ME RESOURCE CORP.

Financial Statements

December 31, 2013

(Expressed in Canadian dollars)

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS & BUSINESS ADVISORS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ME Resource Corp.

We have audited the accompanying financial statements of ME Resource Corp., which comprise the statements of financial position as at December 31, 2013 and 2012, and the statements of comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence that we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of ME Resource Corp. as at December 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without modifying our opinion, we draw attention to Note 1 to the financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about ME Resource Corp.'s ability to continue as a going concern.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS

Vancouver, Canada
April 30, 2014

ME Resource Corp.
Statements of Financial Position
(Expressed in Canadian Dollars)

	Note	December 31, 2013	December 31, 2012
		$	$
ASSETS			
Current assets			
Cash		160	21,759
Prepaid expenses		1,791	-
GST receivable		3,143	1,236
		5,094	22,995
Non-current assets			
Note receivable		1	1
Total assets		5,095	22,996
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	8	39,230	17,756
Due to related parties	6	59,504	1,064
Note payable	7	25,282	65,600
		124,016	84,420
SHAREHOLDERS' DEFICIENCY			
Share capital	5	958,330	851,556
Subscriptions received	5	100,000	-
Reserves	5	511,872	466,111
Deficit		(1,689,123)	(1,379,091)
		(118,921)	(61,424)
Total shareholders' deficiency and liabilities		5,095	22,996

Nature of operations (Note 1)
Commitments (Note 4)
Subsequent events (Note 12)

Authorized for issuance by the Board of Directors on April 30, 2014

/s/ Navchand Jagpal
Director

/s/Gurdeep Johal
Director

See accompanying notes to financial statements

ME Resource Corp.
Statements of Comprehensive Loss
(Expressed in Canadian Dollars)

		Year ended December 31,	
	Note	**2013**	**2012**
Operating expenses		$	$
Advertisemnt		8,500	3,299
Consulting	6	127,221	37,362
Filing fees		14,342	13,068
Office and administration	6	30,464	3,067
Professional fees		29,968	15,550
Research	4, 6	80,602	-
Travel and entertainment		18,935	5,985
		(310,032)	(78,331)
Other items			
Loan interest and accretion	7	-	(8,129)
Loss and comprehensive loss		(310,032)	(86,460)
Loss per share – basic and diluted		(0.01)	(0.00)
Weighted average number of outstanding common shares – basic and diluted		38,323,576	25,168,304

See accompanying notes to financial statements

ME Resource Corp.

Statements of Changes in Shareholders' Deficiency

Year Ended December 31, 2013 and 2012

(Expressed in Canadian Dollars)

		Share capital			Reserves				
	Note	**Number of shares**	**Amount**	**Subscriptions received**	**Stock-option reserve**	**Loan**	**Warrant**	**Deficit**	**Total**
			$	**$**	**$**	**$**	**$**	**$**	**$**
Balance, December 31, 2011		23,583,372	649,639	-	418,545	5,121	39,862	(1,259,631)	(146,464)
Warrants extension	5	-	-	-	-	-	33,000	(33,000)	-
Share issuance - warrant exercise	5	2,450,000	201,917	-	-	-	(30,417)	-	171,500
Comprehensive loss		-	-	-	-	-	-	(86,460)	(86,460)
Balance, December 31, 2012		26,033,372	851,556	-	418,545	5,121	42,445	(1,379,091)	(61,424)
Units for cash	5	762,675	106,774	-	-	-	45,761	-	152,535
Shares issued for Assignment Agreement	4,5	25,000,000	-	-	-	-	-	-	-
Subscription received	5	-	-	100,000	-	-	-	-	100,000
Comprehensive loss		-	-	-	-	-	-	(310,032)	(310,032)
Balance, December 31, 2013		51,796,047	958,330	100,000	- 418,545	5,121	88,206	(1,689,123)	(118,921)

See accompanying notes to financial statements

ME Resource Corp.
Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year ended December 31, 2013	2012
	$	$
Cash flows from operating activities		
Net loss	(310,032)	(86,460)
Items not involve cash		
Loan interest and accretion	-	8,129
Changes in non-cash working capital items:		
GST receivable	(1,907)	17,628
Prepaid expenses	(1,791)	-
Accounts payable and accrued liabilities	21,474	(11,917)
Due to related parties	58,440	(82,997)
Cash used in operating activities	(233,816)	(155,617)
Cash flows from financing activities		
Units issued for cash	152,535	171,500
Subscriptions received	100,000	-
Note payable	(40,318)	-
Cash provided by financing activities	212,217	171,500
Net cash inflow (outflow)	(21,599)	15,883
Cash, beginning	21,759	5,876
Cash, ending	160	21,759

See accompanying notes to financial statements

1. NATURE AND CONTINUANCE OF OPERATIONS

ME Resource Corp., (the "Company") was incorporated under the Business Corporation Act (British Columbia) as QMI Seismic Inc. on October 16, 2009. The name change occurred in August 2011. The Company's shares are traded on the Canadian National Stock Exchange under the symbol MEC. The Company's head and registered office address is 1250 West Hastings Street, Vancouver, B.C.

The Company intends to economically transform wasted or stranded natural gas to engineered fuels or clean power.

These financial statements have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. The Company's continuation as a going concern is dependent whether the Company can develop an economically viable business, and generate funds there from and/or raise equity capital to meet current and future obligations. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Management is considering various options, including but not limited to obtaining equity financing, to finance operating costs over the next twelve months.

2. STATEMENT OF COMPLIANCE

The financial statements of the Company, including comparatives, have been prepared in accordance with IFRS issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The financial statements were authorized for issue on April 30, 2014 by the directors of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of measurement

The financial statements have been prepared on an accrual basis and are based on historical costs, except for financial instruments which are measured at fair value. The financial statements are presented in Canadian dollars, the functional currency of the Company.

Loss per share

The Company presents the basic and diluted loss per share data for its common shares by dividing the loss by the weighted average number of common shares outstanding during the year. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

Share-based payments

The fair value of share options granted to employees is measured at the grant date and recognized over the vesting period with a corresponding increase in equity. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instrument issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The fair value of the options granted is measured using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant estimates and assumptions

The preparation of financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the fair value measurements for financial instruments, the useful life of intangible assets, the recoverability of the carrying value of intangible assets, the recoverability and measurement of deferred tax assets and contingent liabilities.

Significant judgments

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgment in applying the Company's financial statements is the assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty.

Income taxes

<u>Current income tax:</u>

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

<u>Deferred income tax:</u>

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets to the extent they are expected to be realized within 12 months after the end of the reporting period. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary financial assets.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the group commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen.

The Company does not have any derivative financial assets and liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets

The carrying amount of the Company's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

Research and development

Research and development costs are expensed as incurred unless development costs meet the criteria for capitalization:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The Company amortizes costs, commencing with commercial production, over the expected future benefit period based upon quantities delivered compared to expected levels contracted to be delivered.

Warrants

Proceeds from issuances of security units by the Company consisting of shares and warrants are allocated based on the residual method. The fair value of the warrants is determined to be the difference between gross proceeds over the estimated fair market value of the shares. If the proceeds from the offering are less than or equal to the estimated fair market value of shares issued, a fair value of $Nil is assigned to the warrants.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting standards issued but not yet applied

At the date of authorization of these financial statements, IFRS 9 "Financial Instruments" has not been early adopted and is not expected to have a material effect on the Company's future results and financial position. The effective date of IFRS 9 has not yet been determined.

4. COMMITMENTS

On April 21, 2013, the Company entered into an assignment agreement (the "Assignment Agreement") with a company owned by a director of the Company (the "Related Party"). The Related Party has a license agreement (the "License Agreement") with ZTEK Corporation ("ZTEK"), whereby ZTEK will grant the Related Party a license to use certain of ZTEK's intellectual property to make, use and sell licensed products in certain territories for certain fees to be paid when stipulated milestones are met. Under the Assignment Agreement, the Related Party agreed to assign the License Agreement to the Company or any other alternative development that the Related Party may produce or source that is acceptable to the Company for 25,000,000 shares of the Company.

On October 5, 2013, the Related Party arranged for a research contract (the "Research Contract") between the Company and La Corporation de L'Ecole Polytechnique de Montreal ("Polytechnique") to determine the most economic, emission and energy efficient process to convert a natural gas feedstock to syngas (the "Process") with the purpose of creating micro refinery unit (the MRU100 Unit"). On November 18, 2013, the Related Party assigned a consulting agreement (the "Consulting Agreement") between the Related Party and Dr. Gregory S. Patience, a director of the Company (the "Consultant"). The Consultant is to provide consulting services in connection with the research and development of the MRU100 Unit.

The Company and Ztek Clean mutually agreed that the Research Contract together with the Consulting Agreement will serve as the alternative development under the Assignment Agreement and the Company decided not to pursue the License Agreement.

For consideration of the Assignment Agreement, the Company issued the 25,000,000 common shares to the Related Party (Note 5). The 25,000,000 common shares have been escrowed and will be released to the Related Party upon the completion of various milestones. As at December 31, 2013, none of the escrowed shares have been released.

Per IFRS 2, "Share based payment", no amount is recognised for goods or services received if the equity instruments granted do not vest because of failure to satisfy a vesting condition. As none of the milestones had been met as at December 31, 2013, no value has been recognized for the shares issued.

Under the Research Contract, the Company will pay Polytechnique an aggregate sum of $260,000 in installments as follows:

- $65,000 within 15 days of signing the agreement (paid and included in research expense);
- $65,000 upon being invoiced on March 1, 2014 (paid subsequent to December 31, 2013);
- $65,000 upon being invoiced on June 1, 2014; and
- $65,000 upon acceptance of the full report.

Under the Consulting Agreement, the Company will reimburse all expenses in connection with the work performed and issue in aggregate 4,000,000 common shares of the Company in installments upon the completion of several technical milestones. 1,300,000 common shares were issued on February 17, 2014 to the Consultant upon the completion of the first two milestones (Note 12).

(Expressed in Canadian Dollars)

5. SHARE CAPITAL

Authorized share capital: An unlimited number of common shares without par value.
An unlimited number of preferred shares without par value.

On June 4, 2013, the Company completed a private placement of 762,675 units at $0.20 per unit for gross proceeds of $152,535. Each unit consists of one common share and one share purchase warrant. Each purchase warrant entitles the holder to purchase one common share of the Company at $0.50 per share for 2 years. The expiry of these warrants may be accelerated to a 30 day term if the 10-day average market closing price of the listed common shares of the Company is equal to or greater than $0.55. The fair value of the warrants was estimated to be $45,761.

On July 11, 2013, the Company issued 25,000,000 common shares for the Assignment Agreement. No value has been recognized for these shares (Note 4).

As at December 31, 2013, the Company has received $100,000 in subscriptions for a future financing.

Stock options

The Company has a stock option plan which provides that the Board of Directors of the Company may grant to directors, officers, employees, and consultants to the Company, non-transferable options to purchase common shares. The number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares of the Company. Options granted under the stock option plan can have a maximum exercise term of 5 years from the date of grant.

There were no stock options granted or exercised during the year ended December 31, 2013. As at December 31, 2013 and 2012, there were no stock options outstanding.

Warrants

During the year ended December 31, 2012, 2,450,000 warrants of the Company were exercised for common shares at $0.07 per share for gross proceeds of $171,500.

During the year ended December 31, 2012, the Company extended the term of 1,000,000 warrants exercisable at $0.07 per share by two additional years from July 9, 2012 to July 9, 2014. This resulted in incremental increases in the fair value of the warrants of $33,000 which has been charged to deficit during the year ended December 31, 2012. The fair value of the warrants was estimated using the Black-Scholes option pricing model using the following assumptions: expected life of 2 years, volatility of 150% and a risk free interest rate of 0.96%.

A continuity of the Company’s warrants is as follows:

	Number of warrants outstanding	Weighted average exercise price
December 31, 2011	3,000,000	$0.07
	(2,450,000)	$0.07
December 31, 2012	550,000	$0.07
Granted	762,675	$0.50
December 31, 2013	**1,312,675**	**$0.31**

As at December 31, 2013, the 1,312,675 warrants outstanding had a weight average remaining life of 1.03 years.

(Expressed in Canadian Dollars)

5. SHARE CAPITAL (continued)

Stock option reserve

The share-based payment reserve records items recognized as stock-based compensation expense and other share-based payments until such time that the stock options or warrants are exercised, at which time the corresponding amount will be transferred to share capital.

Warrant reserve

The warrant reserve records the fair value of warrants issued until such time that they are exercised, at which time the corresponding amount will be transferred to share capital.

Loan Reserve

Recorded in the loan reserve is the discount on the loan issued with interest below market rates.

6. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2013, the Company incurred consulting fees of $Nil (2012 - $20,000) to a company controlled by the Company's chief executive officer ("CEO"), consulting fees of $72,000 (2012 - $16,962) to a director of the Company, research and development fees of $15,064 to a director of the Company (2012 - $Nil), rent expense of $15,000 (2012 - $Nil) to a company controlled by the spouse of the Company's CEO.

As at December 31, 2013, the Company owed $Nil (2012 - $1,064) to a company controlled by the Company's CEO, $46,292 (2012 - $Nil) to directors, $13,212 (2012 - $Nil) to a company controlled by the spouse of the Company's CEO and $25,282 (2012 - $65,600) to the spouse of the Company's CEO (Note 7).

Amounts due to related parties are unsecured, non-interest bearing and payable on demand.

7. NOTE PAYABLE

On August 28, 2011, the Company entered into a loan agreement to borrow $60,000. The amount was unsecured, bore interest at 7% per annum and convertible to common shares of the Company at $0.50 per share through mutual consent by both the Company and the lender.

As the loan bore interest at below market rates, the fair value of the loan was determined to be $54,879 at August 28, 2011 using an effective interest rate of 15%. As at December 31, 2012, the loan had accreted up to its face value of $65,600 and an interest charge of $8,129 was recognized.

During the year ended December 31, 2012, the debt was assigned to the spouse of the Company's CEO and the terms of the loan were amended. The note is currently unsecured, due on demand, and bears no interest. As at December 31, 2013, $25,282 was owing (Note 6).

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2013	December 31, 2012
	$	$
Trade payables	29,230	3,756
Accrued liabilities	10,000	14,000
	39,230	17,756

9. CAPITAL DISCLOSURE

The Company manages its capital, consisting of share and working capital, in a manner consistent with the risk characteristic of the assets it holds. The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business.

There were no changes in the Company's approach to capital management during the year.

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

10. FINANCIAL INSTRUMENTS AND RISK MANAGMENT

Financial Risk Management

The Company is exposed in varying degrees to a variety of financial instrument related risks.

Credit Risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company’s primary exposure to credit risk is on its cash held in bank accounts. The majority of cash is deposited in bank accounts held with major banks in Canada. As most of the Company’s cash is held by one bank there is a concentration of credit risk. This risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies.

Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company’s normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash. Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company’s access to financing is always uncertain. There can be no assurance of continued access to significant equity funding. The Company’s liquidity risk as assessed as high.

Currency Risk
Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company does not incur significant expenditures that are denominated in foreign currencies, and does not have any mineral property commitments that are denominated in foreign currencies. Therefore, the Company’s exposure to currency risk is minimal.

Interest Rate Risk
Interest rate risk refers to the risk that fair values of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company does not have material financial assets or liabilities that are exposed to fluctuation of interest rate. As a result, the exposure to interest rate risk is not significant.

(Expressed in Canadian Dollars)

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Classification of financial instruments

Financial assets included in the statement of financial position are as follows:

	December 31, 2013	December 31, 2012
	$	$
Loans and receivables:		
Cash	160	21,759
Note receivable	1	1
	161	21,760

Financial liabilities included in the statement of financial position are as follows:

	December 31, 2013	December 31, 2012
	$	$
Non-derivative financial liabilities:		
Trade payables	29,230	3,756
Due to related party	59,504	1,064
Note payable	25,282	65,600
	114,016	70,420

Fair value

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The fair value of the Company’s financial assets and liabilities approximates the carrying amount.

11. INCOME TAXES

The income tax provisions differ from the expected amounts calculated by applying Canadian combined federal and provincial corporate income tax rates to the Company’s loss before income taxes. The components of these differences are as follows:

	2013	2012
	$	$
Net and comprehensive loss	(310,032)	(86,460)
Statutory tax rate	25%	25%
Income tax recovery at statutory rates	(77,508)	(21,615)
Non-deductible items	3,455	749
Change in valuation allowance	74,053	20,866
Deferred income tax recovery	**-**	**-**

(Expressed in Canadian Dollars)

11. INCOME TAXES (Continued)

The Company's tax-effected deferred income tax assets and liabilities are estimated as follows:

	2013	2012
	$	$
Deferred income tax assets:		
Non-capital losses carry forward	296,344	222,291
Mineral properties	2,500	2,500
Total future income tax assets	298,844	224,791
Less: Valuation allowance	(298,844)	(224,791)
Net deferred income tax assets	-	-

The expiration of the Company's non-capital losses is as follows:

Year	Amount
	$
2029	4,000
2030	140,316
2031	661,382
2032	83,468
2033	296,211
Total	1,185,377

12. SUBSEQUENT EVENTS

On January 22, 2014, the Company entered into a license and distribution agreement (the "Distribution Agreement") with Well Power Inc.("WPI"). Under the Distribution Agreement, WPI obtained the exclusive right to distribute and deploy the MRU100 units in Texas. WPI will pay a non-refundable licensing fee as follows to the Company:

- US$100,000 within 30 days after WPI files its Super 8-K with the SEC (received); and
- US$300,000 within 90 days after the filing of the Super 8-K with the SEC.

On February 17, 2014, 1,300,000 common shares were issued to the Consultant upon the completion of the first two milestones under the Consulting Agreement (Note 4).