CARBON FRIENDLY SOLUTIONS INC.

Consolidated Condensed Interim Financial Statements

Three months ended September 30, 2012

(in Canadian dollars)

CARBON FRIENDLY SOLUTIONS INC.

Unaudited Consolidated Condensed Interim Financial Statements
September 30, 2012

Notice of No Auditor Review of Interim Condensed Financial Statements

The accompanying unaudited consolidated condensed interim financial statements have been prepared by management and approved by the Audit Committee.

The Company's independent auditors have not performed a review of these condensed financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

CARBON FRIENDLY SOLUTIONS INC.

Consolidated Statements of Financial Position

(in Canadian dollars)

	Note	September 30, 2012	June 30, 2012
ASSETS			
Current			
Cash		$ 71,689	$ 31,292
Receivables	7	81,218	229,818
Prepaid expenses		28,780	45,277
		181,687	306,387
Non-current			
Deposit	10	56,729	56,729
Property and equipment	9	397,714	418,335
Coal technology and plant prototype	6	4,705,521	5,058,487
Intangibles	12	-	49,574
Total assets		$ 5,341,651	$ 5,889,512
LIABILITIES			
Current			
Accounts payable and accrued liabilities		$ 2,203,159	$ 2,031,378
Related parties	15	308,585	354,817
Loans payable	13	2,337,212	2,453,370
		4,848,956	4,839,565
SHAREHOLDERS' EQUITY			
Share capital	14b	12,013,125	12,013,125
Share subscription receivable	14b	100,000	-
Share-based payment reserve	14f	1,743,317	1,743,317
Deficit		(13,374,969)	(12,746,255)
Cumulative other comprehensive income		11,222	(199,390)
		492,695	810,797
Non-controlling interest		-	239,150
Total equity		492,695	1,049,947
Total liabilities and equity		$ 5,341,651	$ 5,889,512

Approved on behalf of the Board:

"Slawomir Smulewicz"
Director

"Stan Lis"
Director

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

CARBON FRIENDLY SOLUTIONS INC.

Consolidated Statements of Comprehensive Loss

(in Canadian dollars)

	Note	Three months ended September 30, 2012	Three months ended September 30, 2011
Expenses			
Amortization		368,897	448,572
Bank charges and interest		1,386	1,481
Consulting fees	15	83,102	198,399
Finance and sponsorship fees		-	852
Foreign exchange loss (gain) on operations		(3,051)	(142)
Interest on notes payable		48,624	116,824
Investor relations		14,447	17,711
Management and director fees	15	114,807	71,864
Office and miscellaneous		12,992	64,989
Professional fees	15	75,369	71,615
Rent		28,646	41,464
Share-based compensation		-	59,600
Transfer agent and regulatory fees		2,288	3,646
Travel and promotion	15	29,130	23,712
Wages and benefits		31,934	20,981
Write down of goodwill		48,897	-
Write down (recovery) of receivable		(13,381)	-
		(844,087)	(1,141,568)
Loss for the period		(844,087)	(1,141,568)
Loss on disposal of capital assets		(23,777)	-
	-	(23,777)	-
		(867,864)	(1,141,568)
Other comprehensive income (loss)			
Exchange gain (loss) arising on translation of foreign operations		210,612	(127,698)
		210,612	(127,698)
Total comprehensive income (loss)		$ (657,252)	$ (1,269,266)
Loss for period attributable to:			
Owners of parent		$ (628,714)	$ (888,418)
Non-controlling interest		(239,150)	(253,250)
		$ (867,864)	$ (1,141,568)
Total comprehensive loss attributable to:			
Owners of parent		$ (418,102)	$ (1,016,116)
Non-controlling interest		(239,150)	(253,250)
		$ (657,252)	$ (1,269,266)
Loss per share, basic and diluted		$ (0.01)	$ 0.03

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

CARBON FRIENDLY SOLUTIONS INC.

Consolidated Statements of Cash Flows

(in Canadian dollars)

	Note	Three months ended September 30, 2012	Three months ended September 30, 2011
Cash provided by (used in):			
Operating Activities			
Net loss for the period		$ (867,864)	$ (1,141,568)
Items not involving cash:			
Amortization		368,897	448,572
Loss on disposal of capital assets		27,885	-
Share-based compensation		-	59,600
Unrealized foreign exchange gain		20,020	-
Accrued interest		36,003	-
Write down of goodwill		48,897	-
		(366,162)	(633,396)
Change in non-cash working capital:			
Receivables		148,600	12,977
Prepaid expenses and deposits		16,497	4,039
Accounts payable and accrued liabilities		205,404	(52,760)
Related parties		(41,097)	12,000
		(36,758)	(657,140)
Investing Activities			
Purchase of property and equipment		(3,408)	-
Purchase of intangible assets		-	(62,000)
		(3,408)	(62,000)
Financing Activities			
Share issuances		-	1,099,000
Issue costs		-	(29,900)
Share subscriptions		100,000	(12,500)
Related parties		-	50,707
Loan repayments		(28,500)	(130,000)
		71,500	977,307
Effect of foreign exchange		9,063	5,446
Increase in cash		40,397	263,613
Cash, beginning of year		31,292	3,031
Cash, end of period		$ 71,689	$ 266,644
Supplemental cash flow information:	5		

CARBON FRIENDLY SOLUTIONS INC.
Consolidated Condensed Interim Statements of Equity
(in Canadian dollars)

	Shares	Amount	Share subscriptions	Share-based payment reserves	Deficit	Cumulative other comprehensive income	Non-controlling interest	Total
Balance, July 1, 2011	44,183,955	$ 8,650,892	$ (352,000)	$ 1,698,955	$ (9,703,060)	$ 104,778	$ 1,436,685	$ 1,836,250
Share issuances								
Private placement	5,495,000	1,099,000	(364,500)	-	-	-	-	734,500
Issue costs	-	(29,900)	-	-	-	-	-	(29,900)
Shares issued for acquisition of Carbiopel	400,000	108,000	-	-	-	-	-	108,000
Share subscriptions	-	-	352,000	-	-	-	-	352,000
Share-based compensation	-	-	-	59,600	-	-	-	59,600
Loss for the period	-	-	-	-	(888,418)	-	(253,250)	(1,141,668)
Comprehensive loss	-	-	-	-	-	(127,698)	-	(127,698)
Balance, September 30, 2011	50,078,955	9,827,992	(364,500)	1,758,555	(10,591,478)	(22,920)	1,183,435	1,791,084

	Shares	Amount	Share subscriptions	Share-based payment reserves	Deficit	Cumulative other comprehensive income	Non-controlling interest	Total
Balance, July 1, 2012	58,231,721	$ 12,013,125	$ -	$ 1,743,317	$ (12,746,255)	$ (199,390)	$ 239,150	$ 1,049,947
Share issuance								
Private placement	-	-	130,000	-	-	-	-	130,000
Loss for the period	-	-	-	-	(628,714)	-	(239,150)	(867,864)
Other comprehensive income	-	-	-	-	-	210,612	-	210,612
Balance, September 30, 2012	58,231,721	$ 12,013,125	$ 130,000	$ 1,743,317	$ (13,374,969)	$ 11,222	$ -	$ 522,695

The accompanying notes are an integral part of these condensed interim consolidated 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 condensed interim financial statements have been prepared by management and reported in Canadian dollars in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("ASS") applicable to the preparation of interim financial statements, including International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") and have been prepared following the same accounting policies and method of computation as the annual Financial Statements for the year ended June 30, 2012. The disclosures provided below are incremental to those included with the annual Financial Statements. Certain information and disclosures normally included in the notes to the annual Financial Statements have been condensed or have been disclosed on an annual basis only. Accordingly, these condensed interim financial statements should be read in conjunction with the annual Financial Statements for the year ended June 30, 2012, which have been prepared in accordance with IFRS as issued by the IASB.

These financial statements were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on November 29, 2012.

(b) 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 - September 30, 2011	Ownership - June 30, 2012
Global CO2 Reduction Inc. ("Global CO2")	Canada	100%	100%
CO2 Reduction Poland Sp. z. o. o. ("CO2 Reduction")	Poland	100%	100%
MicroCoal Inc. ("MicroCoal")	USA	58.21%	58.21%
Carbiopel - ESP S.A.	Poland	100%	100%
MicroCoal International Inc. ("MicroCoal Canada")	Canada	100%	100%

3. GOING CONCERN ISSUES

These condensed interim financial statements have been prepared using IFRS applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due. The continuation of the Company as a going concern is dependent upon the ability of the Company to obtain necessary financing (through debt, equity or sale or assets) to fund its future development capital requirements and thereby achieve a profitable level of operations through finding and developing reserves and optimizing future production. These material uncertainties lend doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

The Company incurred a loss of $867,864 (year ended June 30, 2012: $4,735,380) for the three months ended September 30, 2012, and had an accumulated deficit of $13,374,969 at September 30, 2012 which has been funded primarily by the issuance of equity. These factors raise doubt about the Company's ability to continue as a going concern.

These condensed interim financial statements do not reflect the adjustments to the carrying value of assets and liabilities, the reported revenues and expenses and balance sheet classifications used that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

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.

5. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended September 30, 2012	Three months ended September 30, 2011
Interest paid	$ -	$ -
Income taxes paid	$ -	$ -
Value of stock options exercised	$ -	$ -
Issuance of shares for investment in Carbiopel (note 11)	$ -	$ 108,000
Shares issued for debt	$ -	$ -

(in Canadian dollars)

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	7,059,324
Accounts payable and accrued liabilities	(842,680)
Loans payable	(2,585,521)
Fair value	3,670,791
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 September 30, 2012, the accumulated amortization was $2,353,803 (June 30, 2012 - $2,000,837).

	September 30, 2012	June 30, 2012
Coal technology and plant prototype	$ 7,059,324	$ 7,059,324
Accumulated amortization	(2,353,803)	(2,000,837)
	$ 4,705,521	$ 5,058,487

7. RECEIVABLES

	September 30, 2012	June 30, 2012
GST/HST/VAT recoverable	$ 35,363	$ 136,531
Trade receivables	45,855	93,287
	$ 81,218	$ 229,818

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2012	June 30, 2012
Accounts payable	$ 894,425	$ 649,975
Microcoal accrued liabilities	733,140	794,632
Taxes and benefits	-	5,549
Accrued interest payable	575,594	581,222
	$ 2,203,159	$ 2,031,378

(in Canadian dollars)

9. PROPERTY AND EQUIPMENT

Property and equipment	Computer equipment	Equipment	Automotive equipment	Leasehold improvements	Total
July 1, 2011	$ 35,412	$ 73,769	$ -	$ 8,614	$ 117,795
Additions	-	496,930	85,329	-	582,259
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
Additions	-	-	7,440	-	7,440
Disposals	(12,564)	(54,077)	-	-	(66,641)
Effect of foreign exchange	177	15,046	2,491	-	17,714
September 30, 2012	$ 22,573	$ 499,594	$ 85,758	$ 8,614	$ 616,539
Accumulated amortization					
July 1, 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
Acquisitions	-	-	-	-	-
Disposals	(7,353)	(34,811)	(471)	-	(42,635)
Amortization	244	11,949	3,541	197	15,931
Effect of foreign exchange	232	4,171	1,435	-	5,838
September 30, 2012	19,798	160,261	33,893	4,873	218,825
Net book value, June 30, 2012	$ 8,285	$ 359,673	$ 46,439	$ 3,938	$ 418,335
Net book value, September 30, 2012	$ 2,775	$ 339,333	$ 51,865	$ 3,741	$ 397,714

10. DEPOSIT

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

(in Canadian dollars)

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		8,738
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.

12. INTANGIBLE ASSETS

	September 30, 2012	June 30, 2012
Exclusive sales contract (i)	$ 104,018	$ 104,695
Impairment charge (i)	(104,018)	(55,121)
	$ -	$ 49,574

(i) Exclusive Sales Contract

As of September 30, 2012, the Company reviewed the carrying amount of its intangible assets and recognized an impairment charge of $49,574 in the consolidated statements of comprehensive loss (June 30, 2012 - $Nil).

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 September 30, 2012, the Company has approximately 1,460,000 (June 30, 2012 — 1,500,000) verified emission reduction credits.

(in Canadian dollars)

13. LOANS PAYABLE

	September 30, 2012	June 30, 2012
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	$ 100,000
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.	1,500	60,000
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	115,000
Pursuant to a loan agreement a total of $30,000 was advanced to the Company. The interest rate is at 18% per annum. A loan placement fee of $6,000 is payable. The loan is payable within 60 days after demand. This amount has been classified as current liability.	30,000	-
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.	2,090,712	2,178,370
	$ 2,337,212	$ 2,453,370

(in Canadian dollars)

14. SHARE CAPITAL

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

(b) Issued and Outstanding

Three months ended September 30, 2012

On August 9, 2012 the Company announceda non-brokered private placement of up to 6,000,000 units at a price of $0.20 per for gross proceeds of up to CAD$1,200,000. Each unit is comprised of one common share of the Company and one common purchase warrant. Each warrant entitles the holder thereof to purchase one common share of the Company at an exercise pr $0.35 per common share for a period of two years from the closing date. Finders' fees may be paid in accordance with (policies. At september 30, 2012 the Company had received $100,000 is share subscription.

Year ended June 30, 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.

c) Warrants

A summary of the status of the warrants outstanding is as follows:

	Number of shares	Exercise Price
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
Issued	-	-
Expired	(2,072,500)	0.35
Balance, September 30, 2012	17,970,738	$ 0.43

The following table summarizes warrants outstanding and exercisable at September 30, 2012:

Warrants Outstanding	Warrants Exercisable	Exercise Price	Expiry Date
5,272,750	5,272,750	$0.35	June 30, 2013
6,004,313	6,004,313	$0.35	September 30, 2013
6,693,675	6,693,675	$0.45	February 13, 2014
17,970,738	17,970,738		

(in Canadian dollars)

14. SHARE CAPITAL continued

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, June 30, 2011	3,831,620	0.24
Granted	1,420,000	0.22
Expired	(261,620)	0.25
Outstanding, June 30, 2012	4,990,000	0.23
Granted	-	-
Cancelled	-	-
Outstanding, September 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 a price of $0.32 to officers, directors and consultants. The options vested immediately.

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

Options Outstanding	Exercise Price	Expiry Date	Options Exercisable
790,000	$0.14	August 18, 2016	790,000
2,090,000	$0.20	February 8, 2016	2,090,000
805,000	$0.23	October 6, 2013	805,000
675,000	$0.36	December 16, 2014	675,000
630,000	$0.32	December 22, 2016	630,000
4,990,000			4,990,000

During the year ended June 30, 2012, share-based compensation has been recorded in the amount of $280,134 and included in share-based payment reserve. The weighted average life of the options is 3.11 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
Risk free interest rate	1.25%
Expected dividend yield	nil%
Stock price volatility	97.8%
Expected life of options	3.11

(in Canadian dollars)

14. SHARE CAPITAL continued

e) Share-based payment reserve

	Three months ended September 30, 2012	Year ended June 30, 2012
Balance, beginning of period	$ 1,743,317	$ 1,404,017
Stock-based compensation	-	255,900
Fair value of agent's warrants	-	83,400
Balance, end of period	$ 1,743,317	$ 1,743,317

15. RELATED PARTIES

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

Key management personnel remuneration	Three months ended September 30, 2012	Three months ended September 30, 2011
Management and professional fees	$ 101,407	$ 160,620
Automobile allowance (travel and promotion)	7,200	12,450
Stock-based compensation	-	59,600
Total key management personnel remuneration	$ 108,607	$ 232,670

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.

Management and directors' fees	$ 104,994	$ 160,620
Consulting	-	12,000
Automobile allowance (travel and promotion)	7,200	12,450
Professional fees	16,000	24,000
Office and miscellaneous	3,138	-
Total related party amounts	$ 131,332	$ 209,070

As at September 30, 2012 accounts payable and accrued liabilities included $308,585 (June 30, 2012 - $354,817) owing to officers and directors. The amounts due are unsecured, non-interest bearing and have no fixed terms of repayment.

16. INCOME TAXES

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.

(in Canadian dollars)

17. SEGMENTED INFORMATION

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

Property and Equipment	September 30, 2012	June 30, 2012
Canada	$ 21,920	$ 16,552
USA	27,120	24,477
Poland	348,674	377,306
	$ 397,714	$ 418,335
Intangible Assets		
Canada	$ -	$ -
USA	-	-
Poland	-	46,574
	$ -	$ 46,574
Coal technology and plant prototype		
Canada	$ -	$ -
USA	4,705,521	5,058,487
Poland	-	-
	$ 4,705,521	$ 5,058,487

18. COMMITMENTS AND CONTINGENCIES

(a) 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) 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) 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.

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

2013	71,193
2014	94,923
2015	96,266
2016	98,057
2017	24,626
	$ 385,065

18. COMMITMENTS AND CONTINGENCIES continued

(e) 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) 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.

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

20. FINANCIAL INSTRUMENTS AND RISKS

As at September 30, 2012, the Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities and loans payable. The fair values of these financial instruments approximate their carrying values because of their current nature or adjustments to fair value made at each period end.

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 carbon 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. 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.

(in Canadian dollars)

20. FINANCIAL INSTRUMENTS AND RISKS continued

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.

The following table provides an indication of the Company's significant foreign exchange currency exposure:

	United States		Poland	
	September 30, 2012	June 30, 2012	September 30, 2012	June 30, 2012
Cash	$ 1,258	$ 8,428	$ 1,261	$ 1,216
Receivables		-		95,217
Accounts payable and accrued liabilities	(1,577,791)	(1,774,971)	(92,635)	(65,380)
Related parties	(169,242)	(176,338)	(35,835)	(20,293)
Loans payable	(2,090,712)	(2,178,370)	-	-
	$ (3,836,487)	$ (4,121,251)	$ (127,209)	$ 10,760

The following exchange rates were applied:

	Three months ended September 30, 2012		Year ended June 30, 2012	
	Average rate	Spot rate	Average rate	Spot rate
Canadian dollars to US dollars	1.0042	1.0164	0.9969	0.9755
Canadian dollars to Zloty	3.3093	3.2520	3.1675	3.3584

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 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. There are various objections and political risks in relation to the carbon credit market place.

21. EVENTS OCCURING AFTER REPORTING DATE

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

Pursuant to the August 9, 2012 private placement the Company had received proceeds of $379,000.