This Management Discussion and Analysis ("MD&A") of Carbon Friendly Solutions Inc. ("Carbon Friendly" or the "Company") has been prepared by management as of November 29, 2012 and should be read in conjunction with the unaudited consolidated condensed interim financial statements and related notes thereto of the Company for the three months ended September 30, 2012.

The Company has adopted International Financial Reporting Standards ("IFRS") effective July 1, 2011, with a transition date of July 1, 2010.

All amounts are expressed in Canadian dollars unless otherwise indicated.

FORWARD LOOKING INFORMATION

The following discussion contains, in addition to historical information, forward-looking statements that involve risks and uncertainties. These forward-looking statements may include, among other things, statements concerning plans, objectives and future economic prospect, expectations, beliefs, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements and industry result, to be materially different from what is said or implied with such forward-looking statements.

Some of the factors that could cause results or events to differ from current expectations include, but are not limited to, the factors described under "Risk Factors".

COMPANY OVERVIEW

The Company was incorporated on April 6, 1990 under the laws of British Columbia. On August 18, 2000 the Company changed its name from Anthian Resources Corp. to Sudamet Ventures Inc. On May 4, 2005, the Company changed its name again from Sudamet Ventures Inc. to Avigo Resources Corp.

On September 2, 2008, the Company completed a share exchange with Global CO2 Reduction Inc. (Global CO2) and changed its name to Carbon Friendly Solutions Inc. The Company is listed on the TSX Venture Exchange under the symbol "CFQ" and the Frankfurt Stock Exchange under the symbol "0FS-FRA" ("zero FS-FRA").

On December 31, 2010, the common shares of the Company became listed for trading on the Canadian National Stock Exchange ("CNSX') under the symbol of "CFQ". The Company applied to the TSX Venture Exchange ("TSX-V") to delist its shares from the TSX-V, and received confirmation that effective at the close of business on December 31, 2010 the Company's share will be delisted from the TSX-V.

The Company was founded as a project proponent that provides 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 and finding economic solutions for the reduction of carbon footprints in power generation.

MicroCoal, Inc. ("MicroCoal")

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. Our initial target market is the coal-fired segment of the North American electrical utility industry. Coal-fired power plants currently produce nearly 50% of the electricity in the U.S.A. MicroCoal's proprietary on-site process cleans up coal at the power plant prior to combustion by reducing contaminates like sulfur and mercury and also improving fuel efficiency by removing water. This is helping to accelerate the existing trend of fuel switching to low-rank Powder River Basin (western) coals. We are building on our extensive portfolio of patents pending and proprietary know-how and see significant growth potential into new geographies and new industrial markets.

On January 31, 2011 the Company announced it had finalized the acquisition of 58.21% of the outstanding share capital of MicroCoal Inc. ("MicroCoal" or "MicroCoal"), as announced on January 12, 2011 and October 26, 2010. In accordance with the 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 Company (the "Share Exchange"). In addition to the Share Exchange and in accordance with the share purchase agreement, the Company is to complete a private placement financing of up to CAD$6 million (the "Financing") and from such proceeds, the Company is to pay (i) US$1 million cash to a certain creditor/shareholder of MicroCoal in consideration for the forgiveness of certain outstanding debt owed to such creditor by MicroCoal and for the re-purchase of such creditor's 1,013 MicroCoal shares for cancellation; and (ii) up to US$85,000 cash to certain other creditors of MicroCoal to settle other outstanding indebtedness owed by MicroCoal. Upon completion of the entire transaction, the Company will own 100% of MicroCoal.

MicroCoal Inc. is a clean energy company focusing on commercializing the use of its patented technologies to decontaminate and upgrade low-rank coals to match the energy levels of high-rank coals for use by power utilities. MicroCoal Inc.'s proprietary on-site process not only cleans up coal at the power plant prior to combustion by significantly reducing contaminants, but it also reduces GHG emissions and improves fuel efficiency. The reduction in emissions allows for the generation of substantial carbon credits in an industry that is one of the world's largest producers of emissions. The deployment of MicroCoal's technology offers utilities significant economic, environmental as well as operational benefits. MicroCoal's website address: www.MicroCoal.com

MicroCoal's proprietary clean coal technology has significant growth potential into multiple geographies and various industrial markets. Its business model is based on licensing the technology with a once-off *technology fee* and an annual maintenance fee derived of the initial project costs.

On December 15, 2011 the Company and its subsidiary MicroCoal announced that Ameren has signed a Letter of Interest ("LOI") that reflects the intention of Ameren Corporation (NYSE:AEE) ("Ameren") and MicroCoal to negotiate a term sheet and enter into a proposed license agreement relating to the deployment of MicroCoal technology at one of Ameren's coal-fired power plants (the "Nominated Plant") in two main phases.

The first phase was proposed to commence in January, 2012 and consisted of re-configuring MicroCoal's four year old pilot plant in Colorado to determine the design for Ameren's plant in upgrading Powder River Basin (PRB) coal to higher energetic value (BTU rating).

MicroCoal has successfully conducted detailed tests on its new continuous reactor design at its pilot facilities during early May 2012. During Phase I some 15 tons of PRB coal were treated and analyzed. The tests yielded better than expected results, with a significant contribution to our overall know-how.
The objectives of Phase I tests were as follows:

- Examine the deployment of microwave energy on continuous coal flow in a vertical configuration;
- Produce an optimum facility design in which coal flows by gravity alone while being radiated by microwave energy;
- Examine the rate of moisture loss in coal and the collection of coal bound inherent moisture in a continuous process;
- Examine the process behavior under varying energy levels;
- Understand the materials of construction and design for optimum commercial deployment. The design of Phase I pilot was such that any necessary change could be deployed at a minimum cost and maximum speed. This design proved to be working very well and was most beneficial. These tests proved that the removal of coal bound inherent moisture can be achieved at a high efficiency and with the added benefits of liberating coal impurities.

The second phase involves the construction and operation of a fully integrated commercial plant, which will be able to treat 250,000 tons of PRB coal per month. This first commercial coal upgrading plant will be located at Ameren's Nominated Plant, located in the State of Missouri. It is a 1,000 Megawatt coal-fired plant and burns approximately 3 million tons of coal annually. The Nominated Plant is one of the largest among the 11 coal-fired plants owned by Ameren. Using the internationally patented MicroCoal process, an MicroCoal plant located on-site of the coal power generation station uses the station's off-peak slack electricity capacity to remove large amount of water from coal, and increase the BTU rating of the coal. The technology also has the ability to remove contaminants, in addition to allowing utilities to use PRB coal without suffering a loss in generation capacity (derate). PRB coal contains lower contaminant levels (such as sulfur) than the higher BTU Eastern coals, such as Illinois Basin (ILB) coal. When compared to raw coal from Montana and Wyoming's Powder River Basin, MicroCoal treated coal at the Nominated Plant will have approximately 15 percent more energetic value in addition to reductions in carbon dioxide, mercury, sulfur dioxide, and nitrous oxides. Results will vary based on the type and source of the coal.

On December 22, 2011 the Company reached an agreement with Orica Limited (ASX:ORI) ("ORI" or the "Recipient") defining the terms and obligations for the settlement of ORI's outstanding debt in MicroCoal and the transfer of its remaining 41.79% stake in MicroCoal to the Company (the "Debt").

Pursuant to the Share Purchase Agreement signed by Carbon Friendly and ORI on October 15th, 2010 sanctioning Carbon Friendly's acquisition of the majority share capital in MicroCoal (58.21%), and the amendment to the agreement signed on January 10th, 2011, allowing Carbon Friendly to acquire ORI's remaining debt and security interest in MicroCoal for USD$1,000,000, giving the Company full ownership of MicroCoal; the Voluntary Emission Reduction Transfer Agreement (the "Agreement") was drafted to outline the terms, obligations and execution schedule of the Secured Convertible Promissory Note. The Voluntary Emission Reduction Transfer Agreement consigns to Carbon Friendly providing ORI with (i) a down payment of USD$125,000, (ii) the transfer of 200,000 VERs from Carbon Friendly's Offset Inventory, and (iii) a final payment for any shortfall from the remaining debt. The Company is currently in negotiations with ORI to complete this matter.

The VERs represented in the Agreement will consist of ISO 14064-2 Validated and Verified Voluntary Emission Reductions generated from the Northern Poland Afforestation Offset Project ("NPAOP") as a security on the payment of the Debt. Carbon Friendly will transfer all legal and equitable title of the VERs

to ORI through an accredited registry account permitting ORI to engage in selling the VERs to other entities or retiring the VERs as a signal to reducing its own global carbon footprint. Upon settlement of the Voluntary Emission Reduction Transfer Agreement, ORI will have no remaining debt in MicroCoal, priority interest in any of MicroCoal's assets, or ownership shares MicroCoal. Carbon Friendly will hold a full ownership stake (100% shareholding) of MicroCoal.

MicroCoal Technology

Coal is classified by quality, based on its heat value (BTU rating), into two main categories and four different types as follows:

- High-rank, including anthracite and bituminous
- Low-rank, including sub-bituminous and lignite

Thermal coal used by utilities includes bituminous, sub-bituminous and lignite coals. The heat value of coal is directly dependent on its moisture content: the lower the moisture – the higher the coal's heat value. Generally speaking, low-rank coals are younger and cleaner than high-rank coals, and a lot cheaper.

MicroCoal's patented technology suite revolves around the use of microwave energy to dewater and upgrade low-rank coals. In addition to microwave, MicroCoal has developed supplementary processes to further remove contaminants and CO_2, and produce an efficient power plant fuel from available raw coal.

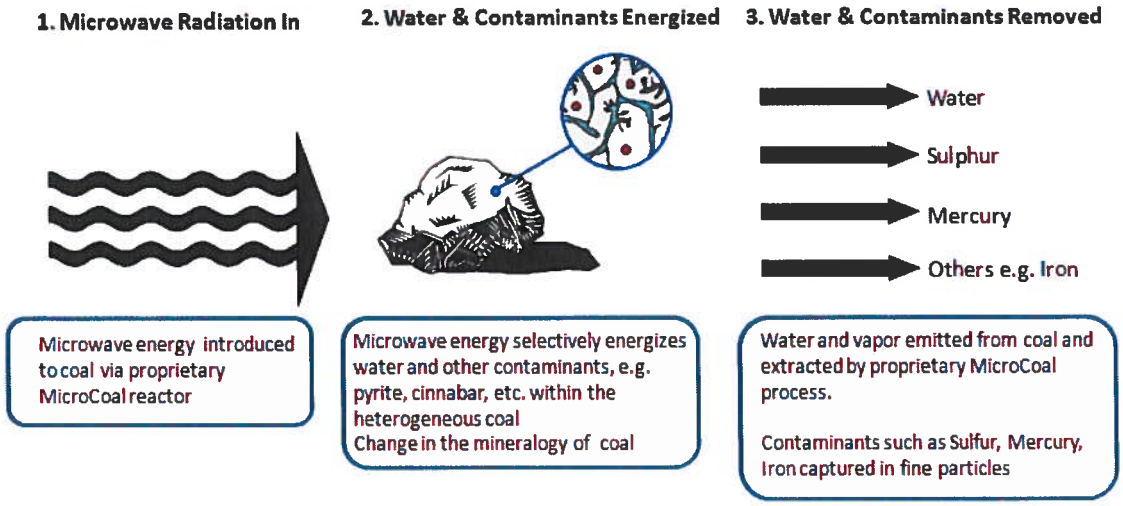


Figure 1: How it works

The

Benefits of MicroCoal's Process

According to the World Coal Institute, up to 5% of the carbon footprint of utilities can be eliminated by drying the coal prior to combustion. A further 22% of CO_2 emission can be reduced, improving generation

efficiency. The direct result of this is a worldwide interest in clean coal and coal drying technologies, which is the focus of the MicroCoal's business initiative.

The deployment of MicroCoal Inc.'s technology will give the utility three main benefits:

- ✓ **Environmental benefits**, due to a significant reduction of coal contaminants and CO_2 emission;
- ✓ **Economic benefits**, due to fuel switch from expensive high-rank coal to cheaper low-rank coal and with increased heat value of the latter, as well as additional revenue from generating carbon offsets;
- ✓ **Operational benefits**, due to marked change of slagging and ash build-up.

The combined benefits of the MicroCoal's technology suite has been discussed with utilities, experts in the field, industry consultants and coal analysts, all of whom have indicated support for the approach. Indications are that, once funding has been secured, various utilities will be prepared to sign collaboration agreements with a view to applying the technology once its development is complete.

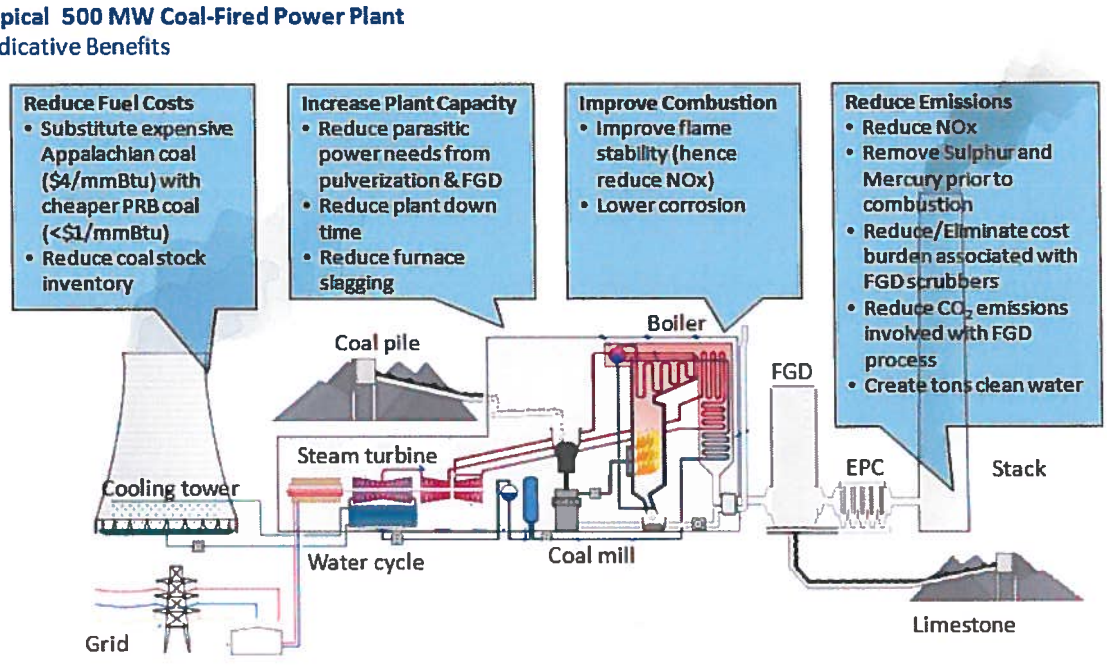


Figure 2: Indicative Benefits

MicroCoal Market Opportunity

Coal is, and will continue to be, an indispensable part of the global energy mix. However, coal requires innovation to enhance its long term appeal by improving its emissions profile and improving the efficiency of coal as a source of fuel. Over 4030 Mt[1] of coal is currently produced globally and is expected to reach 7 billion tonnes in 2030 – with China accounting for around half the increase over this period. The top five

[1] World Coal Institute

producers are China, the USA, India, Australia and South Africa. Coal currently fuels 39% of the world's electricity and this proportion is expected to remain at similar levels over the next 30 years. The biggest market for coal is Asia, which currently accounts for 54% of global coal consumption – although China is responsible for a significant proportion of this.

The U.S. Market

Approximately 1,100 million tons of coal is consumed in the U.S. every year to generate 50% of the electricity in the country. The introduction of the Clean Air Act of 1990, and the Clean Air Act Amendment ("CAAA") in 2000 forced utilities to control their emissions to meet with US Environmental Protection Agency ("EPA") standards. Utilities are faced with two options for controlling emissions:

- Change fuel to low sulfur coal such as PRB coal, which is the cheaper option;
- Deploy high capacity post combustion control systems such as flue-gas desulfurization ("FGD"), mostly scrubbers, which is a very expensive option.

A combination of the above two options could also be applied. Approximately 40% of generation units have deployed FGD, while many have switched to PRB coal, as is evident in its spectacular growth. The other alternative for a plant is to deploy MicroCoal's technology, which will upgrade PRB coal to the heat value equivalent to high-ranking coal, thereby allowing utilities to benefit from the significant lower input costs, while at the same time enjoying the environmental benefits of reduced CO2, SO2 and mercury emissions. In 2007 the fleet of U.S. coal-fired power generation consisted of over 1,400 units in various sizes. Of these units, 950 are designed to burn bituminous coal. These are the potential candidates for MicroCoal's technology. The immediate market segment for MicroCoal has been identified as those generation units with the capacity of 200MW and less, which totals over 600 units. The reasons for selecting this initial target market are:

- Smaller units are under pressure to come in-line with more stringent environmental standards, and are more threatened with closure than larger units.
- These units are typically older, and generally do not have space available to deploy traditional environmental control facilities such as FGD, which require large areas.

The second market segment, to be addressed by MicroCoal are those units with a capacity of 500MW and higher, and emerging markets such as China and India will be the third market.

It is interesting to note that in spite of strategic planning into the 200 MW or less market the Company has received interest from projects such as Ameren in the 1,000 MW arena.

International Market

The worldwide installed base of coal-fired power generation is expected to grow by 67% by 2020. 80% of the growth will come from China and India. China alone accounts for over two-thirds of this growth. The price spread and quality difference between low-rank and high-rank coals in the rest of the world is similar to that of the U.S. MicroCoal has tested Indonesian coal in its facilities, and showed that its technology is as applicable to international coals as it is to U.S. coals.

Marketing and Sales

Emission Reduction Offsets

Typically emission offsets are sold utilizing the services of emission brokers who take orders or requests from clients looking for particular emission offsets. Carbon Friendly has established ongoing relationships with many different emission brokers and traders and has regular dialogue to ensure all parties are aware of projects Carbon Friendly is developing and timing of obtaining validation for sale of offsets.

With the recent successful launch of the Markit Environmental Registry (http://www.tz1market.com/) Carbon Friendly can now register all land based sequestration projects to obtain greater public exposure and facilitate timely sales of project offsets. In addition projects listed on the Markit Registry provide full project transparency and because all offset purchases are recorded and retired, it gives assurance of no double counting to all potential buyers.

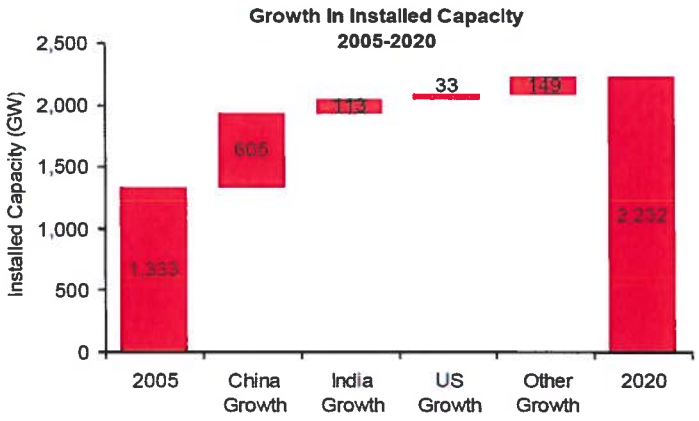


Figure 3: Global growth of coal-fired power generation in GW[2]

With respect to carbon accounting, voluntary reforestation project proponents typically use ex-ante accounting for forestry activities, meaning that the carbon dioxide removals in the future are sold before they actually occur. This practice is accepted by buyers and defended on the basis that most of the costs are incurred in the early years of a forestry project; therefore, "ex-post" accounting (selling the reductions after they have occurred over the life of the project) is simply not economically viable.

In the unlikely scenario of an unexpected event causing damage to the project, Carbon Friendly establishes a buffer or reserve inventory to ensure and guarantee the delivery of offsets. This varies

[2] Characteristics of the Worldwide Coal Fleet: Implications for CCS Retrofit RD&D The NorthBridge Group MIT Symposium on CCS Retrofit Technology Cambridge, MA March 23, 2009

depending on the risk analysis of the project site location but typically the Company creates a minimum 10% buffer or offset reserve that remains in an inventory reserve account for the life of the project.

Carbon Reduction Using Biomass

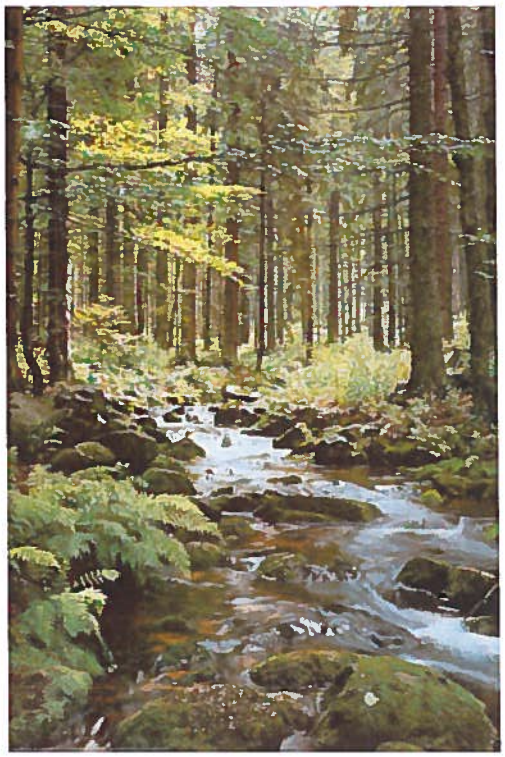
Through its wholly owned subsidiaries, Global CO2 Reduction Inc., Carbiopel S.A. ("Carbiopel") and CO2 Reduction Poland Sp. z o.o. ("CO2 Reduction Poland"), Carbon Friendly is focusing on removing and offsetting carbon dioxide emissions from the completion of reforestation, biomass energy and renewable energy technology projects that are independently validated and verified to globally recognized standards and methodologies.

Carbiopel is a biomass pellet producer based out of Lezajsk, Poland. The company focuses on aggregating biomass, particularly from agricultural residue, to use as feedstock from its pellet producing machinery. By removing moisture and increasing density through a pellet producing process, biomass pellets are produced and distributed for heating and electricity generating purposes. The advantages of pellets include ease of transportation, higher energy content, and higher storage efficiency. Carbiopel has recently established a pellet producing facility in the Ukraine, focused on using sunflower-husk biomass to produce pellets. Sunflower seeds are a main industrial crop in the Ukraine, allowing for abundant sunflower-husk feedstock.

CO2 Reduction Poland mainly acted as an aggregator and cultivator of lands, thus collecting together areas that are fragmented among many small owners and coordinating the planting of trees to complete forestation programs.

Forestry

Typically these areas are forested with an accepted and approved assortment of fast growing tree species to maximize carbon absorption in that region. The carbon sequestration occurs naturally through photosynthesis, which is the process of using energy in sunlight to convert water and carbon dioxide into carbohydrates and oxygen. Carbon Friendly™ finances, supports and maintains global afforestation and reforestation projects.



Afforestation/reforestation is simply the creation of new forests. Trees sequester carbon dioxide (the removal of carbon dioxide from the atmosphere) and store it in the wood and in the soil. Like a sponge is to water, a tree is to carbon dioxide. Forests actually remove existing carbon dioxide from the atmosphere, helping to clean up the existing global warming mess. In addition to sequestering carbon, trees provide us with the clean air that we breathe. The leaves of trees act as a natural filter, absorbing other air pollutants such as carbon monoxide and sulfur dioxide. They also act a natural air conditioner, moderating our climate. Trees conserve water, protecting us from storm runoff and the possibility of flooding. Trees also harbor wildlife, attracting birds and other woodland animals.

Carbon Friendly(tm) ensures that all of its forestation projects are verified to meet the highest level of industry standards. Our methodologies, calculations and processes have been validated by reputable 3rd parties such as TÜV Rheinland or Conestoga-Rovers & Associates.

byTÜV Rheinland

Poland Afforestation Project

The initial project area, consisting of 932.51 hectares of private lands in Northern Poland, has been expanded to a total 4,823.51 hectares (ha) of private property with 3,599.01 ha of afforested land. . The land was aggregated and afforested over a 5-year project period, through cooperative action between CO2 Reduction Poland Sp. z o.o. and several private land owners. The title of the project activity is the Northern Poland Afforestation Offset Project (the "Project"). The Company intends to wind down CO2 Reduction and transfer the option rights to the forest benefits to Global CO2. This will reduce overhead costs leaving one subsidiary in Poland.

The Project Design Document ("PDD") has been written for validation and verification under the ISO 14064-2 specifications. The PDD establishes and maintains criteria and procedures for obtaining, recording, compiling and analyzing data and information important for quantifying and reporting greenhouse gas ("GHG") emissions and/or removals relevant to the Northern Poland Afforestation Offset Project and the baseline scenario. The Project methodology has been designed and written in accordance to the International Organization for Standardization ("ISO") 14064-2 standard. The methodologies used in the PDD comply with the requirements for quantifying, monitoring and reporting emission reductions and removal enhancements from GHG mitigation projects. Procedures and tools

from the United Nations Framework Convention on Climate Change ("UNFCCC") Clean Development Mechanism ("CDM") for Land Use, Land Use Change & Forestry ("LULUCF") methodology have been referenced, providing transparent guidelines for the project activity. Formulas and values from the Intergovernmental Panel on Climate Change ("IPCC") Guidelines for National Greenhouse Gas Inventories 2006 for LULUCF and IPCC Good Practice Guidance ("GPG") for LULUCF have also been employed to quantify reductions and reduce uncertainty. These documents and guidelines have been used strictly as "good practice" measures to reduce uncertainty and promote transparency. The NPAOP ISO 14064-2 PDD is program-neutral and therefore not written for compliance to any GHG program.

The Project was submitted on April 5th, 2011 to Conestoga-Rovers & Associates ("CRA") for the validation of the PDD, its Appendices and all Verified Emission Reductions ("VERs") expected to be generated by the project activity.

CRA's overall aim of the validation activities is to offer confidence to CFS and all offset buyers that rely upon the project's GHG assertions to offset their emissions, as stated in the Project Design Document. The Project is validated according to the specifications stated in the ISO 14604-2 standard.

CRA has performed the validation in compliance with the ISO 14064-3 standard. The ISO 14604-3 provides guidance for those conducting or managing the validation and/or verification of GHG assertions, specifies requirements for selecting GHG validators/verifiers, establishing the level of assurance, objectives, criteria and scope, determining the validation/verification approach, assessing GHG data, information, information systems and controls, evaluating GHG assertions and preparing validation/verification statements.

The validation of the Project was successfully completed and the project registration has been approved by Markit Environmental Registry.

The Project was submitted on August 2012 to Det Norske Veritas Business Assurance Poland Sp. z o.o. ("DNV") for the verification as GHG project.

The Project is designed to generate 1,517,025 tCO2e ,high-quality validated VERs, which will have a conservative market value of US$ 4.5 per VER, equaling US$ 6,827,625 in revenue.

SELECTED ANNUAL INFORMATION

Selected annual information from the consolidated audited financial statements for the three years ended is summarized as follows:

June 30,	2012[1]	2011[1]	2010[2]
Revenues	$96,037	$7,980	$45,194
Gross profit (loss)	31,628	(1,587)	(33,822)
Operating expense	4,535,526	3,006,714	2,482,956
Other income (expense)	234,402	(2,246)	(93,651)
Net loss for the period	(4,738,390)	(3,008,960)	(2,610,429)
Net loss per share	(0.07)	(0.08)	(0.11)

Total assets	5,889,512	6,774,460	420,568
Total long-term liabilities	Nil	Nil	Nil
Cash dividends declared	Nil	Nil	Nil

(1) Financial statements prepared accordance to International Financial Reporting Standards.
(2) Financial statements prepared accordance to Canadian Generally Accepted Accounting Principles.

RESULTS OF OPERATIONS

During the three months ended September 30, 2012, the Company had a net loss of $867,864 or $0.01 per share compared to a loss of $1,141,568 or $0.03 per share for the previous year. There are three business models, (1) development of the coal technology, (2) continuation of the process to have carbon credits consisting of forests certified as valid and tradable carbon credits, where various forested properties have been verified as to the type and number of trees, etc. followed with the next process consisting of a certification process, and (3) the manufacture and sale of various recycled goods to be used in the production of power.

The certification process to enable the Company to trade and sell verified and certified carbon credits ("VERS") was completed in November 2012. Costs attributed to this process cost $43,045 in the 1st quarter of 2012. This process was started some 2.5 years ago. The obtaining of certified VERS is a very important step in the Company's development of selling carbon credits.

In March 2012 the Company purchased a business in Poland to produce and sell recycled bio-waste. The Polish company has the necessary equipment, knowledge and a supply contract to further develop this business. The cost of operations was for the 1st quarter was $72,406. The company is setting up manufacturing operations in the Ukraine, where a supply of recycled biomass is available at reasonable prices.

The professional fees of $75,369 in the 1st quarter consisted of accounting for $33,692, legal for $35,948, and engineering for $5,729.

Generally costs are lower in the current quarter. There is a shift from development costs to selling and marketing costs.

SUMMARY OF QUARTERLY RESULTS

Quarter ended	Total Assets	Revenues	Net profit (loss)	Profit (loss) per share
September 30, 2012[1]	$5,341,651	$nil	$(657,252)	$(0.01)
June 30, 2012[1]	5,889,512	83,325	(572,530)	(0.01)
March 31, 2012[1]	6,500,254	12,712	(1,098,455)	(0.02)
December 31, 2011[1]	5,962,564	-	(1,112,575)	(0.02)
September 30, 2011[1]	6,528,599	-	(1,269,366)	(0.03)
June 30, 2011[1]	6,774,460	212	(1,806,719)	(0.04)
March 31, 2011[1]	8,545,299	7,102	(549,734)	(0.02)
December 31, 2010[1]	266,725	8	(401,068)	(0.01)

(1) Financial statements prepared accordance to International Financial Reporting Standards.

LIQUIDITY AND CAPITAL RESOURCES

The Company had cash on hand of $71,689 at September 30, 2012 and a working capital deficiency of $4,637,269.

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.

Loans payable

Pursuant to several loan agreements, a total of $435,000 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 three months ended September 30, 2012 the Company repaid $58,500 (year ended June 30, 2012 - $160,000). The remaining balances of $100,000 and $115,000 are past due. The Company is negotiating with the lenders to extend the loan and the amount has been classified as current liability.

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, 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.

The Company is hopeful of completing additional equity financing in 2013.

The Company may continue to have capital requirements in excess of its currently available resources. In the event the Company's plans change, its assumptions change or prove inaccurate, or its capital resources in addition to projected cash flow, if any, prove to be insufficient to fund operations, the Company may be required to seek additional financing. Although the Company has been successful in raising the funds, there can be no assurance that the Company will have sufficient financing to meet its future capital requirements or that additional financing will be available on terms acceptable to the Company in the future.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not utilize off-balance sheet arrangements.

TRANSACTIONS WITH 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 three months ended September 30, 2012 and 2011 was as follows:

		September 30, 2012	September 30, 2011
Management and professional fees	$	101,407	160,620
Automobile allowances		7,200	12,450
Stock-based compensation		-	59,600
	$	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

		September 30, 2012	September 30, 2011
Management and directors' fees	$	104,994	160,620
Professional fees		16,000	24,000
Consulting		-	12,000
Automobile allowance (travel and promotion)		7,200	12,450
Rent expenses and miscellaneous		3,138	-
	$	131,332	209,070

As at September 30, 2012, current liabilities included $308,585 (June 30, 2012 - $354,817) owing to directors and officers of the Company. The amounts are unsecured non-interest bearing and are due on demand.

COMMITMENTS

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.

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.

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.

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
	$408,795

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.

The Company is 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 Company has denied the claim and is confident that it will prevail in the dispute. No amounts have been provided for in the financial statements. If any amounts are subsequently determined to be payable they

will be recognized in the period in which the dispute is resolved.

EVENTS OCCURRING 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.

FINANCIAL INSTRUMENTS

As at September 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 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 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. The Company manages liquidity risk through the management of its capital structure and financial leverage.

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 deposit 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.

OTHER REQUIREMENTS

Summary of Outstanding Share Data as at November 29, 2012

Authorized – 100,000,000 shares without par value

Issued	
September 30, 2012	58,231,721
Stock options exercised	200,000
Total at November 29, 2012	58,431,721

Stock options	
September 30, 2012	4,990,000
Options granted	Nil
Options exercised	(200,000)
Total at November 29, 2012	4,790,000

Warrants	
September 30, 2012	17,970,738
Expired	Nil
Total at November 29, 2012	17,970,738

Additional disclosures pertaining to the Company's management information circulars, material change reports, press releases and other information are available on the SEDAR website at www.sedar.com.