unrelated to biological conversion of waste to fuel. The first research track was to consistently improve natural biological activity for waste to fuel opportunities, and another to develop methods of treating the massive quantities of waste water that the Danzik team worked with on a daily basis.

Directly out of the work by Danzik's team in waste water, two distinctive processes used in basic reactor science, dialysis, and electrodialysis were applied in a unique method by using catalysts (chemicals that speed reactions) and micro bursts of electrical energy, to break water at the molecular level. Danzik's work and processes make water reject contaminates, as well as group contaminates such as chlorides (salts), magnesium, sulfur, calcium, and other substances that make water difficult to recycle and reuse. The process also oxidizes heavy metals, and produces ozone which is a popular, environmentally friendly way to kill bacteria in water. Another benefit is the elimination of dangerous gases such as hydrogen sulfide.

We have a substantial amount of intellectual property that we obtained through our acquisition of intellectual property and non-controlling interest from DHS. We have made a strategic decision to limit applying for patents on several parts of our intellectual property. The rationale for this strategy is that in many cases publishing a patent means competitors know how the intellectual property works and can then work to subvert the patent. By not publishing a patent, it is the Company's rationale that competitors are not provided the opportunity to understand the process.

There are no patents at this time. The Company is currently evaluating the merits of filing for patents on specific parts of the intellectual property. The completion timing of this evaluation is unknown as the decision making process is complicated and there are numerous parts to the intellectual property to be considered.

Despite this strategic decision, we remain dependent upon maintaining the confidentiality of our trade secrets. We have taken appropriate steps, safeguards and procedures to limit access to the trade secrets. We have also obtained strict confidentiality agreements and works agreements from those employees and consultants who have access to the trade secrets. We are materially dependent upon Danzik's performance under a Development and Supply Agreement through Danzik Applied Sciences, who provides the Company with exclusive ongoing research and development to improve and advance our technology.

Benefits of Electrocatalytic Process

Using very low energy input and catalysts, our technology essentially separates the contaminants from water at the molecular level. The technology also sets up rapid and redundant "ion exchanges" that are essential to cleaning water. This causes the water to repel and stratify contaminants allowing for efficient separation and removal. The technology has the unique ability to control the dialysis process in water and avoid the production of excess heat. It allows the "targeting" of reagents, and mechanical processes to reduce suspended and dissolved solids, chlorides, and other harmful contaminates. The technology also utilizes the advancements in oxidation to target heavy metals. Our goal in applying the technology is to develop a "Water Product" for our customers. Not all water needs to be cleaned to potable standards for recycling and reuse. We work closely with our customers to define their water needs and conservation so that as little energy as is possible is consumed in the water treatment process.

A Practical Application of Science

In 2009, the Company and Danzik, through their respective affiliates, entered into a joint venture agreement, and subsequently formed the Eau Claire Partnership under a partnership agreement, to further develop and commercialize the technology that was first developed by Mr. Danzik for the oil and gas industry. By using the technology at the beginning of the water treatment process, Danzik was able to maximize the effectiveness of good engineering practice such as cavitation, filtration and reverse osmosis. By implementing the technology "up front", membrane fouling and rejection rates of a reverse osmosis system are drastically reduced, and throughput is greatly increased. Since the technology creates water that repels contaminates, entrained and emulsified oil can also be recovered on the process, making the technology a valuable addition to oil and gas customers current oil recovery equipment.

In 2011 the Company began producing energy by producing renewable fuel in the form of a diesel replacement. This fuel was made possible by the Company's ability to mine specific materials from waste water that can be converted to fuel. These materials include vegetable based oils, animal based oils, hydrocarbons, grease derived from food processing, and alcohols. The Company sees the production of fuels as one of its most important products that will allow for growth into the future.

The Company believes it has found a water treatment solution demanded by its clients, and views this innovative technology as the possible answer to the growing environmental challenge of waste water generated by unconventional oil and gas production and other industries.

Energy Segment

Refined fuel, or renewable diesel, is a low carbon, advanced biofuel, and replacement for petroleum-based fuel oil. Refined fuel is compatible with the existing fuel infrastructure. The largest segment of the distillate fuel market is diesel fuel for on-road and off-road use and also includes fuel oils used for heating and power generation. We convert food processing waste, including fats, oils and greases into refined fuel. This process is designed to utilize raw materials that would not otherwise enter the food chain. We operate a renewable diesel fuel plant in Carthage, Missouri, which was acquired as part of the CWT acquisition, as further discussed below.

When a gallon of refined fuel is sold, the Company's CWT operations also recognize revenues for alternative fuel tax credits as these credits are directly related to the underlying refined fuel sales. As long as CWT has no income tax liabilities, these alternative fuel tax credits are fully recognizable and do not require offsetting of income tax liabilities to be realized. This alternative fuel tax credit program expired as of December 31, 2013 and it is unclear whether this program will be renewed for the 2014 calendar year.

The sellers of CWT have produced documents that state that CWT's products have been qualified by the EPA as an "advanced refined fuel" ("D-5") and also qualified as a "biomass based diesel" ("D-4") and therefore, create Renewable Identification Numbers ("RINs") with each gallon produced. RINs are renewable fuel credits that are similar to renewable energy certificates in the renewable energy sector. A RIN is a serial number assigned to each gallon of refined fuel produced and can be separated or stripped from each gallon of refined fuel sold. These RIN's can be sold separately and without consideration to when the gallon of refined fuel that was produced was sold (referred to as banking RINs). When the refined fuel is sold, the RIN is noted as "detached" and can be monetized on an active market as tracked by the Oil Price Information Service ("OPIS"). Revenue from the sales of RINs is recognized at the time of each RIN sale. RINs were created by the Environmental Protection Agency ("EPA") to track the progress of the United States towards reaching energy independence. RINs are the currency used by obligated parties, domestic refiners or importers of gasoline, to certify compliance with mandated renewable fuel volumes. Each refiner or importer must hold RINs representing increasing percentages of renewable fuel volumes.

Water Segment

Industrial Waste Water

Industrial waste water treatment involves treatment of water that has been contaminated in some way by anthropogenic industrial or commercial activities prior to its release into the environment or its re-use. Most industries produce some wet waste, although recent trends have been to minimize such production, or recycle such waste within the production process. However, many industries remain dependent on processes that produce waste water.

Interceptor Waste

Interceptors are used on sites where there is a danger of pollutants, such as oil or petrol, entering the municipal waste water discharge drainage system. Also referred to as grease traps or grease recovery devices, interceptors are designed for storage of greases, oils as well as solids before entering a waste water disposal system. By permitting water only to escape, the contamination is trapped in the interceptor, which must be emptied regularly to prevent contamination of the drainage system. The waste is removed from the interceptor chamber by a vacuum tanker and transferred to a treatment plant.

Mining Industry Waste Water

Waste water associated with mines and quarries primarily relates to slurries of rock particles in water. These slurries arise from rainfall washing exposed surfaces and haul roads, and also from rock washing and grading processes. Certain specialized separation businesses, such as coal washing to separate coal from rock using density gradients, can produce waste water. Oils and hydraulic oils are also common contaminants. Waste water from metal mines and ore recovery operations are typically contaminated by minerals present in the rock formations. Although the Company has not entered this market yet, there are strong indications that the technology will be applicable to many different mining situations. As resources become available the Company will evaluate entrance into this market.

Food Waste Water Processing

Waste water generated from agricultural and food operations has characteristics that are unique from common municipal waste water. Food waste water is biodegradable and nontoxic, but has high concentrations of biochemical oxygen demand and suspended solids. The constituents of food and agriculture waste water are often too complex to predict due to the differences in biochemical oxygen demand and pH in effluents from vegetable, fruit, and meat products, and due to the seasonal nature of food processing.

Processing of food from raw materials requires large volumes of high grade water. Vegetable washing generates waters with high loads of particulate matter and some dissolved organics. It may also contain surfactants.

Animal slaughter and processing produces very strong organic waste from body fluids. This waste water is frequently contaminated by significant levels of antibiotics and growth hormones from the animals, and by a variety of pesticides.

Processing food for sale produces waste generated from cooking, which are often rich in plant organic material and may also contain other chemicals. Significant quantities of oil or fats may also be present.

Soil Services

Soil services were a related service to our industrial waste water operations, which was provided by our Santa Fe Springs facility. During fiscal 2014, we ceased providing soil services. Soil services related to the processing of HydroVac soil, which is generated as a result of infrastructure construction projects, and non-hazardous bulk soil that was transported to this facility in plastic liner material. The HydroVac process is used to remove soil from infrastructure construction sites. Typically water is used to remove soil from close proximity to power, water and gas lines where the use of a typical excavating machine is dangerous or impractical. The resulting slurry is vacuumed into tanker trucks and transported to a treatment facility. This material can be processed in open air as there are no odor issues. Processing includes the removal of water from the slurry and the drying of the remaining soil.

Bulk soil is generated by freeway construction projects and is typically moist, but not saturated with water. This material is processed in a mechanical trammel screen that separates the dirt from the plastic. This is clean soil that does not have odor issues and can be processed without air filtration issues. This soil is then sold and the plastic is removed by a recycler.

Produced Water

"Produced water" is water originally trapped in underground formations that is brought to the surface along with oil or gas during the production process. It is by far the largest volume byproduct or waste stream associated with oil and gas production. The primary constituents in produced water that limit its disposal or reuse are: salt content, the presence of organic materials measured as oil and grease, various toxic chemicals, and naturally occurring radioactive materials. Inappropriate produced water management can lead to environmental problems. In mature oil and gas formations, the produced water that is extracted in the production process can be multiples of each barrel of oil produced. Managing produced water constitutes a huge economic burden and environmental challenge for oil and gas companies.

Hydraulic Fracturing Flowback Water

Hydraulic fracturing is a well stimulation technique used to increase oil and gas production. Hydraulic fracturing requires tremendous amounts of fresh water to be used and disposed of. Fracture fluids, primarily frack water containing sand proppants and chemical additives, are pumped into the well under pressure to create fractures in the impermeable formation that will then allow trapped oil or gas to flow to the well bore. Unconventional oil and gas production is under increasing scrutiny regarding the potential environmental impact from hydraulic fracturing. The application of the fracturing process uses significant quantities of water, with a typical range of two to eight million gallons for a horizontal well, with an average of approximately three million gallons. Additionally, unconventional wells may need to be fracture stimulated several times to keep the oil or gas flowing, with each frack requiring more water than the previous one. Some horizontal wells are re-fractured as many as ten times, or more.

After each fracturing stage, the fracturing fluid, along with water originally present in the shale formation will, "flowback" through the wellbore, to the surface. Flowback water can also contain naturally occurring formation water that is millions of years old, often displaying high concentrations of salts, naturally occurring radioactive material and other contaminants including arsenic, benzene and mercury. Depending on the well, the flowback period can last from hours to weeks, with some injected water produced for several months after production begins. The percentage of frack water injected that flows back also varies. Other issues associated with handling flowback water include temporary storage and transport prior to disposal or treatment. Waste water is often stored in lined or unlined open evaporation pits, which could lead to seepage into soil resulting in potential contamination.

The availability of frack water for hydraulic fracturing, given the quantities involved, is essential to support projected growth of the unconventional resources. Water is generally sourced from surface or groundwater that may be publicly or privately held. Regulatory requirements for the sourcing, treatment and disposal of water are important factors shaping both availability and costs for unconventional resource developers.

Equipment Sales and Rentals Segment

Our equipment sales and rentals segment consists of our PTEC operations, which specializes in the production, sale and leasing of dissolved air flotation systems, which is unique equipment used for water treatment. Also included in this segment are sales of water treatment systems to franchisees and other equipment sales to similar operators.

Environmental and Reclamation Segment

The business plan of the Company includes the Company acquiring distressed existing or start-up water treatment and refining operations throughout the United States. The Company believes through its research that there are hundreds of defunct or near-defunct renewable fuel properties, with real property and equipment that have waste water issues the Company believes it can monetize through the use of its technology and expertise. Most of these facilities have permitting already in place allowing for continued operation by the Company once the acquisition is completed, which may result in excess real property and equipment.

Our environmental and reclamation segment provides for the acquisition and liquidation of distressed biofuel and water treatment facilities, inclusive of engineering consulting services and the disposal of excess real property and equipment that do not provide future benefit for the Company's Water, Energy, or Equipment Sales and Rental segments without impacting the Company's ability to operate the facility. The activities of remediation and resale of excess real property and disposal/sale of equipment and related fixed assets that do not provide future benefit to the Company will occur after the consolidation of existing or start-up water treatment or refining operations at the acquired properties.

Also included in this segment are sales of components and parts of water treatment equipment no longer used by the Company and sales of scrap equipment materials.

The Environmental and Reclamation segment may have activity that is non-recurring in nature and as such, the Company anticipates that revenue may be non-periodic in nature, although this reporting segment could have expense recognition that is periodic in nature.

Discontinued Operations

Ridgeline Environment

Ridgeline Environment, a previous division of the Company that was sold during September 2013, provided a comprehensive array of environmental management and professional services. These services primarily related to reclamation and remediation, environmental site assessments and drilling waste management.

Ridgeline GreenFill

Ridgeline GreenFill, a previous division of the Company that was sold during September 2013, provided soil remediation services with GreenFill Treatment Site™ facilities approved for the receiving and treatment of waste. Ridgeline Greenfill also assisted with the decommissioning of associated pipelines, processing plants and oil batteries, refineries, storage sites and other infrastructure.

Recent Developments

Franchising Program

General

During December 2013, we announced the launch of our Industrial Franchising opportunity in the United States, which provides an opportunity to own and operate the Company's water treatment equipment systems, for qualified owners and operators of waste water collection or treatment plants in the United States. The Industrial Franchise opportunity will also be made available to waste water generators that produce in excess of 10,000 gallons per day of industrial process or waste water. The Company is also evaluating licensing operations in Canada and Europe. The Company is in the process of working with legal counsel to complete regulatory filing obligations that will allow for the sale and licensing of franchises in states where the Company anticipates launching its franchising opportunities.

The Company has been developing a beta testing program since July 2013, concentrating on the Company's waste water mining operations. Water mining operations produce materials that can be converted to fuel, and then delivered to the Company's energy customers. The Company will be highly focused in developing franchises within the waste water industry that center on interceptor, food processing and packaging, slaughter operations; as well as franchise areas where water recycling has developed above normal economic value for the Company, including oil and gas operations where water is not only to be treated, but then sold for reuse. Each location (operation) will be sold and licensed separately.

The Company has been in confidential discussions with potential franchise operators since July of 2013, and conducted a beta test sale in the third quarter of fiscal 2014. Franchise location and planning in several locations in the United States is being developed at this time. In addition, the Company intends to focus its initial locations at or near the Company's energy customers. Priority will be given to locations that are currently operating waste water facilities, and companies that operate waste water pumping fleets.

Franchise costs and operating expenses can vary greatly from location to location, and are based on population, transportation costs, labor costs and regulations. The Company estimates that most Industrial Franchises will be offered between \$0.7 million to \$2.2 million per location, depending on the amount of treatment capacity required by the franchisee. The average facility size offered by the Company is expected to be 25,000 to 250,000 gallons per day of treated waste water.

During the three months ended December 31, 2013, the Company sold to a third-party, five separate waste water treatment equipment systems, which included an exclusive license of intellectual property related to these systems used to mine and remediate waste water. These five equipment sales, which approximated $9.6 million, are the initial launch of what the Company anticipates will be franchise sales in the future and are included in the Equipment Sales and Rental segment above. As a primary condition of the license agreement, the Company has the exclusive right to purchase all raw materials mined or collected in conjunction with the licensed services and licensed systems. The Company intends to convert all applicable raw material acquired under the license agreement into renewable fuel for sale into the market. Once the applicable raw materials are converted into fuel, the Company will pay the licensee, an override commission on the value of the raw material as converted into fuel or other value as the Company deems appropriate given market demand. Both the right to be the exclusive purchaser of raw materials and the payment of fuel override commissions will become part of the Company’s franchise agreements in the future. The Company received US$2.0 million related to this transaction through June 30, 2014. The sales agreement had a timeline for payment that extended through April 30, 2014 and a timeline for the installation and operation of the waste water treatment equipment systems that extended through September 2014. The buyer experienced delays in securing locations and licenses for four of the five systems acquired and requested the Company to hold the related equipment on its behalf until these matters are resolved. Furthermore, the buyer negotiated an extension of the payment terms with the Company through October 2014. Upon entering into this extension agreement, the Company received US$0.8 million from the buyer toward the outstanding receivable balance.

The Company’s goal is 40 waste water treatment equipment sales for fiscal 2015. Commitments for locations in fiscal 2015 may increase, but factors such as regulatory filings, securing locations and meeting local water discharge regulations may delay specific sites as those sites are developed. The beta locations included a mix of currently operating waste water plants and new locations. The first beta group locations were not franchised, rather they are straight sales of operating equipment under a license agreement.

Franchise locations will be developed but not sold until all Federal and State required disclosures are completed, and filed as required by law. The Company expects to have completed registration requirements during calendar 2014 however this timing could change, and certain states with complex registration requirements may exceed this timeframe.

The Company has set a goal of opening 300 Industrial Franchise locations (excluding the five beta locations discussed above) through the end of the 2018 fiscal year. The Company wide goal is based on the Company's estimation of the growth of energy customers and current demand for the Company’s methyl ester based liquid fuels. The Company sees substantial growth opportunities in fiscal 2015 and beyond in areas not served by pipeline or compressed natural gas or in temporary and transient power and heat delivery installations.

As locations are developed and sold, the franchisee and operator will be announced, but specific locations will not be made public until after real estate and permitting efforts are completed by the franchisee and operator. The Company will also develop franchise locations on the Company’s energy customer locations where possible, and those locations will be announced when sold, but not before specific permitting by location is completed.

All of the Company’s franchisees and operators will be required to be licensed or permitted in the jurisdiction in which they will be operating. The Company commenced Level I waste water operator training in Scottsdale, Arizona and expects to conduct additional training in Deaver Wyoming in the future. The Company’s training is centered on best practices, and specific operation of the Company’s technology, as permitted and licensed in the United States. The program is taught in on campus segments lasting from three to ten days. Initial training for operators is up to eighteen days of classroom and in practice training. The entire Level I course package takes up to one year to complete.

Pontus Energy, LLC

During August 2014, the Company entered into an agreement with Pontus Energy, LLC of Cincinnati, Ohio (“Pontus”) for the sale of 16 RDX franchises to be located within the State of Ohio, Monroe County Michigan, and the counties of: Boone, Kenton, Campbell, Gallatin, Grant, and Pendleton in the State of Kentucky. The total value of the agreement is US$19.9 million. Pontus has agreed to install, open and place into operation all of the locations by March 31, 2015. Pontus has identified and committed to real estate locations that will be announced when the locations are permitted and operating. Pontus will be developing locations concurrently during the remainder of fiscal 2015.

The Company anticipates the filing of franchise paperwork with the State of Ohio towards the end of September 2014. A franchise agreement that meets each state's franchise filing laws and disclosures will be completed prior to the delivery of any RDX equipment. Pontus management and staff have been involved in the development of certain locations, and RDX training for about seven months.

Municipal Program

The Company has entered into developmental agreements for two large municipal water treatment facilities; one located in Suffolk County, New York, and another in Odessa, Texas. These municipality locations are not a part of the Industrial Franchise program at this time.

These projects range from 2.0 million gallons per day to nearly 25.0 million gallons per day, and the expectation from these large projects is that the waste water is minable for effluent material that can be converted to fuel. Any level at or above $1/10^{th}$ of 1.0% of the total volume would be considered successful.

Excess Land Sale at Santa Fe Springs

Effective March 18, 2013, the Company, through its wholly-owned subsidiary Ridgeline Energy Services (USA), Inc., acquired control of certain assets and approximately 20 acres of land owned by Lakeland Development Company, a Delaware corporation, and Lakeland Processing Company, LLC, a California limited liability company (collectively “Lakeland”), which is located in Santa Fe Springs, California (“Santa Fe Springs”). This acquisition was completed pursuant to the Lakeland Purchase Agreement and the Lakeland Asset Purchase Agreement. Prior to this acquisition closing, the Company ran the day to day operations of the Santa Fe Springs facility under the Lakeland Management Contract.

On June 26, 2014, the Company sold approximately 17½ acres of excess land at its Santa Fe Springs facility to an independent third-party (“Buyer”) through its wholly owned subsidiary, Ridgeline Energy Services (USA), Inc. (“Seller”). The sale was made pursuant to an Agreement of Purchase and Sale and Joint Escrow Instructions dated February 10, 2014 as amended (“PSA”). The Company will continue its water treatment operations on the approximately two acres of remaining property retained by the Company.

The total consideration from this transaction approximated US$12.4 million and included (i) A remediation oversight fee paid to the Company of approximately US$4.0 million for the Seller’s oversight of Buyer’s performance of site remediation of which US$0.5 million was withheld at closing. This US$0.5 million will be withheld for one year following the date that Seller completes the demolition and removal of specific improvements that Seller is obligated to remove from the property as detailed in the PSA, at which time this US$0.5 million will be delivered to Seller less any amounts utilized by the Buyer to satisfy Seller’s obligations under a separate Remediation Escrow Agreement. This fee was paid by the Buyer as Seller, at Buyers request, has performed and shall continue to perform various consulting services in connection with Buyer’s remediation of the property; (ii) US$3.5 million deposited into escrow pursuant to a Remediation Escrow Agreement which may be utilized by Buyer to pay all costs and expenses associated with the investigation, remediation and monitoring activities which are necessary or desirable in order to address the presence of hazardous substances in soil, soil vapor and/or groundwater in, on, or under the property as is necessary to obtain “no further action” status (or the equivalent) from the California Regional Water Quality Control Board (“RWQCB”) and other applicable governmental agencies. If the total costs and expenses are less than US$3.5 million then Seller shall receive any excess available funds not to exceed US$0.5 million. If the total costs and expenses are greater than US$3.5 million then Seller shall pay any excess costs and expenses not to exceed US$0.5 million; and (iii) a land purchase price of approximately US$4.9 million. The Company received gross proceeds of approximately US$8.3 million of cash as a result of this transaction during the three months ended June 30, 2014.

When the Company originally acquired control of certain assets and land at its Santa Fe Springs facility in March 2013, as a condition of the closing, the Company and Lakeland entered into a Program Management Agreement as discussed more fully in our annual report for the year ended March 31, 2014 and below.

As part of the excess land sale at Santa Fe Springs discussed above, the Buyer of this excess land will complete the remediation of the soil as outlined in a filed Remediation Action Plan ("RAP") instead of the Company. Due to the Buyer's desire to assume this obligation as opposed to the Company completing this obligation on behalf of Lakeland, the Company, on April 14, 2014, entered into a Settlement Agreement with Lakeland to terminate the Program Management Agreement, assume the obligations for the remediation of the soil on behalf of Lakeland, and then transfer this obligation directly to the Buyer of the excess land as contemplated in the PSA. As a condition of the Settlement Agreement, once the Company assumed these obligations on behalf of Lakeland, the Company would no longer be obligated to issue an additional US$5.4 million of common stock as outlined in the original agreement of purchase of sale, as more fully discussed in our annual report for the year ended March 31, 2014. The Company also agreed to pay Lakeland US$0.4 million as payment in full for certain remaining operational obligations and to issue Lakeland US$0.5 million of common stock to fund future groundwater remediation and / or monitoring for off property impacts. This Settlement Agreement became effective upon the closing of the excess land sale discussed above.

During August 2014, Lakeland Development Company ("LDC") filed an Adversary Complaint for Breach of Contract and Turnover in the United States Bankruptcy Court Central District of California (Los Angeles Division), against one of the Company's wholly-owned subsidiaries. The complaint alleges that certain obligations agreed to by the Company and owed to LDC by the Company subsidiary have not been paid and seeks a judgment against the Company for amounts owed LDC in an approximate amount of $0.8 million, for which the Company had properly reflected all obligations at June 30, 2014 and March 31, 2014. The Company is currently reviewing this complaint and plans on responding accordingly.

The Company has classified the assets and liabilities associated with this sale of excess land at Santa Fe Springs and those associated with the Settlement Agreement as held for sale at June 30, 2014 and March 31, 2014.

The following is a summary of revenue and cost of revenue associated with the sale of land in June 2014:

Sale of land……………………………………	$ 8,978,890
Remediation oversight revenue……………	3,775,693
Total revenue…………………………………	12,754,583
Cost of land sale……………………………	9,012,967
Gross profit……………………………………	$ 3,741,616

M2 Renewables

Effective May 10, 2013, the Company entered into a management agreement (the "M2R Management Contract") with M2 Renewables, LLC ("M2R"), located in California, for the management of a company that specializes in the treatment of domestic waste water and the conversion of captured organic solids into usable forms of energy. The M2R Management Contract has been renegotiated to reflect the intent of the parties that the Company, as manager of M2R, is not entitled to profits or responsible for losses as a result of M2R's operations. The M2R Management Contract transitioned the day to day operations of M2R to the Company effective May 9, 2013. Following this transition date, the Company became responsible for the administration, management, sales, billing, collection, water treatment, environmental compliance, maintenance, security and all other functions of the business. The Company and M2R recently concluded negotiating an asset purchase agreement whereby the Company would acquire all of interest or assets of M2R. During the year ended March 31, 2014, we reimbursed DAS for $0.1 million that it had funded to M2R relative to this potential acquisition. The term of the M2R Management Contract is effective until it terminates under the following conditions: (i) upon written notice by M2R, (ii) the date of the closing of a definitive agreement, and (iii) upon thirty days written notice from the Company. Should the parties to the M2R Management Contract terminate for any reason other than the closing of the definitive agreement, management takeover shall cease and full control will return to M2R.

Effective June 1, 2014, the Company entered into an Asset Purchase Agreement to acquire certain assets from M2Renewables Inc. ("M2R"). M2R is the owner of revenue generating products and services based on specific technology, including various sized MicroScreen water treatment equipment specifically used for separating suspended solids from waste water, as well as patented filters and replacement parts. The purchase price for these certain assets from M2R is comprised of: (i) US$1.0 million in cash less all cash payments and advances made by the Company to M2R from May 9, 2013 to the closing, which totaled $0.7 million at June 30, 2014; (ii) a US$2.0 million unsecured promissory note subject to reduction if certain MicroScreen sales goals are not met. The promissory note will have an interest rate of 4.0% per annum, which is payable (i) 24 months from the date of issuance or (ii) when the Company, with assistance from M2R or as requested, raises a minimum of US$4.0 million of capital through the issuance of debt, equity or equity-linked securities. In the event of a change of control of the Company, all principal and interest will become immediately due and payable to M2R; and (iii) earn-out payments made to M2R by the Company up to a maximum of US$11.0 million. These earn-out payments will be issued as convertible promissory notes if the Company is not listed on a U.S. exchange. If the Company has moved to a U.S. exchange, the earn-out payments will be made in shares of the Company's common stock. The Company anticipates closing this transaction with M2R on or before March 31, 2015. The existing M2R Management Contract will be terminated upon the closing of the acquisition of M2R.

Acquisition of Equipment for Renewable Fuel Production

On June 25, 2014, the Company acquired certain assets from REP-LA1, LLC ("REP"). REP was the owner of a renewable fuel production facility and other related assets located at 12345 Lakeland Road in Santa Fe Springs California. The purchase price for the equipment acquired from REP included: (i) US$0.1 million in cash; (ii) 4,150,000 commons shares of the Company; and (iii) 3,282,432 common shares of the Company, as adjusted for any stock splits, reverse stock splits, stock dividends and similar recapitalization events, as deferred purchase price to be issued no later than the earlier of (i) ten days after the Company is listed and trading on the NYSE-MKT exchange or (ii) October 31, 2014. The purchase price, all of which was allocated to the equipment acquired, is summarized as follows:

Cash paid…………………………………………	$	107,209
Common shares issued………………………		1,328,000
Deferred purchase price common shares……		1,050,379
Total consideration……………………………	$	2,485,588

As security for the deferred purchase price of the 3,282,432 common shares of the Company, the Company executed a Security Agreement providing REP a security interest in the renewable fuel production facility and other related assets acquired and executed a Promissory Note for the 3,282,432 common shares of the Company. The Promissory Note has a five percent (5%) annual interest rate and will be paid in common shares of the Company when the Promissory Note is paid in full.

As part of the overall transaction, the Company and REP executed a Termination and Release Agreement in which both the Company and REP agreed to terminate certain Lease Agreements with respect to certain premises located at 12345 Lakeland Road, Santa Fe Springs California.

Short-Term Financing with Sigma

On May 7, 2014 the Company borrowed US$3.3 million from Sigma Opportunity Fund II, LLC ("Sigma"). The interest rate is 5.0% per annum with a maturity date that is the earlier of November 7, 2014 or the consummation of the Company's land sale of approximately 17½ acres at its Santa Fe Springs facility to a third-party buyer in which the Company does not elect to repay an optional repayment amount. This loan is secured by a deed of trust on the Company's land at its Santa Fe Springs facility and the Company's accounts receivable.

As a condition of this loan, the Company entered into various agreements with Sigma and paid Sigma and its affiliates, paid an advisory fee of US$0.3 million, issued 600,000 shares of common stock of the Company, and incurred less than US$0.1 million in expenses. Dennis M. Danzik, on behalf of the Company, personally advanced the 600,000 shares of common stock to Sigma and granted Sigma a personal guarantee on this loan. The Company also placed US$0.4 million into a control account as partial security for Sigma. The Company does not have access to these control account funds unless and until the loan is repaid in full. The Company elected the optional repayment of US$1.0 million at the time of the closing of the Company's excess land sale at Santa Fe Springs and accordingly, increased the control account from US$0.4 million to US$1.0 million during July 2014. The maturity of this loan remains November 7, 2014.

The Company plans on using these funds to continue the growth of its water and energy business, including the manufacturing of water treatment equipment for sale to third-parties and the continued development and production of energy equipment for internal Company use.

Acquisition of Changing World Technologies, L.P.

On April 15, 2013, the Company closed on a Unit Purchase Agreement, as amended (the "CWT Agreement") dated March 11, 2013 by and among (i) the Company and (ii) CWT Enterprises (Canada), Inc. ("General Partner") along with the ("Partners") CWT Canada II Limited Partnership, a Canadian limited partnership ("CWT Canada"), Resource Recovery Corporation, a Delaware corporation, ("RRC"), and GEM Holdco, LLC, a Delaware limited liability company, collectively the ("Sellers"). As part of the CWT Agreement, the Company acquired all of the issued and outstanding units of capital stock of Changing World Technologies, L.P. ("CWT") in exchange for Company stock and promissory notes. Bruce MacFarlane, the President of Resource Recovery Corporation, and Jean Noelting, a Director of CWT Enterprises (Canada), Inc. and CWT Canada II Limited Partnership, were appointed to the Company's Board of Directors subsequent to the CWT acquisition, and served on the Company's Board of Directors until May 23, 2014.

Prior to the acquisition of CWT, the Company managed CWT under a management contract (the "CWT Management Contract"). The CWT Management Contract transitioned the day to day operations of this facility from CWT to the Company effective December 1, 2012.

CWT operates a renewable diesel fuel plant in Carthage, Missouri. The total consideration paid was comprised of: (i) promissory notes in the aggregate amount of US$20.0 million; (ii) 25,862,069 shares of common stock; and (iii) warrants to purchase 4,100,000 shares of common stock of the Company with a strike price of $1.00 per share for a period of five years. The fair value of consideration paid for CWT is summarized as follows:

Promissory notes	$ 20,412,000
Common shares	12,155,172
Warrants	1,356,629
Total purchase price	$ 33,923,801

The Company received final TSX Venture Exchange ("TSXV") approval for this transaction on April 22, 2013. As discussed below, GEM Holdco, LLC initiated legal proceedings against the other Sellers, Jean Noelting, the Company and Dennis M. Danzik relative to the above transaction. These proceedings are ongoing as of the date of this filing.

After the purchase of all of the issued and outstanding units of capital stock of CWT, the Company began evaluating renewable fuel production from its Carthage Missouri refinery and formed a belief that fuel qualities were not as expected and the technology path was not as strong as represented by the sellers. The Company also began discussions with the original sellers regarding these quality issues and the parties began negotiating an agreement that would address the Company's concerns. The Company believes that if an agreement were to be reached, there could be a material reduction in liabilities owed to the sellers. As of the date of this filing, the Company has not reached an agreement with the sellers to compensate the Company for its fuel quality and technology path concerns and, as discussed more fully below, on August 26, 2014, the Company filed a Statement of Claim in the Judicial Center of Calgary Alberta, Canada, against Brian Appel, Resource Recovery Corporation, CWT Enterprises (Canada), Inc., CWT Canada II Limited Partnership, Jean Noelting, and Bruce MacFarlane (collectively the "Defendants").

During August 2013, one of the two promissory note holders, RRC, authorized a deferral on the payment of interest on their CWT promissory note through September 30, 2013. This deferral authorization was subsequently extended to March 31, 2014. RRC has not indicated whether or not additional deferrals will be granted to CWT and as of the date of this filing, no deferral confirmations, nor formal notice of default on this promissory note has been received from RRC. Additionally, due to ongoing litigation, the Company has also not made payments on the second of the two promissory notes, due GEM Holdco, LLC. The Company has not received any formal notice of default from GEM Holdco, LLC. As a result of this lack of continued deferral confirmation from RRC and non-payment to GEM Holdco, LLC due to ongoing litigation, the Company has classified the entire promissory note as a current liability on the Consolidated Statement of Financial Position.

On August 26, 2014 the Company filed a Statement of Claim in the Judicial Center of Calgary Alberta, Canada, against Brian Appel, Resource Recovery Corporation, CWT Enterprises (Canada), Inc., CWT Canada II Limited Partnership, Jean Noelting, and Bruce MacFarlane (collectively the "Defendants"). The Company believes that all Defendants were associated with CWT prior to its sale of all of the issued and outstanding capital stock to the Company in April 2013. Jean Noelting and Bruce MacFarlane are former board members of the Company, having been appointed following the sale of CWT to the Company.

The Statement of Claim alleges that as a result of misrepresentations, deceit, and conduct of the defendants, the Company has suffered significant losses and estimates that the total amount of these losses to be not less than $75 million. The Statement of Claim further states that the conduct of the defendants warrants punitive and exemplary damages in an amount to be determined at trial, and costs of this action on a solicitor and his own client basis.

O.C. Vacuum Litigation

On May 8, 2014, the Company filed suit in California against one of its customers for breach of contract and unjust enrichment due to this customer's failure to pay its receivable due the Company after repeated efforts to collect this outstanding debt. This customer, O.C. Vacuum Inc. ("OCVac"), a California corporation, owes the Company a net amount of approximately $0.2 million. OCVac was contracted by Kiewit Infrastructure West Co. ("Kiewit"), to haul away mud and wet materials from Kiewit's Highway 405 Hydro-Excavation Project in Southern California. The Company would receive and treat OCVac's mud and wet material on behalf of OCVac and OCVac would pay the Company based on the amount of mud and wet material received from OCVac. The Company and OCVac are in settlement discussions regarding this past due amount of $0.2 million and the Company anticipates collection in full from OCVac although the Company has reserved a portion of this past due amount as uncollectible on its financial statements.

Oros & Busch Application Litigation

On June 19, 2014, Oros & Busch Application ("Oros"), filed suit in Missouri state court against the Company in part for breach of contract. Oros alleges that it has provided services to the Company's plant in Carthage Missouri and that the Company has not paid Oros as agreed to in an agreement between the companies. Oros is seeking damages for breach of contract but has not pleaded a specific amount.

On or about June 20, 2014, the Company filed suit against Oros in the United States District Court Western District of Missouri Southern Division in part for breach of contract. The Company alleges that, prior to entering into an agreement between the companies, Oros misrepresented the extent of the services it would provide under the agreement. The Company seeks financial damages approximating US$2.0 million.

GEM Holdco Litigation

As discussed above, the Company completed the acquisition of CWT on April 15, 2013. In connection with this acquisition, Global Emerging Markets NA, Inc. ("Global Emerging Markets") announced that on April 29, 2013, one of its affiliates, GEM Holdco, LLC ("GEM"), amended a previously filed complaint in a lawsuit against CWT to include the Company and the Company's Chief Executive Officer, Dennis M. Danzik, and Jean Noelting (who at the time was a board member of the Company), as defendants with respect to certain claims. The amended complaint no longer contained claims sounding in fraud and unjust enrichment rather it asserted claims for breach of various contracts and the implied covenants of good faith and fair dealing in those contracts, and for tortious interference and conspiracy. The amended complaint sought US$27 million in damages.

On June 10, 2013, the defendants moved to dismiss the amended complaint in its entirety. On July 12, 2013, GEM cross-moved to amend its Complaint again to add an affiliate of GEM's as a plaintiff. On October 31, 2013, GEM filed a pleading with the Court substituting a new law firm to represent it. On November 5, 2013, GEM's new counsel filed a motion for permission to file a supplemental brief opposing the defendants' motion to dismiss. On November 8, 2013, the defendants opposed GEM's motion and cross-moved to strike GEM's proposed supplemental brief or, in the alternative, for permission to submit a brief responding to GEM's supplemental brief if the Court accepted it for filing.

On December 31, 2013, the Court entered an order from a December 24, 2013 decision, (i) granting the defendants' motion to dismiss in part and denying it in part, (ii) granting GEM's cross-motion to amend the complaint, and (iii) denying GEM's motion to file a supplemental brief opposing the motion to dismiss.

On January 13, 2014, GEM filed a second amended complaint, consistent with the Court's December 31, 2013 order, adding GEM Ventures, LTD. as a plaintiff, and asserting claims for breach of contract and tortious interference with contract. On February 19, 2014, before the Company responded to the second amended complaint, GEM filed a third amended complaint adding a claim for defamation against the Company, Dennis M. Danzik and six present and former members of the Company's board of directors. The third amended complaint seeks damages in excess of US$18.3 million for the defamation claim.

On or about January 30, 2014, GEM filed a notice of appeal from those portions of the December 24, 2013 decision that granted plaintiffs motion to dismiss. On or about February 6, 2014, Defendants filed a notice of appeal from those portions of the decision that denied defendant's motion to dismiss. Defendants are scheduled to file a brief in opposition to GEM's appeal on October 1, 2014, along with a brief in support of their own appeal.

On or about March 20, 2014, defendants filed a motion to dismiss the defamation claim and one of the claims for breach of contract and tortious interference with contract. That motion was fully briefed and was argued orally on June 19, 2014. The parties received a decision from the Court on August 28, 2014 as further discussed below. In the meantime, because under the Court's rules discovery is not stayed by a motion to dismiss, the parties have begun document discovery.

On or about July 24, 2014, the Company's then current legal counsel, who represented both the Company and the sellers of CWT, informed the Company that they could no longer represent the Company and Dennis M. Danzik with regards to certain of these matters and filed a motion with the court to withdraw as the Company's counsel on July 25, 2014. The Company has since replaced its prior counsel with new counsel who is now handling this matter exclusively for the Company.

On August 28, 2014, the Court rendered a decision from the defendants' motion, filed on March 20, 2014, to dismiss the defamation claim, one of the claims for breach of contract and tortious interference with contract. The court granted the defendant's motion to dismiss in part and denied it in part including (i) dismissal of the defamation claim in its entirety, and (ii) breach of contract against the Company. The Court ruled that the breach of contract could be maintained against Dennis M. Danzik.

It is the Company's position that the GEM Holdco Litigation is completely lacking in merit, and the Company plans to contest those parts of the litigation that have not already been dismissed and/or that survive the pending motion to dismiss. However, the Company remains open to settling this litigation if a settlement could be reached that would eliminate the risks and expense of continuing the litigation and that would require no more than a nominal payment. No amounts have been accrued or recognized relative to the actions discussed above as of June 30, 2014.

Wanchulak Matter

On or around July 26, 2013, Bradley Wanchulak filed a Statement of Claim against the Company and Dennis M. Danzik in Alberta, Canada. The Company hired Wanchulak in January 2013 as Director of Energy and Mining. Prior to joining the Company, Wanchulak was Senior Vice President of Global Development, of Poseidon Concepts.

The Statement of Claim alleges that the Company made certain representations to Wanchulak which induced Wanchulak to invest in the Company. The Statement of Claim alleges that these representations were breached by the Company and Mr. Danzik, and Wanchulak has been damaged as a result. Wanchulak claims damages in excess of $2.7 million.

During August 2014, the Company and Wanchulak reached a mutual release and settlement agreement regarding Wanchulak's Statement of Claim filed on or around July 26, 2013 against the Company and Dennis M. Danzik. The terms of the mutual release and settlement agreement are confidential in nature and the Company has properly reflected all obligations with regards to this matter in the accompanying financial statements.

Notices of Violations from the South Coast Air Quality Management District

The South Coast Air Quality Management District ("AQMD") has issued various notices of violations ("NOV's") and notice to comply to the Company's subsidiary, Ridgeline Energy Services (USA), Inc. as a result of alleged permitting, odor issues, and plant operations at its Santa Fe Springs facility. These issues began in April 2013 and related to alleged permitting violations and continued shortly thereafter with alleged violations related to odor complaints. Additional NOV's have been issued. The AQMD held a hearing in August 2013 and a consent order was adopted (which has since been modified) requiring certain actions by the Company. The Company has attended all hearings held by the AQMD and believes it is working towards a cooperative solution with the AQMD. In March 2014, the AQMD proposed a financial settlement to the Company for these alleged NOV's which was subsequently rejected by the Company. The AQMD could impose monetary penalties and fees for these alleged violations but the Company cannot predict what the amount of these penalties and fees may be. Regardless of the amount of these penalties and fees (if any), levied by the AQMD, the Company plans on vigorously defending itself against any such penalties and fees imposed.

Santa Fe Springs Capacity Sale

During September 2012, Ridgeline Energy Services (USA), Inc. entered into an agreement with a new customer for the construction, installation and operation of a water treatment facility or water treatment facilities. The agreement had a term of five years, with an option to extend for an additional two years. This agreement provided for the sale of capacity for Santa Fe Springs Unit Number 3 ("SFS3") with the possibility of sales of additional capacity to the customer in the future. The water treatment capacity for SFS3 was to be used for oil recovery and subsequent waste water treatment. This agreement ensured the customer, who desires waste water treatment, access to years of capacity in advance. The agreement called for fixed fees totaling US$1.9 million payable through October 2013, as well as ongoing processing fees throughout the term of the agreement. During the third quarter of fiscal 2013 and after further negotiations, portions of this agreement were put in abeyance.

Issuance of Stock Options

In August 2014 the board of directors approved Stock Option Grants of 500,000 share awards to certain officers of the Corporation under the terms of the Share Award Plan of the Corporation approved by shareholders on February 10, 2012 (the "Plan").

Recently Issued and Adopted Accounting Standards - Applied during Fiscal 2015

The Company has adopted the following accounting standards during fiscal 2015 with no significant impact on the Company's financial condition or results of operations:

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

Amends IAS 36 *Impairment of Assets* to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

Recently Issued and Adopted Accounting Standards - Pending Accounting Standards

The Company is currently assessing the potential impact of adopting the following accounting standards:

IFRS 9 Financial Instruments (2009)

IFRS 9 introduces new requirements for classifying and measuring financial assets, as follows:

- Debt instruments meeting both a “business model” test and a “cash flow characteristics” test are measured at amortized cost (the use of fair value is optional in some limited circumstances)
- Investments in equity instruments can be designated as “fair value through other comprehensive income” with only dividends being recognized in profit or loss
- All other instruments (including all derivatives) are measured at fair value with changes recognized in profit or loss
- The concept of “embedded derivatives” does not apply to financial assets within the scope of the standard and the entire instrument must be classified and measured in accordance with the above guidelines.

The IASB has indefinitely postponed the mandatory adoption date of this standard.

IFRS 9 Financial Instruments (2010)

This is a revised version incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing de-recognition requirements from IAS 39 *Financial Instruments: Recognition and Measurement*.

The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss; in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.

The IASB has indefinitely postponed the mandatory adoption date of this standard.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognize revenue when (or as) the entity satisfies a performance obligation.

Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

Applicable to annual periods beginning on or after January 1, 2017.

Annual Improvements 2010-2012 Cycle

Makes amendments to the following standards:

- IFRS 2 — Amends the definitions of "vesting condition" and "market condition" and adds definitions for "performance condition" and "service condition"
- IFRS 3 — Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date
- IFRS 8 — Requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly
- IFRS 13 — Clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only)
- IAS 16 and IAS 38 — Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount
- IAS 24 — Clarify how payments to entities providing management services are to be disclosed

Applicable to annual periods beginning on or after July 1, 2014.

Annual Improvements 2011-2013 Cycle

Makes amendments to the following standards:

- IFRS 1 — Clarify which versions of IFRSs can be used on initial adoption (amends basis for conclusions only)
- IFRS 3 — Clarify that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself
- IFRS 13 — Clarify the scope of the portfolio exception in paragraph 52
- IAS 40 — Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property

Applicable to annual periods beginning on or after July 1, 2014.

Discussion of Operations

The following table summarizes our results of operations and related statistical information for the three months ended June 30, 2014 and 2013:

	For the Three Months Ended June 30,			
	2014	% Net Revenue	2013	% Net Revenue
Environmental and reclamation segment				
Revenue	$ 3,775,693	28 %	$ -	- %
Sale of land	8,978,890	67	-	-
Total revenue	12,754,583	95	-	-
Cost of revenue	9,012,967	67	-	-
Gross profit - E&R segment	3,741,616	28	-	-
Other operating segments				
Revenue	648,706	5	6,967,033	100
Cost of revenue:				
Direct expenses	2,056,877	16	5,908,608	85
Amortization	948,988	7	919,855	13
Total cost of revenue	3,005,865	23	6,828,463	98
Gross profit - other operating segments	(2,357,159)	(18)	138,570	2
Total gross profit	1,384,457	10	138,570	2
Operating expenses:				
General and administrative	1,825,813	14	2,439,052	35
Share-based payment expense	10,675	-	184,723	3
Amortization	857,398	6	861,013	12
Total operating expenses	2,693,886	20	3,484,788	50
Loss from operations	$ (1,309,429)	(10) %	$ (3,346,218)	(48) %

Total Revenue – Environmental and Reclamation Segment

Total revenues for the Environmental and Reclamation segment were $12.8 million and nil for the three months ended June 30, 2014 and 2013, respectively. Revenues for the three months ended June 30, 2014 were positively impacted by the sale of excess real estate, consulting services, and sale of excess equipment at the Company's Santa Fe Springs facility totaling $12.8 million. There were no activities for this segment during the three months ended June 30, 2013. These revenue sources may not occur in future periods unless the Company acquires distressed facilities that have a real estate component that can be sold, is engaged to provide consulting services, or disposes of excess equipment that does not have a long-term benefit to the Company.

Cost of Revenue – Environmental and Reclamation Segment

Cost of revenue for our Environmental and Reclamation segment was $9.0 million and nil for the three months ended June 30, 2014 and 2013, respectively. Cost of revenue for our Environmental and Reclamation segment for the three months ended June 30, 2014 was impacted by our excess land sale at Santa Fe Springs, which resulted in total costs of $9.0 million.

Revenue – Other Operating Segments

Revenues for our other operating segments were $0.6 million and $7.0 million for the three months ended June 30, 2014 and 2013, respectively, a decrease of $6.4 million or 91%.

Our Equipment Sales and Rental segment generated $0.5 million of revenues from our PTEC operations for the three months ended June 30, 2014, as compared to $0.1 million for the same period in the previous year. The Company sold more equipment and spare parts from its PTEC operations for the three months ended June 30, 2014 as compared to June 30, 2013.

Our Energy segment, which currently relates to our Carthage facility, generated $0.1 million of revenues for the three months ended June 30, 2014, as compared to $4.3 million for the same period in the previous year. This decrease was primarily due to the delay of fuel normally provided to a larger customer from our Carthage facility whose business is seasonal in nature.

Our Water segment, which currently relates to our Santa Fe Springs facility, generated $0.1 million of revenues for the three months ended June 30, 2014, as compared to $1.8 million for the same period in the previous year. This decrease was due to the Company's ongoing remediation activities at the Santa Fe Springs facility, which has limited the amount of recurring business the Company could accept while performing remediation activities, and the Company moving a portion of its business towards a franchising business model.

We also recognized revenues from management contracts of $0.7 million for the three months ended June 30, 2013, which did not recur in the first quarter of fiscal 2015.

Cost of Revenue - Direct Expenses for Other Operating Segments

Cost of revenue for direct expenses of other operating segments was $2.1 million and $5.9 million for the three months ended June 30, 2014 and 2013, respectively, a decrease of $3.8 million or 65%.

Cost of revenue for direct expenses of our Equipment Sales and Rental Segment for the three months ended June 30, 2014 and 2013 were $0.2 million and $0.1 million, respectively. These costs relate solely to our PTEC business and the increase for the first quarter of fiscal 2015 compared to the same period in the previous year relates to the increase in revenues at PTEC discussed above.

For the three months ended June 30, 2014, cost of revenues for direct expenses associated with our Energy Segment and our Carthage facility approximated $0.2 million, as compared to $3.8 million for the same period in the previous year. As discussed above, this decrease corresponds to the delay of fuel normally provided to a larger customer from our Carthage facility whose business is seasonal in nature.

Cost of revenue for direct expenses for our Water Segment and our Santa Fe Springs facility was approximately $0.7 million and $1.1 million for the three months ended June 30, 2014 and 2013, respectively. This decrease in cost of revenues primarily relates to the decline in revenues discussed above, offset by increased costs due to the ongoing remediation activities at the Santa Fe Springs facility and the Company moving a portion of its business towards a franchising business model.

Cost of revenue for direct expenses for management contracts was $0.6 million in the three months ended June 30, 2013, which did not recur in the first quarter of fiscal 2015.

Cost of revenues for direct expenses at our manufacturing facilities was $0.9 million and $0.3 million for the three months ended June 30, 2014 and 2013, respectively. This increase in cost of revenues primarily relates to a decrease in costs incurred that were development or build-out in nature; costs incurred that are development or build-out in nature are capitalized and amortized versus expensed.

Cost of revenue for direct expenses of our other operating segments as a percentage of revenue from these segments exceeded 100% for the three months ended June 30, 2014, as compared to 85% for the three months ended June 30, 2013. The cost of revenue for direct expenses for the first quarter of fiscal 2015 was significantly impacted by our Energy Segment and Water Segment activities for the first quarter of fiscal 2015, as well as higher manufacturing costs, which served to negatively impact our gross profit margin for our other operating segments, as discussed further above. Cost of revenues for direct expenses as a percentage of revenue for the three months ended June 30, 2013 was favorably affected by the higher revenues in our Water Segment at our Santa Fe Springs facility.

The Company does expect future decreases in the cost of revenue for direct expenses as a percentage of revenue as, (i) the drop in revenue and increase in costs at the Company's Santa Fe Springs facility is anticipated to be temporary in nature as currently ongoing remediation activities has limited the amount of recurring business the facility can process, (ii) the Company anticipates a higher volume of production at its Scottsdale and Deaver facilities in the future due to equipment production requirements which will allow the Company to more effectively utilize its multiple manufacturing facilities and in turn generate higher revenues, (iii) the Company anticipates continued improvements to its production processes at the Carthage facility including material procurement through franchising opportunities, (iv) increases in water treatment efficiencies at its Santa Fe Springs and other planned facilities, (v) continued implementation of other cost saving strategies such as fuel production and delivery on or near customer locations thereby reducing transportation, improving human capital efficiencies thereby reducing the need for additional personnel, and minimizing other larger facility expenses, and (vi) the expected benefits and expense savings of ongoing education and training of operations personnel.

Cost of Revenue – Amortization for Other Operating Segments

Cost of revenue for amortization was $0.9 million for both the three months ended June 30, 2014 and 2013. Cost of revenue for amortization was consistent for both periods as the overall cost basis of depreciable equipment remained relatively flat.

General and Administrative Expense

General and administrative expense was $1.8 million and $2.4 million for the three months ended June 30, 2014 and 2013, respectively, a decrease of $0.6 million or 25%. This decrease primarily relates to decreased personnel costs, professional fees and insurance, as well as decreased general and administrative costs related to our operations as a result of the decline in business activity within our Water and Energy segments during the first quarter of fiscal 2015, as discussed above. General and administrative expense is summarized as follows for the three months ended June 30, 2014 and 2013 (percentages are of total revenue of the Company from each applicable period):

	For the Three Months Ended June 30,				
	2014			2013	
Corporate U.S.…………	$ 1,248,004	9 %		$ 790,612	11 %
Corporate Canada…….	138,530	1		1,009,116	15
Total corporate……….	1,386,534	10		1,799,728	26
Operations…………….	439,279	4		639,324	9
Total……………………	$ 1,825,813	14 %		$ 2,439,052	35 %

General and administrative expense for corporate United States was $1.2 million and $0.8 million for the three months ended June 30, 2014 and 2013, respectively. This increase primarily relates to increased professional fees for our recent corporate restructuring in the United States and other legal fees, and increased human capital and travel costs.

General and administrative expense for corporate Canada was $0.1 million and $1.0 million for the three months ended June 30, 3014 and 2013, respectively. This decrease is primarily due to decreased personnel costs, professional fees, travel, and rental expenses as a result of the sales of the Company's REI and RGI segments, which are presented as discontinued operations, and the associated cost reductions related to our corporate Canada activities. As the Company has expanded into the United States over the past several quarters, the Company has identified certain duplicative functions between the Canadian and United States corporate locations, of which the Company anticipates eliminating or materially reducing at the Canadian corporate level.

General and administrative expense for operations was $0.4 million and $0.6 million for the three months ended June 30, 2014 and 2013, respectively. This decline in our operating general and administrative expenses relates to the decline in activity within our Energy and Water segments, as discussed above.

Share-Based Payment Expense

Share-based payment expense was less than $0.1 million and $0.2 million for the three months ended June 30, 2014 and 2013, respectively. The decrease in share-based payment expense relates primarily to the effect of unvested stock options that were forfeited by certain of our Canadian employees at the time of the sale of REI and RGI, and the lack of additional option grants in recent periods.

Amortization Expense

Amortization expense was $0.9 million for both the three months ended June 30, 2014 and 2013. Amortization expense primarily relates to the amortization of intangible assets, which was flat for both periods presented as a result of the consistency in the overall cost basis of intangible assets in recent periods.

Finance Costs

Finance costs were $0.6 million and $0.3 million for the three months ended June 30, 2014 and 2013, respectively. This increase relates to additional interest expense incurred on recent financing activities, including the Sigma loan, and a full period quarter of interest on the US$20.0 million of notes payable that were issued as partial consideration for the acquisition of CWT. These notes are discussed further in the "Liquidity, Financial Condition and Capital Resources" section below.

Foreign Exchange Loss on CWT Notes Payable

For the three months ended June 30, 2014 and 2013, we recognized a benefit of $0.8 million and a charge of $0.6 million, respectively, relative to changes in foreign currency rates on US$20.0 million of notes payable that were issued as partial consideration for the acquisition of CWT. These notes, which were issued by our Canadian parent entity, are denominated in U.S. dollars and accordingly, are translated to Canadian dollars at each reporting date.

Change in Fair Value of PTEC Earn-out

The Company may be required to issue the sellers of PTEC up to 1,500,000 common shares over a three year period following the PTEC acquisition, subject to certain revenue growth and gross profit margin targets. If the revenue growth and gross margin targets are not met but are within a specified range, the number of shares issuable will be adjusted downward on a pro-rata basis. As of the acquisition date and the date of this filing, the Company's best estimate of share issuances for the earn-out payments is 50%. The Company will recognize changes in the fair value of the earn-out, which is classified as a liability, based on both changes in the Company's underlying stock price and changes in the estimate of the number of shares to be issued. The change in fair value, which has been, and will continue to be, reflected as other income or expense, resulted in a charge of $0.2 million and $0.1 million for the three months ended June 30, 2014 and 2013, respectively, which related only to changes in the Company's stock price.

Income from Discontinued Operations

As discussed above, the Company sold substantially all assets and liabilities related to the Company's REI and RGI business segments to Ridgeline Canada, Inc. of Calgary Alberta. As a result of this sale, the REI and RGI business segments have been classified as discontinued operations for all periods presented. We recognized income from our REI and RGI operations of $0.5 million for the three months ended June 30, 2013. Following this sale in September 2013, our results of operations are not expected to be affected by the REI and RGI businesses.

Summary of Quarterly Results

The table below provides selected quarterly financial information for the eight most recent fiscal quarters to June 30, 2014. This information reflects all adjustments of a normal, recurring nature which are, in management's opinion, necessary to present fairly the results of operations for the periods presented.

	Jun-30 2014 (Q1)	Mar-31 2014 (Q4)	Dec-31 2013 (Q3)	Sep-30 2013 (Q2)	Jun-30 2013 (Q1)	Mar-31 2013 (Q4)	Dec-31 2012 (Q3)	Sep-30 2012 (Q2)
Revenue - E&R……..	$ 3,775,693	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Sale of land - E&R….	8,978,890	-	-	-	-	-	-	-
Revenue - Other operating segments.	648,706	1,701,302	13,211,269	11,806,880	6,967,033	8,404,706	5,272,854	1,581,840
Net income (loss) attributable to RDX continuing operations…………	(1,004,236)	(11,597,746)	904,060	732,714	(4,166,298)	(6,001,313)	(1,588,592)	(2,234,171)
Net income (loss) attributable discontinued operations…………	-	-	-	416,345	506,098	(667,593)	807,459	685,132
Net income (loss) attributable to RDX…………….	(1,004,236)	(11,597,746)	904,060	1,149,059	(3,660,200)	(6,668,906)	(781,133)	(1,549,039)
Net income (loss) per share - basic and diluted - continuing operations…………	$ (0.01)	$ (0.07)	$ 0.01	$ 0.01	$ (0.02)	$ (0.04)	$ (0.02)	$ (0.02)
Net income (loss) per share - basic and diluted - discontinued operations…………	$ -	$ -	$ -	$ -	$ -	$ (0.01)	$ 0.01	$ 0.01
Net income (loss) per share - basic and diluted…………	$ (0.01)	$ (0.07)	$ 0.01	$ 0.01	$ (0.02)	$ (0.05)	$ (0.01)	$ (0.01)

Our results for the first quarter of fiscal 2015 were favorably affected by our sale of excess land at Santa Fe Springs and adversely affected by lower revenues in our Energy and Water segments. Our results for the fourth quarter of fiscal 2014 were adversely affected by (i) the decrease in revenues and associated gross profit (ii) a loss on disposal of certain assets totaling approximately $0.6 million and an impairment charge of $1.5 million, which primarily relates to certain storage tanks that were required to be dismantled as part of the excess land sale at Santa Fe Springs in June 2014, which is described further above; and (iii) a $1.3 million bad debt charge in the fourth quarter of fiscal 2014, which relates to certain receivables for our Equipment Sales and Rental Segment originating from second quarter fiscal 2014 sales. Our results for the first quarter of fiscal 2014 were negatively impacted by a $0.6 million charge for changes in foreign currency rates on US$20.0 million of notes payable that were issued as partial consideration for the acquisition of CWT. The second, third and fourth quarters of fiscal 2014 were impacted by a $0.5 million benefit, a $0.7 million charge and a $0.8 million charge, respectively for changes in foreign currency rates on these notes payable. Our results for the fourth quarter of fiscal 2013 were negatively impacted by (i) a loss on disposal of equipment of $1.9 million; (ii) an impairment charge for goodwill of $1.3 million, which related to our discontinued REI and RGI operations; and (iii) bad debt expense of $0.7 million.

Liquidity, Financial Condition and Capital Resources

At June 30, 2014, we had $5.4 million of cash and cash equivalents, an increase of $4.0 million from the end of fiscal 2014. This increase in cash was primarily due to the sale of excess real estate at the Company's Santa Fe Springs facility. The Company's overall net working capital declined to a deficit of $17.3 million at June 30, 2014 from a deficit of $16.6 million at March 31, 2014. The increase in the working capital deficit is primarily attributable to an increase in the current portion of notes payable, which is attributable to debt associated with the CWT acquisition and the short-term financing with Sigma, both of which are more fully described above, offset to some extent by an increase in net activity from the sale of excess real estate at our Santa Fe Springs facility (increase in cash and decrease in assets held for sale).

At June 30, 2014, the Company has $25.0 million of total notes payable outstanding, which has increased from $24.5 million at March 31, 2014 as a result of a new US$3.3 million short-term facility of which the Company has paid down US$1.0 million and offset by positive effects of foreign currency during the three months ended June 30, 2014. As discussed further in the Company's March 31, 2014 audited financial statements the Company has not been making payments on US$20.0 million of promissory notes issued as consideration in connection with the CWT acquisition as during August 2013, one of the two promissory note holders, RRC, authorized a deferral on the payment of interest on their CWT promissory note through September 30, 2013. This deferral authorization was subsequently extended to March 31, 2014. RRC has not indicated whether or not additional deferrals will be granted to CWT and as of the date of this filing, no deferral confirmations, nor formal notice of default on this promissory note has been received from RRC although legal counsel for RRC did inform legal counsel for the Company that the Company had not performed under its obligations of the promissory note. Additionally, due to ongoing litigation, the Company has also not made payments on the second of the two promissory notes, due GEM Holdco, LLC. The Company has also not received any formal notice of default from GEM Holdco, LLC. As a result of this lack of continued deferral confirmation from RRC and non-payment to GEM Holdco, LLC due to ongoing litigation, the Company has classified the entire promissory notes as a current liability on the Interim Condensed Consolidated Statements of Financial Position. The Company is disputing the amounts owed under these notes payable and on August 26, 2014 filed a Statement of Claim the Company filed a Statement of Claim in the Judicial Center of Calgary Alberta, Canada, against Brian Appel, Resource Recovery Corporation, CWT Enterprises (Canada), Inc., CWT Canada II Limited Partnership, Jean Noelting, and Bruce MacFarlane (collectively the "Defendants") seeking in part, permanent relief under the US$20.0 in promissory notes issued as partial consideration with the CWT acquisition.

As discussed in the "Recent Developments" section above, on May 7, 2014 the Company borrowed US$3.3 million from Sigma. The interest rate is 5.0% per annum with a maturity date that is the earlier of November 7, 2014 or the consummation of the Company's land sale of approximately eighteen acres at its Santa Fe Springs facility to a third-party buyer in which the Company does not elect to repay the optional repayment amount. Upon the closing of the excess land sale at Santa Fe Springs, the Company elected to repay the optional repayment amount, making a principal pay down of $1.0 million from the proceeds of this excess land sale.

Management has forecast the Company's financial results and cash flows for fiscal 2015. The forecasts are based on management's best estimates of operating conditions in the context of management's best estimates of the current economic climate. The judgments and assumptions that can most directly impact these forecasts are the expected sales volumes and pricing on such sales, costs of raw materials, foreign exchange fluctuations and collectability of accounts receivable. As a result, management believes that the Company has the ability to continue as a going concern as discussed in detail below.

At June 30, 2014, the Company had recurring losses and negative working capital of $17.3 million which was primarily due to the fact that the Company was not in compliance with two promissory note agreements totaling US$20.0 million and as a result the entire balance of such notes was classified with current liabilities in the accompanying Interim Unaudited Condensed Consolidated Statements of Financial Position. Management recently filed suit against certain holders of these promissory notes in an attempt to permanently modify these debts as in addition to the lack of finality regarding previous promissory note relief discussions, the Company believes significant issues exist with regards to the fuel quality and technology acquired at the Carthage facility which were not disclosed by the sellers. The Company will continue to require additional capital as it continues acquiring new facilities, developing new or improving existing products and completing the production and installation of additional water processing systems and related equipment. Because of the matters discussed above, the Company's independent public accountants included an emphasis of matter paragraph regarding going concern in their audit report on our March 31, 2014 consolidated financial statements. Such paragraph states that there is substantial doubt about the Company's ability to continue as a going concern. Such financial statements have been prepared assuming that the Company will continue as a going concern (based upon management's plans discussed herein) which contemplates, among other things, the realization of assets and satisfaction of liabilities in the ordinary course of business. Accordingly, the aforementioned financial statements do not include any adjustments related to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result, should the Company be unable to continue as a going concern. Management has taken the following actions to mitigate this uncertainty:

- On May 7, 2014, the Company was able to secure a short-term financing in the amount of US$3.3 million and is in discussions with its lender regarding additional funding and the conversion of this short-term financing into a longer-term facility.
- On June 26, 2014, the Company sold approximately 17½ acres of excess land at its Santa Fe Springs facility which generated US$4.9 million of net cash proceeds to the Company.
- The Company recently executed a new fuel contract with a large nationally known company whose fuel requirements are material and year-round.
- The Company is in discussions with financing companies regarding the monetization of certain long-term contracts controlled by the Company.
- Management has been in discussions with numerous potential customers regarding the utilization of fuel produced by the Company versus alternative energy sources.
- The Company is working on introducing a new operating segment that would sell water treatment equipment systems, related licenses, and geographical processing locations, or franchises, to qualified third-party buyers.
- The Company is looking at securing a line of credit to replace the line of credit closed as a result of the disposition of its REI and RGI operating segments in September 2013.
- The Company is also looking into securing new corporate and/or asset level debt and is discussing future equity raises.

There can be no assurance that we will be successful in raising additional funds, or that these funds may be obtainable on terms that are favorable to us. If we are unable to raise additional funds, we may be required to delay, scale back or eliminate some of our development initiatives, initiate headcount reductions, delay or eliminate other initiatives that we believe support our future business plans and/or discontinue certain operations.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may issue new equity or debt, or sell assets. The Company has not declared cash dividends or distributions on any of its securities, nor does it currently intend to declare any cash dividends or distributions on any of its securities. The Company has no restrictions on paying dividends; however, if the Company generates earnings in the foreseeable future, it expects that such earnings, if any, will initially be retained to finance growth of the business. The directors of the Company will determine if and when dividends should be declared and paid in the future based on the Company's financial position at the relevant time.

Cash Flows

Cash Flows from Operating Activities

Cash provided by operating activities was $3.2 million and $1.0 million for the three months ended June 30, 2014 and 2013, respectively. Our cash provided by operating activities for the three months ended June 30, 2014 was favorably impacted by working capital movements, which primarily relate to $5.2 million of proceeds from Santa Fe Springs assets held for sale, net, offset by a $1.0 million decline in accounts payable and accrued liabilities and a $0.9 million increase in inventory balances. Our cash provided by operating activities for the three months ended June 30, 2013 was favorably impacted by cash provided by our REI and RGI discontinued operations of $1.5 million.

Cash Flows from Investing Activities

Cash used in investing activities was $0.5 million and $1.7 million for the three months ended June 30, 2014 and 2013, respectively. Cash used in investing activities for the first quarter of fiscal 2015 primarily relates to $0.4 million of transfers to restricted cash associated with the Sigma loan and $0.1 million of acquisition deposits and other advances. Cash used in investing activities for the three months ended June 30, 2013 consists of $2.1 million for the construction and purchase of equipment, $0.1 million of development costs, offset by $0.5 million received from the purchasers of the REI and RGI businesses towards such purchase.

Cash Flows from Financing Activities

Cash provided by financing activities was $1.5 million and $0.4 million for the three months ended June 30, 2014 and 2013, respectively. Cash provided by financing activities for the three months ended June 30, 2014 primarily relates to proceeds from the Sigma loan of $3.6 million, offset by payments on promissory notes of $1.9 million and fees paid for financing activities of $0.3 million. Cash provided by financing activities for the three months ended June 30, 2013 primarily relates to draws on our previous credit facility.

Related Party Transactions

The Company's related party transactions primarily relate to transactions with affiliates of or directly with Dennis M. Danzik and are described more fully in Notes 15, 20 and 22 to the interim unaudited condensed consolidated financial statements for the three months ended June 30, 2014.

Related party transactions are measured at the amount of consideration established and agreed to by the related parties.

Financial Instruments

Fair Value of Financial Instruments

The fair value hierarchy requires all financial instruments carried at fair value to be categorized in one of three categories:

Level 1 – Quoted market price
Level 2 – Valuation technique (market observable)
Level 3 – Valuation technique (non-market observable)

The following table summarizes the fair value hierarchy level used to measure certain financial liabilities:

			June 30, 2014		March 31, 2014	
Description	Fair Value Category	Recognition Method	Fair Value	Carrying Value	Fair Value	Carrying Value
Financial liabilities:						
CWT note payable…………….	-	Amortized cost	$ 21,352,000	$ 21,352,000	$ 22,106,000	$ 22,106,000
Sigma loan……………………….	-	Amortized cost	2,432,760	2,026,233	-	-
GEM Holdco note payable…….	-	Amortized cost	869,994	869,994	901,223	901,223
PTEC note payable…………….	-	Amortized cost	119,442	119,442	120,852	120,852
Danzik note payable………….	-	Amortized cost	487,951	487,951	953,799	953,799
PTEC earn-out………………….	Level 3	Fair value	225,000	225,000	427,500	427,500
DHS earn-out…………………..	Level 3	Fair value	-	-	-	-
Santa Fe Springs note payable..	-	Amortized cost	-	-	434,225	434,225

Notes payable in the above table are discussed more fully above. Key assumptions in establishing fair value of these notes payable relate to the timing of cash flows and discount rate utilized relative to the cash flows. Key assumptions in establishing fair value of the PTEC earn-out and DHS earn-out are the Company's common share price and the number of common shares expected to be earned and eventually issued. There were no transfers between levels of the fair value hierarchy during the three months ended June 30, 2014 and 2013.

The Company has not entered into any financial hedges during the three months ended June 30, 2014 and 2013. The Company does not hold credit enhancements or collateral to mitigate credit risk and accordingly, the carrying amount of financial assets represents the potential credit risk.

Risk Exposure and Management

The Company has exposure to credit risk, liquidity risk and market risk (including foreign exchange risk) as a result of its financial instruments. The Company's exposure to these risks and the Company's objectives, policies and processes for measuring and managing these risks are as follows:

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. The Company's principal financial assets are cash and accounts receivable. The Company's credit risk is primarily attributable to its accounts receivable. The amounts disclosed in the consolidated financial statements are net of an allowance for doubtful accounts, which is estimated by management based on previous experience and their assessment of the current economic environment. A substantial portion of the Company's accounts receivable are with customers in the energy and waste water industries and are subject to normal industry credit risks. The Company grants credit to its customers in the normal course of operations. To limit its exposure to credit risk, the Company performs ongoing evaluations of the credit quality of its customers and follows diligent credit granting and collection procedures. Purchase limits are established for each customer and are reviewed regularly. The Company regularly reviews the collectability of its accounts receivable and an allowance is established as necessary. During the three months ended June 30, 2014 and 2013, the Company earned approximately $12.8 million and $3.5 million from one customer and three customers, respectively. At both June 30, 2014 and March 31, 2014, 84% of accounts receivable are from one customer. The Company recognized bad debt expense of less than $0.1 million for each of the three months ended June 30, 2014 and 2013. The Company believes its credit risk for cash is limited because the counterparties are large Canadian and U.S. financial institutions.

Liquidity Risk

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company monitors its working capital and cash flows from operating activities to meet its requirements. Financial liabilities are primarily accounts payable and accrued liabilities. The Company's accounts payable aging at June 30, 2014 and March 31, 2014, is summarized as follows:

	June 30, 2014	March 31, 2014
Current	$ 445,938	$ 619,376
31 to 90 days	819,887	1,110,260
Greater than 90 days	2,679,599	2,564,574
Accounts payable	$ 3,945,424	$ 4,294,210

The Company has approximately 68% of its accounts payable greater than 90 days past due at June 30, 2014. These past due payables include US$1.4 million at our CWT facility including approximately US$0.5 million of accounts payable that were assumed as part of the CWT acquisition, US$0.4 million at our Santa Fe Springs facility of which 60% is due to two vendors, US$0.3 million at the corporate level of which 60% is due to three vendors, US$0.2 million related to PTEC operations of which 84% is due to three vendors and US$0.1 million related to our 82nd street manufacturing facility of which 66% is due to four vendors. The Company has successfully negotiated discounted terms upon the payment of some of the accounts payable assumed as part of the CWT acquisition, as well as other payable balances, which have been reflected as "gain on forgiveness of indebtedness" on the Consolidated Statements of Operations and Comprehensive Loss.

The Company has funded its recent development efforts primarily through offerings of its common shares, the short-term financing with Sigma, and the sale of excess land at Santa Fe Springs. The Company is also exploring other operating lines of credit opportunities.

The Company will continue to require injections of capital as it continues acquiring new facilities, developing new or improving existing products and completing the production, installation and sale of additional water treatment systems and related equipment. Management and the Board of Directors of the Company are considering various options to increase liquidity, which may include: (i) increase Company cash flow via the execution of new fuel customer contracts; (ii) increase Company cash flow via new operating segments; (iii) replace the Company's previous line of credit; (iv) securing new long term corporate and / or asset level debt; and (v) if necessary, additional equity raise(s).

There can be no assurance that we will be successful in raising additional funds, or that these funds may be obtainable on terms that are favorable to the Company. If we are unable to raise additional funds, we may be required to delay, scale back or eliminate some of our development initiatives, initiate headcount reductions, delay or eliminate other initiatives that we believe support our future business plans and/or discontinue certain operations.

Market Risk

Market risk consists of currency risk, commodity price risk and interest rate risk. The Company does not currently have any significant direct exposure to commodity price risk, but does maintain cash balances denominated in U.S. dollars, which totaled approximately US$4.9 million at June 30, 2014, or substantially all of the Company's cash balances at such time. The Company also has significant debt balances outstanding that are payable in U.S. dollars. As the U.S. dollar strengthens or weakens compared to the Canadian dollar, our financial position and results of operations strengthens or weakens in direct correlation to these changes. The Company has indirect exposure to commodity price risk, including the market for refined fuel and corresponding market for RINs. As prices in these markets fluctuate, such changes are expected to impact our revenues either positively or negatively. The Company is not directly exposed to interest risk as it has no debts bearing floating rate interest at June 30, 2014. General economic conditions globally, including factors specific to the Company's products and services, and the relative strength of the Canadian dollar may adversely affect the value of the Company's business and value of its financial instruments.

Outstanding Share Data

The Company has an unlimited number of no par value common voting shares and preferred shares authorized for issuance. Activity relative to the Company's issued and outstanding common shares is as follows for the three months ended June 30, 2014:

	Shares	Amount
Balances, March 31, 2014	168,717,059	$ 79,785,679
Warrants exercised	425,000	106,250
Stock options exercised (i)	500,000	100,792
Acquisition of REP - shares issued	4,150,000	1,328,000
Acquisition of REP - deferred purchase price common shares (ii)	-	1,050,379
Balances, June 30, 2014	173,792,059	$ 82,371,100

(i) During the three months ended June 30, 2014, 500,000 stock options were exercised for proceeds of $50,000 and $50,792 of related previously recognized stock-based compensation expense was reclassified from contributed surplus to share capital.

(ii) Relates to 3,282,432 common shares, as adjusted for any stock splits, reverse stock splits, stock dividends and similar recapitalization events, as deferred purchase price to be issued for the REP asset acquisition no later than the earlier of (i) ten days after the Company is listed and trading on the NYSE-MKT exchange or (ii) October 31, 2014.