

BIOPOWER INVESTMENT CORPORATION
AMENDED OFFERING MEMORANDUM

Dated for reference June 1, 2016

OFFERING MEMORANDUM

Date: June 1, 2016

BIOPOWER INVESTMENT CORPORATION (the “Corporation”)

#301-958 West 8th Avenue, Vancouver BC V5Z 1E5
T: 604-568-9869 F: 604-568-9830
E: general@smgasset.ca

Currently Listed or Quoted? **These securities do not trade on any exchange or market.**

Reporting Issuer? No

SEDAR Filer? No

The Offering

Securities Offered: Class “B” non-voting non-redeemable common shares
(the “Class B Shares”)

Price per Security: \$10 per Class B Share

Maximum/Minimum Offering: \$25,000,000 maximum offering (the “**Offering**”) through the sale of up to 2,500,000 Class B Shares. To date, 202,548 Class B Shares have been issued for gross proceeds of \$2,025,480. **There is no minimum. Funds available under the Offering may not be sufficient to accomplish our proposed objectives.**

Minimum Subscription Amount:
(Canadian Residents) \$15,000 through the purchase of one thousand, five hundred (1,500) Class B Shares (or such lesser amount as the Corporation, in its sole discretion, may accept). No partial shares may be purchased.

Payment Terms: Payment for the Class B Shares must be made in full by certified cheque, bank draft, electronic funds transfer, or other means satisfactory to the Corporation. Payment must be made to the Corporation upon execution of an agreement (the “**Subscription Agreement**”) or at such later date determined by the General Partner in its sole discretion. See Item 5.2 – “**Subscription Procedure**”.

Proposed Closing Date(s): Continuous offering until the maximum Offering is achieved. Closings may occur from time to time as subscriptions are received.

Income Tax Consequences There are important tax consequences to these securities. See Item 6 – “**Income Tax Consequences and RRSP Eligibilities**”.

Selling Agent:

SMG Securities Inc.

See Item 7 – *“Compensation Paid to Sellers and Finders”*.

Eligibility for Investment: Provided the Corporation qualifies as a "public corporation" that is not a "mortgage investment corporation" (all within the meaning of the Tax Act) and subject to the Deferred Plans' investment policies, the Class B Shares, when issued, will be a qualified investment under the Tax Act for Deferred Plans, and, as such, any dividends received or receivable on the Class B Shares or gains realized upon a disposition or deemed disposition of the Class B Shares will not be taxable to Deferred Plans. If at any time the Class B Shares are a prohibited investment for an RRSP, RRIF or TFSA, the annuitant of the RRSP or RRIF or the holder of the TFSA, as the case may be, may be subject to adverse tax consequences. See **"Item 6. Income Tax Consequences and Deferred Plans Eligibility"** and **"Item 8. Risk Factors – Tax Aspects"**.

Resale Restrictions: You will be restricted from selling your securities for an indefinite period. See Item 10 – *“Resale Restrictions”*.

Purchasers' Rights: You have two (2) business days to cancel your agreement to purchase these securities. If there is a misrepresentation in this Offering Memorandum, you have the right to sue either for damages or to cancel the Subscription Agreement. See Item 11 – *“Purchasers' Rights”*.

No securities regulatory authority or regulator has assessed the merits of these securities or reviewed this Offering Memorandum. Any representation to the contrary is an offence. This is a risky investment. See Item 8 – *“Risk Factors”*.

The Corporation is a company formed under the laws of the Province of British Columbia and was formed for the sole purpose of acquiring Class A Units (the “**Partnership Units**”) of SMG BioPower Limited Partnership (the “**Limited Partnership**”).

The Limited Partnership is a limited partnership formed under the laws of the Province of British Columbia. The affairs of the Limited Partnership are governed by a limited partnership agreement (the “**Limited Partnership Agreement**”) dated for reference the 13th day of March, 2015 and are subject to certain restrictions contained therein. BioPower Drytec Corp., the General Partner, (the “**General Partner**”), has exclusive authority to administer, manage, control and generally carry on the business of the Limited Partnership.

The Limited Partnership intends to use the available funds pursuant to this Offering for the purposes described in the Limited Partnership Offering Memorandum, which is attached to this Offering Memorandum as Schedule A.

This Offering Memorandum does not constitute, and may not be used for or in conjunction with, an offer or solicitation of the Class B Shares by anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorized by us or to any person to whom it is unlawful to make such an offer or solicitation, and this Offering Memorandum is not, and under no circumstances is to be construed as, a public offering or advertisement of the Class B Shares. You should inform yourself of, and observe all, legal requirements and restrictions of your jurisdiction of residence in respect of the acquisition, holding and disposition of the Class B Shares hereby offered.

The Class B Shares offered by this Offering Memorandum will be issued only on the basis of information contained in this Offering Memorandum and provided by the Corporation in writing, and no other information or representation is authorized or may be relied upon as having been authorized by the Corporation. Any subscription for the Class B Shares hereby offered made by any person on the basis of statements or representations not contained in this Offering Memorandum or so provided, or inconsistent with the information contained herein or therein, shall be solely at the risk of such person. Neither the delivery of this Offering Memorandum at any time nor any sale to you of any of the Class B Shares hereby offered shall, under any circumstances, constitute a representation or create any implication that there has been no change in the business and affairs of the Corporation since the date of the sale to you of the Class B Shares hereby offered or that the information contained herein is correct as of any time subsequent to that date.

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SCHEDULE “A” LIMITED PARTNERSHIP OFFERING MEMORANDUM

GLOSSARY

In this Offering Memorandum, unless the context otherwise requires, the following words or expressions have the following meanings:

“**Act**” means the Securities Act (British Columbia);

“**BCSC**” means the British Columbia Securities Commission;

“**Class B Shares**” means Class B non-voting and non-redeemable common shares in the authorized share structure of the Corporation being offered for sale under the Offering;

“**Concurrent Offering**” means the offering of Class A Voting and Non-redeemable Limited Partnership Units of SMG BioPower Limited Partnership under the Limited Partnership Offering Memorandum dated for reference on June 1, 2016 and attached hereto in this Offering Memorandum as Schedule A;

“**Corporation**” means BioPower Investment Corporation;

“**Deferred Plan**” means an RRSP (including a locked-in retirement account or a locked-in retirement savings plan which qualifies as an RRSP), an RRIF (including a life income fund or a locked-in retirement income fund which qualifies as an RRIF), an RESP, a DPSP, an RDSP or a TFSA;

“**General Partner**” means BioPower Drytec Corp., the general partner of the Limited Partnership;

“**IFRS**” means the International Financial Reporting Standards;

“**Insider of the Corporation**” means a person who would be an "insider of a corporation" as defined in Regulation 4803(1) of the Tax Act if the references therein to "corporation" were read as references to the Corporation;

“**Investment Mandates**” means the investment mandates of the Limited Partnership, as described in the Limited Partnership Offering Memorandum;

“**Limited Partners**” means the limited partners of the Limited Partnership;

“**Limited Partnership**” means SMG BioPower Limited Partnership;

“**Limited Partnership Agreement**” means the limited partnership agreement made as of March 13, 2015;

“**Limited Partnership Offering Memorandum**” means SMG BioPower Limited Partnership Offering Memorandum attached to this Offering Memorandum as Schedule A;

“**Offering**” means the offering of up to 2,500,000 Class B Shares at \$10 per Class B Share;

“**Partnership Units**” means Class A Voting and Non-redeemable Limited Partnership Units of the Limited Partnership, having the characteristics described in the Limited Partnership Offering Memorandum;

“Regulations” means the principal Canadian federal income tax considerations under the Tax Act and the regulations thereto;

“Shareholder” means individuals (including trusts) and corporations holding Class B Shares;

“Subscription Agreement” means the agreement for the subscription of Class B Shares; and

“Tax Act” means the Income Tax Act (Canada).

FORWARD LOOKING STATEMENTS

This Offering Memorandum contains forward-looking statements. These statements relate to future events of the Corporation and the Partnership's future performance. All statements other than statements of historical fact are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "targeting", "intend", "could", "might", "continue" or the negative of these terms or other comparable terminology. These statements are only predictions. In addition, this Offering Memorandum may contain forward-looking statements attributed to third-party industry sources. Undue reliance should not be placed on these forward-looking statements as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur and may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The forward-looking statements contained in this Offering Memorandum are expressly qualified by this cautionary statement.

INTRODUCTION

This continuous offering (the “**Offering**”) by the Corporation consists of a maximum of 2,500,000 Class B Shares. To date, the Corporation has issued 202,548 Class B Shares. The Corporation was formed on April 13, 2015 pursuant to the laws of British Columbia. The Corporation was formed for the sole purpose of acquiring Partnership Units of the Limited Partnership and reference should be made to the Partnership Offering Memorandum attached as Schedule A to this Offering Memorandum.

Throughout this Offering Memorandum, we describe the business and financial position of the Corporation. The audited financial statements of the Corporation as of December 31, 2015 are included in this Offering Memorandum under Item 12 – “***Financial Statements***”. These financial statements are described in Canadian dollars and expressed in accordance with International Financial Reporting Standards (“**IFRS**”).

Item 1. Use of Available Funds

1.1 Available Funds

		Assuming min. Offering ⁽¹⁾	Assuming max. offering
A.	Amount to be raised by this Offering	\$0	\$25,000,000
B.	Selling commissions and fees ⁽²⁾	\$0	\$3,750,000
C.	Estimated offering costs (e.g., legal, accounting, audit)	\$50,000	\$250,000
D.	Available funds: $D = A - (B+C)$	(\$50,000)	\$21,000,000
E.	Additional sources of funding (e.g. line of credit or other financing commitment)	\$0	\$4,000,000 ⁽³⁾
F.	Working capital deficiency	\$0	\$0
G.	Total: $G = (D+E) - F$	(\$50,000)	\$25,000,000

(1) Although there is no minimum offering to date 202,548 Class B Shares have been issued. The Corporation will issue Class B Shares on a continuous basis to investors at a Subscription Price of \$10 per Class B Share. Refer to Item 4.3 - ***“Prior Sales”***.

(2) The Corporation may engage an authorized Selling Agent(s) in any territory of Canada, the United States, or another foreign jurisdiction where a distribution of Class B Shares pursuant to this Offering Memorandum is authorized. The maximum commission or fee payable to such Selling Agent will be 15% of the Subscription Price. To date, all selling commissions and fees have been paid to SMG Securities Inc. Refer to Item 7 - ***“Compensation Paid to Sellers and Finders”***.

(3) Effective May 1, 2016, the Corporation shall use 100% of the funds it receives on Class B Shares subscription to purchase the Partnership Units. The Limited Partnership shall use such funds it receives from the Corporation to pay for selling commissions and fees, legal, accounting, general and administrative expenses on behalf of the Corporation. These expenses the Limited Partnership pays on behalf of the Corporation shall be recorded in the due to/from related party account between the entities. In the event of a future distribution to the holders of the Class B Shares and/or dissolution of the Limited Partnership, the related party account payable the Corporation owes to the Limited Partnership must be settled in priority to any distributions or wind-up proceeds payable to the holders of Class B Shares. The Limited Partnership’s payment of the aforementioned expenses on behalf of the Corporation is treated similarly as additional funding resources made available to the Corporation and is presented as such.

1.2 Use of Available Funds

We plan to spend the available funds from the Offering as follows:

Description of intended use of available funds listed in order of priority	Assuming Min. Offering	Assuming Max. Offering
The remaining available funds of this Offering shall be used to purchase Partnership Units. See Item 2.2 Our Business	\$0	\$25,000,000 ⁽¹⁾
Total	\$0	\$25,000,000

(1) Consistent with Item 1.1 point (3) above, effective May 1, 2016, the Corporation shall use 100% of the gross proceeds received on Class B Shares issuance to purchase Partnership Units. The Limited Partnership in turn shall pay for certain expenses (see Item 1.1 point (3) such as selling commission (15% of gross proceeds), offering costs (\$250,000), and general and administrative expenses (estimated up to \$100,000 per year), on behalf of the Corporation. These amounts paid on behalf of the Corporation shall become related party balance the Corporation owes to the Limited Partnership and shall be repaid in full in priority to future distributions and dissolution proceeds payable to the holders of Class B Shares.

1.3 Reallocation

We intend to spend the available funds as stated. We will reallocate funds only for sound business reasons. See Item 2.2 - ***“Our Business”***.

Item 2. Business of the Corporation

2.1 Structure

The Corporation is a corporation incorporated under the BCA pursuant to a Certificate of Incorporation dated April 13, 2015. The Corporation’s head office is located at #301 – 958 West 8th Avenue, Vancouver British Columbia, V5Z 1E5 and its registered office is located at Suite 2600, 1066 West Hastings Street, Vancouver, British Columbia V6E 3X1.

The authorized share structure of the Corporation consists of an unlimited number of Class B Shares and an unlimited number of Class A common shares (“**Class A Shares**”). The Class A Shares have a par value of \$1.00 and are voting shares but are not entitled to dividends. In addition, upon liquidation or dissolution of the Corporation, the Class A Shares are entitled only to receive the amount paid up on the Class A Shares.

The Class B Shares have a par value of \$10.00, are non-voting, non-redeemable, and are entitled to dividends if, and when, declared by the directors of the Corporation. In addition, upon liquidation or dissolution of the Corporation, the Class B Shares are entitled to receive the amount paid-up on the Class B Shares together with any declared but unpaid dividends to which the holder is entitled. Thereafter, the holders of the Class B Shares will be entitled to receive and share among themselves equally, on a per share basis, any property or assets of the Corporation remaining for distribution.

The Limited Partnership was formed in British Columbia on March 13, 2015 pursuant to a Certificate of Limited Partnership. The Limited Partnership is governed by the Limited Partnership Agreement and is subject to the provisions of the *Partnership Act*.

2.2 Our Business

2.2.1 Current Business of the Corporation

The primary business of the Corporation is to raise capital through the issuance of Class B Shares and to use such capital to purchase Partnership Units.

The Corporation is raising funds pursuant to this Offering for the purpose of purchasing Partnership Units in the Partnership pursuant to the Partnership Offering. As at May 31, 2016, the Corporation has raised \$2,025,480 through the sale of Class B Shares. **See Item 4.3 Prior Sales.** The Corporation has purchased 136,036 Partnership Units of the Limited Partnership totaling \$1,360,360 of May 31, 2016.

The Limited Partnership was formed in British Columbia on March 13, 2015 pursuant to a Certificate of Limited Partnership. A maximum of 2,500,000 Partnership Units at a price of \$10 per Partnership Unit are being offered under the Partnership Offering Memorandum.

The Partnership intends to use the available funds raised pursuant to the Partnership Offering to pursue the Investment Mandates as described in the Partnership Offering Memorandum. **See Item 2.2 of the Partnership Offering Memorandum attached hereto as Schedule A.**

Effective May 1, 2016, the Corporation shall use 100% of the funds it receives on Class B Shares subscription to purchase the Partnership Units. The Limited Partnership shall use such funds it receives from the Corporation to pay for selling commissions and fees, legal, accounting, general and administrative expenses on behalf of the Corporation. These expenses the Limited Partnership pays on behalf of the Corporation shall be recorded in the due to/from related party account between the entities. In the event of a future distribution to the holders of the Class B Shares and/or dissolution of the Limited Partnership, the related party account payable the Corporation owes to the Limited Partnership must be settled in priority to any distributions or wind-up proceeds payable to the holders of Class B Shares. The Limited Partnership's payment of the aforementioned expenses on behalf of the Corporation is treated similarly as additional funding resources made available to the Corporation and is presented as such.

2.2.2 Offering Structure

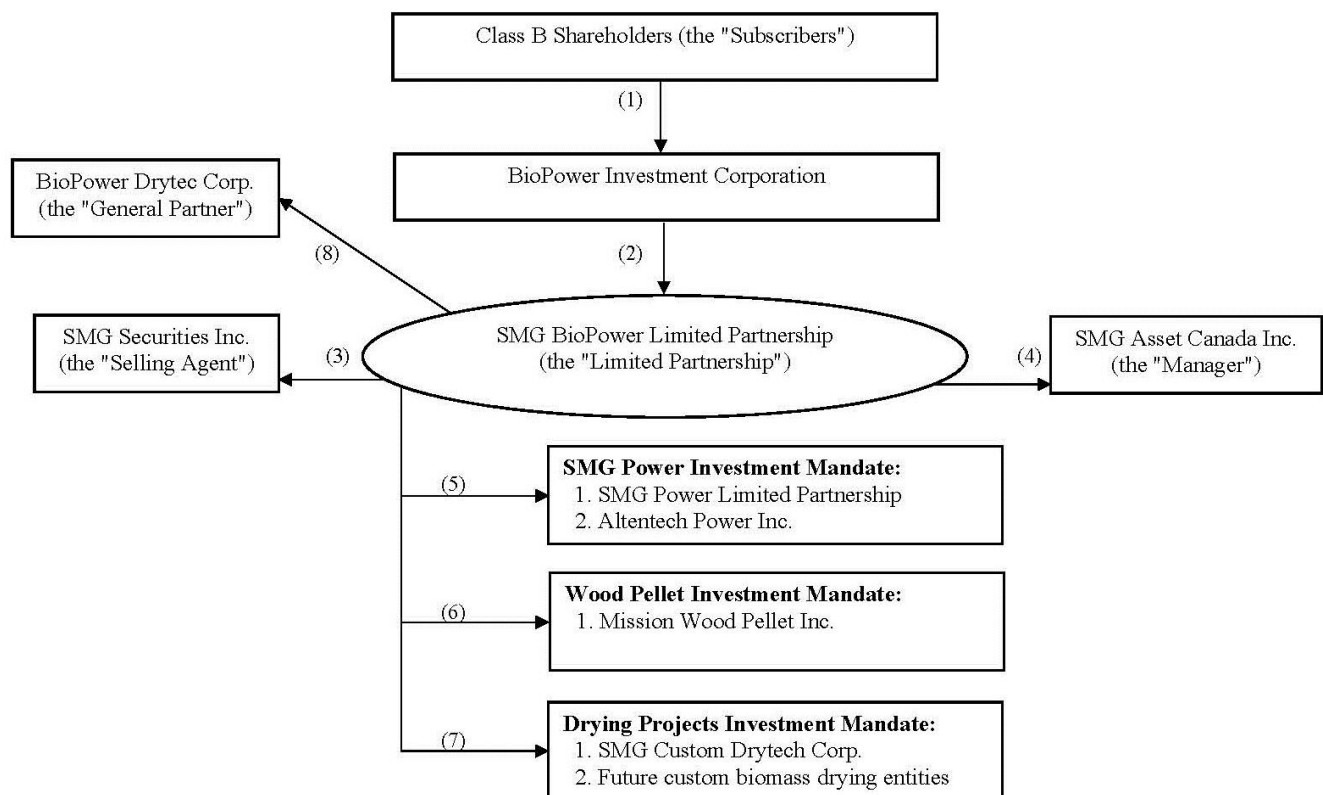
The purpose of this Offering is to allow Subscribers to participate in an investment in the Partnership Units, indirectly through acquiring Class B Shares in the Corporation. **See Item 5.1**

Terms of Securities.

Subscribers are strongly encouraged to consult their tax advisors as to the tax consequences of acquiring, holding and disposing of the Class B Shares purchased pursuant to this Offering.

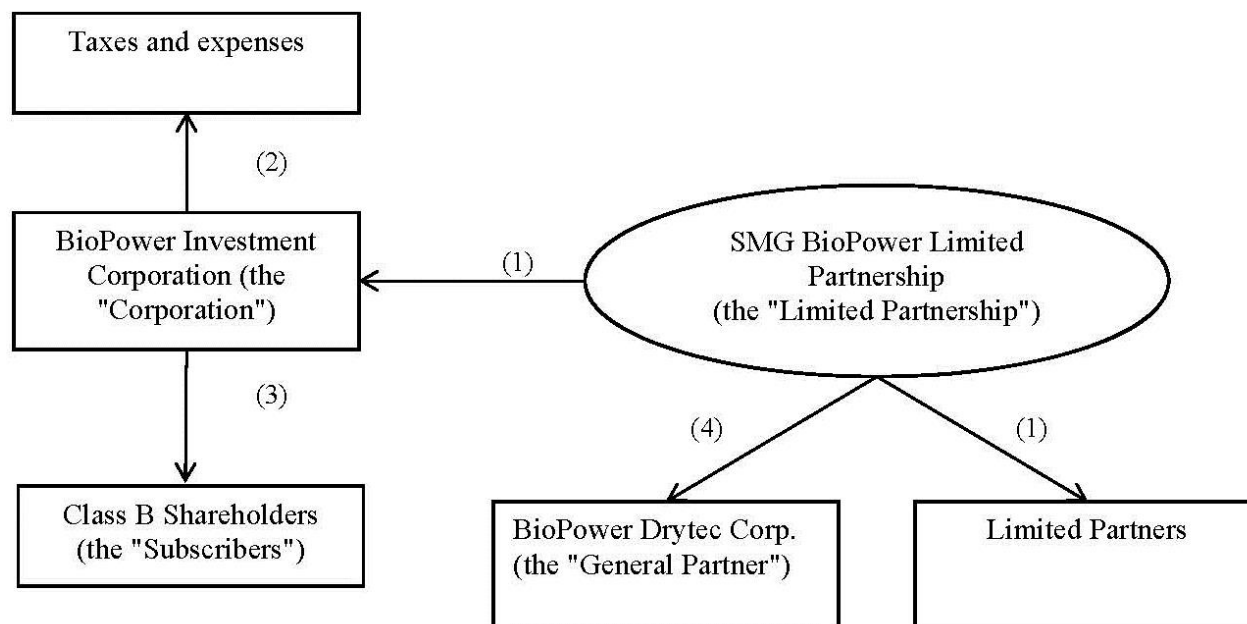
2.2.3 Structure and Investment Chart

The following represents the distribution of funds from a Subscriber pursuant to this Offering resulting in the acquisition of Partnership Units by the Corporation:



- (1) Subscribers advance subscription proceeds to the Corporation pursuant to this Offering, in exchange for the Class B shares of the Corporation
- (2) The Corporation acquires units in the Limited Partnership with the available funds of this Offering
- (3) Selling commission calculated at 15% of gross proceeds raised in this Offering is payable to the Selling Agent, SMG Securities Inc.
- (4) Management fee calculated at 5% of gross proceeds raised is payable to the Manager, SMG Asset Canada Inc.
- (5) Investments to be made by the Limited Partnership to the SMG Power Investment Mandate
- (6) Investments to be made by the Limited Partnership to the Wood Pellet Investment Mandate
- (7) Investments to be made by the Limited Partnership to the Drying Projects Investment Mandate
- (8) The General Partner will receive 20% of the total distribution available to both the General Partner and Limited Partners, including profits and losses earned by the Limited Partnership

The following represents the proposed distribution of funds by the Partnership in the event of a cash distribution to holders of Partnership Units by the Partnership:



- (1) The Limited Partnership makes a distribution of proceeds to its Limited Partners (including the Corporation).
- (2) The Corporation pays its applicable taxes and expenses.
- (3) Profits are distributed to holder of Class B Shares if and when a dividend is declared by the Board of Directors of the Corporation. The holders of Class B Shares may be paid dividends solely out of all profits or surpluses related to the Corporation's holdings of Partnership Units available for distribution.
- (4) The General Partner will receive 20% of the total distribution available to both the General Partner and Limited Partners, including profits and losses earned by the Limited Partnership

2.3 Development of Business

The Corporation was incorporated on April 13, 2015 pursuant to the BCA. Since formation, the business of the Corporation has been to raise capital through the issuance of Class B Shares and to use such capital to purchase Partnership Units. Refer to the **Limited Partnership Offering Memorandum attached hereto as Schedule A.**

2.4 Short-Term Objectives and How We Intend to Achieve Them

What we must do and how we will do it	Target completion date or, if not known, number of months to complete	Our cost to complete
Raise up to a maximum of \$25,000,000 and use the available funds of this Offering to purchase Partnership Units.	0-18 months	\$25,000,000

2.5 Long-Term Objectives

The Corporation's long term goals are:

1. to complete the maximum Offering; and
2. to earn income from distributions to holders of Partnership Units acquired by the

Corporation with proceeds from the issuance of Class B Shares and to distribute such income to investors by way of dividends on the Class B Shares. Similarly, losses are allocated to the Partnership Units held by the Corporation and are recognized by the Corporation.

2.6 Insufficient Funds

All proceeds of this Offering will be used to acquire Partnership Units pursuant to the Partnership Offering. The Corporation does not intend to hold any significant cash reserves. The proceeds of this Offering may not be sufficient to accomplish all of the Corporation's proposed objectives and there is no assurance that alternative financing will be available. Refer to Item 8 - ***"Risk Factors"***.

2.7 Material Agreements

The following are the key terms of all material agreements which the Corporation has or expects to enter into and can reasonably be regarded as being material to the Corporation or a prospective purchaser of the Class B Shares.

The Limited Partnership Offering Memorandum

The Limited Partnership Offering Memorandum is attached hereto as Schedule A. The Corporation was formed solely for the purpose of acquiring Partnership Units pursuant to the Limited Partnership Offering Memorandum. The Limited Partnership Offering Memorandum summarizes the terms of the Partnership Offering, the proposed business of the Partnership and some of the terms of the Partnership Agreement.

Subscribers under this Offering should review the Partnership Offering Memorandum with their legal and tax advisors. **Subscribers under this Offering will not have any rights under the Partnership Offering Memorandum.**

The Partnership Agreement

The Partnership Agreement is attached as Schedule "A" to the Partnership Offering Memorandum. The Corporation is a party to the Partnership Agreement as a limited partner pursuant to its acquisition of Partnership Units. As a result, the Partnership Agreement is a material agreement to the Corporation. **Subscribers to this Offering will not be parties to the Partnership Agreement and will not have any rights thereunder.**

Subscribers should review the Partnership Agreement with their legal and accounting advisors.

Item 3. Interests of Directors, Management, Promoters and Principal Holders

3.1 Compensation and Securities Held

Name and municipality of principal residence	Positions held (e.g., director, officer, promoter and/or principal holder) and the date of obtaining that position	Compensation paid by issuer or related party in the most recently completed financial year and the compensation anticipated to be paid in the current financial year	Number, type and percentage of securities of the issuer held after completion of minimum offering		Number, type and percentage of securities of the issuer held after completion of maximum offering	
			(#)	(%)	(#)	(%)
Hee Dong Hong, Coquitlam B.C	Director, President of the Corporation (since incorporation)	\$nil	\$nil	\$nil	\$nil	\$nil
Meng (Simon) Xu, Burnaby B.C	Director, Secretary of the Corporation (since incorporation)	\$nil	\$nil	\$nil	\$nil	\$nil
Wei Chen (Mike) Hsu, Burnaby B.C	Chief Operating Officer of the Corporation (since incorporation)	\$nil	\$nil	\$nil	\$nil	\$nil
Chun Te (Peter) Wu, Richmond B.C	Chief Financial Officer of the Corporation (since incorporation)	\$nil	\$nil	\$nil	\$nil	\$nil

3.2 Management Experience

The officers and directors of the Corporation are as follows:

Name	Principal occupation and related experience
Hee Dong Hong	Hee Dong Hong is a Director and the President of the Corporation and BioPower Drytec Corp., a Vice-President of SMG Advisors Inc., and a Senior Manager of SMG Securities Inc. Hee Dong has been a financial advisor for over 15 years and has worked with the SMG group of companies for over 10 years. Hee Dong has been active in the biomass energy markets since 2012.
Wei Chen (Mike) Hsu	Wei Chen (Mike) Hsu is the Chief Operating Officer for the Corporation and for BioPower Drytec Corp., a Vice-President of SMG Advisors Inc., and the President of SMG Securities Inc. Mike is a Certified Financial Planner with a Bachelor's degree in Business Administration with a specialization in Finance from Simon Fraser University.
Chun Te (Peter) Wu	Chun Te (Peter) Wu is the Chief Financial Officer of the Corporation and BioPower Drytec Corp. and SMG Asset Canada Inc., and the Chief Compliance Officer and Secretary of SMG Securities Inc. Peter is a Certified General Accountant and Chartered Accountant with a Bachelor's degree in Commerce with a specialization in Accounting from the University of British Columbia.
Meng (Simon) Xu	Meng (Simon) Xu is a Director and Secretary of the Corporation and BioPower Drytec Corp, a Vice-President of SMG Advisors Inc., and a Senior Manager of SMG Securities Inc. Simon is a Certified Financial Planner and has a Master's degree in Economics from Simon Fraser University.

3.3 Penalties, Sanctions and Bankruptcy

No penalties or sanctions have been in effect during the last ten (10) years nor has there been any cease trade order issued that was in effect for more than thirty (30) days during the past ten (10) years against:

- (a) any of the directors, executive officers or control persons of the Corporation; or
- (b) a company of which any of the directors, executive officers or control persons of the Corporation; was a director, executive officer or control person at the time.

None of the directors, executive officers or control persons of the Corporation; (or any company of which any of the directors, executive officers or control persons of the Corporation; was a director, executive officer or control person at that time) have ever declared bankruptcy or been involved in a voluntary assignment in bankruptcy or a proposal under any bankruptcy or insolvency legislation, or any proceedings, arrangement or compromise with creditors or appointment of a receiver, receiver manager or trustee to hold assets during the last ten (10) years.

3.4 Indebtedness

There is no indebtedness as at the date of this Offering Memorandum.

3.5 Potential Conflicts of Interest

None of the Corporation, or any director or officer of the Corporation, are in any way limited or affected in its or their ability to carry on other business ventures for their own accounts and for the accounts of others, or are now, or intend in the future to be, engaged in the development of, investment in and management of other clean energy sector projects. None of these persons will have any obligation to account to the Corporation, the Limited Partnership or the Limited Partners for profits made in such other activities. Refer to Item 8 – *“Risk Factors – Conflicts of Interest”*.

Item 4. Capital Structure

4.1 Share Capital of the Corporation

Description of security	Number authorized to be issued	Price per security	Number outstanding as at May 31, 2016	Number outstanding after min. offering	Number outstanding after max. offering
Class A Shares	Unlimited	\$1.00 (par value)	100 ⁽¹⁾	100	100
Class B Shares	Unlimited	\$10.00 (par value)	202,548	N/A	2,500,000

⁽¹⁾Issued to BioPower Drytec Corp., being the General Partner of the Limited Partnership.

Special Rights and Restrictions

The rights and restrictions attached to the shares of the Corporation may be summarized as follows:

	Par Value	Dividend Entitlement	Voting Rights	Priority on Liquidation
Class A	\$1.00	No	Yes	Priority only up to the amount paid for such shares (the “paid-up capital”).
Class B	\$10.00	Yes	No	After the holders of the Class A Shares receive their paid-up capital, entitled to the paid-up capital on the Class B Shares, any declared and unpaid dividends and all remaining property and assets of the Corporation.

4.2 Long-Term Debt

Description of long term debt (including whether secured)	Interest rate	Repayment terms	Amount outstanding
N/A	N/A	N/A	N/A

4.3 Prior Sales

Class A Shares

An aggregate of 100 Class A Shares are outstanding as at the date of this Offering Memorandum. The 100 Class A Shares which have been issued were subscribed for by the General Partner, BioPower Drytec Corp. The Class A Shares are not offered under this Offering Memorandum.

Date of issuance	Type of security issued	Number of securities issued	Price per security	Total funds received
April 13, 2015	Class A Shares	100	\$1.00	\$100.00

Class B Shares

A total of 202,548 Class B non-voting non-redeemable shares have been issued as at the date of this Offering Memorandum. The below table summarizes information about the issuance of the Class B shares since March 2015.

Date of Issue	Type of Security	Number of Securities Issued	Price per Security	Total Funds Received
June 15, 2015	Class B Shares	9,300	\$ 10.00	93,000
June 24, 2015	Class B Shares	4,500	\$ 10.00	45,000
June 26, 2015	Class B Shares	13,691	\$ 10.00	136,910
June 30, 2015	Class B Shares	11,670	\$ 10.00	116,700
July 10, 2015	Class B Shares	11,670	\$ 10.00	116,700
July 16, 2015	Class B Shares	10,170	\$ 10.00	101,700
July 21, 2015	Class B Shares	12,500	\$ 10.00	125,000
July 23, 2015	Class B Shares	2,770	\$ 10.00	27,700
July 27, 2015	Class B Shares	4,610	\$ 10.00	46,100
August 5, 2015	Class B Shares	5,000	\$ 10.00	50,000
August 21, 2015	Class B Shares	1,500	\$ 10.00	15,000
August 26, 2015	Class B Shares	1,600	\$ 10.00	16,000
August 31, 2015	Class B Shares	1,600	\$ 10.00	16,000
September 3, 2015	Class B Shares	1,500	\$ 10.00	15,000
September 18, 2015	Class B Shares	2,500	\$ 10.00	25,000
September 25, 2015	Class B Shares	2,000	\$ 10.00	20,000
September 30, 2015	Class B Shares	1,500	\$ 10.00	15,000
October 2, 2015	Class B Shares	7,000	\$ 10.00	70,000
October 8, 2015	Class B Shares	1,500	\$ 10.00	15,000

October 15, 2015	Class B Shares	3,000	\$ 10.00	30,000
October 20, 2015	Class B Shares	1,500	\$ 10.00	15,000
October 28, 2015	Class B Shares	2,000	\$ 10.00	20,000
October 30, 2015	Class B Shares	1,850	\$ 10.00	18,500
November 3, 2015	Class B Shares	1,800	\$ 10.00	18,000
December 23, 2015	Class B Shares	3,000	\$ 10.00	30,000
December 31, 2015	Class B Shares	2,000	\$ 10.00	20,000
January 4, 2016	Class B Shares	1,500	\$ 10.00	15,000
January 11, 2016	Class B Shares	1,500	\$ 10.00	15,000
January 18, 2016	Class B Shares	3,135	\$ 10.00	31,350
January 21, 2016	Class B Shares	2,000	\$ 10.00	20,000
January 25, 2016	Class B Shares	6,000	\$ 10.00	60,000
February 2, 2016	Class B Shares	3,000	\$ 10.00	30,000
February 5, 2016	Class B Shares	3,500	\$ 10.00	35,000
February 10, 2016	Class B Shares	5,053	\$ 10.00	50,530
February 12, 2016	Class B Shares	4,164	\$ 10.00	41,640
February 16, 2016	Class B Shares	2,500	\$ 10.00	25,000
February 18, 2016	Class B Shares	2,500	\$ 10.00	25,000
February 22, 2016	Class B Shares	4,500	\$ 10.00	45,000
February 29, 2016	Class B Shares	5,550	\$ 10.00	55,500
March 2, 2016	Class B Shares	2,000	\$ 10.00	20,000
March 4, 2016	Class B Shares	3,850	\$ 10.00	38,500
March 7, 2016	Class B Shares	6,670	\$ 10.00	66,700
March 8, 2016	Class B Shares	1,000	\$ 10.00	10,000
March 9, 2016	Class B Shares	2,000	\$ 10.00	20,000
April 7, 2016	Class B Shares	14,850	\$ 10.00	148,500
April 14, 2016	Class B Shares	1,000	\$ 10.00	10,000
April 19, 2016	Class B Shares	1,000	\$ 10.00	10,000
April 22, 2016	Class B Shares	2,000	\$ 10.00	20,000
May 2, 2016	Class B Shares	1,545	\$ 10.00	15,450

Item 5. Description of Securities

5.1 Terms of Securities

The terms of the Class B Shares are described under Item 4.1. The terms of the Partnership Units are set out in the Partnership Offering Memorandum.

5.2 Subscription Procedure

- (a) A purchaser can subscribe for the securities by receiving and reviewing this Offering Memorandum, completing and signing two copies of the Subscription Agreement and the Risk Acknowledgment Form and returning one signed copy of the Subscription Agreement and the Risk Acknowledgement Form together with a bank draft payable to BioPower Investment Corporation and delivering them to BioPower Drytec Corp. at the address shown on the Subscription Agreement.
- (b) The consideration will be held in trust for at least the mandatory two-day period and otherwise until the subscription is accepted by BioPower Investment Corporation by signing the acceptance on the completed Subscription Agreement. The acceptance will normally take place on the next closing date shown on the Subscription Agreement. Closings may also occur periodically, as determined by the Corporation.

Distribution

The Class B Shares are being offered to investors residing in the province of British Columbia pursuant to exemptions (the “**NI 45-106 Exemptions**”) from the prospectus and, where applicable, the registration requirements afforded by NI 45-106 sections 2.3 (accredited investor exemption), 2.9 (offering memorandum exemption) and 2.10 (minimum amount investment exemption).

The NI 45-106 Exemptions relieve us from the obligation under applicable securities legislation to file and obtain a receipt for a prospectus. Accordingly, prospective investors will not receive the benefits associated with a subscription for securities issued pursuant to a filed prospectus, including the review of material by securities regulatory authorities.

Please carefully review the accompanying Subscription Agreement to determine the exemption requirements that apply to you.

Purchasers will be required to make certain representations in the Subscription Agreement, and the Corporation will rely on such representations, to establish the availability of the NI 45-106 Exemptions. No subscription will be accepted unless the Corporation is satisfied that the subscription is in compliance with applicable securities legislation. Investors other than individuals must also represent to the Corporation (and may be required to provide additional evidence at the request of the Corporation to establish) that such investor was not formed solely in order to make private placement investments that may not have otherwise been available to any persons holding an interest in such investor.

The following persons and entities may not invest in Class B Shares of the Corporation:

- (a) “non-Canadians” within the meaning of the *Investment Canada Act* (Canada);
- (b) “non-residents” of Canada, “tax shelters”, “tax shelter investments” or any entities an investment in which would be a “tax shelter investment” within the meaning of the Tax Act;
- (c) “financial institutions” within the meaning of section 142.2 of the Income Tax Act (Canada) (the “**Tax Act**”); or
- (d) a partnership that does not have a prohibition against investment by the persons referred to in the foregoing paragraphs (a), (b) and (c).

Item 6. Income Tax Consequences and Deferred Tax Eligibility

You should consult your own professional advisors to obtain advice on the tax consequences that apply to you. All investors will be responsible for the preparation and filing of their own tax returns in respect of this investment.

In the opinion of the Corporation, the following summary describes the principal Canadian federal income tax considerations under the Tax Act generally applicable to a person who acquires Class B Shares pursuant to this Offering Memorandum and who, for purposes of the Tax Act and at all relevant times, is resident in Canada, holds the Class B Shares as capital property and deals at arm's length and is not affiliated with the Corporation. Generally, the Class B Shares will be considered to be capital property to a person provided the person does not hold the Class B Shares in the course

of carrying on a business and has not acquired the Class B Shares in one or more transactions considered to be an adventure in the nature of trade. Certain persons who might not otherwise be considered to hold their Class B Shares as capital property may, in certain circumstances, be entitled to have the Class B Shares, and all other "Canadian securities" (as defined in the Tax Act), owned by such persons, treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act.

This summary is not applicable to a person (i) that is a "financial institution" (as defined in the Tax Act for the purposes of the mark-to-market rules); (ii) that is, or is controlled by, a "specified financial institution" (as defined in the Tax Act); (iii) to whom the functional currency reporting rules in section 261 of the Tax Act apply; or (iv) an interest in which would be a "tax shelter investment" (as defined in the Tax Act). In addition, this summary does not address the deductibility of interest by a person who has borrowed money or otherwise incurred debt to acquire Class B Shares.

This summary is based upon the provisions of the Tax Act in force as of the date hereof, all specific proposals to amend the Tax Act that have been publicly announced prior to the date hereof by the Minister of Finance (Canada) ("**Tax Proposals**") and the Corporation's understanding, based upon publicly available materials, of the current administrative and assessing policies of the Canada Revenue Agency. This summary is not exhaustive of all possible Canadian federal income tax considerations and, except for the Tax Proposals, does not take into account or anticipate any changes in the law, whether by legislative, governmental or judicial action, nor does it take into account provincial, territorial or foreign tax considerations, which may differ significantly from those discussed herein.

This summary is of a general nature only and is not intended to be legal or tax advice to any particular purchaser of Class B Shares. Consequently, prospective purchasers should seek independent professional advice regarding the tax consequences of investing in the Class B Shares, based upon their own particular circumstances.

The Corporation intends to file an election to become a public corporation for purposes of the Tax Act with effect from the beginning of its first taxation year and this summary assumes that such election will be filed in prescribed form and on a timely basis and that the Corporation will meet the requirements to be a public corporation no later than the timely filing of such election and at all material times thereafter. If the Corporation is not a public corporation at all material times the Class B Shares will not be a qualified investment for Deferred Plans and adverse tax consequences could result for such plans and their annuitants (as defined herein). One of the requirements for the Corporation to qualify as a public corporation is that it will have at least 150 separate holders of the Class B Shares, each holding a minimum of \$500 worth of Shares and none of whom is an Insider of the Corporation. The Corporation may hold Closings of the Offering prior to this requirement being met and there is no guarantee that this requirement will be met. See "**Item 8 – Risk Factors – Tax Aspects**".

Dividends

Generally, taxable dividends received (or deemed to be received) on the Class B Shares will be included in the Shareholder's income. An amount paid by the Corporation upon a redemption, acquisition, or cancellation of the Class B Shares will be deemed to be a taxable dividend to the extent it exceeds the paid-up capital of the Class B Shares. A distribution on the winding-up, discontinuance or reorganization of the Corporation's business will be deemed to be a taxable dividend to the extent the amount distributed exceeds the amount, if any, by which the paid-up

capital in respect of the Shares is reduced upon the distribution.

A taxable dividend received (or deemed to be received) by an individual will be subject to the gross-up and dividend credit rules under the Tax Act normally applicable to taxable dividends received from a taxable Canadian corporation, as defined in the Tax Act. An enhanced dividend tax credit in respect of "eligible dividends" designated by the Corporation will be available to individual Shareholders. Taxable dividends received (or deemed to be received) by an individual (including certain trusts) may give rise to a liability for alternative minimum tax.

Taxable dividends received (or deemed to be received) by a corporation will be included in the corporate holder's income, but generally will be deductible in computing such holder's taxable income, subject to certain restrictions contained in the Tax Act. A holder that is a "private corporation" or a "subject corporation" (as defined in the Tax Act) may be liable to pay a refundable tax, generally imposed at 33⅓% on taxable dividends received, to the extent such dividends are deductible in computing the corporate Shareholder's taxable income.

Distributions in the form of return of capital by the Corporation will generally be deemed to have been paid as a dividend unless the payment is made by way of a redemption, acquisition or cancellation of Shares, or on the winding-up, discontinuance, or reorganization of the Corporation's business. Upon a winding-up of the Corporation's business, all or part of a distribution to Shareholders may be a return of capital that would not be deemed to be a dividend. A return of paid-up capital that is not deemed to be received by a holder as a dividend will reduce the adjusted cost base of a holder's Class B Shares. If such reduction causes the adjusted cost base of a holder's Shares to become a negative amount, the negative amount will be deemed to be a capital gain from a disposition of the Class B Shares and will be subject to tax under the Tax Act in the manner described below under the heading "Capital Gains and Losses". The adjusted cost base of the holder's Class B Shares immediately thereafter will be zero.

Capital Gains and Losses

A disposition or deemed disposition by a Shareholder will result in a capital gain (or capital loss) to the Shareholder to the extent that the proceeds of disposition of such Shares, net of reasonable costs of disposition, exceed (or are less than) the adjusted cost base of the Class B Shares. A Shareholder's adjusted cost base of the Class B Shares generally will be the Shareholder's subscription price for the Class B Shares, subject to certain adjustments in accordance with the Tax Act.

One-half of the capital gain realized by a Shareholder from a disposition or deemed disposition of Class B Shares must be included in computing the Shareholder's income as a taxable capital gain. One-half of a capital loss realized in a taxation year from a disposition or deemed disposition of Class B Shares will be deductible as an allowable capital loss against taxable capital gains realized in that year, and to the extent such allowable capital losses exceed taxable capital gains in the year, may be applied in the three previous taxation years or any subsequent taxation year, subject to certain restrictions contained in the Tax Act.

The amount of any capital loss realized by a corporation on the disposition of Shares may be reduced by the amount of any dividend received or deemed to be received by such corporation on such Class B Shares (or on substituted shares) as described in the Tax Act. Similar rules may apply where a corporation is a member of a partnership or a beneficiary of a trust that, directly or indirectly, owns Class B Shares.

A Shareholder that is an individual or trust may be liable to pay alternative minimum tax as a result

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of realizing a capital gain. A Shareholder that is a Canadian-controlled private corporation, within the meaning of the Tax Act, will be liable to pay an additional refundable tax of 6 $\frac{2}{3}$ % on certain investment income, including taxable capital gains.

Deferred Plans

Provided the Corporation qualifies as a public corporation that is not a mortgage investment corporation (all within the meaning of the Tax Act), and subject to the Deferred Plans' investment policies, the Class B Shares, when issued, will be a qualified investment under the Tax Act for Deferred Plans. Provided the Class B Shares are a qualified investment under the Tax Act for Deferred Plans, any dividends received or receivable on the Class B Shares or gains realized upon a disposition or deemed disposition of the Class B Shares will not be taxable to Deferred Plans.

Generally, if the Corporation does not qualify or ceases to qualify as a public corporation at any time, the Class B Shares will not be, or will cease to be, qualified investments for Deferred Plans at that time. Where a Deferred Plan acquires or holds a Class B Share that is not, or that ceases to be, a qualified investment, adverse tax consequences may arise to the Deferred Plan and the annuitant, beneficiary, subscriber or holder (collectively, the "**annuitant**"), as the case may be, under the Deferred Plan, including that the Deferred Plan may become subject to a penalty tax, and the annuitant of such Deferred Plan may be deemed to have received income therefrom. Accordingly, Deferred Plans that propose to invest in Class B Shares should consult their own tax advisors before deciding to purchase Shares. See "**Item 8 – Risk Factors – Tax Aspects**".

If at any time the Class B Shares are a "prohibited investment" (as defined in the Tax Act) for an RRSP, RRIF or TFSA, the annuitant may be subject to adverse tax consequences. Generally, the Class B Shares should not be a prohibited investment under the Tax Act for an RRSP, RRIF or TFSA, provided that the annuitant (i) deals at "arm's length" with the Corporation, and (ii) does not have a "significant interest" in the Corporation (all for purposes of the Tax Act). Generally, an annuitant will not have a significant interest in the Corporation provided the annuitant, or the annuitant together with persons and partnerships with whom the annuitant does not deal at arm's length, does not own (nor is deemed to own pursuant to the Tax Act) directly or indirectly, 10% or more of the issued Shares or shares of any class of the capital stock of the Corporation. In addition, the Class B Shares will not be a prohibited investment if the Class B Shares are "excluded property" for purposes of the provisions of the Tax Act relating to prohibited investments. Prospective Subscribers should consult with their own tax advisors as to whether the Class B Shares would be prohibited investments under the Tax Act in their particular circumstances.

Investors should consult their own tax advisors regarding the tax implications of establishing, amending, terminating, or withdrawing amounts from a Deferred Plan.

Tax Considerations Pertaining to the Corporation

The Corporation will be subject to federal tax at ordinary corporate rates on income allocated to the Corporation from the Limited Partnership. The combined federal and British Columbia corporate tax rate on ordinary business income is 26%.

The Corporation is subject to taxation in each taxation year on its taxable income for that year, including any income allocated to the Corporation from the Limited Partnership during the year. However, dividends received by the Corporation are generally deductible in computing its taxable income.

In computing its income from a taxation year for purposes of the Tax Act, the Corporation may deduct reasonable administrative and certain other general expenses incurred in the taxation year for the purpose of gaining or producing income from business or property.

Tax Considerations Pertaining to the Partnership

The Canadian federal income tax considerations applicable to holders of the Partnership Units, including the Corporation, are material to a person who acquires, holds or disposes of Shares pursuant to this Offering Memorandum. Notwithstanding that the Corporation may be affiliated with or not deal at arm's length with the Partnership for purposes of the Tax Act and subject to the general summary of the Canadian federal income tax consequences to the Corporation of its investment in the Partnership Units contained herein, reference may be made to the discussion under the heading "Item 6 – Income Tax Consequences and RRSP Eligibility" contained in the Partnership Offering Memorandum which disclosure is incorporated by reference herein.

In the event that the Corporation is affiliated, as this term is defined in the Tax Act, with the Partnership, any loss that would otherwise be realized by the Partnership on the transfer of its property to the Corporation, or a person affiliated with the Corporation, may be deemed to be nil and not realized until such property is disposed of by the Corporation, or the person affiliated with the Corporation, as the case may be, to a non-affiliated person. Where the realization of the Partnership losses are deferred as a result of the foregoing rules, the Corporation's portion of such losses that would otherwise be allocated to it will also be deferred. Generally speaking, the Corporation will be considered to be affiliated with the Partnership where the Corporation owns more than 50% of the issued and outstanding Partnership Units.

In the event that the Corporation and the Limited Partnership are considered not to be dealing with each other at arm's length, as this term is defined in the Tax Act, and a transfer of property between the Corporation and the Limited Partnership is not done at fair market value, certain provisions in the Tax Act may apply to deem the transfer to have been done at fair market value. Generally speaking, the Corporation will not be considered to be dealing with the Partnership at arm's length where the Corporation owns more than 50% of the issued and outstanding Limited Partnership Units.

Item 7. Compensation Paid to Sellers and Finders

The Class B Shares will be offered for sale by individual agents and finders. Agents and finders who sell Class B Shares pursuant to this Offering may receive a commission of 15% of the gross proceeds of the sale of the Class B Shares. This commission may be (and has been) paid to SMG Securities Inc., which is a member of the SMG Group.

Item 8. Risk Factors

There are certain risks that potential subscribers should carefully consider, including the following factors.

Risks Factors Related to the Corporation and the Limited Partnership

The Corporation's current short and long term objective is to acquire Partnership Units. The Corporation does not intend to carry on any other business other than holding Partnership Units acquired by the Corporation. The Corporation's sole source of revenue is expected to be from distributions made by the Limited Partnership to its limited partners.

The Corporation's proposed investment in the Partnership involves a number of significant risks inherent to the Partnership. **Prospective investors should carefully consider the risk factors described under the heading "Risk Factors" in the Partnership Offering Memorandum in their assessment of the suitability of an investment in Class B Shares.**

Speculative Offering and Illiquid Investment

The Class B Shares offered by this Offering Memorandum are speculative, non-redeemable, and there is no market for the Class B Shares, which are subject to resale restrictions imposed under applicable Canadian securities legislation. Refer to Item 10 - ***"Resale Restrictions"***.

No Resale Market

Although the Class B Shares are transferable subject to certain restrictions contained in the constating documents of the Corporation, there is no market through which the Class B Shares may be resold and none is expected to develop. Subscribers may not be able to resell Class B Shares purchased under this Offering Memorandum.

No Review by Regulatory Authorities

This Offering Memorandum constitutes a private offering of the Class B Shares in British Columbia pursuant to prospectus and registration exemptions under the securities laws of these provinces. This Offering Memorandum is not, and under no circumstances is to be construed as, a prospectus, advertisement, or public offering of these Class B Shares. Neither this Offering Memorandum nor any other material relating to this Offering has been reviewed or considered by the British Columbia, the CRA, or any other governmental or regulatory authority.

Dividends

Although the Corporation intends to pay dividends on the Class B Shares, it may only do so if it receives distributions from the Limited Partnership on the Partnership Units it acquired. There are no assurances that the Corporation will receive any distributions or that it will have sufficient funds to pay dividends to holders of the Class B Shares.

Conflicts of Interest

Various conflicts of interest exist or may arise between the Corporation, the Limited Partnership and the General Partner, and other Limited Partnerships or entities within the SMG Group. Some of these conflicts may arise as a result of the power and authority of the General Partner to manage and operate the business and affairs of the Limited Partnership. These conflicts of interest may have a detrimental effect on the business of the Limited Partnership and, therefore, the Corporation. The General Partner will not engage in any business other than acting as general partner for the Limited Partnership. The General Partner's Affiliates may, and probably will, engage in other business ventures (the **"Conflicting Ventures"**), including, without limitation, acting as general partners, or

directors or officers of general partners, of other Limited Partnerships or entities which may invest in similar businesses. Neither the Limited Partnership nor any partners shall by virtue of the Limited Partnership Agreement or otherwise have any right, title or interest in or to such Conflicting Ventures.

Affiliates of the General Partner may, and probably will, earn finder's fees, placement fees and due diligence fees (collectively, "**Commissions**"), paid by clean energy sector companies in the form of monetary commissions, options, shares, rights to purchase shares, and/or share purchase warrants (without limitation), in consideration of its evaluation of clean energy sector companies and negotiation of terms with respect to financing from such companies, and shall have no duty to account for such fees to the Corporation, Limited Partnership, General Partner, or any of the Limited Partners (including the Corporation). Such fees shall be in line with normal practice and with levels prevailing in similar transactions where investment bankers and others who are at arm's length to the General Partner earn finder's fees, commission, and due diligence fees.

Affiliates of the General Partner may, and probably will, engage in selling of securities of issuers other than the Corporation and the Limited Partnership, some or all of which may be competing with the Corporation and the Limited Partnership for investors, as well as opportunities with clean energy sector companies. Moreover, the General Partner may make decisions to dispose of investments held by the Limited Partnership in the same clean energy sector companies in which Conflicting Ventures may wish to acquire an investment. Conversely, the General Partner may wish to acquire investments or other securities in the same clean energy sector companies in which Conflicting Ventures already hold securities, and which securities the Conflicting Ventures wish to dispose of. The Limited Partnership may acquire shares in clean energy sector companies, which are controlled by directors and officers of the General Partner or affiliates of the General Partner. Any of the aforementioned conflicts of interest, as well as others, may be difficult, if not impossible, to resolve equitably.

Tax Aspects

Canadian federal and provincial tax aspects and local tax aspects should be considered prior to investing in the Class B Shares (see "Item 6 – Income Tax Consequences and Deferred Tax Eligibility". The return on a Shareholder's investment may be affected by changes in Canadian federal, provincial and local tax laws, as applicable. The discussion of income tax considerations in this Offering Memorandum is based upon current income tax laws and regulations. There can be no assurance that: (a) applicable tax laws, regulations or judicial or administrative interpretations will not be changed; (b) applicable tax authorities will not take a different view as to the interpretation or the application of tax laws and regulations than the Corporation or than as set out in this Offering Memorandum; or (c) the facts upon which the tax discussions set out in this Offering Memorandum are based are materially correct. Any of the preceding may fundamentally alter the tax consequences to investors of holding or disposing of Shares.

The return on a Subscriber's investment is affected by Canadian federal, provincial and local tax laws as they apply to the Corporation and the Partnership.

If, at any time, the Class B Shares are or become a prohibited investment under the Tax Act for an RRSP, RRIF or TFSA, the annuitant of the RRSP or RRIF or the holder of the TFSA may be subject to adverse tax consequences. Prospective purchasers should seek independent professional advice regarding the tax consequences of acquiring the Class B Shares in an RRSP, RRIF or TFSA.

Generally, if the Corporation does not qualify or ceases to qualify as a public corporation within the meaning of the Tax Act at any time, the Class B Shares will not be, or will cease to be, qualified investments for Deferred Plans and the income tax considerations described under “Item 6 – **Income Tax Consequences and Deferred Tax Eligibility**” would be materially and adversely different in certain respects. One of the requirements for the Corporation to qualify as a public corporation is that it will have at least 150 separate holders of Shares, each holding a minimum of \$500 worth of Shares and none of whom is an Insider of the Corporation. The Corporation may hold Closings of the Offering prior to this requirement being met and there is no guarantee that this requirement will be met. Accordingly, Deferred Plans that propose to invest in the Class B Shares should consult their own tax advisors before deciding to purchase the Class B Shares.

The discussion of certain Canadian federal income tax considerations contained in this Offering Memorandum is provided for information purposes only and is not a complete analysis or discussion of all potential tax considerations that may be relevant to the acquisition of Shares.

All investors will be responsible for the preparation and filing of their own tax returns in respect of this investment. Prospective investors are urged to consult their own tax advisors, prior to investing in the Corporation, with respect to the specific tax consequences to them from the acquisition of Shares.

Refer also to Item 5 - “*Potential Conflicts of Interest*”.

Item 9. Reporting Obligations

The Corporation is not a reporting issuer in any jurisdiction. It is therefore not required to disclose material changes which occur in its business and affairs, nor is it required to file with any securities regulatory authorities or provide security holders with interim financial statements.

The Corporation is required to place before the shareholders of a Corporation before every annual meeting of the Corporation the audited financial statements of the Corporation. The Corporation shall, not less than 21 days before each annual meeting of the shareholders of the Corporation or before the signing a resolution in lieu of an annual general meeting, provide a copy of the audited financial statements of the Corporation to each shareholder.

Financial or other information provided to you by the Corporation in the future may not by itself be sufficient to assess the performance of your investment.

Item 10. Resale Restrictions

These securities will be subject to a number of resale restrictions, including a restriction on trading. Until the restriction on trading expires, you will not be able to trade the securities unless you comply with an exemption from the prospectus and registration requirements under securities legislation.

Restricted Period

Unless permitted under securities legislation, you cannot trade the securities before the date that is four months and a day after the date the Corporation becomes a reporting issuer in any province or territory of Canada.

Item 11. Purchasers' Rights

If you purchase these securities you will have certain rights, some of which are described below. For information about your rights you should consult a lawyer.

11.1 Two Day Cancellation Right

You can cancel your agreement to purchase these securities. To do so, you must send a notice to us by midnight on the second business day after you sign the agreement to buy the securities.

11.2 Statutory Rights of Action in the Event of a Misrepresentation - British Columbia

If you are a resident of British Columbia and there is a misrepresentation in this Offering Memorandum, you have a statutory right to sue:

- (a) the Corporation to cancel your agreement to buy these securities, or
- (b) for damages against the Corporation, every director of the Corporation at the date of this Offering Memorandum and every person who signs this Offering Memorandum.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the securities.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the Subscription Agreement within 180 days after you signed the Subscription Agreement to purchase the securities. You must commence your action for damages within the earlier of 180 days after learning of the misrepresentation and three years after you signed the Subscription Agreement to purchase the securities.

The foregoing rights are in addition to, and without derogation from, any other right or remedy available to you at law.

Item 12. Financial Statements

Attached as Exhibit "A" to this Offering Memorandum are the following financial statements of the Corporation:

Financial Statements of BioPower Investment Corporation for the period since formation (April 13, 2015) to March 31, 2016.

EXHIBIT A

FINANCIAL STATEMENTS

BIOPOWER INVESTMENT CORPORATION

PERIOD SINCE FORMATION (APRIL 13, 2015)

TO MARCH 31, 2016 (AUDITED)

BioPower Investment Corporation



Financial Statements

For the fiscal period since incorporation to March 31, 2016

BioPower Investment Corporation

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of BioPower Investment Corporation

We have audited the accompanying financial statements of BioPower Investment Corporation, which comprise the statement of financial position as at March 31, 2016, and the statements of comprehensive loss, cash flows, and changes in shareholders' equity for the period ended March 31, 2016, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of BioPower Investment Corporation, as at March 31, 2016 and its financial performance and cash flows for the period ended March 31, 2016, in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2c in the financial statements, which indicates that for the period ended March 31, 2016, the Company had a comprehensive loss of \$16,902 and, as of that date, had an accumulated deficit of \$16,902. These items, along with other matters as set forth in Note 2c, indicate the existence of material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern.


Chartered Professional Accountants

May 31, 2016
Vancouver, Canada

BioPower Investment Corporation
Statement of Financial Position
Expressed in Canadian Dollars

	March 31, 2016
Assets	
Current assets	
Cash	\$ -
Due from related parties (Note 6)	71,044
Deposit held by related party (Note 6)	212,204
Total current assets	283,248
Non-current assets	
Investment in SMG BioPower LP (Note 5)	1,360,361
Total non-current assets	1,360,361
Total assets	\$ 1,643,609
Liabilities and shareholders' equity	
Current liabilities	
Accounts payable and accrued liabilities	\$ 6,006
Due to related parties (Note 6)	106,105
Total current liabilities	\$ 112,111
Shareholders' equity	
Share capital (Note 7)	\$ 1,548,400
Deficit	(16,902)
Total shareholders' equity	1,531,498
Total liabilities and shareholders' equity	\$ 1,643,609

Approved on behalf of the Board of Directors by:



 Hee Dong Hong



 Meng Xu

See accompanying notes to financial statements.

BioPower Investment Corporation
Statement of Comprehensive Loss
Expressed in Canadian Dollars

	354-Day Period Ended March 31, 2016
Expenses	
Management fees (Note 6)	\$ 738
Professional fees	13,859
Office and administrative fees	2,305
Total expenses	<u>16,902</u>
Total loss and comprehensive loss for the period	<u>\$ 16,902</u>

See accompanying notes to financial statements.

BioPower Investment Corporation**Statement of Cash Flows**
Expressed in Canadian Dollars

	354-Day Period Ended March 31, 2016
Cash flows from operating activities	
Loss for the period	\$ (16,902)
Change in working capital accounts:	
Accounts payable and accrued liabilities	6,006
Due from related parties	(71,044)
Due to related parties	106,105
Total cash inflows from operating activities	<u>\$ 24,165</u>
Cash flows from investing activities	
Investment in SMG BioPower LP	(1,360,361)
Total cash outflows from investing activities	<u>\$ (1,360,361)</u>
Cash flows from financing activities	
Proceeds from issuance of shares	1,821,630
Share issuance costs	(273,230)
Deposit held by related party	(212,204)
Total cash inflows from financing activities	<u>\$ 1,336,196</u>
Total change in cash during the period	\$ -
Cash, beginning of period	\$ -
Cash, end of period	<u>\$ -</u>

See accompanying notes to financial statements.

BioPower Investment Corporation
Statement of Changes in Shareholders' Equity
Expressed in Canadian Dollars

	Share Capital		Deficit	Total
Balance, April 13, 2015 (incorporation)	\$ 100	\$	-	\$ 100
Proceeds from issuance of shares	1,821,530		-	1,821,530
Share issuance costs	(273,230)		-	(273,230)
Loss for the period	-		(16,902)	(16,902)
Balance, March 31, 2016	\$ 1,548,400	\$	(16,902)	\$1,531,498

See accompanying notes to financial statements.

BioPower Investment Corporation
Notes to the Financial Statements
For the fiscal period since incorporation to March 31, 2016

1. CORPORATE INFORMATION

On April 13, 2015, BioPower Investment Corporation (the “Corporation”) was formed under the laws of the Province of British Columbia and commenced operations. The purpose of the Corporation is to issue Class B Common Shares to eligible investors to hold on a tax-deferred basis. The Corporation will in turn use the net proceeds to purchase units of SMG BioPower Limited Partnership (the “Limited Partnership”) with the view of holding these units as investments for future profits. SMG BioPower Limited Partnership is formed for the primary purposes of achieving returns for its limited partners by investing, directly or indirectly, in SMG Power Limited Partnership, Altentech Power Inc., Mission Wood Pellet Inc., or entities or business involved in the production of biomass fuel products and the enhancement of related technologies (collectively the “BioPower Drytec Businesses”).

The affairs of the Limited Partnership are governed by a limited partnership agreement (the “Limited Partnership Agreement”) dated March 13, 2015.

The controlling party is SMG Asset Canada Inc. (“SMG Asset”) and its ultimate controlling party is Jung Moon, a resident of British Columbia, Canada.

The address of the Corporation’s corporate office is unit 301 – 958 West 8th Avenue, Vancouver, British Columbia, Canada.

2. BASIS OF PREPARATION AND ADOPTION OF IFRS

a) Statement of Compliance

These financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Committee (“IFRIC”), effective for the Corporation’s reporting for the period ended March 31, 2016. These are the Corporation’s first financial statements prepared under IFRS. There is no impact from the adoption of IFRS on the Corporation’s financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies, as IFRS is the only accounting framework adopted by the Corporation since formation.

These financial statements were authorized for issue by the Board of Directors on May 31, 2016. The Board of Directors have the power to amend and reissue the financial statements.

b) Basis of Measurement

The financial statements have been prepared on a historical cost basis.

The financial statements are presented in Canadian dollars, which is also the Corporation’s functional currency.

BioPower Investment Corporation
Notes to the Financial Statements
For the fiscal period since incorporation to March 31, 2016

2. BASIS OF PREPARATION AND ADOPTION OF IFRS - CONTINUED

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Corporation's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

c) **Going Concern of Operations**

The Corporation is a newly formed entity and currently has no revenues generated to fund the anticipated general and administrative expenses or to settle its liabilities as they fall due. The financial statements were prepared on a going concern basis. The going concern basis assumes that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. For the 354-day period ended March 31, 2016, the Corporation had no source of operating income, incurred a loss of \$16,902 resulting from organizational expenses and consequently reported an accumulated deficit of \$16,902. The Corporation intends to fund ongoing expenses by way of shareholder loans, share issuance or income distribution from SMG BioPower Limited Partnership. Given the start-up nature of the Corporation and its reliance on current and prospective shareholders' resources, there are material uncertainties that may cast significant doubt upon the Corporation's ability to continue to operate as a going concern.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

a) **Investment in SMG BioPower LP**

Investment in SMG BioPower LP relates to units acquired in the Limited Partnership. Units are initially recognized at cost, which approximates fair value, and are not re-measured subsequently as these investments do not have a quoted price in an active market and the fair value cannot be reliably measured. The investment in SMG BioPower LP is classified as non-current due to the expected long-term nature of realizing this investment. At the end of each reporting period, or whenever circumstances dictate, management assesses whether there is objective evidence of impairment.

b) **Cash**

Cash includes funds held in a business chequing account with a Canadian Schedule I bank that is highly liquid. Cash is classified as loans and receivables.

c) **Financial Instruments**

Financial instruments are classified into the appropriate category based on the purpose for which the instrument was recognized. All transactions related to financial instruments are recorded on a trade date basis.

BioPower Investment Corporation
Notes to the Financial Statements
For the fiscal period since incorporation to March 31, 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Loans and Receivables

These assets result from the delivery of cash or deposit held by related party by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand, and may include features of a derivative financial asset. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses.

Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. The Corporation's financial assets designated as loans and receivables include cash, due from related parties, and deposit held by related party.

Impairment of Financial Assets

At each reporting date the Corporation assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Financial Liabilities

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred. Financial liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

The Corporation's liabilities designated as other financial liabilities include accounts payable and accrued liabilities, and due to related parties.

d) Income Taxes

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current period. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the period-end date.

BioPower Investment Corporation
Notes to the Financial Statements
For the fiscal period since incorporation to March 31, 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Corporation reassesses unrecognized deferred tax assets. The Corporation recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

e) Share Capital

Equity instruments are contracts that give a residual interest in the net assets of the Corporation. Financial instruments issued by the Corporation are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Corporation's common shares are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

f) Standards, Amendments and Interpretations Not Yet Effective

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been early adopted by the Corporation.

The Corporation has adopted all standards effective as of the date of incorporation (April 13, 2015). The standards adopted by the Company did not have a material effect on the Corporation's financial statements.

- **IFRS 7 Financial Instruments: Disclosures**

Amended to require additional disclosures on transition from IAS 39 to IFRS 9. Effective on adoption of IFRS 9, which is effective for annual periods commencing on or after January 1, 2018. The Corporation is currently evaluating the impact this standard is expected to have on its financial statements.

- **IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement**

IFRS 9 amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. IFRS 9 introduces an expected loss model of impairment and retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income.

BioPower Investment Corporation
Notes to the Financial Statements
For the fiscal period since incorporation to March 31, 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The effective date for IFRS 9 is January 1, 2018. The Corporation is in the process of evaluating the impact of the new standard.

- IFRS 15 Revenue from Contracts with Customers

IFRS 15 is based on the core principle to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 focuses on the transfer of control. IFRS 15 replaces all of the revenue guidance that previously existed in IFRSs. The effective date for IFRS 15 is January 1, 2018. The Corporation is in the process of evaluating the impact of the new standard.

- Amendments to IAS 1 Presentation of Financial Statements

The amendments to IAS 1 are a part of a major initiative to improve disclosure requirements in IFRS financial statements. The amendments clarify the application of materiality to note disclosure and the presentation of line items in the primary statements provide options on the ordering of financial statements and additional guidance on the presentation of other comprehensive income related to equity accounted investments. The effective date for these amendments is January 1, 2016. The Corporation is in the process of evaluating the impact of these amendments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Corporation makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

Carrying Value of the Investment in SMG BioPower Limited Partnership

In determining whether an impairment loss should be recorded in the statement of comprehensive income or loss, the Corporation makes judgment on whether objective evidence of impairment exists individually for financial assets that are individually significant.

Going-Concern Assumptions

The Corporation made significant estimate and judgment around the Corporation's ability to operate as a going concern, which are described in Note 2c).

BioPower Investment Corporation
Notes to the Financial Statements
For the fiscal period since incorporation to March 31, 2016

5. INVESTMENT IN SMG BIOPOWER LIMITED PARTNERSHIP

The funds raised in the offering of the Corporation's shares will be used to purchase Partnership units in SMG BioPower Limited Partnership. As at March 31, 2016 the Corporation had raised \$1,548,300 of funds which were used to purchase 136,036 Partnership units in SMG BioPower Limited Partnership.

6. RELATED PARTY TRANSACTIONS

The following is a summary of the Corporation's related party balances for the period ended:

	<u>March 31, 2016</u>
Due from related parties	\$ 71,044
Deposit held by related party	\$ 212,204
Due to SMG Securities Inc.	\$ 96,730
Due to SMG Asset Canada Inc.	\$ 9,375

Due from related parties is comprised of amounts that were overpaid in respect of subscriptions to SMG BioPower Limited Partnership of \$70,285 and allocated expenses of \$759. The amounts are non-interest bearing, have no specific terms of repayment, and are due on demand.

a) Management Fees

During the period ended March 31, 2016 the Corporation paid management fees to SMG Asset Canada Inc. ("SMG Asset") totaling \$738 for broad-scope management and administrative services.

b) Commission Due to SMG Securities Inc.

During the period ended March 31, 2016 the Corporation accrued commission fees (share issuance costs) of \$273,230 in respect of investment corporation share subscriptions to SMG Securities Inc.

c) Deposit held by related party

The deposit held by related party includes a \$212,204 cash balance held by SMG Asset Canada Inc. on behalf of the Corporation pursuant to a corporate banking agreement between the parties. This cash balance is held with a Canadian chartered bank which bears interest at the prevailing interest rate on the cash account.

BioPower Investment Corporation
Notes to the Financial Statements
For the fiscal period since incorporation to March 31, 2016

7. SHARE CAPITAL

a) Authorized

The authorized capital structure of the Corporation is as follows:

- Unlimited number of Class A voting, non-participating common shares with a \$1.00 par value; and
- Unlimited number of Class B non-voting, participating common shares with a \$10.00 par value.

The Class B shares are non-voting and non-redeemable.

b) Issued and Outstanding

The following table summarizes the Corporation shares issued and outstanding during the period presented:

	Number of Shares	Share Price	Amount
Class A Common Shares issued at incorporation on April 13, 2015	100	1.00	100
Class B Common Shares issued	182,153	10.00	1,821,530
Share issuance costs			(273,230)
Balance at March 31, 2016	182,253		\$ 1,548,400

8. INCOME TAXES

Significant components of the Corporation's income tax expense are as follows:

	354-Day period ended March 31, 2016
Loss for the period	\$ (16,902)
Expected recovery at statutory rate – 13.5%	(2,282)
Changes in unrecognized deferred tax asset	2,282
Deferred tax recovery	\$ -

Deferred Tax Assets and Liabilities

No deferred tax asset has been recognized in respect of the taxable losses and temporary differences, as it is not considered probable that sufficient future taxable profit will allow the deferred tax to be recovered. The Corporation's non-capital losses of \$16,902 expire in 2035.

BioPower Investment Corporation
Notes to the Financial Statements
For the fiscal period since incorporation to March 31, 2016

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Corporation is exposed through its operations to the following financial risks:

- Market Risk
- Credit Risk
- Liquidity Risk

In common other businesses, the Corporation is exposed to risks that arise from its use of financial instruments. This note describes the Corporation's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Corporation's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them during the course of the current period.

General Objectives, Policies and Processes:

The Board of Directors has overall responsibility for the determination of the Corporation's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Corporation's finance function.

a) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The risks that affect market prices which are relevant to the Corporation include foreign currency risk and interest rate risk.

Foreign Currency Risk

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and foreign currencies will affect the Corporation's operations and financial results. The Corporation does not have significant exposure to foreign exchange rate fluctuation because all balances and transactions are in Canadian Dollars.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation does not hold financial instruments that are sensitive to interest rate changes. The Corporation considers this risk to be immaterial.

BioPower Investment Corporation
Notes to the Financial Statements
For the fiscal period since incorporation to March 31, 2016

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT - CONTINUED

b) Credit Risk

Credit risk is the risk of financial loss to the Corporation if a customer or a counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which are potentially subject to credit risk for the Corporation consist primarily of cash and due from related parties. Cash is maintained with financial institutions of reputable credit and may be redeemed upon demand. There is a risk of collectability as the collectability of the related party balances and investments is based on the ultimate success of the underlying businesses.

The credit risk relating to cash is minimal as the financial institution the Corporation's chequing account is deposited with, is a Canadian chartered bank.

c) Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. Management's liquidity risk management policy includes ensuring that the Corporation has sufficient cash on demand to meet expected operational expenses for a period of 90 days during a period of business interruption. The Corporation will monitor its risk of shortage of funds by monitoring the maturity dates of existing trade and other accounts payable.

Determination of Fair Value:

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The Statement of Financial Position carrying amount for cash, accounts payable and accrued liabilities, due from related parties, due to related parties, and deposit held by related party balances approximates fair value due to their short-term and liquid nature. Fair Value Hierarchy:

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities; and
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); 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 (unobservable inputs).

The Investment in SMG BioPower Limited Partnership is measured at its cost as the equity instruments do not have a quoted price in an active market and their fair value cannot be reliably measured. The Corporation therefore does not subsequently re-measure any of its financial instruments.

BioPower Investment Corporation
Notes to the Financial Statements
For the fiscal period since incorporation to March 31, 2016

10. CAPITAL MANAGEMENT

The Corporation monitors its cash and shareholders' equity as capital. The Corporation's objectives when maintaining capital are to maintain sufficient capital base in order to meet its short-term obligations and at the same time preserve investor's confidence required to sustain future development of the business.

The Corporation is not exposed to any externally imposed capital requirements, and in turn there have been no changes during the period in the Corporation's approach to capital management.

Item 13. Date and Certificate

CERTIFICATE

Dated: June 1, 2016

This Offering Memorandum does not contain a misrepresentation.

BIOPOWER INVESTMENT CORPORATION



Hee Dong Hong, Director and President



Chun Te (Peter) Wu, Chief Financial Officer

**ON BEHALF OF THE BOARD OF DIRECTORS OF BIOPOWER INVESTMENT
CORPORATION**



Hee Dong Hong, Director



Meng (Simon) Xu, Director

SCHEDULE “A”

LIMITED PARTNERSHIP OFFERING MEMORANDUM

SMG BIOPOWER LIMITED PARTNERSHIP
AMENDED OFFERING MEMORANDUM

Dated for reference June 1, 2016

OFFERING MEMORANDUM

Date: June 1, 2016

SMG BIOPOWER LIMITED PARTNERSHIP (the “Limited Partnership”)

#301 – 958 West 8th Avenue, Vancouver BC V5Z 1E5

T: 604-568-9869 F: 604-568-9830

E: general@smgasset.ca

Currently Listed or Quoted? **These securities do not trade on any exchange or market.**

Reporting Issuer? No

SEDAR Filer? No

The Offering

Securities Offered: Class A Voting and Non-Redeemable Limited Partnership Units (the “Unit(s)”)

Price per Security: \$10 per Unit

Maximum/Minimum Offering: \$25,000,000 maximum offering (the “Offering”) through the sale of up to 2,500,000 Units. **To date, \$3,547,663 has been raised under the Offering. Funds available under the Offering may not be sufficient to accomplish our proposed objectives.**

Minimum Subscription Amount: \$15,000 through the purchase of one thousand, five hundred (Canadian Residents) (1,500) Units (or such lesser amount as the General Partner, in its sole discretion, may accept). No partial Units may be purchased.

Payment Terms: Payment for the Units must be made in full by certified cheque, bank draft, electronic funds transfer, or other means satisfactory to the General Partner. Payment must be made to the Limited Partnership upon execution of an agreement (the “**Subscription Agreement**”) or at such later date determined by the General Partner in its sole discretion. See Item 5.2 – “**Subscription Procedure**”.

Proposed Closing Date(s): Continuous offering until the maximum Offering is achieved. Closings may occur from time to time as subscriptions are received.

Income Tax Consequences There are important tax consequences to these securities. See Item 6 – “**Income Tax Consequences and RRSP Eligibilities**”.

Selling Agent: SMG Securities Inc.
See Item 7 – “**Compensation Paid to Sellers and Finders**”.

Resale Restrictions: You will be restricted from selling your securities for an indefinite period. See Item 10 – “*Resale Restrictions*”.

Purchasers’ Rights: You have two (2) business days to cancel your agreement to purchase these securities. If there is a misrepresentation in this Offering Memorandum, you have the right to sue either for damages or to cancel the Subscription Agreement. See Item 11 – “*Purchasers’ Rights*”.

No securities regulatory authority or regulator has assessed the merits of these securities or reviewed this Offering Memorandum. Any representation to the contrary is an offence. This is a risky investment. See Item 8 – “*Risk Factors*”.

The Limited Partnership is a limited partnership formed under the laws of the Province of British Columbia. The affairs of the Limited Partnership are governed by a limited partnership agreement (the “**Limited Partnership Agreement**”) dated for reference the 13th day of March, 2015 and are subject to certain restrictions contained therein. BioPower Drytec Corp., the General Partner, (the “**General Partner**”), has exclusive authority to administer, manage, control and generally carry on the business of the Limited Partnership.

The Units are being offered by the Limited Partnership to provide capital in order to enable the Limited Partnership to make investments in the clean energy sector. Specifically, the Limited Partnership is mandated to: (i) invest: (A) directly in SMG Power LP, a significant shareholder of Altentech® Power Inc.; and (B) directly (and/or indirectly) in Altentech® Power Inc. (together, the “**SMG Power Investment Mandate**”); (ii) incorporate SMG Custom Drytech Corp. as the holding company of drying projects and finance two custom drying projects (the “**Drying Projects Investment Mandate**”); and (iii) finance the continued development of Mission Wood Pellet Inc. or entities or businesses engaged in the wood pellet industry (the “**Wood Pellet Investment Mandate**” and, together with the SMG Power Investment Mandate and the Drying Projects Investment Mandate, the “**Investment Mandates**”). Refer to Item 2 - “**Business of SMG BioPower Limited Partnership**”.

Prospective investors should thoroughly review this Offering Memorandum and are advised to consult with their own legal and tax advisors concerning an investment in the Units.

This Offering Memorandum does not constitute, and may not be used for or in conjunction with, an offer or solicitation of the Units by anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorized by us or to any person to whom it is unlawful to make such an offer or solicitation, and this Offering Memorandum is not, and under no circumstances is to be construed as, a public offering or advertisement of the Units. You should inform yourself of, and observe all, legal requirements and restrictions of your jurisdiction of residence in respect of the acquisition, holding and disposition of the Units hereby offered.

The Units offered by this Offering Memorandum will be issued only on the basis of information contained in this Offering Memorandum and provided by the General Partner in writing, and no other information or representation is authorized or may be relied upon as having been authorized by the General Partner or the Limited Partnership. Any subscription for the Units hereby offered made by any person on the basis of statements or representations not contained in this Offering Memorandum or so provided, or inconsistent with the information contained herein or therein, shall be solely at the risk of such person. Neither the delivery of this Offering Memorandum at any time nor any sale to you of any of the Units hereby offered shall, under any circumstances, constitute a representation or create any implication that there has been no change in the business and affairs of the Limited Partnership since the date of the sale to you of the Units hereby offered or that the information contained herein is correct as of any time subsequent to that date.

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ITEM 13. DATE AND CERTIFICATE1

SCHEDULE “A” LIMITED PARTNERSHIP AGREEMENT

GLOSSARY

In this Offering Memorandum, unless the context otherwise requires, the following words or expressions have the following meanings:

“**Act**” means the Securities Act (British Columbia);

“**Altentech®**” means Altentech® Power Inc.

“**BCSC**” means the British Columbia Securities Commission;

“**CRA**” means the Canada Revenue Agency;

“**Drying Holdco**” means SMG Custom Drytech Corp.;

“**Drying Projects**” means the two custom drying projects, using Altentech®’s biomass drying system, that comprise the Drying Projects Investment Mandate;

“**Drying Projects Investment Mandate**” means the investment of approximately 50% of the net proceeds of the Offering to further the Drying Projects, including the formation of Drying Holdco;

“**Founding Limited Partner**” means SMG Power LP;

“**General Partner**” means BioPower Drytec Corp., the general partner of the Limited Partnership;

“**GP Profit Share**” means 20% of the total distribution available to both the General Partner and Limited Partners, as defined and explained in paragraph 5.4 of the Limited Partnership Agreement;

“**IFRS**” means the International Financial Reporting Standards;

“**Investment Mandates**” means the Wood Pellet Investment Mandate, the SMG Power Investment Mandate and the Drying Projects Investment Mandate;

“**Limited Partners**” means the limited partners of the Limited Partnership;

“**Limited Partnership**” means SMG BioPower Limited Partnership;

“**Limited Partnership Agreement**” means the limited partnership agreement made as of March 13, 2015, a copy of which is attached as Schedule “A” to this Offering Memorandum;

“**Manager**” means SMG Asset Canada Inc.;

“**Management Fee**” means 5% of the gross proceeds of the Offering to be paid to the Manager in consideration of the management services provided to the Limited Partnership which shall be paid by the Limited Partnership to the Manager in monthly instalments over a five-year period in accordance with the terms of the Management Agreement;

“**MWPI**” means Mission Wood Pellet Inc.;

“**Offering**” means the offering of up to 2,500,000 Units at \$10 per Unit;

“**Regulations**” means the principal Canadian federal income tax considerations under the Tax Act and the regulations thereto;

“**SMG BioPower Business**” means the clean energy business being carried out by the Limited Partnership, both directly, through the Drying Projects Investment Mandate, and directly (and/or indirectly), through its investment in Altentech® pursuant to the SMG Power Investment Mandate, and its investment in MWPI or similar projects pursuant to the Wood Pellet Investment Mandate;

“**SMG Group**” means, collectively, the General Partner, the Manager, SMG Securities Inc., SMG Power LP, the GP Shareholders, Altentech®, Drying Holdco, MWPI, Jung Moon and certain other related entities;

“**SMG Power Investment Mandate**” means (A) the investment in SMG Power LP, and (B) the investment in Altentech®;

“**SMG Power LP**” means SMG Power Limited Partnership, a limited partnership formed pursuant to the laws of British Columbia;

“**Subscription Agreement**” means the agreement for the subscription of Units;

“**Tax Act**” means the *Income Tax Act* (Canada);

“**Unit(s)**” means the Limited Partnership Class A Units being offered for sale under the Offering, representing an interest in the Limited Partnership.

“**Wood Pellet Investment Mandate**” means the investment of approximately 40% of the net proceeds of the Offering to further the construction and commissioning of a new plant in Mission, British Columbia, capable of industrial grade wood pellets used to replace coal in power generation facilities or the investment into other similar plants;

FORWARD LOOKING STATEMENTS

This Offering Memorandum includes forward-looking statements within the meaning of that phrase under applicable Canadian securities laws with respect to the SMG BioPower Business, the Limited Partnership and the General Partner, including the General Partner's views or predictions about possible future events or conditions, results of business operations and strategy, prospective results of operation, financial performance and condition of the Limited Partnership and the SMG BioPower Business. These statements may be written or graphically presented and generally can be identified by the use of forward-looking words such as "may", "will", "expect", "intend", "plan", "estimate", "anticipate", "believe", "forecast", "should" or "continue", or the negative thereof, or similar variations. Forward-looking statements reflect management's current views with respect to possible future events and conditions and, by their nature, are based on management's beliefs and assumptions and are subject to known and unknown risks and uncertainties, both general and specific to the Limited Partnership and the SMG BioPower Business. Actual events, conditions and results could differ materially from those expressed or implied by the forward-looking statements. Although the General Partner believes that the expectations reflected in such forward-looking statements are reasonable and represent the General Partner's internal projections, expectations and belief at this time, there can be no assurance whatsoever that those expectations will prove to be correct or as anticipated.

In particular, this Offering Memorandum contains forward-looking statements including, but not limited to those relating to, among other things: (i) the General Partner's view regarding the SMG BioPower Business; (ii) the Limited Partnership's fulfilment of the Investment Mandates; (iii) the availability of other clean energy-based business opportunities that are consistent with the Limited Partnership's investment objectives and criteria; (iv) the intention or the ability of the Limited Partnership to identify and complete the proposed investments in the SMG BioPower Business; (v) the estimated portion of the proceeds of this Offering, which will be invested in the various components of the Investment Mandates that comprise the SMG BioPower Business, (vi) any indications as to the expected future performance of the Limited Partnership; (vii) the revenue expectations regarding Altentech® and MWPI; (viii) the prospects for development of the SMG BioPower Business that the Limited Partnership has invested or may invest in; (ix) the prospects for the future sale of the products and processes developed by Altentech® and MWPI; and (x) opportunities for the refinancing of, or finding new investors for, the Limited Partnership or the SMG BioPower Business.

Such forward-looking statements are based on a number of assumptions that may prove to be incorrect. In addition to any other assumptions identified in this Offering Memorandum, assumptions have been made regarding, among other things: (i) the ability of Altentech® and MWPI to obtain equipment, services and supplies in a timely manner to carry out their activities; (ii) the ability of Altentech® and MWPI to successfully attract customers; (iii) the timely receipt of required regulatory approvals; (iv) the ability of the Limited Partnership to raise sufficient proceeds in the Offering to pursue its stated objectives or to obtain alternative financing on terms acceptable to the General Partner, or at all; and (v) currency, exchange and interest rates.

Readers are cautioned not to place undue reliance on these forward-looking statements as there can be no assurance that the conditions, events, plans and assumptions on which they are based will occur. Readers should perform their own detailed, independent investigation and analysis of the General Partner and the Limited Partnership before making any investment decision and are

encouraged to seek independent professional advice. All of the forward-looking statements in this document are expressly qualified by the above.

Important factors that could cause actual results to differ materially from the General Partner's expectations include, among other things: (i) the actual amount of funds raised in the Offering; (ii) risks and uncertainties involving the SMG BioPower Business; (iii) risks inherent in the research and development activities of, and marketing operations of, Altentech® and MWPI; (iv) the uncertainty of the clean energy sector business; (v) the uncertainty of estimates and projections relating to production, costs and expenses associated with the SMG BioPower Business including, in particular, the business of Altentech® and MWPI; (vi) potential delays or changes in plans with respect to Altentech®'s and MWPI's research and development projects and capital expenditures; (vii) the Limited Partnership's ability to secure additional financing; (viii) fluctuations in raw material prices, foreign currency exchange rates and interest rates; (ix) health, safety and environmental risks; (x) general economic and market factors, including commodity rates, interest rates, business competition, changes in government regulations or in tax laws; and (xi) those factors discussed or referenced in the "Risk Factors" section. Refer to Item 8 – "***Risk Factors***".

Readers are reminded that the foregoing list of factors should not be construed as exhaustive. The forward-looking statements contained in this Offering Memorandum are expressly qualified by this cautionary statement.

INTRODUCTION

This continuous offering (the “**Offering**”) by the Limited Partnership consists of a maximum of 2,500,000 Units. To date, 354,769 Units have been issued. The Limited Partnership is a limited partnership formed under the laws of the Province of British Columbia. BioPower Drytec Corp. (the “**General Partner**”), a British Columbia corporation, serves as the managing general partner of the Limited Partnership. In consideration of serving as the managing general partner of the Limited Partnership, the General Partner will receive 20% of the total distribution available to both the General Partner and Limited Partners (the “**GP Profit Share**”).

The business (the “**SMG BioPower Business**”) of the Limited Partnership is to make investments in the clean energy sector pursuant to the Investment Mandates. The Limited Partnership may be involved in conducting other business that is ancillary or incidental to its principal business, and deriving income therefrom with a view to making a profit. The Limited Partnership may, in the future, participate with Altentech®, Drying Holdco, and MWPI in the development of their products and processes. The Limited Partnership has the power to do any and every act and thing necessary, proper, convenient or incidental to the accomplishment of its business and purposes including, without limitation, owning or disposing of partnership interests, shares or other securities.

The proceeds of the Offering will be used by the Limited Partnership to: (i) invest (A) directly in SMG Power LP, a significant shareholder of Altentech® Power Inc. (“**Altentech®**”) and (B) directly (and/or indirectly) in Altentech® (together, the “**SMG Power Investment Mandate**”); (ii) incorporate SMG Custom Drytech Corp. as the holding company of drying projects and invest in two custom drying projects (the “**Drying Projects Investment Mandate**”); and (iii) finance the continued development of Mission Wood Pellet Inc. or other entities or businesses involved in the production of industrial grade wood pellets (the “**Wood Pellet Investment Mandate**”). Refer to Item 2 - “**Business of SMG BioPower Limited Partnership**”.

This is an offering of Limited Partnership Units and not a direct interest in Altentech® or Drying Holdco or MWPI, or in the Drying Projects. Each investor who acquires a Unit pursuant to this Offering will be a Limited Partner of the Limited Partnership in accordance with the Partnership Agreement and this Offering Memorandum. The rights and responsibilities of the limited partners (the “**Limited Partners**”) and the General Partner are set out in the Partnership Agreement. By entering into a Subscription Agreement, you are agreeing to be bound by the terms and conditions of the Partnership Agreement.

Throughout this Offering Memorandum, we describe the business and financial position of the Limited Partnership as well as the business and financial position of the General Partner. The audited financial statements of the Limited Partnership and the General Partner as of December 31, 2015 are included in this Offering Memorandum under Item 12 – “**Financial Statements**”. These financial statements are described in Canadian dollars and expressed in accordance with International Financial Reporting Standards (“**IFRS**”).

Additionally, the audited December 31, 2015 financial statements of Altentech®, SMG Power LP, MWPI, and Drying Holdco are included in this Offering Memorandum under Item 12 – “**Financial Statements**”.

Item 1. Use of Available Funds

1.1 Available Funds

		Assuming min. Offering ⁽¹⁾	Assuming max. offering
A.	Amount to be raised by this Offering	\$0	\$25,000,000
B.	Selling commissions and fees ⁽²⁾	\$0	\$3,750,000
C.	Estimated offering costs (e.g., legal, accounting, audit)	\$50,000	\$250,000
D.	Available funds: D = A - (B+C)	(\$50,000)	\$21,000,000
E.	Additional sources of funding	\$0	\$0
F.	Working capital deficiency	\$0	\$0
G.	Total: G = (D+E) - F	(\$50,000)	\$21,000,000
<p>(1) Although there is no minimum offering, as of May 31, 2016, the Limited Partnership has issued 354,769 Units, totalling \$3,547,663. The Limited Partnership will issue Units on a continuous basis to investors at a Subscription Price of \$10 per Unit. Refer to Item 4.3 - <i>“Prior Sales”</i>.</p> <p>(2) The General Partner may engage an authorized Selling Agent(s) in any territory of Canada, the United States, or another foreign jurisdiction where a distribution of Units pursuant to this Offering Memorandum is authorized. The maximum commission or fee payable to such Selling Agent will be 15% of the Subscription Price. To date, all selling commissions and fees have been paid to SMG Securities Inc. Refer to Item 7 - <i>“Compensation Paid to Sellers and Finders”</i>.</p>			

1.2 Use of Available Funds

We plan to spend the available funds from the Offering as follows:

Description of intended use of available funds ⁽²⁾	Assuming Min. Offering	Assuming Max. Offering ⁽¹⁾
SMG Power Investment Mandate ⁽³⁾	\$0	\$2,000,000
Drying Project Investment Mandate ⁽⁴⁾	\$0	\$10,000,000
Wood Pellet Investment Mandate ⁽⁵⁾	\$0	\$8,000,000
Management Fees ⁽⁶⁾	\$0	\$1,000,000
Total	\$0	\$21,000,000

- (1) Total available funds (assuming Maximum Offering) is estimated at \$21,000,000.
- (2) Use of available funds is not listed in order of priority and may be re-allocated at the General Partner's sole discretion.
- (3) Make investments to SMG Power LP to participate in the future growth of Altentech Power Inc. To date, \$1,239,000 has been used for this mandate. May allocate up to \$1,000,000 to purchase existing units of SMG Power LP to hold as financial investment. \$0 has been used to purchase existing (issued) units of SMG Power LP as of May 31, 2016.
- (4) Form Drying Holdco and further develop two custom biomass drying businesses. Estimated allocation of soft costs and hard costs is 35% and 65%, respectively. To date, \$85,000 has been used for this mandate. Refer to Item 2.3 – "*Development of Business*"
- (5) Total budget of \$8,000,000 allocated to this mandate will not be sufficient to fully construct and commission the intended wood pellet plant. To date, \$2,106,000 has been used for this mandate. The funding will be used to finalize engineering design and drawing, acquire project assets, break ground on construction, secure pellet end users and long-term offtake agreement, and bring the pellet project to a bankable stage for project financing.
- (6) Management fees will be calculated and charged at 5% of gross proceeds of the Private Placement up to a maximum of \$1,000,000. To date, \$202,633 in management fees has been paid. Management fee is payable to the Manager in monthly instalments over a five-year period pursuant to the Management Agreement.

1.3 Reallocation

We intend to spend the available funds as stated. We will reallocate funds only for sound business reasons. In addition, although we intend to allocate the funds in the proportions shown above to the SMG Power Investment Mandate, the Drying Project Investment Mandate and the Wood Pellet Investment Mandate, the timing and ordering of these investments is in the discretion of the General Partner. See Item 2.2 - "*Our Business*".

Item 2. Business of SMG BioPower Limited Partnership

2.1 Structure

The Limited Partnership was formed in British Columbia on March 13, 2015 pursuant to a Certificate of Limited Partnership. The Limited Partnership is governed by the Limited Partnership Agreement and is subject to the provisions of the *Partnership Act*. The Limited Partnership will register under applicable partnership legislation of other provinces as and when it determines such registration is required or desirable.

The General Partner, BioPower Drytec Corp., is a company incorporated under the laws of British Columbia and will manage the affairs of the Limited Partnership. In consideration of serving as the general partner of the Limited Partnership, BioPower Drytec Corp., will receive the GP Profit Share, totaling 20% of the total distribution available to both the General Partner and Limited Partners. The General Partner, on behalf of the Limited Partnership, entered into the Management Agreement with SMG Asset Canada Inc. (the "**Manager**") pursuant to which the Manager shall provide certain administrative services to the Limited Partnership in consideration of receiving a management fee equal to 5% of the gross proceeds of the Offering. The General Partner considers this arrangement to be in the best interests of the Limited Partnership due to reasons including cost-effectiveness (salaries and office overhead savings) and experience of the Manager in providing services contemplated in the Management Agreement.

The shareholders of the General Partner are SMG Asset Canada Inc. (B.C, company owned controlled by Jung Moon), ISHE Holdings Ltd. (B.C, company owned and controlled by Hee Dong Hong), MFG Money Inc. (B.C, company owned and controlled by Wei Chen (Mike) Hsu), CT Business Solutions Inc. (B.C, company owned and controlled by Chun Te (Peter) Wu), and Meng (Simon) Xu (collectively the “**GP Shareholders**”), each holding 20% voting shares of the General Partner.

Structure of the SMG Group and Related Party Transactions

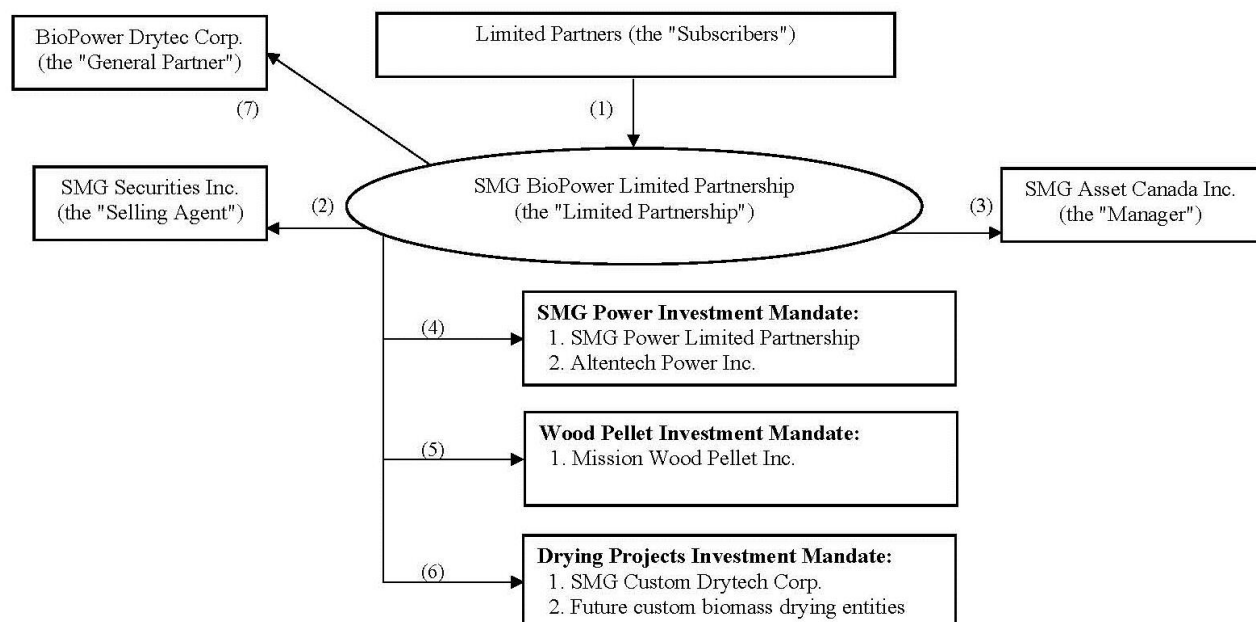
The SMG Group is made up of, collectively, the General Partner, the Manager, SMG Securities Inc., SMG Power LP, the GP Shareholders, MWPI, Drying Holdco, Altentech®, Jung Moon and certain other related entities. The proceeds of this Offering will be used to make investments in, and to make payments to, members of the SMG Group.

As disclosed elsewhere in this memorandum, SMG Securities Inc. will receive a commission of 15% on the entirety of the Offering. SMG Securities Inc. is indirectly controlled by Jung Moon, another related party. In addition, the Manager will receive the Management Fee. The Manager is also controlled by Jung Moon and owns 20% shares of the General Partner.

A portion of the Offering will be invested in each of SMG Power LP, Drying Holdco, MWPI and Altentech®. The general partner of SMG Power LP is SMG Drytec Corp. The GP Shareholders are also the shareholders of SMG Drytec Corp. SMG Power LP’s primary investment is in Altentech®. Jung Moon also holds a significant interest in Altentech®. Finally, Drying Holdco and MWPI are indirectly controlled by Jung Moon.

Structure

The following represents the distribution of funds from a Subscriber pursuant to this Offering resulting in the acquisition of Partnership Units by a Limited Partner:



(1) Pursuant to this Offering, Subscribers (Limited Partners) advance funds to the Limited Partnership in exchange for the Class A Limited Partnership units

(2) Selling commission calculated at 15% of gross proceeds raised in this Offering is payable to the Selling Agent, SMG

Securities Inc.

- (3) Management fee calculated at 5% of gross proceeds raised is payable to the Manager, SMG Asset Canada Inc.
- (4) Investments to be made by the Limited Partnership to the SMG Power Investment Mandate
- (5) Investments to be made by the Limited Partnership to the Wood Pellet Investment Mandate
- (6) Investments to be made by the Limited Partnership to the Drying Projects Investment Mandate
- (7) The General Partner will receive 20% of the total distribution available to both the General Partner and Limited Partners, including profits and losses earned by the Limited Partnership

2.2 Our Business

Investment in SMG BioPower Business

The General Partner has organized the Offering as a means by which individual investors can pool their funds so as to allow them the opportunity to invest in the clean energy sector generally and, in particular, in the projects that will be funded by the Investment Mandates (the “**SMG BioPower Business**”). The SMG BioPower Business is comprised of the SMG Power Investment Mandate, the Wood Pellet Investment Mandate and the Drying Projects Investment Mandate.

The SMG Power Investment Mandate

The Limited Partnership intends to invest approximately 10% of the net proceeds of the Offering in either or both the SMG Power LP, a significant shareholder of Altentech®, and directly (and/or indirectly) into equity or acquire debt of Altentech®. The Limited Partnership will acquire either or both of newly issued and previously issued units of SMG Power LP.

This investment will allow the Limited Partnership to participate in Altentech®’s future commercial expansion and growth in the renewable energy sector, upon Altentech’s demonstration of long-term financial viability. Refer to Item 8 - “**Risk Factors**” more particularly 2(b) “**Issuer Risks – Investee Companies Operating History and Deficit Position**”. Additionally, the Limited Partnership’s purchase of previously issued units and/or newly issued units of SMG Power LP enables the Limited Partnership to participate in future financial gains on the holding and resale of these units held as an investment. Refer to Item 8 - “**Risk Factors**” more particularly 1(b) “**Investment Risks – Share Prices & Resale Restrictions**”.

SMG Power LP is a limited partnership formed pursuant to the laws of British Columbia. The General Partner of SMG Power LP is SMG Drytec Corp. The GP Shareholders are also the shareholders of SMG Drytec Corp. The objectives of SMG Power LP are to hold direct and indirect investments in Altentech® Power Inc., entities related to Jung Moon, and related biomass energy conversion projects with the intention to profit from these investment holdings. Total SMG Power LP units issued and outstanding as at the date of this Offering Memorandum is 767,505 of which 5 units are held by Hee Dong Hong as the initial limited partner on behalf of SMG Drytec Corp. Hee Dong Hong is the President of SMG Drytec Corp. SMG Power LP units are issued at a price of \$10 per unit. Pursuant to the limited partnership agreement for SMG Power LP, unitholders are entitled to 80% of the net income or net loss of SMG Power LP. Such net income or net loss shall be allocated to the limited partners of record on the last day of the partnership’s fiscal year on a pro-rata basis in accordance with their respective sharing ratios.

The purpose and function of SMG Power LP, among other things, is to purchase the interest in Altentech® from Altentech® or investors in Altentech® including Jung Moon, and investing in existing or new corporations controlled by Jung Moon or SMG Power LP. To date, SMG Power LP has made \$4,374,500 convertible loan investments to Jung Moon for the purposes of holding as

investments with a view to convert into shares of Altentech® and to participate in current and future biomass energy related businesses controlled by Jung Moon. To date, SMG Power LP has made \$400,000 convertible loan investments to Altentech® for the same purposes of share conversion and participation in future business growth upon Altentech®'s demonstration of long-term financial viability. At the date of this Offering Memorandum, Jung Moon holds 4,882,487 shares of Altentech® at an average purchase cost of \$0.50 per share. Convertible loans made to Jung Moon have the terms of 8% simple interest per annum and a three-year maturity; these loans are collateralized by a general security interest in Jung Moon's personal and business properties including shares of Altentech®, and are convertible to voting shares of Altentech® held by Jung Moon. Convertible loans made to Altentech® have the terms of 7% simple interest per annum and a two-year maturity; the loans are collateralized by a general security interest of Altentech® and Altentech®'s BioVertidryer, and are convertible to voting common shares of Altentech®.

The business purposes of the loan investments made to Jung Moon were to finance Jung Moon's acquisition of shares in Altentech® in order to increase his personal influence on Altentech® and finance Jung Moon's exploration and development of SMG Power LP related businesses (wood pellet businesses, international dryer sales, coal upgrading and peat pellet business). The business purposes of the loan investments made to Altentech® were to finance the on-going operations of Altentech® during its technology development and commercialization stage.

Altentech® Power Inc. is a company incorporated pursuant to the laws of British Columbia. SMG Power LP currently holds 43% of the outstanding shares of Altentech® Power Inc. Jung Moon, who is the sole shareholder of the Manager, holds 11% of the outstanding shares and the remaining 46% of the outstanding shares of Altentech® Power Inc. are held by 158 investors that are dealing at arms' length to SMG Power LP and Jung Moon. The top five shareholders and their relative percentage shareholding in Altentech® Power Inc. are as follows: SMG Power LP (43%), Jung Moon (11%), Lise Tuck (10%), Jean Louis Tanguay (9%), and Larry Taylor (6%). Jung Moon and Larry Taylor are directors of Altentech® Power Inc.

The current authorized share structure of Altentech® Power Inc. is an unlimited number of a single class of participating voting common shares without par value. SMG Power LP expects to profit from investments in Altentech® Power Inc. through dividends and/or the sale of Altentech® shares. The Limited Partnership may participate in the profit of Altentech® by investing in SMG Power LP or, in the event Altentech® issues additional shares from treasury, the Limited Partnership may acquire these newly issued shares of Altentech® directly.

On March 25, 2015, the Limited Partnership entered into a non-binding memorandum of understanding (the "**Power MOU**") with SMG Power LP pursuant to which the Limited Partnership agreed to use commercially reasonable efforts to negotiate and complete a series of financing (investment) transactions pursuant to which the Limited Partnership has agreed to provide up to \$2,135,000 funding to SMG Power LP by June 30, 2016 in consideration for debt and/or equity (limited partnership units) of SMG Power LP. The specific terms of each investment transaction will be set out in the definitive documentation governing each transaction or batch of transactions.

On July 31, 2015, SMG Asset Canada Inc. ("**SMG Asset**") entered into a Stock Option Agreement with SMG Power LP whereby SMG Power LP has granted an option to SMG Asset to purchase up to 20,000,000 shares of Altentech Power Inc. ("**Altentech**") held by SMG Power LP (the "**Optioned Shares**"). The Optioned Shares were organized into two options: Option 1 and Option 2. Option 1 allows SMG Asset to purchase up to 6,666,667 of the Optioned Shares at \$0.15 per

share and has an expiry date of December 31, 2016. Option 2 allows SMG Asset to purchase up to 13,333,333 of the Optioned Shares at a price agreed between the parties and negotiated in good faith. If the parties are unable to agree on the Option 2 price, the parties shall jointly appoint an independent valuator to establish the Option 2 price. Option 2 has an expiry date of July 31, 2020 or earlier if the sale of the remaining Optioned Shares is required by law or by the terms of the SMG Power Limited Partnership Agreement (“**Power LPA**”). Prior to the expiry of Option 1 and Option 2, SMG Power LP is bound by the Right of First Offer to offer the Optioned Shares to SMG Asset if such sale is required by law or by the terms of the Power LPA. These options provide limited partners of SMG Power LP an opportunity to sell shares of Altentech, an illiquid investment, to SMG Asset. As of May 31, 2016, neither Option 1 nor Option 2 have been exercised by SMG Asset.

As of May 31, 2016, the Limited Partnership made a series of advances totalling \$1,239,000 under this Power MOU which are currently recognized as short-term liabilities in SMG Power LP’s financial records. The definitive terms of these investments is currently under negotiation and will be contained in the definitive documentation.

The Wood Pellet Investment Mandate

The Limited Partnership intends to invest approximately 40% of the net proceeds of the Offering in MWPI and may invest a portion of this allocation in or other entities or businesses involved in the production of industrial grade wood pellets. The Limited Partnership intends acquire either or both of equity or debt of MWPI. This investment will allow the Limited Partnership to participate in the continued development of MWPI. MWPI is a company incorporated pursuant to the laws of British Columbia.

On March 17, 2015, the Limited Partnership entered into a non-binding memorandum of understanding (the “**MWPI MOU**”) with MWPI pursuant to which the Limited Partnership agreed to use commercially reasonable efforts to negotiate and complete a series of financing transactions pursuant to which \$8,000,000 would be advanced to MWPI (either in the form of debt, equity or otherwise) by June 30, 2016. The specific terms of each financing transaction will be set out in the definitive documentation governing each individual financing transaction.

In connection with the MWPI MOU, on March 19, 2015, the Limited Partnership agreed to lend MWPI \$300,000 (the “**MWPI Loan**”) pursuant to the terms of a promissory note dated the same date (the “**MWPI Promissory Note**”). The MWPI Loan has been fully advanced. The MWPI Loan bears interest at a rate of 12% per annum commencing on March 19, 2015 and matures on April 3, 2017. Interest is payable to the Limited Partnership semi-annually with the first payment due on October 1, 2015. After June 30, 2015, MWPI may prepay, in whole or in part, the MWPI Loan and all accrued interest without penalty. MWPI has been unable to make the required semi-annual interest payment due to the absence of an operating profit, and accordingly the parties entered into Amendment Agreement which provides that the interest amount owing would be accrued and added to the principal amount of the MWPI Promissory Note. In addition to the aforementioned MWPI Promissory Note, the Limited Partnership made a series of advances totaling \$2,106,000 pursuant to the MWPI MOU as of May 31, 2016. As the definitive terms of these investments are currently under negotiation, these investments are recognized as short-term liabilities in MWPI’s financial records.

Refer to Item 8 - “**Risk Factors**” more particularly 2(b) “**Issuer Risks – Investee Companies Operating History and Deficit Position**”.

The Biomass Drying Projects Investment Mandate

The Limited Partnership intends to invest approximately 50% of the net proceeds of the Offering to finance two custom biomass drying projects. SMG Custom Drytech Corp. (“Drying Holdco”) was incorporated on June 26, 2015 for the purposes of holding the interests in, and negotiating agreements on behalf of, two custom biomass drying projects utilizing the Altentec® Biovertidrye® system. As at May 31, 2016, the Limited Partnership has advanced approximately \$85,000 to fund Drying Holdco for its formation and various work/expenditures incurred in organizing a custom biomass drying project.

Following the formation of a new custom biomass drying project, the amounts the Limited Partnership advanced to Drying Holdco will be transferred/allocated to the drying project (newly incorporated operating company “Dry Opco”) in exchange for debt or equity interests in Dry Opco. The formation of a new custom biomass drying project (Dry Opco) is triggered by the signing of a definitive custom drying service agreement between Drying Holdco (assignable to Dry Opco) and the prospective customer (an industrial user).

Following the formation of a Dry Opco, the Limited Partnership intends to continue making debt or equity investments to the Dry Opco and operate the new custom drying project. The newly formed Dry Opco will use the funds received to pay for soft costs and hard costs to commission the drying project. Once fully commissioned, Dry Opco will provide biomass feedstock drying services to the industrial user for a service/tolling fee. Each single-Biovertidryer® 1.3 custom drying project has an estimated (average) project cost of \$5 million and the Limited Partnership intends to form two new custom drying projects, each held by a separate Dry Opco. The current focus is to establish two custom drying facilities on the southwest coast of British Columbia or on Vancouver Island to service pulp and paper companies in the region, either at their existing industrial site, or offsite. There are several prospects in discussions, but no definitive custom drying agreement has been reached. This investment will allow the Limited Partnership to diversify its involvement in the biomass drying market.

The allocation of funds amongst the Investments Mandates may be modified from time to time at the sole discretion of the General Partner as deemed necessary to achieve the Limited Partnership’s business objectives. In addition, the timing and order of priority of the allocation of funds to the Investment Mandates are in the discretion of the General Partner.

The Limited Partnership

The Limited Partnership was formed for the purposes of pursuing the Investment Mandates.

The Limited Partnership’s primary business is funding businesses operating in the clean energy sector both directly, through the Drying Projects Investment Mandate and the Wood Pellet Investment Mandate, and indirectly, through its investment in Altentech® pursuant to the SMG Power Investment Mandate.

About Altentech®

Altentech® Power Inc. has developed a revolutionary drying technology, the Biovertidryer® 1.3. The Biovertidryer® has a number of competitive advantages over incumbent drying equipment. The physical footprint of the dryer is more than 50% smaller than a traditional rotary drum dryer and 80% smaller than a belt dryer of similar capacity. The Biovertidryer® reduces operating costs for the consumer due to the reduction in electricity required to run the dryer and through high thermal efficiency. These advances have been achieved through the controlled air flow within the dryer resulting in minimal heat loss and reduced ambient air intrusion. In addition, maintenance costs are reduced and uptime is increased as a result of thoughtful and rigorous engineering. The Altentech® dryer exceeds the requirement of environmental emissions regulations in North America without any secondary scrubbing technology. The unique gravity-fed vertical design gives the operator optimal control of the fibre feed and finished product. Finally, the Biovertidryer® operates at significantly lower temperatures than incumbent rotary drum dryers, significantly reducing fire and explosion risks during operation.

Altentech® Power Inc. was incorporated in 2007. SMG Power LP began investing in Altentech® in 2012 and has since acquired significant ownership of the company. Since 2012, the SMG Group has worked with Altentech® to commission and build a demonstration prototype and a final commercial unit, which is currently being commissioned on an industrial site owned by the SMG Group in Mission, British Columbia.

Altentech® currently has received 13 patents, including patent approval from the European Patent Office representing 33 European Union member states. Patents received to date include: China, Russia, two in Canada, Australia, Indonesia, Ukraine, Philippines, Korea, Japan, Hong Kong, the European Patent Office, and USA. Within the European Patent System, Altentech is individually applying for patents in 19 countries: Austria, Belgium, Bulgaria, Croatia, Czech Republic, Estonia, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Norway, Poland, Romania, Slovak Republic, Slovenia, Switzerland. Patents are still pending approval in Brazil and India.

The Altentech® Biovertidryer® is in the early commercialization stage and has secured a drying contract with Howe Sound Pulp and Paper (“**HSPP**”). Upon successful completion of the contract with HSPP, its parent company has expressed interest in additional drying contracts. The Biovertidryer® 1.3 began operating for demonstration purposes in March 2015 and began to provide wood fibre drying service to HSPP under the drying contract in August 2015. There is no specific end date to the drying contract and the drying contract is in effect as at May 31, 2016. In July 2015, HSPP announced the permanent shutdown of its paper operation. This announcement caused the drying contract service date to be delayed from Spring 2015 to August 2015. Apart from this short-term delay, the HSPP announcement is not expected to have material impact on the drying contract between Altentech® and HSPP as the user of the dry fibre is the pulp division of HSPP. The pulp division had announced at the time of the paper division shutdown that HSPP will focus on the pulp operation and power generation business, which benefits Altentech® as there will be increased demand for dry wood fibre thereby increasing the prospective sale of Biovertidryers®.

An Offer to Purchase has been negotiated and executed between Altentech® and SMG Wood Pellet, on behalf of MWPI, whereby SMG Wood Pellet/MWPI has agreed to purchase two Biovertidryers® to deploy in the MWPI business. SMG Wood Pellet Inc. does not have an operating history and is the holding company of MWPI. MWPI will be completing the purchase and will be relying on the proceeds of this Offering and the Concurrent Offering to fund these

purchases. The completion of the Offer to Purchase is subject to Altentech® delivering a Performance Certification to SMG Wood Pellet/MWPI and by Altentech® securing drying service contract(s) to SMG Wood Pellet/MWPI's satisfaction. Initially the Offer to Purchase was expected to close near the end of 2015 however, due to delays in securing drying service contract(s) to SMG Wood Pellet/MWPI's satisfaction, the completion date has been delayed; the expected completion date is revised to 2016 summer.

Altentech® was granted a preferential loan from the British Columbia Bioenergy Network ("BCBN") in December 2014 for \$1,000,000. The loan bears interest at 5% per annum and matures on June 30, 2016. The loan provides for an interest free period of one year. In the event of the occurrence of an uncured event of default, the rate of interest increases to 14% per annum, compounded daily.

About MWPI

Mission Wood Pellet Inc. ("MWPI") is a state-of-the-art pellet mill in-development by SMG Wood Pellet Inc., which is part of the SMG Group. MWPI is planning an installed production capacity of 225,000 metric tonnes (MTs) of wood pellets annually, with room for expansion to 250,000 MTs of production per year. Located in Mission, this facility, once built and commissioned, will be the first coastal wood pellet mill in British Columbia. This location was strategically chosen for access to abundant wood fibre supply, availability of industrial land suitable for a wood pellet operation, and a business-friendly community with local availability of skilled labour, services and support.

MWPI targets to produce industrial grade wood pellets to replace coal (or co-fire with coal) in power generation and provide thermal energy for industrial applications. In the medium term, MWPI targets to supply wood pellets to dedicated biomass power plants to supply power to industrial parks. MWPI will focus on using long-term offtake agreements with wood pellet end users to secure sales. MWPI is in the developmental stage as at the date of this Offering Memorandum. Planning and preparation began in the fourth quarter of 2013, the initial expectation was to complete construction by the end of 2015. However, due to the increased wood pellet price competition out of Southeast Asia, MWPI has yet been able to secure a long-term wood pellet offtake agreement and accordingly, construction has been delayed; see Item 2.3 "*Development of Business*" for details.

The first permission from the Ministry of Environment for air discharge from the dryer during the commission period is effective as of February 20, 2015.

About Drying Holdco and the Biomass Drying Projects

Custom biomass drying is a service provided by a drying operator to third parties. The Custom Drying process contemplated removes moisture from biomass materials (e.g., wood chips, wood residuals) using the Altentech® Biovertidryer® biomass drying system. The final product is typically burnt in industrial boilers to generate heat and steam for electricity generation. This concept can be used in various industries, including pulp and paper, cement production and most wood to energy conversion processes. The custom drying model can be employed both on-site in conjunction with existing operations for a specific consumer; or at an independent drying site where fibre can be transported to and from various consumers.

Custom biomass drying provides value to existing industry businesses utilizing biomass, and has great potential for expansion within the North America market and globally. Operational benefits and cost savings from utilizing our custom biomass drying services include, but are not limited to:

- Reduced or no capital expenditure for the client;
- A fixed price for moisture removal; and
- Reduced moisture content in feedstocks, creating the following:
 - Increased energy production efficiency;
 - Increased energy sales to third-party buyers;
 - Reduced logistics and handling costs from not moving water; and
 - Reduction of pollution penalties from new environmental policies mandated by governments and regulatory agencies.

Our immediate target customers for these custom drying projects are primarily pulp and paper companies. Expansion opportunities are available in two distinct ways: expanding into the global pulp and paper market, and expanding into other industries that use a boiler and require steam for electricity generation or any application that requires moisture to be removed from their feedstocks.

Investment in custom drying projects offers the following benefits:

- Custom biomass drying contracts will allow clients to gain the benefits of utilizing the Altentech® dryer with limited start-up expense and without the need for elaborate production equipment;
- Controlled management and ownership of the business;
- High capacity dryers allowing for multiple biomass drying contracts with a single dryer;
- Lower capital cost in comparison to building full production facilities i.e., wood pellet mills;
- Shorter start-up time and faster turnaround, enabling project implementation and profit generation in a shorter period of time;
- Promote the Altentech® Biovertidryer® and increases sales; and
- The opportunity to expand specialty biomass drying contracts globally through on-site installation opportunities.

SMG Custom Drytech Corp. (“Drying Holdco”) is a newly incorporated entity formed for the purposes of holding the interests in, and negotiating agreements on behalf of, custom biomass drying projects. Drying Holdco is currently exploring the custom biomass drying business and entering discussions with several prospective industrial customers. No definitive custom biomass drying service agreement has been reached.

The Limited Partnership Agreement

The Limited Partnership Agreement, a copy of which is attached as Schedule “A” to this Offering Memorandum, sets out the terms and conditions upon which the Limited Partnership is to be established and operated. A summary of the Limited Partnership Agreement is contained under Item 2.7 “Material Agreements”.

2.3 Development of Business

Development of the Business of Altentech®

Altentech® Power Inc. was incorporated in 2007 based upon a design for a vertical biomass drying unit proposed by the original founders. The design for the dryer has undergone multiple iterations since then. Altentech® and its dryer design have moved from R&D to proof of concept to early-stage commercialization for the Biovertidryer® 1.3 since 2012. An initial prototype unit, referred to as the D-10, was constructed and commissioned in 2011, first being installed in Nova Scotia and then moved to a site in Princeton, British Columbia. The D-10 prototype unit exhibited significant design flaws and a design overhaul was undertaken in 2012, led by an internal technical team. Altentech® engaged a leading mechanical engineering firm in BC, Noram Engineering, and an industry leading environmental and geotechnical engineering firm, Levelton Consultants, to redesign the D-10.

The Biovertidryer® 1.3 is the product of the redesign efforts. This reimagined drying unit incorporates all of the original elements of the D-10 prototype unit, as well as numerous modifications to improve capacity, performance, and environmental compliance. Extensive mechanical engineering and computational fluid dynamic modeling have provided compelling feedback that the Biovertidryer® 1.3 will perform up to the specifications set by Altentech® management and technical leads.

The first Biovertidryer® 1.3 was built by Axton Inc. in the summer of 2013. Assembly of the dryer began on the MWPI site in December 2014. Marketing efforts for the Biovertidryer® 1.3 began in early 2014 and have built a pool of interested prospective investors awaiting the successful operation of the first unit. Howe Sound Pulp and Paper will be the first commercial end users of the dryer through the drying contract secured with Altentech®.

To date, funding for Altentech® has been provided through third-party investors, the SMG Group, Natural Resources Canada (NrCan), and BCBN.

At the date of this Offering Memorandum, the dryer is on-site at MWPI. The dryer will be used to fulfill custom biomass drying orders for local customers using biomass for various applications, beginning with Howe Sound Pulp and Paper (started in August 2015). This first installed unit will also be used as an operating model for prospective customer visits and to run additional air emissions and operating data tests.

Altentech® business is expected to expand primarily through dryer sales to customers, along with potential participation in strategic joint venture or consortium partner projects such as the custom biomass drying projects.

The Partnership intends to realize profits directly through Altentech® business growth and/or through the disposition of SMG Power LP units and/or Altentech® shares.

Development of the Business of MWPI

There is significant interest in wood pellet production and utilization globally. As a clean, renewable, high energy-density, easily transportable, and easy-to-use energy source, wood pellet demand is expected to increase steadily over the next decade, and expand into major markets such as Asia and Eastern Europe. The global demand for wood pellets is driven by government environmental policy changes and is less impacted by the prices of traditional fossil fuel sources such as oil and natural gas.

A business plan was developed in 2013 and development of the MWPI business model was undertaken in late 2013. MWPI will be a state-of-the-art wood pellet manufacturing facility and the first coastal BC wood pellet plant. MWPI targets to produce industrial grade wood pellets to replace coal in power generation and provide thermal energy for industrial applications. In the medium term, MWPI targets to supply wood pellets to dedicated biomass power plants to supply power to industrial parks. MWPI will focus on using long-term offtake agreements with wood pellet end users to secure sales.

Environmental Benefits

- The feedstock to produce wood pellets at MWPI will mainly be derived from forestry residuals, clean construction and demolition waste, and waste streams produced at local lumber mills. These residual streams currently provide little or no revenue to the mills producing them, and often cause emission and public safety problems due to self-combustion and decaying piles of fibre.
- The plant being proposed will exceed all permitting requirements and use state-of-the-art equipment. MWPI has engaged the District of Mission, the British Columbia Ministry of Environment, and other air quality stakeholders as part of its commitment to be transparent with partners, investors, and the public on air quality management processes.

Economic and Operational Advantages

- Contributing to industrial activity in British Columbia, specifically the District of Mission, by creating up to 30 full-time positions and offering many associated benefits to local businesses.
- Proximity to ports and Metro Vancouver.
- Efficient use of land space, and new and improved equipment and technologies.

Our Strategies

In order to maximize the environmental and economic benefits, MWPI has identified a number of strategies to ensure smooth operations and a favourable outcome:

- Early collaboration and engagement with governments and all key stakeholders in environmental management;

- Adoption of highly efficient and environmentally friendly woody biomass drying technology;
- Proximity and accessibility to Vancouver ports;
- Reducing delays and costs by positioning the fibre supplier and aggregator within a shared space, and providing an optimal return on investment through targeted volume production;
- Extensive fibre study performed and concluded in favour of MWPI; and
- Mitigating risks regarding environmental permitting issues by being proactive in informing the government of MWPI's intentions, formalizing a back-up source of residual fibre in the event of a shortage, and carefully monitoring the budget.

MWPI has done extensive research, analysis, and executed the groundwork in planning and organizing the Project. As at the date of this Offering Memorandum, the following project milestones have been achieved:

- Reached definitive long-term lease agreement on a production site in Mission, BC;
- Signed an Offer to Purchase and Agreement for Sale (collectively the "PSA") for a 2-acre waterfront industrial site adjacent to the above leased site, increasing the total land available for MWPI's development to 5.5 acres. The purchase price for this 2-acre property is \$2,561,597. To date, all payments required under the PSA have been paid on time. Key terms of the PSA are as follows:
 - i. Payment schedule to the seller (or seller's lender):
 - \$125,000 payable at the time of agreement signing ("Initial Payment");
 - \$25,000 per month for 11 months, starting in April 2015;
 - \$35,000 per month for 6 months, starting in March 2016; and
 - remaining balance of the purchase price (\$1,951,597), plus any reasonable adjustments are due to the seller's lender by August 23, 2016 ("Final Payment Date").
 - ii. Land purchase payments do not contain interest or financing charge.
 - iii. Legal title of the land transfers from the seller to MWPI upon MWPI satisfying all payment obligations by the Final Payment Date;
- Reached definitive fibre agreement with fibre agent for the delivery of required residual fibre for wood pellet production;
- secured residual fibre sources;
- Completed wood pellet plant design;
- Received competitive quotations on capital equipment;
- Placed equipment deposits on key production equipment;
- Obtained interim air discharge permit from the Ministry of Environment effective on February 20, 2015; and
- Engaged technical feasibility analysis on the use of a high-efficiency biomass dryer (Biovertidryer®) in the Project.

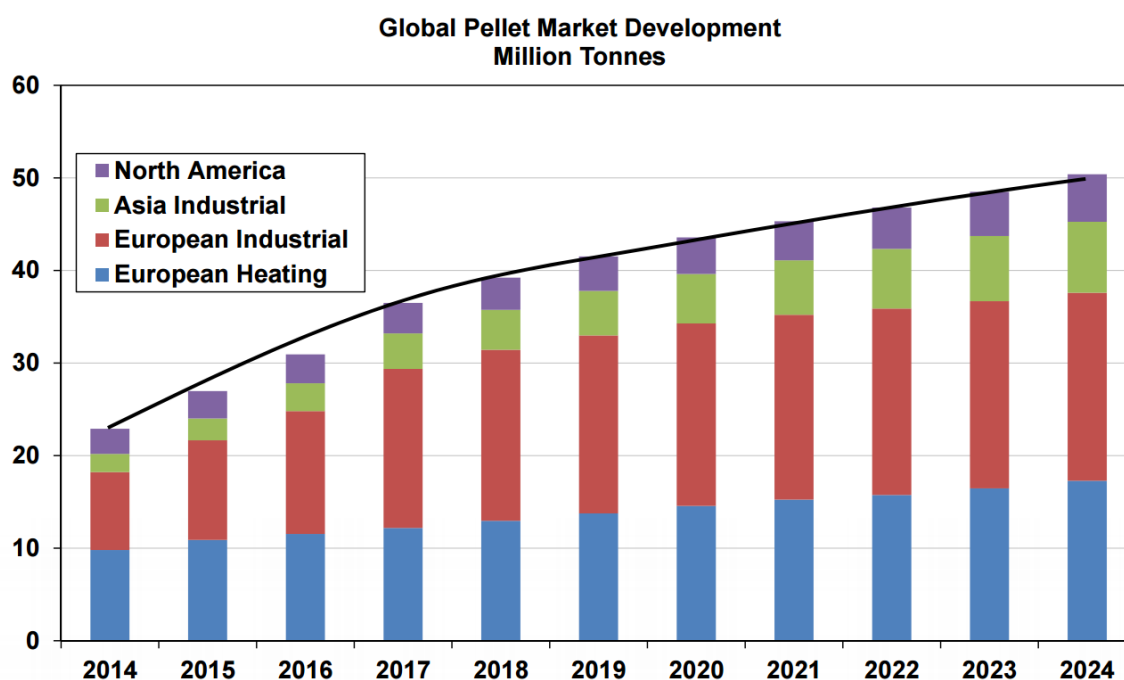
MWPI may engage the traditional European market for industrial wood pellets and/or the residential premium pellet market. Both of these European markets continue to experience strong demand growth because of tightening European energy policy across the 35 member states. As production facilities in the Asian markets are built, commissioned, converted or retrofitted to receive biomass fuel supplies, MWPI may engage European buyers for early production capacity on a per-contract basis. Once Asian purchasers are prepared to receive biomass shipments, the majority of MWPI production will be used to fill these long-term supply contracts.

MWPI and SMG Wood Pellet management continue to work with industrial users based in South Korea directly to explore wood pellet export opportunities. Concurrently, management is exploring and working on several project financing opportunities with Canadian and South Korean based lenders to provide sufficient capital to finance the MWPI project. The main challenge in securing project financing from lenders continues to be the signing of a definitive (long-term) wood pellet offtake agreement with an industrial user of strong creditworthiness.

SMG BioPower LP expects to realize profits through the establishment and growth of MWPI business and/or through the disposition of MWPI securities or ownership.

Recent Developments – Issue of Excess Wood Pellet Production Capacity and Residual Wood Fibre Availability

The issue of excess production capacity in wood pellet industry globally and specifically in B.C, pertains to availability of residual wood fibre and not to the demand for wood pellets. Wood pellet demand is forecasted and has been demonstrated to be rising and will continue to rise to the point of sustainable fibre resources being exhausted. The following chart demonstrates the projected rise in demand for wood pellets globally:



- Source Wood Pellet Association of Canada and RISI

Of note the above chart depicts global consumption projections and not production. Due to Canada's policies on sustainable forestry practices, forestry audits performed through third parties and quality of production, Canada and specifically B.C, pellets are highly sought after and considered the best product available in many jurisdictions. Pellet plants often place additional capacity at the time of development to accommodate any additional fibre streams that may become available in the future, this is a much cheaper alternative to attempting to retrofit a plant for additional capacity in the future. In addition, capacity excess at the plant level allows for

redundancy which can allow plants to continue operations through maintenance cycles and mechanical failure.

The 2014 CanBio report titled “Report on the Status of Bioenergy in Canada” (“**CanBio Report**”) states that “many wood pellet plants are operating at below capacity with total unused capacity in 2013 at 980,000 tonnes.” The CanBio report was prepared through industry questionnaires requesting information on current capacity and current production (MWPI’s parent company, SMG Wood Pellet Inc., was involved directly in the CanBio organization and had a board seat until the organization dissolved in early 2015). In summary, the unused pellet production capacity is not a result of lowered global demand in wood pellets. The unused capacity is due to a combination of residual wood fibre availability and intentional downtime for more consistent production schedule.

Many pellet plants in central and northern B.C, (the majority of pellet producers) are in the midst of forests impacted by the Mountain Pine Beetle (the “**MPB**”). MPB has impacted lumber production in these areas and thus resulted in diminished residual fibre streams. MWPI pellet operations will be positioned outside of MPB forests and the fibre resources available remain consistent. Specifically, MWPI’s model has been developed to access fibre from an underutilized “basket” of fibre in southern B.C. This fibre is currently non-competitive and fibre studies and evaluation has been done internally as the first phase of building a business model that would be sustainable and competitive. Due to the location of the plant, MWPI will also have access to fibre supplies in Washington State which provides further stability to the wood pellet business.

Recent Developments – Issue of the 2013 Carbon Tax Relief Grant Program

The CanBio Report provided a discussion on how the 2013 permanent carbon tax relief grant program announced by the B.C, government had a negative impact on the demand for biomass energy products when compared to the use of natural gas. This discussion was in reference to B.C’s consumption of wood pellets in B.C. greenhouses and how natural gas is more competitively priced than wood pellets with the tax relief provided to greenhouse operations in B.C. This carbon tax relief grant program has no bearing on the global wood pellet market and has no impact on the intended market of MWPI’s business as MWPI’s strategy is to engage directly with Asian and South Korean industrial users for wood pellet offtakes, and not supply to B.C. greenhouses.

Natural gas pricing is at an all-time low in B.C, due to oversupply and the lack of export markets for the product. Wood pellets are sourced mainly by industrial end users (i.e. South Korean industrial users) who are regulated to switch electrical power production away from coal burning and can achieve reductions without costly plant reconstruction or retrofitting. Wood pellets are a “drop-in” replacement for coal and many producers (such as DRAX power in the UK, now burning over 7 million tonnes of pellets annually sourced from North America) have switched plants entirely away from coal burning to wood pellet burning without the need to change existing plant equipment.

Recent Developments – Wood Pellet Market Update and MWPI/SMG Wood Pellet’s Competitiveness

MWPI’s model has been developed to access fibre from an underutilized “basket” of fibre in southern B.C. This fibre is currently non-competitive and fibre studies and evaluation has been done internally as the first phase of building a business model that would be sustainable and

competitive. Due to the location of the plant, MWPI will also have access to fibre supplies in Washington State which provides further stability to the wood pellet business.

The offtake demand in the Asian markets has only just come into existence and the future growth potential in that market is strong. This new demand and the proximity of B.C. to Asia (as opposed to Europe) provides a natural fit to increased production for export.

MWPI, through its parent company SMG Wood Pellet, is also working directly with the end users in the Asian market and not utilizing brokers to handle sales, this gives MWPI a competitive advantage over existing producers and power capacity will be constructed in Asia around the production offtake from MWPI. This direct relationship provides additional security (and competitiveness) to MWPI's intended business.

Recent Developments – Wood Pellets Compared with Other Energies

The wood pellet industry provides a carbon neutral (or close to carbon neutral) alternative to fossil fuels. Fossil fuels may compete on price per GJ but their impact on Greenhouse Gas emissions (GHG) make them competitive for environmental reasons and environmental policies that have been implemented in Europe for over 20 years and now being replicated in Asian countries as well as here in North America. Unlike other renewable energy sources (i.e. solar, wind and tidal), wood pellets provide an alternative way to generate dispatchable power through thermal generation. The other sources of renewable energy require storage to allow for immediate power availability and battery storage has yet to reach the level required to use these types of energies for peak demand and immediate deployment. Thermal generation of power is still the only means to provide the type of power needed for industry and the only other methods of thermal power generation require the use of fossil fuels which all produce significant levels of GHG and other pollutants. Wood pellets also have a market in the residential heating market and offer a cheaper alternative to other energy sources in rural areas and are cleaner than burning cord wood. This market is also growing but is not the target market for MWPI's production.

In regards to other clean (or cleaner than coal fuels) (i.e. natural gas, LNG, propane, oil, hydro and nuclear), these will remain in existence and will be used for the production of power for the near future. Hydro and nuclear also don't offer the same level of dispatchability as thermal generation. No existing fuels are competitive with wood pellets as wood pellets are providing a "bridging" solution to existing coal power producers. It is likely that over the next 20 to 50 years that new energy sources will come into play and/or storage and "smart grid" technologies will be developed that will remove the need for thermal power. Until that occurs the growth of the wood pellet industry is only limited by the sustainable supply of feedstocks.

Recent Developments – South Korea Trade Restriction on Forestry Products Including Wood Pellets

Developments in South Korean policy only came to light in the late spring of 2015 and MWPI's parent company, SMG Wood Pellet Inc., has been proactively involved in the developments both here in B.C. and in South Korea. The trade restriction that was initiated required documentation on wood pellets' chain of custody in accordance with the Apostille Convention of which Canada is not a signatory member. However, MWPI and SMG Wood Pellet Inc.'s direct engagement with South Korean industrial users provide two separate assurances:

1. this issue would be resolved and was a misunderstanding of the ability for Canada to provide the documents requested; and
2. that if the issue wasn't resolved that there was an alternative wood pellet specification that wasn't regulated by the South Korean ministry requesting the Apostille documents. This pellet could be exported and would be administered by the Ministry of Environment in Korea as opposed to the Ministry of Forests. The pellet is an industrial specification and is referred to in South Korea as a BIO SRF (Bio Solid Refuse Fuel) pellet.

SMG Wood Pellet Inc. is a member of the Wood Pellet Association of Canada (WPAC) and was aware that the issue had already been brought to the attention of the trade commissioners as well as the Ministers on both sides of the trade dispute. WPAC is a trade organization and is proactive when there is a dispute involving wood pellet trade issues to ensure the appropriate level of interest is achieved and to act as the voice of industry and not as a mediator. Representatives of MWPI and SMG Wood Pellet Inc. met with the B.C. Minister of International Trade, Minister Teresa Wat in person and were informed that the matter would be resolved in due course. In September 2015 the restriction/requirement imposed by South Korea had been lifted and that the policy was no longer in effect. The free trade agreement between Canada and South Korea will assist in reducing trade barriers and issues moving forward and the future is bright for the export trade to South Korea with a highly competitive dollar. Other Asian markets are also developing in Japan and China and will provide additional security to production for offtake diversification. In conclusion, management of MWPI and SMG Wood Pellet assessed the matter of the South Korean trade restriction to be short-term in nature and would not have a material long-term impact on the Canadian wood pellet industry and in particular, the businesses of MWPI.

Recent Developments – Wood Pellet Price Competition from Southeast Asia

Between 2015 and 2016 Canadian wood pellet producers are experiencing price competition out of Southeast Asia, particularly from Vietnam where the wood pellet drop-off prices in South Korea have fallen below the FOB Vancouver Port prices. This creates price pressure for most Canadian wood pellet producers, which has caused our negotiation efforts in securing long term wood pellet offtake agreements with South Korean companies to be delayed. Our estimate and anticipation is that the low wood pellet prices coming out of Southeast Asia are unsustainable and there are secondary issues such as inconsistent quality, unsustainable practices, and environmental concerns. MWPI's strategy will continue to be working directly with industrial users to provide sustainable, un-interrupted, and quality wood pellet supply. There are short-term challenges in the price of wood pellets to overcome however, Canadian wood pellets continue to enjoy the strong brand recognition of being a premium product and a sustainable source of wood pellets.

Recent Developments – Interim Plan: Drying Service Contract

MWPI is currently negotiating long term offtake agreements with several South Korean industrial companies. Prospective customers would purchase wood pellets for a biomass power plant project to be constructed and commissioned by 2017. The biomass power plant project will be the first in a series of power plants dedicated to biomass power generation in Korea. In advance of sales to South Korean customers in 2017, MWPI targets to sell wood pellets to European countries and selected Asian countries.

As an interim plan while securing long term wood pellet offtake agreements and riding out the pellet market pricing issue, MWPI intends to secure and operate woody biomass drying service contract(s) at its purchased site located at Mission B.C., using the machinery and equipment on hand. The woody biomass drying service is intended to be short-term in nature (12 to 18 months). MWPI intends to dedicate all of its resources to the wood pellet facility set up once the pellet market improves and when a long term wood pellet offtake agreement has been secured.

Development of the Drying Projects

Custom biomass drying projects are in the business development phase. Custom biomass drying is a new niche market made possible by the Altentech® biomass drying technology of the Biovertidryer® 1.3. Due to the dryer's small size, modularity, electrical and throughput efficiency and safety, the Biovertidryer® makes it possible for biomass drying installations to use less auxiliary equipment and be less expensive for installation, real estate, and operation costs.

The business model for Custom biomass drying was developed in 2014 and since then, R&D and business development has commenced to identify essential business components, operational and competitive advantages and key markets. Using the Altentech® Biovertidryer®, SMG BioPower LP plans to develop and put into operation two custom biomass drying installations. The two custom biomass projects will focus on the North American market for industrial thermal energy applications. There are numerous applications for thermal energy production, including steam power generation, direct biomass firing, co-firing with fossil fuels and secondary biomass production. There are various industries using biomass-based thermal energy for power production including pulp and paper mills and cement production facilities. By enabling end-users to set the drying specifications of their specific fibre, SMG's Custom Biomass Drying Projects aim to grow the number of biomass thermal energy users by providing easy access to the precise product end-users' need.

The Limited Partnership intends to make debt or equity investments to form an entity to set up and operate each new custom drying project. Prior to forming a new custom drying project (Dry Opco), the Limited Partnership formed Drying Holdco as the holding company to develop the biomass drying market and to enter into various agreements with prospective customers. Once a drying project is formed, the newly formed entity (Dry Opco) will use the funds received to pay for soft costs and hard costs to commission the project.

Soft costs of each custom drying project include: feasibility study, project design and engineering, consulting and management, legal and structuring, contract procurement, licenses and permits, and other items. Hard costs of each custom drying project include the purchase price of the following equipment: Biovertidryer® 1.3 (purchased from Altentech® at market value), industrial burners and fans, conveyor system, infeed material screening system, and other equipment and parts. The estimated allocation of soft costs and hard costs is 35% and 65%, respectively.

Once commissioned, the custom drying project will provide biomass feedstock drying services to the industrial user for a service/tolling fee. Each single-Biovertidryer® 1.3 custom drying project has an estimated project cost of \$5 million and the Limited Partnership intends to form two custom drying projects, each held by a separate operating entity. The custom drying process involving the Biovertidryer®1.3 system is expected to be highly automated and accordingly, a total of 4 full time plant-level employees and 3 office employees is expected. Operating costs of a custom drying project including electricity, utilities, repairs and maintenance, wood fibre handling, and parts are

assumed by either the operator (the newly incorporated operating company) or the customer, depending on the drying service agreement negotiated.

The current focus is to establish two custom drying facilities on the southwest coast of B.C., or on Vancouver Island to service pulp and paper companies in the region, at their existing industrial site, or offsite. There are several prospects in discussions, but no definitive custom drying agreement has been reached.

SMG BioPower LP expects to realize profits for investors on the operation and growth of the Custom Biomass Drying projects and/or through the trading of custom drying project securities or ownership. Such trades are subject to both SMG BioPower LP and the prospective purchaser meeting an exemption applicable under the Securities Act and any resale restrictions on the securities.

Other Developments

The International Bio-Economy Cooperative was formed in October, 2015 and has attracted the support of numerous reputable businesses and organizations including; Howe Sound Pulp and Paper, Lafarge, the University of British Columbia Biomass and Bioenergy Research Group, BioFuel Net Canada (BFN), the US Department of Energy, Altentech Power Inc., SMG Wood Pellet and the District of Mission. The goal of this initiative is to set the stage for all the stakeholders of the Cooperative to collaborate, innovate, and implement the best practices to develop a sustainable bioeconomy. This initiative is facilitated by establishing “hubs” which provide end users with the right type of feedstock for their given process, generating maximum return on fibre value for each end user. The first hub established for this valorization of low cost forest residues will take place in a processing facility strategically located in the vicinity of the District of Mission, 100km East of Vancouver. This project also provides an excellent opportunity for BFN researchers across the country to showcase the application of their scientific knowledge in the production of cost competitive and low-carbon biofuels. As the project develops this initiative can look to further international partnerships and support in the demonstration of best practices to develop a sustainable bioeconomy.

Internal Technical Team

To accomplish the objectives of the Investment Mandates, the General Partner works closely with an internal technical team that provides scientific and technical advices to the General Partner and various projects of the SMG BioPower Businesses. The internal technical team is comprised of the following industry experts:

Paul Adams

Paul Adams is the General Manager of SMG Wood Pellet (holding company of Mission Wood Pellet Inc.) and is currently working with Altentech Power Inc., and SMG Custom Drytech (holding company of future custom biomass drying projects) as a technical advisor. Paul has acted as a consultant for a variety of bioenergy companies in the past and has extensive experience in project management, fibre acquisition, political lobbying, First Nations relationship building, feasibility studies and general management. Paul has been in the forestry industry for over 10 years, prior to entering the bioenergy sector, Paul was the Executive Director of the BC Wildlife Federation (BCWF), where he collaborated with the provincial, federal and First Nations governments on

policy direction and implementation, representing over 30,000 direct members and the interests of over 250,000 British Columbians. Paul is a long-time conservationist, business manager, and outdoors enthusiast, who is keen to develop business solutions that also benefit the environment, wildlife, and their habitat.

Brent Wiren

Brent Wiren is the General Manager of SMG Custom Drytech (holding company of future custom biomass drying projects) and is currently working with Altentech Power Inc. and SMG Wood Pellet (holding company of Mission Wood Pellet Inc.) as a technical advisor. Brent is a licensed equipment technician by trade, with focus on electronic, hydraulic, mechanical design, construction, and troubleshooting. He has worked in the oil and gas sector for over 10 years, specializing in the installation, commissioning, and maintenance of large reciprocating power generators and natural gas compressors. Brent has administrative and practical experience with British Columbia's wood pellet industry, having been a Director for a mid-sized wood pellet mill in Princeton for seven years, and has helped build several small scale mills. His reach has also extended to China, where he provided consulting services for over a dozen wood pellet producers with respect to fibre studies, equipment specifications, quality control, marketing, and operations. Brent strongly believes in the value of waste to energy conversion and the future of bioenergy.

2.4 Long-Term Objectives

The Partnership intends to use the net proceeds to accomplish the objectives outlined in the Investment Mandates, specifically:

- The Partnership intends to purchase newly issued and/or existing units of SMG Power LP and obtain a return on investment based on the growth of the Altentech® business and/or the disposition of Altentech® securities.
- The Partnership also intends to use a portion of net proceeds to finance the construction and commissioning of the MWPI wood pellet production plant and possibly provide short-term financing to MWPI as operational financing in the business's early stages.
- The Partnership intends to earn financing revenue on monies loaned to MWPI and obtain a return on any equity investments based on the growth of the MWPI business.
- The Partnership will also use a portion of the net proceeds to invest in two custom biomass projects and to obtain a return on investment for limited partners through the business of the custom biomass drying projects and/or the sale of ownership, interest or assets in the projects.

2.5 Short-Term Objectives and How We Intend to Achieve Them

During the next 18 months the Limited Partnership intends to pursue the Investment Mandates to invest in Altentech® and MWPI as it is able to, and to fund and advance the Biomass Drying Projects. The Limited Partnership may seek to amend the Limited Partnership Agreement to permit additional funds to be raised.

What we must do and how we will do it	Target completion date or, if not known, number of months to complete	Our cost to complete
Acquire units of SMG Power LP through purchase of newly issued or existing issued shares. To date, \$1,239,000 has been utilized for this purpose. Further invest in Altentech®, directly or indirectly. Budget up to \$1,000,000 for the purchase of existing (issued) units of SMG Power LP to hold as financial asset (\$0 spent to acquire existing/issued units of SMG Power LP as of May 31, 2016).	0-12 months	\$2,000,0000
Prepare for and design two custom biomass drying projects: including securing custom drying customers, establishing a viable business plan, identifying key strategic business needs for the project, finding a site location, project design and engineering, and other related project costs. We target to have one drying project constructed and commissioned within the next 18 months. Each drying project has a budget (on average) of \$5,000,000.	0-18 months	\$5,000,000
Funding will be used to acquire assets, develop and commission interim business (drying service model), secure pellet end users and long-term offtake agreement, and bring the pellet project to a bankable stage for project financing. Plant construction can begin once project financing is in place. Funding will provide short-term financing in the business's early stages. To date, \$2,106,000 has been utilized for this purpose.	0-24 months	\$8,000,000

2.6 *Insufficient Funds*

The proceeds of this Offering may not be sufficient to accomplish all of the Limited Partnership's proposed objectives. The Limited Partnership may seek to raise additional funds through alternative financing. However, there is no assurance that such alternative financing will be available at all, or on terms that are acceptable. Refer to Item 8 - ***“Risk Factors”***.

2.7 *Material Agreements*

The material agreements of the Limited Partnership are the following:

- (a) the Limited Partnership Agreement, made between the Limited Partners and the General Partner. A copy of the Limited Partnership Agreement is attached as Schedule “A” to this Offering Memorandum;
- (b) the Management Agreement made between the General Partner on behalf of the Limited Partnership and the Manager; and
- (c) the Loan Agreement made between the General Partner on behalf of the Limited Partnership and the Manager pursuant to which the Manager has agreed to loan funds to the General Partner to pay the Interest Payments

The following is a brief description of the key terms of each of these agreements:

Limited Partnership Agreement

The Limited Partnership Agreement was made among BioPower Drytec Corp. as the General Partner, SMG Power LP, as the Founding Partner and those persons who, from time to time will become Limited Partners of the Limited Partnership. The Partnership, formed by the Limited Partnership Agreement, intends to invest in the clean energy sector generally and, in particular, in the projects that will be funded by the Investment Mandates (the “SMG BioPower Business”). The SMG BioPower Business is comprised of the SMG Power Investment Mandate, the Wood Pellet Investment Mandate and the Drying Projects Investment Mandate. The Limited Partnership Agreement sets out the manner and provisions in which the businesses and affairs of the Partnership will be carried out and managed. The Partnership is authorized to issue up to a maximum of 2,500,000 Class A voting, non-redeemable limited partnership units. Pursuant to the Limited Partnership Agreement, the General Partner shall manage and control the affairs of the Partnership and in particular, hire and retain advisors, experts, and consultants to assist it in the exercise of its powers and the performance of its duties under the agreement (including executing the Management Agreement discussed below). The General Partner shall be entitled to receive 20% of the distributions available (whether resulting from revenue or income earned by the Limited Partnership or from the proceeds of sale of any of the assets of the Limited Partnership); the remaining 80% of distributions are allocated and distributed pro-rata to the limited partners. See the disclosure under Item 5.1 “Terms of Securities”.

Management Agreement

Under the terms of the Management Agreement, the Manager is to provide administrative services to the Limited Partnership, including without limitation the preparation of financial statements and tax returns and provision of office space and equipment, and for those services will receive the Management Fee. The Management Fee is equal to means 5% of the gross proceeds of the Offering and shall be paid by the Limited Partnership to the Manager in monthly instalments over a five-year period in accordance with the terms of the Management Agreement.

Loan Agreement

The Manager has agreed to loan the amount of the Interest Payments to the Limited Partnership in order to fund the Interest Payments payable to the Limited Partners noted below. The loan is being made on an interest free basis. In accordance with the terms of the Loan Agreement, the amount of Interest Payments advanced by the Manager to the Limited Partnership shall be repayable monthly over a three-year period commencing on the date that the Limited Partners have received profit distributions equal to 10% of the gross proceeds of the Offering. If, at any point in time, the repayment of the Interest Payments to the Manager would cause the Limited Partnership to be in a deficit cash position, the repayment obligation shall be suspended. The repayment obligation shall be reinstated at such time as the Limited Partnership has sufficient funds to make the repayment without causing the Limited Partnership to be in a deficit cash position.

Item 3. Interests of Directors, Management, Promoters and Principal Holders

3.1 Compensation and Securities Held

Name and municipality of principal residence	Positions held (e.g., director, officer, promoter and/or principal holder) and the date of obtaining that position	Compensation paid by issuer or related party in the most recently completed financial year and the compensation anticipated to be paid in the current financial year	Number, type and percentage of securities of the issuer held after completion of minimum offering		Number, type and percentage of securities of the issuer held after completion of maximum offering	
			(#)	(%)	(#)	(%)
Hee Dong Hong, Coquitlam B.C	Director, President of the General Partner (since incorporation)	\$nil	\$nil	\$nil	\$nil	\$nil
Meng (Simon) Xu, Burnaby B.C	Director, Secretary of the General Partner (since incorporation)	\$nil	\$nil	\$nil	\$nil	\$nil
Wei Chen (Mike) Hsu, Burnaby B.C	Chief Operating Officer of the General Partner (since incorporation)	\$nil	\$nil	\$nil	\$nil	\$nil
Chun Te (Peter) Wu, Richmond B.C	Chief Financial Officer of the General Partner (since incorporation)	\$nil	\$nil	\$nil	\$nil	\$nil

3.2 Management Experience

The officers and directors of the General Partner are as follows:

Name	Principal occupation and related experience
Hee Dong Hong	Hee Dong Hong is a Director and the President of BioPower Drytec Corp., a Vice-President of SMG Advisors Inc., and a Senior Manager of SMG Securities Inc. Hee Dong has been a financial advisor for over 15 years and has worked with the SMG group of companies for over 10 years. Hee Dong has been active in the biomass energy markets since 2012.
Wei Chen (Mike) Hsu	Wei Chen (Mike) Hsu is the Chief Operating Officer for BioPower Drytec Corp., a Vice-President of SMG Advisors Inc., and the President of SMG Securities Inc. Mike is a Certified Financial Planner with a Bachelor's degree in Business Administration with a specialization in Finance from Simon Fraser University.
Chun Te (Peter) Wu	Chun Te (Peter) Wu is the Chief Financial Officer of BioPower Drytec Corp. and SMG Asset Canada Inc., and the Chief Compliance Officer and Secretary of SMG Securities Inc. Peter is a Certified General Accountant and Chartered Accountant with a Bachelor's degree in Commerce with a specialization in Accounting from the University of British Columbia.
Meng (Simon) Xu	Meng (Simon) Xu is a Director and Secretary of BioPower Drytec Corp, a Vice-President of SMG Advisors Inc., and a Senior Manager of SMG Securities Inc. Simon is a Certified Financial Planner and has a Master's degree in Economics from Simon Fraser University.

3.3 Penalties, Sanctions and Bankruptcy

No penalties or sanctions have been in effect during the last ten (10) years nor has there been any cease trade order issued that was in effect for more than thirty (30) days during the past ten (10) years against:

- (a) any of the directors, executive officers or control persons of the Limited Partnership;
or
- (b) a company of which any of the directors, executive officers or control persons of the Limited Partnership was a director, executive officer or control person at the time.

None of the directors, executive officers or control persons of the Limited Partnership (or any company of which any of the directors, executive officers or control persons of the Limited Partnership was a director, executive officer or control person at that time) have ever declared bankruptcy or been involved in a voluntary assignment in bankruptcy or a proposal under any bankruptcy or insolvency legislation, or any proceedings, arrangement or compromise with creditors or appointment of a receiver, receiver manager or trustee to hold assets during the last ten (10) years.

3.4 Indebtedness

There is no indebtedness as at the date of this Offering Memorandum.

3.5 Potential Conflicts of Interest

None of the General Partner, or any director or officer of the General Partner are in any way limited or affected in its or their ability to carry on other business ventures for their own accounts and for the accounts of others, or are now, or intend in the future to be, engaged in the development of, investment in and management of other clean energy sector projects. None of these persons will have any obligation to account to the Limited Partnership or the Limited Partners for profits made in such other activities. Refer to Item 8 – *“Risk Factors – Conflicts of Interest”*.

Item 4. Capital Structure

4.1 Unit Capital of the Limited Partnership

Description of security	Number authorized to be issued	Price per security	Number outstanding as at May 31, 2016	Number outstanding after min. offering	Number outstanding after max. offering
Class A Limited Partnership Units	2,500,000	\$10.00	354,769	354,769	2,500,000
Class B Limited Partnership Units	250,000	\$1.00	250,000 ⁽¹⁾	250,000	250,000

(1) Class B Limited Partnership Units were issued to SMG Power LP prior to proceeds were raised under this Offering and the Concurrent Offering. The business purposes of SMG Power LP's investment in the Limited Partnership are to i) provide first batch of funding to the Limited Partnership ii) hold partnership units as an investment with a view of future profits by receiving distributions or selling.

4.2 Long-Term Debt

Description of long term debt (including whether secured)	Interest rate	Repayment terms	Amount outstanding
N/A	N/A	N/A	N/A

While there is currently no long term debt outstanding, in accordance with the terms of the Loan Agreement, the Limited Partnership will borrow funds from the Manager in order to make the Interest Payments. These funds will be repayable from the profits of the Limited Partnership. See the disclosure below under the heading “Material Agreements”.

4.3 Prior Sales

Limited Partnership

An aggregate of 354,769 Class A Limited Partnership Units are outstanding as at the date of this Offering Memorandum. The table below summarizes information about the issuance of interests in and securities of the Limited Partnership since inception.

Date of Issue	Type of Security	Number of Securities Issued	Price Per Security	Total Funds
March 6, 2015	Class A Units	5	\$10	\$50.00
March 31, 2015	Class A Units	8,000	\$10	\$80,000.00
April 6, 2015	Class A Units	2,000	\$10	\$20,000.00
April 10, 2015	Class A Units	3,000	\$10	\$30,000.00
April 13, 2015	Class A Units	2,000	\$10	\$20,000.00
April 16, 2015	Class A Units	2,000	\$10	\$20,000.00
April 21, 2015	Class A Units	2,500	\$10	\$25,000.00
April 23, 2015	Class A Units	1,823	\$10	\$18,230.00
May 15, 2015	Class A Units	10,000	\$10	\$100,000.00
May 21, 2015	Class A Units	3,500	\$10	\$35,000.00
May 29, 2015	Class A Units	5,500	\$10	\$55,000.00
June 2, 2015	Class A Units	2,200	\$10	\$22,000.00
June 5, 2015	Class A Units	4,500	\$10	\$45,000.00
June 12, 2015	Class A Units	9,000	\$10	\$90,000.00
June 19, 2015	Class A Units	1,842	\$10	\$18,420.00
June 29, 2015	Class A Units	1,500	\$10	\$15,000.00
June 30, 2015	Class A Units	85,907	\$10	\$859,070.00
July 15, 2015	Class A Units	11,670	\$10	\$116,700.00
July 30, 2015	Class A Units	1,500	\$10	\$15,000.00
July 31, 2015	Class A Units	35,050	\$10	\$350,500.00
August 14, 2015	Class A Units	5,000	\$10	\$50,000.00
August 20, 2015	Class A Units	6,616	\$10	\$66,160.00
August 31, 2015	Class A Units	4,700	\$10	\$47,000.00
September 8, 2015	Class A Units	2,000	\$10	\$20,000.00
September 15, 2015	Class A Units	1,500	\$10	\$15,000.00
September 30, 2015	Class A Units	9,500	\$10	\$95,000.00
October 8, 2015	Class A Units	3,000	\$10	\$30,000.00
October 15, 2015	Class A Units	11,500	\$10	\$115,000.00
October 20, 2015	Class A Units	8,000	\$10	\$80,000.00
October 22, 2015	Class A Units	3,500	\$10	\$35,000.00
October 28, 2015	Class A Units	15,000	\$10	\$150,000.00
October 30, 2015	Class A Units	5,350	\$10	\$53,500.00
December 11, 2015	Class A Units	1,500	\$10	\$15,000.00
December 21, 2015	Class A Units	4,000	\$10	\$40,000.00

December 31, 2015	Class A Units	8,000	\$10	\$80,000.00
January 20, 2016	Class A Units	1,500	\$10	\$15,000.00
January 22, 2016	Class A Units	8,000	\$10	\$80,000.00
February 2, 2016	Class A Units	28,106	\$10	\$281,060.00
February 5, 2016	Class A Units	5,000	\$10	\$50,000.00
March 4, 2016	Class A Units	5,000	\$10	\$50,000.00
March 8, 2016	Class A Units	1,500	\$10	\$15,000.00
April 19, 2016	Class A Units	10,000	\$10	\$100,000.00
February 29, 2016	Class A Units	13,000	\$10	\$130,000.00

Class B Limited Partnership Units have been fully subscribed by the Founding Limited Partner, SMG Power LP. These units are not offered under this Offering Memorandum.

Date of issuance	Type of security issued	Number of securities issued	Price per security	Total funds received/receivable ⁽¹⁾
March 13, 2015	Class B Limited Partnership Units	250,000	\$1.00	\$250,000

(1) As at May 31, 2016, \$60,000 remains payable by SMG Power LP to the Limited Partnership in relation to the Class B Limited Partnership Units subscription.

General Partner

The authorized share structure of the General Partner consists of an unlimited number of common shares, of which 100 common shares are issued and outstanding. The following table summarizes information about the share structure of the General Partner.

Date of issuance	Description of security issued	Number of securities issued	Price per security (\$)	Total funds received (\$)
February 26, 2015	Common Shares	100	\$0.01	\$1.00

Item 5. Description of Securities

We are offering for sale a maximum of 2,500,000 Units with no minimum offering. The holder of any Unit will be a Limited Partner of the Limited Partnership in accordance with the Limited Partnership Agreement attached hereto as Schedule “A”. By subscribing for one or more Units, you are agreeing to be bound by the terms and conditions of the Limited Partnership Agreement.

You are advised to obtain independent legal advice regarding the terms and conditions of the Limited Partnership Agreement prior to subscribing for any Units.

5.1 Terms of Securities

The terms of the Units are set out in the Limited Partnership Agreement attached as Schedule “A”. The following is a summary of the terms of the Units. Reference should be made to the Limited Partnership Agreement for a detailed description of these terms.

The interest of the Limited Partners in the Limited Partnership is divided into, and the Limited Partnership is authorized to issue, two classes of Units, the Class A and Class B Units.

Up to 2,500,000 Units are being offered for sale at a price of \$10 per unit, for gross proceeds of up to \$25,000,000. The 250,000 Class B Units have been issued to the Founding Limited Partner and are not offered under this Offering Memorandum. Each Class A and Class B Limited Partnership Units shall have attached thereto the same rights and obligations as, and shall rank equally with, each other Unit with respect to distributions, allocations and voting. At the time of Full Closing (as defined below), the General Partner shall review the allocation of voting, profit and loss between Class A Units and Class B Units and make the adjustment such that the voting, profit, and loss entitlement of Class B Units is limited to no more than 10% of the entire Limited Partnership. Full Closing is defined as the earliest of:

- (a) Fulfilling the maximum subscription of \$25,000,000;
- (b) obtaining sufficient funding, at the General Partner’s sole discretion, to achieve the short-term and long-term objectives; or
- (c) March 31, 2017.

Distributions of cash, assets or other property of the Limited Partnership will be made to the Limited Partners, at the sole discretion of the General Partner and only after the payment or reservation of all amounts necessary for payment of expenses of the Limited Partnership, on the following basis:

- (a) the General Partner shall receive, in its capacity as General Partner, 20% of all such distributions (“**GP Profit Share**”); and
- (b) the Limited Partners shall receive the balance of such distributions in accordance with their respective proportionate interest in the Limited Partnership at the time of such distribution.

The subscriptions shall have continuous closing dates until the Full Closing is fulfilled.

Non-resident investors are not permitted to purchase Units of the Limited Partnership. Instead, such non-residents investors may invest a feeder corporation which will, in turn, acquire Units.

In addition, Canadian residents may invest through a feeder corporation whereby Canadian resident subscribers may hold Units through an investment corporation as a tax deferred investment. Please refer to the offering memorandum of the Concurrent Offering for details.

5.2 Subscription Procedure

- (a) A purchaser can subscribe for the securities by receiving and reviewing this Offering Memorandum, completing and signing two copies of the Subscription Agreement

and the Risk Acknowledgment Form and returning one signed copy of the Subscription Agreement and the Risk Acknowledgment Form together with a bank draft payable to SMG BioPower Limited Partnership and delivering them to SMG BioPower Limited Partnership at the address shown on the Subscription Agreement.

- (b) The consideration will be held in trust for at least the mandatory two-day period and otherwise until the subscription is accepted by SMG BioPower Limited Partnership by signing the acceptance on the completed Subscription Agreement. The acceptance will normally take place on the next closing date shown on the Subscription Agreement. Closings may also occur periodically, as determined by the Limited Partnership.

Distribution

The Units are being offered to investors resident in the province of British Columbia pursuant to exemptions (the “**NI 45-106 Exemptions**”) from the prospectus and, where applicable, the registration requirements afforded by NI 45-106 sections 2.3 (accredited investor exemption), 2.9 (offering memorandum exemption) and 2.10 (minimum amount investment exemption).

The NI 45-106 Exemptions relieve us from the obligation under applicable securities legislation to file and obtain a receipt for a prospectus. Accordingly, prospective investors will not receive the benefits associated with a subscription for securities issued pursuant to a filed prospectus, including the review of material by securities regulatory authorities.

Please carefully review the accompanying Subscription Agreement to determine the exemption requirements that apply to you.

Purchasers will be required to make certain representations in the Subscription Agreement, and the General Partner will rely on such representations, to establish the availability of the NI 45-106 Exemptions. No subscription will be accepted unless the General Partner is satisfied that the subscription is in compliance with applicable securities legislation. Investors other than individuals must also represent to the General Partner (and may be required to provide additional evidence at the request of the General Partner to establish) that such investor was not formed solely in order to make private placement investments that may not have otherwise been available to any persons holding an interest in such investor.

The following persons and entities may not invest in Units of this Partnership:

- (a) “non-Canadians” within the meaning of the *Investment Canada Act* (Canada);
- (b) “non-residents” of Canada, “tax shelters”, “tax shelter investments” or any entities an investment in which would be a “tax shelter investment” within the meaning of the Tax Act;
- (c) “financial institutions” within the meaning of section 142.2 of the Income Tax Act (Canada) (the “**Tax Act**”); or
- (d) a partnership that does not have a prohibition against investment by the persons referred to in the foregoing paragraphs (a), (b) and (c).

Item 6. Income Tax Consequences and RRSP Eligibility

You should consult your own professional advisers to obtain advice on the tax consequences that apply to you.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

INVESTORS ACQUIRING UNITS WITH A VIEW TO OBTAINING TAX ADVANTAGES SHOULD OBTAIN INDEPENDENT TAX ADVICE FROM A KNOWLEDGEABLE TAX ADVISOR.

Introduction

The following is a summary, as at the date of this Offering, of the principal Canadian federal income tax considerations under the Tax Act and the regulations thereto (the “**Regulations**”) for a Limited Partner who acquires Units pursuant to this Offering.

This summary is applicable only to Limited Partners who pay the purchase price for their Units in full when due and who, for the purposes of the Tax Act, at all relevant times are resident in Canada and hold their Units as capital property. Provided a Limited Partner does not hold Units in the course of carrying on a business, and has not acquired Units as an adventure in the nature of trade, the Units should generally be considered to be capital property to the Limited Partner.

This summary is not applicable to a Limited Partner:

- (a) who is a non-resident of Canada for purposes of the Tax Act;
- (b) that is a “financial institution” as defined in subsection 142.2(1) of the Tax Act;
- (c) that is a “principal-business corporation” as defined in subsection 66(15) of the Tax Act;
- (d) whose business includes trading or dealing in rights, licences or privileges to explore for, drill for or take minerals, petroleum, natural gas or other related hydrocarbons; or
- (e) an interest in which is a “tax shelter investment” as defined in subsection 143.2(1) of the Tax Act.

Except as otherwise indicated, this summary assumes that:

- (a) the Units are not, and will not be, listed or traded on a stock exchange or other “public market” within the meaning of the Tax Act;
- (b) other than the Units, there are no, and will not be any, other “investments” in the Limited Partnership as defined in subsection 122.1(1) of the Tax Act; and

- (c) recourse for any borrowing or other financing made by a Limited Partner to fund payment of the subscription price is not limited and will not be deemed to be limited within the meaning of the Tax Act.

This summary is based on the assumption that all partners of the Limited Partnership are resident in Canada at all relevant times and that Units that represent more than 50% of the fair market value of all interests in the Limited Partnership are not held by “financial institutions” (as defined in subsection 142.2(1) of the Tax Act) at all relevant times.

This summary is of a general nature and is based on the current provisions of the Tax Act and Regulations, all amendments to the Tax Act and Regulations specifically proposed and publicly announced by the Minister of Finance prior to the date hereof (“**Tax Proposals**”), and tax counsel’s understanding of the current administrative practices of the Canada Revenue Agency (“**CRA**”). Unless otherwise expressly stated, this summary assumes the Tax Proposals will be enacted as intended, and that legislative, judicial or administrative actions will not modify or change the statements expressed in this summary.

This summary is not intended to be, nor should it be construed as, legal or tax advice to prospective purchasers of Units. It is not practical to comment on all aspects of federal income tax law that may be relevant to each prospective purchaser of Units. The income tax considerations applicable to a prospective purchaser of Units will depend on a number of factors including applicable provincial tax legislation. Accordingly, each prospective purchaser of Units should obtain independent advice from a knowledgeable tax advisor as to the income tax considerations applicable to investing in Units based on the purchaser’s own circumstances.

Computation of Income

The Limited Partnership itself is not liable for income tax, and is not required to file income tax returns other than annual information returns. However, the Limited Partnership must compute its income or loss under the Tax Act for each of its fiscal periods as if it were a separate person resident in Canada. A fiscal period of the Limited Partnership will end on December 31 each year and on its dissolution. Subject to the important restrictions described below under “Limitations on Deductibility of Expenses or Losses of Limited Partnership”, each Limited Partner will be required to include, or be entitled to deduct, in computing income for a taxation year, the Limited Partner’s pro rata share of the income or loss, as the case may be, of the Limited Partnership that is allocated to the Limited Partner under the Limited Partnership Agreement for the fiscal period of the Limited Partnership ending in the Limited Partner’s taxation year, whether or not any distribution of income has been made to the Limited Partner by the Limited Partnership.

Each Limited Partner will be required to file an income tax return reporting the Limited Partner’s share of the Limited Partnership’s income or loss. The General Partner confirms that the Limited Partnership will provide each Limited Partner with tax information relating to the Units of the Limited Partner, but it will not prepare or file income tax returns on behalf of any Limited Partner. Each Limited Partner is required to file an information return in prescribed form containing prescribed information for each fiscal period of the Limited Partnership. A return made by one Limited Partner is deemed to be made by each Limited Partner in the Limited Partnership. The General Partner is obliged to file the required information return under the Limited Partnership Agreement.

The costs associated with the organization of the Limited Partnership will not be fully deductible by the Limited Partnership in determining its income for the fiscal period in which they are incurred. Subject to the discussion below of the Proposed Loss Limitation Rule, organizational expenses incurred by the Limited Partnership are eligible capital expenditures, three-quarters of which may be deducted by the Limited Partnership at the rate of 7% per year on a declining balance basis (subject to proration where the taxation year is less than 365 days).

Generally, offering expenses are deductible over a 5-year period at the rate of 20% per year (subject to proration where the taxation year is less than 365 days). In the event that the Limited Partnership is dissolved and these expenses have not been fully deducted, in a taxation year ending after that time, the Limited Partner's pro rata share of the amount the Limited Partnership would have been entitled to deduct in its fiscal period ending in the taxation year if the Limited Partnership had continued to exist. Subject to the discussion below of the Proposed Loss Limitation Rule, other fees and expenses that are incurred by the Limited Partnership in the course of its ongoing business should be deductible in the year incurred to the extent that they are reasonable.

The Tax Act levies a special tax on the income of those Limited Partnerships that constitute a "SIFT Limited Partnership" ("SIFT"). A SIFT includes certain Canadian Limited Partnerships whose units are listed or traded on a stock exchange or other public market. If the Limited Partnership were to constitute a SIFT, certain taxes could apply to the Limited Partnership and to Limited Partners. However, based on the provisions of the Limited Partnership Agreement and the confirmation of the General Partner that the Units are not, and will not be, listed or traded on a stock exchange or other "public market" within the meaning of the Tax Act, and that there are no "investments", as defined in subsection 122.1(1) of the Tax Act, in the Limited Partnership other than the Units, the Limited Partnership should not constitute a SIFT.

Limitations on Deductibility of Expenses or Losses of Limited Partnership

Subject to the so-called "at-risk" rules in the Tax Act, a Limited Partner's share of business losses of the Limited Partnership for any fiscal year may be applied against the Limited Partner's income from any source to reduce net income for the relevant taxation year and, to the extent it exceeds other income for that year, may be carried back three years and forward 20 years and applied against taxable income of such other years.

The "at-risk" rules may, in certain circumstances, limit the amount of deductions and losses that a Limited Partner may claim in respect of the Limited Partnership to the amount the Limited Partner has "at risk" in respect thereof. Under these rules, a Limited Partner cannot deduct losses of the Limited Partnership to the extent these amounts exceed the Limited Partner's "at-risk amount" in respect of the Limited Partnership. Based on the manner in which the Limited Partnership will operate and be financed as described in this Offering Memorandum, and the assumption that the financing for any portion of the subscription price for the Units is not limited or deemed to be limited within the meaning of the Tax Act, it is likely the "at-risk" rules will not limit a Limited Partner's deductions in respect of Limited Partnership losses. A sale of investments by the Limited Partnership in a fiscal year may give rise to a capital gain equal to the proceeds thereof less direct selling costs and the adjusted cost base of the investments. The full amount of the portion of such capital gain allocable to a Limited Partner would generally be recognized as an addition to the Limited Partner's at-risk amount at the Limited Partnership's fiscal year-end.

“Prescribed benefit” includes any amount, having regard to statements or representations made in respect of the Units, that may reasonably be expected to be received or made available to a Limited Partner (or to a person who does not deal at arm’s length with a Limited Partner), which would have the effect of reducing the impact of any loss that the Limited Partner may sustain by virtue of acquiring, holding or disposing of any interest in the Units. A prescribed benefit also includes certain limited recourse amounts and certain amounts that are deemed to be limited recourse amounts.

For purposes of the Tax Act, a limited recourse amount is the unpaid principal amount of any debt for which recourse is limited, and the unpaid principal amount of any debt is deemed to be a limited recourse amount unless:

- (a) bona fide written arrangements were made, at the time the debt was incurred, for payment of principal and interest within a reasonable period not exceeding 10 years (which may include a demand loan);
- (b) the debt bears interest at a rate not less than the lesser of the rate prescribed in the Tax Act in effect at the time the indebtedness arose or the rate prescribed from time to time during the term of the debt; and
- (c) the interest is paid in respect of the debt at least annually within 60 days of the end of the debtor’s taxation year.

A Limited Partner’s loss in a year may be limited by the Proposed Loss Limitation Rule, as described below.

Prospective purchasers of Units who propose to finance the acquisition of their Units should consult their own tax advisors.

On October 31, 2003, the Department of Finance announced the Proposed Loss Limitation Rule relating to the deductibility of losses under the Tax Act. Under the Proposed Loss Limitation Rule, a taxpayer will be considered to have a loss from a business or property for a taxation year only if, in that year, it is reasonable to assume that the taxpayer will realize a cumulative profit from the business or property during the time that the taxpayer has carried on, or can reasonably be expected to carry on, the business or has held, or can reasonably be expected to hold, the property. Profit, for this purpose, does not include capital gains or capital losses. If enacted as proposed, the Proposed Loss Limitation Rule will apply to taxation years commencing after 2004.

While the specific application of the Proposed Loss Limitation Rule to Limited Partners will ultimately be a question of fact in any case, it could apply to limit losses realized by the Limited Partnership and allocated to the Limited Partners, and to any losses realized by the Limited Partners from interest expense in a year or the deduction of offering expenses and the Agents’ fee after the dissolution of the Limited Partnership. On February 23, 2005, the Minister of Finance (Canada) announced that alternative proposals to replace the Proposed Loss Limitation Rule would be released at an early opportunity. As of the date hereof, no alternative proposal has been released. There can be no assurance that such alternative proposals will not adversely affect Limited Partners.

Income Tax Withholding and Installments

Limited Partners who are employees and have income tax withheld at source from their employment income may request that the CRA exercise its discretionary authority and authorize a reduction of such withholding.

Limited Partners who are required to pay income tax on an installment basis may take into account their share, subject to the “at-risk” rules described above, of any loss of the Limited Partnership in determining their installment remittances.

Adjusted Cost Base of Units

Subject to any adjustments required by the Tax Act, a Limited Partner’s adjusted cost base of a Unit will generally consist of the purchase price paid for the Unit, increased by any share of income allocated to the Limited Partner in respect of the Unit (including a pro rata share of any capital gains realized by the Limited Partnership) and reduced by any share of losses (including a pro rata share of any capital losses realized by the Limited Partnership) allocated to the Limited Partner, and the amount of any distributions made to the Limited Partner from the Limited Partnership in respect of the Unit.

Where the total of any such reductions to the adjusted cost base of a Unit exceeds the original cost of the Unit plus any such increases to the adjusted cost base of the Unit at the end of a fiscal period of the Limited Partnership, such excess (“negative amount”) will be deemed to be a capital gain of the Limited Partner in respect of the Unit at that time. While there can be no assurance, it is not anticipated that Limited Partners will realize such a capital gain.

Disposition of Limited Partnership Units

A disposition by a Limited Partner of Units held by the Limited Partner as capital property will result in a capital gain, or capital loss, to the extent that the Limited Partner’s proceeds of disposition net of reasonable disposition costs exceed, or are exceeded by, as the case may be, the adjusted cost base of the Units immediately prior to disposition. One-half of the amount of a capital gain is a “taxable capital gain”, and is required to be included in computing a Limited Partner’s income in the year. One-half of a capital loss is an “allowable capital loss”, and is deductible only against taxable capital gains for the year. The unused portion of a capital loss may be carried back three years or forward indefinitely in accordance with the rules of the Tax Act.

A Canadian-controlled private corporation, as defined in the Tax Act, may be subject to an additional refundable tax of 6 ²/₃% of certain investment income, which includes taxable capital gains. It should be noted that corporations with a “significant interest” (more than 10%) in the Limited Partnership and off-calendar year end may be subject to an additional income inclusion. This type of Limited Partner is highly encouraged to seek independent tax advice.

A Limited Partner who is considering a disposition of Units during a fiscal period of the Limited Partnership should obtain tax advice before doing so. Only a person who is a Limited Partner at the end of a fiscal period of the Limited Partnership will be entitled to a pro rata share of the Limited Partnership’s income, or loss, in that fiscal period.

Transfer of Limited Partnership’s Assets on Dissolution

A transfer of the Limited Partnership’s assets on dissolution of the Limited Partnership, could result in taxable capital gains to the Limited Partners. However, the form of any such dissolution

transaction and the tax consequences associated with it can only be ascertained with any degree of certainty at the time the Limited Partnership is to be dissolved. Consequently, Limited Partners are encouraged to seek independent income tax advice regarding any particular proposal regarding dissolution of the Limited Partnership.

Alternative Minimum Tax

Under the Tax Act, Limited Partners who are individuals (and certain trusts) must compute their potential liability for alternative minimum tax. In general, the tax payable by such Limited Partner for a taxation year is the greater of the tax otherwise determined and the amount of alternative minimum tax, which is computed at a rate of 15% applied against the amount by which the Limited Partner's "adjusted taxable income" for the year exceeds the Limited Partner's basic exemption which, in the case of an individual (other than certain trusts) is \$40,000. In computing adjusted taxable income, a Limited Partner must generally include, amongst other things, all taxable dividends (without application of the gross-up), 80% of net capital gains and certain deductions and credits otherwise available that are disallowed, including amounts in respect of all resources expenditures and flow-through shares and any losses of the Limited Partnership.

Whether and to what extent the tax liability of a Limited Partner is increased by the alternative minimum tax will depend on the amount of the Limited Partner's income, the sources from which it is derived and the nature and amount of any deductions claimed.

Any additional tax payable by an individual for the year resulting from the application of the alternative minimum tax will be deductible in any of the seven immediately following taxation years in computing the amount that would, but for the alternative minimum tax, be the individual's tax otherwise payable for the year.

Non-Eligibility for Investment in Deferred Income Plans

Generally, a Unit will not be a qualified investment under the Tax Act for registered retirement savings plans, registered disability savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans or tax-free savings accounts.

Item 7. Compensation Paid to Sellers and Finders

The Units will be offered for sale by individual agents and finders. Agents and finders who sell Units pursuant to this Offering may receive a commission of 15% of the gross proceeds of the sale of the Units. This commission may be and has been paid to SMG Securities Inc., which is a member of the SMG Group.

Item 8. Risk Factors

There are certain risks that potential subscribers should carefully consider, including the following factors categorized into one of the three groups:

Investment Risk – risks that are specific to the securities being offered

Issuer Risk – risks that are specific to the issuer

Industry Risk – risks faced by the issuer because of the industry in which it operates

1. Investment Risks

a. Return of Contributions

Limited Partners remain liable to return to the Limited Partnership such part of any amount distributed to them as may be necessary to restore the capital of the Limited Partnership to the amount existing before such distribution if, as a result of any such distribution, the capital of the Limited Partnership is reduced and the Limited Partnership is unable to pay its debts as they become due.

b. Share Prices & Resale Restrictions

The investments made pursuant to the Investment Mandates may be issued to the Limited Partnership at prices greater than the value of the investments (derived by either observable data or other valuation techniques), and Limited Partners must rely entirely on the discretion of the General Partner in negotiating the pricing of those securities. In addition, the investments purchased by the Limited Partnership, particularly debt or equity interests in SMG Power LP, Altentech, MWPI, and drying projects are illiquid due to the entities' status as private company and the lack of active resale market. The effect of such lack of liquidity could include the inability of the Limited Partnership to sell its investment to any party.

c. Dividends or Cash Distributions

The Limited Partnership intends to pay an annual interest or dividend and is not precluded from paying additional interest or dividends or other cash distributions to Limited Partners prior to the dissolution of the Limited Partnership; however, there are no assurances that the Limited Partnership will have sufficient funds to do so.

d. No Review by Regulatory Authorities

This Offering Memorandum constitutes a private offering of the Units in British Columbia pursuant to prospectus and registration exemptions under the securities laws of these provinces. This Offering Memorandum is not, and under no circumstances is to be construed as, a prospectus, advertisement, or public offering of these Units. Neither this Offering Memorandum nor any other material relating to this Offering has been reviewed or considered by the British Columbia, the CRA, or any other governmental or regulatory authority.

e. Possible Loss of Limited Liability

Legislation with respect to limited partnerships provides that a Limited Partner benefits from limited liability unless, in addition to exercising his or her rights and powers as a limited partner, he or she takes part in the management or control of the business of the limited partnership.

f. Speculative Offering

The Units offered by this Offering Memorandum are speculative and there is no market for the Units which are subject to resale restrictions imposed under applicable Canadian securities legislation. Refer to Item 10 - "Resale Restrictions".

g. Rate of Return

There is no assurance that an investment in the Limited Partnership will earn a specified rate or return, or even any return, over the life of the Limited Partnership.

h. No Resale Market – Limited Partnership Units

Although the Units are transferable subject to certain restrictions contained in the Limited Partnership Agreement, there is no market through which the Units may be resold and none is expected to develop. Subscribers may not be able to resell Units purchased under this Offering Memorandum. In addition, fluctuations in the value of the investments (derived by either observable data or other valuation techniques) acquired by the Limited Partnership may occur for a number of reasons beyond the control of the General Partner or the Limited Partnership and there is no assurance that an adequate market will exist for the securities acquired by the Limited Partnership or by the Limited Partners on dissolution of the Limited Partnership or earlier. Refer to Item 6 - ***“Income Tax Consequences and RRSP Eligibility - Transfer of Limited Partnership Assets on Dissolution”***.

i. No Assurance of a Positive Return

Because of market fluctuations in the values of the investments to be held by the Limited Partnership, there is no assurance of a positive return on a Limited Partner’s original investment. The investment involves a high degree of risk and should be considered only by those persons who can afford a loss of their entire investment.

2. Issuer Risks

a. Size of Offering

The size of the Offering will directly affect the degree of risk. A shortage of capital increases the risk that the business will fail. In addition, if an amount that is less than the maximum Offering is sold, the General Partner’s ability to invest in the Investment Mandates, including its investment in Altentech®, MWPI or the Drying Projects may be impaired, and therefore the intended business and investment strategy of the Limited Partnership may not be fully met.

b. Investee Companies Operating History and Deficit Position

SMG Power Limited Partnership, Altentech Power Inc., Mission Wood Pellet Inc., and SMG Custom Drytech Corp. (collectively the “Investee Companies”) to date have had a history of operating losses and significant working capital deficits. There is no assurance that the Investee Companies will become profitable or have sufficient funds to cover the significant working capital deficits. As at May 31, 2016, Altentech® has not generated profits and had deficit and working capital deficiency of \$11,848,000 and \$4,929,000, respectively. As at May 31, 2016, MWPI has not generated revenue and had deficit and working capital deficiency of \$2,652,000 and \$3,463,000, respectively.

c. Business Start-up Risks

Starting a business, especially one based on new technology, involves a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to

avoid. There is no assurance that a profitable market for the SMG BioPower Business, including the products and processes developed by Altentech® and MWPI and the Drying Projects, will be created within a reasonable period of time, nor any assurance that the products and processes developed by Altentech® and MWPI or the Drying Projects will be brought into a state of commercial production. The business start-up risks include the risk that: there is a lack of specific management skills and other technical skills; management lacks a regulatory and business track record; the SMG BioPower Business is dependent on key employees; there are no established suppliers or customers; the agreements necessary to conduct business are yet to be consummated; the processes and products are not yet proven in the marketplace; and that there may be other similar processes and products with superior characteristics.

d. Dependence on Key Personnel

The loss of any of the management of the General Partner or of either Altentech® or MWPI would likely have a material adverse effect on the management and business of the Limited Partnership.

e. Conflicts of Interest

Various conflicts of interest exist or may arise between the Limited Partnership and the General Partner, and other Limited Partnerships or entities of which affiliates of the General Partner are general partners, or for which affiliates of the General Partner act as managers. Some of these conflicts may arise as a result of the power and authority of the General Partner to manage and operate the business and affairs of the Limited Partnership. These conflicts of interest may have a detrimental effect on the business of the Limited Partnership. The General Partner will not engage in any business other than acting as general partner for the Limited Partnership. The General Partner's Affiliates may, and probably will, engage in other business ventures (the "**Conflicting Ventures**"), including, without limitation, acting as general partners, or directors or officers of general partners, of other Limited Partnerships or entities which may invest in similar businesses. Neither the Limited Partnership nor any partners shall by virtue of the Limited Partnership Agreement or otherwise have any right, title or interest in or to such Conflicting Ventures.

Affiliates of the General Partner may, and probably will, earn finder's fees, placement fees and due diligence fees (collectively, "**Commissions**"), paid by clean energy sector companies in the form of monetary commissions, options, shares, rights to purchase shares, and/or share purchase warrants (without limitation), in consideration of its evaluation of clean energy sector companies and negotiation of terms with respect to financing from such companies, and shall have no duty to account for such fees to the Limited Partnership, General Partner, or any of the Limited Partners. Such fees shall be in line with normal practice and with levels prevailing in similar transactions where investment bankers and others who are at arm's length to the General Partner earn finder's fees, commission, and due diligence fees.

Affiliates of the General Partner may, and probably will, engage in selling of securities of issuers other than the Limited Partnership, some or all of which may be competing with the Limited Partnership for investors, as well as opportunities with clean energy sector companies. Moreover, the General Partner may make decisions to dispose of investments held by the Limited Partnership in the same clean energy sector companies in which Conflicting Ventures may wish to acquire an investment. Conversely, the General Partner may wish to acquire

investments or other securities in the same clean energy sector companies in which Conflicting Ventures already hold securities, and which securities the Conflicting Ventures wish to dispose of. The Limited Partnership may acquire shares in clean energy sector companies, which are controlled by directors and officers of the General Partner or affiliates of the General Partner. Any of the aforementioned conflicts of interest, as well as others, may be difficult, if not impossible, to resolve equitably.

Refer also to Item 5 - “*Potential Conflicts of Interest*”.

f. Clean Energy Sector Companies may fail to comply with provisions of agreements concluded with the Limited Partnership

The General Partner will consider technical reports made available to it in making an investment decision, but will not necessarily require a technical report to be provided by either Altentech® or MWPI before entering into agreements with either of those companies. Limited Partners must rely upon the discretion of the General Partner in entering into any agreements with either Altentech® or MWPI, and in determining whether to dispose of investments owned by the Limited Partnership.

Management of the General Partner does not consist of individuals whose principal occupation is making investment decisions or evaluating clean energy sector companies or companies in general. None of the management of the General Partner will devote his full time to the business and affairs of the Limited Partnership or the General Partner. Limited Partners who are not willing to rely on the discretion of the General Partner, or would second-guess investment decisions made by the General Partner, should not purchase Units.

g. Financial Resources of the General Partner

While the General Partner has unlimited liability for the obligations of the Limited Partnership and has agreed to indemnify the Limited Partners in certain circumstances, the General Partner does not have and is not expected to have significant financial resources which would enable it to satisfy the obligations of the Limited Partnership, or to satisfy the obligations of the General Partner to indemnify the Limited Partner in certain circumstances. Prospective investors should not rely on the General Partner to provide any additional capital or loans to the Limited Partnership in the event of any contingency. In addition, the General Partner and the Limited Partnership are newly established, with no previous operating history.

h. Tax-Related Risks

No assurance can be given that federal or provincial income tax legislation will not be amended or that announced changes to such legislation will not be adopted (including, in limited circumstances, on a retroactive basis) in such a manner as to fundamentally alter the tax consequences of holding or disposing of Units. There is a possibility that the CRA may deny the deductibility of fees paid to the General Partner in certain circumstances, resulting in a loss of a deduction in computing the Limited Partnership’s income, which would otherwise be allocable to Limited Partners. To the extent that the amount paid to the General Partner exceeds reimbursements for offering expenses, the CRA may assert that an entitlement of the General Partner to the excess is more appropriately treated as an entitlement to share in any income of the Limited Partnership as a partner and, therefore, may not result in a deduction in computing

the Limited Partnership's income. If the CRA successfully applied any such treatment, then a loss of the Limited Partnership otherwise allocable to the Limited Partners would be reduced or denied to the extent of such deduction. If any Limited Partner is not a resident of Canada at the time of the dissolution of the Limited Partnership, any distribution of undivided interests in the assets of the Limited Partnership may not be effected on a tax-deferred basis. The CRA may disagree whether the undivided interests in securities of clean energy companies distributed to Limited Partners on the dissolution of the Limited Partnership may be partitioned on a tax-deferred basis.

3. Industry Risks

a. Availability of Residual Wood Fibre

The production of wood pellets is dependent on the availability and location of residual wood fibre and such feedstock is hinged upon the production of a primary industry (e.g forestry product companies and sawmills). There is no assurance that any wood pellet producer will continue to acquire long-term and uninterrupted supply of residual wood fibre. Wood pellet producers competing for wood fibre in the same basket will drive competition thereby increasing fibre costs and eroding profits. Refer also to item 2.3 “***Recent Developments – Issue of Excess Wood Pellet Production Capacity and Residual Wood Fibre Availability***”.

b. Volatile Nature of the Clean Energy Sector

The clean energy sector is volatile and may contract during periods of economic slowdown, or government cutbacks, as well as where there is an oversupply of a particular product, process or service provider. Moreover, the clean energy sector is affected by extensive government regulation, restrictions on production, tax increases, expropriation of property, trade restrictions, and pollution controls, all of which could negatively affect the value of Units. Refer also to item 2.3 “***Recent Developments – South Korea Trade Restriction on Forestry Products Including Wood Pellets***”.

c. Competition within the Industry

The wood pellet plant the Limited Partnership will invest in, MWPI, will be competing with several other wood pellet producers in exports to Asia, some possessing greater financial resources, larger market share, and more experience and technical expertise. MWPI and other competitors will compete on the basis of product mix (i.e. different grades and specification of wood pellets), geographic location of the pellet plant, accessibility to residual wood fibre, logistics efficiency, and other areas. Refer also to item 2.3 “***Recent Developments – Wood Pellet Market Update and MWPI/SMG Wood Pellet's Competitiveness***”.

d. Competition from other Clean Energy

The biomass energy industry faces competition from other clean(er) energy sources such as natural gas, hydro, liquefied natural gas, wind and solar power, etc. There is no assurance that biomass energy market will perform and grow as expected by industry specialists. Advances in other clean energy technologies and government incentives may reduce the attractiveness of biomass energy products. Refer also to item 2.3 “***Recent Developments – Wood Pellets Compared with Other Energies***”.

e. Competition from Future Clean Energy Technologies

New clean energy technologies are constantly emerging. There is no assurance that biomass energy industry will not be replaced by a cleaner and more efficient energy technology through the development of high-efficiency energy storage system and smart grid technologies. Refer also to item 2.3 “*Recent Developments – Wood Pellets Compared with Other Energies*”.

Item 9. Reporting Obligations

The Limited Partnerships’ reporting obligations are set out in paragraph 6.9 of the Limited Partnership Agreement as follows:

The General Partner shall forward, or cause to be forwarded, to each Limited Partner:

- (a) within 180 days of the end of each Fiscal Year (or such shorter period as is prescribed by applicable securities legislation) commencing for the first Fiscal Year ending after the first closing of the Private Placement, notice to reader financial statements of the Partnership;
- (b) within 90 days of the end of each Fiscal Year commencing for the first Fiscal Year ending after the first closing of the Private Placement, all income tax reporting information necessary to enable the Limited Partner to file a Canadian return with respect to the Limited Partner’s participation in the Partnership in such Fiscal Year; and
- (c) within the time periods prescribed, any other information or documents required to be provided to the Limited Partners under applicable securities or other legislation

The Limited Partnership intends to invest, directly or indirectly, in Altentech®, MWPI and the Drying Projects, none of which have any requirements for financial or other disclosure. Consequently, the investors in the Limited Partnership cannot expect to have material financial and business information concerning Altentech®, MWPI and the Drying Projects, made available to them. The General Partner is not required to send you any documents on an annual or ongoing basis other than those which are required by the Limited Partnership Agreement.

No corporate or securities information about the issuer is available from a government, securities regulatory authority or regulator, self-regulatory organization or quotation and trade reporting system.

Item 10. Resale Restrictions

These securities will be subject to a number of resale restrictions, including a restriction on trading. Until the restriction on trading expires, you will not be able to trade the securities unless you comply with an exemption from the prospectus and registration requirements under securities legislation.

Restricted Period

Unless permitted under securities legislation, you cannot trade the securities before the date that is four months and a day after the date the Limited Partnership becomes a reporting issuer in any province or territory of Canada.

Item 11. Purchasers' Rights

If you purchase these securities you will have certain rights, some of which are described below. For information about your rights you should consult a lawyer.

11.1 Two Day Cancellation Right

You can cancel your agreement to purchase these securities. To do so, you must send a notice to us by midnight on the second business day after you sign the agreement to buy the securities.

11.2 Statutory Rights of Action in the Event of a Misrepresentation - British Columbia

If you are a resident of British Columbia and there is a misrepresentation in this Offering Memorandum, you have a statutory right to sue:

- (a) the Limited Partnership to cancel your agreement to buy these securities, or
- (b) for damages against the Limited Partnership, every director of the Limited Partnership at the date of this Offering Memorandum and every person who signs this Offering Memorandum.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the securities.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the Subscription Agreement within 180 days after you signed the Subscription Agreement to purchase the securities. You must commence your action for damages within the earlier of 180 days after learning of the misrepresentation and three years after you signed the Subscription Agreement to purchase the securities.

The foregoing rights are in addition to, and without derogation from, any other right or remedy available to you at law.

Item 12. Financial Statements

Attached as exhibits to this Offering Memorandum are the following financial statements of the Limited Partnership and the General Partner.

Exhibit A – Audited Financial Statements of SMG BioPower Limited Partnership for the period since formation to December 31, 2015

Exhibit B – Audited Financial Statements of BioPower Drytec Corp. for the period since incorporation to December 31, 2015

Exhibit C – Audited Financial Statements of SMG Power Limited Partnership for the year ended December 31, 2015

Exhibit D – Audited Financial Statements of Altentech Power Inc. for the year ended December 31, 2015

Exhibit E – Audited Financial Statements of Mission Wood Pellet Inc. for the year ended December 31, 2015

Exhibit F – Audited Financial Statements of SMG Custom Drytech Corp. for the period since incorporation to December 31, 2015

EXHIBIT A

FINANCIAL STATEMENTS

SMG BIOPOWER LIMITED PARTNERSHIP

PERIOD SINCE FORMATION (MARCH 13, 2015)

TO DECEMBER 31, 2015 (AUDITED)

SMG BioPower Limited Partnership



Financial Statements

For the fiscal period since formation to December 31, 2015

SMG BioPower Limited Partnership

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of SMG BioPower Limited Partnership

We have audited the accompanying financial statements of SMG BioPower Limited Partnership, which comprise the statement of financial position as at December 31, 2015, and the statement of comprehensive loss, statement of cash flows and changes in partners' equity for the period ended December 31, 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of SMG BioPower Limited Partnership as at December 31, 2015 and its financial performance and cash flows for the period ended December 31, 2015, in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2c in the financial statements, which indicates that for the period ended December 31, 2015, the Entity had a comprehensive loss of \$210,513 and, as of that date, had an accumulated deficit of \$210,513. These items, along with other matters as set forth in Note 2c, indicate the existence of material uncertainties that may cast significant doubt upon the Entity's ability to continue as a going concern.


Chartered Professional Accountants

Vancouver, British Columbia
May 20, 2016

SMG BioPower Limited Partnership
Independent Auditor's Report
Expressed in Canadian Dollars

	<u>December 31, 2015</u>
Assets	
Current assets	
Cash (Note 5)	\$ 72,835
Due from related parties (Note 6)	60,842
Prepaid expense (Note 6)	5,412
Accounts receivable (Note 6)	27,773
	<u>166,862</u>
Non-current assets	
Investment in Wood Pellet Mandate (Note 7)	1,305,903
Investment in SMG Power Mandate (Note 7)	1,107,000
Investment in Drying Projects Mandate (Note 7)	54,535
	<u>2,467,438</u>
Total assets	<u>\$ 2,634,300</u>
Liabilities and Partners' equity	
Current liabilities	
Accounts payable and accrued liabilities	\$ 12,289
Total current liabilities	<u>12,289</u>
Partners' equity	
Partners' equity (Note 8)	2,832,524
Deficit	(210,513)
Total partners' equity	<u>2,622,011</u>
Total liabilities and partners' equity	<u>\$ 2,634,300</u>

Signed on behalf of the Board of Directors of BioPower Drytec Corp., as the General Partner of the Limited Partnership:


 Hee Dong Hong


 Meng Xu

See accompanying notes to financial statements.

SMG BioPower Limited Partnership
Statement of Comprehensive Loss
Expressed in Canadian Dollars

	294-Day Period Ended December 31, 2015
Revenue	
Interest revenue (Note 7)	\$ 27,773
Expenses	
Professional fees	75,588
Management fees (Note 6)	160,518
Office expense	2,180
Total expenses	238,286
Loss from continuing operations	\$ (210,513)
Total comprehensive loss for the period	\$ (210,513)

See accompanying notes to financial statements.

SMG BioPower Limited Partnership
Statement of Cash Flows
Expressed in Canadian Dollars

	294-Day Period Ended December 31, 2015
Cash flows from operating activities	
Loss for the period	\$ (210,513)
Change in non cash items:	
Interest receivable	(27,773)
Change in working capital accounts:	
Prepaid expense	(5,412)
Due to related parties	(60,842)
Accounts payable and accrued liabilities	12,289
Total cash outflows from operating activities	\$ (292,251)
Cash flows from investing activities	
Investment in Wood Pellet Mandate	(1,305,903)
Investment in SMG Power Mandate	(1,107,000)
Investment in Drying Projects Mandate	(54,535)
Total cash outflows from investing activities	\$ (2,467,438)
Cash flows from financing activities	
Proceeds from issuance of LP units	3,076,612
Unit issuance cost	(244,088)
Total cash inflows from financing activities	\$ 2,832,524
Total change in cash during the period	\$ 72,835
Cash, beginning of period	\$ -
Cash, end of period	\$ 72,835

See accompanying notes to financial statements.

SMG BioPower Limited Partnership
Statement of Changes in Partners' Equity
Expressed in Canadian Dollars

	Limited Partners	General Partner	Total
Partners' equity, March 13, 2015	\$ -	\$ 50	\$ 50
Partners' contributions	2,832,474	-	2,832,474
Loss for the period	(168,410)	(42,103)	(210,513)
Partners' equity, December 31, 2015	<u>\$ 2,664,064</u>	<u>\$ (42,053)</u>	<u>\$ 2,622,011</u>

See accompanying notes to financial statements.

SMG BioPower Limited Partnership
Notes to the Financial Statements
For the fiscal period since formation to December 31, 2015

1. CORPORATE INFORMATION

On March 13, 2015, SMG BioPower Limited Partnership (the “Limited Partnership”) was formed under the laws of the Province of British Columbia and commenced operations. The affairs of the Limited Partnership are governed by a limited partnership agreement (the “Limited Partnership Agreement”) dated March 13, 2015. The Limited Partnership is formed for the primary purposes of achieving returns for its limited partners by investing, directly or indirectly, in SMG Power Limited Partnership, Altentech Power Inc., Mission Wood Pellet Inc., or entities or businesses involved in the production of biomass fuel products and the enhancement of related technologies (collectively the “BioPower Drytec Businesses”). These entities are considered to be related parties under IAS 24 Related Party Disclosures (“IAS 24”) as they have common shareholders. The controlling party is SMG Asset Canada Inc. (“SMG Asset”) and its ultimate controlling party is Jung Moon, a resident of British Columbia, Canada.

The General Partner, BioPower Drytec Corp. (the “General Partner”), as stated in the Limited Partnership Agreement, has the authority to administer, manage, control and generally carry on the business of the Limited Partnership. Pursuant to the Limited Partnership Agreement, 80% of the net income or loss and any distributions of the Limited Partnership will be allocated pro-rata to the Limited Partners, and the General Partner is to be allocated 20%.

The address of the Limited Partnership’s corporate office is unit 301 – 958 West 8th Avenue, Vancouver, British Columbia, Canada.

2. BASIS OF PREPARATION AND ADOPTION OF IFRS

a) Statement of Compliance

These financial statements of the Limited Partnership have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Committee (“IFRIC”), effective for the Company’s reporting for the period ended December 31, 2015. These are the Limited Partnership’s first financial statements prepared under IFRS. There is no impact from the adoption of IFRS on the Limited Partnership’s financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies, as IFRS is the only accounting framework adopted by the Limited Partnership since formation.

These financial statements were authorized for issue by the Board of Directors of BioPower Drytec Corp., as the General Partner of the Limited Partnership on May 19, 2016.

b) Basis of Measurement

The financial statements have been prepared on a historical cost basis which approximates the fair values.

The financial statements are presented in Canadian dollars, which is also the Limited Partnership’s functional currency.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Limited Partnership’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

SMG BioPower Limited Partnership
Notes to the Financial Statements
For the fiscal period since formation to December 31, 2015

2. BASIS OF PREPARATION AND ADOPTION OF IFRS - CONTINUED

c) Going Concern of Operations

The economic viability and future profits of the Limited Partnership are dependent on its ability to raise sufficient financing to fund the operations of its investee entities which in turn, are expected to provide investment return to the Limited Partnership upon full commercialization. Due to the start-up nature of the Limited Partnership and the investee entities involved, there is no assurance that positive returns may be realized.

During the 294-day period ended December 31, 2015, the Limited Partnership incurred a loss of \$210,513 and expects to continue to incur losses in the foreseeable future. These material uncertainties may cast significant doubt upon the Limited Partnership's ability to continue to operate as a going concern.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

a) Cash

Cash includes funds held in a business chequing accounts with a Canadian Schedule I bank that are highly liquid. Cash is classified as loans and receivables.

b) Financial Instruments

Financial instruments are classified into the appropriate category based on the purpose for which the instrument was recognized. All transactions related to financial instruments are recorded on a trade date basis. The Limited Partnership's accounting policies for financial instruments are as follows:

Loans and Receivables

These assets result from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand, and may include features of a derivative financial asset. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses.

Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. The Limited Partnership's financial assets designated as loans and receivables include cash, due from related parties and accounts receivable.

Impairment of Financial Assets

At each reporting date the Limited Partnership assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

SMG BioPower Limited Partnership
Notes to the Financial Statements
For the fiscal period since formation to December 31, 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Financial Liabilities

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred. Financial liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

The Limited Partnership's liabilities designated as other financial liabilities include accounts payable and accrued liabilities.

c) Income Taxes

The taxation payable (or recoverable) on the Limited Partnership profits (or losses) is the liability of the General Partner and Limited Partners. Consequently, neither partnership taxation nor related deferred taxation are accounted for in these financial statements. The Limited Partnership is not a taxable entity.

d) Partners' Equity

Limited Partners' equity is classified as equity. Pursuant to the Limited Partnership Agreement, no partner shall be entitled to a return, or to demand a return, of any portion of the Partners' Capital Contribution or be entitled to any fixed or guaranteed distribution or allocation of profit.

e) Issue Costs

Incremental costs directly attributable to the issue of new Limited Partnership units or items of similar nature are shown in the Partners' Equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

f) Revenue Recognition

Revenue from loan investments and other business activities is recognized when earned, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured.

g) Foreign Currency Translations

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the period end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the period end date and the related translation differences are recognized in net income.

h) Standards, Amendments and Interpretations Not Yet Effective

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been early adopted by the Limited Partnership.

SMG BioPower Limited Partnership
Notes to the Financial Statements
For the fiscal period since formation to December 31, 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

These financial statements have been reviewed for any standards that have been adopted during the period, which do not have any material effect on the Limited Partnership's financial statements.

Information on new standards, amendments and interpretations that are expected to be relevant to the Limited Partnership's financial statements is provided below. Certain other new standards, amendments, and interpretations have been issued but are not expected to have a material impact on the Limited Partnership's financial statements.

- IFRS 7 Financial Instruments: Disclosures
- IFRS 7 amends the servicing contracts applicability of offsetting amendments in condensed interim financial statements. IFRS 7 clarifies the circumstances in which an entity has continuing involvement from the servicing of a transferred asset, which includes if servicer has a future interest in the performance. The amendment is required to be applied retrospectively in accordance with IAS 8. The effective date for IFRS 7 is January 1, 2016. The Limited Partnership is in the process of evaluation the impact of the new standard IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement

IFRS 9 amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. IFRS 9 introduces an expected loss model of impairment and retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The effective date for IFRS 9 is January 1, 2018. The Limited Partnership is in the process of evaluating the impact of the new standard.

- IFRS 15 Revenue from Contracts with Customers

IFRS 15 is based on the core principle to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 focuses on the transfer of control. IFRS 15 replaces all of the revenue guidance that previously existed in IFRSs. The effective date for IFRS 15 is January 1, 2018. The Limited Partnership is in the process of evaluating the impact of the new standard.

- IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a “right of use” asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease.

SMG BioPower Limited Partnership
Notes to the Financial Statements
For the fiscal period since formation to December 31, 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements. The effective date for IFRS 16 is January 1, 2019. The Limited Partnership is in the process of evaluating the impact of the new standard.

- Amendments to IAS 1 Presentation of Financial Statements

The amendments to IAS 1 are a part of a major initiative to improve disclosure requirements in IFRS financial statements. The amendments clarify the application of materiality to note disclosure and the presentation of line items in the primary statements provide options on the ordering of financial statements and additional guidance on the presentation of other comprehensive income related to equity accounted investments. The effective date for these amendments is January 1, 2016. The Limited Partnership is in the process of evaluating the impact of these amendments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Limited Partnership makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

Significant accounting estimates and judgements during the period ended December 31, 2015 are described below:

1. Recoverability of the Investments in Wood Pellet, SMG Power, and Drying Projects Mandate:

Investments in the Wood Pellet, SMG Power, and Drying Projects Mandate have been carried at cost as they approximated fair values due to the short period since the onset of the investment to period-end date. The investee companies are either start-up or R&D stage companies lacking operating history. There is no assurance that the carrying amounts invested will be recoverable. Due to the use of subjective judgments and uncertainties in the ultimate recoverability, these values should not be interpreted as being realizable in an immediate disposition of the investments.

5. CASH

Cash includes funds held in a business chequing account with a Canadian chartered bank that is highly liquid. Cash is classified as loans and receivables.

SMG BioPower Limited Partnership
Notes to the Financial Statements
For the fiscal period since formation to December 31, 2015

6. RELATED PARTY BALANCES AND TRANSACTIONS

The following is a summary of the Limited Partnership's related party balances at the period end date and its related party transactions during the period presented:

	294-Day period ended December 31, 2015
Due from related party	\$ 60,842
Prepaid expenses	5,412
Accounts receivable	27,773

The following is a summary of the Limited Partnership's related party transactions during the years presented:

a) Due from Related Party

Due from related parties include \$60,000 due from SMG Power Limited Partnership, the initial limited partner relating to the subscription of Class B limited partnership units. The amount has been recognized as a financial asset, as the Limited Partnership has a contractual right to receive cash from SMG Power Limited Partnership. The amount has no specific terms and is due on demand.

b) Prepaid Expenses

The Limited Partnership entered into an agency agreement (the "Agency Agreement") with SMG Securities Inc. on March 13, 2015 in order for SMG Securities Inc. to sell and promote the securities of the Limited Partnership to suitable investors. Pursuant to the Agency Agreement, the Limited Partnership is to pay SMG Securities Inc. a 15% commission on every accepted Limited Partnership units subscription.

During the year the Limited Partnership paid commission of \$249,500 in respect of accepted Limited Partnership units subscription. During the year \$244,088 was accrued to be paid out in respect of accepted Limited Partnership units subscription.

c) Interest Income

For the year ended December 31, 2015, the Limited Partnership earned interest income of \$27,773. The interest income earned relates to loans made to Mission Wood Pellet Inc. (Note 7).

d) Management Agreement

The Limited Partnership entered into a management agreement with SMG Asset Canada Inc. ("SMG Asset Canada") on March 6, 2015 to provide managerial services to perform general administrations and financial services.

During the period ended December 31, 2015, the Limited Partnership paid management fees to SMG Asset Canada for a total of \$160,518.

SMG BioPower Limited Partnership
Notes to the Financial Statements
For the fiscal period since formation to December 31, 2015

7. INVESTMENTS

During the period ended December 31, 2015 the Limited Partnership made a series of investments totaling \$2,467,438 to related party entities pursuant to the Limited Partnership Agreement dated March 13, 2015:

- Investment in Wood Pellet Mandate

On March 17, 2015, the Limited Partnership signed a non-binding memorandum of understanding (“Wood Pellet MoU”) with Mission Wood Pellet Inc. (“MWPI”) pursuant to which the Limited Partnership agreed to provide MWPI up to \$8,000,000 of funding by June 30, 2016 in order to advance MWPI’s business. These amounts are unsecured, specific terms of each investment transaction will be set out in the definitive documentation governing each transaction or batch of transactions.

As of December 31, 2015 the Limited Partnership has advanced a total of \$1,305,903 to MWPI, including an unsecured promissory note of \$300,000. The promissory note bears interest at 12% per annum, payable semi-annually and is due on April 3, 2017. Interest on the promissory note in 2015 was not paid and has been accrued. The Limited Partnership has recognized the interest on the promissory note as revenue.

- Investment in SMG Power Mandate

On March 25, 2015, the Limited Partnership signed a non-binding memorandum of understanding (“Power MoU”) with SMG Power Limited Partnership (“SMG Power”) pursuant to which the Limited Partnership agreed to provide SMG Power up to \$2,135,000 of funding by June 30, 2016 in order to advance SMG Power’s business. These amounts are unsecured, specific terms of each investment transaction will be set out in the definitive documentation governing each transaction or batch of transactions.

As of December 31, 2015 the Limited Partnership has advanced a total of \$1,107,000 to SMG Power.

- Investment in Drying Projects Mandate

On April 1, 2015, the Limited Partnership signed a non-binding memorandum of understanding (“BioPower MoU”) with SMG Custom Drytech (“Custom Drytech”) pursuant to which the Limited Partnership agreed to provide up to \$10,000,000 of funding by June 30, 2017 in order to advance Custom Drytech’s business. These amounts are unsecured, specific terms of each investment transaction will be set out in the definitive documentation governing each transaction or batch of transactions.

As of December 31, 2015 the Limited Partnership has advanced \$54,535 to Custom Drytech.

8. PARTNERS’ EQUITY

a) Authorized

The interests of the Limited Partners in the Partnership shall be divided into, and the Partnership is authorized to issue, an unlimited number of Class A Units and Class B Units. Each Unit shall have attached thereto the same rights and obligations as, and shall rank equally with, each other Unit with respect to distributions, allocations and voting and,

SMG BioPower Limited Partnership
Notes to the Financial Statements
For the fiscal period since formation to December 31, 2015

for greater certainty, the Class A Units and Class B Units shall, in all circumstances except if prohibited by law, vote together as one class.

8. PARTNERS' EQUITY - CONTINUED

b) Issued and Outstanding

The following table summarizes the Limited Partnership units issued and outstanding during the fiscal period:

	Number of Units	Unit Price	Amount
Balance at March 13, 2015			
Class A units issued (General Partner's interest)	1	50 \$	50
Class A units issued *	282,658	10	2,826,562
Class B units issued (to SMG Power Limited Partnership)	250,000	1	250,000
Less: unit issue cost			(244,088)
Balance at December 31, 2015	532,659	\$	2,832,524

*Certain Class A units were issued for US\$.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Limited Partnership is exposed through its operations to the following financial risks:

- Market Risk
- Credit Risk
- Liquidity Risk

In common with other businesses, the Limited Partnership is exposed to risks that arise from its use of financial instruments. This note describes the Limited Partnership's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Limited Partnership's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them during the course of the current period.

General Objectives, Policies and Processes:

The Board of Directors has overall responsibility for the determination of the Limited Partnership's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Limited Partnership's finance function.

a) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The risks that affect market prices which are relevant to the Limited Partnership include foreign currency risk and interest rate risk.

SMG BioPower Limited Partnership
Notes to the Financial Statements
For the fiscal period since formation to December 31, 2015

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT - CONTINUED

Foreign Currency Risk

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and foreign currencies will affect the Limited Partnership's operations and financial results. The Limited Partnership does not have significant exposure to foreign exchange rate fluctuation as substantially all the assets and liabilities are denominated in Canadian dollars.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Limited Partnership does not hold financial instruments that are sensitive to interest rate changes. The Limited Partnership considers this risk to be immaterial.

b) Credit Risk

Credit risk is the risk of financial loss to the Limited Partnership if a customer or a counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which are potentially subject to credit risk for the Limited Partnership consist primarily of cash, related party balances and investments. Cash is maintained with financial institutions of reputable credit and may be withdrawn upon demand. There is a risk of collectability as the collectability of the related party balances and investments is based on the ultimate success of the underlying businesses.

The credit risk relating to cash is minimal as the financial institution the Limited Partnership's chequing account is deposited with, is a Canadian chartered bank.

c) Liquidity Risk

Liquidity risk is the risk that the Limited Partnership will not be able to meet its financial obligations as they become due. The Limited Partnership's liquidity risk management policy includes ensuring that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days during a period of business interruption. The Limited Partnership will monitor its risk of shortage of funds by monitoring the maturity dates of existing trade and other accounts payable. At December 31, 2015 there was excess working capital of \$154,573.

Determination of Fair Value:

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The Statement of Financial Position carrying amount for cash, due from related parties, prepaid expenses, accounts receivables and accruals, investments in related party mandates, and accounts payable approximates fair value due to their short-term and liquid nature. Fair values of investments are determined by analyzing the present value of discounted future cash flows less any impairment. Due to the use of subjective judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

SMG BioPower Limited Partnership
Notes to the Financial Statements
For the fiscal period since formation to December 31, 2015

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT - CONTINUED

Fair Value Hierarchy:

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities; and
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); 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 (unobservable inputs).

The Limited Partnership did not have any financial instruments that are measured subsequent to initial recognition at fair value.

10. CAPITAL MANAGEMENT

The Limited Partnership monitors its cash and partners' equity as capital. The Limited Partnership's objectives when maintaining capital are to maintain sufficient capital base in order to meet its short-term obligations and at the same time preserve investor's confidence required to sustain future development of the business.

The Limited Partnership is not exposed to any externally imposed capital requirements, and in turn there have been no changes during the period in the Limited Partnership's approach to capital management.

EXHIBIT B

FINANCIAL STATEMENTS

BIOPOWER DRYTEC CORP.

PERIOD SINCE INCORPORATION (FEBRUARY 26, 2015)

TO DECEMBER 31, 2015 (AUDITED)

BioPower Drytec Corp.



Consolidated Financial Statements

For the fiscal period since incorporation to December 31, 2015

BioPower Drytec Corp.
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of BioPower Drytec Corp.

We have audited the accompanying consolidated financial statements of BioPower Drytec Corp., which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated statements of comprehensive loss, cash flows, and changes in shareholders' equity for the period ended December 31, 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 audit. We conducted our audit 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.

We believe that the audit evidence we have obtained in our audit 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 BioPower Drytec Corp., as at December 31, 2015 and its financial performance and cash flows for the period ended December 31, 2015, in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2d in the consolidated financial statements, which indicates that for the period ended December 31, 2015, the Company had a comprehensive loss of \$74,415 and, as of that date, had an accumulated deficit of \$74,415. These items, along with other matters as set forth in Note 2d, indicate the existence of material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern.


Chartered Professional Accountants

May 31, 2016
Vancouver, Canada

BioPower Drytec Corp.
Consolidated Statement of Financial Position
Expressed in Canadian Dollars

	<u>December 31, 2015</u>
Assets	
Current assets	
Cash (Note 5)	\$ 20,222
Total current assets	<u>20,222</u>
Non-current assets	
Investment in SMG BioPower LP (Note 6)	1,119,294
Total non-current assets	<u>1,119,294</u>
Total assets	<u>\$ 1,139,516</u>
Liabilities and Shareholders' Equity	
Liabilities	
Accounts payable and accrued liabilities	\$ 5,000
Due to related parties (Note 7)	164,375
Total Liabilities	<u>\$ 169,375</u>
Shareholders' Equity	
Share capital (Note 8)	\$ 1
Deficit	(107,023)
Equity attributable to the equity holders of the Company	(107,022)
Non-controlling interest (Note 8)	1,077,163
Total Equity	<u>970,141</u>
Total Liabilities and Shareholders' Equity	<u>\$ 1,139,516</u>

Signed on behalf of the Board of Directors by:



 Hee Dong Hong



 Meng Xu

See accompanying notes to financial statements.

BioPower Drytec Corp.
Consolidated Statement of Comprehensive Loss
Expressed in Canadian Dollars

	<u>309-Day Period Ended December 31, 2015</u>
Revenue	<u>\$ -</u>
Expenses	
Bank charges	\$ 969
Dues and subscriptions	1,200
Professional fees	24,838
Share of associate's loss (Note 6)	80,016
Total expenses	<u>107,023</u>
Income tax (Note 9)	-
Total comprehensive loss for the period	<u>\$ 107,023</u>

See accompanying notes to financial statements.

BioPower Drytec Corp.
Consolidated Statement of Cash Flows
Expressed in Canadian Dollars

	309-Day Period Ended December 31, 2015
Cash flows from operating activities	
Loss for the period	\$ (107,023)
Share of loss of associate	80,016
Change in working capital accounts:	
Accounts payable and accrued liabilities	5,000
Due to related parties	164,375
Total cash flows from operating activities	\$ 142,368
Cash flows from investing activities	
Investment in BioPower Limited Partnership	(1,199,310)
Total cash outflows from investing activities	\$ (1,199,310)
Cash flows from financing activities	
Proceeds from issuance of shares	1
Proceeds from issuance of shares to minority interest	1,267,260
Share issuance costs	(190,097)
Total cash inflows from financing activities	\$ 1,077,164
Total change in cash during the period	\$ 20,222
Cash, beginning of period	\$ -
Cash, end of period	\$ 20,222

See accompanying notes to financial statements.

BioPower Drytec Corp.
Consolidated Statement of Changes in Shareholders' Deficit
Expressed in Canadian Dollars

	Share capital		Deficit		Equity		Non-controlling interest	Total equity		
Balance, February 26, 2015 (incorporation)	\$	1	\$	-	\$	1	\$	-	\$	1
Loss for the period		-		(107,023)		(107,023)		-		(107,023)
Proceeds from issuance of shares		-		-		-		1,267,260		1,267,260
Share issuance costs		-		-		-		(190,097)		(190,097)
Balance, December 31, 2015	\$	1	\$	(107,023)	\$	(107,023)	\$	1,077,163	\$	970,141

See accompanying notes to financial statements.

BioPower Drytec Corp.
Notes to the Consolidated Financial Statements
309-Day Period from Incorporation to December 31, 2015

1. CORPORATE INFORMATION

The financial statements presented are the consolidated financial statements of BioPower Drytec Corp. (“BioPower Drytec”), BioPower Investment Corp. (“BioPower IC”) and BioPower Holding N.R. Corp. (“BioPower NR”) and collectively referred to as the Company. BioPower Drytec was incorporated under the laws of the Business Corporations Act of British Columbia on February 26, 2015. BioPower Drytec as the general partner, entered into a limited partnership agreement (the “Limited Partnership Agreement”) dated March 13, 2015 with SMG Power Limited Partnership as the initial limited partner (the “Initial Limited Partner”) to form SMG BioPower Limited Partnership (collectively the “Limited Partnership”). The Limited Partnership is formed for the primary purposes of achieving returns for its limited partners by investing, directly or indirectly, in each SMG Power Limited Partnership, Altentech Power Inc., Mission Wood Pellet Inc. or entities or businesses involved in the production of biomass fuel products and the enhancement of related technologies (collectively the “BioPower Business”). These entities are considered to be related parties under IAS 24 Related Party Disclosures as they have common shareholders and management.

BioPower Drytec is the General Partner and has general authority to administer, manage and generally carry on the business of the Limited Partnership. Pursuant to the Limited Partnership Agreement, 80% of the net income or loss and any distributions of the Limited Partnership will be allocated pro rata to the Limited Partners, and the General Partner is to be allocated 20%.

BioPower IC and BioPower NR are subsidiaries of BioPower Drytec formed under the laws of the Province of British Columbia and commenced operations on April 13, 2015. The purpose of the BioPower IC is to issue Class B Common Shares to eligible investors to hold on a tax-deferred basis. The purpose of BioPower NR is to issue Class B Common Shares to eligible non-resident investors to hold as a foreign investment.

The affairs of the Limited Partnership are governed by a limited partnership agreement (the “Limited Partnership Agreement”) dated March 13, 2015.

The controlling party is SMG Asset Canada Inc. (“SMG Asset”) and its ultimate controlling party is Jung Moon, a resident of British Columbia, Canada.

The address of the Company’s corporate office is unit 301 – 958 West 8th Avenue, Vancouver, British Columbia, Canada.

2. BASIS OF PREPARATION AND ADOPTION OF IFRS

a) Statement of Compliance

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Committee (“IFRIC”), effective for the Company’s reporting for the period ended December 31, 2015. These are the Company’s first financial statements prepared under IFRS. There is no impact from the adoption of IFRS on the Company’s financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies, as IFRS is the only accounting framework adopted by the Company since incorporation.

These financial statements were authorized for issue by the Board of Directors on May 31, 2016.

b) Basis of Measurement

The financial statements have been prepared on a historical cost basis.

BioPower Drytec Corp.
Notes to the Consolidated Financial Statements
309-Day Period from Incorporation to December 31, 2015

2. BASIS OF PREPARATION AND ADOPTION OF IFRS - CONTINUED

The financial statements are presented in Canadian dollars, which is also the Company's functional currency.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

c) Consolidated Financial Statements

The consolidated financial statements include the financial statements of all subsidiaries. The period end for the subsidiaries falls within 90 days of the reporting date and all appropriate adjustments have been made. The financial statements of subsidiaries are included in the consolidated financial statements from which date control over the entity exists. Under the guidance of IFRS 10 *Consolidated Financial Statements*, control is established by having power over the acquiree, exposure or rights to variable returns from its involvement with the acquiree, and the ability to use its power over the acquiree to affect the amount of the acquiror's returns.

All intercompany balances and transactions, including recognized gains arising from inter-group transactions, have been eliminated in full. Unrealized losses are eliminated in the same manner as recognized gains except to the extent that they provide evidence of impairment.

d) Going Concern of Operations

The Company is a newly formed entity and there are currently no revenues generated to fund the anticipated general and administrative expenses and to settle its liabilities as they fall due. The ultimate success of the Company is dependent on the Limited Partnership's ability to fundraise to support the BioPower Drytec businesses, which in turn may provide income and profit for the Company. As at the date of these financial statements, no profits have been realized on the BioPower Drytec Businesses due to the new formation of the Limited Partnership.

The financial statements were prepared on a going concern basis. The going concern basis assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. For the 309-day period ended December 31, 2015, the Company had no source of operating income and incurred a loss of \$107,023 resulting from organizational expenses and share of associate's losses, and consequently reported an accumulated deficit of \$107,023. The Company intends to fund ongoing expenses by way of shareholder loans, related parties or income distribution from the Limited Partnership. Given the start-up nature of the Company and the significant reliance on shareholders' and related party resources, there are material uncertainties that may cast significant doubt upon the Company's ability to continue to operate as a going concern.

BioPower Drytec Corp.
Notes to the Consolidated Financial Statements
309-Day Period from Incorporation to December 31, 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

a) Investment in SMG BioPower LP

Investment in SMG BioPower LP relates to units acquired in the Limited Partnership. Units are initially recognized at cost, which approximates fair value, and are not re-measured subsequently as these investments do not have a quoted price in an active market and the fair value cannot be reliably measured. The investment in SMG BioPower LP is classified as non-current due to the expected long-term nature of realizing this investment. At the end of each reporting period, or whenever circumstances dictate, management assesses whether there is objective evidence of impairment.

b) Cash

Cash includes funds held in a business chequing account with a Canadian Schedule I bank that is highly liquid. Cash is classified as loans and receivables.

c) Financial Instruments

Financial instruments are classified into the appropriate category based on the purpose for which the instrument was recognized. All transactions related to financial instruments are recorded on a trade date basis.

Loans and Receivables

These assets result from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand, and may include features of a derivative financial asset. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses.

Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. The Limited Partnership's financial assets designated as loans and receivables include cash.

Impairment of Financial Assets

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Financial Liabilities

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred. Financial liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

BioPower Drytec Corp.
Notes to the Consolidated Financial Statements
309-Day Period from Incorporation to December 31, 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The Company's liabilities designated as other financial liabilities include accounts payable and accrued liabilities and due to related parties.

d) Income Taxes

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current period. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the period-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

e) Share Capital

Equity instruments are contracts that give a residual interest in the net assets of the Company. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

f) Standards, Amendments and Interpretations Not Yet Effective

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been early adopted by the Company.

These financial statements have been reviewed for any standards that have been adopted during the period, which do not have any material effect on the Company's financial statements.

Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards, amendments, and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

BioPower Drytec Corp.
Notes to the Consolidated Financial Statements
309-Day Period from Incorporation to December 31, 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- IFRS 7 Financial Instruments: Disclosures

IFRS 7 amends the servicing contracts applicability of offsetting amendments in condensed interim financial statements. IFRS 7 clarifies the circumstances in which an entity has continuing involvement from the servicing of a transferred asset, which includes if servicer has a future interest in the performance. The amendment is required to be applied retrospectively in accordance with IAS 8. The effective date for IFRS 7 is January 1, 2016. The Limited Partnership is in the process of evaluating the impact of the new standard.

- IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement

IFRS 9 amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. IFRS 9 introduces an expected loss model of impairment and retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The effective date for IFRS 9 is January 1, 2018. The Company is in the process of evaluating the impact of the new standard.

- IFRS 10 Consolidated Financial Statements

IFRS 10 amends the requirements that a full gain or loss is recognized when a transaction involves a business (whether it is held in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if the assets are held in a subsidiary. Upon adoption, the amendments may impact the Company in respect of future sale or contribution of assets with its associates or joint ventures. The amendments are effective for transactions occurring in annual periods beginning on or after January 1, 2016. The Company is currently evaluating the impact this standard is expected to have on its consolidated financial statements.

- IFRS 15 Revenue from Contracts with Customers

IFRS 15 is based on the core principle to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 focuses on the transfer of control. IFRS 15 replaces all of the revenue guidance that previously existed in IFRSs. The effective date for IFRS 15 is January 1, 2018. The Company is in the process of evaluating the impact of the new standard.

- Amendments to IAS 1 Presentation of Financial Statements

The amendments to IAS 1 are a part of a major initiative to improve disclosure requirements in IFRS financial statements. The amendments clarify the application of materiality to note disclosure and the presentation of line items in the primary statements provide options on the ordering of financial statements and additional guidance on the presentation of other comprehensive income related to equity accounted investments. The effective date for these amendments is January 1, 2016. The Company is in the process of evaluating the impact of these amendments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

BioPower Drytec Corp.
Notes to the Consolidated Financial Statements
309-Day Period from Incorporation to December 31, 2015

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS – CONTINUED

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Carrying Value of the Investment in SMG BioPower Limited Partnership

In determining whether an impairment loss should be recorded in the statement of comprehensive income or loss, the Company makes judgment on whether objective evidence of impairment exists individually for financial assets that are individually significant.

Going-Concern Assumptions

The Company made significant estimate and judgment around the Company's ability to operate as a going concern, which are described in Note 2c).

5. CASH

Cash includes funds held in a business chequing account with a Canadian chartered bank that are highly liquid. Cash is classified as loans and receivables.

6. INVESTMENT IN ASSOCIATE

BioPower Drytec is the General Partner of SMG BioPower Limited Partnership and is responsible for making operational and financial decisions of the Limited Partnership. The Company, which includes BioPower Drytec, BioPower IC, and BioPower NR, collectively holds a total of 38.01% of the issued and outstanding partnership units of SMG BioPower Limited Partnership. Consequently, the Company is considered to have the power to exercise significant influence over the affairs of the Limited Partnership. The Company's investment in the Limited Partnership thus meets the definition of an associate and requires application of the equity method of accounting. For the 309-day period ended December 31, 2015, the Investment in Associate was initially recognized at cost and that cost approximates fair value.

The below table summarizes the change in equity investment during the period had the investment in associate been accounted for in these financial statements:

	Investment in SMG BioPower	Loss of Associate Not Recognized	Total
Balance, February 26, 2015	\$ -	\$ -	\$ -
Units purchased	1,199,310	-	1,199,310
Share of loss of associate	(80,016)	-	(80,016)
Balance, December 31, 2015	\$ 1,119,294	\$ -	\$ 1,119,294

Should the Company's share of the associate's loss exceed the Company's investment in the associate, such losses will only be provided for and a liability recognized to the extent that the Company is legally obligated for those losses.

BioPower Drytec Corp.
Notes to the Consolidated Financial Statements
309-Day Period from Incorporation to December 31, 2015

7. RELATED PARTY BALANCES AND TRANSACTIONS

The following is a summary of the Company's related party balances during the period presented:

	<u>December 31, 2015</u>
Due to SMG BioPower LP	\$ 11,002
Due to SMG Asset Canada Inc.	\$ 9,113
Commission payable to SMG Securities Inc.	\$ 157,097
Due from related parties	\$ 12,837

Due from related parties is comprised of the following amounts: overpaid subscriptions to SMG BioPower LP of \$13,336 and due to shareholders of \$499. The amounts are unsecured, non-interest bearing and due on demand.

The following is a summary of the Company's related party transactions during the period presented:

- a) Commission paid to SMG Securities

During the period ended December 31, 2015 the Company paid \$157,097 of commission fees (share issuance costs) in respect of its subsidiaries raising funding for Limited Partnership units and investment corporation shares payable to SMG Securities Inc.

8. SHARE CAPITAL

- a) Authorized

The authorized share capital of BioPower Drytec is as follows:

- Unlimited number of Class A Common Shares with a \$0.01 par value;
- Unlimited number of Class B Common Shares with a \$0.01 par value;
- Unlimited number of Class C Common Shares with a \$0.01 par value;
- Unlimited number of Class D Common Shares with a \$0.01 par value; and
- Unlimited number of Class E Common Shares with a \$0.01 par value.

BioPower Drytec Corp.
Notes to the Consolidated Financial Statements
309-Day Period from Incorporation to December 31, 2015

8. SHARE CAPITAL – CONTINUED

b) Issued and Outstanding

The following table summarizes the Company shares issued and outstanding during the period presented:

	Number of Shares	Share Price	Amount
Shares issued at incorporation on February 26, 2015	100	\$ 0.01	\$ 1.00
Class A Common Shares	20	0.01	0.20
Class B Common Shares	20	0.01	0.20
Class C Common Shares	20	0.01	0.20
Class D Common Shares	20	0.01	0.20
Class E Common Shares	20	0.01	0.20
Balance at December 31, 2015	100	\$ 0.01	\$ 1.00

BioPower Drytec owns 100% of the Class A voting (non-participating) common shares of both BioPower IC and BioPower NR. For the period ended December 31, 2015, the Company recognized a minority interest of \$1,077,163 relating to BioPower IC and BioPower NR's issuance of Class B non-voting (participating) common shares to others investors.

9. INCOME TAXES

Significant components of the Company's income tax expense are as follows:

	309-Day period ended December 31, 2015
Loss for the year	\$ (107,023)
Recover at statutory rate – 13.5%	(14,448)
Loss of associate	10,802
Change in unrecognized deferred tax asset	3,646
Deferred tax recovery	\$ -

Deferred Tax Assets and Liabilities

No deferred tax asset has been recognized in respect of the taxable losses and temporary differences, as it is not considered probable that sufficient future taxable profit will allow the deferred tax to be recovered. As at December 31, 2015, the Company had approximately \$27,007 of loss carry forwards, these losses will expire in 2035.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed through its operations to the following financial risks:

- Market Risk
- Credit Risk
- Liquidity Risk

BioPower Drytec Corp.
Notes to the Consolidated Financial Statements
309-Day Period from Incorporation to December 31, 2015

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT – CONTINUED

In common with other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them during the period.

General Objectives, Policies and Processes:

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function.

a) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The risks that affect market prices which are relevant to the Company include foreign currency risk and interest rate risk.

Foreign Currency Risk

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and other foreign currencies will affect the Company's operations and financial results. The Company does not have significant exposure to foreign exchange rate fluctuation because all balances and transactions are in Canadian dollars.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company does not hold financial instruments that are sensitive to interest rate changes. The Company considers this risk to be immaterial.

b) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or a counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which are potentially subject to credit risk for the Company consist primarily of cash. Cash is maintained with financial institutions of reputable credit and may be redeemed upon demand.

The credit risk relating to cash is minimal as the financial institution the Company's chequing account is deposited with, is a Canadian chartered bank.

BioPower Drytec Corp.
Notes to the Consolidated Financial Statements
309-Day Period from Incorporation to December 31, 2015

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT – CONTINUED

c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Management's liquidity risk management policy includes ensuring that the Company and the Limited Partnership has sufficient cash on demand to meet expected operational expenses for a period of 90 days during a period of business interruption. The Company will monitor its risk of shortage of funds by monitoring the maturity dates of existing trade and other accounts payable.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The Statement of Financial Position carrying amount for cash, accounts payable and accrued liabilities, due from related parties, due to related parties, and deposit held by related party balances approximates fair value due to their short-term and liquid nature. Fair Value Hierarchy:

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities; and
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); 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 (unobservable inputs).

The Investment in SMG BioPower Limited Partnership is measured at its cost as the equity instruments do not have a quoted price in an active market and their fair value cannot be reliably measured. The Corporation therefore does not subsequently re-measure any of its financial instruments.

11. CAPITAL MANAGEMENT

The Company monitors its cash and shareholders' equity as capital. The Company's objectives when maintaining capital are to maintain sufficient capital base in order to meet its short-term obligations and at the same time preserve investor's confidence required to sustain future development of the business.

The Company is not exposed to any externally imposed capital requirements, and in turn there have been no changes during the period in the Company's approach to capital management.

EXHIBIT C

FINANCIAL STATEMENTS

SMG POWER LIMITED PARTNERSHIP

YEAR ENDED DECEMBER 31, 2015 (AUDITED)

SMG Power Limited Partnership



Financial Statements

For the year ended December 31, 2015

SMG Power Limited Partnership

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of SMG Power Limited Partnership

We have audited the accompanying financial statements of SMG Power Limited Partnership, which comprise the statement of financial position as at December 31, 2015 and 2014, and the statements of comprehensive loss, changes in partners' equity, and cash flows for the years ended December 31, 2015 and 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of SMG Power Limited Partnership as at December 31, 2015 and 2014, and its financial performance and cash flows for the years ended December 31, 2015 and 2014, in accordance with International Financial Reporting Standards.

Emphasis of Matter


Without qualifying our opinion, we draw attention to Note 2c in the financial statements, which indicates that for the year ended December 31, 2015, the Entity had a total and total comprehensive loss of \$649,694. This item, along with other matters as set forth in Note 2c, indicate the existence of material uncertainties that may cast significant doubt upon the Entity's ability to continue as a going concern.


Chartered Professional Accountants
May 25, 2016
Vancouver, Canada

SMG Power Limited Partnership
Statements of Financial Position
Expressed in Canadian Dollars

	December 31, 2015	December 31, 2014
Assets		
Current assets		
Cash (Note 5)	\$ 1,683	\$ 156,113
Loan investments (Note 6)	1,582,690	674,312
Advance to Altentech Power Inc. (Note 6)	576,800	-
GST recoverable	-	48,333
Total current assets	2,161,173	878,758
Non-current assets		
Loan investments (Note 6)	\$ 4,160,000	\$ 4,684,500
Licensing deposits (Note 7)	1,000,000	940,000
Investment in Altentech Power Inc. (Note 8)	-	679,857
Investment in SMG BioPower LP (Note 9)	250,000	-
Total non-current assets	5,410,000	6,304,657
Total assets	\$ 7,571,173	\$ 7,183,115
Liabilities and Partners' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 66,347	\$ 25,450
Advance from SMG BioPower LP (Note 10)	1,107,000	-
Subscriptions received in advance	-	150,000
Total current liabilities	1,173,347	175,450
Non-current liabilities		
Due to related parties (Note 11)	\$ 522,102	\$ 686,445
Total non-current liabilities	\$ 522,102	\$ 686,445
Total Liabilities	\$ 1,695,449	\$ 861,895
Partners' Equity		
Partners' equity (Note 12)	\$ 5,875,724	\$ 6,321,220
Total Liabilities and Partners' Equity	\$ 7,571,173	\$ 7,183,115

Signed on behalf of the General Partner by:


 Meng Xu


 Hee Dong Hong

See accompanying notes to financial statements.

SMG Power Limited Partnership
Statements of Comprehensive Loss
Expressed in Canadian Dollars

	Year Ended December 31, 2015	Year Ended December 31, 2014
Revenue		
Investment income (Note 11)	\$ 383,878	\$ 424,350
	<u>383,878</u>	<u>424,350</u>
Expenses		
Bank service charge	\$ 282	\$ 415
Consulting fees	40,000	-
Directors fees	-	10,000
Licenses and filing fees	300	642
Management fees (Note 11)	249,100	249,900
Office expenses	84	282
Professional fees	63,949	31,603
Share of associate's loss (Note 8)	679,857	320,143
Total expenses	<u>\$ 1,033,572</u>	<u>\$ 612,985</u>
Loss and total comprehensive loss for the year	<u>\$ (649,694)</u>	<u>\$ (188,635)</u>

See accompanying notes to financial statements.

SMG Power Limited Partnership
Statements of Changes in Partners' Equity
Expressed in Canadian Dollars

	Limited Partners	General Partner	Total
Partners' equity, Jan 1, 2014	\$ 6,607,804	\$ 21,801	\$ 6,629,605
Partners' contributions	200,000	-	200,000
Issue costs	(65,000)	-	(65,000)
Loss for the year	(150,908)	(37,727)	(188,635)
Partnership distribution	(254,750)	-	(254,750)
Partners' equity (deficit), Dec 31, 2014	<u>\$ 6,337,146</u>	<u>\$ (15,926)</u>	<u>\$ 6,321,220</u>
Partners' equity (deficit), Jan 1, 2015	\$ 6,337,146	\$ (15,926)	\$ 6,321,220
Partners' contributions	380,000	-	380,000
Issue costs	(57,000)	-	(57,000)
Loss for the year	(519,755)	(129,939)	(649,694)
Partnership distribution	(118,802)	-	(118,802)
Partners' equity (deficit), Dec 31, 2015	<u>\$ 6,021,589</u>	<u>\$ (145,865)</u>	<u>\$ 5,875,724</u>

See accompanying notes to financial statements.

SMG Power Limited Partnership
Statements of Cash Flows
Expressed in Canadian Dollars

	Year Ended December 31, 2015	Year Ended December 31, 2014
Cash flows from operating activities		
Loss for the year	\$ (649,694)	\$ (188,635)
Non-cash items:		
Share of associate's loss	679,857	320,143
Investment income	(383,878)	(4,350)
Change in working capital accounts:		
Accounts payable and accrued liabilities	40,897	2,216
Taxes recoverable	48,333	(9,730)
Total cash outflows from operating activities	\$ (264,485)	\$ 119,644
Cash flows from investing activities		
Investment in Altentech Power Inc.	\$ -	\$ (1,000,000)
Increase in loan investments	-	850,000
Investment in SMG BioPower LP	(250,000)	-
Payment of licensing deposits	(60,000)	(430,000)
Short term advance	(576,800)	-
Total cash outflows from investing activities	\$ (886,800)	\$ (580,000)
Cash flows from financing activities		
Advance from SMG BioPower LP	1,107,000	-
Change in due to/from related party	(164,343)	571,222
Partnership distribution	(118,802)	(254,750)
Proceeds from issuance of Partnership Units	173,000	135,000
Subscription received in advance of acceptance	-	150,000
Total cash inflows from financing activities	\$ 996,855	\$ 601,472
Total change in cash during the year	\$ (154,430)	\$ 141,116
Cash, beginning of year	\$ 156,113	\$ 14,997
Cash, end of year	\$ 1,683	\$ 156,113

See accompanying notes to financial statements.

SMG Power Limited Partnership
Notes to the Financial Statements
For the Year Ended December 31, 2015

1. CORPORATE INFORMATION

On January 18, 2012, SMG Power Limited Partnership (the “Limited Partnership”) was formed under the laws of the Province of British Columbia and commenced operations. The affairs of the Limited Partnership are governed by a limited partnership agreement (the “Limited Partnership Agreement”) dated January 18, 2012. The businesses of the Limited Partnership are to make investments and manage entities to collectively develop the biomass energy markets and related technologies (collectively, the “SMG Power Business”).

The General Partner, SMG Drytec Corp. (the “General Partner”), as stated in the Limited Partnership Agreement, has the authority to administer, manage, control and generally carry on the business of the Limited Partnership. Pursuant to the Limited Partnership Agreement, 80% of the net income or loss and any distributions of the Limited Partnership will be allocated pro-rata to the Limited Partners, and the General Partner is to be allocated 20%. The ultimate controlling party of the Limited Partnership and General Partner is Jung Moon, a resident of British Columbia, Canada.

The address of the Limited Partnership’s corporate office is #301 – 958 West 8th Ave, Vancouver B.C.

2. BASIS OF PREPARATION

a) Statement of Compliance

These financial statements of the Limited Partnership have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), effective for the Limited Partnership’s reporting for the year ended December 31, 2015.

These financial statements were approved by the board of directors for use on May 24, 2016.

b) Basis of Measurement

These financial statements have been prepared on a historical cost basis, which approximates the fair values, except for the investment in SMG BioPower Limited Partnership which is carried on a fair value through profit or loss basis.

The financial statements are presented in Canadian dollars, which is also the Limited Partnership’s functional currency.

c) Going Concern of Operations

The financial statements have been prepared on a going concern basis. The going concern basis assumes the Limited Partnership will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The economic viability and future profits of the Limited Partnership are dependent on its ability to raise sufficient financing to fund the operations of its investee entities which in turn, are expected to provide investment return to the Limited Partnership upon full commercialization. Due to the start-up nature of the investee entities involved, there is no assurance that positive returns may be realized.

During the year ended December 31, 2015, the Limited Partnership incurred a loss of \$649,694 and expects to continue to incur losses in the foreseeable future. These material uncertainties may cast significant doubt upon the Limited Partnership’s ability to continue to operate as a going concern.

SMG Power Limited Partnership
Notes to the Financial Statements
For the Year Ended December 31, 2015

2. BASIS OF PREPARATION - CONTINUED

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgement in applying the Limited Partnership's accounting policies. The areas involving a higher degree of judgement of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to the period presented in these financial statements.

a) Cash

Cash includes funds held in a business chequing account with a Canadian Schedule I and a Canadian Schedule II bank that are highly liquid. Cash is classified as loans and receivables.

b) Financial Instruments

Financial instruments, including derivatives, are classified into the appropriate category based on the purpose for which the instrument was recognized. All transactions related to financial instruments are recorded on a trade date basis. The Limited Partnership's accounting policies for financial instruments are as follows:

Fair Value Through Profit or Loss

This category comprises the Investment in SMG BioPower Limited Partnership. The amount is carried in the statement of financial position at fair value with changes in fair value recognized in the statement of comprehensive income in the finance income or expense line.

Loans and Receivables

These assets result from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand, and may include features of a derivative financial asset. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. The Limited Partnership's financial assets designated as loans and receivables include cash, loan investments, and advance to Altentech Power Inc.

Changes in the fair values of derivative instruments are recognized in the statement of operations in the period for which the change in fair value occurs.

SMG Power Limited Partnership
Notes to the Financial Statements
For the Year Ended December 31, 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Impairment on Financial Assets

At each reporting date the Limited Partnership assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Financial Liabilities

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred, and comprise of accounts payable and accrued liabilities, advance from SMG BioPower LP, and due to related parties. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

c) Income Taxes

The taxation payable (or recoverable) on the Limited Partnership profits (or losses) is the liability of the General Partner and Limited Partners. Consequently, neither partnership taxation nor related deferred taxation are accounted for in these financial statements. The Limited Partnership is not a taxable entity.

d) Investment in Associate

Where the Limited Partnership has the power to participate in (but not control) the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recognized in the statement of financial position at cost. Subsequently associates are accounted for using the equity method, where the Limited Partnership's share of post-acquisition profits and losses and other comprehensive income or loss is recognized in the statements of comprehensive income or loss (except for losses in excess of the Limited Partnership's investment in the associate unless there is an obligation to make good those losses).

Profits and losses arising on transactions between the Limited Partnership and its associates are recognized only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Limited Partnership's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalized and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

e) Partners' Equity

Limited Partners' equity is classified as equity. Pursuant to the Limited Partnership Agreement, no partner shall be entitled to a return, or to demand a return, of any portion of the Partners' Capital Contribution or be entitled to any fixed or guaranteed distribution or allocation of profit.

SMG Power Limited Partnership
Notes to the Financial Statements
For the Year Ended December 31, 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

f) Issue Costs

Incremental costs directly attributable to the issue of new Limited Partnership units or items of similar nature are shown in the Partners' Equity as a deduction, net of tax, from the proceeds.

g) Revenue Recognition

Revenue from loan investments and other business activities is recognized when earned, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured.

h) Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income.

i) Standards, Amendments and Interpretations Not Yet Effective

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been early adopted by the Limited Partnership.

The Limited Partnership has adopted all standards effective as of January 1, 2015. The standards adopted by the Limited Partnership did not have a material effect on the Limited Partnership's financial statements.

• IFRS 7 Financial Instruments: Disclosures

Amended to require additional disclosures on transition from IAS 39 to IFRS 9. Effective on adoption of IFRS 9, which is effective for annual periods commencing on or after January 1, 2018. The Limited Partnership is currently evaluating the impact this standard is expected to have on its financial statements.

• IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement

IFRS 9 amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. IFRS 9 introduces an expected loss model of impairment and retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The effective date for IFRS 9 is January 1, 2018. The Limited Partnership is in the process of evaluating the impact of the new standard.

SMG Power Limited Partnership
Notes to the Financial Statements
For the Year Ended December 31, 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

• IFRS 15 Revenue from Contracts with Customers

IFRS 15 is based on the core principle to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 focuses on the transfer of control. IFRS 15 replaces all of the revenue guidance that previously existed in IFRSs. The effective date for IFRS 15 is January 1, 2018. The Limited Partnership is in the process of evaluating the impact of the new standard.

• IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a “right of use” asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements. The effective date for IFRS 16 is January 1, 2019. The Limited Partnership is in the process of evaluating the impact of the new standard.

• Amendments to IAS 1 Presentation of Financial Statements

The amendments to IAS 1 are a part of a major initiative to improve disclosure requirements in IFRS financial statements. The amendments clarify the application of materiality to note disclosure and the presentation of line items in the primary statements provide options on the ordering of financial statements and additional guidance on the presentation of other comprehensive income or loss related to equity accounted investments. The effective date for these amendments is January 1, 2016. The Limited Partnership is in the process of evaluating the impact of these amendments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income or loss in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

1. Impairment of Loan Investments and Advance to Altentech Power Inc.

In determining whether an impairment loss should be recorded in the statement of comprehensive income or loss, the Limited Partnership makes judgment on whether objective evidence of impairment exists individually for financial assets that are individually significant. Where impairment evidence does not exist the Limited Partnership uses its judgment to assess impairment loss based on the specific financial circumstances and businesses of the loan counterparties.

SMG Power Limited Partnership
Notes to the Financial Statements
For the Year Ended December 31, 2015

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS - CONTINUED

2. Impairment of Investment in Associate

In determining the onset of impairment triggering events of investment in associate, Management assesses the current and on-going circumstances specific to the operating environment of the associate and assesses the existence of objective evidence of impairment. In 2015, the carrying value of the Limited Partnership's investment in associate was taken down to \$nil as the accumulated share of the associate's losses created a credit balance that was not recognized in these financial statements as there is no obligation to make good these losses.

3. Fair Value of the Investment in SMG BioPower Limited Partnership

Accounting estimates and judgement is required in circumstances where an investment lacks readily available market data used to derive fair values. In the case of the investment in SMG BioPower LP, the entity is a private limited partnership where its unit prices are not quoted in an active market. Accordingly, acceptable valuation techniques such as a discounted cash flow model may be used to derive fair value of the investment. As at December 31, 2015, the Limited Partnership carried its investment in SMG BioPower LP at cost. The cost of investment approximated fair values due to the short period since the Limited Partnership's investment to year-end date and the nature of investment activities pursued by SMG BioPower LP (i.e. advances receivable), which were short-term in nature and reflected fair values.

4. Fair Value of Financial Instruments

Fair values of financial instruments have been determined for measurement and/or disclosure purposes throughout these financial statements. The carrying amounts of cash, advance to Altentech Power Inc., accounts payable and accrued liabilities, advance from SMG BioPower LP, and due to related parties are determined to approximate fair values due to their short-term nature.

The convertible feature of certain Loan Investments (see Note 6 "Loan Investments") represents a derivative instrument. This derivative feature allows for the conversion of the Loan Investments at their face value to shares of a private company. Should the conversion feature of the Loan Investments be exercised, the shares of the counterparty would be accounted for at cost which would approximate their fair value under the terms of the convertible debt agreement.

Due to the use of subjective judgments and uncertainties in the determination of fair values, these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

5. CASH

The Limited Partnership's cash and current accounts are held with the Korean Exchange Bank of Canada, a Canadian Schedule II bank with global headquarters in South Korea and RBC Canada, a Canadian Schedule I bank headquartered in Canada. Cash yields interest rates at the prevailing rate for similar business chequing accounts. The carrying amount approximates fair value due to its short term and liquid nature.

SMG Power Limited Partnership
Notes to the Financial Statements
For the Year Ended December 31, 2015

6. LOAN INVESTMENTS

	December 31, 2015	December 31, 2014
Term loans	\$ -	\$ 250,000
Convertible loans	4,774,500	4,524,500
Loan interest receivable	968,190	584,312
	<u>\$ 5,742,690</u>	<u>\$ 5,358,812</u>

The loan investments consist of term loans and convertible loans. Term loans represent a series of loans made to Altentech Power Inc. (“Altentech”). Altentech is a private company incorporated on October 31, 2007 with the focus on developing alternative energy biomass dryers. The relationship between Altentech and the Company is disclosed in Note 8. Term loans yield 10% simple interest per annum, have a two-year maturity, and are collateralized by general security interest of Altentech.

Convertible loans represent a series of loan investments made to Altentech and the ultimate controlling party, Jung Moon (the “Ultimate Controlling Party”). These loan investments were made in accordance with the Limited Partnership’s permitted purposes set forth in the Limited Partnership Agreement, including investments made directly or indirectly to Altentech or other power related businesses controlled by, affiliated with, and including the Ultimate Controlling Party.

Convertible loans made to Altentech have the terms of 7% simple interest per annum and a two-year maturity; the loans are collateralized by a general security interest of Altentech and Altentech’s Biovertidryer, and are convertible to voting common shares of Altentech. During the prior year the Limited Partnership converted loans of \$1m for common shares of Altentech, details of which are further disclosed in Note 8.

Convertible loans made to the Ultimate Controlling Party have the terms of 8% simple interest per annum and a three-year maturity; these loans are collateralized by a general security interest in the Ultimate Controlling Party’s personal and business properties including shares of Altentech, and are convertible to voting shares of Altentech held by the Ultimate Controlling Party.

The conversion feature of these loans is considered a derivative feature and works in the manner that at any time after six months of the loan contract date and before the loan maturity, the whole or any part of the loan may be converted into common shares of Altentech based on the fair market value of the shares on the date of conversion.

The combined total of the above term and convertible loan investment is \$4,774,500 (2014 - \$4,524,500) of which the amount payable to Altentech and the Ultimate Controlling Party was \$400,000 (2014 - \$400,000) and \$4,374,500 (2014 - \$4,374,500), respectively.

In addition to these loan investments, during the year ended December 31, 2015, the Limited Partnership made a series of advances to Altentech for a total of \$576,800 (2014 - \$Nil). There is no fixed term of repayment as the definitive terms of these advances are under negotiation between the parties.

SMG Power Limited Partnership
Notes to the Financial Statements
For the Year Ended December 31, 2015

7. LICENSING DEPOSITS

Pursuant to the Proposal to Enter into a Manufacturing, Sales, and Distribution Agreement entered between Altentech and SMG Asset Canada Inc. ("SMG Asset") dated December 17, 2012 (the "LOI"), SMG Asset is required to pay Altentech a \$1,000,000 licensing fee upon the execution of the definitive agreements. In exchange, SMG Asset receives an exclusive license to manufacture Altentech's patented BioVertidryer system sold on a global basis for a period of 10 years. In addition, SMG Asset receives an exclusive license to market, sell, and distribute the BioVertidryers to certain Asian and middle-eastern countries. In consideration of the Limited Partnership making the payments under the LOI to Altentech, SMG Asset agreed to nominate and assign the benefits of the LOI (including payments made thereunder) to the Limited Partnership by way of a Nomination Agreement dated November 17, 2014.

Altentech, SMG Asset, and the Limited Partnership are currently in negotiation on the terms of the definitive agreements. As at December 31, 2015, a total of \$1,000,000 (2014 - \$940,000) of the licensing fees had been paid.

8. INVESTMENT IN ALTENTECH POWER INC.

On September 24, 2014, the Limited Partnership exercised the conversion feature of the loan investments with Altentech and converted \$1 million of the outstanding loan investment to 20 million voting common shares of Altentech. The primary business of Altentech is to develop alternative energy biomass dryers, which is in alignment with the Limited Partnership's investment and development mandate. Upon the conversion of the loan investment, the Limited Partnership holds a 43.11% interest in Altentech over which the Limited Partnership has determined that it holds significant influence as:

- the Limited Partnership holds greater than 20% (but less than 50%) of the issued and outstanding voting shares of Altentech; and
- the convertible promissory note and security agreements entered between the Limited Partnership and Altentech allow the Limited Partnership to appoint a director to Altentech's Board.

Based on the above, the Limited Partnership has accounted for its investment in Altentech using the equity method and the recognition of Altentech's net losses is as follows:

	December 31, 2015	December 31, 2014
Cost		
Beginning balance	\$ 1,000,000	\$ -
Addition by way of loan conversion	-	1,000,000
Ending balance	\$ 1,000,000	\$ 1,000,000
Share of net loss		
Altentech's net loss for the year	\$ (2,729,891)	(742,619)
Share of Altentech's loss (43.11%)	\$ (1,176,856)	\$ (320,143)
Net investment in Altentech	\$ (496,999)	\$ 679,857
Share of associate's losses not recognized	\$ 496,999	\$ -
Ending balance	\$ -	\$ 679,857

SMG Power Limited Partnership
Notes to the Financial Statements
For the Year Ended December 31, 2015

8. INVESTMENT IN ALTENTECH POWER INC. – CONTINUED

A summary of the balance sheet and statement of operations and deficit for Altentech is as follows:

	December 31, 2015	December 31, 2014
Total assets	\$ 1,587,641	\$ 1,817,630
Total liabilities	(6,068,321)	(4,161,914)
Net deficit	\$ (4,480,680)	(2,344,284)
Income	-	-
Expenses	(2,729,891)	(1,277,319)
Loss before tax recovery	\$ (2,729,891)	\$ (1,277,319)

9. INVESTMENT IN SMG BIOPOWER LP

In March 2015, the Limited Partnership subscribed to 250,000 Class B units of SMG BioPower LP, an entity under common ultimate control, at a price of \$1 per Class B unit. The Investment in SMG BioPower LP is carried at cost at year-end which approximated fair values (see Note 4(3)).

10. ADVANCE FROM SMG BIOPOWER LP

On March 25, 2015, the Limited Partnership signed a non-binding memorandum of understanding (the “Power MOU”) with SMG BioPower LP pursuant to which the Limited Partnership agreed to use commercially reasonable efforts to negotiate and complete a series of financing transactions pursuant to which SMG BioPower LP has agreed to provide up to \$2,135,000 funding to the Limited Partnership by June 30, 2016 in consideration for issuing debt securities and/or limited partnership units to SMG BioPower LP. The specific terms of each financing transaction will be set out in the definitive documentation governing each transaction or batch of transactions.

During 2015, the Limited Partnership received a series of advances from SMG BioPower LP totaling \$1,107,000 (2014 - \$Nil) under this Power MOU. The definitive terms of these transactions are currently under negotiation and will be contained in the definitive documentation. These advances currently do not have specific terms and are recognized as a current liability.

11. RELATED PARTY BALANCES AND TRANSACTIONS

The following is a summary of the Limited Partnership’s related party balances during the years presented:

	December 31, 2015	December 31, 2014
Loan investments (Note 6)	\$ 5,742,690	\$ 5,358,812
Advance to Altentech Power Inc. (Note 6)	\$ 576,800	\$ -
Licensing deposits (Note 7)	\$ 1,000,000	\$ 940,000
Investment in SMG BioPower LP (Note 9)	\$ 250,000	\$ -
Advance from SMG BioPower LP (Note 10)	\$ (1,107,000)	\$ -
Due to related parties	\$ (522,102)	\$ (686,445)

Due to related parties is comprised of the following amounts: allocated expenses payable of \$25,592 (2014 - \$32,500), due to SMG Asset Canada Inc. of \$376,510 (2014 - \$593,945), subscription payable to SMG BioPower LP of \$60,000 (2014 - \$nil), and director and officer fee payable of \$60,000 (2014 - \$60,000). The amounts are unsecured, non-interest bearing and due on demand.

SMG Power Limited Partnership
Notes to the Financial Statements
For the Year Ended December 31, 2015

11. RELATED PARTY BALANCES AND TRANSACTIONS - CONTINUED

The following is a summary of the Limited Partnership's related party transactions during the period:

a) Investment Income

Investment income includes \$349,960 (2014 - \$349,960) earned from the Limited Partnership's convertible loan investment with the Ultimate Controlling Party (Note 6). The remaining investment income of \$33,918 (2014 - \$74,390) relates to interest earned on loans to Altentech.

b) Management Fees

The Limited Partnership entered into a management agreement (the "Management Agreement") with SMG Asset Canada Inc. ("SMG Asset"), an entity related by common ownership, effective on January 3, 2012. Pursuant to the Management Agreement, SMG Asset is to provide broad-scope management and administrative services to the Limited Partnership. The Management Agreement has no specific end date and SMG Asset charges the Limited Partnership \$20,000 per month plus applicable taxes. During the year ended December 31, 2015, the Limited Partnership paid management fees to SMG Asset totaling \$249,100 (2014 - \$249,900).

c) Commission Paid to SMG Securities Inc.

The Limited Partnership entered into an agency agreement (the "Agency Agreement") with SMG Securities Inc., an entity related to the Limited Partnership by common ownership and management, on September 13, 2013 in order for SMG Securities Inc. to sell and promote the securities of the Limited Partnership to suitable investors. Pursuant to the Agency Agreement, the Limited Partnership is to pay to SMG Securities Inc. a 15% commission on every accepted limited partnership unit subscription.

During the year ended December 31, 2015 the Limited Partnership paid total commissions of \$57,000 (2014 - \$65,000) in respect of the limited partnership unit subscription to SMG Securities Inc.

12. PARTNERS' EQUITY

a) Authorized

The interests of the limited partners in the Limited Partnership shall be divided into, and the Limited Partnership is authorized to issue, an unlimited number of one class of limited partnership units (the "Units" or "Limited Partnership Units"). Each Unit shall have attached thereto the same rights and obligations as, and shall rank equally with, each other Unit with respect to distributions, allocations, and voting.

SMG Power Limited Partnership
Notes to the Financial Statements
For the Year Ended December 31, 2015

12. PARTNERS' EQUITY - CONTINUED

b) Issued and Outstanding

The following table summarizes the Limited Partnership units issued and outstanding during the fiscal years:

	Number of Units	Unit Price	Amount
Balance at January 1, 2014	709,505		\$ 6,520,850
Limited Partnership Units issued	20,000	10	200,000
Less: unit issue cost			(65,000)
Balance at December 31, 2014	729,505		6,655,850
Limited Partnership Units issued	38,000	10	380,000
Less: unit issue cost			(57,000)
Balance at December 31, 2015	767,505		\$ 6,978,850

The unit issue cost of \$65,000 during the year December 31, 2014 included a non-material adjustment of \$35,000 commission fees from fiscal year 2013. The unit issue cost, in the absence of this adjustment, was \$30,000 during the fiscal year 2014.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Limited Partnership is exposed through its operations to the following financial risks:

- Market Risk
- Credit Risk
- Liquidity Risk

In common with other businesses, the Limited Partnership is exposed to risks that arise from its use of financial instruments. This note describes the Limited Partnership's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Limited Partnership's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous years unless otherwise stated in the note.

General Objectives, Policies and Processes:

The General Partner has overall responsibility for the determination of the Limited Partnership's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Limited Partnership's finance function.

SMG Power Limited Partnership
Notes to the Financial Statements
For the Year Ended December 31, 2015

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT - CONTINUED

a) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of two types of risk: foreign currency risk and interest rate risk.

Foreign Currency Risk

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and other foreign currencies will affect the Limited Partnership's operations and financial results. The Limited Partnership does not have significant exposure to foreign exchange rate fluctuation as all assets and liabilities are denominated in Canadian Dollars.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Limited Partnership is exposed to interest rate risk as the advances from SMG BioPower Limited Partnership may have interest rates (possibly above-market rates) retroactively charged. Otherwise, interest rate risk relating to the Limited Partnership's cash held with a chartered Canadian financial institution is low as the value of these cash accounts are generally unaffected by changes in market interest rates. Interest rate risk relating to the Limited Partnership's loan investment is low as these amounts have fixed interest rates and are unaffected by changes in market interest rates.

b) Credit Risk

Credit risk is the risk of financial loss to the Limited Partnership if a customer or a counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which are potentially subject to credit risk for the Limited Partnership consist primarily of cash, loan investments, and advance to Altentech Power Inc.

Cash is maintained with a financial institution of reputable credit and may be redeemed upon demand. The Limited Partnership is exposed to credit risk with respect to the loan investments and advance to Altentech Power Inc. as their collectability is based on the ultimate success of the counterparty's businesses and financial circumstances.

c) Liquidity Risk

Liquidity risk is the risk that the Limited Partnership will not be able to meet its financial obligations as they become due. The Limited Partnership's liquidity risk management policy is to ensure that the Limited Partnership has sufficient cash on demand to meet expected operational expenses for a period of 90 days during periods of business interruption. The Limited Partnership monitors its risk of shortage of funds by monitoring the maturity dates of existing trade and other accounts payable. At December 31, 2015 there was working capital of \$987,826 (2014 – \$703,308). The Limited Partnership relies on funding sources such as the sale of limited partnership units, advances from SMG BioPower LP and other related parties. This funding mechanism poses liquidity risk to the Limited Partnership should these funding sources cease to fund the Limited Partnership or recall outstanding debts.

Determination of Fair Value:

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

SMG Power Limited Partnership
Notes to the Financial Statements
For the Year Ended December 31, 2015

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT - CONTINUED

The carrying amounts of cash, advance to Altentech Power Inc., accounts payable and accrued liabilities, advance from SMG BioPower LP, and due to related parties approximate their fair value due to their short-term nature. Loan investments are initially recognized at fair values (either based on cost or another appropriate methodology) and subsequently carried at the amortized cost.

The convertible feature of certain Loan Investments (see Note 6 “Loan Investments”) represents a derivative instrument. This derivative feature allows for the conversion of the Loan Investments at their face value to shares of a private company. Should the conversion feature of the Loan Investments be exercised, the shares of the counterparty would be accounted for at cost which would approximate their fair value under the terms of the convertible debt agreement.

The liquidity of these shares would be subject to the ability of the Limited Partnership to sell the shares acquired.

Due to the use of subjective judgments and uncertainties in the determination of fair values, these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

Fair value hierarchy

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) 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 observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); 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 (unobservable inputs).

The Investment in SMG BioPower Limited Partnership are measured at its fair value. The cost of investment approximated fair values due to the short period since the Limited Partnership’s investment to year-end date and the nature of investment activities pursued by SMG BioPower LP (i.e. advances receivable). The Limited Partnership did not have any other financial instruments that are measured subsequent to initial recognition at fair value.

13. CAPITAL MANAGEMENT

The Limited Partnership monitors its capital structure through cash, loans receivable, and limited partnership units. The Limited Partnership’s objectives when maintaining capital are to maintain sufficient capital base in order to meet its short-term obligations and at the same time preserve investor’s confidence required to sustain future development of the business.

The Limited Partnership is not exposed to any externally imposed capital requirements, and there have been no changes during the year in the Limited Partnership’s approach to capital management.

SMG Power Limited Partnership
Notes to the Financial Statements
For the Year Ended December 31, 2015

14. SUBSEQUENT EVENTS

The following transactions occurred after the date of the financial statements but before the audit report is issued:

1. Subsequent to the balance sheet date, the Limited Partnership received a series of advances from SMG BioPower Limited Partnership ranging from \$1,000 to \$50,000 for a total of \$132,000. These amounts do not have specific terms as they are currently under negotiation between the parties.
2. Subsequent to year-end, two convertible loans investments totaling \$614,000 became due and were renewed. The convertible loans were renewed for a period of two years under the same terms and conditions.

EXHIBIT D

FINANCIAL STATEMENTS

ALTENTECH POWER INC.

YEAR ENDED DECEMBER 31, 2015 (AUDITED)

Financial Statements of

ALTENTECH POWER INC.

Year ended December 31, 2015



KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Altentech Power Inc.

We have audited the accompanying financial statements of Altentech Power Inc., which comprise the balance sheet as at December 31, 2015, the statements of operations and deficit and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Altentech Power Inc. as at December 31, 2015 and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which describes material uncertainties that may cast significant doubt about Altentech Power Inc.'s ability to continue as a going concern.

KPMG LLP

Chartered Professional Accountants

April 29, 2016

Burnaby, Canada

ALTENTECH POWER INC.

Balance Sheet

December 31, 2015, with comparative information for 2014

	2015	2014
Assets		
Current assets:		
Cash	\$ -	\$ 666,173
Investment tax credits receivable	-	58,500
Receivables	39,368	64,878
Biovertidryer inventories (note 3)	1,508,904	993,029
Prepaid expenses and deposits	9,380	2,753
	1,557,652	1,785,333
Equipment (note 4)	23,673	32,297
	\$ 1,581,325	\$ 1,817,630

Liabilities and Shareholders' Deficiency

Current liabilities:		
Cheques written in excess of funds on deposit	\$ 3,618	\$ -
Accounts payable and accrued liabilities (note 5)	1,105,361	516,504
Deposits	2,558,402	1,297,771
Callable and convertible loans (note 6)	400,000	400,000
Current portion of BCBN loan (note 7)	1,000,000	500,000
Current portion of notes payable (note 8)	868,002	-
	5,935,383	2,714,275
BCBN loan (note 7)	-	452,292
Notes payable (note 8)	132,938	995,347
	6,068,321	4,161,914
Shareholders' deficiency:		
Share capital (note 9(a))	4,337,653	4,337,653
Contributed surplus (note 9(c))	2,479,053	1,885,558
Deficit	(11,303,702)	(8,567,495)
	(4,486,996)	(2,344,284)

Nature of operations and going concern (note 1)

	\$ 1,581,325	\$ 1,817,630
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See accompanying notes to financial statements.

Approved on behalf of the Board:

"Larry Taylor" Director

"John Goodwin" Director

ALTENTECH POWER INC.

Statement of Operations and Deficit

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Expenses:		
Research and development	\$ 1,590,938	\$ 527,453
Less:		
Investment tax credits	-	270,893
	1,590,938	256,560
 Selling, general and administrative (note 11)	1,154,060	776,117
Interest and bank charges (note 11)	137,719	186,244
Amortization	10,390	10,706
Loss of foreign exchange	18,696	6,316
 Loss before undernoted	(2,911,803)	(1,235,943)
Other income:		
Custom drying revenue	154,249	-
Miscellaneous income	21,347	8,624
	175,596	8,624
 Loss for the year	(2,736,207)	(1,227,319)
 Deficit, beginning of year	(8,567,495)	(7,340,176)
 Deficit, end of year	\$ (11,303,702)	\$ (8,567,495)

See accompanying notes to financial statements.

ALTENTECH POWER INC.

Statement of Cash Flows

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Cash provided by (used in):		
Operations:		
Loss for the year	\$ (2,736,207)	\$(1,227,319)
Items not involving cash:		
Amortization	10,390	10,706
Interest accretion	53,301	-
Stock-based compensation (note 9(b))	593,495	8,567
	(2,079,021)	(1,208,046)
Changes in non-cash operating working capital:		
Investment tax credits receivable	58,500	154,000
Receivables	25,510	(27,813)
Prepaid expenses and deposits	(6,627)	97
Accounts payable and accrued liabilities	588,857	159,110
Deposits	1,260,631	787,771
	(152,150)	(134,881)
Investing:		
Purchase of equipment	(1,766)	(3,223)
Additions to biovertidryer inventories	(515,875)	(394,041)
	(517,641)	(397,264)
Financing:		
Cheques issued in excess of funds on deposit	3,618	(44,027)
Proceeds from callable and convertible debt	-	150,000
Repayment of callable debt	-	(35,000)
Proceeds from BCBN loan	-	1,000,000
Proceeds from notes payable	-	127,345
	3,618	1,198,318
Increase (decrease) in cash	(666,173)	666,173
Cash, beginning of year	666,173	-
Cash, end of year	\$ -	\$ 666,173
Non-cash transaction:		
Convertible loans converted into common shares	\$ -	\$ 1,000,000
Difference between fair value of BCBN loan and the cash received recorded to biovertidryer inventories	-	47,708

See accompanying notes to financial statements.

ALTENTECH POWER INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2015

1. Nature of operations and going concern:

Altentech Power Inc. (the "Company") is a private company incorporated on October 31, 2007 under the Canada Business Corporation Act. The Company is developing alternative energy biomass dryers.

These financial statements have been prepared on the going concern basis, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities in the normal course of business. The Company is in the start-up phase of its operations and has minimal revenues. For the year ended December 31, 2015, the Company incurred a loss of \$2,736,207 (2014 – a loss of \$1,227,319) and as at December 31, 2015 had an accumulated deficit of \$11,303,702 (2014 - \$8,567,495). These conditions result in a material uncertainty that casts substantial doubt on the Company's ability to continue as a going concern.

Management continues to execute the Company's business plan and develop its biomass dryer technology in order to achieve profitable operations, although additional funding will be required to achieve these objectives. Management is also continuing to work with existing and new investors to raise additional capital. The ability of the Company to continue operations as a going concern is dependent on the achievement of profitable operations, attracting additional capital to fund its working capital as required, and also requires that its lenders do not demand repayment of amounts owing to them before the end of fiscal 2016.

The decision to fund the Company is ultimately at the investors' discretion, and there is no guarantee that management will be successful in its efforts, or that adequate financing will be available on acceptable terms, or at all.

These financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should the business be unable to continue as a going concern. If the Company is unable to continue as a going concern, assets and liabilities would require restatement on a liquidation basis, which would differ materially from the going concern basis.

ALTENTECH POWER INC.

Notes to Financial Statements (continued)

Year ended December 31, 2015

2. Significant accounting policies:

The Company's significant accounting policies are as follows:

(a) Biovertidryer inventories:

Biovertidryer inventories relate to prototype biomass dryers and are stated at the lower of cost, less the related investment tax credits, if any, and net realizable value. Cost consists of material costs and other direct costs associated with construction of the biomass dryer. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(b) Equipment:

Equipment is stated at cost less accumulated amortization. Amortization is provided using the declining-balance basis at following annual rates:

Asset	Rate
Computer equipment	30% to 45%
Office furniture and equipment	20%
Vehicles	30%

Leasehold improvements are amortized on a straight-line base over the lesser of the lease term or their useful lives of 5 years.

The carrying amount of equipment is tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the asset's carrying amount is not recoverable and exceeds its fair value.

(c) Income taxes:

The Company uses the future income taxes method of accounting for income taxes. Under the future income taxes method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized. The income tax expense or benefit is the sum of the Company's provision for the current income taxes and the difference between the opening and ending balances of the future income tax assets and liabilities.

ALTENTECH POWER INC.

Notes to Financial Statements (continued)

Year ended December 31, 2015

2. Significant accounting policies (continued):

(d) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results may differ from those estimates. Significant areas requiring the use of management estimates relate to the determination of the net realizable value of demonstration inventory, the net recoverable amount of equipment, the estimated useful lives of equipment, realization of investment tax credits and future tax assets, stock-based compensation assumptions and contingencies. Actual results could differ from these estimates.

(e) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded cost or amortized cost, unless management has elected to carry the instruments at fair value. The Company has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs. These costs are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Company determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Company expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(f) Convertible debt instruments:

The Company accounts for convertible debt instruments by assigning a nil value to the equity component.

ALTENTECH POWER INC.

Notes to Financial Statements (continued)

Year ended December 31, 2015

2. Significant accounting policies (continued):

(g) Stock-based compensation and other stock-based payments:

The Company has a stock-based compensation plan, which is described in note 9(b). Equity instruments awarded to employees are measured and recognized based on the fair value of the equity instruments. The compensation cost is recognized over the period in which the related employee services are rendered. Awards for past service are recognized as an expense in the period when granted.

Stock-based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measurable. The fair value of stock-based payments to non-employees is periodically remeasured until counterparty performance is complete, and any change therein is recognized over the period and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. The cost of stock-based payments to non-employees that are fully vested and non-forfeitable at the grant date is measured and recognized at that date.

(h) Research and development:

Research and development activities are expensed as incurred.

(i) Government assistance:

The Company periodically applies for financial assistance under available government incentive programs. Government assistance relating to capital expenditures is reflected as a reduction of the cost of such assets. Government assistance relating to research and development expenditures is recorded as a reduction of current year expenses when the related expenditures are incurred.

(j) Investment tax credits:

Investment tax credits are recognized when the qualifying expenditures are made and the realization of the credits is reasonably assured. Investment tax credits related to the acquisition of demonstration inventory and equipment are deducted from the cost of the related assets. Investment tax credits related to research and development expenditures are applied as a reduction of the related expenses or asset.

ALTENTECH POWER INC.

Notes to Financial Statements (continued)

Year ended December 31, 2015

3. Biovertidryer inventories:

The Biovertidryer inventories relate to the costs to construct prototype biomass dryers. The balance as at December 31, 2015 of \$1,508,904 (2014 - \$993,029) relates to the Biovertidryer 1.3 model. The Company has a purchase agreement with SMG Wood Pellet Inc. ("SMG Wood"), a company related by virtue of common directors, to purchase two of the Biovertidryer 1.3 model, each for \$1,600,000, subject to meeting certain performance conditions. The Company has received deposits of \$981,602 (2014 - \$357,771) towards this purchase.

4. Equipment:

			2015	2014
	Cost	Accumulated amortization	Net book value	Net book value
Computer equipment	\$ 18,393	\$ 14,987	\$ 3,406	\$ 3,556
Office furniture and equipment	23,031	13,814	9,217	11,522
Vehicles	3,521	2,494	1,027	1,467
Leasehold improvements	30,071	20,047	10,024	15,752
	\$ 75,016	\$ 51,342	\$ 23,674	\$ 32,297

5. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities as at December 31, 2015 are amounts owing to SMG Asset Canada Inc. ("SMG Asset"), a shareholder of the Company, of \$258,503 (2014 - \$191,006), amounts owing to FMI Bioenergy Inc., a key technical consultant, of \$79,962 (2014 - \$nil), and amounts owing to directors and companies controlled by directors of \$181,700 (2014 - \$78,807), which are all non-interest bearing, unsecured and payable on demand. Also included are government remittances payable of \$nil (2014 - \$5,209) relating to payroll taxes and workers' safety insurance.

ALTENTECH POWER INC.

Notes to Financial Statements (continued)

Year ended December 31, 2015

6. Callable and convertible loans:

	2015	2014
Callable loan payable, bearing interest at a rate of 7% per annum, interest payable monthly, maturing October 15, 2017 (a)	\$ 250,000	\$ 250,000
Convertible callable loan payable, bearing interest at a rate of 7% per annum, interest payable monthly, maturing October 15, 2017 (a)	150,000	150,000
	\$ 400,000	\$ 400,000

- (a) These loans which are payable to SMG Power Limited Partnership ("SMG Power"), a shareholder of the Company, include a right of first offer on future debt, provide the debt-holder the right to appoint a director until the principal is repaid and are secured by a general security in all present and future personal property and the D-10 demonstration inventory which has a net book value of nil (2014 - nil). The Company may prepay interest or principal at any time without penalty, however, repayments are subject to certain conditions and an inter-creditor agreement, as described in note 7.

The convertible loan is convertible, at any time, to common shares at the fair value at the time of conversion, with the number of shares equal to principal divided by the conversion price, rounded to the nearest whole share.

ALTENTECH POWER INC.

Notes to Financial Statements (continued)

Year ended December 31, 2015

7. BCBN loan:

On December 23, 2014, the Company entered into a loan agreement with the BC Bioenergy Network Association ("BCBN") of \$1,000,000 to partially fund the development of the Biovertidryer 1.3 (note 3). The loan bears interest at 5% per annum and matures on June 30, 2016. The loan provides for an interest free period of one year, and therefore, the difference between the fair value of the loan and the cash received has been recorded as a reduction to the related biovertidryer inventory. The resulting discounted amount was accreted to the face value over the interest free period. In the event of the occurrence of an uncured event of default, the rate of interest increases to 14% per annum, compounded daily.

The BCBN loan is to be repaid as follows:

- (i) the first \$500,000 of principal is due after the receipt of the first \$500,000 from the sale of the first biovertidryer to any party;
- (ii) the balance of the principal is due after the receipt of sufficient funds from the sale of the second biovertidryer to any party; and
- (iii) if no sales, or only one sale has occurred, repayment will be based on a formula of earnings generated from any custom drying application of a biovertidryer received after the interest free period, with the balance due and payable on the maturity date of June 30, 2016.

The Company, SMG Asset, SMG Power, SMG Wood and BCBN have entered into an inter-creditor agreement. The BCBN loan is subordinated in favour of the first priority provided on the \$400,000 callable and convertible loans (note 6), \$150,000 in deposits from SMG Wood and \$1,000,000 in deposits from SMG Asset. SMG Asset, SMG Power and SMG Wood (collectively the "SMG Group") may loan up to an additional \$500,000 which would rank ahead of the BCBN loan. Any repayment of debts to the SMG Group must be made ratably and proportionally in accordance with the relative balances owing to each of the SMG Group and BCBN.

ALTENTECH POWER INC.

Notes to Financial Statements (continued)

Year ended December 31, 2015

8. Notes payable:

	2015	2014
Notes payable to shareholders, unsecured, bearing interest at a rate of 8% per annum, interest payable quarterly, maturing at various dates between July 2, 2016 and August 28, 2016	\$ 338,002	\$ 338,002
Notes payable to unrelated parties, unsecured, bearing interest at a rate of 8% per annum, interest payable quarterly, maturing at various dates between July 26, 2016 and October 14, 2017	662,938	657,345
	1,000,940	995,347
Less: Current portion	868,002	-
	\$ 132,938	\$ 995,347

The Company may, in its sole discretion, prepay, in whole or in part, the notes payable, including any accrued but unpaid interest, prior to maturity.

Principal payments required are due as follows:

2016	\$ 868,002
2017	140,000
	1,008,002
Less unamortized transaction costs	(7,062)
	\$ 1,000,940

ALTENTECH POWER INC.

Notes to Financial Statements (continued)

Year ended December 31, 2015

9. Shareholders' deficiency:

(a) Share capital:

Authorized share capital:

Unlimited voting common shares without par value.

Issued and outstanding:

	Number of shares	Amount
Balance, January 1, 2014	26,398,078	\$ 3,337,653
Issued for debt converted	20,000,000	1,000,000
Balance, December 31, 2014 and 2015	46,398,078	\$ 4,337,653

(b) Stock-based compensation:

The Company has a stock option plan (the "Plan") to encourage ownership of the Company's common shares by its officers, directors, employees and certain non-employees. Stock options have a maximum term of up to ten years. The options vesting period ranges between immediately upon the grant date, to two years.

A summary of the options transacted is as follows:

	Number of common shares under option	Weighted average exercise price per share
Balance, January 1, 2014	5,383,333	\$ 0.57
Forfeited	(625,000)	(0.35)
Balance, December 31, 2014	4,758,333	0.60
Issued	7,100,000	0.15
Balance, December 31, 2015	11,858,333	\$ 0.33

ALTENTECH POWER INC.

Notes to Financial Statements (continued)

Year ended December 31, 2015

9. Shareholders' deficiency (continued):

(b) Stock-based compensation (continued):

The following table summarizes the stock options outstanding at December 31, 2015:

Exercise price	Number of options	Options outstanding		Number of options	Options exercisable	
		Weighted average remaining contractual life (years)	Weighted average exercise price per share		Weighted average exercise price per share	
\$0.60	4,758,333	1.36	\$ 0.60	4,758,333	\$ 0.60	
\$0.15	7,100,000	9.60	\$ 0.15	7,100,000	\$ 0.15	

The fair value of the options granted has been estimated using the Black-Scholes option pricing model with the following assumptions:

	2015	2014
Risk-free interest rate	1.45%	1.62%
Expected life	10 years	3 years
Expected volatility	45.0%	31.4%
Expected dividends	0%	0%

Stock-based compensation expense charged to the statement of operations and deficit, all of which related to consultants, was \$593,495 (2014 - \$8,567) and is included in selling, general and administrative.

Volatility is calculated based on the stock price of comparable companies.

(c) Contributed surplus:

	2015	2014
Balance, beginning of year	\$ 1,885,558	\$ 1,876,991
Stock-based compensation expense	593,495	8,567
Balance, end of year	\$ 2,479,053	\$ 1,885,558

ALTENTECH POWER INC.

Notes to Financial Statements (continued)

Year ended December 31, 2015

10. Income taxes:

The Company has unused tax losses for federal income tax purposes of approximately \$8,220,000 (2014 - \$6,121,000) available to reduce taxable income of future years, if any, expiring 2027 to 2035.

In addition, as at December 31, 2015, the Company has Scientific Research and Experimental Development ("SRED") expenditures available for carryforward of approximately \$731,000 (2014 - \$731,000) and deductible temporary differences representing an excess of the tax value of certain assets over the net book value amounting to approximately \$123,000 (2014 - \$136,000) which can be carried forward indefinitely and deducted against future taxable income otherwise calculated.

No benefit from these tax assets has been recorded in these financial statements.

11. Related party balances and transactions:

In addition to the accounts payable balance to a shareholder described in note 5, callable and convertible loans payable to a shareholder as described in note 6, notes payable to shareholders as described in note 8 and a deposit from a company controlled by a shareholder as described in note 3, the Company has a deposit of \$1,000,000 (2014 - \$940,000) from SMG Asset, which is non-interest bearing, relating to a letter of intent to enter into a sales and distribution agreement which would provide the exclusive rights to sell, market and distribute the Altentech dryers in South Korea, Japan, China and the Middle East. The final sales and distribution agreement has not yet been executed.

The Company has the following transactions with shareholders and companies controlled by shareholders:

	2015	2014
Interest	\$ 60,451	\$ 122,811
Rent, month-to-month	43,468	42,560
Management fees	12,383	33,698

ALTENTECH POWER INC.

Notes to Financial Statements (continued)

Year ended December 31, 2015

12. Financial risks and concentration of risks:

(a) Liquidity risk:

Liquidity risk is the risk that the Company will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Company manages its liquidity risk by monitoring its operating requirements. The Company prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. There has been no change to the risk exposures from 2014.

(b) Interest rate risk:

The Company is exposed to interest rate risk on its fixed interest rate financial instruments which subjects the Company to fair value risk. Further details about the fixed rate investments are included in notes 6, 7 and 8. There has been no change in this risk from 2014.

(c) Foreign currency risk:

During the current year, the Company purchased components of the Biovertidryer denominated in U.S. dollars and has approximately \$45,000 U.S. dollars denominated deposits. The Company is exposed to financial risks as a result of exchange rate fluctuations and volatility of these rates.

EXHIBIT E
FINANCIAL STATEMENTS
MISSION WOOD PELLET INC.
YEAR ENDED DECEMBER 31, 2015 (AUDITED)

Mission Wood Pellet Inc.



Financial Statements

For the year ended December 31, 2015

Mission Wood Pellet Inc.
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Mission Wood Pellet Inc.

We have audited the accompanying financial statements of Mission Wood Pellet Inc., which comprise the statements of financial position as at December 31, 2015 and 2014, and the statements of comprehensive loss, changes in shareholders' equity, and cash flows for the periods ended December 31, 2015 and 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Mission Wood Pellet Inc., as at December 31, 2015 and 2014, and its financial performance and cash flows for the periods ended December 31, 2015 and 2014, in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2c in the financial statements, which indicates that for the period ended December 31, 2015, the Company had a comprehensive loss of \$995,168 and, as of that date, had an accumulated deficit of \$2,408,263. These items, along with other matters as set forth in Note 2c, indicate the existence of material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern.

Chartered Professional Accountants

May 26, 2016

Vancouver, Canada

Mission Wood Pellet Inc.
Statements of Financial Position
As at December 31, 2015

	December 31, 2015	December 31, 2014
Assets		
Current Assets		
Cash (Note 5)	\$ 18,106	\$ 173,245
Amounts receivable	64,532	1,856
Due from related parties (Note 6)	501,599	541,052
Prepaid expense	8,351	-
Total current assets	\$ 592,588	\$ 716,153
Non-current Assets		
Other receivable (Note 7)	\$ 180,000	\$ -
Equipment deposit (Note 8)	929,685	814,685
Property, plant and equipment (Note 9)	2,349,930	-
Total non-current assets	\$ 3,459,615	\$ 814,685
Total assets	\$ 4,052,203	\$ 1,530,838
Liability and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 143,344	\$ 12,494
Advance from SMG BioPower LP (Note 10)	1,005,903	-
Land payment obligation (Note 9)	2,141,931	-
Subscription in advance (Note 12)	-	693,415
Current portion of lease inducement (Note 13)	7,500	7,500
Total current liabilities	\$ 3,298,678	\$ 713,409
Non-current Liabilities		
Promissory note payable (Note 11)	300,000	-
Lease liability (Note 13)	56,250	63,750
Total non-current liabilities	\$ 356,250	\$ 63,750
Total liabilities	\$ 3,654,928	\$ 777,159
Shareholders' Equity		
Share capital (Note 12)	\$ 2,805,538	\$ 2,166,774
Deficit	(2,408,263)	(1,413,095)
Total equity	\$ 397,275	\$ 753,679
Liability and Shareholders' Equity	\$ 4,052,203	\$ 1,530,838

Signed on behalf of the Board of Directors by:



Jung Moon

See accompanying notes to financial statements.

Mission Wood Pellet Inc.
Statements of Comprehensive Loss
For the year ended December 31, 2015

	Year Ended December 31, 2015	176-Day Period Ended December 31, 2014
Revenue	\$ -	\$ -
Expenses		
Advertising and promotion	\$ 1,322	\$ 3,549
Computer and internet expenses	174	2,921
Consulting and engineering	213,105	411,257
Dues and subscriptions	6,242	1,445
Foreign exchange loss	9,697	934
Impairment loss (Note 9)	184,704	-
Interest expense (Note 6, 9)	111,092	-
Insurance expense	23,871	24
Lab testing fees	-	6,140
Lease expense (Note 13)	168,099	84,004
Management fees (Note 6)	154,325	639,775
Meals and entertainment	374	2,715
Office expense	5,996	2,316
Professional fees	88,678	242,934
Property Taxes	22,291	-
Travel expense	5,198	15,081
Total expenses	\$ 995,168	\$ 1,413,095
Loss before income tax taxes	(995,168)	(1,413,095)
Income taxes (Note 14)	-	-
Total comprehensive loss for the year/period	\$ (995,168)	\$ (1,413,095)

See accompanying notes to financial statements.

Mission Wood Pellet Inc.
Statements of Changes in Shareholders' Equity
For the year ended December 31, 2015

	Share Capital	Deficit	Shareholders' Equity
Balance, at incorporation on July 8, 2014	\$ -	\$ -	\$ -
Share capital issued (Note 12)	2,407,527	-	2,407,527
Issuance cost	(240,753)	-	(240,753)
Comprehensive loss for the period	-	(1,413,095)	(1,413,095)
Balance, December 31, 2014	\$ 2,166,774	\$ (1,413,095)	\$ 753,679
Share capital issued (Note 12)	709,738	-	709,738
Issuance cost	(70,974)	-	(70,974)
Comprehensive loss for the year	-	(995,168)	(995,168)
Balance, December 31, 2015	\$ 2,805,538	\$ (2,408,263)	\$ 397,275

See accompanying notes to financial statements.

Mission Wood Pellet Inc.
Statements of Cash Flows
For the year ended December 31, 2015

	December 31, 2015	176-Day Period Ended December 31, 2014
Cash flows from operating activities		
Loss for the year/period	\$ (995,168)	\$ (1,413,095)
Non-cash items		
Impairment loss	184,704	-
Interest expense	111,092	-
Change in working capital accounts		
Amounts receivable	(62,676)	(1,856)
Accounts payable and accrued liabilities	103,074	12,494
Change in due from related parties	45,525	(541,052)
Other receivables	(180,000)	-
Prepaid expense	(8,351)	-
Lease inducement	(7,500)	71,250
Total cash flows from operating activities	\$ (809,300)	\$ (1,872,259)
Cash flows from investing activities		
Equipment deposit	\$ (115,000)	\$ (814,685)
Land payments	(350,000)	-
Acquisition of property, plant and equipment	(126,022)	-
Total cash flows from investing activities	\$ (591,022)	\$ (814,685)
Cash flows from financing activities		
Advance from SMG BioPower LP	\$ 1,005,903	\$ -
Proceeds from promissory note	300,000	-
Proceeds from subscription in advance	-	770,461
Proceeds from issuance of shares	-	2,407,527
Share issuance cost	-	(317,799)
Cancellation of share subscription	(60,720)	-
Total cash flows from financing activities	\$ 1,245,183	\$ 2,860,189
Total change in cash during the year/period	\$ (155,139)	\$ 173,245
Cash, beginning of year/period	173,245	-
Cash, end of year/period	\$ 18,106	\$ 173,245
Supplemental information		
Taxes paid	\$ nil	\$ nil
Interest paid	\$ nil	\$ nil

See accompanying notes to financial statements.

Mission Wood Pellet Inc.
Notes to the Financial Statements
For the year ended December 31, 2015

1. CORPORATE INFORMATION

Mission Wood Pellet Inc. ("Mission Pellet" or the "Company") was incorporated under the laws of the Province of British Columbia on July 8, 2014 and commenced operation as the operating company of a wood pellet manufacturing project (the "Pellet Project") located in Mission, B.C. The Pellet Project is currently in the planning and preparation stage.

The controlling party is SMG Asset Canada Inc. ("SMG Asset") and its ultimate controlling party is Jung Moon, a resident of British Columbia, Canada.

The address of the Company's corporate office is unit 301-958 West 8th Avenue, Vancouver, British Columbia, Canada.

2. BASIS OF PREPARATION

a) Statement of Compliance

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Committee ("IFRIC"), effective for the Company's reporting for the year ended December 31, 2015.

These financial statements were authorized for issue by the Board of Directors on May 25, 2016.

b) Basis of Measurement

The financial statements have been prepared on a historical cost basis which approximates the fair values, except for the land payment obligation and the promissory note payable which are carried at amortized cost.

The financial statements are presented in Canadian dollars, which is also the Company's functional currency.

c) Going Concern of Operations

These financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The Company is in the start-up phase of its operations. During the year ended December 31, 2015, the Company incurred a net loss of \$995,168 which contributed to an accumulated deficit \$2,408,263 as of that date. The Company expects to incur further losses in the development of its business. These conditions indicate a material uncertainty as to significant doubt about the Company's ability to continue as a going concern.

Management continues to execute the Company's business plan to build and commission a wood pellet mill in Mission B.C, in order to achieve profitable operations, although additional funding will be required to achieve these objectives. The ability of the Company to continue operations as a going concern is dependent on the achievement of profitable operation, attracting additional capital to fund its building and construction of the pellet mill, and also requires that its lenders do not demand repayment of amounts owing to them before maturity.

These financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should the business be unable to continue as a going concern. If the Company is unable to continue as a going concern, assets and liabilities would require restatement on a liquidation basis, which would differ materially from the going concern basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to the periods presented in these financial statements.

a) Cash

Cash includes funds held in a business chequing account with a Canadian Chartered bank that are highly liquid.

b) Financial Instruments

Financial Assets

Financial assets are classified into one of the following categories based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

Loans and Receivables

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. The Company's financial assets designated as loans and receivables include cash, amounts receivable, due from related parties, and other receivables.

Impairment on Financial Assets

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Financial Liabilities

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred, and comprise of accounts payable and accrued liabilities, advance from SMG BioPower LP, land payment obligation, and promissory note payable. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

c) Property, Plant and Equipment

Items of property, plant and equipment are initially recognized at cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions. Property, plant and equipment is not depreciated until the assets are brought to use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

d) Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or other comprehensive loss.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using the tax rates and tax laws that have been enacted or substantively enacted by the period-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset only to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

e) Share Capital and Issue Costs

Equity instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares are classified as equity instruments. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Cash received in advance of share issuance is recorded as other current liabilities and moved to the Company's share capital upon share issuance.

f) Operating Leases

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an "Operating Lease"), the total rentals payable under the lease are charged to the consolidated statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

g) Standards, Amendments and Interpretations Not Yet Effective

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been early adopted by the Company.

The Company has adopted all standards effective as of January 1, 2015. The standards adopted by the Company did not have a material effect on the Company's financial statements.

- **IFRS 7 Financial Instruments: Disclosures**

Amended to require additional disclosures on transition from IAS 39 to IFRS 9. Effective on adoption of IFRS 9, which is effective for annual periods commencing on or after January 1, 2018. The Company is currently evaluating the impact this standard is expected to have on its financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement

IFRS 9 amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. IFRS 9 introduces an expected loss model of impairment and retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The effective date for IFRS 9 is January 1, 2018. The Company is in the process of evaluating the impact of the new standard.

- IFRS 15 Revenue from Contracts with Customers

IFRS 15 is based on the core principle to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 focuses on the transfer of control. IFRS 15 replaces all of the revenue guidance that previously existed in IFRSs. The effective date for IFRS 15 is January 1, 2018. The Company is in the process of evaluating the impact of the new standard.

- IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a “right of use” asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements. The effective date for IFRS 16 is January 1, 2019. The Company is in the process of evaluating the impact of the new standard.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income or loss in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

Based on Management's assessment, the estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Mission Wood Pellet Inc.
Notes to the Financial Statements
For the year ended December 31, 2015

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS - CONTINUED

1. Carrying Value of Due from Related Parties

In determining whether the carrying value of due from related parties is impaired, the Company makes judgment on whether objective evidence of impairment exists individually for financial assets that are individually significant. Where this does not exist the Company uses its judgment to assess impairment loss based on financial circumstances and businesses of the counterparties.

2. Discount Rate Applied to Land Payment Obligation

In determining the fair value of the land payment obligation at initial recognition and related interest (accretion) expense, the Company makes an assessment on the appropriate discount rate to use. Such discount rate estimate is required as the land payment obligation does not bear any interest and that any interest portion of the land payment obligation (notional concept) must be derived. Any derived interest portion is accreted over time and brought into the statement of comprehensive income/loss as interest expense. Accordingly, estimate on the discount rate used may have a material impact on current and subsequent period financials.

3. Other Estimates and Judgements

Other estimates and judgements relate to the Company's going-concern assumptions which are described in Note 2c).

5. CASH

The Company's cash and current accounts are held with a Canadian Schedule I bank headquartered in Canada. Cash yields interest rates at the prevailing rate for similar business chequing accounts. The carrying amount approximates fair value due to its short term and liquid nature.

6. RELATED PARTY BALANCES AND TRANSACTIONS

Related party balances and transactions represent balances and transactions between the Company and its related parties as defined by IAS 24 Related Party Disclosures ("IAS 24"). The below table summarizes the related party balances as at December 31, 2015:

	For the year ended December 31, 2015	176-day period ended December 31, 2014
Due from Altentech Power Inc.	44,470	-
Due to SMG Power Limited Partnership	(6,000)	-
Due to SMG Asset Canada Inc.	(432,874)	(604,970)
Due from SMG Wood Pellet Inc.	896,003	1,146,023
	<u>501,599</u>	<u>541,052</u>

Due from Altentech Power Inc. relates to shared expenses at the operating site in Mission B.C. that were paid for by the Company and recoverable from Altentech. Similarly, due to SMG Power Limited Partnership relates to allocated expenses incurred by SMG Power LP on behalf of the Company that have not been fully paid. The balance with SMG Asset Canada Inc. represents a combination of accrued management fees and expenses incurred on behalf of the Company at the early start-up stage. The balance due from SMG Wood Pellet Inc. is comprised of a combination of share subscription recoverable and expenses allocated to the Company at the early start-up stage.

Mission Wood Pellet Inc.
Notes to the Financial Statements
For the year ended December 31, 2015

6. RELATED PARTY BALANCES AND TRANSACTIONS - CONTINUED

These balances are non-interest bearing, have no specific terms of repayment, and are due on demand.

Related party transactions during the year are summarized as follows:

1. On July 8, 2014, the Company entered into a management agreement (the "Management Agreement") with SMG Asset. Under the Management Agreement, SMG Asset agreed to provide management services to the Company including broad-scope administrative and managerial responsibilities to support the development of the Pellet Project. During the 176-day period ended December 31, 2014 and the year ended December 31, 2015 the Company incurred management fees payable to SMG Asset of \$639,775 and \$154,325 respectively.
2. Interest expense includes an interest accrual of \$27,773 on a promissory note signed with SMG BioPower Limited Partnership - see Note 11 Promissory Note Payable for details.

7. OTHER RECEIVABLE

On March 12, 2015, the Company placed a \$180,000 deposit with Fortis B.C in relation to the Company's current and future natural gas usage under a General Interruptible Service Agreement dated for reference on March 23, 2015. The business purpose of the deposit is to provide security to Fortis B.C in the event that the Company is unable to make its bill payments. This amount shall be refundable upon the Company demonstrating credit and payment history however, cannot be retracted on the demand of the Company.

8. EQUIPMENT DEPOSIT

The Company placed equipment deposits for the purchase of wood pellet plant related production equipment, including the purchase of a Biovertidryer biomass drying system from Altentech Power Inc., an entity related to the Company's ultimate controlling party. The purchase agreement of the equipment is expected to complete by June 30, 2016, at which point the biomass drying system may be used by the Company to service biomass drying contracts while the development of the Pellet Project is underway. Equipment deposit will be transferred to property, plant and equipment once the biomass drying system is available to use (following completion of the purchase agreement) and will be amortized accordingly.

9. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment represents land asset recognized by the Company. On March 18, 2015, the Company entered into an Offer to Purchase, Agreement for Sale, and several ancillary agreements (collectively the "PSA") with an arm's-length seller (the "Seller") pursuant to which the Company agreed to purchase three adjoining waterfront industrial lands located in Mission B.C. (the "Property") for the development of the Pellet Project. The agreed upon purchase price of the two-acre property is \$2,481,719, payable directly to the seller's lender as follows:

- a. \$125,000 payable at the time of agreement signing ("Initial Payment");
- b. \$25,000 per month for 11 months, starting in April 2015;
- c. \$35,000 per month for 6 months, starting in March 2016; and
- d. remaining balance of the purchase price, plus any reasonable adjustments are due to the seller's lender by August 23, 2016 ("Final Payment Date").

Land purchase payments do not contain interest or financing charge. In determining the fair value of the land payment obligation at initial recognition, a 5% discount rate was estimated and used. Accordingly, an interest portion of the land purchase obligation was derived and will be expensed through the statement of comprehensive income/loss in the current and subsequent years. In 2015, the accretion expense was \$83,319 (2014 - \$nil). As at December 31, 2015 the Company paid \$350,000 (December 31, 2014 - \$nil) with respect to the property.

Mission Wood Pellet Inc.
Notes to the Financial Statements
For the year ended December 31, 2015

9. PROPERTY, PLANT AND EQUIPMENT - CONTINUED

Legal title of the Property transfers from the Seller to the Company upon the Company satisfying all payment obligations by the Final Payment Date. The Company is considered to have assumed the risk and reward of owning the Property at the signing of the PSA and accordingly, the corresponding asset and liability are presented.

The PSA and the land purchase price included a promissory note the Seller had given to the Company in consideration of the Company covering certain unpaid amounts and debts incurred by the Seller that would otherwise prevent the Company from receiving clear title on the land on completion. The amount of the promissory was \$184,704 and had a due date of August 23, 2016. The Company assessed the promissory note to be uncollectible and accordingly, recorded an impairment loss on the entire balance. The carrying value of the land after adjusting for this impairment loss and other capitalized legal fees relating to the purchase was \$2,349,930.

Total land payment obligation, after adjusting for capitalized accretion expense, current year payments, and other capitalized amounts, was \$2,141,931. As at December 31, 2015 and the subsequent period, the Company has met all of its payment obligations pursuant to the PSA.

10. ADVANCE FROM SMG BIOPOWER LIMITED PARTNERSHIP

By a Memorandum of Understanding (“MoU”) signed between the Company and SMG BioPower Limited Partnership (“BioPower LP”) dated for reference on March 17, 2015, BioPower LP, a related party, agreed to provide an aggregate of up to \$8 million in funding to the Company, on or before June 30, 2016. The funding provided to the Company may be in the form of debt, equity, or a combination thereof. The specific terms of each transaction will be set out in the definitive documentation governing each individual transaction. During the year ended December 31, 2015 the Company received a total of \$1,005,903 (2014 – \$nil) in funding from BioPower LP pursuant to the MoU. Specific terms of these advances are under negotiation between the parties and accordingly, these amounts received are currently recorded as a short-term liability in the Company’s financial statements. The advances received from BioPower LP are non-interest bearing, however pending the specific terms of the definitive documentation, interest may be charged retroactively to the date the funds were advanced.

11. PROMISSORY NOTE PAYABLE

The Promissory Note made between the Company and BioPower LP was dated for reference on March 19, 2015 (the “Note”) pursuant to the MoU (Note 10). The Note is unsecured, bears interest at a rate of 12% per annum payable semi-annually, and maturing on April 3, 2017. The Company may, at its sole discretion, prepay, in whole or in part the notes payable, including any accrued but unpaid interest, prior to maturity.

As at December 31, 2015 \$27,773 interest was accrued and payable on the note.

12. SHARE CAPITAL

a) Authorized Share Capital

The authorized share capital of the Company is as follows:

Common Shares:

- 10,000,000 Class A Voting Participating Common Shares without par value
- 10,000,000 Class B-1 Voting Participating Common Shares without par value
- 10,000,000 Class B-2 Voting Participating Common Shares without par value
- 10,000,000 Class C-1 Voting Participating Common Shares without par value
- 10,000,000 Class C-2 Voting Participating Common Shares without par value
- 10,000,000 Class D Voting Participating Common Shares without par value
- 10,000,000 Class E Non-Voting Participating Common Shares without par value

Mission Wood Pellet Inc.
Notes to the Financial Statements
For the year ended December 31, 2015

12. SHARE CAPITAL - CONTINUED

Preferred Shares:

10,000,000 Class F Non-Voting Redeemable Retractable Preference Shares with a par value of \$0.01 each
10,000,000 Class G Non-Voting Redeemable Retractable Preference Shares with a par value of \$1.00 each
10,000,000 Class H Non-Voting Redeemable Retractable Preference Shares with a par value of \$1.00 each
10,000,000 Class I Non-Voting Redeemable Preference Shares with a par value of \$1.00 each
10,000,000 Class J Non-Voting Redeemable Preference Shares with a par value of \$10.00 each
10,000,000 Class K Non-Voting Redeemable Retractable Preference Shares with a par value of \$1.00 each
10,000,000 Class L Non-Voting Redeemable Retractable Preference Shares with a par value of \$1.00 each

Each voting common share (irrespective of class) entitles the holder to one vote per share at meetings of the Company. An aggregate of up to 10,000,000 voting common shares from all classes may be issued. Subject to the prior payment of the respective redemption price on the preference shares, the prior payment of any declared and unpaid dividends, the holders of the common shares shall be entitled to the repayment of capital (in priority over the Class A shares), followed by the distribution of the Company's residual assets.

b) Issued and Outstanding

During the 176-day period ended December 31, 2014 and the year ended December 31, 2015, the Company issued voting common shares as follows: Class A (2014 - 5,100,000 / 2015 - Nil), B-1 (2014 - 133,335 / 2015 - Nil), B-2 (2014 - Nil / 2015 - 87,208), C-1 (2014 - 963,714 / 2015 - 300,217), and C-2 (2014 - 323,700 / 2015 - 46,810) for a total amount (net of issuance cost) of \$2,166,774 and \$638,764, respectively. No non-voting common share or preference shares were issued. As at December 31, 2014, \$693,415 was included within share subscriptions received in advance, net of share issuance costs of \$77,049. A total of 6,954,984 shares were issued during the year ended December 31, 2015 with \$60,720 returned to an investor.

13. LEASE

The Company signed a land lease (the "Lease") for a 3.5-acre industrial site located in Mission B.C., for the development of the Pellet Project. The lease has a 10-year term commencing on July 15, 2014 and terminating on June 30, 2024 with two 5-year renewal options. Total future value of minimum lease payments is due as follows:

Not later than one year	\$150,000
Later than one year and not later than five years	\$600,000
Later than five years	\$525,000

The Lease provides for a 6-month rent free period (the "Lease Inducement"). The aggregate benefit of the Lease Inducement is recognized as a liability and recorded as a reduction of the rental expense over the lease term on a straight-line basis. Remaining lease liability as at December 31, 2015 was \$63,750 (2014 - \$71,250) with \$7,500 expensed through the statement of comprehensive loss in current year.

Mission Wood Pellet Inc.
Notes to the Financial Statements
For the year ended December 31, 2015

14. INCOME TAXES

The difference between tax expense or recovery for the year and the expected income taxes based on the statutory tax rate arises as follows:

	For the year ended December 31, 2015	176-day period ended December 31, 2014
Loss before income taxes	\$ (995,168)	\$ (1,413,095)
Tax recovery based on statutory rate of 13.50% (PY: 13.50%)	(134,348)	(190,768)
Non-deductible expenses	9,607	32,685
Deductible expenses	(8,417)	(3,133)
Changes in unrecognized deferred tax asset	133,158	161,216
Deferred income tax expense / (recovery)	\$ -	\$ -

Deferred Tax Assets and Liabilities

No deferred tax asset has been recognized in respect of the following losses and temporary differences, as it is not considered probable that sufficient future taxable profit will allow the deferred tax to be recovered. The Company incurred non-capital losses for the fiscal periods ended that are available for carryforward and applied in a subsequent period in which there is taxable income.

The Company's non-capital losses incurred and their year of expiry are summarized by the below table:

Year of Expiry	Non-capital Losses \$
2034	(1,194,193)
2035	(986,352)
Total	(2,180,545)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company may be exposed through its operations to the following financial risks:

- Market Risk
- Credit Risk
- Liquidity Risk

In common with other businesses, the Company may be exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them unless otherwise stated in the note.

General Objectives, Policies and Processes:

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT – CONTINUED

a) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of two types of risk: foreign currency risk and interest rate risk.

Foreign Currency Risk

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and other foreign currencies will affect the Company's operations and financial results. The Company does not have significant exposure to foreign exchange rate fluctuation as all assets and liabilities are denominated in the Canadian dollars.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk as the advances from SMG BioPower Limited Partnership may have interest rates (possibly above-market rates) retroactively charged. Otherwise, interest rate risk relating to the Company's cash held with a chartered Canadian financial institution is low as the value of these cash accounts are generally unaffected by changes in market interest rates.

b) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or a counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which are potentially subject to credit risk for the Company consist primarily of cash, amounts receivable, due from related parties, and other receivables.

Cash is maintained with a financial institution of reputable credit and are highly liquid. The credit risk relating to cash is minimal as the financial institution the Company's chequing account is deposited with is a financially stable Schedule I Canadian Chartered Bank. The Company is exposed to credit risk with respect to some related party balances as their collectability is partially based on the ultimate success of the counterparty's businesses and their ability to generate positive cash flows. Other receivable represents a balance with the provincial utilities provider having strong credit rating, therefore the credit risk is low.

In 2015, the Company recorded an impairment loss of \$184,704 relating to a promissory note receivable signed as part of the land purchase agreement (see Note 9).

c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's liquidity risk management policy is to ensure that the Company has sufficient cash on demand to meet expected operational expenses for a period of 90 days during periods of business interruption. The Company will monitor its risk of shortage of funds by monitoring the maturity dates of existing trade and other accounts payable.

As at December 31, 2015, the Company reported net assets \$397,275 (2014 - \$753,679) and working capital (or working capital deficiency) of (\$2,706,090) (2014 - \$2,744). The Company relies on BioPower LP to fund its operations during the commissioning period, which poses liquidity risk to the Company in the event BioPower LP ceases to fund the Company or recalls outstanding debt.

Mission Wood Pellet Inc.
Notes to the Financial Statements
For the year ended December 31, 2015

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT – CONTINUED

Determination of Fair Value:

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The Statements of Financial Position carrying amounts for cash, due from related parties, accounts payable and accrued liabilities, and advance from SMG BioPower LP approximate fair values due to their short-term nature. Land payment obligations, promissory note payable, and lease liability are initially recognized at fair values (either based on cost or another appropriate methodology) and subsequently carried at amortized cost, which also approximates their fair value. Due to the use of subjective judgments and uncertainties in the determination of fair values, these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

Fair value hierarchy

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) 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 observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); 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 (unobservable inputs).

As at December 31, 2015 and 2014, the Company did not have any financial instruments that were measured at fair value subsequent to initial recognition.

16. CAPITAL MANAGEMENT

The Company monitors its capital structure through cash and working capital ratio. The Company's objectives when maintaining capital are to maintain sufficient capital base in order to meet its short-term obligations and at the same time preserve market participants' confidence required to sustain future development of the business.

The Company expects its current capital resources will be sufficient to carry operations through its current operating period. The Company is not subject to external capital restrictions nor were there any changes in the Company's capital management policies during the year.

Mission Wood Pellet Inc.
Notes to the Financial Statements
For the year ended December 31, 2015

17. SUBSEQUENT EVENTS

The following transactions occurred after the date of the financial statements but before the audit report is issued:

1. Subsequent to the balance sheet date, the Company received a series of advances from SMG BioPower Limited Partnership ranging from \$5,000 to \$200,000 for a total of \$678,000 (see Note 10). These amounts do not have specific terms as they are currently under negotiation between the parties.
2. Subsequent to the balance sheet date, the Company made a series of equipment deposit payments to Altentech Power Inc. totaling \$463,000; these payments relate to the purchase of a Biovertidryer biomass drying system and other ancillary equipment.

EXHIBIT F

FINANCIAL STATEMENTS

SMG CUSTOM DRYTECH CORP.

PERIOD FROM INCORPORATION TO DECEMBER 31, 2015

SMG Custom Drytech Corp.



Financial Statements

For the fiscal period from incorporation to December 31, 2015

SMG Custom Drytech Corp.
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BDO Canada LLP
600 Cathedral Place
925 West Georgia Street
Vancouver BC V6C 3L2 Canada

Independent Auditor's Report

To the Board of Directors of SMG Custom Drytech Corp.

We have audited the accompanying financial statements of SMG Custom Drytech Corp., which comprise the statement of financial position as at December 31, 2015, and the statement of comprehensive loss, cash flows, and changes in shareholders' deficit for the period ended December 31, 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of SMG Custom Drytech Corp., as at December 31, 2015 and its financial performance and cash flows for the period ended December 31, 2015, in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2c in the financial statements, which indicates that for the period ended December 31, 2015, the Company had a comprehensive loss of \$80,530 and, as of that date, had an accumulated deficit of \$80,530. These items, along with other matters as set forth in Note 2c, indicate the existence of material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern.

Chartered Professional Accountants
May 19, 2016
Vancouver, Canada

SMG Custom Drytech Corp.
Statement of Financial Position
Expressed in Canadian Dollars

	<u>December 31, 2015</u>
Assets	
Total assets	<u>\$ -</u>
Liabilities and shareholder's deficit	
Current liabilities	
Cash deficit	\$ 73
Accounts payable and accrued liabilities	23,082
Advance from SMG BioPower LP (Note 7)	54,535
Due to related party (Note 6)	<u>2,839</u>
Total current liabilities	<u>80,529</u>
Shareholders' deficit	
Share capital (Note 8)	1
Deficit	<u>(80,530)</u>
	<u>(80,529)</u>
Total liabilities and shareholders' deficit	<u>\$ -</u>

Signed on behalf of the Board of Directors by:



Jung Moon



Peter Wu

See accompanying notes to financial statements.

SMG Custom Drytech Corp.
Statement of Comprehensive Loss
Expressed in Canadian Dollars

	189-Day Period Ended December 31, 2015
Expenses	
Consulting and marketing (Note 6)	\$ 36,750
Travel expense	11,507
Office and general administration	4,808
Testing fees	2,287
Professional fees	25,178
Total expenses	<u>\$ 80,530</u>
Income taxes (Note 9)	-
Total comprehensive loss for the period	<u>\$ 80,530</u>

See accompanying notes to financial statements.

SMG Custom Drytech Corp.
Statement of Cash Flows

	189-Day Period Ended December 31, 2015
Cash flows from operating activities	
Loss for the period	\$ (80,530)
Change in working capital accounts:	
Accounts payable and accrued liabilities	23,082
Due to related party	2,839
Total cash used in operating activities	\$ (54,609)
Cash flows from investing activities	
Proceeds from issuance of shares	\$ 1
Advance from SMG BioPower LP	54,535
Total cash flow from financing activities	\$ 54,536
Change in cash during the period	\$ (73)
Cash, beginning of the period	\$ -
Cash, end of the period	\$ (73)

See accompanying notes to financial statements.

SMG Custom Drytech Corp.
Statement of Changes in Shareholder's Deficit
For the 189-Day Period Ended December 31, 2015

	Share capital		Retained earnings/(Deficit)		Total
Balance, June 26, 2015 (Incorporation)	\$	-	\$	-	\$ -
Issuance of shares	\$	1	\$		\$ 1
Loss for the period	\$	-	\$	(80,530)	\$ (80,530)
Balance, December 31, 2015	\$	-	\$	(80,530)	\$ (80,529)

See accompanying notes to financial statement

SMG Custom Drytech Corp.
Notes to the Financial Statements
For the 189-Day Period Ended December 31, 2015

1. CORPORATE INFORMATION

SMG Custom Drytec Corp. (“Dryco” or the “Company”) was incorporated under the laws of the Business Corporations Act on June 26, 2015. The Company is formed for the primary purposes of holding the interests in, and negotiating agreements on behalf of, custom biomass drying projects utilizing the Altentech™ Biovertidryer™ system (“Custom Drytech Project”).

The ultimate controlling party is SMG Asset Canada Inc. (“SMG Asset”) and its controlling party is Jung Moon, a resident of British Columbia, Canada.

The address of the Company’s corporate office is unit 301 – 958 West 8th Avenue, Vancouver, British Columbia, Canada.

2. BASIS OF PREPARATION AND ADOPTION OF IFRS

a) Statement of Compliance

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Committee (“IFRIC”), effective for the Company’s reporting for the period ended December 31, 2015.

These financial statements were authorized for issue by the Board of Directors on May 19, 2015.

b) Basis of Measurement

The financial statements have been prepared on a historical cost basis which approximates the fair values.

The financial statements are presented in Canadian dollars, which is also the Company’s functional currency.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

c) Going Concern of Operations

The Company is a newly formed entity and there are currently no revenues generated to fund general and administrative expenses and to settle its liabilities as they fall due. The ultimate success of the Company is dependent on the financial support of the Company’s ultimate parent company, SMG Asset, and externally arranged financing including SMG BioPower Limited Partnership (“SMG BioPower LP”). To date, no revenues or profits have been realized by the Company due to the recent formation of the Company and the absence of cash-generating operations.

The financial statements have been prepared on a going concern basis which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. For the 189-day period ended December 31, 2015, the Company had no source of operating income and incurred a loss of \$80,530 and consequently reported an accumulated deficit of the same amount. The Company intends to fund ongoing expenses by way of financial support from SMG Asset or receiving funding from SMG BioPower LP. These items indicate material uncertainties that may cast significant doubt upon the Company’s ability to continue to operate as a going concern.

SMG Custom Drytech Corp.
Notes to the Financial Statements
For the 189-Day Period Ended December 31, 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

a) Financial Instruments

Financial instruments are classified into the appropriate category based on the purpose for which the instrument was recognized. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

Financial Liabilities

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

The Company's liabilities designated as other financial liabilities include accounts payable and accrued liabilities, due to related party and advance from SMG BioPower LP.

b) Income Taxes

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current period and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the period end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

c) Share Capital

Equity instruments are contracts that give a residual interest in the net assets of the Company. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability. The Company's common shares are classified as equity instruments.

SMG Custom Drytech Corp.
Notes to the Financial Statements
For the 189-Day Period Ended December 31, 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

d) Standards, Amendments and Interpretations Not Yet Effective

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been early adopted by the Company.

The Company has adopted all standards effective as of the date of incorporation (June 26, 2015). The standards adopted by the Company did not have a material effect on the Company's financial statements.

- IFRS 7 Financial Instruments: Disclosures

Amended to require additional disclosures on transition from IAS 39 to IFRS 9. Effective on adoption of IFRS 9, which is effective for annual periods commencing on or after January 1, 2018. The Company is currently evaluating the impact this standard is expected to have on its financial statements.

- IAS 1 Presentation of Financial Statements (Amendment)

The amendments to IAS 1 are a part of a major initiative to improve disclosure requirements in IFRS financial statements. The amendments clarify the application of materiality to note disclosure and the presentation of line items in the primary statements provide options on the ordering of financial statements and additional guidance on the presentation of other comprehensive income related to equity accounted investments. The effective date for these amendments is January 1, 2016. The Company is in the process of evaluating the impact of these amendments.

- IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement

IFRS 9 amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. IFRS 9 introduces an expected loss model of impairment and retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The effective date for IFRS 9 is January 1, 2018. The Company is in the process of evaluating the impact of the new standard.

- IFRS 15 Revenue from Contracts with Customers

IFRS 15 is based on the core principle to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 focuses on the transfer of control. IFRS 15 replaces all of the revenue guidance that previously existed in IFRSs. The effective date for IFRS 15 is January 1, 2018. The Company is in the process of evaluating the impact of the new standard.

SMG Custom Drytech Corp.
Notes to the Financial Statements
For the 189-Day Period Ended December 31, 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- **IFRS 16 Leases**

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a “right of use” asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements. The effective date for IFRS 16 is January 1, 2019. The Company is in the process of evaluating the impact of the new standard.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

The only critical accounting estimate and judgement the Company had related to the going concern assumption as described in Note 2(C).

5. CASH

Cash includes funds held in a business chequing account with a Canadian Schedule I bank that are highly liquid. Cash is classified as loans and receivables.

6. RELATED PARTY BALANCES AND TRANSACTIONS

The following is a summary of the Company’s related party balances as at the period end and its transactions during the 189-day period ended December 31, 2015.

	<u>December 31, 2015</u>
Due to related party	\$ 2,839

These balances are non-interest bearing, have no specific terms of repayment, and are due on demand.

Management fees

On June 26, 2015, the Company entered into a management agreement (the “Management Agreement”) with SMG Asset. Under the Management Agreement, SMG Asset agreed to provide management services to the Company including broad-scope administrative and managerial responsibilities to support the development of the Custom Drytech Project. During the 189-day period ended December 31, 2015, the Company incurred management fees payable to SMG Asset of \$24,125 which is included within office and general administrative costs, and consulting and marketing.

SMG Custom Drytech Corp.
Notes to the Financial Statements
For the 189-Day Period Ended December 31, 2015

7. ADVANCE FROM SMG BIOPOWER LP

Advance from SMG BioPower LP includes funding received to advance the business of the Company, specifically exploring and developing custom biomass drying projects. Specific terms of these advances are under negotiation between the parties and accordingly, these amounts received are currently recorded as a short-term liability in the Company's financial statements. The advances received from SMG BioPower LP are non-interest bearing and due on demand. Pending the specific terms of the definitive documentation, interest may be charged retroactively to the date the funds were advanced.

8. SHARE CAPITAL

a) Authorized

The Company is authorized to issue an unlimited number of common shares. The holders of common shares are entitled to receive dividends which are declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares are ranked equally with regard to the Company's residual assets.

The authorized share capital of the Company is as follows:

- Unlimited number of Class A Voting Participating Common Shares without par value;
- Unlimited number of Class B Non-Voting Participating Common Shares without par value;
- Unlimited number of Class C Non-Voting Participating Common Shares without par value;
- Unlimited number of Class D Non-Voting Redeemable Preference Shares without par value;
- Unlimited number of Class E Non-Voting Redeemable Preference Shares without par value;
- Unlimited number of Class F Non-Voting Redeemable Preference Shares without par value;
- Unlimited number of Class G Non-Voting Redeemable Preference Shares without par value; and
- Unlimited number of Class H Non-Voting Redeemable Preference Shares without par value.

b) Issued and Outstanding

The following table summarizes the Company shares issued and outstanding during the period presented:

	Number of Shares	Share Price	Amount
<i>Shares issued at incorporation on June 26, 2015</i>			
Class A Common Shares	100	\$ 0.01	\$ 1.00

9. INCOME TAXES

Significant components of the Company's income tax expense are as follows:

	189-day period ended December 31, 2015
Loss for the period	\$ (80,530)
Recovery at statutory rate - 13.5%	(10,872)
Changes in unrecognized deferred tax asset	10,872
Deferred tax recovery	\$ -

SMG Custom Drytech Corp.
Notes to the Financial Statements
For the 189-Day Period Ended December 31, 2015

9. INCOME TAXES – CONTINUED

No deferred tax asset has been recognized in respect of the following losses and temporary differences, as it is not considered probable that sufficient future taxable profit will allow the deferred tax to be recovered.

The Company incurred non-capital losses for the 189-day period ended December 31, 2015 that are available for carryforward and applied in a subsequent period in which there is taxable income. The Company's non-capital losses incurred and their year of expiry are summarized by the below table:

	<u>Non-capital Losses</u>	<u>Year of Expiry</u>
189-day period ended December 31, 2015	\$ 80,530	2035

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company may be exposed through its operations to the following financial risks:

- Market Risk
- Credit Risk
- Liquidity Risk

In common with other businesses, the Company may be exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them during the period.

General Objectives, Policies and Processes:

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function.

a) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The risks that affect market prices which are relevant to the Company include foreign currency risk and interest rate risk.

In 2015, the Company did not have financial instruments that were subject to market risk as the Company did not engage in any foreign currency transactions nor did it hold any interest-bearing financial instruments.

b) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or a counterparty to a financial instrument fails to meet its contractual obligations. The Company holds no financial instruments potentially subject to credit risk.

SMG Custom Drytech Corp.
Notes to the Financial Statements
For the 189-Day Period Ended December 31, 2015

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT - CONTINUED

c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Management's liquidity risk management policy includes ensuring that the Company has sufficient credit instruments or funding arrangements in place to fund on-going expenditures, existing trade and other accounts payable.

Determination of Fair Value

Fair values have been determined for measurement and/or disclosure purposes. Due to the short-term nature of the balances, the carrying values of the Company's financial instruments approximate fair values.

11. CAPITAL MANAGEMENT

The Company monitors its advance from SMG BioPower LP and shareholder's equity as capital. The Company's objectives when maintaining capital are to maintain sufficient capital base in order to meet its short-term obligations and at the same time preserve investor's confidence required to sustain future development of the business.

The Company is not exposed to any externally imposed capital requirements, and in turn there have been no changes during the period in the Company's approach to capital management.

Item 13. Date and Certificate

CERTIFICATE

Dated: June 1, 2016

This Offering Memorandum does not contain a misrepresentation.

**SMG BIOPOWER LIMITED PARTNERSHIP BY ITS GENERAL PARTNER
BIOPOWER DRYTEC CORP.**



Hee Dong Hong, Director and President



Chun Te (Peter) Wu, Chief Financial Officer

**ON BEHALF OF THE BOARD OF DIRECTORS OF THE GENERAL PARTNER
BIOPOWER DRYTEC CORP.**



Hee Dong Hong, Director



Meng (Simon) Xu, Director

SCHEDULE “A”
Limited Partnership Agreement

SMG BIOPOWER LIMITED PARTNERSHIP

LIMITED PARTNERSHIP AGREEMENT

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Schedule A - Transfer Form

Schedule B - Unit Certificate

This Limited Partnership Agreement is dated for reference the 13th day of March, 2015,

BETWEEN:

BIOPOWER DRYTEC CORP., a body corporate incorporated
pursuant to the BCBCA

(hereinafter referred to as the “**General Partner**”)

OF THE FIRST PART

AND:

SMG POWER LIMITED PARTNERSHIP, a limited
partnership formed pursuant to the Partnership Act

(hereinafter referred to as the “**Initial Limited Partner**”)

OF THE SECOND PART

AND:

Each of those Persons who from time to time is accepted as and
becomes a limited partner of the Partnership formed pursuant to
this Agreement in accordance with the terms and conditions of this
Agreement

(together with the Initial Limited Partner, the “**Limited Partners**”
and individually a “**Limited Partner**”)

OF THE THIRD PART

WHEREAS:

A. The General Partner and the Initial Limited Partner have agreed to establish a
limited partnership pursuant to the terms of this Agreement;

B. The Partnership intends to invest in the clean energy sector pursuant to the
Investment Mandate (the “**SMG BioPower Business**”);

C. The General Partner has determined to offer Units of the Partnership by way of
private placement in certain provinces and territories of Canada for the primary purpose
investing in the SMG BioPower Business and funding certain of the ongoing costs of the
Partnership and maintaining such interests and will admit subscribers for Units as Limited
Partners; and

D. It is considered necessary and desirable to enter into this Agreement to set out the terms and conditions upon which the Partnership is to be established and operated.

In consideration of the covenants, representations and agreements contained herein, and other good and valuable consideration (the receipt and sufficiency of which is hereby acknowledged), the parties agree as follows:

ARTICLE 1 DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement, in addition to any terms defined parenthetically herein, the following terms shall have the following meanings unless the context otherwise requires:

“**Accountants**” means such firm of accountants as may be appointed by the General Partner from time to time as accountants for the Partnership;

“**affiliate**” or “**associate**” means a Person who is affiliated or associated with the Person who is the object of the description for the purposes of the BCBCA;

“**Agent Commissions**” means all commissions, fees and other compensation payable, if any, to a selling agent with respect to any offering or sale of Units;

“**Agreement**” means this agreement, including the Schedules to this agreement, as amended or supplemented from time to time, and “herein”, “hereby”, “hereof”, “hereunder”, “hereto” and similar expressions mean or refer to this Agreement and not to any particular provision of this Agreement;

“**Altentech®**” means Altentech Power Inc. a company incorporated pursuant to the BCBCA;

“**BCBCA**” means the *Business Corporations Act* (British Columbia);

“**Capital Contribution**” means, with respect to any Partner, means the amount of capital contributed by such Partner to the Partnership in accordance with Article 4 hereof;

“**Certificate**” means the certificate in respect of the Partnership filed pursuant to the Partnership Act, as amended from time to time in accordance with all notices to amend such certificate that are filed and recorded as aforesaid;

“**Class A Unit**” means one Class A unit of the Partnership representing an equal and undivided interest in the Partnership (subject to the interest of the General Partner therein) entitling the holder thereof to the rights, restrictions, privileges and obligations of a Limited Partner as provided in this Agreement;

“**Class B Unit**” means one Class B unit of the Partnership representing an equal and undivided interest in the Partnership (subject to the interest of the General Partner therein) entitling the

holder thereof to the rights, restrictions, privileges and obligations of a Limited Partner as provided in this Agreement;

“**Drying Projects**” means the two custom drying projects, using Altentech®’s biomass drying system;

“**Excise Tax Act**” means the *Excise Tax Act* (Canada);

“**Extraordinary Resolution**” means a resolution approved by not less than 66% of the votes cast by those Limited Partners who vote and are entitled to vote in person or by proxy at a duly convened meeting of Limited Partners, or at any adjournment thereof, called in accordance with this Agreement, or a written resolution signed in one or more counterparts by Limited Partners holding in the aggregate not less than 66% of the aggregate number of votes held by those Limited Partners who are entitled to vote with respect to such resolution at such meeting;

“**Fiscal Year**” has the meaning ascribed thereto in Section 6.7;

“**Full Closing**” means the earlier of the following:

- (a) the date on which an aggregate of 2,500,000 Class A Units have been issued;
- (b) the date on which the Limited Partnership has obtaining sufficient funding to achieve the short-term and long-term objectives as determined in the sole discretion of the General Partner; and
- (c) March 31, 2017.

“**General Partner**” means BioPower Drytec Corp. and each other party who becomes an additional or substituted General Partner pursuant to the terms and conditions of this Agreement;

“**Income Tax Act**” means the *Income Tax Act* (Canada), as amended and supplemented from time to time;

“**Initial Limited Partner**” means SMG Power Limited Partnership;

“**Interest**” means any debt, financial instruments or equity acquired by the Partnership;

“**Interest Adjustment Date**” means March 31, 2016 or such later date as may be determined by the General Partner;

“**Interest Payments**” has the meaning ascribed thereto in Section 5.11;

“**Investment Mandate**” means the investment by the Partnership in (a) Altentech® through a direct investment and through an investment in the Initial Limited Partner which is a significant shareholder of Altentech®; (b) MWPI or entities or businesses involved in the production of wood pellets; and (c) the Drying Projects.

“**Limited Partners**” means the Initial Limited Partner and each of those Persons who from time to time is accepted as and becomes a limited partner of the Partnership in accordance with the terms and conditions of this Agreement, including the General Partner if and when it holds Units;

“**Loan Agreement**” means the agreement entered into between the Limited Partnership and the Manager pursuant to which the Manager has agreed to loan the Limited Partnership an amount equal to the Interest Payments;

“**Management Agreement**” means the agreement to be entered into between the Limited Partnership and the Manager pursuant to which the Manager shall provide certain administrative services to the Limited Partnership;

“**Manager**” means SMG Asset Canada Inc. a company incorporated pursuant to the laws of British Columbia and held and controlled by Jung Moon;

“**Management Fee**” has the meaning set out in Section 7.3;

“**MWPI**” means Mission Wood Pellet Inc. a company incorporated pursuant to the BCBCA and indirectly held and controlled by Jung Moon;

“**Net Income**” or “**Net Loss**” means, with respect to any fiscal period, the net income or net loss, as the case may be, of the Partnership as determined by the General Partner in accordance with Canadian generally accepted accounting principles;

“**Offering Memorandum**” means the offering memorandum prepared by the Partnership and the General Partner used in the sale of Class A Units pursuant to the Private Placement;

“**Ordinary Resolution**” means a resolution approved by more than 50% of the votes cast by those Limited Partners who vote and are entitled to vote in person or by proxy at a duly convened meeting of Limited Partners, or at any adjournment thereof, called in accordance with this Agreement, or a written resolution signed in one or more counterparts by Limited Partners holding in the aggregate more than 50% of the aggregate number of votes held by those Limited Partners who are entitled to vote with respect to such resolution at such meeting;

“**Partners**” means the General Partner and the Limited Partners collectively, and “**Partner**” means any one of them;

“**Partnership**” means SMG BioPower Limited Partnership, a limited partnership formed pursuant to the terms of this Agreement under the Partnership Act;

“**Partnership Act**” means the *Partnership Act* (British Columbia);

“**Person**” includes an individual, corporation, partnership, party, trust, fund, association and other organized group of persons and the personal or other legal representative of a person to whom the context can apply according to law;

“Private Placement” means the private placement of up to 2,500,000 Units contemplated by the Partnership and described in Section 4.4;

“Qualified Person” means a Person in respect of which, if such Person were to become a Limited Partner, the representations of such Person contained in Section 13.2(a) would be true;

“Register” means the register of Partners maintained or caused to be maintained pursuant to Section 6.10;

“Registrar and Transfer Agent” means the registrar and transfer agent for the Units referred to in Section 6.10;

“Resident” means a Person (other than a partnership) that is resident in Canada for the purposes of the Income Tax Act, and a “Canadian partnership” as defined in the Income Tax Act;

“Sharing Ratio” with respect to any Limited Partner and any Units, means the proportion that the number of Units held by such Limited Partner constitutes of the aggregate number of Units held by all Limited Partners;

“SMG Group” means the General Partner, the Manager, the Initial Limited Partner, Jung Moon, Altentech®, MWPI, associates or affiliates of the foregoing and their respective directors, officers and shareholders;

“Subscription Agreement” means a subscription agreement for the acquisition of Units from the Partnership in such form as is approved from time to time by the General Partner;

“Units” means the Class A Units and the Class B Units ;

“Unit Certificate” means a certificate representing ownership of Unit(s), which certificate shall be substantially in the form attached hereto as Schedule B or such other form as is approved from time to time by the General Partner; and

“Unqualified Limited Partner” means a Limited Partner in respect of which any of the representations of such Limited Partner contained in Section 13.2(a)(iii), (iv) or (v) ceases to be true.

1.2 Schedules

The following Schedules form part of this Agreement:

- Schedule A - Transfer Form
- Schedule B - Unit Certificate

1.3 Headings

The division of this Agreement into Articles and Sections and the insertion of headings are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement.

1.4 Section References

Unless the contrary intention appears, references in this Agreement to an Article, Section or Schedule by number or letter or both refer to the Article, Section or Schedule, respectively, bearing that designation in this Agreement.

1.5 Number and Gender

In this Agreement, unless the context otherwise requires, words importing the singular include the plural and vice versa; and words importing gender include all genders.

1.6 Date for Actions

In the event that the date on which any action is required to be taken hereunder by any of the parties is not a business day in the place where the action is required to be taken, such action shall be required to be taken on the next succeeding day which is a business day in such place.

1.7 Statutes

References in this Agreement to any statute or sections thereof shall include such statute as amended or substituted and any regulations or other administrative authority promulgated thereunder from time to time in effect.

1.8 Currency

Unless otherwise stated, all references in this Agreement to sums of money are expressed in lawful money of Canada.

ARTICLE 2 THE PARTNERSHIP

2.1 Formation of Partnership

The General Partner and the Initial Limited Partner hereby form and enter into the Partnership, a limited partnership to be governed by the laws of British Columbia and the terms and conditions of this Agreement.

2.2 Name

The name of the Partnership shall be "SMG BioPower Limited Partnership", or such other name as the General Partner may determine from time to time, of which notice to amend the Certificate is filed and recorded pursuant to the Partnership Act.

2.3 Number of Partners

The Partnership will at all times have at least one General Partner and one or more Limited Partners.

2.4 Maintaining Status of Limited Partnership

The General Partner will be the general partner of the Partnership, will do all things and will cause to be executed and filed such certificates, declarations, instruments and documents as may be required under the laws of the Province of British Columbia or the laws of Canada or the laws of any other province or territory or state having jurisdiction, to reflect the constitution of the Partnership from time to time. The General Partner and each Limited Partner will execute and deliver as promptly as possible any certificates, declarations, instruments and documents that may be necessary or desirable to accomplish the purposes of this Agreement or to give effect to the formation, continuance, operation or dissolution of the Partnership under any and all applicable laws. The General Partner will take all necessary actions on the basis of information available to it in order to maintain the legal status of the Partnership as a limited partnership under the Partnership Act.

2.5 Principal Office

The principal office of the Partnership shall be #301 – 958 West 8th Avenue, Vancouver, British Columbia, V5Z 1E4. The General Partner may change the principal office of the Partnership to such other office or offices in the Province of British Columbia as the General Partner may from time to time determine provided that the General Partner gives notice of such change to the Limited Partners. The General Partner may establish such other place or places of business of the Partnership as it may determine from time to time.

ARTICLE 3 PURPOSE AND FUNCTION OF THE PARTNERSHIP

3.1 Purpose and Function of the Partnership

The Partnership is formed for the primary purposes of achieving returns for its Partners by investing, directly or indirectly, in each SMG Power Limited Partnership, Altentech[®], MWPI or entities or businesses involved in the production of wood pellets and in the Drying Projects.

3.2 Powers

The purposes of the Partnership set forth in Section 3.1 and the powers vested in the General Partner described in Section 6.5 shall be construed as both purposes and powers of the Partnership. The Partnership shall have, without limitation, the power to do, or cause to be done, any and all acts and things necessary, convenient or incidental to the accomplishment of the purposes of the Partnership, and the enumeration in Section 6.5 of any means by which the purposes of the Partnership may be accomplished shall not limit or be construed so as to limit the powers which may be exercised by the Partnership.

ARTICLE 4

ADMISSION OF LIMITED PARTNERS AND CAPITAL CONTRIBUTIONS

4.1 Division into Units

The interests of the Limited Partners in the Partnership shall be divided into, and the Partnership is authorized to issue, an unlimited number of Class A Units and Class B Units. Each Unit shall have attached thereto the same rights and obligations as, and shall rank equally with, each other Unit with respect to distributions, allocations and voting and, for greater certainty, the Class A Units and Class B Units shall, in all circumstances except if prohibited by law, vote together as one class.

4.2 Initial Limited Partner

The Initial Limited Partner shall contribute \$250,000 as the initial Capital Contribution to the Partnership in exchange for the issuance of 250,000 Class B Units. Notwithstanding the foregoing, upon the occurrence of Full Closing, the Initial Limited Partner shall surrender for cancellation to the Partnership such number of Class B Units in order that the total number of Class B Units held by the Initial Limited Partner will not exceed ten percent (10%) of the total outstanding Units.

4.3 Fractional Units

A Unit may be divided or split into fractions, and the Partnership will record any subscription for, assignment of, or otherwise recognize any interest in less than a whole Unit. Unless the context otherwise requires, any reference to a Unit or Units in this Agreement will be deemed to include a reference to a fraction of a Unit.

4.4 Additional Limited Partners

The General Partner may, subject to the other provisions of this Agreement, admit Limited Partners from time to time by the offering, sale and issuance of further Units pursuant to the Private Placement. The Private Placement will consist of the offering by the Partnership of a maximum of 2,500,000 Class A Units at a price of \$10.00 per Class A Unit. The General Partner may determine the other terms and conditions of such offering and sale of the Class A Units thereunder and may do all such things as may be necessary or advisable to give effect to such offering and sale (including, without limitation, the filing of the Offering Memorandum (or any amendment thereto), the payment of issue expenses and the entry into of agreements to pay Agent Commissions with respect to the offering or sale of Class A Units). Each Person subscribing for Class Units pursuant to the Private Placement must complete, execute and deliver to, or to the order of, the General Partner, a Subscription Agreement and any other documents deemed necessary by the General Partner to comply with applicable securities laws and the terms and conditions of issue. A subscriber for Class A Units shall become a Limited Partner upon the acceptance by the General Partner of the subscriber's Subscription Agreement and other documents and payment of such Limited Partner's Capital Contribution and, thereupon, the Limited Partners hereby consent to the admission of, and will admit, additional Limited Partners to the Partnership without further act of the Partners.

4.5 Amendment of Certificate

Upon compliance with the other terms and conditions of this Agreement, if required by the Partnership Act the General Partner shall amend the Certificate to include the name of each additional Person intended to become a Limited Partner as a Limited Partner, the amount and conditions of such Person's Capital Contribution to the Partnership and such other information as is required to be stated in the Certificate, and shall make such other filings and recordings as may be required by law.

4.6 Refusal of Subscriptions

The General Partner may, for any reason in its absolute discretion, refuse to accept any subscription for a Unit. In the event of any such refusal, the General Partner shall cause the return of the subscriber's Subscription Agreement, accompanying documents and any contribution of capital to the subscriber.

4.7 No Additional Capital Contributions - Limited Partners

No Limited Partner shall be required to make any contribution to the capital of the Partnership in excess of the subscription price that such Limited Partner has agreed to pay to the Partnership for its Units.

4.8 Capital Contribution - General Partner

The General Partner, in its capacity as general partner of the Partnership, shall contribute to the capital of the Partnership an amount equal to \$50.00. The General Partner may subscribe and purchase Units on the same terms and conditions as the Limited Partners.

ARTICLE 5 ACCOUNTS, ALLOCATIONS AND DISTRIBUTIONS

5.1 Capital Accounts

The General Partner shall establish and maintain on the books of the Partnership a capital account for the General Partner and each of the Limited Partners, which account shall be credited with each contribution to the capital of the Partnership made by the Partner in accordance with the terms of this Agreement and credited or debited, as the case may be, with amounts of capital allocated or distributed to the Partner from time to time.

5.2 Current Accounts

The General Partner shall establish and maintain on the books of the Partnership a current account for the General Partner and each of the Limited Partners, which account shall be credited with all amounts, other than capital, in respect of which Partners are entitled to be credited, and debited with all amounts, other than capital, in respect of which Partners are to be charged, all in accordance with Canadian generally accepted accounting principles.

5.3 Allocations of Income

Net Income or Net Loss of the Partnership for a Fiscal Year shall be allocated as follows:

- (a) General Partner - the General Partner shall be allocated, in its capacity as General Partner, 20% of the Net Income or Net Loss; and
- (b) Limited Partners - the balance of the Net Income or Net Loss shall be allocated to Limited Partners of record on the last day of the Fiscal Year (including, if applicable, the General Partner in its capacity as a Limited Partner) in accordance with their respective Sharing Ratios at that time.

5.4 Distributions

After payment and reservation of all amounts necessary for payment for all expenses of the Partnership (including any tax withholding obligations, the payment of the Management Fee and repayment of the Interest Payments) and reservation of such amounts as in the opinion of the General Partner are necessary having regard to the then current and anticipated resources of the Partnership and its commitments and anticipated commitments, distributions of cash, assets or property of the Partnership (whether resulting from revenue or income earned by the Partnership or from the proceeds of sale of any of the assets of the Partnership including any amounts distributed pursuant to Section 12.4) will be made, at the sole discretion of the General Partner, to the Partners as follows:

- (a) General Partner - subject to paragraph (c) below, the General Partner shall receive, in its capacity as General Partner, 20% of such distributions;
- (b) Limited Partners - subject to paragraph (c) below, the balance of such distributions shall be made to Limited Partners of record on the last day of the Fiscal Year (including, if applicable, the General Partner in its capacity as a Limited Partner) in accordance with their respective Sharing Ratios at that time; and
- (c) in no event, and notwithstanding any other provisions of this Agreement, shall the aggregate of amounts distributed to the General Partner or any particular Limited Partner be greater than the sum of the income (net of losses) allocated to such Partner or any prior owner of such Partner's Units and the amount of the Capital Contributions made to the Partnership by such Partner or any prior owner of such Partner's Units.

The manner and timing of such distributions will be in the sole discretion of the General Partner. Any amount withheld by the General Partner and paid over to a taxing authority shall be treated as actually distributed to the Partner in respect of whom such withholding and payment was made.

5.5 Return of Capital

No Partner shall be entitled to a return, or to demand a return, of any portion of such Partner's Capital Contribution or be entitled to any distribution or allocation except as provided in this Agreement.

5.6 No Interest Payable on Accounts

Except as provided herein, no Partner has the right to receive interest on any credit balance in accounts maintained on the books of the Partnership and no Partner is liable to pay interest to the Partnership on any deficit in any accounts maintained on the books of the Partnership.

5.7 Allocations for Income Tax Purposes

The net income, gains, losses, deductions or credits of the Partnership for purposes of the Income Tax Act, or similar legislation of a province or territory of Canada or in South Korea, which may vary from the Net Income or Net Loss for that Fiscal Year, shall be allocated in the same proportions as set forth in Section 5.3.

5.8 Authority to Withhold; Treatment of Withheld Tax

- (a) Notwithstanding any other provision of this Agreement, each Partner hereby authorizes the Partnership or its duly appointed agent to withhold and to pay over, or otherwise pay, any withholding or other taxes that the Partnership or such agent may be required to withhold or pay (pursuant to the Income Tax Act, or any provincial, territorial or foreign tax law) with respect to amounts allocable to such Partner or as a result of such Partner's participation in the Partnership, and in the event of any such payment or withholding:
 - (i) the Partnership shall provide notice to such Partner of any such payment required to be made as soon as practicable;
 - (ii) if and to the extent that the Partnership is required to withhold or pay any such withholding or other taxes, such Partner shall be deemed for all purposes of this Agreement to have received a distribution from the Partnership, effective as of the time such withholding or other tax is required to be paid, to the extent that such Partner (or any successor to such Partner's interest in the Partnership) would have received a distribution but for such withholding or other taxes; and
 - (iii) to the extent that the aggregate of actual distributions and distributions deemed to be made pursuant to this Section 5.8 to a Partner for any period exceeds the distributions that such Partner would have received for such period but for such withholding, the General Partner shall notify such Partner as to the amount of such excess and such Partner shall immediately remit payment to the Partnership of the amount of such excess by wire transfer.

- (b) The provisions of Section 5.8(a) shall apply to a distribution in-kind, mutatis mutandis, based on the fair value of such distribution.
- (c) Any withholdings referred to in this Section 5.8 shall be made at the maximum applicable rate under applicable law unless the General Partner shall have received an opinion of counsel or other evidence, reasonably satisfactory to the General Partner, to the effect that a lower rate is applicable, or that no withholding is applicable.

5.9 Limitation on Distributions

No distributions shall be made unless, after making the distribution, sufficient property of the Partnership remains to satisfy all liabilities of the Partnership. Notwithstanding anything contained herein, including without limitation Section 4.7, the General Partner may require the Limited Partners to, and shall itself, return (in proportion to the distribution made thereto) all or part of such distributions as have rendered the Partnership unable to satisfy all liabilities of the Partnership and may require any Limited Partner to, and shall itself, forthwith return to the Partnership any amount distributed to such Partner in excess of such Partner's entitlement.

5.10 Unclaimed Interest or Distribution

If the General Partner shall hold any part of any otherwise distributable amount which is unclaimed or which cannot be paid to a Limited Partner for any reason, the General Partner shall be under no obligation to invest or reinvest such amount but shall only be obliged to hold it in a current non-interest bearing account pending payment to the Person or Persons entitled thereto for a period commencing on the date upon which the amount became due and payable to such Limited Partner and ending six years following the date of the dissolution of the Partnership in accordance with the provisions hereof. The General Partner shall, as and when required by law and this Agreement, and may at any time prior to such required time, pay all or part of any such distributable amount so held to the Public Trustee of the Province of British Columbia or other appropriate government official or agency, whose receipt shall be a good discharge and release of the obligations of the General Partner hereunder with respect to such distributable amount.

5.11 Interest Payment

- (a) Upon the occurrence of the Interest Adjustment Date, the Limited Partnership shall make the following payments to holders of Class A Units:
 - (i) for Limited Partners who acquire Class A Units on or prior to June 30, 2015 or such later date as may be determined by the General Partner, an annual interest payment equal 8% of the purchase price paid by such Limited Partner;
 - (ii) for Limited Partners who acquire Class A Units on or prior to September, 2015 or such later date as may be determined by the General Partner, an

annual interest payment amount equal 6% of the purchase price paid by such Limited Partner;

- (iii) for Limited Partners who acquire Class A Units on or prior to December 31, 2015 or such later date as may be determined by the General Partner, an annual interest payment equal to 4% of the purchase price paid by such Limited Partner; and
- (iv) for Limited Partners who acquire Class A Units on or prior to March 31, 2016, an annual interest payment equal to 2% of the purchase price paid by such Limited Partners;

provided, for greater certainty, that the above payments shall be annualized and prorated for partial year holding prior to the Interest Adjustment Date (collectively, the “**Interest Payments**”). The Interest Payments will be made to the Limited Partners within 30 days of Interest Adjustment Date.

- (b) Each of the Limited Partners acknowledges that the Interest Payments are not distributions of profits generated by the Partnership and have been funded pursuant to the terms of the Loan Agreement. In accordance with the terms of the Loan Agreement, each Limited Partner acknowledges that the Partnership is required to repay the Interest Payments to the Manager out of the profits of the Partnership commencing on the date that the Limited Partners have received profit distributions equal to 10% of gross proceeds of the Private Placement.

ARTICLE 6

POWERS, RIGHTS AND DUTIES OF THE GENERAL PARTNER

6.1 Management of Partnership

The General Partner shall, subject to the provisions of this Agreement, manage and control the affairs of the Partnership, represent the Partnership and make all decisions regarding the affairs of the Partnership. No person dealing with the Partnership shall be required to inquire into the authority of the General Partner to take any action or to make any decision in the name of the Partnership.

6.2 Duties of the General Partner

The General Partner covenants that it will exercise its powers and discharge its duties under this Agreement honestly and in good faith, and that it will exercise the care, diligence and skill of a reasonably prudent person. The General Partner will be entitled to retain advisors, experts and consultants to assist it in the exercise of its powers and the performance of its duties hereunder.

6.3 Transactions Involving Affiliates or Associates

The validity of a transaction, agreement or payment involving the Partnership and an affiliate or associate of the General Partner is not affected by reason of the relationship

between the General Partner and the affiliate or associate or by reason of the approval or lack thereof of the transaction, agreement or payment by the directors of the General Partner, any or all of whom may be officers, directors, or employees of, or otherwise interested in or related to such affiliate or associate.

6.4 Safekeeping of Assets

The General Partner is responsible for the safekeeping and use of all of the funds of the Partnership, whether or not in its immediate possession or control, and will not employ or permit another to employ the funds or assets of the Partnership except for the exclusive benefit of the Partnership.

6.5 Powers of General Partner

- (a) In addition to the powers and authorities possessed by the General Partner pursuant to the Partnership Act or conferred by law or elsewhere in this Agreement, the General Partner shall, subject to the provisions of Section 6.5(b), have the power and authority to manage and control the affairs of the Partnership and to do, or cause to be done, on behalf of and in the name of the Partnership any and all acts necessary, convenient or incidental to the activities of the Partnership without further approval of the Limited Partners, including without limitation the power and authority:
 - (i) to acquire and hold Interests on behalf of the Partnership;
 - (ii) to pay the Partnership's share of all expenses related to the Interest;
 - (iii) to apply for and obtain any and all financing required or as the General Partner determines advisable to carry out the purposes of the Partnership, and to grant such debentures, promissory notes, mortgages, deeds of trust, security interests and other encumbrances and charges on the Interests and any other assets of the Partnership as the General Partner may determine necessary or advisable in connection with such financing;
 - (iv) to procure all insurance for the Partnership;
 - (v) to pay all debts and financial obligations of the Partnership;
 - (vi) to negotiate, enter into, execute and carry out agreements by or on behalf of the Partnership involving matters or transactions that are necessary or appropriate for or incidental to, carrying on the Partnership's affairs;
 - (vii) to manage and control all of the activities of the Partnership and to take all measures necessary or appropriate for the Partnership's property or ancillary thereto and to ensure that the Partnership complies with all necessary reporting and administrative requirements;

- (viii) to manage, administer, conserve and dispose of any Interest (or any portion thereof or interest therein) and any and all other assets of the Partnership, and in general to engage in any and all phases of the Partnership's affairs and to delegate, if the General Partner so chooses in its sole discretion, the management and administration of the Interest;
- (ix) to conclude agreements with third parties, including associates of, affiliates of, and any other parties related to, the General Partner:
 - (A) for the provision of services to the Partnership, and
 - (B) to delegate to any such Person any power or authority of the General Partner hereunder where, in the discretion of the General Partner, it would be advisable to do so (provided that such agreement or delegation will not relieve the General Partner of any of its obligations hereunder);
- (x) to decide in its sole and entire discretion of any additional time when property of the Partnership shall be distributed to the Partners and the amount of any such distribution;
- (xi) notwithstanding Section 6.13(b), where the General Partner determines that it is not appropriate or advisable for the assets of the Partnership to be held or registered in the name of the Partnership, to hold the assets of the Partnership in the name of the General Partner or in the name of an affiliate of the General Partner, or another nominee as nominee for the Partnership;
- (xii) to employ such Persons necessary or appropriate (including associates of, affiliates of, and any other parties related to, the General Partner) to carry out the affairs of the Partnership and/or to assist it in the exercise of its powers and the performance of its duties hereunder and to pay such fees, expenses, salaries, wages and other compensation to such Persons as it shall in its sole discretion determine;
- (xiii) to acquire Units from Limited Partners;
- (xiv) to make any and all expenditures and payments which it, in its sole discretion, deems necessary or appropriate in connection with the management of the affairs of the Partnership and the carrying out of its obligations and responsibilities under this Agreement, including, without limitation: (i) all legal, accounting and other related expenses incurred in connection with the organization and financing of the Partnership and the ongoing operation and administration of the Partnership; and (ii) any fees payable to the General Partner, and to borrow on behalf of the Partnership such funds necessary or advisable to fund such expenditures and payments;

- (xv) to open and operate one or more bank accounts in order to deposit and to distribute funds of the Partnership and to appoint from time to time signing officers and to draw cheques and other payment of monies, provided Partnership funds are not commingled with the General Partner's funds;
- (xvi) to file tax returns or information returns of the Partnership required by the Income Tax Act, or any other taxation or similar laws or required by any governmental or like authority;
- (xvii) to maintain proper books and records reflecting the activities of the Partnership;
- (xviii) subject to the provisions of this Agreement, to admit any Person as a Limited Partner;
- (xix) to make any election, determination, application or designation or similar document or instrument on behalf of the Partnership that may be required or desirable under the Income Tax Act, the Excise Tax Act, any other similar legislation of a province or territory of Canada or foreign state, or any and all applications for governmental grants or other incentives;
- (xx) to execute any and all deeds, documents and instruments and to do all acts as may be necessary or desirable in the opinion of the General Partner to carry out the intent and the purpose of this Agreement;
- (xxi) to cause the Partnership to make any necessary withholdings of taxes in respect of allocations of Net Income or distributions of cash or property to the Partners;
- (xxii) to attend to all required registrations, accounting, filing and reporting obligations, collections, remittances and other activities of the Partnership in respect of the Excise Tax Act, and any other applicable federal, provincial or territorial or foreign commodity taxes, sales taxes and similar taxes; and
- (xxiii) to commence and defend any and all legal proceedings for and on behalf of the Partnership as the General Partner may deem necessary or advisable,

and the General Partner may contract with any person, including an affiliate or associate of the General Partner, to carry out any of the duties of the General Partner and may delegate to such person any power and authority of the General Partner hereunder, but no such contract or delegation shall relieve the General Partner of any of its duties or obligations hereunder.

- (b) Subject to the provisions of the Partnership Act, unless authorized by an Extraordinary Resolution, the General Partner, on behalf of the Partnership, will

not be entitled to extend the Partnership's investment activities beyond the Investment Mandate.

6.6 Records of the Partnership

The General Partner shall maintain complete and adequate books (including without limitation those referred to in Sections 5.1 and 5.2) and records of the affairs of the Partnership. Subject to applicable laws, such books and records shall (until the expiry of one year following the termination of the Partnership) be kept available for inspection and audit by any Limited Partner or his duly authorized representatives (at the expense of such Limited Partner) on not less than 72 hours (excluding Saturdays, Sundays, and statutory holidays) notice to the General Partner, during normal business hours at the principal office of the Partnership. Notwithstanding the foregoing, but subject to applicable law, Limited Partners shall not have access to or be provided with information with respect to the affairs of the Partnership if such disclosure is prohibited by law or agreement or if, in the reasonable opinion of the General Partner, it is in the interests of the Partnership that such information be kept confidential.

6.7 Fiscal Year

The first fiscal period of the Partnership shall end on December 31, 2015 and, thereafter, unless otherwise determined by the General Partner, the Fiscal Year of the Partnership shall be the period from and including January 1 to and including December 31 of the particular calendar year. Each such period shall be referred to as a "Fiscal Year".

6.8 Accountants

The General Partner shall appoint an independent and qualified firm of Chartered Professional Accountants to act as the Accountants of the Partnership and to review and report to the Partners with respect to the financial statements of the Partnership as at the end of, and for, each Fiscal Year commencing for the first Fiscal Year ending after the first closing of the Private Placement provided that the General Partner may, at any time and from time to time, change the Accountants of the Partnership.

6.9 Reporting

The General Partner shall forward, or cause to be forwarded, to each Limited Partner:

- (a) within 180 days of the end of each Fiscal Year (or such shorter period as is prescribed by applicable securities legislation) commencing for the first Fiscal Year ending after the first closing of the Private Placement, notice to reader financial statements of the Partnership;
- (b) within 90 days of the end of each Fiscal Year commencing for the first Fiscal Year ending after the first closing of the Private Placement, all income tax reporting information necessary to enable the Limited Partner to file a Canadian return with respect to the Limited Partner's participation in the Partnership in such Fiscal Year; and

- (c) within the time periods prescribed, any other information or documents required to be provided to the Limited Partners under applicable securities or other legislation.

6.10 Registrar and Transfer Agent

The General Partner shall either act as registrar and transfer agent for the Units or appoint a duly qualified and properly licensed trust or other company for such purpose at the cost of the Partnership and in such capacity the Registrar and Transfer Agent shall maintain and keep a register (the “**Register**”) comprised of:

- (a) a list of the name and last known residence address of each Partner, including a designation of whether the Partner is a General Partner or a Limited Partner, and the number of Units held by such Partner;
- (b) particulars of the registration of Units;
- (c) particulars of the assignment of Units;
- (d) a copy of the Certificate and any amendments thereto;
- (e) a copy of this Agreement and any amendments hereto; and
- (f) such other records as are required by applicable law.

Upon request, a Limited Partner or his duly authorized representative shall be entitled to inspect, and at its expense receive a copy of, the Register.

6.11 Conflict of Interest

The Limited Partners acknowledge that the members of the SMG Group may and are permitted to be engaged in and continue in other businesses in which the Partnership will not have an interest and which may be competitive with the activities of the Partnership. Without limitation, members of the SMG Group may, and are permitted to, act as a partner, shareholder, director, officer, employee, consultant, joint venturer, advisor or in any other capacity or role whatsoever of, with or to, other entities, including limited partnerships, which may be engaged in all or some of the aspects of the affairs of the Partnership and may be in competition with the Partnership.

Members of the SMG Group hold an interest in Altentech®, MWPI, the Initial Limited Partner and the Drying Projects and may continue to hold an interest after the Partnership acquires the Interest. Members of the SMG Group will be sales agents for the Partnership for the sales of Units and they (and their respective employees) will receive fees and commissions with respect thereto. The General Partner may propose from time to time that the Partnership enter into contractual arrangements with members of the SMG Group for the provision of certain services and/or for other purposes including, without limiting the generality of the foregoing, borrowing funds from members of the SMG Group.

6.12 Consent to Conflict

The Limited Partners agree that the activities and facts as set forth in Section 6.11 shall not constitute a conflict of interest or breach of fiduciary duty to the Partnership or the Limited Partners, the Limited Partners hereby consent to such activities and the Limited Partners waive, relinquish and renounce any right to participate in, and any other claim whatsoever with respect to, any such activities. The Limited Partners further agree that neither the General Partner nor any other party referred to in Section 6.11 will be required to account to the Partnership or any Limited Partner for any benefit or profit derived from any such activities or from such similar or competing activity or any transactions relating thereto by reason of any conflict of interest or the fiduciary relationship created by virtue of the position of the General Partner hereunder.

6.13 Conduct of Partnership Affairs

The General Partner agrees to conduct the affairs of the Partnership in the following manner:

- (a) funds of the Partnership will not be commingled with any other funds of the General Partner or any other Person unless a banking facility agreement is in place and that property accounting records are maintained on an on-going basis;
- (b) subject to Section 6.5(a)(xi), title to the assets of the Partnership shall be held in the name of the Partnership or in the name of the General Partner for the sole benefit of the Partnership, or in the name of any other Person or entity as may be required by law for the sole benefit of the Partnership;
- (c) other than activities permitted to achieve the Investment Mandate, the Partnership shall not make loans to, nor guarantee the obligations of, the General Partner or any associate or affiliate of the General Partner or any of their respective directors or officers;
- (d) the General Partner will obtain and maintain or cause to be obtained and maintained insurance in such amounts and with such coverage as in the judgment of the General Partner may be advisable with respect to the activities of the Partnership; and
- (e) where services are supplied to the Partnership by the General Partner or any associate or affiliate of the General Partner or any of their respective directors or officers, the cost of such services to the Partnership shall not exceed the fair market value thereof.

ARTICLE 7 REIMBURSEMENT AND REMUNERATION OF GENERAL PARTNER AND THE MANAGER

7.1 Expenses

The General Partner may from time to time incur reasonable costs and expenses on behalf and for the account of the Partnership, and any such costs and expenses incurred by the General Partner on behalf or for the account of the Partnership shall be reimbursed by the Partnership to the extent required or, in the event that funds on hand are insufficient for such reimbursement, may be incurred by the General Partner and shall be considered an advance to the Partnership from the General Partner. The General Partner shall not be obligated to advance any amount to the Partnership.

7.2 Borrowing Costs

The General Partner is entitled to reimbursement by the Partnership of any advance by the General Partner to the Partnership together with interest thereon at the rate of interest and expense relative thereto at which such amounts could be borrowed by the General Partner from its bankers.

7.3 Management Fee

The Partnership shall pay to the Manager a management fee in monthly instalments over a five year period equal to five percent (5%) of the gross proceeds of the Private Placement (the “**Management Fee**”).

ARTICLE 8 LIABILITY OF PARTNERS

8.1 Liability of General Partner

The General Partner has unlimited liability for the debts, liabilities, losses and obligations of the Partnership to the full extent of the General Partner’s assets.

8.2 Liability of Limited Partners

Subject to the provisions of the Partnership Act and any specific assumption of liability, the liability of each Limited Partner for the debts, liabilities, losses and obligations of the Partnership is limited to the aggregate of the amount of the Limited Partner’s Capital Contribution, any additional amount the Limited Partner has agreed to contribute to the capital of the Partnership, such Limited Partner’s share of the undistributed assets of the Partnership, and the amount required to be returned by the Limited Partner to the Partnership pursuant to Section 5.9. A Limited Partner shall have no further liability for such debts, liabilities, losses or obligations and shall not be liable for any further calls, assessments or contributions to the Partnership.

8.3 Limitation on Authority of Limited Partners

A Limited Partner may from time to time inquire as to the state and progress of the activities of the Partnership and may provide comment as to its management; however, no Limited Partner will, in its capacity as Limited Partner:

- (a) take part in the control of the business of the Partnership;

- (b) transact any affairs on behalf of the Partnership or execute any document which binds or purports to bind the Partnership, the General Partner or any other Limited Partner as such;
- (c) hold such Limited Partner out as having the power or authority to bind the Partnership, the General Partner or any Limited Partner as such;
- (d) have any authority to undertake any obligation or responsibility on behalf of the Partnership (except that the General Partner may act on behalf of the Partnership notwithstanding that it may also be a Limited Partner); or
- (e) have any right to bring any action for partition or sale in connection with the Interest or any other assets of the Partnership, or register or permit any lien or charge in respect of the Units of such Limited Partner to be filed or registered or remain undischarged against the Interest or any other assets of the Partnership in respect of such Limited Partner's interest in the Partnership.

The Limited Partners will comply with the provisions of all applicable legislation, including the Partnership Act, in force or in effect from time to time and will not take any action which will jeopardize or eliminate the status of the Partnership as a limited partnership.

8.4 Liability of Limited Partners Upon Dissolution

It is acknowledged and agreed by the Limited Partners that upon dissolution of the Partnership, the Limited Partners may receive undivided interests in the Partnership assets and will there after no longer have limited liability with respect to the ownership of such assets.

8.5 Maintenance of Limited Liability

The Partnership and the General Partner shall, to the greatest extent practical, endeavour to maintain the limited liability of the Limited Partners under applicable laws of the jurisdictions in which the Partnership carries on or is deemed to carry on its affairs.

8.6 General Partner Liability to Limited Partners

- (a) The General Partner shall not be liable to any Limited Partner in tort, contract or otherwise, in connection with any matter pertaining to the Partnership or the SMG BioPower Business, the exercise by the General Partner of, or any failure by the General Partner to exercise, any power, authority or discretion conferred under this Agreement, the Management Agreement, or any agreement referred to in such agreements, including, without limitation:
 - (i) any mistake or error in judgment;
 - (ii) any act or omission believed in good faith to be within the scope of authority of the General Partner conferred by this Agreement;

- (iii) any act or omission believed in good faith to be within the scope of authority of the General Partner or the Manager conferred by the Management Agreement;
- (iv) any action taken or suffered or omitted to be taken in good faith in reliance on any do cum et that is prima facie properly executed, or taken or not taken pursuant to any Ordinary Resolution or Extraordinary Resolution;
- (v) any action taken or suffered or omitted to be taken that resulted in the depreciation of or loss in the value of the Interest or any other investment in the SMG BioPower Business;
- (vi) any inaccuracy in any evaluation or assessment provided by the General Partner or the Manager or any appropriately qualified Person, and any reliance on any such evaluation or assessment;
- (vii) any reliance in good faith on any communication from any appropriately qualified Person as to any matter, fact or opinion; and
- (viii) any action or failure to act of any Person to whom the General Partner has, as permitted hereby, delegated any of its duties hereunder;

provided that the foregoing provisions of this Section 8.6(a) shall not relieve the General Partner from liability for its own gross negligence, wilful misconduct or fraudulent act.

- (b) Notwithstanding Section 6.5(a), if the General Partner or any associate or affiliate of the General Partner has retained a valuator, auditor, engineer or other expert or advisor or legal counsel with respect to any matter connected with the exercise of its powers, authorities or discretions or the carrying out of its duties under this Agreement, the General Partner may act or refuse to act based on the reliance by the General Partner, in good faith, on advice of such expert, advisor or legal counsel and the General Partner shall not be liable for, and shall be fully protected from, any loss or liability occasioned by any action or refusal to act based on the reliance by the General Partner, in good faith, on advice of any such expert, advisor or legal counsel.

8.7 General Partner Indemnity

The General Partner shall indemnify and hold harmless the Partnership from and against all costs incurred and damages suffered by the Partnership as a result of gross negligence, wilful misconduct or fraudulent act by the General Partner or as a result of any act or omission by the General Partner not believed in good faith by the General Partner to be within the scope of authority of the General Partner conferred by this Agreement.

ARTICLE 9 UNIT CERTIFICATES

9.1 Unit Certificate

Subject to Section 9.3, the General Partner shall issue to each Limited Partner a Unit Certificate in the form set out in Schedule B attached hereto, or in such form as may be approved from time to time by the General Partner, specifying the number of Units held by such Limited Partner. Each Unit Certificate shall be signed by at least one officer or director of the General Partner and countersigned by or on behalf of the Registrar and Transfer Agent. Any such signatures may be printed or otherwise mechanically reproduced and, in such event, a Unit Certificate is as valid as if signed manually notwithstanding that any person whose signature is so printed or mechanically reproduced shall have ceased to hold the office that such officer or director is stated on the Unit Certificate to hold. A Unit Certificate may be delivered to a Limited Partner entitled thereto by being mailed by prepaid post addressed to the address of such Limited Partner shown in the Register (or in the case of a Unit Certificate issued in the name of two or more Persons, to the Person whose name first appears on the Unit Certificate), and none of the Partnership, the General Partner or the Registrar and Transfer Agent shall be liable for any loss occasioned to any Limited Partner by reason that the Unit Certificate so posted is lost or stolen from the mail or is not delivered.

9.2 Lost Unit Certificate

Where a Partner claims that a Unit Certificate representing a Unit recorded in the name of such Partner has been defaced or apparently lost, destroyed or wrongly taken, the Registrar and Transfer Agent shall cause a new Unit Certificate to be issued in substitution for such Unit Certificate provided that such Limited Partner, if requested by the General Partner:

- (a) files with the General Partner or Registrar and Transfer Agent a form of proof of loss and an indemnity bond in a form and in an amount satisfactory to the General Partner to indemnify and hold harmless each of the Partnership, the General Partner and the Registrar and Transfer Agent from any costs, damages, liabilities or expense s suffered or incurred as a result of or arising out of issuing such new Unit Certificate; and
- (b) satisfies such other requirements as are reasonably imposed by the General Partner or Registrar and Transfer Agent, including, but not limited to, delivery of a form of proof of loss,

or satisfies such other requirements as are reasonably imposed, in the alternative, by the General Partner or the Registrar and Transfer Agent.

9.3 Registered Holders of Units

Where a Unit is subscribed for by, or assigned to, two or more Persons, or a Unit Certificate is issued in the name of two or more Persons:

- (a) the name of each Person shall be shown on the Unit Certificate in respect of the Unit;
- (b) the Unit shall be presumed by the Partnership to be held jointly;
- (c) the Unit Certificate shall be delivered to the Person whose name appears first on the Register in respect of the Unit;
- (d) amounts distributed by the Partnership in respect of the Unit may be sent to the Person whose name appears first on the Register in respect of the Unit or to such one of them as the joint holders direct in writing, and any one of such Persons may give effectual receipts for any monies or assets distributed in respect of the Unit and the other of such Persons shall have no further recourse against the Partnership; and
- (e) any one of such Persons may vote in respect of the Unit as if that Person were solely entitled thereto, but if more than one of such Persons is present or is represented at a meeting, the Person whose name appears first on the Register in respect of the Unit shall alone be entitled to vote in respect thereof.

ARTICLE 10

ASSIGNMENTS AND TRANSFERS OF UNITS

10.1 Transfer of Interest of General Partner

Except as otherwise provided herein, the General Partner may not sell, assign, transfer or otherwise dispose of its interest in the Partnership as general partner, without the prior approval of the Limited Partners given by Extraordinary Resolution except if such sale, assignment, transfer or disposition is to an affiliate of the General Partner or is pursuant to or in connection with an amalgamation or merger of the General Partner and the surviving or continuing body corporate is the General Partner. Any such sale, assignment, transfer or other disposition requiring approval as provided herein that is made without such approval will not relieve the General Partner of the obligations of the General Partner set forth in this Agreement.

10.2 Transfer or Assignment of Unit

Except as otherwise provided in this Agreement, a Unit may be transferred or assigned by a Limited Partner or such Limited Partner's agent duly authorized in writing without restriction and no such transfer or assignment will require approval or consent from the General Partner or any other Limited Partner. However, the transferor and transferee of a Unit must comply with the applicable securities legislation in connection therewith and the transferor, or his duly authorized agent, shall:

- (a) surrender, or cause to be surrendered, to the Registrar and Transfer Agent the Unit Certificate representing the Units being transferred or assigned;
- (b) deliver, or cause to be delivered, to the General Partner and the Registrar and Transfer Agent, a duly completed transfer substantially in the form attached

hereto as part of Schedule A, completed and executed by such Limited Partner or his duly authorized agent, as well as such other documents required in such transfer form or required by the General Partner or the Registrar and Transfer Agent pursuant to the provisions of such transfer form;

- (c) cause the transferee or assignee to deliver to the Registrar and Transfer Agent a duly completed declaration substantially in the form attached hereto as part of Schedule A and to agree to be bound by the terms of this Agreement and to assume the obligations of a Limited Partner under this Agreement, in form and substance satisfactory to the General Partner; and
- (d) cause the transferee or assignee to pay the reasonable fees and expenses of the Registrar and Transfer Agent in connection with the transfer or assignment unless the General Partner agrees to pay such fees and expenses,

and satisfy such other requirements as are reasonably imposed, in the alternative, and given by the General Partner. If the transferee or assignee is entitled to become a Limited Partner pursuant to the provisions hereof, the General Partner is hereby authorized by the Limited Partners to admit the transferee or assignee to the Partnership as a Limited Partner and the Partners hereby consent to the admission of, and will admit, the transferee or assignee to the Partnership as a Limited Partner without further act of the Partners.

A transferee of Units will automatically become bound by and subject to this Agreement, without execution of further instruments, and, without limiting the generality of the foregoing, such transferee shall be deemed to make all of the representations and warranties, covenants, agreements and acknowledgments of a Limited Partner pursuant to this Agreement and to grant the power of attorney as set out in Article 18.

If the transferor or assignor of a Unit is a firm or a corporation, or purports to assign such Unit in any representative capacity, or if a transfer or assignment results from the death, mental incapacity or bankruptcy of a Limited Partner or is otherwise involuntary, the assignor or his legal representative shall furnish to the General Partner and the Registrar and Transfer Agent such documents, certificates, assurances, court orders and other materials as the General Partner and the Registrar and Transfer Agent may reasonably require to cause such transfer or assignment to be effected.

The Registrar and Transfer Agent will:

- (a) record in the Register any assignment or transfer made in accordance with this Agreement;
- (b) make such filings and cause to be made such recordings as are required by law in connection with such assignment or transfer; and
- (c) forward notice of such assignment or transfer to the transferee.

10.3 Rejection of Transfer

Notwithstanding any other provisions contained herein, the General Partner has the right, in its sole and absolute discretion, to reject any transfer, in whole or in part, for any reason, including without limitation:

- (a) the fact, or the General Partner's belief, that any of the representations and warranties to be provided by the transferee in the transfer form are untrue;
- (b) in the opinion of counsel to the Partnership, such transfer would result in the violation of any applicable securities laws or any of the provisions of this Agreement; or
- (c) the transfer would cause or be likely to cause the Partnership to be classified as a "SIFT partnership" under the Income Tax Act.

The General Partner has the right to deny any transfer where there has been default in payment of any amount to the Partnership by the transferor or transferee, including the subscription price of any Unit held by the transferor or transferee, until all amounts required to be paid (including interest, if any) have been paid in full.

10.4 Ongoing Obligation of Limited Partner

No transfer or assignment of a Unit made pursuant to the foregoing provisions of this Article shall relieve the Limited Partner of any obligation which has accrued or was incurred prior to the effective date of such transfer or assignment.

10.5 Transferees or Assignees Who Are Not Substituted Limited Partners

A transferee or assignee of a Unit or a Person who has become entitled to a Unit by operation of law who has not complied with Section 10.2 has no rights as a Limited Partner except as provided in the Partnership Act.

10.6 Pledge of a Unit

Subject to the other applicable terms of this Agreement, a Limited Partner may, but only after the purchase price for that Unit has been paid in full, mortgage, pledge, charge or grant a security interest in a Unit as security for a loan to or an obligation of such Limited Partner. Notwithstanding anything in this Agreement, neither the General Partner nor the Registrar and Transfer Agent is obliged to recognize or acknowledge any such mortgage, pledge, charge or security interest, and unless and until a Unit is transferred in accordance with this Agreement, only the registered holder of the Unit shall be recognized by the General Partner and the Registrar and Transfer Agent, and all distributions shall be made to such registered holder.

10.7 Parties Not Bound to See to Trust or Equity

Neither the Registrar and Transfer Agent nor the General Partner shall be bound to see to the execution of any trust (whether express, implied or constructive), charge, pledge, or

equity to which any Unit or any interest therein is subject, nor to ascertain or inquire whether any sale or assignment of any Unit or any interest therein by any Limited Partner is authorized by such trust, charge, pledge or equity, nor to recognize any Person as having any interest in any Unit, except for the Person recorded on the Register as the holder of such Unit. The receipt by any Person in whose name a Unit is recorded on the Register shall be a sufficient discharge for all monies, securities and other property payable, issuable or deliverable in respect of such Unit and from all liability therefor. The Partnership, the General Partner and the Registrar and Transfer Agent shall be entitled to treat the Person in whose name any Unit Certificate is registered as the absolute owner thereof.

10.8 Compulsory Acquisition of Units

- (a) In this Section 10.8:
 - (i) **“Dissenting Limited Partner”** means a Limited Partner who does not accept an Offer referred to in Section 10.8(b) and includes any transferee or assignee of the Unit of a Limited Partner to whom such an Offer is made, whether or not such transferee or assignee is recognized under this Agreement;
 - (ii) **“Offer”** means an offer to acquire outstanding Units where, as of the date of the offer to acquire, the Units that are subject to the offer to acquire, together with the Offeror’s Units, constitute in the aggregate 20% or more of all outstanding Units;
 - (iii) **“offer to acquire”** includes an acceptance of an offer to sell;
 - (iv) **“Offeror”** means a Person, or two or more Persons acting jointly or in concert, who make an Offer to acquire Units;
 - (v) **“Offeror’s Notice”** means the notice described in Section 10.8(c); and
 - (vi) **“Offeror’s Units”** means Units beneficially owned, or over which control or direction is exercised, on the date of an Offer by the Offeror, any affiliate or associate of the Offeror or any Person or company acting jointly or in concert with the Offeror.
- (b) If an Offer for all of the outstanding Units (other than Units held by or on behalf of the Offeror or an affiliate or associate of the Offeror) is made and:
 - (i) within the time provided in the Offer for its acceptance or within 120 days after the date the Offer is made, whichever period is the shorter, the Offer is accepted by Limited Partners holding at least 66% of the outstanding Units, other than the Offeror’s Units;
 - (ii) the Offeror is bound to take up and pay for, or has taken up and paid for the Units of the Limited Partners who accepted the Offer; and

(iii) the Offeror complies with Sections 10.8(c) and 10.8(e);

the Offeror is entitled to acquire, and the Dissenting Limited Partners are required to sell to the Offeror, the Units held by the Dissenting Limited Partners for the same consideration per Unit payable or paid, as the case may be, under the Offer.

- (c) Where an Offeror is entitled to acquire Units held by Dissenting Limited Partners pursuant to Section 10.8(b), and the Offeror wishes to exercise such right, the Offeror shall send by registered mail within 30 days after the date of termination of the Offer a notice (the “**Offeror’s Notice**”) to each Dissenting Limited Partner stating that:
- (i) Limited Partners holding at least 66% of the outstanding Units, other than Offeror’s Units, have accepted the Offer;
 - (ii) the Offeror is bound to take up and pay for, or has taken up and paid for, the Units of the Limited Partners who accepted the Offer;
 - (iii) Dissenting Limited Partners must transfer their respective Units to the Offeror on the terms on which the Offeror acquired the Units of the Limited Partners who accepted the Offer within 21 days after the date of the sending of the Offeror’s Notice; and
 - (iv) Dissenting Limited Partners must send their respective Unit Certificates to the Registrar and Transfer Agent within 21 days after the date of the sending of the Offeror’s Notice.
- (d) A Dissenting Limited Partner to whom an Offeror’s Notice is sent pursuant to Section 10.8(c) shall, within 21 days after the sending of the Offeror’s Notice, send his Unit Certificate to the Registrar and Transfer Agent, duly endorsed for transfer.
- (e) Within 21 days after the Offeror sends an Offeror’s Notice pursuant to Section 10.8(c), the Offeror shall pay or transfer to the Registrar and Transfer Agent, or to such other person as the Registrar and Transfer Agent may direct, the cash or other consideration that is payable to Dissenting Limited Partners pursuant to Section 10.8(b).
- (f) The Registrar and Transfer Agent, or the person directed by the Registrar and Transfer Agent, shall hold in trust for the Dissenting Limited Partners the cash or other consideration it receives under Section 10.8(e). The Registrar and Transfer Agent, or such person, shall deposit cash in a separate account (which need not be an interest- bearing account) in a Canadian chartered bank, and shall place other consideration in the custody of a Canadian chartered bank or similar institution for safekeeping.

- (g) Within 30 days after the date of the sending of an Offeror's Notice pursuant to Section 10.8(c), the Registrar and Transfer Agent, if the Offeror has complied with Section 10.8(e), shall:
 - (i) do all acts and things and execute and cause to be executed all instruments as in the Registrar and Transfer Agent's opinion may be necessary or desirable to cause the transfer of the Units of the Dissenting Limited Partners to the Offeror;
 - (ii) send to each Dissenting Limited Partner who has complied with Section 10.8(d) the consideration to which such Dissenting Limited Partner is entitled under this Section 10.8; and
 - (iii) send to each Dissenting Limited Partner who has not complied with Section 10.8(d) a notice stating that:
 - (A) his Units have been transferred to the Offeror;
 - (B) the Registrar and Transfer Agent or some other person designated in such notice is holding in trust the consideration for such Units; and
 - (C) the Registrar and Transfer Agent, or such other person, will send the consideration to such Dissenting Limited Partner as soon as practicable after receiving such Dissenting Limited Partner's Unit Certificate and/or such other documents as the Registrar and Transfer Agent, or such other person may require, in lieu thereof;
- and the Registrar and Transfer Agent is hereby appointed the agent and attorney of the Dissenting Limited Partners for the purposes of giving effect to the foregoing provisions.
- (h) An Offeror cannot make an Offer for Units unless, concurrent with the communication of the Offer to any Limited Partner, a copy of the Offer is provided to the General Partner and the Registrar and Transfer Agent.

ARTICLE 11

TERM

11.1 Term

The Partnership will be formed upon the filing and recording of the Certificate under the Partnership Act and will continue until terminated upon the earlier of December 31, 2050 or the occurrence of any event described in Section 12.2 and, in any case, after the completion of the liquidation of the Partnership and the distribution of all funds remaining after payment of all of the debts, liabilities and obligations of the Partnership to its creditors, in accordance with the provisions of this Agreement and upon compliance with the requirements of the Partnership Act and any other applicable legislation.

ARTICLE 12

DISSOLUTION AND TERMINATION

12.1 No Dissolution

Notwithstanding any rule of law to the contrary, the Partnership shall not be terminated and dissolved except in the manner provided in this Agreement. Without limiting the generality of the foregoing, other than as set out in Section 12.2, the Partnership shall not be terminated or dissolved by the admission of any new Partner or by the withdrawal, removal, retirement, death, mental incompetence, disability, incapacity, liquidation, dissolution, winding up or other legal incapacity of a Partner, or by the insolvency or bankruptcy of a Partner or by the assignment of a Partner's property in trust for the benefit of the Partner's creditors.

12.2 Events of Dissolution

The Partnership shall dissolve upon the earlier of the expiration of its term as described in Section 11.1 or the occurrence of any one of the following events:

- (a) the authorization of the dissolution of the Partnership by Extraordinary Resolution;
- (b) the happening of an event that makes it unlawful for the affairs of the Partnership to be carried on or for the Partners to carry on the affairs of the Partnership in partnership; or
- (c) the Partnership has sold or otherwise disposed of its entire Interest; and, in any case, after the completion of the liquidation of the Partnership and distribution to the Limited Partners of all funds or assets remaining after payment of all debts, liabilities and obligations of the Partnership to its creditors.

12.3 Liquidating Trustee

Upon dissolution of the Partnership, the liquidating trustee (which will be the General Partner unless the General Partner is unable or unwilling to act, in which event the liquidating trustee shall be selected by Ordinary Resolution) shall proceed diligently to wind up the affairs of the Partnership and distribute the assets of the Partnership in accordance with Section 12.4. Subject to Section 12.4, the liquidating trustee may manage and control the affairs of the Partnership with all of the power and authority of the General Partner. The liquidating trustee shall be paid its reasonable fees and disbursements in carrying out its duties as such. Allocations and distributions shall continue to be made during the period of liquidation in the same manner as before dissolution. The liquidating trustee shall have full right and unlimited discretion to determine the time, manner and terms of any sale or sales of Partnership assets pursuant to such liquidation, having due regard to the activity and condition of the relevant market and general financial and economic conditions.

12.4 Distribution of Assets

The liquidating trustee shall settle the Partnership accounts as expeditiously as possible and, in the following order, shall:

- (a) sell and liquidate some or all of the assets of the Partnership and pay or compromise the liabilities of the Partnership;
- (b) place in escrow a cash reserve fund for contingent liabilities, in an amount determined by the liquidating trustee to be appropriate for such reserve fund, to be held for such period as the liquidating trustee regards as reasonable and then to be distributed pursuant to Sections 12.4(c) and 12.4(d);
- (c) pay the General Partner the amount of any costs, expenses, fees or other amounts which the General Partner is entitled to receive from the Partnership; and
- (d) distribute the remaining assets including proceeds of sale, subject to any applicable withholding taxes or other applicable taxes, to the General Partner and the Limited Partners in accordance with Article 5.

12.5 Reports

Within a reasonable time following the completion of the liquidation of the Partnership's assets, the liquidating trustee shall forward or cause to be forwarded to each of the Partners an audited statement, with respect to the assets and liabilities of the Partnership as of the date of the completion of the liquidation, and each Partner's share of the distributions pursuant to Section 12.4.

12.6 No Other Right

No Partner shall have any right to demand or receive property, other than cash, upon dissolution of the Partnership.

12.7 Final Filing

Upon completion of the liquidation of the Partnership and the distribution of all Partnership assets, the Partnership shall dissolve and terminate and the liquidating trustee shall execute and record a declaration of dissolution as well as any other documents required to effect the dissolution and termination of the Partnership.

ARTICLE 13 REPRESENTATIONS

13.1 Status of General Partner

The General Partner represents and warrants and covenants to each Limited Partner that:

- (a) it is and will continue to be a corporation duly incorporated under the Business Corporations Act;
- (b) it is or will become registered, and will maintain such registration, to do business, and has or will acquire all requisite licenses and permits to carry on the affairs of the Partnership, in all jurisdictions in which the Partnership activities render such registration, license or permit necessary;
- (c) it has the capacity and corporate authority to act as General Partner, and the performance of its obligations hereunder as General Partner do not and will not conflict with or breach its charter documents, by-laws, or any agreement by which it is bound; and
- (d) it is a Resident.

13.2 Status of Each Limited Partner

- (a) Each Limited Partner represents and warrants and covenants to each other Limited Partner and to the General Partner that:
 - (i) such Limited Partner, if a corporation, is a valid and subsisting corporation, has the necessary corporate capacity and authority to execute and deliver this Agreement and to observe and perform its covenants and obligations hereunder, and has taken all necessary corporate action in respect thereof and that it has purchased its Units as principal for its own account, or, if a partnership, syndicate or other form of unincorporated organization, has the necessary legal capacity and authority to execute and deliver this Agreement and to observe and perform its covenants and obligations hereunder and has obtained all necessary approvals in respect thereof, and that it has purchased its Units as principal for its own account;
 - (ii) such Limited Partner, if an individual, is of the full age of majority and has the legal capacity and competence to execute this Agreement and take all action pursuant hereto, and that it has purchased its Units as principal for its own account;
 - (iii) such Limited Partner is a Resident and that such Limited Partner will maintain such status at all times that such Limited Partner owns Units;
 - (iv) no interest in such Limited Partner is or will be a “tax shelter investment” for the purposes of the Income Tax Act;
 - (v) such Limited Partner has not financed the acquisition of its Units with borrowings for which recourse is limited, or is deemed to be limited, for the purposes of the Income Tax Act;

- (vi) such Limited Partner will promptly provide such evidence of the status of such Limited Partner as the General Partner may request from time to time; and
 - (vii) except with the prior written consent of the General Partner, such Limited Partner will not knowingly cause or permit its interest in the Partnership to be “listed or traded on a stock exchange or other public market” within the meaning of that phrase in section 197 of the Income Tax Act.
- (b) Each Limited Partner covenants that:
- (i) such Limited Partner will ensure that such Limited Partner’s status as described in Section 13.2(a) will not be modified, that such Limited Partner will provide written confirmation of such status to the General Partner upon request and that such Limited Partner will not transfer such Limited Partner’s Units in whole or in part to a Person in respect of which the representations and warranties set forth in Section 13.2(a) would be untrue; and
 - (ii) such Limited Partner will immediately notify the General Partner in writing if such Limited Partner fails to comply with the covenants in this Section 13.2(b).

Prior to any Limited Partner becoming an Unqualified Limited Partner, such Limited Partner will transfer its Units to a Qualified Person. In the event that such Limited Partner fails to transfer its Units to a Qualified Person within 30 days of the giving by the General Partner of a notice to such Unqualified Limited Partner to so transfer its Units, the General Partner will be entitled, subject to compliance with applicable securities laws, to sell such Units on behalf of such Unqualified Limited Partner on such terms and conditions as it deems reasonable and may itself become the purchaser of such Units. On any such sale by the General Partner the price will be the fair market value for such Units as determined by an independent appraiser appointed by the General Partner, whose appraisal will be final and binding on the Partnership, the General Partner and the Unqualified Limited Partner. The cost of such appraisal will be borne by the Unqualified Limited Partner whose Units are sold by the General Partner and may be deducted from the proceeds of such sale together with any other expenses incurred in connection therewith.

In the event of any such sale, the Unqualified Limited Partner whose Units are sold shall thereafter have the right only to receive the net proceeds of such sale (including after deduction of the amounts referred to above), less any amounts required to be withheld under the provisions of the Income Tax Act, or any other similar or other taxation legislation of Canada or a province or territory of Canada or foreign state, and such Unqualified Limited Partner shall thereafter not be entitled to any of the rights of a Limited Partner hereunder in respect of the Units so sold.

The General Partner shall have the sole right and authority to make any determination required or contemplated under this Section 13.2. The General Partner shall make

on a timely basis all determinations necessary for the administration of the provisions of this Section 13.2 and, without limiting the generality of the foregoing, if the General Partner considers that there are reasonable grounds for believing that a Limited Partner has become an Unqualified Limited Partner, the General Partner shall make a determination with respect to the matter. Any such determination shall be conclusive, final and binding except to the extent modified by any subsequent determination by the General Partner.

Notwithstanding anything contained herein, in the event that the General Partner determines that a Limited Partner has become an Unqualified Limited Partner, then such Unqualified Limited Partner shall be deemed to have ceased to be a Limited Partner in respect of all of the Units held by it effective immediately prior to the date of contravention and shall not be entitled to any voting rights with respect to Units after such date and shall not be entitled to any distributions of the Partnership which accrue after such date and such Units shall be deemed not to be outstanding until acquired by a Qualified Person (on their own behalf or on behalf of a beneficial owner of Units), provided that other holders of Units shall not be entitled to any portion of such distributions paid in respect of Units that have been so deemed not to be outstanding which may accrue after the date upon which such Units are deemed to no longer be outstanding.

13.3 Survival of Representations

The representations contained in this Article shall survive execution of this Agreement and each party is obligated to ensure the continuing accuracy of each representation made by it throughout the term of the Partnership.

ARTICLE 14 CHANGE OF GENERAL PARTNER

14.1 Continuance of the General Partner

The General Partner will continue as general partner of the Partnership until termination of the Partnership unless the General Partner resigns or is removed in accordance with this Agreement.

14.2 Resignation of the General Partner

- (a) The General Partner may not resign as such unless it has given at least 180 days' written notice to the Limited Partners of such intention and nominates a qualified successor whose appointment is approved by Ordinary Resolution and who accepts such position within such period, provided that if no successor is so approved within such 180 day period then the General Partner shall have the sole right to appoint a new general partner and such appointee up on its acceptance of such appointment shall become the new General Partner.
- (b) Upon the dissolution, liquidation, bankruptcy, insolvency, winding-up, the making of any assignment for the benefit of creditors of the General Partner or the appointment of a trustee, receiver, receiver and manager or liquidator of the General Partner, provided that the trustee, receiver, receiver and manager or

liquidator performs its functions for 60 consecutive days, a new general partner shall be appointed by the Limited Partners by Ordinary Resolution within 180 days' notice of such event and the General Partner shall be deemed to have resigned as such, provided that the General Partner shall not cease to be the general partner of the Partnership until the appointment of a new general partner.

14.3 Removal of General Partner

The General Partner may be removed as general partner of the Partnership by an Extraordinary Resolution, but only if at the time of such Extraordinary Resolution the General Partner is in default of a material obligation of the General Partner contained in this Agreement, such default has continued for at least 60 days following receipt of notice from any Limited Partner requiring the General Partner to remedy such default and the Extraordinary Resolution removing the General Partner also appoints a new general partner as successor. Except as provided in the next sentence, the General Partner, its affiliates, its associates and their directors and officers, shall not be entitled to vote on the removal of the General Partner as general partner of the Partnership. Notwithstanding the previous sentence, any Units acquired or held by the Manager will be entitled to be voted on the removal of the General Partner.

14.4 Consequences of Transfer

Upon the admission of a new General Partner:

- (a) the new General Partner shall become a party to this Agreement by signing a counterpart hereof and agree to be bound by the terms of this Agreement and to assume the obligations, duties and liabilities of the departing General Partner hereunder as and from the date the new General Partner becomes a party to this Agreement;
- (b) the new General Partner will purchase and the departing General Partner will sell the interest of the departing General Partner in the Partnership (excluding any Units held by the departing General Partner) at a purchase price of \$50.00;
- (c) the new General Partner will pay to the departing General Partner the amount of any costs, expenses or other amounts owed by the Partnership to the departing General Partner and such other amounts to which the departing General Partner is entitled to reimbursement thereof pursuant to this Agreement or any other agreement to which the departing General Partner is a party with the Partnership, whether, in the case of such latter agreements, the departing General Partner is entitled to such reimbursement by the Partnership or by a third party or otherwise;
- (d) the departing General Partner will do all things and take all steps to effectively transfer title to all Partnership assets, the records and management of the Partnership and the interest of the departing General Partner in the Partnership to the new General Partner; and

- (e) the departing General Partner shall file all amendments to the Certificate and all other instruments or documents necessary to record the admission of the new General Partner or qualify or continue the Partnership as a limited partnership.

14.5 Indemnification

Upon the removal or resignation of the General Partner, the Partnership shall release and hold harmless, and the Limited Partners shall release, the General Partner, its affiliates and associates, and its and their respective officers, directors, shareholders and employees, from any and all costs, damages, liabilities or expenses incurred by the General Partner or the Partnership in connection with the Partnership's activities or otherwise as a result of arising out of events occurring after such resignation or removal other than those caused by or deriving from any grossly negligent or fraudulent act or wilful misconduct of the General Partner.

14.6 Continuity of Partnership

In the event of the bankruptcy, insolvency, dissolution, liquidation, winding up, resignation or deemed resignation of the General Partner, the affairs of the Partnership shall be continued without interruption by any new General Partner or remaining General Partner, as the case may be.

ARTICLE 15 MEETINGS

15.1 Consents Without Meeting

The General Partner may secure the consent or agreement of any Limited Partner to any matter requiring such a consent or agreement in writing, and such consents or agreements in writing may be used in conjunction with votes given at a meeting of Limited Partners or without a meeting of Limited Partners to secure the necessary consent or agreement hereunder. Accidental omission to send a written form of Ordinary Resolution or Extraordinary Resolution to any Limited Partner for signature will not invalidate such resolution provided that such written resolution has been signed in one or more counterparts by a sufficient percentage of the Limited Partners to pass such resolution in accordance with the provisions of this Agreement.

15.2 Meetings

The General Partner may convene meetings of the Limited Partners at any time and, upon the written request of one or more Limited Partners holding not less than 25% of the number of all issued and outstanding Units (the "**Requisitioning Partners**"), will convene a meeting of the Limited Partners. If the General Partner fails or neglects to call such a meeting within 60 days of receipt of written request of the Requisitioning Partners, then any Requisitioning Partners may convene such meeting by giving written notice to the General Partner and the Limited Partners in accordance with this Agreement, signed by such person or persons as the Requisitioning Partners specify. Every meeting, however convened, will be conducted in accordance with this Agreement. There is no requirement to hold annual general meetings; however, the General Partner may call periodic information meetings from time to

time to advise Limited Partners as to the status of the SMG BioPower Business and the Partnership's affairs.

15.3 Place of Meeting

Every meeting of Limited Partners will be held at such place in the City of Vancouver, British Columbia, as the General Partner or the Partner calling the meeting, as the case may be, may determine.

15.4 Notice of Meeting

All notices of meetings of Limited Partners will be given to Limited Partners at least 21 and not more than 60 days prior to the meeting. Such notice will specify the time, date and place where the meeting is to be held and will specify, in reasonable detail, all matters which are to be the subject of a vote at such meeting and provide sufficient information to enable Limited Partners to make a reasoned judgment on all such matters. It will not be necessary for any such notice to set out the exact text of any resolution proposed to be passed at the meeting, provided that the subject matter of any such resolution is fairly set out in the notice or schedule thereto. Accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by, any Limited Partner will not invalidate the proceedings at that meeting.

15.5 Chairman

The President of the General Partner, or in his absence any officer of the General Partner, shall be the chairman of all meetings. If no such person is present or all such persons refuse to act, those Limited Partners present in person or represented by proxy at the meeting shall choose, by Ordinary Resolution, some other person present to be chairman.

15.6 Quorum

Subject to the provisions of Section 15.7, a quorum at any meeting of the Limited Partners shall consist of not less than two Persons present in person and holding or representing by proxy at least ten percent (10%) of the aggregate number of outstanding Units entitled to vote at the meeting provided, however, that if the Partnership has only one Limited Partner, such Limited Partner present in person or represented by proxy constitutes a meeting of Limited Partners.

15.7 Adjournment

If a quorum referred to in Section 15.6 is not present within 30 minutes from the time fixed for holding any meeting, the meeting may be adjourned by the chairman of the meeting to a date not less than 10 days or more than 14 days later at the same time and, if available, the same place, and the General Partner or Requisitioning Partners who called the meeting will give at least seven days' notice to all Limited Partners of the date, time and place of the reconvening of the adjourned meeting. Such notice need not set forth the matters to be considered unless they are different from those for which the original meeting was called. At the adjourned meeting the Limited Partners present in person or represented by proxy shall form a quorum and may transact the business for which the meeting was originally convened.

notwithstanding that the number of Units held or represented by them may not be sufficient to constitute a quorum under Section 15.6.

15.8 Voting

Except as otherwise specified in this Agreement, any question submitted to a meeting shall be decided by Ordinary Resolution. On each Ordinary Resolution and Extraordinary Resolution:

- (a) each Limited Partner (excluding the General Partner in its capacity as a Limited Partner) shall be entitled to one vote per whole Unit held; and
- (b) the General Partner shall be entitled to one vote in its capacity as General Partner and also to one vote per whole Unit held by it in its capacity as a Limited Partner, unless such resolution relates to the approval of an agreement or transaction of any nature between the Partnership and any member of the SMG Group in which event the General Partner will not be entitled to vote on such resolution.

For the purposes of clarity, a Limited Partner holding a fraction of a Unit shall be entitled, with respect to the same, to a fraction of a vote equal to such fraction of such Unit.

15.9 Record Date

Notwithstanding anything herein contained, only Limited Partners who are registered as such in the Register on the record date determined for the meeting shall have the right to attend in person or by proxy and to vote on all matters submitted to the meeting. For the purpose of determining those Limited Partners who are entitled to attend, and vote or act at, any meeting or any adjournment of any meeting, or for the purpose of any other action thereat, the General Partner or Requisitioning Partners calling the meeting, as the case may be, shall fix a date not less than 21 or more than 60 days prior to the date of any meeting of Limited Partners as a record date for the determination of those Limited Partners entitled to vote at such meeting or any adjournment of any meeting. The Persons so determined shall be the Persons deemed to have such entitlement, except to the extent that a Limited Partner has transferred any of his Units after such record date and the transferee of the Units: (i) produces properly endorsed certificates or otherwise establishes to the satisfaction of the General Partner that he is the owner of the Units in question; and (ii) requests, not later than 10 days before the meeting, or such shorter period before the meeting as the General Partner may deem to be acceptable, that the transferee's name be included in the Register as at such record date, in which case the transferee shall be treated as a Limited Partner of record for purposes of such entitlement in place of the transferor.

15.10 Proxies

A Limited Partner may attend any meeting of Limited Partners personally, or may be represented thereat by proxy if a proxy has been received by the General Partner or the chairman of the meeting for verification prior to the meeting. Votes at meetings of the Limited Partners may be cast personally or by proxy and resolutions shall be passed by a show of hands or, at the request of any Limited Partner, by ballot. The instrument appointing a proxy shall be in a form acceptable to the General Partner, shall be in writing under the hand of the appointor or

his attorney duly authorized in writing, or, if the appointor is a corporation, under its seal or by an officer or attorney thereof duly authorized, and shall be valid only if it refers to a specific meeting, and then only at that meeting or its adjournments. Any Person may be appointed a proxy, whether or not he is a Limited Partner.

15.11 Validity of Proxies

A proxy purporting to be executed by or on behalf of a Limited Partner will be considered to be valid unless challenged at the time of or prior to its exercise, and the Person challenging will have the burden of proving to the satisfaction of the chairman of the meeting that the proxy is invalid, and any decision of the chairman concerning the validity of a proxy will be final.

A vote cast in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death, incapacity, insolvency, bankruptcy or insanity of the Limited Partner giving the proxy or the revocation of the proxy, provided that no written notice of such death, incapacity, insolvency, bankruptcy, insanity or revocation shall have been received at the will be entitled to address the meeting.

15.12 Rules

To the extent that the rules and procedures for the conduct of a meeting of the Limited Partners are not prescribed in this Agreement, such rules and procedures shall be determined by the chairman of the meeting. To the extent practicable, the procedures applicable to meetings of corporations within the meaning of the BCBCA shall apply to meetings of Partners, provided however the Partnership shall not be required to hold annual meetings and the General Partner may seek all such regulatory relief as may be required so that the Partnership is not required to hold such meetings.

15.13 Waiver of Defaults

In addition to all other powers conferred on them by this Agreement, the Limited Partners may by Ordinary Resolution waive any default on the part of the General Partner on such terms as they may determine and release the General Partner from any claims in respect thereof.

15.14 Minutes

The General Partner will cause minutes to be kept of all proceedings and resolutions at every meeting, and copies of any resolutions of the Partnership to be made and entered in books to be kept for that purpose, and any minutes, if signed by the chairman of the meeting, will be deemed to be evidence of the matters stated in them, and such meeting will be deemed to have been duly convened and held and all resolutions and proceedings shown in them will be deemed to have been duly passed and taken.

15.15 Resolutions Binding

Any Extraordinary Resolution or Ordinary Resolution passed in accordance with this Agreement shall be binding on all Limited Partners and their respective heirs, executors, administrators or other legal representatives, successors and assigns, whether or not such Limited Partner was present or represented by proxy at the meeting at which such resolution was passed and whether or not such Limited Partner received and/or signed a written copy of or voted against such resolution.

15.16 Powers Exercisable by Extraordinary Resolution

The following powers will only be exercisable by Extraordinary Resolution passed by the Limited Partners:

- (a) consenting to the amendment of this Agreement except as provided herein;
- (b) requiring the General Partner on behalf of the Partnership to enforce any obligation or covenant on the part of any Limited Partner;
- (c) removing the General Partner as general partner of the Partnership as provided in Section 14.3;
- (d) dissolving the Partnership as provided in Section 12.2(a);
- (e) consenting to the sale, assignment, transfer or other disposition by the General Partner of its interest in the Partnership as a general partner as provided in Section 10.1;
- (f) consenting to extend the Partnership's investment activities beyond the Investment Mandate;
- (g) agreeing to any compromise or arrangement by the Partnership with any creditor, or class or classes of creditors;
- (h) changing the Fiscal Year of the Partnership; and
- (i) amending or repealing any Extraordinary Resolution previously passed by the Limited Partners.

ARTICLE 16 AMENDMENTS

16.1 Amendments to Limited Partnership Agreement

This Agreement may be amended in writing on the initiative of the General Partner with the approval of the Limited Partners given by an Extraordinary Resolution, provided that:

- (a) this Article 16 may not be amended;

- (b) this Agreement shall not be amended so as to provide for additional Capital Contributions from any Limited Partner without the approval of such Limited Partner; and
- (c) this Agreement shall not be amended so as to adversely affect the rights of the General Partner without the consent of the General Partner.

16.2 Amendments in Discretion of General Partner

Notwithstanding Section 16.1, the General Partner may, without prior notice to or consent from any Limited Partner, amend any provision of this Agreement from time to time:

- (a) for the purpose of adding, amending or deleting provisions of this Agreement which addition, amendment or deletion is, in the opinion of counsel to the Partnership, for the protection of or otherwise to the benefit of the Limited Partners; or
- (b) to cure an ambiguity or to correct or supplement any provision contained herein which may be defective or inconsistent with any other provisions contained herein, provided the cure, correction or supplemental provision, in the opinion of the General Partner, does not and will not adversely affect the interests of the Limited Partners; or
- (c) to make such other provisions in regard to matters or questions arising under this Agreement which, in the opinion of the General Partner, do not and will not adversely affect the interests of the Limited Partners; or
- (d) to make such amendments or deletions to take into account the effect of any change in, amendment of or repeal of any applicable legislation, which amendments, in the opinion of the General Partner, do not and will not adversely affect the interests of the Limited Partners.

16.3 Notice to Limited Partners

Limited Partners shall be notified of the full details of any amendments to this Agreement within 30 days of the effective date of the amendment.

16.4 Limitation on Amendments

Notwithstanding the foregoing or any other provisions to the contrary contained in this Agreement, no amendment of this Agreement shall be adopted if such amendment would change the Partnership to a general partnership, change the liability of the General Partner or any Limited Partner, allow any Limited Partner to take part in the control of the business of the Partnership, change the activities of the Partnership asset forth in Article 3, or change the right of a Limited Partner to vote at any meeting.

ARTICLE 17

NOTICES

17.1 Addresses for Service

The addresses for service of the General Partner and Limited Partners are:

General Partner: BioPower Drytec Corp.
958 West 8th Avenue
Vancouver, B.C.
V5Z 1E4

Attention: President
Fax No.: 604-568-9830

Initial Limited Partner: SMG Power Limited Partnership
958 West 8th Avenue
Vancouver, B.C.
V5Z 1E4

Attention: President
Fax No.: 604-568-9830

Limited Partners: at the mailing addresses set forth in the Register.

The General Partner may from time to time change its address for service hereunder by notice to the Limited Partners given in accordance with Section 17.2. Each Limited Partner will advise the General Partner and the Registrar and Transfer Agent of any change in such Limited Partner's address as then shown on the Register.

17.2 Notices

Any notice provided for in this Agreement or any other notice which a Partner may desire to give to the other Partners, shall be in writing and shall be delivered by:

- (a) personal hand delivery to the addressee or, if such addressee is a body corporate, to an officer of the addressee, or in the absence of an officer, to some other responsible employee of such addressee and shall be deemed to have been given and received on the date of such delivery or, if so delivered on a Saturday, Sunday or statutory holiday, on the next day that is not such a day; or
- (b) mailing, postage prepaid, in a properly addressed envelope addressed to the party to whom the notice is to be given at its address for service and shall be deemed to have been given and received four days after the mailing thereof, Saturdays, Sundays and statutory holidays excepted, or

- (c) fax message addressed to the party to whom the notice is to be given at its address for service and shall be deemed to have been given and received one day after the date of sending, Saturdays, Sundays and statutory holidays excepted.

In the event of a labour strike or other postal interruption the result of which is the interference of normal mail deliveries, every notice delivered pursuant to Section 17.2(b) above shall be deemed to have been given and received on the sixth day following the full resumption of normal mail deliveries, excluding Saturdays, Sundays and statutory holidays, provided that notwithstanding the foregoing in the event of a labour strike or other postal interruption the result of which is the interference of normal mail deliveries, notice hereunder, other than notice to be provided to the General Partner, may be given by publication thereof in a publication of general circulation in the City of Vancouver and shall be deemed to have been given and received upon such publication.

ARTICLE 18

POWER OF ATTORNEY

18.1 Power of Attorney

Each Limited Partner and each transferee of a Unit or assignee of the interest of a Limited Partner as a holder of a Unit here by irrevocably grants to the General Partner, its successors and assigns, a power of attorney constituting the General Partner, with full power of substitution, as the Limited Partner's true and lawful attorney and agent, with full power and authority, in the Limited Partner's name, place and stead to execute, under seal or otherwise, swear to, acknowledge, deliver, and record or file, as the case may be, as and where required:

- (a) this Agreement, any amendment to this Agreement, the Certificate, any amendment to the Certificate or any other declaration, certificate, instrument or document which the General Partner deems necessary or appropriate to qualify, continue the qualification of, or keep in good standing, the Partnership in, or otherwise comply with the laws of, the Province of British Columbia or any other jurisdiction wherein the Partnership may carry on or be deemed to carry on activities or own property (or the laws of Canada applicable therein), or the General Partner may deem it prudent to register the Partnership, in order to maintain the limited liability of the Limited Partners or to comply with applicable laws;
- (b) any certificate or other instrument which the General Partner deems necessary or appropriate to reflect any amendment, change or modification of the Partnership in accordance with the terms of this Agreement;
- (c) any certificate or other instrument which the General Partner deems necessary or appropriate to comply with the laws of Canada or any political subdivision of Canada;
- (d) any conveyance or other instrument which the General Partner deems necessary or appropriate to reflect or in connection with the sale of all or any part of the

Interest or other assets of the Partnership or the dissolution or termination of the Partnership pursuant to the terms of this Agreement;

- (e) any instrument required in connection with any election, designation, application or determination relating to the Partnership under the Income Tax Act, the Excise Tax Act, or other tax legislation;
- (f) any election, determination, designation, information and return or similar document or instrument as may be required or desirable at any time under the Income Tax Act, the Excise Tax Act, or under any other taxation or similar law of Canada or any province, territory or jurisdiction, or foreign state, which relates to the affairs of the Partnership or the interest of any Person in the Partnership;
- (g) any document which the General Partner deems necessary or appropriate to be executed or filed in connection with the activities, assets or undertaking of the Partnership or this Agreement;
- (h) any document required to be filed with any governmental body, agency or authority in connection with the activities, assets or undertaking of the Partnership or this Agreement;
- (i) any application for any grant, incentive or credit under any federal or provincial program with respect to any activity of the Partnership;
- (j) any transfer forms or other certificate or instrument on behalf of or in the name of whomsoever as may be necessary to effect the transfer of any Unit in accordance with the terms of this Agreement including, without limitation, pursuant to Sections 10.8 and 13.2 hereof; and
- (k) any other document or instrument on behalf of and in the name of the Partnership or the Limited Partner as may be deemed necessary or desirable by the General Partner to carry out fully the provisions of this Agreement or any other agreement of the Partnership in accordance with its respective terms;

and to complete, amend or modify any of the foregoing to complete any missing information or correct any clerical or other errors in the completion of any of the foregoing.

To evidence the foregoing, each Limited Partner, in making a subscription for Units or in executing an assignment or transfer of a Unit as assignee or transferee thereof, will be deemed to have executed a power of attorney granting substantially the powers set forth above. The power of attorney so granted is irrevocable, is coupled with an interest, will survive the death, disability, incapacity, insolvency, bankruptcy, liquidation, dissolution, winding up or other legal incapacity of a Limited Partner and will survive the assignment, to the extent of the obligations of the Limited Partner hereunder, by the Limited Partner of the whole or any part of the interest of the Limited Partner in the Partnership and extends to bind the heirs, executors, administrators, personal representatives, successors and assigns of the Limited Partner, and may be exercised by the General Partner, executing on behalf of each Limited Partner, by executing any instrument with a single signature as the general partner of the Partnership or as attorney and

agent for all of the Limited Partners executing such instrument, or by such other form of execution as the General Partner may determine, and it will not be necessary for the General Partner to execute any instrument under seal notwithstanding the manner of execution of the power of attorney by the Limited Partner. The power of attorney will not terminate on the dissolution of the Partnership but will continue in full force and effect thereafter for the purposes of concluding any matters pertaining to the Partnership, to the activities previously carried on by the Partnership or to the dissolution of the Partnership and the winding up of its affairs.

Each Limited Partner hereby ratifies and confirms all that the General Partner shall lawfully do or cause to be done by virtue of the foregoing power of attorney, agrees to be bound by any representation or action made or taken in good faith by the General Partner pursuant to the foregoing power of attorney in accordance with the terms hereof or in furtherance of the terms contemplated by the Private Placement, and waives any and all defences which may be available to contest, negate or disaffirm any action of the General Partner taken in good faith under such power of attorney.

ARTICLE 19 MISCELLANEOUS

19.1 Governing Law

This Agreement will be governed by and construed in accordance with the laws of the Province of British Columbia, and the parties hereto hereby submit to and attorn to the non-exclusive jurisdiction of the Courts of the Province of British Columbia.

19.2 Counterparts

This Agreement may be executed in any number of counterparts with the same effect as if all parties hereto had signed the same document. This Agreement may also be adopted in any subscription or assignment forms or similar instruments signed by a Limited Partner or by the General Partner on his behalf, with the same effect as if such Limited Partner had executed a counterpart of this Agreement. All counterparts and adopting instruments will be construed together and will constitute one and the same agreement.

19.3 Provisions Severable

Each provision of this Agreement is intended to be severable. If any provision of this Agreement, or the application of such provision to any Person or circumstance, shall be held illegal or invalid, the remainder of this Agreement, or the application of such provision to any Person or circumstance other than those to which it is held illegal or invalid, shall not be affected thereby.

19.4 Further Assurances

Each party hereto agrees to execute and deliver such further and other documents and to perform and cause to be performed such further and other acts and things as may be necessary or desirable in order to give full force and effect to this Agreement and every part hereof.

19.5 Time

Time is of the essence hereof.

19.6 Limited Partner not a General Partner

If any provision of this Agreement has the effect of imposing or subjecting any Limited Partner to any debts, liabilities or obligations in excess of those amounts referred to in Section 8.2, or otherwise results in the Limited Partner becoming a general partner, such provision shall be of no force or effect.

19.7 Binding Effect

Subject to the provisions regarding assignment and transfer herein contained, this Agreement shall enure to the benefit of and be binding upon the parties hereto and their respective heirs, executors, administrators and other legal representatives, successors and assigns.

IN WITNESS WHEREOF the parties hereto have executed this Agreement as of the day and year first above written.

BIOPOWER DRYTEC CORP.



Authorized Signatory

INITIAL LIMITED PARTNER:

**SMG POWER LIMITED
PARTNERSHIP by its General Partner
SMG DRYTEC CORP.**



Authorized Signatory