# Dundee Sustainable Technologies Inc.

(formerly known as Nichromet Extraction Inc.)

## Consolidated Financial Statements

December 31, 2013 and 2012

(Expressed in Canadian dollars)

**Dundee Sustainable Technologies Inc.**
600 De Maisonneuve Boulevard West, Suite 2750, Montréal, QC, H3A 3J2
Tel.: 514.940 1046 Fax: 514.866.6193

April 25, 2014

## Independent Auditor's Report

**To the Shareholders of Dundee Sustainable Technologies Inc.**

We have audited the accompanying consolidated financial statements of Dundee Sustainable Technologies Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended December 31, 2013 and 2012 and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the consolidated financial statements**

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

**Auditor's responsibility**

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

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

*PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.*
*1250 René-Lévesque Boulevard West, Suite 2800, Montréal, Quebec, Canada H3B 2G4*
*T: +1 514 205 5000, F: +1 514 876 1502, www.pwc.com/ca*

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

**Opinion**
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Dundee Sustainable Technologies Inc. and its subsidiaries as at December 31, 2013 and 2012 and its financial performance and its cash flows for the years ended December 31, 2013 and 2012 in accordance with International Financial Reporting Standards.

**Emphasis of matter**
Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast substantial doubt about Dundee Sustainable Technologies Inc.'s ability to continue as a going concern.

PricewaterhouseCoopers LLP[1]

[1] CPA auditor, CA, public accountancy permit No. A122718

# Dundee Sustainable Technologies Inc.

Consolidated Statements of Financial Position
As at December 31, 2013 and 2012
(Expressed in Canadian dollars)

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | $ | $ |
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | 1,274,869 | 1,376,903 |
| Research and development tax credits receivable | | 246,069 | 200,655 |
| Sales taxes and other receivables | | 634,913 | 80,238 |
| Promissory notes receivable | 4 | 700,000 | - |
| Prepaid expenses | | 49,200 | 13,407 |
| | | 2,905,051 | 1,671,203 |
| **Non-current assets** | | | |
| Investments | 5 | 2,770,654 | - |
| Property, plant and equipment | | 54,916 | 2,809 |
| Intangible assets | 6 | 4,616,937 | 4,613,813 |
| Other assets | | 157,881 | - |
| | | 7,600,388 | 4,616,622 |
| **Total assets** | | **10,505,439** | **6,287,825** |
| **Liabilities and Equity** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | | 534,924 | 189,424 |
| **Total liabilities** | | 534,924 | 189,424 |
| **Equity** | | | |
| Share capital | 8 | 29,889,629 | 23,573,018 |
| Contributed surplus | | 7,054,955 | 5,513,049 |
| Deficit | | (26,974,069) | (22,987,666) |
| **Total equity** | | 9,970,515 | 6,098,401 |
| **Total liabilities and equity** | | **10,505,439** | **6,287,825** |
| **Going concern** | 1 | | |
| **Commitments** | 12 | | |
| **Subsequent events** | 15 | | |

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

# Dundee Sustainable Technologies Inc.

Consolidated Statements of Comprehensive Loss

For the years ended December 31, 2013 and 2012

(Expressed in Canadian dollars, except number of shares)

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | $ | $ |
| **Expenses** | | | |
| Wages and compensation | | 287,181 | 226,206 |
| Professional and consulting fees | | 953,722 | 663,439 |
| Administrative | | 270,456 | 311,129 |
| Research and development, net of tax credit of $246,069 (2012 - $271,747) and STDC contribution $656,543 (2012 – nil) | 7 | 3,888,298 | 2,122,297 |
| Share-based payments | 9 | 759,047 | 460,702 |
| Depreciation of property, plant and equipment | | 3,466 | 10,320 |
| Amortization of intangible assets | | 8,186 | 998 |
| Total expenses | | 6,170,356 | 3,795,091 |
| **Operating loss** | | (6,170,356) | (3,795,091) |
| Gain on investments | 5 | 2,126,184 | - |
| Interest income | | 44,521 | 6,208 |
| Gain (loss) on foreign currency exchange | | 13,248 | (13,548) |
| **Net loss and comprehensive loss** | | **(3,986,403)** | **(3,802,431)** |
| **Basic and diluted net loss per share** | | (0.02) | (0.03) |
| **Weighted average number of common shares outstanding – basic and diluted** | | 181,965,075 | 138,530,036 |
| **Going concern** | 1 | | |

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

# Dundee Sustainable Technologies Inc.

Consolidated Statements of Changes in Equity

For the years ended December 31, 2013 and 2012

(Expressed in Canadian dollars, except number of shares)

| | Note | Number of common shares | Share capital | Contributed surplus | Deficit | Total equity |
|---|---|---|---|---|---|---|
| | | | $ | $ | $ | $ |
| **Balance – December 31, 2011** | | **133,149,214** | **20,232,284** | **5,500,081** | **(19,185,235)** | **6,547,130** |
| Net loss and comprehensive loss for the year | | - | - | - | (3,802,431) | (3,802,431) |
| Exercise of warrants | 8 | 14,465,000 | 3,340,734 | (447,734) | - | 2,893,000 |
| Share-based compensation | 9 | - | - | 460,702 | - | 460,702 |
| **Balance – December 31, 2012** | | **147,614,214** | **23,573,018** | **5,513,049** | **(22,987,666)** | **6,098,401** |
| Net loss and comprehensive loss for the year | | - | - | - | (3,986,403) | (3,986,403) |
| Proceeds from private placement of units | 8 | 50,000,000 | 5,000,000 | - | - | 5,000,000 |
| Fair value of warrants | 8 | - | (1,036,125) | 1,036,125 | - | - |
| Acquisition of investments | 5 | 9,889,510 | 644,470 | - | - | 644,470 |
| Exercise of warrants | 8 | 7,125,000 | 1,657,570 | (232,570) | - | 1,425,000 |
| Exercise of options | 9 | 300,000 | 50,696 | (20,696) | - | 30,000 |
| Share-based compensation | 9 | - | - | 759,047 | - | 759,047 |
| **Balance – December 31, 2013** | | **214,928,724** | **29,889,629** | **7,054,955** | **(26,974,069)** | **9,970,515** |

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

**Dundee Sustainable Technologies Inc.**
Consolidated Statements of Cash Flows
For the years ended December 31, 2013 and 2012
(Expressed in Canadian dollars)

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | $ | $ |
| **Operating activities** | | | |
| Net loss for the year | | (3,986,403) | (3,802,431) |
| Adjusted for: | | | |
| Share-based payments | 9 | 759,047 | 460,702 |
| Gain on investments | 5 | (2,126,184) | - |
| Depreciation of property, plant and equipment | | 3,466 | 10,320 |
| Amortization of intangible assets | 6 | 8,186 | 998 |
| | | (5,341,888) | (3,330,411) |
| Changes in non-cash operating working capital items: | | | |
| Research and development tax credits receivable | | (45,414) | 404,747 |
| Sales taxes and other receivables | | (554,675) | 196,152 |
| Prepaid expenses | | (35,793) | 76,998 |
| Accounts payable and accrued liabilities | | 251,688 | 81,277 |
| | | (384,194) | 759,174 |
| **Net cash used in operating activities** | | **(5,726,082)** | **(2,571,237)** |
| **Investing activities** | | | |
| Promissory notes disbursement | 4 | (700,000) | - |
| Acquisition of intangible assets | | (9,810) | - |
| Acquisition of property, plant and equipment | | (55,573) | - |
| Addition to other assets | | (65,569) | - |
| **Net cash used in investing activities** | | **(830,952)** | **-** |
| **Financing activities** | | | |
| Private placement of units and shares | 8 | 5,000,000 | - |
| Exercise of warrants | 8 | 1,425,000 | 2,893,000 |
| Exercise of options | | 30,000 | - |
| **Net cash provided by financing activities** | | **6,455,000** | **2,893,000** |
| Net change in cash and cash equivalents | | (102,034) | 321,763 |
| Cash and cash equivalents – beginning | | 1,376,903 | 1,055,140 |
| **Cash and cash equivalents – end** | | **1,274,869** | **1,376,903** |
| Components of cash and cash equivalents are as follows: | | | |
| Cash | | 274,869 | 376,903 |
| Cash equivalents | | 1,000,000 | 1,000,000 |
| **Supplemental information** | | | |
| Addition to other assets included in accounts payable and accrued liabilities | | 92,312 | - |
| Acquisition of intangible assets included in accounts payable and accrued liabilities | | 1,500 | - |
| **Going concern** | 1 | | |

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

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Dundee Sustainable Technologies Inc. ("DST" or the "Corporation") was incorporated under the Canada Business Corporations Act on July 22, 1997. Its articles of incorporation were amended on January 8, 2014, to change the name of the Corporation to "Dundee Sustainable Technologies Inc" in the English language and "Dundee Technologies Durables Inc." in the French language. The Corporation's head office is located at 600 De Maisonneuve Boulevard West, Suite 2750, Montreal, Quebec, Canada, H3A 3J2.

The Corporation has developed metallurgical processes based on a chloride leach technology. It is a method of treating and extracting gold and/or silver and other base metals by creating a chloride with either chlorine or hydrochloric acid. The approach is very broad and can involve either oxide or sulfide ores and allows the recovery of nickel/cobalt from oxide type ores such as serpentine, laterites and other siliceous metal bearing ores. It also allows the extraction of precious metals from refractory ores with content of sulfides and arsenic.

These technologies are subject to all risks inherent to their development and may require significant additional development, testing and investments prior to any final commercialization. There can be no assurance that such technologies will be successfully developed, or that output from any use of the Corporation's technologies could be produced at a commercial level at reasonable costs or be successfully marketed. To date, the Corporation has not earned significant revenues and is considered to be in the development stage. At December 31, 2013, Dundee Corporation ("Dundee") was the principal and majority shareholder of the Corporation.

For the year ended December 31, 2013, the Corporation incurred a loss of $3,986,403 ($3,802,431 for the year ended December 31, 2012). Deficit as at December 31, 2013 amounted to $26,974,069 ($22,987,666 as at December 31, 2012) and cash flow used in operating activities for the year ended December 31, 2013, amounted to $5,726,082 ($2,571,237 for the year ended December 31, 2012).

Management estimates that the Corporation will not have sufficient funds to meet its obligations and budgeted expenditures through to December 31, 2014. The Corporation will therefore periodically have to raise additional funds to continue operations. The Corporation is pursuing financing alternatives to fund its operations and to continue its activities as a going concern. Although there is no assurance that the Corporation will be successful in these actions, management is confident that it will be able to secure the necessary financing through the issuance of new equity. While it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

Although these consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, the above-noted facts and circumstances cast significant doubt on the Corporation's ability to continue as a going concern.

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, to the reported expenses and to the financial position classifications that would be necessary if the going concern assumption was inappropriate. These adjustments could be material.

On April 25, 2014, these consolidated financial statements were authorized for publication by the Board of Directors.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

### 2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The accounting policies set out below have been applied consistently to both years in these financial statements. Certain prior year amounts in our Consolidated Statement of Comprehensive Loss and Notes to Consolidated Financial Statements have been reclassified to conform to the 2013 presentation. The reclassification had no effect on the net loss and comprehensive loss.

### 2.2 Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except for financial instruments measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

### 2.3 Principles of consolidation

These consolidated financial statements include the accounts of the Corporation, and its foreign subsidiaries: Nichromet Guatemala, S.A. ("Nichromet Guatemala") (99.99%); Rio Nickel S.A. ("Rio Nickel") (99.99%); and Nichromet Dominicana, S.A. ("Nichromet Dominicana") (99.99%). Nichromet Guatemala and Rio Nickel are both incorporated in Guatemala and Nichromet Dominicana is incorporated in the Dominican Republic. All intercompany transactions have been eliminated in these consolidated financial statements.

### 2.4 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances and highly liquid short-term investments with original maturities of three months or less or cashable at any time without penalties.

### 2.5 Financial instruments

Financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires.

Financial assets and liabilities are initially measured and recognized at their fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets and liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial asset and liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or liabilities at FVTPL are recognized immediately in net income or loss.

Classification of financial instruments in the Corporation's consolidated financial statements depends on the purpose for which the financial instruments were acquired or incurred. Management determines the classification of financial instruments at initial recognition.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### a) Financial assets

Financial assets are subsequently measured at amortised cost when the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and when the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets are subsequently measured at fair value unless they are not measured at amortised cost. Financial instruments subsequently measured at fair value can be carried at fair value with changes in fair value recorded in profit or loss, or in other comprehensive income if they are not held for trading and are designated as such on initial recognition ("FVOCI").

### b) Financial liabilities

Financial liabilities are subsequently measured at amortized cost using the effective interest method, except for:

- Financial liabilities at FVTPL. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognizing or when the continuing involvement approach applies.

The Corporation's financial instruments are classified as follows:

| | **Category** |
|---|---|
| **Financial assets** | |
| *Amortized cost and effective interest method* | |
| Cash and cash equivalents | Loans and receivables |
| Other receivables | Loans and receivables |
| Promissory notes receivable | Loans and receivables |
| *Financial assets at fair value through profit or loss* | |
| Investments | FVTPL |
| **Financial liabilities** | |
| *Amortized cost and effective interest method* | |
| Accounts payable and accrued liabilities | Financial liabilities at amortized cost |

## 2.6 Research and development tax credits and government assistances

### a) Research and development tax credits

The Corporation is entitled to scientific research and experimental development ("SR&ED") tax credits granted by the Canadian federal government and the Government of Quebec. SR&ED tax credits are accounted for using the cost reduction method. Accordingly, tax credits are recorded as a reduction of the related expenses or capital expenditures in the period the expenses are incurred. The non-refundable portion of such credits is recorded in the period in which the related expenditures are incurred to the extent that realization of such credits is considered to be reasonably assured.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### b) Government assistance

The Corporation periodically receives financial assistance under government incentive programs. Government assistance is recognized initially as deferred revenue at fair value when there is reasonable assurance that it will be received and the Corporation will comply with the conditions associated with the assistance. Assistance that compensate the Corporation for expenses incurred are recognized as an adjustment to research and development expense on a systematic basis in the same periods in which the expenses are incurred. Assistance that compensates the Corporation for the cost of an asset are recognized in reduction of the associated capital expenditures. Forgivable loans from the government are treated as government assistance when there is reasonable assurance that the Corporation will meet the terms for forgiveness of the loan.

### 2.7 Other assets

Other assets include the transaction costs incurred in connection with the amalgamation transaction with Creso Exploration Inc. ("Creso"). Those transactions costs will be considered as part of the price paid upon the completion of the transaction.

### 2.8 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment consists of the purchase price which may include construction or development of an item of property, plant and equipment, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, an initial estimate of the costs of dismantling the item and restoring the site on which it is located. Repairs and maintenance costs are charged to the consolidated statement of comprehensive loss in the period in which they are incurred.

The major categories of property, plant and equipment are depreciated as follows:

| | **Method** | **Period** |
|---|---|---|
| Computer equipment | Straight-line | 3 years |
| Office furniture | Straight-line | 3 years |
| Vehicles and equipment | Straight-line | 5 years |

The Corporation allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included in the consolidated statement of comprehensive loss.

### 2.9 Intangible assets

Intangible assets consist mainly of intellectual property, patent application fees, software and development costs.

Intellectual property represents the acquisition cost of the technology. Using the straight-line method, amortization of intellectual property will be calculated over its estimated useful life upon commercialization of the chlorine leach technology ("CLT").

Patent application fees relate to direct costs incurred in securing the patent. Using the straight-line method, amortization of patent application fees will be calculated over the estimated useful lives of the patents upon commercialization of the CLT.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Software represents fees paid for the implementation of the accounting software. Using the straight-line method, amortization of the software is calculated over one year.

Development costs are stated at cost and include the expenditures incurred for the development of the CLT process and the equipment, material and services used or consumed for the development activities, including the design, construction and operation of a plant that is not at a scale economically feasible for commercial production. The capitalized costs meet the following generally accepted criteria: i) the technical feasibility of completing the intangible asset so that it will be available for use or sale; ii) the Corporation intention to complete the intangible asset; iii) the Corporation ability to use or sell the intangible asset; iv) the probability of generating measurable future economic benefits; v) the availability of adequate technical, financial and other resources to complete the development; and vi) the Corporation ability to measure reliably the expenditure attributable to the intangible asset during its development. The capitalized costs will be amortized over the expected useful life of the CLT process developed using the straight-line method upon commercialization of the CLT.

### 2.10 Impairment of non-financial assets

Non-financial assets are reviewed for impairment if there is any indication that the carrying amount may not be recoverable. If any such indication is present, the recoverable amount of the asset is estimated in order to determine whether impairment exists. Where the asset does not generate cash flows that are independent from other assets, the Corporation estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs.

An asset or CGU's recoverable amount is the higher of fair value less costs 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 current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. Impairment is recognized immediately as additional depreciation or amortization. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate of recoverable amount but only to the extent that this does not exceed the carrying value that would have been determined if no impairment had previously been recognized. A reversal is recognized as a reduction in the depreciation or amortization charge for the year.

### 2.11 Share-based payments

The fair values of share options granted to employees are recognized as an expense over the vesting period with a corresponding increase in contributed surplus. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Corporation.

The fair value is measured at the grant date and recognized over the period in which the options vest. The fair value of the options granted is measured using an 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.

### 2.12 Share capital and warrants

Common shares and warrants are classified as equity. Incremental costs directly attributable to the issuance of shares or warrants are recognized as a deduction from the proceeds in equity in the period the transaction occurs. Proceeds from unit placements are allocated between shares and warrants issued on a pro rata basis of their respective fair value within the unit, using the Black-Scholes option pricing model to determine the fair value of warrants issued.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.13 Income taxes

Income tax on the profit or loss for the years presented comprises current and deferred income tax. Income tax is recognized in the consolidated statement of comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax income expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end, adjusted for amendments to income tax payable with regard to previous years. Management periodically evaluates positions taken in income tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided using the liability method, providing for temporary differences between the tax basis of assets and liabilities and their carrying amounts in the financial statements. The temporary difference is not provided for if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. The amount of deferred income tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date and whose implementation is expected over the period in which the deferred income tax is realized or recovered.

A deferred income tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be used.

Deferred income tax assets and liabilities are presented as non-current and are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### 2.14 Loss per share

The calculation of earnings (loss) per share ("EPS") is based on the weighted average number of shares outstanding during each period. The basic EPS is calculated by dividing the profit or loss attributable to the equity owners of the Corporation by the weighted average number of common shares outstanding at the end of the year.

The computation of diluted EPS assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on the EPS. The treasury stock method is used to determine the dilutive effect of the warrants and share options. When the Corporation reports a loss, the diluted net loss per common share is equal to the basic net loss per common share due to the anti-dilutive effect of the outstanding warrants and share options.

### 2.15 Foreign currency translation

These consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the Corporation and its subsidiaries.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate in effect at the financial position date, whereas non-monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate in effect at the transaction date. Expenses denominated in a foreign currency are translated at the average rate in effect during the period with the exception of depreciation, which is translated at the historical rate. Gains and losses on exchange arising from the translation of foreign operations are recorded in the consolidated statement of comprehensive loss.

### 2.16 Changes in accounting policies implemented during the year ended December 31, 2013

**a) IFRS 9, "Financial instruments: classification and measurement"**

The Corporation has elected to early adopt IFRS 9. This standard replaces the guidance in IAS 39, "Financial Instruments: Recognition and Measurement" relating to the classification and measurement of financial assets and liabilities. IFRS 9 eliminates the classification of financial instruments as "available-for-sale" and "held to maturity", and the requirement to bifurcate embedded derivatives with respect to hybrid contracts. Under IFRS 9, equity instruments are classified as financial instruments carried at fair value with changes in fair value recorded in profit or loss ("FVTPL"), or in other comprehensive income if they are not held for trading and are designated as such on initial recognition FVOCI.

The Corporation's investments are classified as FVTPL. Fixed income investments are measured at amortized cost if both of the following criteria are met: (i) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset gives rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. Otherwise, fixed income investments are measured as FVTPL.

There were no changes to the classification of financial liabilities as a result of the adoption of IFRS 9. The Corporation adopted IFRS 9 on January 1, 2013 on a retrospective basis and there was no impact on the individual financial statement line items.

**b) IFRS 10, Consolidated financial statements**

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC 12, Consolidation - Special Purpose Entities, and parts of IAS 27, Consolidated and Separate Financial Statements. The Corporation adopted IFRS 10 on January 1, 2013 and it had no impact on the Corporation's financial statements.

**c) IFRS 12, Disclosure of Interests in Other Entities**

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, equity accounted investments, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosure and also introduces significant additional disclosure requirements that address the nature of, and risks associated with an entity's interests in other entities. The Corporation adopted IFRS 12 on January 1, 2013. The adoption of this disclosure standard did not have an impact on the Corporation's Consolidated Financial Statements.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

**d) IFRS 13, Fair value measurement**

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. The Corporation adopted IFRS 13 on January 1, 2013. This standard had no impact on measurement at the date of adoption.

### 2.17 Accounting standards issued but not yet applied

**a) IAS 32, Financial Instruments: Presentation**

The IASB published amendments to IAS 32 to provide clarifications on the requirements for offsetting financial assets and financial liabilities on the statement of financial position. The amendments are effective for annual periods beginning on or after January 1, 2014 and should be applied retrospectively. The adoption of the amendments is not expected to have a significant impact on the Corporation's consolidated financial statements.

**b) IAS 36, Impairment of Assets**

On May 29, 2013, the IASB made amendments to the disclosure requirements of IAS 36 requiring disclosure, in certain instances, of the recoverable amount of an asset or cash generating unit, and the basis for the determination of fair value less costs of disposal, when an impairment loss is recognized or when an impairment loss is subsequently reversed. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014 and will be applied prospectively.

**c) IFRIC 21, Levies**

The International Financial Reporting Interpretations Committee ("IFRIC") issued an interpretation on IAS 37, "Provisions, Contingent Liabilities and Contingent Assets" ("IAS 37"), with respect to the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event. The interpretation clarifies that the obligating event is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The extent of the impact of adoption of IFRIC 21 has not yet been determined.

## 3. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Many of the amounts included in the consolidated financial statements require management to make judgments and/or estimates. These judgments and estimates are continually evaluated and are based on management's experience and knowledge of the relevant facts and circumstances. Actual results may differ from the amounts included in the consolidated financial statements.

Areas of significant judgment and estimates affecting the amounts recognized in the consolidated financial statements include the following.

## 3. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONT'D)

### 3.1 Significant judgments

#### a) Impairment of non-financial assets

Assets are reviewed for an indication of impairment at each statement of financial position date and when there are indicators of impairment. This determination requires significant judgment. Factors which could trigger an impairment review include, but are not limited to, the expiration of the Corporation intellectual rights or patents or if such rights and/or patents will expire in the near future and are not expected to be renewed; the Corporation failure to raise the required funds to continue its development activity; if development activities have failed in demonstrating that DST's technology is effective or if the entity has decided to discontinue such activities in the specific area; if sufficient data exists to indicate that, although the Corporation is able to demonstrate that it's technology is effective, the carrying amount of the assets is unlikely to be recovered in full from successful exploitation or by sale, significant negative industry or economic trends and a significant drop in commodity prices.

#### b) Going concern

The assessment of the Corporation's ability to execute its strategy by funding future working capital requirements involves judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### c) Research and development tax credits receivable

The calculation of research and development tax credits receivable on qualified expenditure incurred involves a degree of estimation and judgment in respect of certain items whose tax treatment cannot be finally determined until a notice of assessment has been issued by the relevant taxation authority and payment has been received. Difference arising between the actual results following final resolution of some of these items and the assumptions made could necessitate adjustments in future periods.

#### d) Recovery of the promissory notes receivable and other receivables

The recovery of the promissory notes receivable and other receivables requires judgement to determine whether reasonable assurance exists that the Corporation will be repaid in full.

### 3.2 Significant estimations

#### a) Fair value of financial instruments

Certain financial instruments are recorded in the Corporation's consolidated statements of financial position at values that are representative of, or approximate fair value. The fair value of a financial instrument that is traded in active markets at each reporting date is determined by reference to its quoted market price or dealer price quotations. For all other financial instruments carried at fair value, the fair value is determined using valuation techniques. Such techniques may reflect recent arm's length transactions in equity trading of the underlying financial instrument, or reference to the current fair value of another instrument that has substantially the same terms and discounted cash flow analysis. By their nature, these valuation models require the use of assumptions. Changes in the underlying assumptions of these models could materially impact the determination of the fair value of a financial instrument. Imprecision in determining fair value using these valuation techniques may affect the amount of net earnings recorded for a particular investment in a particular period. The Corporation believes that its estimates of fair value are reasonable and appropriate. The Corporation reviews assumptions relating to financial instruments on an ongoing basis to ensure that the basis for the determination of fair value is appropriate.

(Expressed in Canadian dollars)

## 4. PROMISSORY NOTES RECEIVABLE

A promissory note (the "Promissory Note") in the principal amount of $500,000 is receivable from Creso, according to an agreement dated July 10, 2013. The unsecured note is due on July 10, 2014 and bears an annual interest rate of 6% payable at maturity. On December 20, 2013, the Corporation loaned $200,000 to Creso which loan has been made upon the same terms and conditions under the Promissory Note. Also refer to Note 15, subsequent events, for further details on the amalgamation transaction with Creso.

## 5. INVESTMENTS

The Corporation's investments are classified as FVTPL.

| | 2013 | 2012 |
|---|---|---|
| | $ | $ |
| **Publicly traded securities** | | |
| Balance – beginning | - | - |
| Acquisition through issuance of shares | 593,370 | - |
| Change in fair value | 1,681,215 | - |
| Balance – end | 2,274,585 | - |
| | | |
| **Warrants** | | |
| Balance – beginning | - | - |
| Acquisition through issuance of shares | 51,100 | - |
| Change in fair value | 444,969 | - |
| Balance – end | 496,069 | - |
| | | |
| | **2,770,654** | **-** |

| | As at December 31, 2013 | |
|---|---|---|
| | **Cost** | **Market Value** |
| | $ | $ |
| Publicly traded securities | 593,370 | 2,274,585 |
| Warrants | 51,100 | 496,069 |
| | 644,470 | 2,770,654 |

| **Gains on investments** | | **2013** | | **2012** |
|---|---|---|---|---|
| | Realized | Unrealized | Realized | Unrealized |
| | $ | $ | $ | $ |
| Publicly traded securities | - | 1,681,215 | - | - |
| Warrants | - | 444,969 | - | - |
| | **-** | **2,126,184** | **-** | **-** |

On July 9, 2013, Dundee and a company controlled by an executive of Dundee sold to the Corporation 19,779,000 common shares of Creso and 9,500,000 common share purchase warrants of Creso and in exchange, the Corporation issued 9,889,510 of its common shares. Each Creso share purchase warrant entitles the Corporation to purchase one Creso common share at an exercise price of $0.10 per common share until July 14, 2014 for 5,000,000 of such warrants and until December 21, 2014 for the remaining 4,500,000 of such share purchase warrants.

The fair value of Creso common shares, at the acquisition date, was determined using the quoted market price of Creso shares on the TSX Venture Exchange. The fair value of Creso warrants, at the acquisition date, was determined using the Black-Scholes option pricing model using the following assumptions: dividend yield of 0%, estimated volatility of 112.2%, risk-free interest rate of 1.17%, and using a weighted expected life of 1.23 years.

(Expressed in Canadian dollars)

## 5. INVESTMENTS (CONT'D)

The fair value of Creso common shares, as at December 31, 2013, was determined using the last quoted market price of Creso shares on the Canadian Securities Exchange (CXT: 0.115$ - November 13, 2013 ).

The fair value of Creso warrants, as at December 31, 2013, that expire on July 9, 2014 was determined using the Black-Scholes option pricing model using the following assumptions: stock price of 0.115$, dividend yield of 0%, estimated volatility of 131%, risk-free interest rate of 1.1%, and a weighted expected life of 0.52 years.

The fair value of Creso warrants, as at December 31, 2013, that expire on December 21, 2014 was determined using the Black-Scholes option pricing model using the following assumptions: stock price of 0.115$, dividend yield of 0%, estimated volatility of 125%, risk-free interest rate of 1.1%, and a weighted expected life of 0.97 years.

Also, refer to Note 15, subsequent events, for more details on the amalgamation transaction with Creso.

## 6. INTANGIBLE ASSETS

| | As at December 31, 2012 | Additions | Amortization | As at December 31, 2013 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Intellectual properties – Oxide | 605,000 | - | - | 605,000 |
| Patent application fees – Oxide | 129,474 | - | - | 129,474 |
| Software | - | 11,310 | (8,186) | 3,124 |
| Development cost – Oxide | 5,809,233 | - | - | 5,809,233 |
| Less: SR&ED tax credit | (1,929,894) | - | - | (1,929,894) |
| | **4,613,813** | **11,310** | **(8,186)** | **4,616,937** |

| | As at December 31, 2011 | Additions | Amortization | As at December 31, 2012 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Intellectual properties – Oxide | 605,000 | - | - | 605,000 |
| Patent application fees – Oxide | 129,474 | - | - | 129,474 |
| Software | 998 | - | (998) | - |
| Development cost – Oxide | 5,809,233 | - | - | 5,809,233 |
| Less: SR&ED tax credit | (1,929,894) | - | - | (1,929,894) |
| | **4,614,811** | **-** | **(998)** | **4,613,813** |

## 7. GOVERNMENT ASSISTANCE

In June 2013, the Corporation entered into a Contribution Agreement with the Sustainable Development Technology Canada Foundation ("SDTC"). Upon meeting certain conditions, the SDTC agreed to financially assist the Corporation in developing and demonstrating its chloride leach technology. Under the terms of the agreement, the SDTC will contribute up to the lesser of 25.30% of eligible project costs or $5,000,000.

As part of the Contribution Agreement, the Corporation received, on July 17, 2013, $656,543 from SDTC corresponding to the eligible activities to be incurred from June 1, 2013 to December 31, 2013. This contribution was recognized as a reduction to research and development expense during the year ended December 31, 2013. For further details, also refer to Note 12, commitments.

## 8. SHARE CAPITAL

### 8.1 Authorized

On December 31, 2013, the authorized capital of the Corporation consists of an unlimited number of common shares without nominal or par value.

### 8.2 Reorganization and Amalgamation

On October 3, 2013, the Board of directors of the Corporation approved a reorganization of the capital structure of the Corporation (the “Capital Reorganization”) by amending its articles of incorporation as follows:

a) to change the name of the Corporation to “Dundee Sustainable Technologies Inc.” in the English language and “Dundee Technologies Durables Inc.” in the French language;
b) to change the designation of the common shares to "subordinated voting shares" and change the rights, privileges, restrictions and conditions attaching thereto; and
c) to create and authorize the issuance of an unlimited number of multiple voting shares, each multiple voting share having 10 votes.

On November 14, 2013, the Board of directors also approved the management proxy circular in connection with a special meeting of the shareholders of the Corporation to be held on December 5, 2013 (the “Meeting”). At the Meeting the shareholders of the Corporation approved, amongst other, the Capital Reorganization.

On November 22, 2013, Nichromet and a wholly-owned subsidiary of Nichromet (“Subco”) entered into a merger agreement with Creso pursuant to which Creso and Subco will amalgamate (the “Amalgamation”) and the amalgamated company will become a wholly-owned subsidiary of Nichromet which would have changed its name to Dundee Sustainable Technologies Inc. For more details, refer to Note 15, Subsequent events,

### 8.3 Issued and outstanding

**Year ended December 31, 2013**

On July 9, 2013, the Corporation closed a non-brokered private placement with Dundee for gross proceeds of $5,000,000. The financing consisted of the issuance of 50,000,000 units at a price of $0.10 per unit. Each unit comprises one common share and one common share purchase warrant. Each warrant entitles the holder thereof to acquire one common share at a price of $0.10 for a two-year period following closing. The fair value of the warrants included in the units was estimated at $1,036,125 using the Black-Scholes model based on the following weighted average assumptions: dividend yield of 0%, estimated volatility of 60%, risk-free interest rate of 1.17%, and expected life of warrants of two years.

In connection with the investments described in Note 5, Investments, the Corporation issued 9,889,510 of its common shares. The Corporation issued shares were accounted for at the fair value of the counterpart received at the acquisition date.

(Expressed in Canadian dollars)

## 8. SHARE CAPITAL (CONT'D)

### 8.4 Warrants

Changes in the Corporation's outstanding common share purchase warrants were as follows:

| | | 2013 | | 2012 |
|---|---|---|---|---|
| | **Number of warrants** | **Carrying amount** | **Number of warrants** | **Carrying amount** |
| | | $ | | $ |
| **Balance – beginning** | 10,535,000 | 311,852 | 26,250,000 | 788,502 |
| Issued for cash as part of private placement | 50,000,000 | 1,036,125 | - | - |
| Exercised | (7,125,000) | (232,570) | (14,465,000) | (447,734) |
| Expired | (3,410,000) | (79,282) | (1,250,000) | (28,916) |
| **Balance – end** | **50,000,000** | **1,036,125** | 10,535,000 | **311,852** |

The weighted average exercise price was $0.20 per share (2012 – $0.20).

A summary of outstanding warrants entitling their holders to subscribe for an equivalent number of common shares, as at December 31, 2013, is as follows:

| Number of warrants | Exercise price | Expiry date |
|---|---|---|
| | $ | |
| 50,000,000 | 0.10 | July 9, 2015 |

## 9. STOCK OPTION PLAN

The Board of Directors of the Corporation has full and final discretion to designate the persons who are to be granted options and to determine such number of options as well as their exercise price and vesting period.

On November 28, 2012, the Corporation granted a total of 2,575,000 stock options to its officers, directors and employees, exercisable at $0.20 per share. Options vested at the grant date. These options expire on the tenth anniversary of their date of issuance. The fair value of options awarded is $0.18 per share for a total share-based payment expense of $460,702.

On February 6, 2013, the Corporation granted a total of 600,000 stock options to employees and officers, which are exercisable at $0.20 per share. Options vested at the grant date. These options expire on the fifth anniversary of their date of issuance. The fair value of options awarded is $0.10 per share for a total share-based payment expense of $61,960.

On March 22, 2013, the Corporation granted a total of 100,000 stock options to an employee, which are exercisable at $0.20 per share. Options vested at the grant date. These options expire on the fifth anniversary of their date of issuance. The fair value of options awarded is $0.10 per share for a total share-based payment expense of $10,284.

On December 12, 2013, the Corporation granted a total of 12,550,000 stock options to its officers, directors and employees, which are exercisable at $0.10 per share. Options vested at the grant date. These options expire on the fifth anniversary of their date of issuance. The fair value of options awarded is $0.05 per share for a total share-based payment expense of $686,803.

(Expressed in Canadian dollars)

## 9. STOCK OPTION PLAN (CONT'D)

The changes in the Corporation's outstanding and exercisable options are as follows:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| | | $ | | $ |
| Balance - beginning | 8,625,000 | 0.13 | 7,800,000 | 0.10 |
| Awarded | 13,250,000 | 0.11 | 2,575,000 | 0.20 |
| Exercised | (300,000) | 0.10 | - | - |
| Cancelled | (150,000) | 0.20 | (1,750,000) | 0.10 |
| **Balance – end** | **21,425,000** | **0.12** | **8,625,000** | **0.13** |

As at December 31, 2013 outstanding and exercisable options are as follows:

| Number of options | Exercise price | Expiry date |
|---|---|---|
| | $ | |
| 100,000 | 0.10 | November 7, 2014 |
| 300,000 | 0.10 | October 18, 2015 |
| 5,350,000 | 0.10 | June 8, 2016 |
| 600,000 | 0.20 | February 6, 2018 |
| 100,000 | 0.20 | March 22, 2018 |
| 12,550,000 | 0.10 | December 12, 2018 |
| 2,425,000 | 0.20 | November 27, 2022 |
| 21,425,000 | | |

The residual weighted average contractual term of outstanding options was 4.68 years as at December 31, 2013 (December 31, 2012 - 5.33 years).

The fair value of options at the grant date was calculated based on the Black-Scholes option pricing model, using the following weighted average assumptions:

| | 2013 | 2012 |
|---|---|---|
| Expected life | 5 years | 10 years |
| Risk-free interest rate | 1.80% | 1.52% |
| Expected volatility | 64% | 100% |
| Expected dividend yield | 0% | 0% |
| Fair value per share | $0.11 | $0.20 |

(Expressed in Canadian dollars)

## 10. INCOME TAXES

The income tax expense on the Corporation's loss before income taxes differs from the income tax expense that would arise using the combined Canadian federal and provincial statutory tax rate of 26.9% (2012 - 26.9%) as a result of the following items:

| | 2013 | 2012 |
|---|---|---|
| | $ | $ |
| Loss before tax at statutory rate of 26.9% (2012 – 26.9%) | (1,072,342) | (1,022,854) |
| Effect on taxes of | | |
| Non-deductible expenses | 219,750 | 123,947 |
| Unrecognized tax benefit | 852,592 | 898,907 |
| **Income tax expense** | **-** | **-** |

### Recognized deferred tax assets and liabilities

The Corporation recognized deferred tax assets related to tax loss carryforwards to the extent of deferred tax liabilities.

| | 2013 | 2012 |
|---|---|---|
| | $ | $ |
| Deferred tax asset | | |
| Tax loss carryforwards | 572,537 | 564,370 |
| Deferred tax liabilities | | |
| Investments | (572,537) | - |
| Pilot plant | - | (527,202) |
| Other | - | (37,168) |
| | - | - |

### Unrecognized deductible temporary differences

The benefit of the following tax loss carryforwards and deductible temporary differences has not been recognized in the financial statements:

| | 2013 | 2012 |
|---|---|---|
| | $ | $ |
| Tax loss carryforwards | 8,250,000 | 6,122,000 |
| Unclaimed SR&ED expenditures | 4,835,000 | 4,374,000 |
| Pilot plant | 143,000 | - |
| Other | 59,000 | 63,000 |
| | 13,287,000 | 10,559,000 |

The loss carryforwards expire between 2028 and 2033 and the unclaimed SR&ED expenditures have no expiries. In addition, the Corporation has unused tax credits of $622,000 (2012 – $443,000) which expire between 2023 and 2032.

(Expressed in Canadian dollars)

## 11 RELATED PARTY TRANSACTIONS

Details of related party transactions with the officers and directors of the Corporation and companies controlled by directors not otherwise disclosed in these consolidated financial statements are as follows:

| | 2013 | 2012 |
|---|---|---|
| | $ | $ |
| A director or a corporation held by directors | | |
| Professional and consulting fees | 477,196 | 455,274 |
| Officers | | |
| Professional fees | 280,126 | 119,101 |
| | 757,322 | 574,375 |

**Compensation of key management**

Key management includes directors and officers. The compensation paid or payable to key management is presented below:

| | 2013 | 2012 |
|---|---|---|
| | $ | $ |
| Officers and directors' professional fees | 757,322 | 574,375 |
| Share-based payments | 679,292 | 277,295 |
| | 1,436,614 | 851,670 |

## 12 COMMITMENTS

### 12.1 Construction of a $27 million demonstration plant

In connection with the agreement reached with the SDTC, the Corporation had to file consortium agreements with third parties regarding the global financing of a demonstration plant and the procurement of mineral concentrates. As of June 1, 2013, consortium agreements were signed with Creso and Dundee Precious Metals, a company controlled by Dundee. Dundee had earlier confirmed to the SDTC its intention to arrange the required financing of the construction of the demonstration plan from its own or from third parties.

The Corporation's objective is to finalize the development of the chlorination technology to extract precious metals such as gold, at a pre-commercial stage through the construction of a demonstration plant of 15 tonnes per day that will operate on a continuous mode under industrial conditions.

Of the $27 million demonstration plant projected budget, the Corporation has spent in total $3,077,533 all incurred in 2013 and included in our Consolidated Statements of Comprehensive Loss in the Research and development line item. As at December 31, 2013, the Corporation has a firm purchasing commitment for $1,706,804 towards equipment and services relating to the demonstration plant.

As part of the Contribution Agreement, the Corporation received on July 17, 2013, $656,543 from SDTC corresponding to the eligible activities to be incurred from June 1, 2013 to December 31, 2013.

(Expressed in Canadian dollars)

## 12. **COMMITMENTS** (CONT'D)

### 12.2 Lease payments

On January 11, 2008, the Corporation entered into a three-year lease (the "Thetford Mines Lease"). The annual rent was $100,000. In October 2010, the Corporation renewed the Thetford Mines Lease for a three-year period ending December 31, 2013, at an annual rent of $106,000. On July 1, 2013, the Corporation renewed and modified the Thetford Mines Lease to rent more space, for a ten-year period at an annual rent of $204,380 that is subject to a yearly increase of 1.5%.

On November 1, 2012, the Corporation and Creso entered into a lease for the head office until June 30, 2015. The annual rent is $26,686.

The aggregate annual payments due over the following periods are as follows:

| | **2013** | **2012** |
|---|---|---|
| | $ | $ |
| Less than 1 year | 231,829 | 143,550 |
| Between 1 and 5 years | 867,378 | 40,028 |
| More than 5 years | 1,020,488 | - |

## 13. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Corporation is exposed to various financial risks resulting from both its operations and its investment activities. The Corporation's management manages the financial risks. The Corporation does not enter into financial instrument agreements including derivative financial instruments for speculative purposes.

The main financial risks to which the Corporation is exposed are detailed below.

### 13.1 Liquidity risk

The Corporation manages its liquidity risk by using budgets that enable it to determine the amounts required to fund its development programs. The Corporation also ensures that it has sufficient working capital available to meet its day-to-day commitments.

As at December 31, 2013, the Corporation has cash and cash equivalents of $1,274,869 (2012 – $1,376,903) to settle account payables and accrued liabilities of $534,924 (2012 – $189,424).

As at December 31, 2013, management estimates that funds available will not be sufficient to meet the Corporation's obligations and budgeted expenditures through December 31, 2014 (Note 1).

## 13. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

Any funding shortfall may be met in the future in a number of ways including, but not limited to, the issuance of new debt or equity instruments, expenditures reductions and/or the introduction of joint venture partners and/or business combinations. While management has been successful in securing financing in the past, there can be no assurance it will be able to do so in the future or that these sources of funding or initiatives will be available to the Corporation or that they will be available on terms which are acceptable to the Corporation. If management is unable to obtain new funding, the Corporation may be unable to continue its operations, and amounts realized for assets might be less than amounts reflected in these consolidated financial statements. All of the Corporation's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Corporation regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity.

### 13.2 Currency risk

The Corporation does not use derivative instruments or hedges to manage risks because its exposure to currency risk is not significant given that its operations are carried out predominantly in Canada. As at December 31, 2013, cash and cash equivalents amounted to $1,274,869, of which $1,163,918 is denominated in Canadian dollars, $1,888 in Guatemalan quetzals, $2,281 in Dominican pesos and $106,782 in US dollars. Other financial instruments are all denominated in Canadian dollars.

### 13.3 Credit risk

Credit risk is the risk that a loss will occur from the failure of another party to perform according to the terms of the contract. The Corporation's credit risk is primarily attributable to cash and cash equivalents, other receivables and promissory notes receivable. Cash and cash equivalents are held mainly with Canadian chartered banks, which reduce the risks. The promissory notes receivable and the other receivables are with Creso and with Maya Gold & Silver Inc. ("Maya"), and are within normal terms of payment. The Corporation had $806,879 of receivables from Creso and $46,045 from Maya. Creso and Maya are exploration and evaluation stage junior mining companies with no income from operating activities and for which there are material uncertainties on their ability to continue as a going concern. There are no other significant amounts that are past due as at December 31, 2013. Amounts receivable from Creso and Maya are continually monitored to ensure their collection. Also refer to Note 15, subsequent events, for more details on the amalgamation transaction with Creso.

### 13.4 Interest rate risk

The Corporation has cash balances, and its current policy is to invest excess cash in certificates of deposit or high-interest savings accounts with Canadian chartered banks. As at December 31, 2013, the Corporation had cash equivalents of $1,000,000 invested with a Canadian chartered bank, bearing interest at a yearly rate of 1.35%. The promissory notes bear interest at an annual interest rate of 6%. Other receivables from Creso and Maya are not bearing interest.

(Expressed in Canadian dollars)

## 13 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

### 13.5 Market risk

The securities held by the Corporation consist in shares of Creso, an issuer listed on the Canadian Securities Exchange. The fair value of those securities together with the related warrants represents the maximum exposure to price risk. As of December 31, 2013, a 10% decrease (increase) in the fair value of the investment would result in an estimated increase (decrease) in operating loss of approximately $311,084 (nil as of December 31, 2012). The fair value of the Corporation investments in Creso common share purchase warrants was determined using the Black-Scholes option pricing model as they are not traded on a recognized securities exchange. The fair value of the Creso common share purchase warrants is closely related to the fair value of Creso common shares.

### 13.6 Fair value hierarchy

The following table provides information about financial assets and liabilities measured at market value in the Corporation's statement of financial position and categorized by level according to the significance of the inputs used in making the measurements:

| | | | As at December 31, 2013 | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | $ | $ | $ | $ |
| Securities | - | - | 2,274,585 | 2,274,585 |
| Warrants | - | - | 496,069 | 496,069 |
| | - | - | 2,770,654 | 2,770,654 |

Level 1: Quoted prices in active markets for identical assets.
Level 2: Quoted prices in inactive markets, or whose values are based on models for which the inputs to those models are observable either directly or indirectly for substantially the full term of the asset.
Level 3: Significant unobservable inputs.

During the year ended December 31, 2013, the Corporation reclassified its securities investment in Creso from Level 1 to Level 3 and its investment in Creso common share purchase warrants from Level 2 to Level 3. There was no change in value recorded subsequent to the reclassification.

This reclassification was triggered by the trading halt imposed on November 14, 2013, following the amalgamation agreement reached between DST and Creso. Refer to Note 15, subsequent events, for more details on the amalgamation transaction with Creso.

The Corporation used the following techniques to determine the fair value measurement of items included in Level 3:

- The estimated fair value of securities that do not trade in public markets was determined using the last quoted market price.
- The estimated fair value of warrants that do not trade in public markets was determined using a modified Black Scholes option pricing model which used the last quoted market price of the underlying shares as the most significant input. Refer to Note 5, Investments, for more details on the other assumptions used in the modified Black Scholes option pricing model.

## 14 POLICIES AND PROCESS TO MANAGE CAPITAL

The capital of the Corporation consists of items included in shareholder's equity totalling $9,970,515 as at December 31, 2013. The Corporation's objective when managing capital is to safeguard its ability to continue its operations and advance the development of its technologies. As needed, it raises funds through private placements. The Corporation does not use long-term debt since it does not generate operating revenues. It has no dividend policy.

The Corporation does not have any externally imposed capital requirements from regulatory or contractual requirements to which it is subject. Changes in capital for the years ended December 31, 2013 and 2012 are described in the consolidated statements of changes in equity.

## 15 SUBSEQUENT EVENTS

### 15.1 Reorganization and Amalgamation

On January 8, 2014, the amendments to the article of the Corporation became effective. Following the amendments, the authorized capital of the Corporation consists of an unlimited number of subordinated voting shares and multiple voting shares, without nominal or par value. The holders of subordinate voting shares are entitled to one vote for each subordinate voting share and the holders of multiple voting shares are entitles to ten votes for each multiple voting share. The holders of subordinate voting shares and multiple voting shares shall be entitled to receive and to participate equally as to dividends, share for share, in an equal amount on all the subordinate voting shares and multiple voting shares at the time outstanding. The holder of multiple voting shares shall be entitled at any time and from time-to-time to have any or all of the multiple voting shares converted into subordinate voting shares on the basis of one subordinate voting share for each multiple voting share. In all other respects, the holders of subordinate voting shares and multiple voting shares shall rank equally and the same rights and restrictions.

On February 28, 2014, Creso shareholders approved the Amalgamation. On April 1, 2014, the Amalgamation became effective and the Corporation, indirectly, acquired all of the issued and outstanding common shares of Creso, which it didn't already own, and the shareholders of Creso received one subordinate voting share of the Corporation in exchange for two common shares of Creso. Holders of options and warrants of Creso received 2,545,000 options and 12,456,566 warrants, as applicable, of the Corporation based upon the same exchange ratio.

Pursuant to the Amalgamation, the Corporation has (i) 228,544,201 subordinate voting shares issued and outstanding, of which 72.2% are held by the shareholders of Nichromet (including Dundee Corporation) and 27.8% are held by the shareholders of Creso (excluding Nichromet), and (ii) 50,000,000 multiple voting shares issued and outstanding, all of which are held by Dundee Corporation. Accordingly, Dundee Corporation will exercise voting rights in respect of an aggregate of 86.2% of the issued and outstanding voting securities of Dundee Sustainable Technologies Inc.

The common shares of Creso ceased to be listed on the Canadian Securities Exchange ("CSE") on April 1, 2014 and the subordinated voting shares of the Corporation were listed on the Canadian Securities Exchange on April 8, 2014. The multiple voting shares of the Corporation which are convertible, at the option of the holder, into subordinate voting shares for no additional consideration will not be listed on any stock exchange.

## 15 SUBSEQUENT EVENTS (CONT'D)

### 15.2 Loan

On January 8, 2014, Dundee agreed to loan $3,000,000 to the Corporation (the "Bridge Loan"). The funds from the Bridge Loan were disbursed on January 31, 2014. The Bridge Loan is secured by the Corporation's assets, bears interest at the rate of 12.68% per annum and matures on April 30, 2014. The Corporation has the option to repay the Bridge Loan at any time but must use the proceeds from the sale of any assets in excess of $250,000 or any financing in excess of $3,000,000 to repay the Bridge loan. The use of the cash received pursuant to the Bridge Loan is restricted. The Bridge Loan shall only be used to fund (i) the building of a demonstration plant and (ii) for general corporate purposes.

### 15.3 Government assistance

As part of the Contribution Agreement, the Corporation received on March 27, 2014, $2,219,429 from SDTC corresponding to the eligible activities to be incurred from January 1, 2014 to September 30, 2014.