CARBON FRIENDLY SOLUTIONS INC.

Consolidated Financial Statements

For the years ended June 30, 2012 and 2011

(in Canadian dollars)

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Carbon Friendly Solutions Inc.

We have audited the accompanying financial statements of Carbon Friendly Solutions Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at June 30, 2012 and 2011, and July 1, 2010 and the consolidated statements of comprehensive loss, cash flows and changes in equity for the years ended June 30, 2012 and 2011, 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 presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Carbon Friendly Solutions Inc. as at June 30, 2012 and 2011 and July 1, 2010 and its financial performance and its cash flows for the years ended June 30, 2012 and 2011, in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the financial statements, which indicates that the Company incurred a loss of $4,738,390 during the year ended June 30, 2012, had a working capital deficit of $4,533,178 and an accumulated deficit of $12,746,255 as of June 30, 2012. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern.

Chartered Accountants
November 5, 2012

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CARBON FRIENDLY SOLUTIONS INC.

Consolidated Statement of Financial Position
(in Canadian dollars)

	Note	June 30, 2012	June 30, 2011	July 1, 2010
ASSETS				
Current				
Cash		$ 31,292	$ 3,031	$ 156,840
Receivables	7	229,818	80,607	113,184
Inventory		-	-	9,567
Prepaid expenses		45,277	51,924	22,063
		306,387	135,562	301,654
Non-current				
Deposit	10	56,729	56,729	56,729
Property and equipment	9	418,335	50,148	31,666
Coal technology and plant prototype	6	5,058,487	6,470,351	-
Intangibles	12	49,574	61,670	-
Total assets		$ 5,889,512	$ 6,774,460	$ 390,049
LIABILITIES				
Current				
Accounts payable and accrued liabilities	8	$ 2,031,378	$ 1,791,642	$ 206,101
Due to related parties	15	354,817	440,646	8,630
Loans payable	13	2,453,370	2,503,200	-
		4,839,565	4,735,488	214,731
SHAREHOLDERS' EQUITY				
Share capital	14b	12,013,125	8,650,892	5,321,753
Share subscription receivable	14b	-	(352,000)	-
Share-based payment reserve	14f	1,743,317	1,404,017	1,147,344
Deficit		(12,746,255)	(8,959,269)	(6,293,779)
Cumulative other comprehensive income (loss)		(199,390)	104,778	-
Attributable to owners' of the parent		810,797	848,418	175,318
Attributable to the non-controlling interest		239,150	1,190,554	-
Total equity		1,049,947	2,038,972	175,318
Total liabilities and equity		$ 5,889,512	$ 6,774,460	$ 390,049

Approved on behalf of the Board:

"Slawomir Smulewicz"
Director

"Stan Lis"
Director

See accompanying notes to the financial statements

CARBON FRIENDLY SOLUTIONS INC.

Consolidated Statements of Comprehensive Loss
For the years ended June 30, 2012 and 2011
(in Canadian dollars)

	Note	Year ended June 30, 2012	Year ended June 30, 2011
Revenues			
Biomass		$ 87,282	$ -
Miscellaneous		8,755	-
Carbon credits		-	7,980
		96,037	7,980
Cost of goods sold			
Biomass		64,409	-
Carbon credits		-	9,567
		64,409	9,567
		31,628	1,587
Expenses			
Amortization		1,444,089	600,204
Bank charges and interest		6,390	8,445
Consulting fees	15	615,715	581,029
Finance and sponsorship fees		-	2,506
Foreign exchange gain on operations		(5,592)	(5,202)
Interest on notes payable		208,303	130,303
Investor relations		90,728	13,666
Management fees	15	617,781	488,615
Office and miscellaneous		148,679	116,670
Professional fees	15	654,005	305,246
Rent		150,954	99,019
Share-based compensation	14	255,900	311,365
Transfer agent and regulatory fees		18,284	10,132
Travel and promotion	15	175,375	207,056
Wages and benefits		130,167	134,214
Write down of receivable		24,748	1,859
		(4,535,526)	(3,005,127)
Loss before other items		(4,503,898)	(3,006,714)
Other income (expenses):			
Loss on settlement of debts		(6,308)	-
Loss on disposal of subsidiary		-	(2,246)
Impairment of goodwill	11	(248,416)	-
Gain on sale of automotive equipment		20,232	-
Net loss for the year		(4,738,390)	(3,008,960)
Other comprehensive income (loss)			
Exchange gain (loss) arising on translation of foreign operations		(304,168)	104,778
Total comprehensive loss		$ (5,042,558)	$ (2,904,182)
Net Loss for the year attributable to:			
Owners of parent		$ (3,786,986)	$ (2,665,490)
Non-controlling interest		(951,404)	(343,470)
		$ (4,738,390)	$ (3,008,960)

See accompanying notes to the financial statements

CARBON FRIENDLY SOLUTIONS INC.

Consolidated Statements of Comprehensive Loss
For the years ended June 30, 2012 and 2011
(in Canadian dollars)

		2012		2011
Total comprehensive loss attributable to:				
Owners of parent	$	(4,091,154)	$	(2,560,712)
Non-controlling interest		(951,404)		(343,470)
	$	(5,042,558)	$	(2,904,182)
Loss per share, basic and diluted	$	(0.07)	$	(0.08)
Weighted average number of common shares outstanding - basic and diluted		51,272,107		32,255,034

See accompanying notes to the financial statements

CARBON FRIENDLY SOLUTIONS INC.

Consolidated Statements of Cash Flows
For the years ended June 30, 2012 and 2011
(in Canadian dollars)

	Note	**Year ended June 30, 2012**	Year ended June 30, 2011
Cash provided by (used in):			
Operating Activities			
Net loss for the year		$ (4,738,390)	$ (3,008,960)
Items not involving cash:			
Amortization		1,444,089	600,205
Loss on settlement of debt		6,308	-
Gain on sale of automotive equipment		(20,232)	-
Share-based compensation		255,900	311,365
Impairment on goodwill		248,416	-
Interest accrual		208,303	130,303
Unrealized foreign exchange gain		(5,592)	(5,202)
Write down of receivable		24,748	1,859
		(2,576,450)	(1,970,430)
Change in non-cash working capital:			
Receivables		(240,222)	30,718
Inventory		-	9,567
Prepaid expenses and deposits		9,033	(29,861)
Accounts payable and accrued liabilities		25,756	742,899
Related parties		(206,257)	-
		(2,988,140)	(1,217,107)
Investing Activities			
Purchase of property and equipment		(3,787)	(1,031)
Cash received on acquisition of MicroCoal		-	10,036
Cash received on acquisition of Carbiopel		7,172	-
Proceeds from sale of equipment		2,062	-
Purchase of intangible assets		-	(61,670)
		5,447	(52,665)
Financing Activities			
Issuances of shares		2,902,730	1,139,400
Share issuance costs		(148,487)	(1,720)
Share subscriptions		352,000	(352,000)
Proceeds from related parties		-	432,016
Proceeds of loans		173,000	22,679
Repayment of loans and interest expense		(257,664)	(105,000)
		3,021,579	1,135,375
Effect of foreign exchange		(10,625)	(19,412)
Increase (decrease) in cash		28,261	(153,809)
Cash, beginning of year		3,031	156,840
Cash, end of year		$ 31,292	$ 3,031
Supplemental cash flow information:	5		

See accompanying notes to the financial statements

CARBON FRIENDLY SOLUTIONS INC.
Consolidated Statements of Changes in Equity
For the years ended June 30, 2012 and 2011
(in Canadian dollars)

	Attributable to Parent							
	Shares	Amount	Share subscriptions	Share-based payment reserves	Deficit	Cumulative other comprehensive income (loss)	Attributable to non-controlling interest	Total
Balance, July 1, 2010	27,558,427	$ 5,321,753	$ -	$ 1,147,344	$ (6,293,779)	$ -	$ -	$ 175,318
Shares issued in:								
Private placement	5,272,750	1,052,830	-	-	-	-	-	1,052,830
Stock options exercised	395,000	84,850	-	-	-	-	-	84,850
Shares issued for acquisition of Microcoal	10,957,778	2,136,767	-	-	-	-	-	2,136,767
Share subscriptions	-	-	(352,000)	-	-	-	-	(352,000)
Fair value of stock options exercised	-	54,692	-	(54,692)	-	-	-	-
Share-based compensation	-	-	-	311,365	-	-	-	311,365
Acquisition of MCI	-	-	-	-	-	-	1,534,024	1,534,024
Loss for the period	-	-	-	-	(2,665,490)	-	(343,470)	(3.008,960)
Other comprehensive item	-	-	-	-	-	104,778	-	104,778
Balance, June 30, 2011	44,183,955	8,650,892	(352,000)	1,404,017	(8,959,269)	104,778	1,190,554	2,038,972
Shares issued in:								
Private placement	5,495,000	1,099,000	352,000	-	-	-	-	1,451,000
Private placement	6,395,766	1,918,730	-	-	-	-	-	1,918,730
Share issuance costs	-	(231,887)	-	83,400	-	-	-	(148,487)
Investment in Carbiopel	1,967,000	531,090	-	-	-	-	-	531,090
Shares for services rendered	190,000	45,300	-	-	-	-	-	45,300
Share-based compensation	-	-	-	255,900	-	-	-	255,900
Loss for the period	-	-	-	-	(3,786,986)	-	(951,404)	(4,738,390)
Other comprehensive item	-	-	-	-	-	(304,168)	-	(304,168)
Balance, June 30, 2012	58,231,721	$12,013,125	$ -	$ 1,743,317	$ (12,746,255)	$ (199,390)	$ 239,150	$ 1,049,947

See accompanying notes to the financial statements

1. NATURE OF OPERATIONS

Carbon Friendly Solutions Inc. ("Carbon Friendly" or "the Company") was incorporated on April 6, 1990 under the laws of the Province of British Columbia. The Company's head office is located at 2500 - 555 West Hastings Street, Vancouver, British Columbia, Canada, V6B 4N5.

The Company is a reporting issuer in the provinces of Alberta, British Columbia and Ontario and the Company's shares are listed for trading on the Canadian National Stock Exchange (the 'CNSX") under the symbol "CFQ".

The Company is in the business of providing solutions for companies, organizations and individuals looking to reduce or offset their global warming impact caused by greenhouse gas emissions, while including the generation of carbon credits for sale in the global voluntary and compliance markets from the completion of reforestation, biomass energy and renewable energy technology projects that are independently validated and verified to globally recognized standards and methodologies. Carbon Friendly, via its subsidiary in U.S., is also providing coal technology using patented technologies to decontaminate and upgrade low-rank coals for use by power utilities.

2. BASIS OF PREPARATION

(a) Statement of Compliance

These consolidated 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"). The Company adopted International Financial Reporting Standards ("IFRS") in accordance with IFRS 1, First-Time Adoption of International Financial Reporting Standards. The first date at which IFRS was applied was July 1, 2010. In accordance with IFRS, the Company has:

- provided comparative financial information;
- applied the same accounting policies throughout all periods presented;
- retrospectively applied all effective IFRS standards as of July 1, 2010 as required; and,
- applied certain optional exemptions and certain mandatory exceptions as applicable for first time IFRS adopters

The Company's consolidated annual financial statements were previously prepared in accordance with the pre-changeover Canadian generally accepted accounting principles ("pre-changeover Canadian GAAP"). Canadian GAAP differs in some areas from IFRS. In preparing these consolidated annual financial statements, management has amended certain accounting and measurement methods previously applied in the pre-changeover Canadian GAAP consolidated financial statements to comply with IFRS. Note 22 contains reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, loss and comprehensive loss along with line by line reconciliations of the consolidated statements of financial position as at July 1, 2010 and June 30, 2011, and the consolidated statements of loss and comprehensive loss for the year ended June 30, 2011.

These financial statements were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on November 5, 2012.

(b) Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis. These consolidated financial statements are presented in Canadian dollars ("CDN").

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.

2. BASIS OF PREPARATION (continued)

(a) Going Concern of Operations

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will continue to realize its assets and discharge its obligations and commitments in the normal course of operations. At June 30, 2012, the Company incurred a loss of $4,738,390 for the year then ended, had a working capital deficit of $4,533,178 and has accumulated losses of $12,746,255 since its inception and expects to incur further losses in the development of its business, has defaulted on certain loans and payables and is negotiating with the lenders and other creditors to extend the repayment terms, all of which indicates material uncertainty which casts significant doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. Management has a plan in place to address this concern and intends to obtain additional funds by equity financing to the extent there is a shortfall from operations. While the Company is continuing its best efforts to achieve the above plans, there is no assurance that any such activity will generate funds for operations or the Company will be able to raise funds in the future.

These financial statements do not give effect to any adjustments required to realize it assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these financial statements and in preparing the opening IFRS Statement of Financial Position at July 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

(a) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and the following subsidiaries. All intercompany transactions and balances have been eliminated.

	Country of incorporation	Ownership - June 30, 2012	Ownership - June 30, 2011	Ownership - July 1, 2010
Global CO2 Reduction Inc. ("Global CO2")	Canada	100%	100%	100%
CO2 Reduction Poland Sp. z. o. o. ("CO2 Reduction")	Poland	100%	100%	100%
MicroCoal Inc. ("MicroCoal")	USA	58.21%	58.21%	0.0%
Carbiopel - ESP S.A.	Poland	100%	0.0%	0.0%
MicroCoal International Inc. ("MicroCoal Canada")	Canada	100%	0.0%	0.0%

(b) Foreign currency translation

The presentation currency of the Company and the functional currency of the Company is the Canadian dollar. Subsidiaries whose functional currency differs from that of the parent company ("foreign operations") are translated into Canadian dollars as follows: assets and liabilities-at the closing rate as at the reporting date, and income and expenses-at the average rate of the period. All resulting changes are recognized in other comprehensive income as exchange gain (loss) arising on translation of foreign operations.

Transactions in foreign currencies are translated into the functional currency at exchange rates at the date of the transactions. Foreign currency differences arising during operations are recognized in profit or loss as foreign exchange loss (gain) on operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when acquired. All gains and losses on translation of these foreign currency transactions are included in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Foreign currency translation (continued)

The functional currency of the Company and its subsidiaries are as follows:

	Functional currency
Global CO2 Reduction Inc. ("Global CO2")	Canadian dollars
CO2 Reduction Poland Sp. z. o. o. ("CO2 Reduction")	Polish zloty
MicroCoal Inc. ("MicroCoal")	U.S. dollars
Carbiopel - ESP S.A.	Polish zloty
MicroCoal International Inc. ("MicroCoal Canada")	Canadian dollars

(c) Revenue recognition

The Company's revenue consists of sale of biomass and carbon credits. Revenue is recognized when the Company has transferred to the buyer the significant risks and rewards of the ownership of the materials or the carbon credits, the amount is reliably measureable, the costs incurred in respect of the transaction can be reliably measured and it is probable that the economic benefits will flow to the Company or its subsidiaries.

(d) Property and equipment

Property and equipment are recorded at cost less accumulated amortization and impairment losses. The asset's residual value, useful life and depreciation method are evaluated annually and changes to estimated useful lives, residual values or depreciation methods resulting from such review are accounted for prospectively. The significant classes of depreciable property and equipment are recorded using the following rates and methods:

Assets	Rate	Basis
Computer equipment	30-45%	Declining-balance
Equipment	10-100%	Declining-balance
Automotive equipment	14-40%	Declining-balance
Leasehold improvements	7 years	Straight-line

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Goodwill

Goodwill represents the excess of the purchase price paid for an acquisition of a business over the fair value of the net assets acquired. Goodwill is not amortized, but is subject to an impairment test annually or more frequently if events or circumstances indicate that it may be impaired.

Goodwill impairment is assessed by comparing the fair value of its cash generating unit ("CGU") to the underlying carrying amount of the CGU's net assets, including goodwill. When the carrying amount of the CGU exceeds its fair value, the fair value of the CGU's goodwill is compared with its carrying amount to measure the amount of impairment loss, if any.

(f) Impairment of non-financial assets

Impairment tests on intangible assets with indefinite useful economic lives are undertaken annually at the financial year-end. Other non-financial assets, including coal technology and plant prototype assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets. The Company has one cash-generating unit for which impairment testing is performed.

An impairment loss is charged to profit or loss, except to the extent they reverse gains previously recognized in accumulated other comprehensive loss/income.

(g) Project development expenditures

The Company focuses on the development of coal technology and validation of carbon credits. The Company incurs project development expenditures to conduct pre-feasibility evaluation activities, scope projects, develop and license technology, and validate carbon credit rights either for use or sale. The Company records project development expenditures as consulting fees and wages and benefits, which are expensed as incurred, or development expenditures, which are either capitalized as an intangible assets and inventory depending on whether the carbon offset credits from the project are intended for use or sale.

The costs to develop the projects include directly attributable labor, overhead, materials and consulting fees. The Company will capitalize costs to develop the technology or a project intended for use, as long as the Company:

i. maintains assurance over the technical feasibility of completing the technology or project
ii. has the intention to have the technology licensed or project validated and sell or use the carbon credits.
iii. has the ability to license the technology, to use or sell the carbon credits.
iv. can demonstrate the project has probable future economic benefits.
v. has adequate technical and financial resources to complete the development to license the technology or sell the carbon credits.
vi. has the ability to reliably measure the expenditure attributable to the project during its development.

If the development costs do not meet these requirements, the Company will expense the costs as incurred. Costs are capitalized on projects intended for use until the commencement of production and are amortized over the expected life of the respected project. During the year ended June 30, 2012, no costs have been capitalized.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) 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 in other comprehensive loss/income.

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 tax rates and tax laws that have been enacted or substantively enacted by the year-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 year 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.

(i) Financial instruments

Financial assets

Financial assets are classified as 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:

The Company has classified its financial assets as follows:

- Cash is classified as loans and receivables.
- Receivables and deposit are classified as loans and receivables.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted on an active market. Such assets are initially recognized at fair value plus any direct attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Available-for-sale ("AFS")

Non-derivative financial assets that do not meet the definition of loans and receivables are classified as available-for-sale and comprise principally the Company's strategic investments in entities not qualifying as subsidiaries or associates. Available-for-sale investments are carried at fair value with changes in fair value recognized in other comprehensive loss/income. If there is no quoted market price in an active market and fair value cannot be readily determined, available-for-sale investments are carried at cost. Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognized in other comprehensive loss/income, is recognized in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

Financial liabilities

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method. Liabilities in this category include accounts and other payables.

The Company classified its financial liabilities which consisted of accounts payable and accrued liabilities, related parties, and loans payable as other liabilities.

(k) Share capital

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 asset. The Company's common shares, share subscriptions, share warrants and share options are classified as equity instruments.

(l) Share-based payments

The fair value of equity settled stock options awarded to employees defined under IFRS 2 (i.e. employees for legal and tax purpose, directors and certain consultants), determined as of the date of grant, and awarded to non-employees defined under IFRS 2, as of the date of delivery of service, is recognized as share-based compensation expense, included in general and administrative expenses in the statement of comprehensive income, over the vesting period of the stock options based on the estimated number of options expected to vest, with a corresponding increase to equity. The fair value of stock options is determined using the Black-Scholes option pricing model with market related inputs as of the date of grant or the date of delivery of service. Stock options with graded vesting schedules are accounted for as separate grants with different vesting periods and fair values. Changes to the estimated number of awards that will eventually vest are accounted for prospectively.

The Company has a share-based compensation plan. See Note 14d for details with respect to the fair value determination, including assumptions.

(m) Basic and diluted loss per share

Basic earnings or loss per share represents the income or loss for the year, divided by the weighted average number of common shares outstanding during the year. Diluted earnings or loss per share represents the income or loss for the year, divided by the weighted average number of common shares outstanding during the year plus the weighted average number of dilutive shares resulting from the exercise of stock options, warrants and other similar instruments where the inclusion of these would not be anti-dilutive. During the years ended June 30, 2012 and 2011, the calculation of basic and diluted loss per share is the same. The effect of potential issuances of 25,033,238 (2011 – 18,852,070) shares in respect of stock options and common share purchase warrants were not included in the computation of diluted loss per share as the effect would have been antidilutive.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Standards, Amendments and Interpretations Not Yet Adopted

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting periods beginning after January 1, 2011 or later years. The following pronouncements are relevant to the consolidated financial statements, although none of these are expected to have a material effect on financial statement presentation:

i. IFRS 1 - First Time Adoption of International Financial Reporting Standards

The Company has early adopted the amendments to IFRS 1 which replaces references to a fixed date of '1 January 2004' with 'the date of transition to IFRSs'. This eliminates the need for the Company to restate derecognition transactions that occurred before the date of transition to IFRSs. The amendment is effective for year-ends beginning on or after July 1, 2011; however, the Company early adopted the amendment. The impact of the amendment and early adoption is that the Company only applies IAS 39 derecognition requirements to transactions that occurred after the date of transition.

ii. IFRS 7 - Financial Instruments: Disclosures (Amendment)

In December 2011, the IASB amended this standard to set out additional disclosure requirements regarding the offsetting of financial assets and financial liabilities. The standard was also amended to reflect the effects of adopting IFRS 9, *Financial Instruments*. The Company is yet to assess the full impact of IFRS 7 and intends to adopt the standard no later than the accounting period beginning on July 1, 2013.

iii. IFRS 9 - Financial Instruments

IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2015. The Company is in the process of evaluating the impact of the new standard on the accounting for the available-for-sale investment.

iv. IFRS 10 - Consolidated Financial Statements

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Company is yet to assess the full impact of IFRS 10 and intends to adopt the standard no later than the accounting period beginning on July 1, 2013.

v. IFRS 11 - Joint Arrangements

IFRS 11 describes the accounting for arrangements in which there is joint control; proportionate consolidation is not permitted for joint ventures (as newly defined). IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers*. The Company is yet to assess the full impact of IFRS 11 and intends to adopt the standard no later than the accounting period beginning on July 1, 2013.

vi. IFRS 12 - Disclosure of Interests in Other Entities

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Company is yet to assess the full impact of IFRS 12 and intends to adopt the standard no later than the accounting period beginning on July 1, 2013.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Standards, Amendments and Interpretations Not Yet Adopted (continued)

vii. IFRS 13 - Fair Value Measurements

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS or US GAAP. The Company intends to adopt the standard beginning on July 1, 2013.

viii. IAS 1 – Presentation of Financial Statements (Amendment)

In June 2011, the IASB and the Financial Accounting Standards Board (FASB) issued amendments to standards to align the presentation requirements for other comprehensive income (OCI). The IASB issued amendments to *IAS 1 - Presentation of Financial Statements* to require companies preparing financial statements under IFRS to group items within OCI that may be reclassified to the profit or loss. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. The amendments to IAS 1 set out in *Presentation of Items of Other Comprehensive Income* will be implemented beginning on July 1, 2013.

ix. IAS 27 – Separate Financial Statements (Amendment)

IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. The Company adopted the amendment to IAS 27 effective July 1, 2010.

There are no other IFRSs or IFRIC interpretations that are not yet effective that are expected to have a material impact on the Company.

x. IAS 28 – Investments in Associates and Joint Ventures

As a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will provided the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee. The Company is yet to assess the full impact of IAS 1 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

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 and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In preparing these financial statements, the Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are the determination of the carrying value of property, plant and equipment; coal technology and plant prototype, intangible assets and goodwill, the determination of income tax and share-based payments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

a) Property, plant and equipment

In determining the carrying values of property, plant and equipment, management makes estimates in estimating the useful lives of these assets and the appropriate amortization method. Management believes that the selected useful lives and amortization method reflect more representative of the economic substance of the underlying use of those assets.

b) Coal technology and plant prototype

In determining the carrying values of coal technology and plant prototype, management makes estimates in estimating the economic useful lives of the assets. Management is required to evaluate the asset for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Impairment test compares the carrying value of the asset to its recoverable amount, based on the higher of the asset's value in use, estimated using future discounted cash flows, or fair value less cost to sell. Impairment loss calculations contain uncertainties as they require assumptions and judgment about future cash flow and asset fair value.

c) Impairment of intangible assets with infinite lives and goodwill

For the purpose of impairment testing of intangible assets with infinite lives and goodwill, management must use its judgment to identify the smallest group of assets that generates cash inflows that are largely independent of those from other assets (CGU). The amounts used for impairment calculations are based on estimates of future cash flows of the Company, including estimates of future revenues, operating costs, discount rates and market prices. By their nature, these estimates and assumptions are subject to measurement uncertainty and, consequently, actual results could differ from estimates used.

d) Income Taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent that it is probable that taxable profit will be available against which a deductible temporary difference can be utilized. This is deemed to be the case when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity which are expected to reverse in the same year as the expected reversal of the deductible temporary difference, or in years into which a tax loss arising from the deferred tax asset can be carried back or forward. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

e) Share-based Payment Transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 14.

5. SUPPLEMENTAL CASH FLOW INFORMATION

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the consolidated statements of cash flows during the years ended June 30, 2012 and 2011 are:

	June 30, 2012	June 30, 2011
Interest paid	$	$ -
Income taxes paid	-	-
Issuance of shares for acquisition of MicroCoal Inc. (Note 6)	-	2,136,767
Issuance of shares for investment in Carbiopel (Note 11)	531,090	-
Issuance of shares for debts settlement	115,000	-
Issuance of shares for services rendered	45,300	-

6. COAL TECHNOLOGY AND PLANT PROTOTYPE

The Company entered into an agreement to acquire 58.21% of the outstanding share capital of MCI. In accordance with a share purchase agreement and its amendment, all Microcoal shareholders, except for one, exchanged their shares of Microcoal on a pro rata basis for 10,957,778 common shares of the Company at a price of $ 0.195 per share, as per the share price at the January 31, 2011 closing date, which equals a total of $2,136,767 (the "Share Exchange").

At the time of acquisition the fair value of the assets and liabilities of MicroCoal were:

Cash and cash equivalents	$	10,036
Property, plant and equipment		29,632
Coal technology and plant prototype		7,059,324
Accounts payable and accrued liabilities		(842,680)
Loans payable		(2,585,520)
Net assets		3,670,790
Non-controlling interest		(1,534,024)
Consideration (10,957,778 common shares)	$	2,136,767

In addition to the Share Exchange, the Company was to complete a private placement financing of up to $6 million (the "Financing") and from such proceeds, the Company was to pay (i) US$1 million cash to Orica, a creditor/shareholder of MCI, in consideration for the forgiveness of certain outstanding debt owed to such creditor by MCI and for the re-purchase of such creditor's 1,013 MCI shares for cancellation; and (ii) up to US$85,000 cash to certain other creditors of MCI to settle other outstanding indebtedness owed by MCI. Upon completion of the entire transaction, the Company would own 100% of MicroCoal. This transaction did not occur prior to the agreed closing date, September 30, 2011, however, the Company has arranged a purchase of the remaining 41.79% interest in MicroCoal. The Company will pay the sum of $125,000 USD (paid) and a balance of $875,000 USD by March 31, 2012. The Company is re-negotiating with Orica to finalize the terms and conditions for the acquisition. The $125,000USD paid has been recorded as a reduction of loans payable as of June 30, 2012.

MicroCoal is a materials technology company focused on commercializing the use of microwave energy and related process technologies to transform coal and other minerals into higher quality and higher value industrial materials. The Company accounted for the 58.21% acquisition of MicroCoal as an asset acquisition.

The asset is being amortized on a straight-line basis over a period of 5 years commencing when the asset is available for use. As of June 30, 2012, the accumulated amortization was $2,000,837 (2011 - $588,973).

6. COAL TECHNOLOGY AND PLANT PROTOTYPE (continued)

		June 30, 2012		June 30, 2011		July 1, 2010
Coal technology and plant prototype	$	7,059,324	$	7,059,324		-
Accumulated amortization		(2,000,837)		(588,973)		
	$	5,058,487	$	6,470,351	$	-

7. RECEIVABLES

		June 30, 2012		June 30, 2011		July 1, 2010
GST/HST/VAT recoverable	$	136,531	$	63,266	$	35,531
Payroll tax receivable		-		-		32,833
Trade receivables		93,287		17,341		45,000
	$	229,818	$	80,607	$	113,184

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		June 30, 2012		June 30, 2011		July 1, 2010
Accounts payable	$	649,975	$	522,694	$	206,101
Accrued liabilities		794,632		839,309		-
Taxes and benefits		5,549		12,788		
Accrued interest payable		581,222		416,851		-
	$	2,031,378	$	1,791,642	$	206,101

9. PROPERTY AND EQUIPMENT

Costs	Computer equipment	Equipment	Automotive equipment	Leasehold improvements	Total
July 1, 2010	$ 21,810	$ 24,660	$ -	$ 8,614	$ 55,084
Additions	13,857	50,152	-	-	64,009
Effect of foreign exchange	(255)	(1,043)	-	-	(1,298)
June 30, 2011	35,412	73,769	-	8,614	117,795
Additions	-	462,424	85,320	-	538,251
Disposals	-	-	(2,829)	-	(2,829)
Effect of foreign exchange	(452)	(32,074)	(6,673)	-	(39,199)
June 30, 2012	$ 34,960	$ 538,625	$ 75,827	$ 8,614	$ 658,026
Accumulated amortization					
July 1, 2010	$ 12,622	$ 8,335	$ -	$ 2,461	$ 23,418
Acquisitions	5,314	27,256	-	-	32,570
Amortization	5,489	5,208	-	1,231	11,928
Effect of foreign exchange	341	(610)	-	-	(269)
June 30, 2011	23,766	40,189	-	3,692	67,647
Acquisitions	-	125,108	27,675	-	152,783
Disposals	-	-	(471)	-	(471)
Amortization	3,365	22,035	5,840	984	32,224
Effect of foreign exchange	(456)	(8,380)	(3,656)	-	(12,492)
June 30, 2012	26,675	178,952	29,388	4,676	239,691
Net book value, July 1, 2010	$ 9,188	$ 16,325	$ -	$ 6,153	$ 31,666
Net book value, June 30, 2011	$ 11,646	$ 33,580	$ -	$ 4,922	$ 50,148
Net book value, June 30, 2012	$ 8,033	$ 358,741	$ 46,439	$ 3,938	$ 418,335

10. DEPOSIT

The deposit represents an amount paid in advance for the lease of office premises. See also note 18, commitments

11. ACQUISITION OF CARBIOPEL - ESP S.A.

Pursuant to the original and amended agreements, on February 20, 2012 a total of 1,967,000 shares of the Company were issued with a fair value of $531,090 to acquire 100% ownership of Carbiopel Eco Stream Power S.A. ("Carbiopel"). Carbiopel is a biomass pellet producer based out of Poland that focuses on aggregating biomass, particularly from agricultural residue, to use as feedstock for the Pellet Producing machinery. The common shares were subject to a four month holding period. The Company also agreed to lend up to $312,000 to Carbiopel at an interest rate of 4% per annum repayable on or before February 28, 2013.

The value of the Carbon Friendly shares issued was calculated using the closing share price as at the date of acquisition. The acquisition was accounted for as a business combination and the aggregate fair values of assets acquired and liabilities assumed were as follows on acquisition date:

Cash	$	7,172
Amounts receivable		8,737
Prepaids		1,032
Property, plant and equipment		432,239
Accounts payable and accrued liabilities		(54,507)
Loan from parent		(112,000)
Fair value		282,674
Consideration (1,967,000 common shares)	$	531,090
Goodwill		248,416

The acquired amounts receivables are classified as loans and receivables and consist primarily of VAT receivable. It is expected that the full amount will be recovered.

Incurred in connection with this acquisition was an immaterial amount of transaction costs, which were expensed during the year ended June 30, 2012.

The goodwill was attributable mainly to the skills and technical talent of Carbiopel's work force and the synergies expected to be achieved from integration of Polish operations. Subsequent to the date of acquisition, management has estimated the synergies effect did not materialize as expected and the amount of $248,416 has been written off as of June 30, 2012.

The Company's revenues have increased by of $87,282 and the net loss has increased by $31,355 since the date of acquisition. Had this business combination been effected on July 1, 2011, the Company's revenue and net loss would not have been materially impacted.

12. INTANGIBLE ASSETS

Intangible Assets		**June 30, 2012**		**June 30, 2011**		**July 1, 2010**
Exclusive contract (i)	$	104,695	$	116,791	$	-
Impairment charges (i)		(55,121)		(55,121)		-
	$	49,574	$	61,670	$	-

(i) Exclusive Sales Contract

As of June 30, 2012, the Company reviewed the carrying amount of its intangible assets and recognized an impairment charge of $nil in the consolidated statements of comprehensive loss (June 30, 2011 - $55,121)

During the years ended June 30, 2011 and 2010, the Company entered into additional sales contracts for the exclusive rights to sell carbon credits generated from the bedding and trees growing on plots of land located in Poland. Additional lease payments are conditional on the earlier of the date of certification of validation carbon credits or sale of a carbon credit units generated from the plots of land. The Company has not acquired additional rights to sell carbon credits during the current year. As of June 30, 2012, the Company has approximately 1,460,000 (2011 – 1,500,000) verified emission reduction credits.

13. LOANS PAYABLE

	June 30, 2012	June 30, 2011	July 1, 2010
Pursuant to several loan agreements, a total of $385,000 was advanced to the Company on an unsecured basis. A 20% loan bonus was charged with the loan amount calculated at $462,000 to be repaid. The interest rate is 8% per annum and the term is one year or shorter if a financing was achieved by the Company. During the year ended June 30, 2012 the Company repaid $160,000 (2011 - $202,000). The remaining balance of $100,000 was due in January 2012. The Company is negotiating with the lender to extend the loan and the amount has been classified as current liability.	$100,000	$260,000	$ -
Pursuant to a loan agreement, a total of $48,000 was advanced to the Company on an unsecured basis. A 20% loan bonus was charged with the loan amount calculated at $60,000 to be repaid. The interest rate is 10% per annum and the principal was due at the earlier of September 12, 2012 or if a financing was achieved by the Company. The Company is negotiating with the lender to extend the terms of the loan and the amount has been classified as current liability.	60,000	-	-
Pursuant to a loan agreement a total of $20,000 was advanced to the Company. The interest rate was at 2% per month. The term was one year or shorter if a financing was achieved by the Company. The principal and interest payable were settled by the issuance of 115,000 common shares of the Company.	-	20,000	-
Pursuant to a loan agreement a total of $20,000 was advanced to the Company. The interest rate was at 2% per month. The loan was payable on demand. The principal and interest payable were settled by the issuance of 110,000 common shares of the Company.	-	20,000	-
Pursuant to a loan agreement a total of $125,000 was advanced to the Company. The interest rate is at 10% per annum. The loan was payable on or before March 23, 2012. The Company is negotiating with the lender to extend the terms of the loan and the amount has been classified as current liability.	115,000	-	-
Pursuant to a loan agreement dated June 2, 2008, MicroCoal received $2,250,000 USD in periodic payments at a rate of interest at 6.75% per annum. The loan was payable on demand, however, as a result of the acquisition agreement where the Company acquired a 58.12% interest in MicroCoal (note 6), there was a provision to limit the liabilities to MicroCoal for a total of $1,000,000 USD if the Company was to continue to acquire the balance of shares in MicroCoal and provide financing. As the acquisition for the remaining interest has not completed, the provision has not in effective as of June 30, 2012. The Company is negotiating with the terms of the repayment.	2,178,370	2,203,200	-
	$2,453,370	$2,503,200	$ -

14. SHARE CAPITAL

a) Authorized: 100,000,000 common shares without par value

b) Issued and Outstanding

Fiscal 2012

On February 13, 2012 a private placement was completed consisting of 6,395,766 units at $0.30 per unit, each unit consisting of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of $0.45 per common share for a period of two years from the closing date of the private placement. The Company paid share issuance costs of $118,587 related to legal and professional fees and issued 297,909 broker warrants. The fair value of the broker's warrants of $35,990 was estimated using the Black-Scholes option pricing model using a risk free interest rate of 1.11%, an expected dividend yield of $Nil, a volatility of 88% and an expected life of warrants of 2 years. The broker warrants have the same exercise price and terms as for the private placement units.

On October 19, 2011 a private placement was completed consisting of 5,495,000 units at $0.20 per unit, each unit consisting of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of $0.35 per share for a period of two years. The Company paid share issuance costs of $29,900 related to legal and professional fees and issued 509,313 broker warrants. The fair value of the broker's warrants of $47,410 was estimated using the Black-Scholes option pricing model using a risk free interest rate of 0.91%, an expected dividend yield of $Nil, a volatility of 118% and an expected life of warrants of 2 years. The broker warrants have the same exercise price and terms as for the private placement units.

Fiscal 2011

During the year ended June 30, 2011, a private placement was completed consisting of 5,272,750 units at $0.20 per unit, each unit consisting of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share at $0.35 per share for a period of two years. In connection with this private placement, the Company paid share issuance costs of $1,720. A total of $352,000 share subscriptions was collected during the year ended June 30, 2012.

All proceeds from the above private placements were allocated to share capital with no amounts allocated to the attached warrants.

c) Warrants

	Number of shares	Exercise price
Balance, July 1, 2010	9,747,700	0.44
Issued	5,272,750	0.35
Balance, June 30, 2011	15,020,450	0.41
Issued	12,697,988	0.40
Expired	(7,675,200)	0.35
Balance, June 30, 2012	20,043,238	$ 0.42

Warrants Outstanding	Expiry Date
2,072,500 *	August 29, 2013
5,272,750	June 30, 2013
6,004,313	September 30, 2013
6,693,675	February 13, 2014
20,043,238	

14. SHARE CAPITAL (continued)

c) Warrants (continued)

* These warrants with an original expiry date of August 29, 2010 were extended to August 29, 2012 in 2011 and in August 2012 the expiry date was extended for another year to August 29, 2013.

d) Stock options

On December 29, 2010, the Company adopted an incentive share option plan for granting options to directors, employees and consultants, under which the total outstanding options are limited to 10% of the issued and outstanding common shares of the Company. The options vest when granted except for options granted for investor relations activities which vest over a 12 month period with no more than 25% of the options vesting in any three month period.

Stock options outstanding are as follows:

	Number of shares	Weighted Average Exercise Price
Outstanding, July 1, 2010	2,817,500	$ 0.29
Granted	2,321,620	0.20
Cancelled	(912,500)	0.29
Exercised	(395,000)	0.22
Outstanding, June 30, 2011	3,831,620	0.24
Granted	1,420,000	0.22
Cancelled	(261,620)	0.25
Outstanding, June 30, 2012	4,990,000	$ 0.23

During the year ended June 30, 2012, the Company granted 790,000 options at an exercise price of $0.14 and 630,000 options at an exercise price of $0.32 to officers, directors and consultants. The options vested immediately and are exercisable for 5 years. The Company has recorded share-based compensation in the amount of $255,900 (2011 - $311,365) and included in share-based payment reserve.

The weighted average fair value of options granted during the year ended June 30, 2012 is $0.18 (2011 - $0.13). As of June 30, 2012, the weighted average remaining life of the outstanding options is 3.27 years.

The compensation costs recorded in the consolidated statements of operations and deficit were calculated using the Black-Scholes option pricing model using the following weighted average assumptions:

	2012	2011
Risk free interest rate	**1.34%**	2.78%
Expected dividend yield	**nil%**	nil%
Stock price volatility	**118.2%**	83.0%
Expected life of options	**5.00**	4.70

14. SHARE CAPITAL (continued)

The following table summarizes stock options outstanding and exercisable at June 30, 2012:

Options Outstanding	Expiry Date
790,000	August 18, 2016
2,090,000	February 8, 2016
805,000	October 6, 2013
675,000	December 16, 2014
630,000	December 22, 2016
4,990,000	

e) Escrow shares

As at June 30, 2012 there was nil (June 30, 2011 - 907,500) (July 1, 2010 – 2,722,500) common shares remaining in escrow.

f) Share-based payment reserve

		2012		2011
Balance, beginning of year	$	1,404,017	$	1,147,344
Stock-based compensation		255,900		311,365
Fair values of broker's warrants		83,400		-
Fair value of stock options exercised, reclassified to share capital		-		(54,692)
Balance, end of year	$	1,064,717	$	1,404,017

g) Nature and purpose of reserves

The reserves recorded in equity on the Company's Statement of Financial Position include 'Share-based payment reserve', 'Cumulative Other Comprehensive Income' and 'Accumulated Deficit'. 'Share-based payment reserve' is used to recognize the value of stock option grants and share purchase warrants prior to exercise. 'Cumulative Other Comprehensive Income' includes the cumulative translation reserve which records exchange gains and losses on translating foreign operations into the company's Canadian dollar functional currency. 'Accumulated Deficit' is used to record the Company's change in deficit from earnings from year to year.

h) Loss on settlement of debts

During the year ended June 30, 2012, the Company issued 190,000 common shares (2011 – Nil) of the Company for services rendered of $52,722 by two former consultants of the Company.

Included in a private placement, the Company issued 575,000 units at $0.20 per unit to settle loans payable and accrued interest of $101,270.

The aggregate fair values of the common shares were $160,300 and the Company recognized a loss of $6,308 on the statements of comprehensive loss.

15. RELATED PARTIES

Key management includes the Chief Executive Officer and the Chief Financial Officer. Compensation paid or payable to key management for services provided during the years ended June 30, 2012 and 2011 was as follows:

	June 30, 2012	June 30, 2011
Management and professional fees	$ 648,851	$ 496,014
Automobile allowances	38,999	25,889
Stock-based compensation	218,578	90,700
	$ 906,428	$ 612,603

The Company incurred the following transactions with companies that are controlled by directors and/or officers of the Company. The transactions were measured at the exchange amount which approximates fair value, being the amount established and agreed to by the parties.

	June 30, 2012	June 30, 2011
Management and directors' fees	$ 617,781	$ 488,615
Professional fees	123,700	69,500
Consulting	-	44,417
Automobile allowance (travel and promotion)	38,999	28,808
Rent expenses and miscellaneous	-	1,882
	$ 780,480	$ 633,222

As at June 30, 2012, current liabilities included $354,817 (June 30, 2011 - $440,646 and July 1, 2010 - $8,630) owing to directors and officers of the Company. The amounts are unsecured non-interest bearing and are due on demand.

16. INCOME TAXES

The difference between tax expense for the year and the expected income taxes based on the statutory tax rate arises as follows:

	June 30, 2012	June 30, 2011
	$	$
Income/(loss) before income taxes	**(4,738,390)**	**(3,008,960)**
Tax recovery based on the statutory rate of 25.75% (2011: 27.50%)	(1,220,000)	(827,000)
Change in tax rates on deferred tax	13,000	48,000
Non-deductible expenses	188,000	175,000
Different tax rates in other jurisdictions	(284,000)	(92,000)
Financing costs and other	(37,000)	38,000
Impact of initial recognition exemption on coal technology and plant prototype	537,000	224,000
Changes in unrecognized deferred tax assets	803,000	434,000
Total income tax expense / (recovery)	-	-

Effective January 1, 2012, the Canadian Federal corporate tax rate decreased from 16.5% to 15% while the BC provincial tax rate remained at 10%. The US tax rate remained at 38%.

Deferred Tax Assets and Liabilities

The nature and tax effect of the temporary differences giving rise to the deferred tax assets and liabilities at June 30, 2012 and 2011 are summarized as follows:

	June 30, 2012	June 30, 2011
	$	$
Deferred tax assets		
Losses carried forward	$ 2,361,000	$ 1,571,000
Un-deducted financing costs	89,000	80,000
Capital assets	19,000	14,000
Other tax assets	14,000	15,000
	$2,483,000	$ 1,680,000
Unrecognized deferred tax asset	(2,483,000)	(1,680,000)
Deferred tax assets	**$ -**	**$-**

Tax Losses

As at June 30, 2012, the Company has accumulated non-capital losses of approximately $7.789 million (2011: $5.933) for Canadian income tax purposes that may be carried forward to reduce taxable income derived in future years, which expire in various amounts from 2027 to 2032. The Company also has operating losses of approximately $1,086,000 (2011: $231,000) in the United States which expire up to 2032. For Polish tax purposes, there is approximately $1.1 million operating losses which have not been included in the deferred tax assets above due to the uncertainty of the inclusion of these losses. The Company evaluates its deferred tax assets based on projected future operations. When circumstances change and this causes a change in management's judgment about the recoverability of deferred tax assets, the impact of the change on the unrecognized deferred tax assets are reflected in current income.

17. SEGMENTED INFORMATION

The Company currently operates in one industry segment, being the generation of carbon credits and in the geographic areas as follows.

Sales for the period	Year ended June 30, 2012	Year ended June 30, 2011
Canada	$ -	$ -
USA	-	-
Poland	87,282	7,980
	$ 87,272	$ 7,980

Property and Equipment	June 30, 2012	June 30, 2011	July 1, 2010
Canada	$ 16,552	$ 21,920	$ 29,638
USA	24,477	27,120	-
Poland	377,306	1,108	2,028
	$ 418,335	$ 50,148	$ 31,666
Intangible Assets			
Canada	$ -	$ -	$ -
USA	136,416	-	-
Poland	49,574	61,670	-
	$ 185,990	$ 61,670	$ -
Coal technology and plant prototype			
Canada	$ -	$ -	$ -
USA	5,058,487	6,470,351	-
Poland	-	-	-
	$ 5,058,487	$ 6,470,351	$ -

18. COMMITMENTS AND CONTINGENCIES

a) The Company has a management agreement for a period of 3 years commencing July 1, 2011 and will pay management fees of $183,795 per year. There is an annual increase of 5% per annum. In an event of a change in control, and the officer is terminated within 12 months of such change of control, then the officer will receive a lump sum payment equal to the greater of (1) the compensation remaining for the rest of the period under the terms of engagement and (2) one year's compensation.

b) During the year ended June 30, 2012, the Company entered into a management agreement for a period of 3 years commencing July 1, 2011 and will pay management fees of $84,000 per year. There is an annual increase of 5% per annum. In an event of a change in control, and the officer is terminated within 18 months of such change of control, then the officer will receive a lump sum payment equal to the greater of (1) the compensation remaining for the rest of the period under the terms of engagement and (2) two year's compensation.

c) During the year ended June 30, 2012, the Company entered into a management agreement for a period of 3 years commencing April 1, 2012 and will pay management fees of $66,000 per year. There is an annual increase of 5% per annum. In an event of a change in control, and the officer is terminated within 12 months of such change of control, then the officer will receive a lump sum payment equal to the greater of (1) the compensation remaining for the rest of the period under the terms of engagement and (2) one year's compensation.

18. COMMITMENTS AND CONTINGENCIES (continued)

d) The Company entered into an agreement to lease additional office space as follows:

2013	$94,923
2014	94,923
2015	96,266
2016	98,057
2017	24,626
	$408,795

e) In prior years, the Company has acquired the rights to over 100 properties wherein it has the exclusive sale contract rights to sell carbon credits generated from the bedding and trees growing in various plots of lands in Poland until 2040. The Company paid a total of $104,695 for these exclusive sales contract rights and has right to sell carbon credits into the market place. If sales are found through a carbon credit certification process, further amounts would be paid to the vendors of up to 8,222,251 PLN (approximately $2.4 million) within 30 days subject to obtaining carbon credit certification or sale of a carbon credit unit from the lands.

f) The Company is currently involved in dispute with an investor relations company who claims that the Company agreed, pursuant to an agreement, to pay a finder's fee in connection with the acquisition of MicroCoal. A formal lawsuit has been filed by the investor relations company and the fees claimed are $450,000. The amount has not been recorded as uncertainties existed related to whether claims will be settled out of court and if not whether the Company will be successful in defending any action.

19. CAPITAL DISCLOSURES

The Company manages its capital structure and makes adjustments based on the funds available in order to support continued operation and future business opportunities. The board of directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company considers its capital to be share capital. The capital management objectives remain the same as for the previous fiscal period.

The Company's operations are currently not generating positive cash flow; as such, the Company is dependent on external financing to fund its activities. In order to carry out potential expansion and to continue operations, and pay for administrative costs, the Company will spend its existing working capital, and raise additional amounts as needed. Companies in this stage typically rely upon equity and debt financing or joint venture partnerships to fund its operations. There is no certainty with respect to the Company's ability to raise capital.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. As at June 30, 2012, cash amounted to $31,293. During the year ended June 30, 2012, the Company raised $2,869,243 through the issuance of common shares in a private placement. These additional funds were used for working capital requirements.

The Company is not exposed to external requirements by regulatory agencies regarding its capital.

20. FINANCIAL INSTRUMENTS AND RISKS

As at June 30, 2012, the Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, due to related parties and loans payable. The carrying values of these financial instruments approximate their fair values because of their current nature.

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, investment fluctuations, and commodity and equity prices. Market conditions will cause fluctuations in the fair values of financial assets classified as held-for-trading and available-for-sale and cause fluctuations in the fair value of future cash flows for assets or liabilities classified as held-to-maturity, loans or receivables and other financial liabilities. The Company is not exposed to significant market risk. The Company is not exposed to significant interest rate risk as the Company has no variable interest debt. The Company's ability to raise capital to fund activities is subject to risks associated with fluctuations in the market. Management closely monitors individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due and the going concern assumption (note 2). The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined in note 19.

Interest rate Risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and liabilities and amounts owing being non-interest bearing or bearing fixed rates of interest.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is mainly exposed to credit risk from credit sales and cash with major financial institutions. It is the Company's policy, implemented locally, to assess the credit risk of new customers before entering contracts. Such credit ratings are taken into account by local business practices.

Currency Risk

The Company is exposed to foreign currency risk on fluctuations related to cash, receivables and accounts payable and accrued liabilities that are denominated Polish Zloty (PLN) and the United States dollar (USD). Management does not hedge its exposure to foreign exchange risk and does not believe the Company's net exposure to foreign currency risk is significant.

20. FINANCIAL INSTRUMENTS AND RISKS (continued)

The following table reflects the Company's significant foreign exchange currency exposure:

	United States		Poland	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Cash	8,428	1,987	1,216	312
Receivables	-	-	95,217	-
Accounts payable and accrued liabilities	(1,774,971)	(1,310,995)	(65,380)	(71,503)
Related parties	(176,338)	(99,715)	(20,293)	(19,045)
Loans payable	(2,178,370)	(2,203,200)	-	-
	(4,121,251)	(3,611,923)	(84,457)	(90,236)

The following exchange rates were applied:

	Year ended June 30, 2012		Year ended June 30, 2011	
	Average rate	Spot rate	Average rate	Spot rate
Canadian dollars to US dollars	0.9969	0.9755	0.9987	1.0212
Canadian dollars to Zloty	3.1675	3.3584	2.9058	2.8254

Other Price and Market Risk

The Company's financial instruments are all short term and exposed to other price and market risks should the fair value of future cash flows from financial instruments fluctuate.

The carbon credit market is a newly developing market and as such there are limited avenues to negate market risk in traditional manners. The Company monitors and understands movements within the market on a regular basis.

21. EVENTS OCCURING AFTER REPORTING DATE

a) On August 10, 2012, the Company granted 1,085,000 stock options to directors, officers and consultants of the Company. The options are exercisable for 5 years at a price of $0.11 per share.

b) On August 28, 2012, the Company extended the expiry date of 2,072,500 warrants to August 28, 2013. All other terms remained unchanged.

c) On October 11, 2012, 200,000 options with an exercise price of $0.14 each were exercised.

22. FIRST TIME ADOPTIONS OF IFRS

For all periods up to and including the year ended June 30, 2011, the Company prepared its financial statements in accordance with pre-changeover Canadian GAAP. The Company has prepared financial statements which comply with IFRS applicable for periods beginning on or after July 1, 2011 as described in the accounting policies. In preparing these financial statements, the Company's opening statement of financial position was prepared as at July 1, 2010, the Company's date of transition to IFRS.

This note explains the principal adjustments made by the Company in restating its pre-changeover Canadian GAAP statement of financial position as at July 1, 2010 and the GAAP financial statements for the year ended June 30, 2011.

IFRS 1 First-time Adoption of International Financial Reporting Standards sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional statement of financial position date with all adjustment to assets and liabilities taken to retained earnings unless certain exemptions are applied.

The Company has elected to apply optional exemptions to its opening statement of financial position dated July 1, 2010:

(a) Share-based payment transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 Share based Payment to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to July 1, 2010.

(b) Cumulative translation adjustment

The Company has elected not to restate cumulative translation adjustments arising before July 1, 2010. As a result, cumulative translation differences for all foreign operations are deemed to be zero at July 1, 2010; and the gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before July 1, 2010.

(c) Business combinations

Business combinations have not been applied to acquisitions of subsidiaries or of interests in associates and joint ventures that occurred before July 1, 2010.

IFRS 1 mandatory exceptions:

(a) Estimates

The estimates previously made by the Company under pre-changeover Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. As a result the Company has not used hindsight to revise estimates.

(b) De-recognition of Financial Assets and Liabilities

The Company has applied the de-recognition requirements in IAS 39 Financial Instruments: Recognition and Measurement prospectively from the Transition Date. As a result any non-derivative financial assets or non-derivative financial liabilities derecognized prior to the Transition Date in accordance with pre-changeover Canadian GAAP have not been reviewed for compliance with IAS 39.

22. FIRST TIME ADOPTIONS OF IFRS (continued)

Reconciliations of Pre-changeover Canadian GAAP Equity and Comprehensive Income to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive loss and cash flows for prior periods. The changes made to the statements of financial position and statements of comprehensive loss have shown below. There have been no adjustments to the decrease in cash for the period. As such no reconciliation of the statement of cash flows has been prepared.

The pre-changeover Canadian GAAP statement of financial positions at July 1, 2010 has been reconciled to IFRS as follows:

	Note	Pre-changeover Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current Assets				
Cash and cash equivalents		$ 156,840	$ -	$ 156,840
HST and other receivables		113,184	-	113,184
Inventory		9,567		9,567
Prepaid expenses		22,063	-	22,063
		301,654		301,654
Non-current				
Deposit		56,729	-	56,729
Property and equipment		31,666	-	31,666
Website development costs	Note 22 - 3	30,519	(30,519)	-
		$ 420,568	$ (30,519)	$ 390,049
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities		$ 206,101	$ -	$ 206,101
Due to related parties		8,630	-	8,630
		214,731	-	214,731
SHAREHOLDERS' EQUITY				
Share capital		5,321,753	-	5,321,753
Contributed surplus		1,147,344	(1,147,344)	-
Share-based payment reserve		-	1,147,344	1,147,344
Deficit	Note 22 - 3	(6,263,260)	(30,519)	(6,293,779)
		205,837	(30,519)	175,318
		$ 420,568	$ (30,519)	$ 390,049

22. FIRST TIME ADOPTIONS OF IFRS (continued)

The statement of financial position as at June 30, 2011 has been reconciled to IFRS as follows:

	Note	Pre-changeover Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current				
Cash		$ 3,031	$ -	$ 3,031
Receivables		80,607	-	80,607
Prepaid expenses		51,924	-	51,924
		135,562	-	135,562
Non -current				
Deposit		56,729	-	56,729
Property and equipment	Note 22 - 1	50,328	(180)	50,148
Coal technology and plant prototype	Note 22 - 2	8,169,126	(1,698,775)	6,470,351
Intangibles	Note 22 - 1	56,287	5,383	61,670
Website development costs	Note 22 - 3	21,363	(21,363)	-
		$ 8,489,395	$ (1,714,935)	$ 6,774,460
LIABILITIES				
Current				
Accounts payable and accrued liabilities		$ 1,791,642	$ -	$ 1,791,642
Related parties		440,646	-	440,646
Loans payable		2,503,200	-	2,503,200
		4,735,488	-	4,735,488
Future income taxes	Note 22 - 4	3,025,474	(3,025,474)	-
		7,760,962	(3,025,474)	4,735,488
SHAREHOLDERS' EQUITY				
Share capital		8,650,892	-	8,650,892
Share subscription receivable		(352,000)	-	(352,000)
Contributed surplus	Note 22 - 5	1,404,017	(1,404,017)	-
Share-based payment reserve		-	1,404,017	1,404,017
Deficit	Note 22 - 5	(8,974,476)	15,207	(8,959,269)
Cumulative other comprehensive income		-	104,778	104,778
		728,433	119,985	848,418
Non-controlling interest	Note 22 - 2	-	1,190,554	1,190,554
		$ 8,489,395	$ (1,714,935)	$ 6,774,460

22. FIRST TIME ADOPTIONS OF IFRS (continued)

The statement of operations for the year ended June 30, 2011 under the pre-changeover Canadian GAAP has been reconciled to IFRS as follows:

	Note	Pre-changeover Canadian GAAP	Effect of transition to IFRS	IFRS
Revenues				
Carbon credits		$ 7,980		$ 7,980
Cost of credits		(9,567)		(9,567)
		(1,587)		(1,587)
Expenses				
Amortization	Note 22 - 2	763,731	(163,527)	600,204
Bank charges and interest		8,445	-	8,445
Consulting fees		581,029	-	581,029
Finance and sponsorship fees		2,506	-	2,506
Foreign exchange gain (loss) on operations	Note 22 - 1	(105,473)	100,271	(5,202)
Gain on disposal of subsidiary		2,246	-	2,246
Interest on notes payable		130,303	-	130,303
Investor relations		13,666	-	13,666
Management fees		488,615	-	488,615
Office and miscellaneous		116,670		116,670
Professional fees		305,246	-	305,246
Rent		99,019	-	99,019
Stock-based compensation	Note 22 - 5	311,365	-	311,365
Transfer agent and regulatory fees		10,132	-	10,132
Travel and promotion		207,056	-	207,056
Wages and benefits		134,214	-	134,214
Write down of receivable		1,859	-	1,859
Total expenses		(3,070,629)	(63,256)	(3,007,373)
Loss before income tax		(3,072,216)	63,256	(3,008,960)
Future income tax recovery	Note 22 - 4	361,000	(361,000)	-
Net loss after tax	Note 22 - 5	(2,711,216)	(297,744)	(3,008,960)
Other comprehensive income				
Exchange gain arising on translation of foreign operations		-	104,778	104,778
		-	104,778	104,778
Total comprehensive loss for the period	Note 22 - 5	$ (2,711,216)	$ (192,966)	$ (2,904,182)

22. FIRST TIME ADOPTIONS OF IFRS (continued)

Loss for period attributable to:		
Owners of parent		(2,665,490)
Non-controlling interest	Note 22 - 2	(343,470)
		$ (3,008,960)
Total comprehensive income attributable to:		
Owners of parent		(2,560,712)
Non-controlling interest	Note 22 - 2	(343,470)
		$ (2,904,182)

22. FIRST TIME ADOPTIONS OF IFRS (continued)

Explanations for the adjustments are as follows:

1. Foreign currency translation

IFRS requires that the functional currency of each entity in the consolidated group be determined separately in accordance with the indicators as per IAS 21 "The Effects of Changes in Foreign Exchange Rates" and should be measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The translation of foreign operation's assets and liabilities for each financial position presented be translated at the closing rate at the date of that financial position where the functional currency is different from the parent company's functional currency. Revenue and expense items are translated at the average rate of exchange in the period. The functional currency of Carbon Friendly Solutions Inc. is the Canadian dollar, resulting in the Company recognizing cumulative translation adjustments through other comprehensive income (loss) under IFRS. The functional currency of CO2 Reduction is the Polish zloty and MicroCoal is the United States dollar. The resulting cumulative translation adjustment at July 1, 2010 has been reset to zero as permitted an exemption under IFRS.

2. Asset Acquisition and Non-controlling interest

Under pre-changeover Canadian GAAP, the Company recognized non-controlling interest at the proportionate share of the carrying value of the subsidiary's net assets on the date of acquisition. No non-controlling interest was recognized in respect of the MicroCoal asset acquisition, or its net loss to June 30, 2011, as MicroCoal's book values resulted in a net liability position. On transition to IFRS, the Company is required to recognize the non-controlling interest at a) fair value; or b) the non-controlling interest's proportionate share of the fair value of the net assets acquisition.

Adjustments to the initial assessment of the fair values of the identifiable net assets acquired are recognized retrospectively from the acquisition date. As a result, adjustments to depreciation and amortization are retrospectively recorded to reflect the final estimates. Adjustments made as a result of the calculation of the fair value of the non-controlling interest in 2011 result in an increase in intangible assets by $1,534,023 along with a $127,140 increase in amortization in the year ended June 30, 2011.

Under Canadian GAAP, non-controlling interests in the equity of a consolidated entity are classified as a separate component between liabilities and equity in the statement of financial position and as a component of net earnings within the statement of earnings.

Under IFRS, non-controlling interests are classified as a component of equity separate from the equity of the parent and are not included in net earnings, but rather presented as an allocation of net earnings. The non-controlling interest share of net earnings of $343,470 was eliminated in the statement of earnings for the year ended June 30, 2011, and rather presented as an allocation of net earnings for the period in which the non-controlling interest was accounted for in equity.

3. Website development costs

"Under IFRS, IAS 38 Development Capitalization Criteria, an intangible asset arising from development (or from the development phase of an internal project) shall be recognized if and only if, an entity can demonstrate all of the following:

(a) The technical feasibility of completing the intangible asset so that it will be available for use or sale.

(b) Its intention to complete the intangible asset and use or sell it.

(c) Its ability to use or sell the intangible asset.

(d) How the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.

(e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

22. FIRST TIME ADOPTIONS OF IFRS (continued)

Explanations for the adjustments are as follows (continued):

3. Website development costs (continued):

(f) Its ability to measure reliably the expenditure attributable to the intangible asset during its development."

Previously capitalized website development costs have been expensed to profit and loss as they do not meet the criteria for recognition through the probable generation of future economic benefits to the Company. This has resulted in a decrease in the asset of $30,519 and a decrease in amortization of $9,156 in the year ended June 30, 2011.

4. Deferred tax

In accordance with IAS 12, the Company reversed recognition of deferred tax liabilities on the purchase of coal technology and plant prototype. Under Canadian GAAP deferred tax liabilities were calculated following the acquisition of these assets, and included in the cost of the assets. IFRS does not allow the recognition of deferred tax liabilities for temporary differences that arise on initial recognition in a transaction other than a business combination that at the time of the transaction affects neither the taxable nor accounting profit or loss. As a result deferred tax liabilities recognized on asset acquisitions under the pre-changeover Canadian GAAP have been derecognized under IFRS and reversed out of the asset cost. This adjustment resulted in a decrease in the initial recognition of the intangible asset of $3,386,474 along with a $281,511 decrease to amortization in the year June 30, 2011.

5. Accounting error

During the year ended June 30, 2011, 2,072,500 warrants with expiry date of August 2010 were extended to August 2011 and all other terms remained the same. The Company incorrectly recorded a fair value of $294,938 as stock-based compensation regarding the extension of share purchase warrants. The amount should not have been recognized as the share purchase warrants were issued in connection with a private placement that was completed during the year ended June 30, 2008. As a result, the fiscal 2011 stock-based compensation expense and contributed surplus were overstated by $294,938, net loss after tax and total comprehensive loss, and deficit were overstated by $294,938. The net loss per share was overstated by $0.01 per share. The error has no impact on the consolidated statements of cash flows. The Company has restated the prior year figures under the pre-changeover Canadian GAAP to correct errors.

The impact on the June 30, 2011 financial statements under the pre-changeover Canadian GAAP (before considering IFRS adjustments) was:

		As reported		Adjustment		As restated
Stock-based compensation	$	606,303	$	(294,938)	$	311,365
Net loss after tax and total comprehensive loss	$	3,006,154	$	(294,938)	$	2,711,216
Contributed surplus	$	(1,698,955)	$	294,938	$	(1,404,017)
Deficit	$	9,269,414	$	(294,938)	$	8,974,476
Net loss per share	$	0.09	$	(0.01)	$	0.08