CARBON FRIENDLY SOLUTIONS INC.

Consolidated Condensed Interim Financial Statements

Nine months ended March 31, 2013

(in Canadian dollars)

CARBON FRIENDLY SOLUTIONS INC.

Unaudited Consolidated Condensed Interim Financial Statements
March 31, 2013

Notice of No Auditor Review of Interim Condensed Financial Statements

The accompanying unaudited consolidated condensed interim financial statements have been prepared by management and have not been the subject of a review by the Company's external independent auditors.

CARBON FRIENDLY SOLUTIONS INC.

Consolidated Condensed Interim Statement of Financial Position

(in Canadian dollars)

	Note	March 31, 2013	June 30, 2012
ASSETS			
Current			
Cash		$ 145,442	$ 31,292
Receivables	7	123,798	229,818
Prepaid expenses		38,041	45,277
		307,281	306,387
Non-current			
Deposit	9	59,229	56,729
Property and equipment	8	372,766	418,335
Coal technology and plant prototype	6	3,999,590	5,058,487
Intangibles	11	2,470	49,574
Total assets		$ 4,741,336	$ 5,889,512
LIABILITIES			
Current			
Accounts payable and accrued liabilities	12	$ 923,087	$ 2,031,378
Related parties	15	165,111	354,817
Loans payable	13	1,016,119	2,453,370
		2,104,317	4,839,565
SHAREHOLDERS' EQUITY			
Share capital	14b	14,419,886	12,013,125
Share-based payment reserve	14e	2,067,486	1,743,317
Deficit		(13,670,437)	(12,746,255)
Cumulative other comprehensive income		(179,916)	(199,390)
		2,637,019	810,797
Non-controlling interest		-	239,150
Total equity		2,637,019	1,049,947
Total liabilities and equity		$ 4,741,336	$ 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 condensed interim financial statements.

CARBON FRIENDLY SOLUTIONS INC.

Consolidated Condensed Interim Statements of Comprehensive Loss

(in Canadian dollars)

	Note	Three months ended March 31, 2013	Three months ended March 31, 2012	**Nine months ended March 31, 2013**	Nine months ended March 31, 2012
Revenues					
Carbon credits		$ -	$ 12,664	$ -	$ 12,664
Miscellaneous		249	48	249	48
Cost of sales					
Carbon credits		-	(1,863)	-	(1,863)
		249	10,849	249	10,849
Expenses					
Amortization		350,793	457,436	1,101,851	1,351,718
Bank charges and interest		1,638	2,322	7,642	4,775
Consulting fees	15	141,483	143,872	550,982	384,706
Foreign exchange loss (gain) on operations		(25,716)	(17,841)	5,085	(22,819)
Interest on notes payable		9,075	(114,260)	135,988	47,513
Investor relations		43,899	46,312	77,715	80,536
Management and director fees	15	526,971	290,650	815,703	567,514
Office and miscellaneous		35,297	29,994	91,939	108,062
Professional fees	15	95,426	156,740	317,989	392,485
Rent		25,817	15,039	81,657	94,958
Share-based compensation		135,014	-	347,136	218,579
Transfer agent and regulatory fees		8,177	6,004	17,996	17,059
Travel and promotion	15	37,564	75,993	133,106	132,729
Wages and benefits		28,949	37,545	86,187	96,789
Write down of goodwill		-	-	48,897	-
		(1,414,387)	(1,129,806)	(3,819,873)	(3,474,604)
Loss for the period		(1,414,138)	(1,118,957)	(3,819,624)	(3,463,755)
Gain on settlement of debt on acquisition	6	2,835,263	-	2,835,263	-
Recovery of receivable		27,431	-	13,810	-
Write off of debt		70,203	-	70,203	-
Gain (loss) on disposal of capital assets		(19,674)	57,645	(23,834)	20,502
		2,913,223	57,645	2,895,442	20,502
		1,499,085	(1,061,312)	(924,182)	(3,443,253)
Other comprehensive income (loss)					
Exchange gain (loss) arising on translation of foreign operations		(157,952)	(38,629)	19,474	(75,772)
		(157,952)	(38,629)	19,474	(75,772)
Total comprehensive income (loss)		$ 1,341,133	$ (1,099,941)	$ (904,708)	$ (3,519,025)
Loss for the period attributable to:					
Owners of parent		$ 1,485,464	$ (1,118,150)	$ (924,182)	$ (2,006,568)
Non-controlling interest		-	-	-	(1,436,685)
		$ 1,499,085	$ (1,061,312)	$ (924,182)	$ (3,443,253)
Total comprehensive loss attributable to:					
Owners of parent		$ 1,327,512	$ -	$ (904,708)	$ (1,016,116)
Non-controlling interest		-	-	-	(1,436,685)
		$ 1,341,133	$ (1,099,941)	$ (904,708)	$ (3,519,025)
Loss per share, basic and diluted		$ 0.02	$ (0.03)	$ (0.02)	$ (0.03)

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

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

	Note	**Nine months ended March 31, 2013**	Nine months ended March 31, 2012
Cash provided by (used in):			
Operating Activities			
Net loss for the period		$ (924,182)	$ (3,443,253)
Items not involving cash:			
Amortization		1,101,851	1,351,718
Loss on disposal of capital assets		23,834	-
Share-based compensation		347,136	218,579
Unrealized foreign exchange loss		(50,394)	-
Gain on settlement of debt on acquisition		(2,835,263)	-
Impairment of goodwill		509,095	-
		(1,827,923)	(1,872,956)
Change in non-cash working capital:			
Receivables		106,020	(95,265)
Inventory		-	(187,237)
Prepaid expenses and deposits		7,236	(5,082)
Accounts payable and accrued liabilities		238,559	(526,812)
Related parties		(185,076)	(122,887)
		(1,661,184)	(2,810,239)
Investing Activities			
Purchase of property and equipment		(664)	(23,368)
Rent deposit		(2,500)	-
Proceeds from sale of equipment		-	20,502
Cash gained on acquisition of Carbiopel		-	7,172
		(3,164)	4,306
Financing Activities			
Share issuances		2,077,375	3,017,730
Issue costs		(138,025)	(146,265)
Share subscriptions		-	352,000
Loan proceeds		-	125,000
Loan repayments		(150,679)	(220,115)
		1,788,671	3,128,350
Effect of foreign exchange		(10,173)	58,644
Increase in cash		114,150	381,061
Cash, beginning of year		31,292	3,031
Cash, end of period		$ 145,442	$ 384,092
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, March 31, 2012	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	8,693,750	1,738,750	-	-	-	-	-	1,738,750
Issue costs	-	(138,025)	-	-	-	-	-	(138,025)
Bonus shares issued	1,777,777	444,444	-	-	-	-	-	444,444
Share-based compensation	-	-	-	347,136	-	-	-	347,136
Stock options	200,000	28,000	-	-	-	-	-	28,000
Fair value of stock options exercised	-	22,967	-	(22,967)	-	-	-	-
Exercise of warrants	887,500	310,625	-	-	-	-	-	310,625
Loss for the period	-	-	-	-	(924,182)	-	(239,150)	(1,163,332)
Other comprehensive income	-	-	-	-	-	19,474	-	19,474
Balance, March 31, 2013	69,790,748	$ 14,419,886	$ -	$ 2,067,486	$ (13,670,437)	$ (179,916)	$ -	$ 2,637,019

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 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 May 29, 2013.

(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 - March 31, 2013	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	100%	58.21%
Carbiopel - ESP S.A.	Poland	100%	100%
MicroCoal International Inc. ("MicroCoal Canada")	Canada	100%	100%
MicroCoal Europe Sp. z o.o.	Poland	100%	0%

(in Canadian dollars)

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 $924,182 (year ended June 30, 2012: $4,735,380) for the nine months ended March 31, 2013, and had an accumulated deficit of $13,670,437 at March 31, 2013 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

	Nine months ended March 31, 2013	Nine months ended March 31, 2012
Interest paid	$ -	$ -
Income taxes paid	$ -	$ -
Fair value of stock options exercised	$ 22,967	$ -
Issuance of shares for investment in Carbiopel	$ -	$ 108,000

(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 US Services Inc. ("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. On January 7, 2013 the Company concluded its agreement with Orica and acquired 100% ownership of MCI. Orica transferred all remaining shares to MCI, and all Orica directors and management resigned from the MCI Board of Directors. Pursuant to agreements signed on December 5, 2012, May 17, 2012, December 22, 2011, January 10, 2011 and October 15, 2010, the Company agreed to pay the sum of $1 million (USD) to Orica of which $225,000 has been paid, leaving a balance of $775,000 bearing interest at a rate of 5% per annum. The Company has consigned 200,000 ISO 14064-2 Validated Voluntary Emission Reductions generated from the Northern Poland Afforestation Offset Project ("VERS") to Orica as security, the sale of which can reduce the debt. With the acquisition of MCI being concluded, various debts and loans originally in the books of MCI are forgiven resulting in a recovery of $2.8 million.

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 March 31, 2013, the accumulated amortization was $2,353,803 (June 30, 2012 - $2,000,837).

	March 31, 2013	June 30, 2012
Coal technology and plant prototype	$ 7,059,324	$ 7,059,324
Accumulated amortization	$ (3,059,734)	(2,000,837)
	$ 3,999,590	$ 5,058,487

7. RECEIVABLES

	March 31, 2013	June 30, 2012
GST/HST/VAT recoverable	$ 104,057	$ 136,531
Trade receivables	19,741	93,287
	$ 123,798	$ 229,818

(in Canadian dollars)

8. 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	(12,477)	(53,703)	(12,768)	-	(78,948)
Effect of foreign exchange	259	29,799	5,557	-	35,615
March 31, 2013	$ 22,742	$ 514,721	$ 76,056	$ 8,614	$ 622,133
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	(7,302)	(34,570)	(7,232)	-	(49,104)
Amortization	731	32,385	9,246	591	42,953
Effect of foreign exchange	507	12,503	2,817	-	15,827
March 31, 2013	20,611	189,270	34,219	5,267	249,367
Net book value, June 30, 2012	$ 8,285	$ 359,673	$ 46,439	$ 3,938	$ 418,335
Net book value, March 31, 2013	$ 2,131	$ 325,451	$ 41,837	$ 3,347	$ 372,766

9. DEPOSIT

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

(in Canadian dollars)

10. 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.

11. INTANGIBLE ASSETS

		March 31, 2013		June 30, 2012
Exclusive sales contract (i)	$	106,488	$	104,695
Impairment charge (i)		(104,018)		(55,121)
	$	2,470	$	49,574

(i) Exclusive Sales Contract

As of March 31, 2013, 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 March 31, 2013, the Company has 1,512,364 (June 30, 2012 — 1,500,000) verified emission reduction credits.

(in Canadian dollars)

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2013	June 30, 2012
Trade accounts payable	$ 880,553	$ 680,728
Accrued interest on loans	39,991	18,557
Taxes and payroll deductions	2,543	5,549
Debt subject to cancellation on completion of acquisition of MicroCoal, Inc.	-	1,326,544
	$ 923,087	$ 2,031,378

13. LOANS PAYABLE

	March 31, 2013	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 zloty was advanced to the Company. The interest rate is at 20% per annum. The loan is payable upon demand. This amount has been classified as current liability.	9,785	-
On January 7, 2013 the Company concluded an agreement with Orica US Services Inc. ("Orica") and acquired 100% ownership of MCI (note 6). Orica transferred all remaining shares to MCI. Pursuant to agreements signed on December 5, 2012, May 17, 2012, December 22, 2011, January 10, 2011 and October 15, 2010 (the "Agreements"), the Company agreed to pay the sum of $1 million (USD) to Orica of which $225,000 has been paid, leaving a balance of $775,000 bearing interest at a rate of 5% per annum. The Company has consigned 200,000 ISO 14064-2 Validated Voluntary Emission Reductions generated from the Northern Poland Afforestation Offset Project ("VERS") to Orica as security, the sale of which can reduce the debt.	789,834	2,178,370
	$ 1,016,119	$ 2,453,370

14. SHARE CAPITAL

(a) Authorized: unlimited common shares without par value

(b) **Issued and Outstanding**

Nine months ended March 31, 2013

The Company issued 1,600,000 shares to management and 177,777 shares to a consultant at a price of $0.25 per share as recompensement for efforts made as approved by the board of directors and the CNSX Exchange.

(in Canadian dollars)

On December 28, 2012 the Company closed non-brokered private placement of 8,693,750 units at a price of $0.20 per unit, for gross proceeds of $1,734,750. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share of the Company at an exercise price of $0.35 per common share until December 28, 2014. Finders' fees of $138,025 were paid and 1,244,250 finder's warrants were issued on the same terms as the unit warrants. The fair value of the broker's warrants of $115,829 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 118% and an expected life of warrants of 2 years.

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 851,250 broker warrants for a period of three years at $0.20 each. 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	Price
Balance, June 30, 2011	15,020,450	0.44
Issued	12,697,988	0.40
Expired	(7,675,200)	0.35
Balance, June 30, 2012	20,043,238	0.43
Issued - Finder's warrants	341,937	0.20
Issued	9,938,000	0.35
Balance, March 31, 2013	30,323,175	$ 0.40

The following table summarizes warrants outstanding and exercisable at March 31, 2013:

(in Canadian dollars)

14. SHARE CAPITAL continued

c) Warrants (continued)

Warrants Outstanding	Warrants Exercisable	Exercise Price		Expiry Date
5,272,750	5,272,750	$0.35	*	June 30, 2013
2,072,500	2,072,500	$0.75	*	August 19, 2013
851,250	851,250	$0.20	**	October 19, 2014
5,495,000	5,495,000	$0.35	*	October 19, 2013
6,693,675	6,693,675	$0.45		February 13, 2014
9,938,000	9,938,000	$0.35		December 28, 2014
30,323,175	30,323,175			

* Subequent to March 31, 2013, these warrants were repriced at $0.26 and extended.

** Subequent to March 31, 2013, these warrants were extended for an additional year at $0.26.

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	2,635,000		0.18
Exercised	(200,000)		0.14
Cancelled	(710,000)		0.23
Outstanding, March 31, 2013	6,715,000	$	0.21

During the period ended March 31, 2013, the Company granted 1,080,000 options at an exercise price of $0.11, 670,000 options at a price of $0.09 and 885,000 options at a price of $0.335 to officers, directors and consultants. The options vested immediately.

(in Canadian dollars)

14. SHARE CAPITAL continued

d) Stock options (continued)

The following table summarizes stock options outstanding and exercisable at March 31, 2013:

Options Outstanding	Exercise Price	Expiry Date	Options Exercisable
670,000	$0.09	October 12, 2016	670,000
1,080,000	$0.11	August 18, 2016	1,080,000
590,000	$0.14	August 18, 2016	590,000
1,600,000	$0.20	February 8, 2016	1,600,000
805,000	$0.23	October 6, 2013	805,000
410,000	$0.32	December 22, 2016	410,000
885,000	$0.335	January 7, 2017	885,000
675,000	$0.36	December 16, 2014	675,000
6,715,000			6,715,000

During the period ended March 31, 2013, share-based compensation has been recorded in the amount of $347,136 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:

	Nine months ended March 31, 2013	Year ended June 30, 2012
Risk free interest rate	1.25%	1.25%
Expected dividend yield	nil%	nil%
Stock price volatility	104.4%	97.8%
Expected life of options	3.11	3.11

14. SHARE CAPITAL continued

e) Share-based payment reserve

	Nine months ended March 31, 2013	Year ended June 30, 2012
Balance, beginning of period	$ 1,743,317	$ 1,404,017
Stock-based compensation	347,136	255,900
Fair value of stock options exercised	(22,967)	-
Fair value of agent's warrants	-	83,400
Balance, end of period	$ 2,067,486	$ 1,743,317

(in Canadian dollars)

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 March 31, 2013 and 2012 was as follows:

Key management personnel remuneration		Nine months ended March 31, 2013		Nine months ended March 31, 2012
Management and professional fees	$	506,286	$	666,214
Bonus shares issued to management (see note 14b)		400,000		-
Automobile allowance (travel and promotion)		21,600		33,361
Stock-based compensation		108,594		85,836
Total key management personnel remuneration	$	1,036,480	$	785,411

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	$	815,703	$	567,514
Consulting		136,000	$	12,800
Automobile allowance (travel and promotion)		21,600		33,361
Professional fees		78,000		98,700
Total related party amounts	$	1,051,303	$	712,375

As at March 31, 2013 accounts payable and accrued liabilities included $165,111 (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	March 31, 2013	June 30, 2012
Canada	$ 14,178	$ 16,552
USA	-	24,477
Poland	358,588	377,306
	$ 372,766	$ 418,335
Intangible Assets		
Canada	$ -	$ -
USA	-	-
Poland	2,470	46,574
	$ 2,470	$ 46,574
Coal technology and plant prototype		
Canada	$ -	$ -
USA	3,999,590	5,058,487
Poland	-	-
	$ 3,999,590	$ 5,058,487

18. COMMITMENTS AND CONTINGENCIES

(a) The Company entered into 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) 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) The Company entered into a consulting agreement for a period of 3 years commencing April 1, 2012 and will pay consulting 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 consultant is terminated within 12 months of such change of control, then the consultant 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 a consulting agreement for a period of 3 years commencing February 1, 2011 and will pay consulting fees of $168,000 per year. There is an annual increase of 5% per annum. In an event of a change in control, and the consultant is terminated within 12 months of such change of control, then the consultant 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.

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

2013	23,733
2014	94,923
2015	96,266
2016	98,057
2017	24,626
	$ 337,605

18. COMMITMENTS AND CONTINGENCIES continued

(f) 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.

(g) 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 March 31, 2013, 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	
	March 31, 2013	June 30, 2012	March 31, 2013	June 30, 2012
Cash	$ 47,514	$ 8,428	$ 19,760	$ 1,216
Receivables	-	-	46,664	95,217
Accounts payable and accrued liabilities	(433,829)	(1,774,971)	(141,496)	(65,380)
Related parties	(8,158)	(176,338)	(27,983)	(20,293)
Loans payable	(788,965)	(2,178,370)	-	-
	$ (1,183,438)	$ (4,121,251)	$ (103,055)	$ 10,760

The following exchange rates were applied:

	Nine months ended March 31, 2013		Year ended June 30, 2012	
	Average rate	Spot rate	Average rate	Spot rate
Canadian dollars to US dollars	1.0018	0.9823	0.9969	0.9755
Canadian dollars to Zloty	3.2066	3.1559	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 May 17, 2013, the Company announced it has extended the expiry date of 5,272,750 outstanding common share purchase warrants from June 30, 2013 to June 30, 2015, 5,495,000 outstanding common share purchase warrants from October 19, 2013 to October 19, 2015 and 851,250 agent's warrants from October 19, 2014 to October 19, 2015, which warrants were issued as part of a private placement of units at a price of $0.20 per unit, issued in June and October of 2011. Each share purchase warrant entitles the holder thereof to purchase one additional common share at an exercise price of $0.35 per share, which exercise price has now been amended to $0.26 per share, being the average closing price of the Company's shares for the 20 most recent trading days. The Company has also amended the exercise price of 2,072,500 outstanding common share purchase warrants issued as part of a private placement in August 2008 from $0.75 per share to $0.26 per share, each warrant entitling the holder thereof to purchase one additional common share. None of the above warrants have been exercised to date and the above amendments to the warrants are conditional upon the CNSX not objecting to such amendments.

The Company also announces that an aggregate of 282,000 units have been issued to two consultants at a price of $0.20 per unit, with each unit consisting of one common share and one share purchase warrant to purchase one additional common share at a price of $0.26 per share, exercisable for a period of two years from the date of issuance.

The Company received $19,688 pursuant to the exercise of 56,250 warrants from the December 2012 private placement.

Pursuant to a British Columbia Supreme Court decision 1,500,000 previously issued founders' shares were cancelled.