

Dundee Sustainable Technologies Inc.

Consolidated Financial Statements

December 31, 2015 and 2014

(Expressed in Canadian dollars)



March 24, 2016

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., which comprise the consolidated statements of financial position as at December 31, 2015 and 2014 and the consolidated statements of comprehensive loss, changes in deficiency and cash flows for the years then ended 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.

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"PwC" refers to PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., an Ontario limited liability partnership.



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. as at December 31, 2015 and 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

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

PricewaterhouseCoopers LLP¹

¹ CPA auditor, CA, public accountancy permit No. A119714

Dundee Sustainable Technologies Inc.

Consolidated Statements of Financial Position

As at December 31, 2015 and 2014

(Expressed in Canadian dollars)

	Note	2015	2014
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		1,679,490	290,488
Research and development tax credits receivable		66,275	193,732
Sales taxes and other receivables		164,197	174,368
Inventory		47,235	-
Prepaid expenses and advances to suppliers		263,134	41,577
		<u>2,220,331</u>	<u>700,165</u>
Non-current assets			
Property, plant and equipment	6	29,469	99,940
Intangible assets	8	4,613,813	4,613,813
		<u>4,643,282</u>	<u>4,713,753</u>
Total assets		6,863,613	5,413,918
Liabilities and Deficiency			
Current liabilities			
Accounts payable and accrued liabilities		647,311	953,141
Deferred contribution from SDTC	9	-	1,055,677
Short-term loan from a related party	10	9,027,586	6,105,473
		<u>9,674,897</u>	<u>8,114,291</u>
Non-current liabilities			
Convertible debenture	11	1,578,986	-
Total liabilities		11,253,883	8,114,291
Deficiency			
Share capital	12	54,562,847	47,591,598
Contributed surplus		6,848,232	7,860,885
Deficit		(65,801,349)	(58,152,856)
Total deficiency		(4,390,270)	(2,700,373)
Total liabilities and deficiency		6,863,613	5,413,918
Going concern	1		
Commitments	18		

Approved by the Board of Directors

(s) John Mercer

John Mercer, Director

(s) Brian Howlett

Brian Howlett, Director

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

Dundee Sustainable Technologies Inc.
Consolidated Statements of Comprehensive Loss
For the years ended December 31, 2015 and 2014
(Expressed in Canadian dollars, except number of shares)

	Note	2015	2014
		\$	\$
Expenses			
Research and development	15	4,402,212	5,972,913
Professional and consulting fees		986,339	1,371,942
Administrative		716,820	545,447
Wages and compensation		299,072	339,881
Investor relations and promotions		79,991	140,361
Share-based payments	13	23,472	211,575
Trustee and registration fees		45,195	52,992
Depreciation of property, plant and equipment		61,071	3,789
Impairment of exploration and evaluation assets	7	-	22,245,407
Amortization of intangible assets		-	3,124
Total expenses		6,614,172	30,887,431
Operating loss		(6,614,172)	(30,887,431)
Finance cost	10, 11	(1,031,612)	(455,473)
Loss on foreign currency exchange		(19,157)	(3,362)
Interest income		10,948	24,370
Gain on disposal of property, plant and equipment		5,500	-
Gain on investments	5	-	143,109
Net loss and comprehensive loss		(7,648,493)	(31,178,787)
Basic and diluted net loss per share		(0.02)	(0.12)
Weighted average number of shares outstanding – basic and diluted		315,510,205	263,839,053

Going concern 1

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

Dundee Sustainable Technologies Inc.
Consolidated Statements of Changes in Deficiency
For the years ended December 31, 2015 and 2014
(Expressed in Canadian dollars, except number of shares)

	Note	Multiple voting shares		Subordinate voting shares		Contributed surplus	Deficit	Total deficiency
		Number	\$	Number	\$	\$	\$	\$
Balance – December 31, 2014		50,000,000	3,963,875	231,706,201	43,627,723	7,860,885	(58,152,856)	(2,700,373)
Issuance of subordinate voting shares	12	-	-	15,384,615	1,000,000	-	-	1,000,000
Share issue expenses	12	-	-	-	(64,876)	-	-	(64,876)
Exercise of warrants	12	-	-	50,000,000	6,036,125	(1,036,125)	-	5,000,000
Share-based payments	13	-	-	-	-	23,472	-	23,472
Net loss and comprehensive loss for the year		-	-	-	-	-	(7,648,493)	(7,648,493)
Balance – December 31, 2015		50,000,000	3,963,875	297,090,816	50,598,972	6,848,232	(65,801,349)	(4,390,270)

	Note	Common shares	Share capital	Multiple voting shares		Subordinate voting shares		Contributed surplus	Deficit	Total deficiency
		Number	\$	Number	\$	Number	\$	\$	\$	\$
Balance – December 31, 2013		214,928,724	29,889,629	-	-	-	-	7,054,955	(26,974,069)	9,970,515
Capital reorganization	12	(214,928,724)	(29,889,629)	50,000,000	3,963,875	164,928,724	25,925,754	-	-	-
Issuance of subordinate voting shares for acquisition	4	-	-	-	-	63,615,477	17,176,178	-	-	17,176,178
Issuance of warrants for acquisition	4	-	-	-	-	-	-	580,446	-	580,446
Issuance of options for acquisition	4	-	-	-	-	-	-	182,300	-	182,300
Exercise of warrants	12	-	-	-	-	412,000	102,921	(20,521)	-	82,400
Exercise of options	13	-	-	-	-	2,750,000	422,870	(147,870)	-	275,000
Share-based payments	13	-	-	-	-	-	-	211,575	-	211,575
Net loss and comprehensive loss for the year		-	-	-	-	-	-	-	(31,178,787)	(31,178,787)
Balance – December 31, 2014		-	-	50,000,000	3,963,875	231,706,201	43,627,723	7,860,885	(58,152,856)	(2,700,373)

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

Dundee Sustainable Technologies Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

	Note	2015 \$	2014 \$
Operating activities			
Net loss for the year		(7,648,493)	(31,178,787)
Adjusted for:			
Share-based payments	13	23,472	211,575
Impairment of exploration and evaluation assets	7	-	22,245,407
Contribution from SDTC received in excess of amount recognized	9	-	1,055,677
Reclassification of SDTC deferred contribution	9	(1,055,677)	-
Depreciation of property, plant and equipment included in research and development	6	9,400	9,400
Depreciation of property, plant and equipment	6	61,071	3,789
Amortization of intangible assets	8	-	3,124
Convertible debenture discount	11	(257,050)	-
Amortization of convertible debenture discount	11	28,237	-
Gain on investments	5	-	(143,109)
Gain on disposal of property, plant and equipment		(5,500)	-
Finance costs accrued	10	922,113	455,473
		(7,922,427)	(7,337,451)
Changes in non-cash operating working capital items:			
Research and development tax credits receivable		127,457	52,337
Sales taxes and other receivables		10,171	507,507
Inventory		(47,235)	-
Prepaid expenses and advances to suppliers		(221,557)	12,939
Accounts payable and accrued liabilities		(287,685)	(2,459)
		(418,849)	570,324
Net cash used in operating activities		(8,341,276)	(6,767,127)
Investing activities			
Addition to exploration and evaluation assets		(18,145)	(98,776)
Acquisition of intangible assets		-	(1,500)
Disposal of property, plant and equipment		5,500	-
Transaction cost paid for the acquisition of Creso	4	-	(212,839)
Cash acquired through acquisition of Creso	4	-	88,461
Net cash used in investing activities		(12,645)	(224,654)
Financing activities			
Net proceeds from issuance of subordinate voting shares	12	935,124	-
Exercise of warrants	12	5,000,000	82,400
Exercise of options	13	-	275,000
Net proceeds from issuance of convertible debenture	11	1,807,799	-
Short-term loan from a related party	10	2,000,000	5,650,000
Bridge loans	11	500,000	-
Repayment of bridge loans	11	(500,000)	-
Net cash provided by financing activities		9,742,923	6,007,400
Net change in cash and cash equivalents		1,389,002	(984,381)
Cash and cash equivalents – beginning		290,488	1,274,869
Cash and cash equivalents – end		1,679,490	290,488
Going concern	1		
Supplemental information	21		

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

Dundee Sustainable Technologies Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Dundee Sustainable Technologies Inc. (the "Corporation") (formerly known as Nichromet Extraction Inc.) 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 English and "Dundee Technologies Durables Inc." in French. The Corporation's head office is located at 600 De Maisonneuve Boulevard West, Suite 2750, Montréal, Quebec, Canada, H3A 3J2.

The Corporation has developed metallurgical processes based on a chlorination 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. The Corporation has also developed a process based on an arsenic stabilization technology which is designed for the sequestration of arsenic in a stable glass form. This process involves a technique to segregate arsenic and is therefore opening up opportunities to process materials considered too toxic to be exploited or stabilized using conventional mining methods.

These technologies are subject to all risks inherent in their development and may require significant additional development, testing and investment 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. As at December 31, 2015, Dundee Corporation ("Dundee") was the principal and majority shareholder of the Corporation.

For the year ended December 31, 2015, the Corporation incurred a loss of \$7,648,493 (2014 – \$31,178,787) and has negative working capital of \$7,454,566 (2014 – \$7,414,126). Deficit as at December 31, 2015 amounted to \$65,801,349 (2014 – \$58,152,856) and cash flows used in operating activities for the year ended December 31, 2015 amounted to \$8,341,276 (2014 – \$6,767,127).

Management estimates that the Corporation will not have sufficient funds to meet its obligations and budgeted expenditures through to December 31, 2016. 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 believes, based on previous fund raising experience, that the Corporation will be able to secure the necessary financing through the issuance of debt or new equity in public or privately negotiated equity offerings. While it has been successful in doing so in the past, there can be no assurance that 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 March 21, 2016, these consolidated financial statements were authorized for publication by the Board of Directors.

Dundee Sustainable Technologies Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

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 IFRS as issued by the International Accounting Standards Board ("IASB"). The accounting policies set out below have been applied consistently to both years.

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 consolidated 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, Creso Exploration Inc. ("Creso") (100%) and its foreign subsidiaries: Nichromet Guatemala, S.A. ("Nichromet Guatemala") (99.99%) until October 1, 2015; Rio Nickel S.A. ("Rio Nickel") (99.99%) until October 1, 2015; and Nichromet Dominicana, S.A. ("Nichromet Dominicana") (99.99%) until December 15, 2015. Creso is incorporated under the Canada Business Corporations Act, 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. Creso has been fully consolidated since April 1, 2014, the date on which control was obtained by the Corporation.

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 or discounts.

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 financial 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 assets and financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in net 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.

Dundee Sustainable Technologies Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

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

2.5 Financial instruments (cont'd)

a) Financial assets

Financial assets are subsequently measured at amortized 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 measured at amortized 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.

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	
<i>Amortized cost and effective interest method</i>	
Cash and cash equivalents	Loans and receivables
Other receivables	Loans and receivables
<i>Financial assets at fair value through profit or loss</i>	
Investments	FVTPL
Financial liabilities	
<i>Amortized cost and effective interest method</i>	
Accounts payable and accrued liabilities	Financial liabilities at amortized cost
Short-term loan from a related party	Financial liabilities at amortized cost
Convertible debenture	Financial liabilities at amortized cost

2.6 Research and development tax credits and government assistance

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.

Dundee Sustainable Technologies Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

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

2.6 Research and development tax credits and government assistance (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 compensates the Corporation for expenses incurred is 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 is recognized in the 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 Inventory

Inventory represents chemical products used in the demonstration plant. Inventory is valued at the lower of cost and net realizable value and includes all costs incurred in bringing each product to its present location and condition.

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, and 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
Camp and infrastructure	Straight-line	2 years
Vehicles and equipment	Straight-line	5 years
Office furniture and computer equipment	Straight-line	3 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 Exploration and evaluation assets

Exploration and evaluation ("E&E") assets comprise mineral properties and deferred exploration expenditures. Expenditures incurred on activities that precede exploration for and evaluations of mineral resources, being all expenditures incurred prior to securing the legal rights to explore an area, are expensed immediately.

E&E assets include rights to explore on mineral properties ("mining rights"), paid or acquired through a business combination or an acquisition of assets, and costs related to the initial search for mineral deposits with economic potential or related to obtaining more information about existing mineral deposits.

Dundee Sustainable Technologies Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

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

2.9 Exploration and evaluation assets (cont'd)

Mining rights are recorded at acquisition cost or at fair value in the case of a devaluation caused by an impairment of value. Mining rights and options to acquire undivided interests in mining rights are depreciated only as these properties are put into commercial production.

From time to time, the Corporation may acquire or dispose of a property pursuant to the terms of an option agreement. Due to the fact that options are exercisable entirely at the discretion of the option holder, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received.

E&E expenditures for each separate area of interest are capitalized and include costs associated with prospecting, sampling, trenching, drilling and other work involved in searching for ore such as topographical, geological, geochemical and geophysical studies. They also reflect costs related to establishing the technical and commercial viability of extracting a mineral resource identified through exploration or acquired through a business combination or asset acquisition. E&E expenditures include overhead expenses directly attributable to the related activities.

When a mine project moves into the development phase following the demonstration of the technical feasibility and commercial viability of extracting a mineral resource, E&E expenditures capitalized are transferred to mine development costs in property, plant and equipment.

Cash flows attributable to capitalized E&E expenditures are classified as investing activities in the consolidated statement of cash flows under the heading "addition to exploration and evaluation assets".

Proceeds on the sale of E&E assets are first applied by property in reduction of the mineral properties and then in reduction of the E&E expenditures. Any residual amounts are recorded in the consolidated statement of comprehensive loss.

2.10 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 its chlorination 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.

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

Dundee Sustainable Technologies Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

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

2.10 Intangible assets (cont'd)

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's intention to complete the intangible asset; iii) the Corporation's ability to use or sell the intangible asset; iv) the probability of generating measurable future economic benefits from the intangible asset; v) the availability of adequate technical, financial and other resources to complete the development of the intangible asset; and vi) the Corporation's 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.

2.11 Impairment of non-financial assets

Non-financial assets are reviewed for impairment when there is an 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 had no impairment previously been recognized. A reversal is recognized as a reduction in the depreciation or amortization charge for the year.

2.12 Share-based payments

The fair value of share options granted to employees is recognized as an expense or capitalized to E&E assets depending on the nature of the payment 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, the latter category 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.

2.13 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 based on their respective fair value within the unit, with the Black-Scholes option pricing model being used to determine the fair value of warrants issued.

Dundee Sustainable Technologies Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

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

2.14 Income taxes

Income tax on profit or loss for the years ended December 31, 2015 and 2014 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 income tax expense is the expected tax payable on 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 consolidated 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 tax 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.

2.15 Loss per share

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

The computation of diluted LPS assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on the LPS. 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 voting or common share is equal to the basic net loss per voting or common share due to the anti-dilutive effect of the outstanding warrants and share options.

2.16 Foreign currency translation

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

Dundee Sustainable Technologies Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

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

2.16 Foreign currency translation (cont'd)

Monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate in effect at the financial position reporting 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 year 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.

2.17 Accounting standards issued but not yet applied

a) IAS 1, "Presentation of Financial Statements"

In December 2014, the IASB issued amendments to IAS 1, clarifying guidance on the concepts of materiality and aggregation of items in the financial statements, the use and presentation of subtotals in the statements of net income or loss and comprehensive income or loss, and providing additional flexibility in the structure and disclosures of the financial statements to enhance understandability. The amendments to IAS 1 may be applied immediately and become mandatory for annual periods beginning on or after January 1, 2016. The Corporation has yet to assess the impact of the amendments to IAS 1 on its consolidated financial statements.

b) IFRS 9, "Financial Instruments"

In July 2014, the IASB issued final amendments to IFRS 9, replacing earlier versions of IFRS 9 already adopted by the Corporation. These amendments to IFRS 9 introduce a single, forward-looking "expected loss" impairment model for financial assets, which will require more timely recognition of expected credit losses, and a fair value through other comprehensive income category for financial assets that are debt instruments. Other previously issued amendments to IFRS 9 that have not yet been adopted by the Corporation include a substantially reformed approach to hedge accounting and requirements to recognize gains or losses that relate to the effect of an entity's own credit risk in measuring liabilities elected to be measured at fair value outside of net income or loss. The amendments to IFRS 9 that are not yet adopted by the Corporation are effective for annual periods beginning on or after January 1, 2018 and are available for earlier adoption. The Corporation has yet to assess the full impact of the amendment to IFRS 9 on its consolidated financial statements, and it has not yet determined whether the new amendments will be adopted earlier than at the required date of implementation.

c) IFRS 15, "Revenue from Contracts with Customers"

In May 2014, the IASB issued IFRS 15, which supersedes IAS 18, "Revenue", IAS 11, "Construction Contracts," and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of their revenue recognition criteria. IFRS 15 is to be applied prospectively and is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The adoption of IFRS 15 is not expected to have a material impact on the Corporation's consolidated financial statements.

d) IAS 16, "Property, Plant and Equipment" and IAS 38, "Intangible Assets"

In May 2014, the IASB issued amendments to IAS 16 and IAS 38 to clarify acceptable methods of depreciation and amortization. The amended IAS 16 eliminates the use of a revenue-based depreciation method for items of property, plant and equipment. Similarly, amendments to IAS 38 eliminate the use of a revenue-based amortization method for intangible assets except in certain specific circumstances. The amendments are to be applied prospectively and are effective for annual periods beginning on or after January 1, 2016, with earlier adoption permitted. The amendments are not expected to have a material impact on the Corporation's consolidated financial statements.

Dundee Sustainable Technologies Inc.

Notes to Consolidated Financial Statements

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(Expressed in Canadian dollars)

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

2.17 Accounting standards issued but not yet applied (cont'd)

e) IFRS 16, "Leases"

IFRS 16, issued in January 2016, replaces IAS 17, "Leases". IFRS 16 results in most leases being reported on the balance sheet for lessees, eliminating the distinction between a finance lease and an operating lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted for entities that also adopt IFRS 15. The Corporation is currently assessing the impact of this standard on its consolidated financial statements.

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.

3.1 Significant judgments

a) Impairment of non-financial assets

Impairment of intangible assets

Intangible assets are reviewed for an indication of impairment at each financial position reporting 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's 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's failure to raise the required funds to continue its development activity; if development activities have failed in demonstrating that the Corporation's technology is effective or if the Corporation has decided to discontinue such activities in the specific area; and if sufficient data exists to indicate that, although the Corporation is able to demonstrate that its technology is effective, the carrying amount of the assets is unlikely to be recovered in full from successful exploitation or by sale because of significant negative industry or economic trends and a significant drop in commodity prices.

Impairment of exploration and evaluation assets

Pursuant to the Corporation's significant accounting policies, after the legal right to undertake E&E activities on a project is acquired, the cost of acquiring mining rights and expenditures directly related to the E&E of mining properties are capitalized to E&E assets. After capitalization, E&E assets are reviewed for impairment on an ongoing basis and if there is any indication that the carrying amount may not be recoverable.

Dundee Sustainable Technologies Inc.

Notes to Consolidated Financial Statements

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

3.1 Significant judgments (cont'd)

a) Impairment of non-financial assets (cont'd)

Determining whether there are any facts and circumstances indicating impairment loss or reversal of impairment losses is a subjective process involving judgment and a number of estimates and interpretations in many cases. Determining whether to test for impairment E&E assets requires management's judgment regarding the following:

- a) The period for which the Corporation has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- b) Substantive expenditure on further E&E of mineral resources in a specific area is neither budgeted nor planned;
- c) Exploration for and evaluation of mineral resources in a specific area have not led to the discovery of commercially viable quantities of mineral resources and the Corporation has decided to discontinue such activities in the specific area; or
- d) Sufficient data exists to indicate that, although a development in a specific area is likely to proceed, the carrying amount of the E&E asset is unlikely to be recovered in full from successful development or by sale.

Additional external factors which could trigger an impairment review include, but are not limited to, significant negative industry or economic trends and significant drops 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 expenditures 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. Differences arising between the actual results following final resolution of some of these items and the assumptions made could necessitate adjustments in future years.

3.2 Significant estimations

a) Fair value of financial instruments

Certain financial instruments are recorded in the Corporation's consolidated statement 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 financial position 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 income recorded for a particular investment in a particular period.

Dundee Sustainable Technologies Inc.

Notes to Consolidated Financial Statements

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

3.2 Significant estimations (cont'd)

b) Impairment of non-financial assets

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.

When an indication of impairment loss or a reversal of an impairment loss exists, the recoverable amount of the individual asset must be estimated. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the CGU to which the asset belongs must be determined. Identifying the CGUs requires considerable management judgment. In testing an individual asset or CGU for impairment and identifying a reversal of impairment losses, management estimates the recoverable amount of the asset or the CGU. This requires management to make several assumptions as to future events or circumstances. These assumptions and estimates are subject to change if new information becomes available. Actual results with respect to impairment losses or reversals of impairment losses could differ in such a situation, and significant adjustments to the Corporation's assets and losses may occur during the next year.

The total impairment charge of the E&E assets recognized in the consolidated statement of comprehensive loss amounts to \$22,245,407 for the year ended December 31, 2014.

No impairment charge of the intangible assets nor reversal of impairment losses of the E&E assets and intangible assets has been recognized for the year ended December 31, 2015.

c) Convertible debenture

In accordance with the substance of a contractual arrangement, convertible debentures are compound financial instruments which are accounted for separately by their components: a financial liability and an equity instrument. The financial liability, which represents the obligation to pay coupon interest on the convertible debentures in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance.

The identification of convertible debenture components is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability component is also based on a number of assumptions, including contractual future cash flows, discount factors, and the presence of any derivative financial instruments.

4. ACQUISITION OF CRESO EXPLORATION INC.

On April 1, 2014, a wholly owned subsidiary of the Corporation amalgamated with Creso, after which the Corporation indirectly acquired all of the issued and outstanding common shares, options and warrants of Creso which it didn't already own. On that date, the Corporation already owned 19,779,000 common shares and 9,500,000 warrants of Creso.

The shareholders of Creso received 63,615,477 subordinate voting shares of the Corporation on the basis of 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.

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4. ACQUISITION OF CRESO EXPLORATION INC. (CONT'D)

The amount recorded for the subordinate voting shares issued in the transaction was determined using the average 30-day closing quoted market price of the Corporation's shares on the Canadian Securities Exchange ("CSE") using trading data at the start of listing on April 8, 2014.

The fair value of warrants issued was estimated using the Black-Scholes pricing model based on the following weighted average assumptions: risk-free interest rate of 1.08%, average projected volatility of 64%, dividend yield of nil, expected life of warrants of 0.68 years and fair value per subordinate voting share of \$0.27.

The fair value of options issued was estimated using the Black-Scholes option pricing model based on the following weighted average assumptions: risk-free interest rate of 1.15%, average projected volatility of 64%, dividend yield of nil, expected life of options of 1.82 years and fair value per subordinate voting share of \$0.27.

The transaction is accounted for as a purchase of Creso's net identifiable assets by the Corporation. The assets and liabilities acquired are recorded at their estimated fair values as at the transaction date. The excess of the purchase price over the net monetary assets is allocated to E&E assets.

The following table presents the total consideration paid and the Corporation's allocation of the consideration paid to the acquired assets and liabilities of Creso:

Purchase price:

63,615,477 subordinate voting shares of the Corporation	\$	17,176,178
12,456,566 warrants of the Corporation issued		580,446
2,545,000 options of the Corporation issued		182,300
Fair value of the Creso common shares already owned by the Corporation ⁽¹⁾		2,670,165
Fair value of the Creso warrants already owned by the Corporation ⁽¹⁾		243,598
Transaction costs of the Corporation		278,408
	\$	21,131,095

Net assets acquired:

Cash	\$	88,461
Sales taxes receivable		46,962
Prepaid expenses		5,316
Property, plant and equipment		101,871
Exploration and evaluation assets		22,084,828
Accounts payable and accrued liabilities ⁽²⁾		(496,343)
Short-term loan due to the Corporation ⁽³⁾		(700,000)
	\$	21,131,095

(1) Refer to Note 5 *Investments*

(2) Accounts payable and accrued liabilities include \$132,013 due to the Corporation.

(3) Short-term loan includes \$500,000 according to an agreement dated July 10, 2013 and \$200,000 according to an agreement dated December 20, 2013. The unsecured notes were due on July 10, 2014 and bear interest at 6% per annum payable at maturity.

Dundee Sustainable Technologies Inc.

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5. INVESTMENTS

The Corporation's investments are classified as FVTPL.

	2015	2014
	\$	\$
Common shares of Creso		
Balance – beginning	-	2,274,585
Change in fair value	-	395,580
Acquisition of Creso (Note 4)	-	(2,670,165)
Balance – end	-	-
Warrants of Creso		
Balance – beginning	-	496,069
Change in fair value	-	(252,471)
Acquisition of Creso (Note 4)	-	(243,598)
Balance – end	-	-

	2015		2014	
	Realized	Unrealized	Realized	Unrealized
	\$	\$	\$	\$
Publicly traded securities	-	-	395,580	-
Warrants	-	-	(252,471)	-
	-	-	143,109	-

6. PROPERTY, PLANT AND EQUIPMENT

	Camp and infrastructure	Vehicles and equipment	Office furniture and computer equipment	Total
	\$	\$	\$	\$
Gross carrying amount				
Balance – January 1, 2015	101,871	47,000	134,085	282,956
Disposition	(11,064)	-	-	(11,064)
Balance – December 31, 2015	90,807	47,000	134,085	271,892
Accumulated depreciation				
Balance – January 1, 2015	43,658	9,400	129,958	183,016
Disposition	(11,064)	-	-	(11,064)
Depreciation	58,213	9,400	2,858	70,471
Balance – December 31, 2015	90,807	18,800	132,816	242,423
Net carrying amount – December 31, 2015	-	28,200	1,269	29,469

Dundee Sustainable Technologies Inc.

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6. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Camp and infrastructure	Vehicles and equipment	Office furniture and computer equipment	Total
Gross carrying amount	\$	\$	\$	\$
Balance – January 1, 2014	-	47,000	134,085	181,085
Acquisition of Creso	101,871	-	-	101,871
Balance – December 31, 2014	101,871	47,000	134,085	282,956
Accumulated depreciation				
Balance – January 1, 2014	-	-	126,169	126,169
Depreciation ⁽¹⁾	43,658	9,400	3,789	56,847
Balance – December 31, 2014	43,658	9,400	129,958	183,016
Net carrying amount – December 31, 2014	58,213	37,600	4,127	99,940

⁽¹⁾ Depreciation charges of camp and infrastructure are related to specific E&E projects and are capitalized as E&E assets.

7. EXPLORATION AND EVALUATION ASSETS

	As at December 31, 2013	Creso acquisition	Additions	Impairment	As at December 31, 2014
	\$	\$	\$	\$	\$
Mineral properties					
Ontario, Canada					
Shining Tree	-	22,084,828	573	(22,085,401)	-
E&E expenditures					
Shining Tree	-	-	160,006	(160,006)	-
	-	22,084,828	160,579	(22,245,407)	-

a) Shining Tree properties

The Corporation's mineral exploration holdings, consisting of 100%-owned Minto, Tyranite, Duggan and Mann properties, are located in the Shining Tree mining camp of Northern Ontario.

b) Net Smelter Royalties ("NSR")

A third party holds an option ("NSR Option") to purchase, under certain conditions, a perpetual 2% NSR on gold and other minerals produced from the Shining Tree Camp. In addition, some of the exploration properties are subject to NSR agreements with other parties, between 1% and 3% once mine production commences, subject to partial buy-back by the Corporation under certain conditions.

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7. EXPLORATION AND EVALUATION ASSETS (CONT'D)

c) Impairment of exploration and evaluation assets

As at December 31, 2014, the Corporation recorded impairment charges of all costs on the Shining Tree properties. These properties were acquired as part of the acquisition of Creso (Note 4) with the intent of using the mineral extracted from the properties to further advance the testing of its proprietary technological processes and for future processing. The Corporation has subsequently decided to foreclose any further investment or funding of the properties in order to de-risk the extraction cost and is in the process of arranging for alternative means to obtain the minerals needed to complete the testing.

Accordingly, the recoverable amount of the undeveloped properties was determined to be nil. The fair value less costs to sell for these properties is estimated to be a nominal amount, considering the depressed market conditions and the fact that substantial expenditures are required in order to delineate mineral resources. The value in use is also estimated to be nominal, considering the properties' current stage of development.

8. INTANGIBLE ASSETS

	As at December 31, 2014	Additions	Amortization	As at December 31, 2015
	\$	\$	\$	\$
Intellectual properties – Oxide	605,000	-	-	605,000
Patent application fees – Oxide	129,474	-	-	129,474
Development cost – Oxide	5,809,233	-	-	5,809,233
Less: SR&ED tax credit	(1,929,894)	-	-	(1,929,894)
	4,613,813	-	-	4,613,813

	As at December 31, 2013	Additions	Amortization	As at December 31, 2014
	\$	\$	\$	\$
Intellectual properties – Oxide	605,000	-	-	605,000
Patent application fees – Oxide	129,474	-	-	129,474
Software	3,124	-	(3,124)	-
Development cost – Oxide	5,809,233	-	-	5,809,233
Less: SR&ED tax credit	(1,929,894)	-	-	(1,929,894)
	4,616,937	-	(3,124)	4,613,813

9. GOVERNMENT ASSISTANCE

In June 2013, the Corporation entered into an agreement (the "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 chlorination 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 an aggregate amount of \$3,821,270 from SDTC corresponding to the eligible activities that it will undertake.

Dundee Sustainable Technologies Inc.

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9. GOVERNMENT ASSISTANCE (CONT'D)

Deferred contribution from SDTC	Year ended December 31,	
	2015	2014
	\$	\$
Balance – beginning	1,055,677	-
SDTC grant received	-	3,164,727
Reclassification of deferred contribution through profit or loss as per eligible expenditures incurred during the year	(1,055,677)	(2,109,050)
Balance – end	-	1,055,677

10. SHORT-TERM LOAN FROM A RELATED PARTY

On January 7, 2014, Dundee agreed to loan \$3,000,000 to the Corporation (the “First Loan”). The funds from this loan were disbursed on January 31, 2014. The First Loan bears interest at the rate of 12.68% per annum and is secured by a hypothec, *pari passu* with Investissement Québec’s (“IQ”) convertible debenture and Canada Economic Development for Quebec Regions, contribution (“CED”), over all of the Corporation’s property other than its intellectual property. The interest is payable concurrently with the repayment of the First Loan.

On July 3, 2014, Dundee agreed to make available, under certain conditions, an additional \$3,000,000 to the Corporation (the “Second Loan”) under the same terms as the First Loan. From July 4 to December 31, 2014, an aggregate of \$2,650,000 was advanced by Dundee to the Corporation.

On July 10, 2014, Dundee sold, transferred, assigned and conveyed the First and Second Loans to its wholly owned subsidiary, Dundee Resources Limited.

In 2015, the principal amount of the Second Loan was increased to \$4,650,000 and the maturity dates of the First and Second Loans were extended to the earlier of May 31, 2016 and the date at which the Corporation raises the sum of \$10,000,000 or greater by way of debt or equity. An additional amount of \$2,000,000 was advanced during 2015. The Corporation has the option to repay the First and Second Loans at any time.

Short-term loan	Year ended December 31,	
	2015	2014
	\$	\$
Balance – beginning	6,105,473	-
Principal amount	2,000,000	5,650,000
Finance costs accrued	922,113	455,473
Balance – end	9,027,586	6,105,473

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11. CONVERTIBLE DEBENTURE AND LOANS

11.1 Convertible debenture

On May 15, 2015, the Corporation completed a \$5,000,000 financing with IQ consisting of a secured convertible loan in an amount of up to \$4,000,000 (the "IQ Loan") and a private placement of subordinated voting shares of \$1,000,000.

The IQ Loan, which is evidenced by a secured convertible debenture, will mature in five years, bears interest at a rate of 8% per annum, payable quarterly, and can be converted after one year at the holder's option into subordinate voting shares of the Corporation at a conversion price equal to the closing market price of the shares on the day prior to conversion. After the first anniversary of the IQ Loan, the Corporation has the right to redeem the IQ Loan subject to a 10% premium.

IQ will advance this loan to the Corporation during the construction and operation by the Corporation of its demonstration plant, based on the Corporation's liquidity needs, subject to a number of conditions. IQ advanced \$1,900,000 on July 13, 2015, and the Corporation paid \$71,211 in interest during 2015.

The IQ Loan is secured by a hypothec, *pari passu* with Dundee's loan and CED's contribution, over all of the Corporation's property other than its intellectual property and is guaranteed by Dundee in an amount of up to \$1,500,000.

In connection with the financing, the Corporation has entered into an agreement with IQ granting IQ the right to appoint one member of the Board of Directors of the Corporation.

The fair value of the debt component was estimated at \$1,642,950 using an effective rate of 11.7% corresponding to a rate that the Corporation would have obtained for a similar non-subsidized financing. No value has been assigned to the equity conversion option, as the conversion price is equal to the closing market price of the shares on the day prior to conversion.

The Corporation incurred cash issuance costs of \$92,201 that were recorded against the debt component and amortized using the effective interest rate method.

	Year ended December 31
	2015
	\$
Proceeds from issue of convertible debenture	1,900,000
Cash issuance costs	(92,201)
Debt discounted at fair value (Note 15)	(257,050)
Carrying amount of the liability component as at July 13, 2015	1,550,749
Accretion expense	28,237
Carrying amount of the liability component as at December 31, 2015	1,578,986

11.2 CED contribution agreement

On June 16, 2015, the Corporation entered into an agreement with CED pursuant to which it will receive a \$900,000 repayable contribution (the "CED Contribution"). The CED Contribution will be used by the Corporation for the acquisition of equipment for its demonstration plant (the "Project") in Thetford Mines. Payments by CED will be made over the term of the Project, which must be completed at the latest by July 31, 2016. The CED Contribution is non-interest bearing, secured and repayable in equal monthly installments over seven years starting three years after the end of the Project. As at December 31, 2015, the Corporation hasn't drawn from the CED Contribution.

Dundee Sustainable Technologies Inc.

Notes to Consolidated Financial Statements

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11. CONVERTIBLE DEBENTURE AND LOANS (CONT'D)

11.2 CED contribution agreement (cont'd)

The CED Contribution is secured by a hypothec, pari passu with Dundee's and IQ's loans, over all of the Corporation's property other than its intellectual property.

11.3 Bridge loans

In 2015, two unsecured bridge loans, payable on demand, of \$500,000 in aggregate, were advanced to the Corporation. The loans were reimbursed in 2015, including interest of \$10,000 in aggregate.

12. SHARE CAPITAL

12.1 Authorized

On December 31, 2015 and 2014, the authorized capital of the Corporation consisted of an unlimited number of subordinate 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 entitled to 10 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 outstanding at year-end. The holders 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 have the same rights and restrictions.

12.2 Reorganization

On January 8, 2014, the following amendments to the articles of incorporation became effective:

- a) to change the name of the Corporation to "Dundee Sustainable Technologies Inc." in English and "Dundee Technologies Durables Inc." in French;
- b) to change the designation of the common shares to "subordinate 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.

12.3 Issued and outstanding

Year ended December 31, 2015

On May 15, 2015, the Corporation issued 15,384,615 subordinate voting shares to IQ, for proceeds to the Corporation of \$1,000,000 and incurred cash issuance costs of \$64,876.

Year ended December 31, 2014

In connection with the acquisition of Creso described in Note 4, the Corporation issued 63,615,477 of its subordinate voting shares. The Corporation's issued shares were accounted for at the fair value of the issued shares, fair value being determined using the average 30-day closing quoted market price of the Corporation's shares on the CSE using trading data at the start of listing on April 8, 2014.

Dundee Sustainable Technologies Inc.

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12. SHARE CAPITAL (CONT'D)

12.4 Warrants

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

	2015		2014	
	Number of warrants	Carrying amount	Number of warrants	Carrying amount
		\$		\$
Balance – beginning	52,570,000	1,188,056	50,000,000	1,036,125
Issued for Creso acquisition	-	-	12,456,566	580,446
Exercised	(50,000,000)	(1,036,125)	(412,000)	(20,754)
Expired	(2,570,000)	(151,931)	(9,474,566)	(407,761)
Balance – end	-	-	52,570,000	1,188,056

On July 9, 2015, all of the 50,000,000 warrants held by Dundee have been exercised for an equal number of subordinate voting shares at a price of \$0.10 per warrant for aggregate proceeds to the Corporation of \$5,000,000.

In 2014, the weighted average exercise price was \$0.20.

13. STOCK OPTION PLAN

The Corporation maintains a stock option plan (the "Plan"), which provides that the Board of Directors of the Corporation may, from time to time, at its discretion and in accordance with the CSE requirements, grant to directors, officers, employees and consultants of the Corporation, non-transferable options to purchase in cash subordinate voting shares of the Corporation, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding subordinate voting shares of the Corporation.

Under the Plan, such options will be exercisable for a period of up to five years from the grant date. Options granted are exercisable on the grant date, unless otherwise stated by the Board of Directors. Options issued to consultants performing investor relations activities must vest in stages over 12 months, with no more than one-fourth of the options vesting in any three-month period. The exercise price shall not be less than that permitted under the rules of any stock exchange on which the subordinate voting shares are listed.

On October 2, 2014, the Corporation granted a total of 1,502,500 stock options to its directors, officers, employees and a consultant, and 500,000 to consultants performing investor relations activities. These options are exercisable at \$0.20 per share and vested at the grant date except for the options granted to the consultants performing investor relations activities, which will vest in stages over 12 months. These options expire on the fifth anniversary of their grant date. The fair value of options awarded was established at \$0.13 per share.

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13. STOCK OPTION PLAN (CONT'D)

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

	2015		2014	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance – beginning	22,652,500	\$ 0.16	21,425,000	\$ 0.12
Issued for Creso acquisition	-	-	2,545,000	0.51
Awarded	-	-	2,002,500	0.20
Exercised ⁽¹⁾	-	-	(2,750,000)	0.10
Expired	(2,075,000)	0.54	(570,000)	0.29
Balance – end	20,577,500	0.13	22,652,500	0.16

(1) The weighted average market share price at the exercise date was \$0.20.

As at December 31, 2015, outstanding and exercisable options are as follows:

Number of options	Exercise price	Expiry date
	\$	
5,200,000	0.10	June 8, 2016
2,500,000	0.10	July 10, 2016
1,000,000	0.20	July 10, 2016
700,000	0.20	August 3, 2016
100,000	0.10	October 1, 2016
50,000	0.10	December 15, 2016
150,000	0.20	December 15, 2016
475,000	0.20	February 20, 2017
100,000	0.20	July 23, 2017
600,000	0.20	February 6, 2018
7,400,000	0.10	December 12, 2018
602,500	0.20	October 2, 2019
1,700,000	0.20	November 27, 2022
20,577,500		

The residual weighted average contractual term of outstanding options was 2.07 years as at December 31, 2015 (2014 – 3.44 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:

	2015	2014
Expected life	-	5 years
Risk-free interest rate	-	1.59%
Expected volatility	-	83%
Expected dividend yield	-	0%
Share price	-	\$0.20

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14. ESCROW AGREEMENT

As at December 31, 2015, 81,255,824 subordinate voting shares, 22,500,000 multiple voting shares and 4,140,000 options of the Corporation are subject to an escrow agreement with one-third of these escrowed securities being releasable in April 2016, October 2016 and April 2017.

15. RESEARCH AND DEVELOPMENT

	Year ended December 31,	
	2015	2014
	\$	\$
Research and development	5,726,345	8,317,420
Tax credit and industrial research assistance program	(11,406)	(235,457)
SDTC contribution	(1,055,677)	(2,109,050)
Government subsidy on convertible debenture	(257,050)	-
	4,402,212	5,972,913

16. 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% (2014 – 26.9%) as a result of the following items:

	2015	2014
	\$	\$
Loss before tax at statutory rate of 26.9% (2014 – 26.9%)	(2,057,445)	(8,387,094)
Effect on taxes of		
Non-deductible expenses	(189,084)	19,004
Tax effect on initial recognition exemption	-	2,240,810
Unrecognized tax benefit	2,246,529	6,127,280
Income tax expense	-	-

Recognized deferred income tax assets and liabilities

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

	2015	2014
	\$	\$
Deferred income tax assets		
Tax loss carryforwards	86,353	-
Deferred income tax liabilities		
Convertible debenture	(86,353)	-
	-	-

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16. INCOME TAXES (CONT'D)

Unrecognized deductible temporary differences

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

	2015	2014
	\$	\$
Tax loss carryforwards	31,066,000	22,380,000
Capital loss	811,000	-
Unclaimed SR&ED expenditures	7,826,000	9,619,000
Exploration and evaluation assets	13,871,000	13,871,000
Capital assets	4,490,000	2,727,000
Share and warrant issue expenses	68,000	75,000
SDTC contribution	-	1,056,000
Other	147,000	54,000
	58,279,000	49,782,000

The loss carryforwards expire between 2024 and 2035 and the unclaimed SR&ED expenditures as well as the capital loss have no expiries. In addition, the Corporation has unused tax credits of \$1,065,000 (2014 – \$1,107,000) which expire between 2023 and 2034.

17. RELATED PARTY TRANSACTIONS

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

	2015	2014
	\$	\$
Directors or companies held by directors		
Professional and consulting fees ⁽¹⁾	248,922	406,771
Officers or companies held by officers		
Professional fees	397,591	550,011
	646,513	956,782

⁽¹⁾ During 2015, the compensation to the CEO amounting to \$240,000 was paid by Dundee and is included in accounts payable and accrued liabilities as at December 31, 2015.

Compensation of key management

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

	2015	2014
	\$	\$
Officers' and directors' professional and consulting fees	701,889	953,899
Share-based payments	-	136,500
	701,889	1,090,399

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18. COMMITMENTS

18.1 Construction of a demonstration plant

In connection with the contribution 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 at June 1, 2013, consortium agreements were signed with Creso and Dundee Precious Metals. Dundee had earlier confirmed to the SDTC its intention to arrange the required financing of the construction of the demonstration plant on its own or with the help of third parties.

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

The Corporation has spent a total of \$15,988,186 in this regard, from which \$10,934,486 was incurred in 2013 and 2014. The difference of \$5,053,700 was incurred in 2015 and included in the consolidated statement of comprehensive loss under research and development. As at December 31, 2015, the Corporation has a firm purchasing commitment for \$46,797 (2014 – \$369,101) towards equipment and services relating to the demonstration plant.

18.2 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 10-year period at an annual rent of \$204,380 that is subject to a yearly increase of 1.5%.

On March 5, 2015, the Corporation renewed the lease for the head office for an additional year ending on June 30, 2016 for a total amount of \$53,371.

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

	2015	2014
	\$	\$
Less than 1 year	238,030	239,355
Between 1 and 5 years	877,557	864,589
More than 5 years	575,177	799,490

19. 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 handles the financial risks. The Corporation does not enter into financial instrument agreements, including derivative financial instruments, for speculative purposes.

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

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

19.1 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, 2015, the Corporation has cash and cash equivalents of \$1,679,490 (2014 – \$290,488) to settle accounts payable and accrued liabilities of \$647,311 (2014 – \$953,141).

As at December 31, 2015, management estimates that funds available will not be sufficient to meet the Corporation's obligations and budgeted expenditures through December 31, 2016 (Note 1).

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, except for the convertible debenture and for an amount of \$240,000 without interest payable on demand to Dundee that is recorded in accounts payable and accrual liabilities. The Corporation regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity.

19.2 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, 2015, cash amounted to \$1,679,490, of which \$1,672,796 is denominated in Canadian dollars and \$6,694 in US dollars. Other financial instruments are all denominated in Canadian dollars.

19.3 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 and sales taxes and other receivables. The Corporation's cash and cash equivalents are held mainly with Canadian chartered banks, which reduces credit risk.

19.4 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, 2015 and 2014, no cash was invested by the Corporation in this way.

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

19.5 Fair value hierarchy

The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, fair value is determined by management using available market information or other valuation methodologies.

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

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

As at December 31, 2015 and as at the transaction date of July 13, 2015, the fair value of the convertible debenture was determined based on estimated discounted cash flows associated with the effective interest rate and the principal payments, using Level 2 fair value measurements. The significant inputs used in the determination of fair value have been disclosed in Note 11.

20. POLICIES AND PROCESS TO MANAGE CAPITAL

As at December 31, 2015, the capital of the Corporation consists of deficiency amounting to \$4,390,270. 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 regulators or contractual requirements to which it is subject. Changes in capital for the years ended December 31, 2015 and 2014 are described in the consolidated statements of changes in deficiency.

21. SUPPLEMENTAL CASH FLOW INFORMATION

	Year ended December 31,	
	2015	2014
	\$	\$
Interest income received	10,948	13,236
Finance cost paid	81,261	-
Additions to exploration and evaluation assets included in accounts payable and accrued liabilities	-	18,145
Depreciation of property, plant and equipment included in exploration and evaluation assets	-	43,658