



RDX TECHNOLOGIES CORPORATION

**INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2014 AND 2013**

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying interim unaudited condensed consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

RDx TECHNOLOGIES CORPORATION
INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

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RDx TECHNOLOGIES CORPORATION
INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(IN CANADIAN DOLLARS)

| | September 30, 2014 | March 31, 2014 |
|---|-------------------------------|---------------------------|
| Assets | | |
| Current assets: | | |
| Cash..... | \$ 197,053 | \$ 1,350,546 |
| Trade and other receivables, net (Note 7)..... | 8,407,837 | 9,394,277 |
| Inventory, net (Note 8)..... | 2,174,290 | 2,111,043 |
| Prepaid expenses and other current assets..... | 2,951,121 | 1,622,856 |
| | 13,730,301 | 14,478,722 |
| Santa Fe Springs assets held for sale (Note 6)..... | 375,271 | 17,295,173 |
| Total current assets..... | 14,105,572 | 31,773,895 |
| Restricted cash (Notes 9 and 15)..... | 1,209,834 | 88,655 |
| Property, plant and equipment, net (Note 10)..... | 38,890,704 | 37,769,000 |
| Maintenance parts..... | 1,204,955 | 1,189,140 |
| Intangible assets (Note 11)..... | 14,069,429 | 15,672,666 |
| Goodwill (Note 12)..... | 8,853,355 | 8,737,155 |
| Other assets (Note 13)..... | 1,442,878 | 1,138,373 |
| Total assets..... | <u>\$ 79,776,727</u> | <u>\$ 96,368,884</u> |
| Liabilities and Equity | | |
| Current liabilities: | | |
| Accounts payable (Note 24)..... | \$ 4,554,602 | \$ 4,294,210 |
| Accrued liabilities (Note 14)..... | 9,079,510 | 8,876,029 |
| Notes payable, current portion, net of discount of \$399,234 (Note 15)..... | 7,602,657 | 23,504,751 |
| Obligations under finance lease, current portion (Note 16)..... | 103,565 | 96,755 |
| | 21,340,334 | 36,771,745 |
| Liabilities related to Santa Fe Springs assets held for sale (Note 6)..... | 112,000 | 11,634,861 |
| Total current liabilities..... | 21,452,334 | 48,406,606 |
| Notes payable, non-current portion, net of discount of \$739,457 (Note 15)..... | 26,980,543 | 1,011,348 |
| Obligations under finance lease, non-current portion (Note 16)..... | 178,858 | 219,335 |
| Deferred income tax liability..... | 350,398 | 237,940 |
| Environmental remediation liability..... | - | 552,650 |
| PTEC earn-out (Note 20)..... | 142,500 | 427,500 |
| Total liabilities..... | <u>49,104,633</u> | <u>50,855,379</u> |
| Commitments and contingencies (Note 20) | | |
| Equity: | | |
| Share capital (Note 17)..... | 82,004,371 | 79,785,679 |
| Share capital issuable (Note 17)..... | 3,406,517 | - |
| Warrants (Note 18)..... | 2,478,029 | 2,543,829 |
| Contributed surplus (Note 19)..... | 2,506,848 | 2,536,930 |
| Accumulated other comprehensive income..... | 5,317,406 | 4,632,607 |
| Accumulated deficit..... | (65,041,077) | (43,985,540) |
| Total equity..... | <u>30,672,094</u> | <u>45,513,505</u> |
| Total liabilities and equity..... | <u>\$ 79,776,727</u> | <u>\$ 96,368,884</u> |

Approved on Behalf of the Board of Directors "Tony Ker" Director "Richard Carrigan" Director

See Accompanying Notes to Interim Unaudited Condensed Consolidated Financial Statements

RDx TECHNOLOGIES CORPORATION
INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE LOSS
(IN CANADIAN DOLLARS)

| | Three Months Ended September 30, | | Six Months Ended September 30, | |
|--|---|---------------------|---|-----------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Environmental and reclamation segment (Notes 6 and 23) | | | | |
| Revenue..... | \$ - | \$ - | \$ 3,775,693 | \$ - |
| Sale of land..... | - | - | 8,978,890 | - |
| Total revenue..... | - | - | 12,754,583 | - |
| Cost of revenue..... | - | - | 9,012,967 | - |
| Gross profit - Environmental and reclamation segment.... | - | - | 3,741,616 | - |
| Other operating segments (Note 23) | | | | |
| Revenue..... | 702,450 | 11,806,880 | 1,351,156 | 18,773,913 |
| Cost of revenue: | | | | |
| Direct expenses..... | 3,906,120 | 7,784,967 | 5,962,997 | 13,693,575 |
| Amortization (Note 10)..... | 1,018,889 | 1,065,620 | 1,967,877 | 1,985,475 |
| Total cost of revenue..... | 4,925,009 | 8,850,587 | 7,930,874 | 15,679,050 |
| Gross profit - Other operating segments..... | (4,222,559) | 2,956,293 | (6,579,718) | 3,094,863 |
| Total gross profit..... | (4,222,559) | 2,956,293 | (2,838,102) | 3,094,863 |
| Operating expenses: | | | | |
| General and administrative..... | 1,525,439 | 1,692,231 | 3,351,252 | 4,131,283 |
| Share-based payment expense..... | 10,035 | (67,735) | 20,710 | 116,988 |
| Amortization (Notes 10 and 11)..... | 793,728 | 868,653 | 1,651,126 | 1,729,666 |
| Total operating expenses..... | 2,329,202 | 2,493,149 | 5,023,088 | 5,977,937 |
| Income (Loss) from operations..... | (6,551,761) | 463,144 | (7,861,190) | (2,883,074) |
| Other income (expense): | | | | |
| Finance costs..... | (740,815) | (371,745) | (1,322,284) | (674,232) |
| Foreign exchange loss on CWT and GEM Settlement notes payable (Note 15)..... | (1,213,122) | 454,000 | (459,122) | (158,000) |
| Litigation settlements (Note 20)..... | (11,694,602) | - | (11,694,602) | - |
| Change in fair value of PTEC earn-out (Note 20)..... | 82,500 | 112,500 | 285,000 | 202,500 |
| Gain on forgiveness of indebtedness (Note 24)..... | - | 120,573 | 2,962 | 120,573 |
| Other income (expense)..... | 123,328 | (45,758) | 111,996 | (41,351) |
| Total other income (expense)..... | (13,442,711) | 269,570 | (13,076,050) | (550,510) |
| Income (Loss) before tax..... | (19,994,472) | 732,714 | (20,937,240) | (3,433,584) |
| Income tax expense..... | 56,829 | - | 118,297 | - |
| Income (loss) from continuing operations..... | (20,051,301) | 732,714 | (21,055,537) | (3,433,584) |
| Income from discontinued operations (Note 6)..... | - | 416,345 | - | 922,443 |
| Net income (loss)..... | <u>\$ (20,051,301)</u> | <u>\$ 1,149,059</u> | <u>\$ (21,055,537)</u> | <u>\$ (2,511,141)</u> |
| Basic and diluted income (loss) per share - continuing operations (Note 21)..... | \$ (0.69) | \$ 0.03 | \$ (0.74) | \$ (0.12) |
| Basic and diluted income per share - discontinued operations (Note 21)..... | - | 0.01 | - | 0.03 |
| Basic and diluted income (loss) per share (Note 21)..... | <u>\$ (0.69)</u> | <u>\$ 0.04</u> | <u>\$ (0.74)</u> | <u>\$ (0.09)</u> |
| Weighted average number of common shares outstanding (Note 21)..... | <u>29,031,024</u> | <u>28,187,303</u> | <u>28,613,618</u> | <u>27,821,707</u> |
| Comprehensive loss: | | | | |
| Net income (loss)..... | \$ (20,051,301) | \$ 1,149,059 | \$ (21,055,537) | \$ (2,511,141) |
| Other comprehensive income (loss) - Item that may be reclassified subsequently to earnings: | | | | |
| Foreign currency translation adjustments..... | 2,411,512 | (1,142,263) | 684,799 | 404,693 |
| Comprehensive income (loss)..... | <u>\$ (17,639,789)</u> | <u>\$ 6,796</u> | <u>\$ (20,370,738)</u> | <u>\$ (2,106,448)</u> |

See Accompanying Notes to Interim Unaudited Condensed Consolidated Financial Statements

RDx TECHNOLOGIES CORPORATION
(FORMERLY RIDGELINE ENERGY SERVICES INC.)
INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(IN CANADIAN DOLLARS)

| | Share Capital | Share Capital Issuable | Warrants | Contributed Surplus | Accumulated Other Comprehensive Income | Accumulated Deficit | Total Equity |
|---|--------------------------|-----------------------------------|---------------------|--------------------------------|---|--------------------------------|-------------------------|
| Balances at March 31, 2014..... | \$ 79,785,679 | \$ - | \$ 2,543,829 | \$ 2,536,930 | \$ 4,632,607 | \$ (43,985,540) | \$ 45,513,505 |
| Exercise of warrants..... | 247,050 | - | (65,800) | - | - | - | 181,250 |
| Exercise of options..... | 100,792 | - | - | (50,792) | - | - | 50,000 |
| Acquisition of REP equipment (Note 5)..... | 1,328,000 | 1,050,379 | - | - | - | - | 2,378,379 |
| Accretion of REP deferred shares (Note 5)..... | - | 16,138 | - | - | - | - | 16,138 |
| Shares issuable for GEM settlement (Note 20)..... | - | 2,340,000 | - | - | - | - | 2,340,000 |
| Shares issued to Lakeland (Note 6)..... | 542,850 | - | - | - | - | - | 542,850 |
| Share-based payment expense..... | - | - | - | 20,710 | - | - | 20,710 |
| Foreign currency translation adjustments..... | - | - | - | - | 684,799 | - | 684,799 |
| Net loss..... | - | - | - | - | - | (21,055,537) | (21,055,537) |
| Balances at September 30, 2014..... | <u>\$ 82,004,371</u> | <u>\$ 3,406,517</u> | <u>\$ 2,478,029</u> | <u>\$ 2,506,848</u> | <u>\$ 5,317,406</u> | <u>\$ (65,041,077)</u> | <u>\$ 30,672,094</u> |

| | Share Capital | Warrants | Contributed Surplus | Accumulated Other Comprehensive Income | Accumulated Deficit | Total Equity |
|---|--------------------------|---------------------|--------------------------------|---|--------------------------------|-------------------------|
| Balances at March 31, 2013..... | \$ 66,732,800 | \$ 2,162,794 | \$ 2,348,691 | \$ 106,144 | \$ (30,780,713) | \$ 40,569,716 |
| Exercise of options..... | 100,652 | - | (47,152) | - | - | 53,500 |
| Acquisition of CWT..... | 12,155,172 | 1,356,629 | - | - | - | 13,511,801 |
| Share-based payment expense..... | - | - | 116,988 | - | - | 116,988 |
| Reclassification of expired warrants..... | 975,594 | (975,594) | - | - | - | - |
| Foreign currency translation adjustments..... | - | - | - | 404,693 | - | 404,693 |
| Net loss..... | - | - | - | - | (2,511,141) | (2,511,141) |
| Balances at September 30, 2013..... | <u>\$ 79,964,218</u> | <u>\$ 2,543,829</u> | <u>\$ 2,418,527</u> | <u>\$ 510,837</u> | <u>\$ (33,291,854)</u> | <u>\$ 52,145,557</u> |

See Accompanying Notes to Interim Unaudited Condensed Consolidated Financial Statements

RDx TECHNOLOGIES CORPORATION
INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN CANADIAN DOLLARS)

| | Six Months Ended September 30, | |
|--|---------------------------------------|----------------|
| | 2014 | 2013 |
| Operating activities: | | |
| Loss from continuing operations..... | \$ (21,055,537) | \$ (3,433,584) |
| Income from discontinued operations..... | - | 922,443 |
| Net loss..... | (21,055,537) | (2,511,141) |
| Non-cash adjustments to reconcile net loss to net cash flows from operations: | | |
| Amortization..... | 3,619,003 | 3,772,356 |
| Share-based payment expense..... | 20,710 | 116,988 |
| Foreign exchange loss on notes payable..... | 459,122 | 158,000 |
| Change in fair value of PTEC earn-out..... | (285,000) | (202,500) |
| Gain on disposal of REI and RGI..... | - | (416,345) |
| Deferred tax expense..... | 112,458 | - |
| Amortization of debt discount..... | 457,952 | - |
| Debt and equity issued and issuable for GEM settlement, net of debt forgiven.... | 10,899,928 | - |
| Gain on forgiveness of indebtedness..... | (2,962) | (120,573) |
| Other non-cash items..... | - | 8,106 |
| Changes in working capital (exclusive of acquisitions): | | |
| Trade and other receivables..... | 989,626 | (1,326,286) |
| Accrued revenue..... | - | (363,829) |
| Inventory..... | (4,307) | 1,000,912 |
| Prepaid expenses and other assets..... | (1,253,134) | 11,453 |
| Proceeds from Santa Fe Springs assets held for sale, net..... | 5,231,440 | - |
| Accounts payable and accrued liabilities..... | 404,894 | 1,774,164 |
| Income tax payable..... | - | (5,067) |
| Cash provided by (used in) operating activities..... | (405,807) | 1,896,238 |
| Investing activities: | | |
| Purchases of property, plant and equipment..... | (432,095) | (3,559,823) |
| Development of intangible assets..... | - | (181,540) |
| Proceeds from sale of REI and RGI..... | - | 3,219,498 |
| Transfers to restricted cash..... | (1,075,240) | - |
| Acquisition deposits and other advances..... | (299,628) | - |
| Cash used in investing activities..... | (1,806,963) | (521,865) |
| Financing activities: | | |
| Exercise of options and warrants..... | 231,250 | 53,500 |
| Proceeds from Sigma loan..... | 3,573,888 | - |
| Payment of promissory notes..... | (2,428,728) | (236,225) |
| Draws on credit facility..... | - | 988,095 |
| Payment of finance lease..... | (33,813) | (27,334) |
| Fees paid for financing activities..... | (305,088) | - |
| Cash provided by financing activities..... | 1,037,509 | 778,036 |
| Effect of exchange rate changes on cash and cash equivalents..... | 21,768 | 6,318 |
| Increase (decrease) in cash and cash equivalents..... | (1,153,493) | 2,158,727 |
| Cash and cash equivalents, beginning of period..... | 1,350,546 | 1,336,478 |
| Cash and cash equivalents, end of period..... | \$ 197,053 | \$ 3,495,205 |
| Supplemental Disclosures of Cash Flow Information: | | |
| Cash paid for interest..... | \$ 5,979 | \$ 105,760 |
| Cash paid for income taxes..... | \$ - | \$ - |
| Non-cash investing and financing activities: | | |
| Common shares issued for acquisition of REP equipment..... | \$ 2,378,379 | \$ - |
| Common shares issued to Lakeland..... | \$ 542,850 | \$ - |
| Payable to Dennis Danzik for shares issued with Sigma loan..... | \$ 248,429 | \$ - |
| Notes payable, common shares and warrants issued for CWT acquisition..... | \$ - | \$ 33,923,801 |

See Accompanying Notes to Interim Unaudited Condensed Consolidated Financial Statements

RDX TECHNOLOGIES CORPORATION
NOTES TO INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations

RDX Technologies Corporation (the “Company”, “we”, “us” or “our”) is a publicly traded energy services and water treatment company. The Company’s corporate office is located at: 14555 North 82nd Street, Scottsdale, Arizona 85260. 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. The Company also manages a waste water treatment equipment company (M2 Renewables, LLC) located in California through a management contract (Note 20). In October 2014, the Company acquired certain assets of M2 Renewables, LLC and the management agreement was terminated as part of the larger acquisition (Note 20).

The Company changed its name to RDX Technologies Corporation during August 2013 from Ridgeline Energy Services Inc. The Company is the result of a June 27, 2006 amalgamation of Gavwest Resources Ltd. with SDA Ltd. and SDA Technologies Inc. (“SDA Inc.”).

2. Basis of Preparation, Consolidation and Statement of Compliance

These interim condensed consolidated financial statements are unaudited and have been prepared in accordance with International Accounting Standards (“IAS”) 34, Interim Financial Reporting and do not include all the information required for full annual financial statements. These statements should be read in conjunction with the Company’s audited consolidated financial statements and related notes for the year ended March 31, 2014.

These interim unaudited condensed consolidated financial statements for the three and six months ended September 30, 2014 were authorized for issue by the Board of Directors in accordance with a resolution of the Company on November 28, 2014. These interim unaudited condensed consolidated financial statements have been prepared on a historical cost basis, except for certain earn-out provisions (Note 20) that have been measured at fair value. The consolidated financial statements are presented in Canadian dollars, except where otherwise indicated.

On May 23, 2014, at the Company’s annual general meeting, our shareholders approved a one for six reverse split of our common stock. In October 2014, the Company’s board of directors proceeded with the share consolidation and the share consolidation became effective at the opening of trading on October 10, 2014. As a result of the reverse split, each holder of six outstanding shares of common stock received one share of common stock. No fractional shares were issued for this reverse split. The reverse split has been retroactively applied to all applicable information to the earliest period presented.

RDY TECHNOLOGIES CORPORATION
NOTES TO INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

These interim unaudited condensed consolidated financial statements of the Company 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”) which was renamed to RDX Intellectual Property, LLC, a Delaware limited liability company in August 2014, and became a wholly owned subsidiary of RDX Technologies USA Corporation.
- Ridgeline Energy Services (USA) Inc. (“RUSA”). RUSA became a wholly owned subsidiary of RDX Technologies USA Corporation during July 2014.
- 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 (Note 5).
- RDX Technologies USA Corporation, a Delaware corporation that was formed during May 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.
- RDX Operations Inc., a Delaware corporation that was formed during September 2014 and became a wholly owned subsidiary of RDX Technologies USA Corporation during September 2014.
- RDX Water Group, LLC, a Delaware limited liability company that was formed during September 2014 and became a wholly owned subsidiary of RDX Technologies USA Corporation during September 2014.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intercompany balances and transactions are eliminated in full including any receivables and payables between subsidiaries.

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 further discussed in Note 23, as follows:

- Environmental and Reclamation – Primarily relates to the acquisition and liquidation of distressed refinery, 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 (Note 20).

At September 30, 2014 and March 31, 2014, the Company had accumulated losses and had working capital deficits. The Company acquired its Santa Fe Springs facility in March 2013, all of the units of capital stock of CWT in April 2013, entered into multiple management contracts (which is a technique utilized by the Company when it is evaluating a potential acquisition, allowing greater access to the specific target’s operations), and acquired certain assets of M2 Renewables, LLC in October 2014 which was previously under a management contract, which further utilized existing cash reserves of the Company. Please refer to Notes 3 and 24 for information about management’s plans to meet the Company’s short term cash requirements and to increase liquidity.

RDx TECHNOLOGIES CORPORATION
NOTES TO INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Summary of Significant Accounting Policies, Critical Accounting Judgments and Estimates

General

The accounting policies, methods of application and critical accounting judgments and estimates used in the preparation of these interim unaudited condensed consolidated financial statements are consistent with those disclosed in the notes to the March 31, 2014 annual financial statements.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations on the statement of operations. Property, plant and equipment and intangible assets are not amortized once classified as held for sale.

The preparation of the Company's interim unaudited condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The Company bases its assumptions and estimates on parameters available when the interim unaudited condensed consolidated financial statements are prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in our assumptions at the time they occur.

Going Concern

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 September 30, 2014, the Company had recurring losses and negative working capital of \$7.3 million, which was primarily due to slower than anticipated growth in the Company's renewable fuel business, the longer than anticipated remediation clean-up at the Company's Santa Fe Springs facility, resulting in a reduction of revenue generating water treatment operations, longer than anticipated production timing in the Company's manufacturing business, and the slower than anticipated collection of outstanding accounts receivable. 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 and fuel processing systems and related equipment. Because of the matters discussed above, the Company's independent public accountants have 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 October 7, 2014, the Company closed the short-term financing in the amount of US\$3.3 million discussed below and secured a new long-term financing in the amount of US\$2.3 million from the same Company who originated the US\$3.3 million facility.
- 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 and is in discussions with other companies that may have similar fuel requirements.

RDx TECHNOLOGIES CORPORATION
NOTES TO INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- 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.

Sale of Excess Real Estate at Santa Fe Springs

As discussed in Note 6, on or about June 26, 2014 the Company, through its wholly-owned subsidiary Ridgeline Energy Services (USA), Inc., sold approximately 17½ acres of excess land at its Santa Fe Springs facility to an independent third-party. The total consideration from this transaction approximated US\$12.4 million. The Company has used judgment in determining whether this excess land sale transaction is operating income as opposed to the disposal of an investment not in the ordinary course of business whose net gain or loss would be recognized as other income (expense) on the Company's interim unaudited condensed consolidated statements of operations.

The Company has concluded that the consideration received from this transaction relates to ongoing operating activities and is accordingly included in revenues from operating activities, which is based primarily on (i) the business plan of the Company includes the acquisition of existing or startup water treatment and refining operations as the Company believes 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 their permitting already in place, allowing for continued operation by the Company once the acquisition is completed which would result in excess land and equipment that can be monetized; (ii) The Company's Environmental and Reclamation segment 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 that do not impact the Company's ability to operate the acquired facilities. The activities of disposal of excess real property and equipment that do not impact the Company's ability to operate the acquired facilities may occur after the consolidation of acquired distressed facilities and the impact of related engineering consulting services (if any); and (iii) when the Company originally acquired the Santa Fe Springs property during fiscal 2013, the intent was to hold these assets as a long-term investment and to use the entire site for a large scale waste water treatment operation with related activities; however, the Company was ultimately forced to accept business limitations at the Santa Fe Springs location, which were unanticipated when the assets and land were originally acquired. Once the limitations of the Santa Fe Springs were accepted, the Company analyzed this facility's future business opportunities and believes that a successful water treatment operation can be maintained on approximately two acres, which were retained following the sale of excess land. The Company then transferred all remaining excess real property and equipment to its Environmental and Reclamation segment for sale.

4. 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.

RDx TECHNOLOGIES CORPORATION
NOTES TO INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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NOTES TO INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- 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.

5. Business and Asset Acquisitions

Acquisition of Assets from REP-LA1, LLC

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) 691,667 commons shares of the Company; and (iii) 547,072 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..... | | <u>1,050,379</u> |
| Total consideration..... | \$ | <u><u>2,485,588</u></u> |

As security for the deferred purchase price of the 547,072 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 547,072 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. The Company issued 580,615 common shares during October 2014 relative to the deferred purchase price discussed above, inclusive of interest.

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.

RDx TECHNOLOGIES CORPORATION
NOTES TO INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

At the time of acquisition, CWT purported to operate a renewable diesel fuel refinery in Carthage, Missouri. The total consideration paid was comprised of: (i) promissory notes in the aggregate amount of US\$20.0 million; (ii) 4,310,345 shares of common stock; and (iii) warrants to purchase 683,333 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..... | <u>1,356,629</u> |
| Total purchase price..... | <u>\$ 33,923,801</u> |

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 its Directors relative to the above transaction. In September 2014, the Company and GEM Holdco, LLC reached a confidential settlement related to proceedings between GEM Holdco, LLC, the Company and its’ Directors (Note 20). GEM Holdco, LLC’s proceeding against the other Sellers and Jean Noelting, 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 receiving complaints from key customers that were previously established relationships with CWT. These complaints included statements from fuel customers that the fuel being refined by CWT was damaging fuel pumps and boiler components of the customers. RDX began evaluating renewable fuel production from the Carthage Missouri refinery and formed a belief that fuel qualities were not as presented by the Sellers or as expected from RDX due diligence. RDX believes through evaluation and opinions of qualified experts that the documents given to RDX during due diligence, prior to purchasing CWT, which included independent engineering opinions, RIN qualification evaluations, EPA renewable fuel certifications and filings, as well as Internal Revenue Service filings are suspect as to validity. As well the technology path was not as represented by the Sellers. It has also been discovered that the previous operators (“Sellers”) fuel refining process may have not have qualified for federal tax credits or as Renewable Fuel under the “RIN” program of the United States Environmental Protection Agency. The Company also began discussions with the Sellers regarding these fuel issues and the parties began negotiating an agreement that would address the Company’s concerns. These discussions have been halted by the Company. 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 in Note 20, 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”). Please see Note 20 for additional information regarding this matter.

As a matter of record, when the Company definitively believed through testing and analytical evaluation that the technology sold by the Sellers to RDX, was defective and that the CWT fuel was defective and did not meet federal standards, the Company ceased accumulating or selling RINS or filing for tax credits, approximately eleven months ago.

RDx TECHNOLOGIES CORPORATION
NOTES TO INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company has contracted with GenScope a United States Environmental Protection Agency certified RIN assurance program vendor (RIN “Quality Assurance Program”) or “QAP”, so that the Company can meet the QAP standards for RIN and tax credit benefits. The Company is working towards its own standards and QAP approval by early January of 2015.

The Company also found that the Sellers and former operators of CWT failed to obtain a State of Missouri Fuel Blenders License, (“Blenders License”) even though substantial amounts of fuel were blended over a period of many years, on the CWT refinery site prior to the acquisition by the Company. The Company has filed for a Blenders License with the State of Missouri. Due to information supplied to the State of Missouri, the Company was required to post a bond and have an officer of the Company sign a personal guarantee as to a person of responsibility to insure the State of Missouri would receive all fuel tax returns on a timely basis. Dennis M. Danzik posted the necessary bond with the State of Missouri, and executed the personal guarantee as a responsible person.

6. Discontinued Operations and Assets Held for Sale

Assets Held for Sale Related to 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 Buyer’s 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 first quarter of fiscal 2015.

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.

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NOTES TO INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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. The Company subsequently issued to Lakeland, US\$0.5 million of common stock as payment for the future groundwater remediation and / or monitoring for off property impacts, issuing 162,908 shares of its common stock directly to Lakeland, and owes Lakeland approximately US\$0.3 million of the original US\$0.4 million discussed above. Please see Note 25 for additional information regarding this matter.

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 September 30, 2014 and March 31, 2014. The following is a summary of these assets and liabilities:

| | September 30, 2014 | March 31, 2014 |
|--|-------------------------------|---------------------------|
| Santa Fe Springs Assets Held for Sale: | | |
| Land..... | \$ - | \$ 10,845,679 |
| Equipment..... | 375,271 | 370,344 |
| Environmental receivable from Lakeland..... | - | 6,079,150 |
| Santa Fe Springs assets held for sale..... | <u>\$ 375,271</u> | <u>\$ 17,295,173</u> |
| Liabilities Related to Santa Fe Springs Assets Held for Sale: | | |
| Environmental remediation liability..... | \$ - | \$ 5,526,500 |
| Santa Fe Springs purchase price payable..... | - | 5,997,831 |
| Other liabilities..... | 112,000 | 110,530 |
| Liabilities related to Santa Fe Springs assets held for sale..... | <u>\$ 112,000</u> | <u>\$ 11,634,861</u> |

In addition to these above assets and liabilities held for sale, the Company paid US\$1.2 million of accrued liabilities out of escrow proceeds that were related to the land, but which were not transferred to the Seller.

Sale of REI and RGI

During September 2013, the Company sold substantially all assets and liabilities related to the Company’s previous REI and RGI business segments to Ridgeline Canada, Inc. of Calgary Alberta. The sale closed in September 2013 pursuant to an Asset Purchase Agreement that was executed during July 2013, which stipulated that prior to the close and subsequent to July 1, 2013, the purchaser received all benefits and responsibilities of operating the REI and RGI business segments. Accordingly, activity of REI and RGI from July 1, 2013 to the date the sale of REI and RGI closed had no impact on our results of operations. The Company received total consideration of \$4.3 million for the sale of REI and RGI, which resulted in a gain of \$0.4 million. As a result of the above transaction, the previous REI and RGI business segments have been classified as discontinued operations for all periods presented.

RDx TECHNOLOGIES CORPORATION
NOTES TO INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Trade and Other Receivables

A substantial portion of the Company's accounts receivable is with customers in, or related to, the waste water and refined fuel industries, and is subject to normal industry credit risk. The Company incurred bad debts of \$0.1 million for the six months ended September 30, 2014 and 2013. Trade receivables are non-interest bearing and are generally on 30 to 120 day terms with the exception of certain equipment sales made under contract, during the second and third quarters of fiscal 2014 in which the Company agreed to longer payment terms which have been extended through February of 2015. The Company had to dramatically slow its expansion into franchise and operator programs, also known as "BlueDot", and thereby slowing the progress of its potential franchisees and operators, including those now under contract. The Company is reevaluating how the launch of the BlueDot programs will be issuing further details by calendar year end. The Company has granted extended time on the current receivables in light of the Company's challenges with the BlueDot launch. The Company strongly believes that the BlueDot program will be reorganized by calendar 2014 year end and emerge stronger and that the receivables due under the BlueDot programs will be paid in full. Trade and other receivables consist of the following at September 30, 2014 and March 31, 2014:

| | September 30, 2014 | March 31, 2014 |
|--|-------------------------------|---------------------------|
| Trade receivables..... | \$ 9,283,581 | \$ 10,835,849 |
| Other receivables..... | 585,000 | - |
| Subtotal..... | 9,868,581 | 10,835,849 |
| Less: Allowance for doubtful accounts..... | (1,460,744) | (1,441,572) |
| Trade and other receivables, net..... | <u>\$ 8,407,837</u> | <u>\$ 9,394,277</u> |

Included in other receivables at September 30, 2014 is \$0.6 million related to certain holdbacks from the excess land sale at Santa Fe Springs, which are included in the current caption in the table below and are projected to be released after the completion and analysis of overall costs related to remediation work at the site performed by both the Company and the Buyer of the excess real estate. The Company anticipates that the timing of any release of these holdbacks could be in excess of one year. The aging of our trade and other receivables is as follows:

| | September 30, 2014 | March 31, 2014 |
|---------------------------------------|-------------------------------|---------------------------|
| Current..... | \$ 7,911,633 | \$ 8,304,471 |
| 31 to 90 days..... | 133,410 | 624,582 |
| Greater than 90 days..... | 362,794 | 465,224 |
| Trade and other receivables, net..... | <u>\$ 8,407,837</u> | <u>\$ 9,394,277</u> |

8. Inventory

Inventory consists of the following:

| | September 30, 2014 | March 31, 2014 |
|--|-------------------------------|---------------------------|
| Parts inventory..... | \$ 2,174,290 | \$ 1,602,788 |
| Refined fuel..... | - | 319,951 |
| Renewable identification numbers ("RINs")..... | - | 188,304 |
| Total inventory..... | <u>\$ 2,174,290</u> | <u>\$ 2,111,043</u> |

Parts inventory primarily relates to certain parts that are maintained for use in ongoing operations and is accounted for on the first in first out basis. Refined fuel is generated from Energy operations and represent finished goods. RINs are generated in connection with the production of refined fuel and are renewable fuel credits in the United States.

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NOTES TO INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Restricted Cash

Restricted cash represents (i) funds held with a financial institution that is the issuer of certain of the Company's corporate credit cards and (ii) as security for the short-term financing with Sigma (Note 15).

10. Property, Plant and Equipment

Activity for the cost of our property, plant and equipment consists of the following for the six months ended September 30, 2014:

| | April 1, 2014 | Additions | Disposals and Transfers | REP Equipment Acquisition | Foreign Exchange Effect | September 30, 2014 |
|-----------------------------------|--------------------------|-------------------|------------------------------------|--------------------------------------|------------------------------------|-------------------------------|
| Land..... | \$ 4,010,260 | \$ - | \$ - | \$ - | \$ 53,335 | \$ 4,063,595 |
| Building..... | 3,773,812 | - | - | - | 50,190 | 3,824,002 |
| Equipment..... | 26,059,304 | 405,900 | (370,108) | 2,485,588 | 458,649 | 29,039,333 |
| Vehicles..... | 108,882 | 10,514 | - | - | 1,733 | 121,129 |
| Leasehold improvements..... | 235,406 | - | - | - | 3,131 | 238,537 |
| Computer hardware..... | 155,458 | - | - | - | 2,068 | 157,526 |
| Computer software..... | 434,960 | 15,681 | (109) | - | 6,206 | 456,738 |
| Water remediation units..... | 4,936,649 | 61,654 | - | - | 24,230 | 5,022,533 |
| Equipment under construction..... | 2,901,873 | - | (22,584) | - | 37,536 | 2,916,825 |
| Total cost..... | <u>\$ 42,616,604</u> | <u>\$ 493,749</u> | <u>\$ (392,801)</u> | <u>\$ 2,485,588</u> | <u>\$ 637,078</u> | <u>\$ 45,840,218</u> |

Activity for accumulated amortization of our property, plant and equipment consists of the following for the six months ended September 30, 2014:

| | April 1, 2014 | Amortization | Foreign Exchange Effect | September 30, 2014 |
|-------------------------------------|--------------------------|---------------------|------------------------------------|-------------------------------|
| Building..... | \$ 293,446 | \$ 137,905 | \$ 7,730 | \$ 439,081 |
| Equipment..... | 2,762,424 | 1,310,789 | 73,175 | 4,146,388 |
| Vehicles..... | 28,548 | 12,051 | 714 | 41,313 |
| Leasehold improvements..... | 32,709 | 13,118 | 799 | 46,626 |
| Computer hardware..... | 96,156 | 22,782 | 1,911 | 120,849 |
| Computer software..... | 141,235 | 64,061 | 3,657 | 208,953 |
| Water remediation units..... | 1,493,086 | 447,139 | 6,079 | 1,946,304 |
| Total accumulated amortization..... | <u>\$ 4,847,604</u> | <u>\$ 2,007,845</u> | <u>\$ 94,065</u> | <u>\$ 6,949,514</u> |

Net book values of our property and equipment are as follows:

| | September 30, 2014 | March 31, 2014 |
|-----------------------------------|-------------------------------|---------------------------|
| Land..... | \$ 4,063,595 | \$ 4,010,260 |
| Building..... | 3,384,921 | 3,480,366 |
| Equipment..... | 24,892,945 | 23,296,880 |
| Vehicles..... | 79,816 | 80,334 |
| Leasehold improvements..... | 191,911 | 202,697 |
| Computer hardware..... | 36,677 | 59,302 |
| Computer software..... | 247,785 | 293,725 |
| Water remediation units..... | 3,076,229 | 3,443,563 |
| Equipment under construction..... | 2,916,825 | 2,901,873 |
| Total..... | <u>\$ 38,890,704</u> | <u>\$ 37,769,000</u> |

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NOTES TO INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Amortization expense for property, plant and equipment was approximately \$1.0 million and \$1.1 million for the three months ended September 30, 2014 and 2013, respectively, of which, approximately \$1.0 million and \$1.1 million is included in cost of revenue, respectively. Amortization expense for property, plant and equipment was approximately \$2.0 million and \$2.1 million for the six months ended September 30, 2014 and 2013, respectively, of which, approximately \$2.0 million is included in cost of revenue for each period.

The carrying value of buildings and land held under finance leases was approximately \$0.3 million at September 30, 2014 and March 31, 2014.

11. Intangible Assets

Intangible assets consist of intellectual property acquired during January 2012, development costs incurred relative to RWI's products and trademarks and trade names relative to the CWT acquisition that was completed during April 2013. Intangible assets are summarized as follows:

| | September 30, 2014 | March 31, 2014 |
|----------------------------------|-------------------------------|---------------------------|
| Intellectual property | \$ 17,626,915 | \$ 17,626,915 |
| Development costs | 4,698,384 | 4,671,132 |
| Trademarks and trade names | 336,000 | 331,590 |
| Subtotal | 22,661,299 | 22,629,637 |
| Accumulated amortization | (8,591,870) | (6,956,971) |
| Intangible assets, net | <u>\$ 14,069,429</u> | <u>\$ 15,672,666</u> |

Amortization expense for intellectual property was \$0.4 million for the three months ended September 30, 2014 and 2013 and \$0.9 million for the six months ended September 30, 2014 and 2013. Amortization expense for development costs was \$0.3 million and \$0.4 million for the three months ended September 30, 2014 and 2013, respectively, and \$0.7 million for the six months ended September 30, 2014 and 2013. Amortization expense for trademarks and trade names was less than \$0.1 million for the three and six months ended September 30, 2014 and 2013.

12. Goodwill

Activity for the Company's goodwill balances is summarized as follows for the six months ended September 30, 2014:

| | Equipment Sales and Rentals | Energy | Total |
|---------------------------------------|--|---------------------|---------------------|
| Balance, March 31, 2014 | \$ 2,277,871 | \$ 6,459,284 | \$ 8,737,155 |
| Effect of exchange rate changes | 30,295 | 85,905 | 116,200 |
| Balance, September 30, 2014 | <u>\$ 2,308,166</u> | <u>\$ 6,545,189</u> | <u>\$ 8,853,355</u> |

Goodwill is tested for impairment annually at March 31, and when circumstances indicate the carrying value may potentially be impaired. If any indication of impairment exists, the Company estimates the recoverable amount of the cash generating unit ("CGU") to which goodwill is allocated. Where the carrying amount of a CGU exceeds its recoverable amount, an impairment loss is recognized. The Company considers the relationship between its market capitalization and the book value of its equity, among other factors, when reviewing for indicators of impairment. The Company does not believe there were any circumstances present during the first six months of fiscal 2015, or to the date of this filing, that would indicate the carrying value of goodwill may potentially be impaired other than circumstances the Company believes are temporary or extraordinary in nature and as such, did not test goodwill for potential impairment on an interim basis.

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NOTES TO INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Other Assets

Other assets at September 30, 2014 and March 31, 2014 consist of deposits of approximately \$0.1 million for various facility leases and utilities, \$0.7 million of acquisition deposits to M2R (Note 20) and \$0.3 million of acquisition deposits to Kerr Energy. During the six months ended to September 30, 2014, we made \$0.4 million of additional deposits including US\$0.1 million for rights-of-way ownership relating to certain Kerr Energy contracts in Texas and US\$0.3 million towards a water treatment opportunity in Wyoming.

14. Accrued Liabilities

Accrued liabilities are summarized as follows:

| | September 30, 2014 | March 31, 2014 |
|---|-------------------------------|---------------------------|
| Deferred fuel tax credits received..... | \$ 3,218,206 | \$ 3,175,967 |
| Interest payable..... | 1,864,094 | 1,225,479 |
| Deferred revenue..... | 1,265,431 | 494,751 |
| Santa Fe Springs related liabilities..... | 1,022,558 | 1,928,246 |
| Accrued disposal costs..... | 621,723 | 690,259 |
| Litigation settlement payable (Note 20)..... | 599,200 | - |
| CWT inventory accrual..... | - | 165,795 |
| Accrued payroll and related taxes and benefits..... | 80,163 | 607,601 |
| Straight-line rent liability..... | 78,312 | 83,058 |
| Accrued operating expenses..... | 31,225 | 99,152 |
| Other accrued expenses..... | 298,598 | 405,721 |
| Total accrued expenses..... | <u>\$ 9,079,510</u> | <u>\$ 8,876,029</u> |

15. Notes Payable

CWT Notes Payable (RRC and GEM Holdco)

The Company issued two separate promissory notes totaling US\$20.0 million as partial consideration for the April 2013 acquisition of CWT (Note 5). The promissory notes have a term of five years, bear interest at a rate of 6.0% per annum for the first 30 months and 8.0% for the remaining 30 months, or an effective interest rate of 6.6%. The promissory notes are payable on a monthly basis in arrears on the first day of every calendar month commencing on May 1, 2013 until the unpaid principal and all other amounts owed under these notes are paid in full. The notes are interest-only for the first nine months, then become fully amortizing for the next fifty-one months with a maturity date of April 1, 2018. The promissory notes will be collateralized by a security interest in all of the assets of CWT after an existing outstanding indebtedness from CWT to GEM Holdco is paid in full.

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 classified the entire promissory notes as a current liability as of March 31, 2014 and June 30, 2014.

The Company subsequently disputed the validity of these notes payable and as discussed more fully in Note 20, 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 CWT Agreement (Note 5), allows for the right of offset against the US\$20.0 million promissory notes and for the suspension of payments pending the resolution of any dispute, and as a result of the August 26, 2014 Statement of Claim filed by the Company as discussed above and in Note 20, the Company classified the

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NOTES TO INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

entire promissory notes as a long-term liability on the accompanying Interim Unaudited Condensed Consolidated Statement of Financial Position pending the resolution of its claims against the Defendants which has been estimated by legal counsel to take greater than one year to resolve.

We incurred a \$0.3 million charge and a \$0.2 million charge for the six months ended September 30, 2014 and 2013, respectively, relative to changes in foreign currency rates on the CWT notes payable, which were issued by our Canadian parent entity and are denominated in U.S. dollars. Accordingly, these notes are translated to Canadian dollars at each reporting date.

GEM Holdco Note Payable – Settlement Agreement

As part of the September 22, 2014 Settlement Agreement between GEM Holdco, LLC, GEM Ventures, LTD, Global Emerging Markets North America, Inc., Christopher Brown, Edward Tobin, and Demetrios Diakolios, and the Company and its subsidiaries and the Company's current Board of Directors, the Company issued a US\$9.5 million promissory note to GEM Holdco, LLC (See Note 20).

This promissory note, which does not bear interest, shall be due and payable in the form of cash or Company common stock, at the Company's option, paid in twenty-four (24) equal monthly installments over a two-year period, with payment due on the 15th of each month, beginning on October 15, 2014. The Company recognized a discount of US\$0.9 million at the time the promissory note was originated, which is based on a discount rate of 10%. The Company recognized interest expense of less than \$0.1 million for this promissory note during the three and six months ended September 30, 2014. The carrying amount of this promissory note is summarized as follows at September 30, 2014:

| | | |
|------------------------|----|-------------------------|
| Current portion..... | \$ | 5,063,006 |
| Long-term portion..... | | <u>4,580,543</u> |
| Total..... | \$ | <u><u>9,643,549</u></u> |

The Company also has the right, at its option, to pay the promissory note in cash or stock on a more accelerated basis. Any payment towards the principal amount that the Company chooses to make in common stock of the Company, shall be valued as of the close of trading on the 14th day of the month in question or the next business day. Any Company common stock issued after February 1, 2015 shall be free trading. In the event that trading in the Company's common stock is halted, or they are no longer listed, payment may only be in cash. The Company may prepay this promissory note in whole or in part at any time or times without premium or penalty.

We incurred a \$0.2 million charge for the six months ended September 30, 2014 relative to changes in foreign currency rates on the GEM settlement promissory note, which was issued by our Canadian parent entity and is denominated in U.S. dollars. Accordingly, this note is translated to Canadian dollars at each reporting date.

GEM Holdco Note Payable – Carthage Acquisition

The Company assumed a senior secured promissory note payable in the amount of US\$0.8 million in connection with the acquisition of CWT (Note 5). This note payable, which is payable to GEM Holdco, was originated on December 21, 2012, bears interest at a rate of 12.0%, payable annually, with the first interest payment due December 21, 2013. Due to the ongoing litigation involving GEM Holdco, the Company has not made any payments under this note to date. This note payable matures on December 21, 2014 and may be prepaid at any time. As discussed in Note 5, GEM Holdco initiated litigation against the Company in connection with the acquisition of CWT by the Company. CWT granted GEM Holdco a first priority security interest in and to certain collateral, including (i) all tangible and intangible assets of CWT, including, without limitation, collectively the accounts, chattel paper, deposit accounts, documents, equipment, fixtures, general intangibles, instruments, intellectual property, inventory, investment property, and (ii) proceeds of each of them. Changing World Technologies, Inc. and CWT II Canada Limited Partnership provided a guarantee relative to the GEM Holdco Note Payable.

As a result of the settlement agreement between GEM Holdco, LLC (See Note 20 and above), the Company and Dennis M. Danzik, GEM Holdco, LLC transferred the US\$0.8 million senior secured promissory note discussed above, with all accrued and unpaid interest, to the Company along with any UCC filings or liens on the Carthage Missouri facility.

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Santa Fe Springs Note Payable

The Company issued a US\$0.4 million promissory note payable as partial consideration for the March 2013 acquisition of certain assets and land from Lakeland (Note 6). The promissory note had a balloon feature. All outstanding principal and interest was due in one lump sum on January 15, 2015. The promissory note bore simple interest at 5% and may be prepaid at any time without penalty or premium. The promissory note was collateralized by a Deed of Trust, Assignment of Leases and Rents on the real property acquired from Lakeland. This promissory note was paid in full as part of the excess land sale at Santa Fe Springs as further discussed in Note 6.

PTEC Note Payable

During October 2012, the Company issued an unsecured three year US\$0.2 million non-interest bearing promissory note payable as partial consideration for the acquisition of Piedmont Technical Services, Inc. ("PTEC") in October 2012. The non-interest bearing promissory note is payable to PTEC, which is owned by a former member of management of the Company, and is payable in three equal annual installments, with the first payment made during October 2013. The Company recognized a discount of less than US\$0.1 million as of the acquisition date, which is based on a discount rate of 10%. The carrying value of the PTEC note payable is summarized as follows:

| | September 30, 2014 | March 31, 2014 |
|------------------------|-------------------------------|---------------------------|
| Current portion..... | \$ 128,291 | \$ 63,303 |
| Long-term portion..... | - | 57,549 |
| Total..... | <u>\$ 128,291</u> | <u>\$ 120,852</u> |

During October 2014, the Company and PTEC cancelled the remaining balance of the unsecured three year US\$0.2 million non-interest bearing promissory note and wrapped the unpaid balance into a new short-term promissory note due to one of the prior owners of PTEC (see Note 25).

Danzik Notes Payable

During the fourth quarter of fiscal 2013, the Company received a total of US\$0.7 million from Dennis M. Danzik, the Company's Chief Executive Officer, and in return issued a note payable that bears interest at a rate of 6.0% per annum and is due on July 31, 2015, including accrued interest. The Company repaid US\$0.2 million of this note during August 2013 and US\$0.1 million during November 2013. During March, 2014, Mr. Danzik advanced an additional US\$0.5 million to the Company under a separate note payable with similar terms to those discussed above. During the six months ended September 30, 2014, the Company repaid both of these notes payable in full. The Company recognized interest expense of less than \$0.1 million relative to these notes payable for each of the six months ended September 30, 2014 and 2013. As of September 30, 2014 no balance is due Mr. Danzik under these notes. At March 31, 2014 there was US\$0.9 million due Mr. Danzik under these notes payable. See Note 20.

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 100,000 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 100,000 shares of common stock to Sigma. Mr. Danzik also 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. At September 30, 2014, the balance of the

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Sigma loan is US\$2.2 million and is net of a discount of \$0.1 million, which relates to the unamortized portion of the advisory fee and the 100,000 shares of common stock of the Company issued to Sigma, as discussed above. Amortization of the discount is recognized on a straight-line basis over the contractual term of this short-term financing, which approximates the effective interest method.

On October 7, 2014, the Company and Sigma terminated the US\$3.3 million loan and originated a new US\$2.3 million loan that is long-term in nature. See Note 25.

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.

16. Obligations Under Finance Lease

The Company's obligations under a finance lease consist of a lease agreement for a manufacturing facility in Deaver, Wyoming, which was entered into during July 2012. This facility includes approximately seven acres and five buildings, and totals approximately 65,500 square feet. The lease began on July 1, 2012 for US\$5,500 per month, with escalations to US\$8,850 per month over the lease term, which ends in July 2017. On July 1, 2017, provided that the Company has made all scheduled payments under the terms of this lease, the Company will have the option to purchase the leased premises for US\$0.1 million. This purchase option is subject to current title restrictions that may preclude the lessor from conveying title to the Company. In the event the Company fails to exercise the option to purchase, or the lessor is unable to transfer title to the Company, this lease may be extended, subject to terms and conditions acceptable to both parties. Under the terms of this lease, the lessor will take all reasonable measures to secure title to the premises so as to allow transfer of title to the Company. In the event the Company elects not to purchase the property, the Company will be responsible for the demolition and removal of all buildings as required by the lessor. The Company was obligated, and provided the lessor, a bond in the amount of US\$0.6 million as surety for the demolished building and removal of materials. This demolition and material removal shall occur within six months of the termination of this lease.

17. Share Capital and Share Capital Issuable

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 September 30, 2014 and 2013 (number of shares retroactively reflects, to the earliest period presented, the one for six reverse split of our common stock in October 2014, as discussed in Note 2):

| | <u>Shares</u> | <u>Amount</u> |
|--|-------------------|----------------------|
| Balances, March 31, 2014..... | 28,119,510 | \$ 79,785,679 |
| Warrants exercised (i)..... | 154,166 | 247,050 |
| Stock options exercised (ii)..... | 83,333 | 100,792 |
| Acquisition of REP - shares issued (Note 5)..... | 691,667 | 1,328,000 |
| Shares issued to Lakeland (Note 6)..... | 162,908 | 542,850 |
| Balances, September 30, 2014..... | <u>29,211,584</u> | <u>\$ 82,004,371</u> |
| | <u>Shares</u> | <u>Amount</u> |
| Balances, March 31, 2013..... | 23,846,832 | \$ 66,732,800 |
| Stock options exercised (i)..... | 49,167 | 100,652 |
| Expiration of warrants..... | - | 975,594 |
| Acquisition of CWT (Note 5)..... | 4,310,345 | 12,155,172 |
| Balances, September 30, 2013..... | <u>28,206,344</u> | <u>\$ 79,964,218</u> |

- (i) During the six months ended September 30, 2014, 154,166 warrants were exercised for proceeds of \$181,250 and \$65,800 was reclassified from warrants to share capital.

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- (ii) During the six months ended September 30, 2014, 83,333 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. During the six months ended September 30, 2013, 49,167 stock options were exercised for proceeds of \$53,500 and \$47,152 of related previously recognized stock-based compensation expense was reclassified from contributed surplus to share capital.

At September 30, 2014, the Company has share capital issuable as follows (number of shares retroactively reflects, to the earliest period presented, the one for six reverse split of our common stock in October 2014, as discussed in Note 2):

| | Shares Issuable | Amount |
|--|------------------------|---------------------|
| Acquisition of REP - deferred purchase price common shares (Note 5)..... | 547,072 | \$ 1,050,379 |
| Accretion of REP deferred shares (Note 5)..... | 26,029 | 16,138 |
| Shares issuable for GEM settlement (Note 20)..... | 2,166,667 | 2,340,000 |
| | <u>2,739,768</u> | <u>\$ 3,406,517</u> |

The Company issued 580,615 common shares during October 2014 relative to the deferred purchase price discussed above, relative to the acquisition of REP, inclusive of interest.

The Company issues 1,000,000 common shares during October 2014 relative to the GEM settlement. Dennis M. Danzik, on behalf of the company, issued 1,166,667 common shares during October 2014 relative to the GEM settlement (See Notes 22 and 25).

18. Warrants

Activity for the Company's outstanding common stock purchase warrants is as follows for the six months ended September 30, 2014 and 2013 (number of warrants retroactively reflects, to the earliest period presented, the one for six reverse split of our common stock in October 2014, as discussed in Note 2):

| | Number of Warrants | Amount |
|-----------------------------------|---------------------------|---------------------|
| Balances, March 31, 2014..... | 2,237,504 | \$ 2,543,829 |
| Warrants exercised..... | (154,167) | (65,800) |
| Expiration of warrants..... | (400,004) | - |
| Balances, September 30, 2014..... | <u>1,683,333</u> | <u>\$ 2,478,029</u> |

| | Number of Warrants | Amount |
|-----------------------------------|---------------------------|---------------------|
| Balances, March 31, 2013..... | 2,672,481 | \$ 2,162,794 |
| Expiration of warrants..... | (972,476) | (975,594) |
| Acquisition of CWT..... | 683,333 | 1,356,629 |
| Balances, September 30, 2013..... | <u>2,383,338</u> | <u>\$ 2,543,829</u> |

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The following is a summary of warrants outstanding at September 30, 2014 (number of warrants and exercise price retroactively reflects, to the earliest period presented, the one for six reverse split of our common stock in October 2014, as discussed in Note 2):

| <u>Expiry Date</u> | <u>Exercise Price</u> | <u>Number of Warrants</u> |
|------------------------|-----------------------|---------------------------|
| March 14, 2018..... | \$ 4.00 | 1,000,000 |
| April 15, 2018..... | 6.00 | 683,333 |
| Total outstanding..... | | <u>1,683,333</u> |

19. Contributed Surplus and Share-based Payments

Activity for the Company's outstanding common stock options is as follows for the six months ended September 30, 2014 and 2013 (number of options and weighted average exercise price retroactively reflects, to the earliest period presented, the one for six reverse split of our common stock in October 2014, as discussed in Note 2):

| | <u>Number of Options</u> | <u>Weighted Average Exercise Price</u> |
|--------------------------------------|--------------------------|--|
| Outstanding, March 31, 2014..... | 822,250 | \$ 2.34 |
| Granted..... | 83,333 | 1.98 |
| Exercised..... | (83,333) | 0.60 |
| Forfeited..... | (3,334) | 3.90 |
| Expired..... | <u>(63,333)</u> | 0.60 |
| Outstanding, September 30, 2014..... | <u>755,583</u> | 2.64 |

| | <u>Number of Options</u> | <u>Weighted Average Exercise Price</u> |
|--------------------------------------|--------------------------|--|
| Outstanding, March 31, 2013..... | 1,238,042 | \$ 2.88 |
| Granted..... | 83,333 | 1.44 |
| Exercised..... | (49,167) | 1.08 |
| Forfeited..... | (422,458) | 3.30 |
| Expired..... | <u>-</u> | - |
| Outstanding, September 30, 2013..... | <u>849,750</u> | 2.64 |

Of the 755,583 outstanding options at September 30, 2014, 686,000 options were exercisable with a weighted average exercise price of \$2.72.

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The following is a summary of stock options outstanding at September 30, 2014 (number of options and exercise price retroactively reflects, to the earliest period presented, the one for six reverse split of our common stock in October 2014, as discussed in Note 2):

| <u>Expiry Date</u> | <u>Exercise Price</u> | <u>Number of Options</u> |
|------------------------|-----------------------|--------------------------|
| November 2014..... | \$ 1.20 | 62,375 |
| August 2015..... | 1.20 | 13,000 |
| April 2016..... | 2.52 | 33,333 |
| September 2017..... | 3.12 | 4,167 |
| September 2017..... | 3.90 | 45,000 |
| November 2020..... | 3.00 | 47,500 |
| August 2021..... | 2.52 | 56,250 |
| November 2021..... | 2.70 | 13,125 |
| April 2022..... | 6.90 | 70,833 |
| September 2022..... | 3.12 | 46,667 |
| September 2022..... | 3.90 | 71,667 |
| September 2023..... | 1.44 | 83,333 |
| November 2023..... | 0.93 | 125,000 |
| August 2024..... | 1.98 | 83,333 |
| Total outstanding..... | | <u>755,583</u> |

The weighted average remaining contractual life of stock options outstanding at September 30, 2014 is approximately six years. Outstanding stock options vest according to a schedule determined by the Board of Directors which ranges from immediately to three years.

20. Commitments and Contingencies

Operating Leases

The Company has commitments for the lease of office space and equipment. Minimum annual payments required under these operating lease agreements are as follows (US dollar denominated leases translated at the prevailing exchange rate at September 30, 2014):

| | |
|---|---------------------|
| Due within one year..... | \$ 1,073,613 |
| Due after one year but within five years..... | <u>882,060</u> |
| Total..... | <u>\$ 1,955,672</u> |

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Development and Supply Agreement with Danzik Applied Sciences, LLC

As a condition to closing the Purchase Agreement with DHS, which is more fully discussed in our annual report for the fiscal year ended March 31, 2014, the Company entered into the Development and Supply Agreement with DAS on April 18, 2011. Under the terms of the Development and Supply Agreement, DAS agreed to provide exclusive manufacturing and research and development services to the Company, and also provide assistance in design, engineering, construction, installation, supervision, and training with respect to the technology and related equipment. The Development and Supply Agreement, which expires on April 1, 2015 unless extended by both parties, has been cancelled via mutual agreement by DHS and the Company's Board of Directors effective August 31, 2014.

Under the Development and Supply Agreement, the manufacturing price for all water treatment equipment to be paid to DAS would be equal to DAS's actual net cost plus 15% until Matriculation (defined below) of the intellectual property and thereafter the Company can manufacture the equipment itself. The Company incurred costs under this arrangement totaling approximately \$0.9 million and \$0.7 million during the three months ended September 30, 2014 and 2013, respectively, and \$1.4 million and \$1.1 million during the six months ended September 30, 2014 and 2013, respectively. Separately, during the six months ended September 30, 2014, we incurred \$0.2 million for the purchase of equipment directly from DAS that was outside of the scope of the Development and Supply Agreement. DAS is not limited to a net cost plus 15% on any equipment or services rendered to the Company that is outside water treatment equipment.

The amount of funding to be provided by the Company to DAS for further research and development of the technology shall be up to a maximum of \$5.0 million over a three year period which has expired. The actual amount of funding was based upon the following: (i) an amount equal to 20% of the first \$10.0 million raised by the Company in certain debt or equity financings; and (ii) a further amount equal to 10% of the next \$30.0 million raised by the Company in certain debt or equity financings. The Company has met its financing obligations under the Development and Supply Agreement and has paid DAS a total of \$3.3 million relative to previous financing transactions to September 30, 2014, none of which was paid during fiscal 2014 or thru the termination of the DAS contract on August 31, 2014.

Of the \$3.3 million paid to DAS through September 30, 2014, \$2.6 million has been capitalized as development costs and approximately \$0.7 million has been accounted for as training related costs, which are recognized on a straight-line basis over the remaining term of the Development and Supply Agreement commencing from the date of payment. Amortization of the development costs is recognized from the date of payment over a term of three years, which is based on the period the Company is expected to benefit from these development costs (Note 11).

In order to facilitate the secure, confidential, staged and objective delivery of the intellectual property and trade secrets to the Company, the parties agreed to the following matriculation schedule and provisions (the "Matriculation"):

- (i) Mr. Danzik was appointed the trustee of the trade secrets for and on behalf of the Company and has entered into a trust declaration in favor of the Company.
- (ii) Mr. Danzik provided a trade secret report, which contains the specific details of the trade secrets. The trade secret report was confidentially reviewed by the intellectual property counsel for both the Company and Mr. Danzik. The trade secret report is being held in escrow by intellectual property counsel pursuant to the terms of an escrow agreement.
- (iii) Under the terms of the escrow agreement, all intellectual property, the trade secrets and the ability to directly manufacture equipment using the intellectual property will be released to the Company on the following dates:

On April 1, 2012 –the trigger assemblies related to the assets acquired (which has occurred);

On April 1, 2013 –the reactor vessels related to the assets acquired (which has occurred);

On April 1, 2014 –the reactor cores and generator assemblies related to the assets acquired (which has occurred).

The intellectual property, trade secrets and the ability to directly manufacture the equipment has been released from escrow to the Company.

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Employment Agreements

The Company has entered into various employment agreements with members of the Company's management, which provide for severance payments in certain circumstances. No amounts have been accrued in the accompanying balance sheets relative to employment agreements at September 30, 2014 and March 31, 2014.

The Company's success depends on the expertise and continued services of our executive officers, particularly Dennis M. Danzik, the Company's Chief Executive Officer. We have in the past and may in the future continue to experience changes in our executive management team resulting from the hiring or departure of executives, which may be disruptive to our business. We are also substantially dependent on the continued service of key personnel and existing development personnel because of their familiarity with the inherent complexities of our products and technology. Most of our employees do not have employment arrangements that require them to continue to work for us for any specified period and, therefore, they could terminate their employment with us at any time. We do not maintain key person life insurance policies on any of our employees. The loss of one or more of our key employees or groups could seriously harm our business.

Litigation

CWT Legal Matter

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. As of the date of this filing these proceedings are ongoing.

Lakeland Legal Matter

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, Ridgeline Energy Services (USA), Inc. The complaint alleged that certain obligations agreed to by the Company and owed to LDC by the Company subsidiary had not been paid and sought a judgment against the Company for amounts owed LDC in an approximate amount of US \$0.8 million, for which the Company had properly reflected and/or paid certain such obligations at September 30, 2014 and March 31, 2014. On November 6, 2014 LDC obtained a judgment against this Company owned subsidiary in an approximate amount of US\$0.8 million. The Company believes it has already properly reflected on its financial statements and/or paid certain amounts owing to Lakeland that are part of the judgment granted against the Company. The Company appealed this judgment as it believed the judgment was rendered due to incomplete information submitted by LDC to the court. These claims were summarily dismissed by the court. (Note 25).

GEM Holdco

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 Directors, 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 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

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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 sought damages in excess of US\$18.3 million for the defamation claim. These claims were summarily dismissed by the court.

On September 22, 2014, GEM and the Company entered into a settlement agreement and release, the terms of which are confidential in nature and the Company has properly reflected all obligations with regards to this matter in the accompanying financial statements. For the three and six months ended September 30, 2014, the Company recognized \$11.3 million of litigation settlement relative to this settlement agreement. The settlement agreement does contain a one-time top-up right with regards to a portion of the consideration to be issued to GEM Holdco that could result in the Company issuing additional consideration to GEM Holdco under certain circumstances. At this time the Company cannot accurately predict whether or not this top-up right will be triggered or accurately predict what the amount of this contingency might be and as such no amount for this top-up right has been reflected in the Company's financial statements at this time.

The Company anticipates that these all settlement payments will ultimately be recaptured as part of the larger legal matters pending with the sellers of CWT as discussed above under CWT Legal Matter.

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. The Company filed counter-claims against Wanchulak.

During August 2014, the Company and Wanchulak reached a mutual release and settlement agreement regarding Wanchulak's Statement of Claim filed against the Company and Dennis 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. The Company believes that its subsidiary, Ridgeline can prove that these odors were the result of wastes that were stockpiled in one of the tanks located at the former Lakeland property. 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.

O.C. Vacuum

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 \$0.1 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 settled this past due amount of \$0.2 million and the Company

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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

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.

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 (as amended), 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 September 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, or alternatively in cash. The Company closed this transaction with M2R in October 2014. The existing M2R Management Contract was terminated upon the closing of the acquisition of M2R.

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

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agreement. During the third quarter of fiscal 2013 and after further negotiations, portions of this agreement were put in abeyance.

Earn-Out Arrangements

The Company recognizes changes in the fair value of certain earn-out arrangements, which are classified as a liability on the Interim Unaudited Condensed Consolidated Statements of Financial Position at September 30, 2014 and March 31, 2014, as other income or expense based on both changes in the Company's underlying stock price and changes in the estimate of the number of shares to be issued. These earn-out arrangements consist of the PTEC earn-out and the DHS earn-out, both of which are more fully discussed in our annual report for the fiscal year ended March 31, 2014. The Company's best estimate of share issuances for the PTEC earn-out is 125,000 common shares of a potential 250,000 common shares as of both September 30, 2014 and March 31, 2014. The Company's best estimate of share issuances for the DHS earn-out is nil common shares of a potential 2,000,000 common shares at both September 30, 2014 and March 31, 2014. The liability for the PTEC earn-out and DHS earn-out totaled \$0.1 million and \$0.4 million at September 30, 2014 and March 31, 2014, respectively. Changes in these estimates will impact the recognized fair values of these earn-outs.

21. Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing net profit (loss) by the weighted-average number of shares outstanding during the period. Diluted earnings (loss) per share is calculated by factoring in the impact of dilutive instruments, including stock options and warrants using the treasury stock method, which assumes that the proceeds from in-the-money stock options and warrants are used to repurchase common shares at the average market price during the period. The following reflects the loss and share data used in the basic and diluted loss per share computations (weighted average number of common shares outstanding and income (loss) per share data retroactively reflects, to the earliest period presented, the one for six reverse split of our common stock in October 2014, as discussed in Note 2):

| | Three Months Ended September 30, | | Six Months Ended September 30, | |
|--|---|---------------------|---|-----------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Income (loss) from continuing operations..... | \$ (20,051,301) | \$ 732,714 | \$ (21,055,537) | \$ (3,433,584) |
| Income from discontinued operations..... | - | 416,345 | - | 922,443 |
| Net income (loss)..... | <u>\$ (20,051,301)</u> | <u>\$ 1,149,059</u> | <u>\$ (21,055,537)</u> | <u>\$ (2,511,141)</u> |
| Weighted average number of common shares outstanding..... | 29,031,024 | 28,187,303 | 28,613,618 | 27,821,707 |
| Basic and diluted income (loss) per share - continuing operations..... | \$ (0.69) | \$ 0.03 | \$ (0.74) | \$ (0.12) |
| Basic and diluted income per share - discontinued operations..... | - | 0.01 | - | 0.03 |
| Basic and diluted income (loss) per share..... | <u>\$ (0.69)</u> | <u>\$ 0.04</u> | <u>\$ (0.74)</u> | <u>\$ (0.09)</u> |

Stock options and warrants outstanding at September 30, 2014 and 2013 were not included in the calculation of diluted earnings per share as the effect would be anti-dilutive (see Notes 18 and 19).

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22. Related Party Disclosure

General

The Company's related party transactions primarily relate to transactions with Dennis M. Danzik and his affiliates, and are described more fully below and in Notes 15 and 20 and in the Company's audited consolidated financial statements and related notes for the year ended March 31, 2014.

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

Wanchulak Settlement Payment

During the three months ended September 30, 2014, the Company and Dennis M. Danzik reached a settlement with Wanchulak (Note 20) a portion of which was the Company's obligation and a portion that was the obligation of Dennis M. Danzik. The Company's Board of Directors authorized full payment of all current and future obligations to Wanchulak. Due to the Company being indebted to Dennis M. Danzik, the Company elected to make all of the payments to be offset against amounts owing to Dennis M. Danzik by the Company including unpaid promissory notes, stock issued on behalf of the Company by Dennis M. Danzik, and other unpaid remuneration owned to Dennis M. Danzik by the Company. Mr. Danzik has accepted these terms for the benefit of the Company. It is anticipated that once all obligations to Wanchulak are satisfied, neither Dennis M. Danzik nor the Company will have any outstanding financial obligation to the other party.

GEM Settlement

Mr. Danzik, on behalf of the Company, loaned a substantial portion of the initial equity during October 2014 due under the September 2014 GEM Holdco, LLC settlement discussed in Note 20. The Company anticipates repaying the shares issued on behalf of the Company to Mr. Danzik before December 15th, 2014.

23. Segment Information

As discussed in Note 2, following the disposal of REI and RGI, the Company 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 (Note 20).

No operating segments have been aggregated to form the above reportable operating segments. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. All revenues from continuing operations for the three and six months ended September 30, 2014 and 2013 were generated in the United States. Segment information is as follows as of and for the three and six months ended September 30, 2014 and 2013:

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| | Environmental and Reclamation | Energy | Water | Equipment Sales and Rental | Support Services | Management Contracts | Total Segments | Corporate | Total |
|---|-------------------------------------|-------------|-------------|----------------------------------|---------------------|-------------------------|-------------------|-------------|---------------|
| Three Months Ended September 30, 2014: | | | | | | | | | |
| Revenue..... | \$ - | \$ 326,019 | \$ - | \$ 370,776 | \$ - | \$ 5,655 | \$ 702,450 | \$ - | \$ 702,450 |
| Income (loss) from operations.. | (54,712) | (3,167,343) | (536,372) | 88,342 | (1,064,182) | 43,756 | (4,690,511) | (1,861,250) | (6,551,761) |
| Three Months Ended September 30, 2013: | | | | | | | | | |
| Revenue..... | 1,371,928 | 7,446,093 | 1,554,634 | 1,204,014 | - | 230,211 | 11,806,880 | - | 11,806,880 |
| Income (loss) from operations.. | 1,306,910 | 1,273,478 | (132,830) | 209,324 | (307,649) | (157,687) | 2,191,546 | (1,728,402) | 463,144 |
| Six Months Ended September 30, 2014: | | | | | | | | | |
| Revenue..... | \$ 12,754,583 | \$ 441,635 | \$ 50,754 | \$ 853,112 | \$ - | \$ 5,655 | \$ 14,105,739 | \$ - | \$ 14,105,739 |
| Income (loss) from operations.. | 3,646,995 | (4,103,999) | (1,458,933) | 263,583 | (2,033,587) | (70,799) | (3,756,740) | (4,104,450) | (7,861,190) |
| Six Months Ended September 30, 2013: | | | | | | | | | |
| Revenue..... | 1,371,928 | 11,713,129 | 3,372,226 | 1,339,375 | - | 977,255 | 18,773,913 | - | 18,773,913 |
| Income (loss) from operations.. | 1,306,910 | 1,059,970 | 211,680 | 76,925 | (602,795) | (381,622) | 1,671,068 | (4,554,142) | (2,883,074) |

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.

24. 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:

| Description | Fair Value Category | Recognition Method | September 30, 2014 | | March 31, 2014 | |
|---------------------------------|---------------------|--------------------|--------------------|----------------|----------------|----------------|
| | | | Fair Value | Carrying Value | Fair Value | Carrying Value |
| Financial liabilities: | | | | | | |
| CWT note payable..... | - | Amortized cost | \$ 22,400,000 | \$ 22,400,000 | \$ 22,106,000 | \$ 22,106,000 |
| Sigma loan..... | - | Amortized cost | 2,553,600 | 2,411,360 | - | - |
| GEM Holdco note payable..... | - | Amortized cost | - | - | 901,223 | 901,223 |
| GEM settlement note payable... | - | Amortized cost | 9,643,549 | 9,643,549 | - | - |
| PTEC note payable..... | - | Amortized cost | 128,291 | 128,291 | 120,852 | 120,852 |
| Danzik note payable..... | - | Amortized cost | - | - | 953,799 | 953,799 |
| PTEC earn-out..... | Level 3 | Fair value | 142,500 | 142,500 | 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 in Note 15. 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. The PTEC earn-out and DHS earn-out is described more fully in Note 20. 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 six months ended September 30, 2014 and 2013.

The Company has not entered into any financial hedges during the six months ended September 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.

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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 six months ended September 30, 2014 and 2013, the Company earned approximately \$12.8 million and \$9.2 million from one customer and three customers, respectively. At September 30, 2014 and March 31, 2014, 77% and 84% of accounts receivable are from one customer, respectively. The Company recognized bad debt expense of \$0.1 million for the six months ended September 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 September 30, 2014 and March 31, 2014, is summarized as follows:

| | September 30, 2014 | March 31, 2014 |
|---------------------------|-------------------------------|---------------------------|
| Current..... | \$ 731,611 | \$ 619,376 |
| 31 to 90 days..... | 707,013 | 1,110,260 |
| Greater than 90 days..... | <u>3,115,978</u> | <u>2,564,574</u> |
| Accounts payable..... | <u>\$ 4,554,602</u> | <u>\$ 4,294,210</u> |

The Company has approximately 68% of its accounts payable greater than 90 days past due at September 30, 2014. These past due payables include US\$1.6 million at our CWT facility including approximately US\$0.5 million of accounts payable that were assumed as part of the CWT acquisition, US\$0.3 million at our Santa Fe Springs facility of which 67% is due to four vendors, US\$0.4 million at the corporate level of which 82% is due to six vendors, US\$0.2 million related to PTEC operations of which 92% is due to three vendors and US\$0.2 million related to our 82nd street manufacturing facility of which 49% is due to four vendors. The Company has historically been successful at negotiating 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 and long-term financings with Sigma (Note 15 and Note 25), and the sale of excess land at Santa Fe Springs (Note 6). 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

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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, or cease 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\$0.1 million at September 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 described more fully in Note 15. 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 September 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.

25. Subsequent Events

PTEC Promissory Note

On November 1, 2014, the Company entered into a promissory note with Christopher Windsor, one of the prior owners of PTEC who is also a former member of management of the Company. The Company remains dissatisfied with revenue volume and margins in this business segment, as well as how the business segment was managed. This promissory note includes the remainder of a previously issued promissory note to PTEC in an aggregate amount of US\$0.2 million of which US\$0.1 million remains unpaid and was cancelled and wrapped into this new promissory note (see Note 15).

The promissory note is in the aggregate amount of US\$0.3 million, bears interest at an annual rate of 3%, and is due January 5, 2015. If the Company, at its sole option does not pay the promissory note when due, the lender on this note, must forgive this note and immediately buys-back the rights to market, build, and sell DAF equipment (the PTEC business originally acquired by the Company in October 2012), in lieu of payment and would immediately have the ability to reenter this business segment. The Company would retain the same rights to market, build, and sell DAF equipment. In addition the Company retains all rights to its work product and intellectual property developed to date. In addition, all employment agreements, earn-out rights, and any other financial rights that may be due or may become due as a result of the original PTEC acquisition, would be terminated as a condition of the promissory note and any financial obligations still owed to the original sellers of PTEC (if any), would be assumed by the note holder.

Long-Term Financing with Sigma

On October 7, 2014 the Company borrowed US\$2.3 million from Sigma Opportunity Fund II, LLC ("Sigma") after a previous US\$3.3 million facility from Sigma paid in full. The interest rate is 10.0% per annum, paid quarterly in cash, with a maturity date that is the earlier of January 7, 2016 or the consummation of the sale of the Company, business unit/subsidiary/asset including the land sale of approximately 2 acres at its Santa Fe Springs facility or any water rights at the Santa Fe Springs facility although Sigma can elect to place proceeds in an escrow account and keep the loan outstanding until maturity. 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, an advisory fee of US\$0.2 million, issued 208,334 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 granted Sigma a personal guarantee on this loan.

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Lakeland Legal Matter

On November 6, 2014, Lakeland was granted a judgment against one of the Company's subsidiaries in the amount of US\$0.8 million (See Note 20). The Company believes it has already properly reflected on its financial statements and/or paid certain amounts owing to Lakeland that are part of the judgment granted against the Company. The Company has appealed this judgment as it believes the judgment was rendered due to incomplete information submitted by LDC to the court, and is in discussions with legal counsel regarding this matter. The Company has filed a motion to vacate the judgment and plans to file a claim against LDC in its bankruptcy proceedings.

GEM Holdco Settlement

In October 2014, the Company issued to GEM Holdco, LLC a total of 3,027,778 common shares as part of the larger settlement agreement dated September 22, 2014. In addition to the 3,027,778 common shares issued above, Dennis M. Danzik also advanced common shares to GEM Holdco, LLC on behalf of the Company as further discussed in Note 22.

Payment of Deferred Purchase Price – REP-LA1, LLC

On October 28, 2014, the Company issued to REP-LA1, LLC and its affiliates, a total of 580,615 common shares which represented the deferred purchase price payable inclusive of interest owing.

Acquisition of M2 Renewables, LLC

In October 2014, the Company acquired certain assets of M2 Renewables, LLC and the management agreement was terminated as part of the larger acquisition (Note 20).