MICROCOAL TECHNOLOGIES INC.

(Formerly Carbon Friendly Solutions Inc.)

Consolidated Financial Statements

For the years ended June 30, 2013 and 2012

(in Canadian dollars)

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of MicroCoal Technologies Inc. (formerly Carbon Friendly Solutions Inc.)

We have audited the accompanying consolidated financial statements of MicroCoal Technologies Inc. (formerly Carbon Friendly Solutions Inc.), which comprise the consolidated statements of financial position as at June 30, 2013 and 2012 and the consolidated statements of comprehensive loss, cash flows and changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of MicroCoal Technologies Inc. (formerly Carbon Friendly Solutions Inc.) as at June 30, 2013 and 2012 and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements, which indicates that the Company incurred a loss of $3,680,853 for the year then ended, had a working capital deficit of $3,270,164 and has accumulated a deficit of $16,091,483 since inception and expects to incur further losses in the development of its business. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt upon the Company’s ability to continue as a going concern.

(signed) “BDO CANADA LLP”

Chartered Accountants
Vancouver, British Columbia
October 28, 2013

MICROCOAL TECHNOLOGIES INC.
(formerly Carbon Friendly Solutions Inc.)
Consolidated Statements of Financial Position
(in Canadian dollars)

	Note	June 30, 2013	June 30, 2012
ASSETS			
Current			
Cash		$ 8,095	$ 31,292
Receivables	7	25,340	229,818
Prepaid expenses		33,466	45,277
		66,901	306,387
Non-current			
Deposit	9	56,729	56,729
Property and equipment	8	13,166	418,335
Coal technology and plant prototype	6	3,646,622	5,058,487
Intangibles	11	-	49,574
Total assets		$ 3,783,418	$ 5,889,512
LIABILITIES			
Current			
Accounts payable and accrued liabilities	12	$ 1,868,840	$ 2,031,378
Due to related parties	15	332,797	354,817
Income tax payable	16	46,000	-
Loans payable	13	1,089,428	2,453,370
		3,337,065	4,839,565
SHAREHOLDERS' EQUITY			
Share capital	14b	14,415,464	12,013,125
Share-based payment reserve	14e	2,272,553	1,743,317
Deficit		(16,091,483)	(12,746,255)
Cumulative other comprehensive income		(150,181)	(199,390)
Attributable to owners' of the parent		446,353	810,797
Attributable to the non-controlling interest		-	239,150
Total equity		446,353	1,049,947
Total liabilities and equity		$ 3,783,418	$ 5,889,512

Approved on behalf of the Board:

"Slawomir Smulewicz"	"Stan Lis"
Director	Director

See accompanying notes to the financial statements

MICROCOAL TECHNOLOGIES INC.
(formerly Carbon Friendly Solutions Inc.)
Consolidated Statements of Comprehensive Loss
For the years ended June 30, 2013 and 2012
(in Canadian dollars)

	Note	Year ended June 30, 2013	Year ended June 30, 2012
Revenues			
Biomass		$ -	$ 87,282
Miscellaneous		-	8,755
		-	96,037
Cost of goods sold			
Biomass		-	64,409
		-	64,409
		-	31,628
Expenses			
Amortization		1,493,878	1,444,089
Bank charges and interest		6,219	6,390
Consulting fees	14b ,15	573,283	615,715
Foreign exchange gain(loss) on operations		28,094	(5,592)
Fair value of warrants issued for services rendered	14b	60,153	-
Financing fees	14b	79,162	-
Interest on notes payable		108,177	208,303
Investor relations		138,210	90,728
Management and director fees	14b, 15	967,768	617,781
Office and miscellaneous		80,205	148,679
Professional fees	15	567,239	654,005
Rent		107,323	150,954
Share-based compensation	14b, 14d	384,792	255,900
Transfer agent and regulatory fees		20,022	18,284
Travel and promotion	15	203,155	175,375
Wages and benefits		134,492	130,167
Write down of receivable		9,617	24,748
		(4,961,789)	(4,535,526)
Loss before other items		(4,961,789)	(4,503,898)
Other income (expenses):			
Gain on settlement of debts on acquisition	6	1,843,167	-
Loss on settlement of debts	14g	(76,466)	(6,308)
Write down of property and equipment	8	(364,157)	-
Impairment of goodwill	10	-	(248,416)
Impairment of intangible assets	11	(51,515)	-
Gain (loss) on sale of automotive equipment		(24,093)	20,232
Loss before income taxes		(3,634,853)	(4,738,390)
Current income tax expense		(46,000)	-
Net loss for the year		(3,680,853)	(4,738,390)
Other comprehensive income (loss)			
Exchange gain (loss) arising on translation of foreign operations		49,209	(304,168)
Total comprehensive loss		$ (3,631,644)	$ (5,042,558)
Loss for the year attributable to:			
Owners of parent		$ (3,345,228)	$ (3,786,986)
Non-controlling interest	6	(335,625)	(951,404)
		$ (3,680,853)	$ (4,738,390)

See accompanying notes to the financial statements

MICROCOAL TECHNOLOGIES INC.
(formerly Carbon Friendly Solutions Inc.)
Consolidated Statements of Comprehensive Loss
For the years ended June 30, 2013 and 2012
(in Canadian dollars)

Total comprehensive loss attributable to:					
Owners of parent		$	(3,296,019)	$	(4,091,154)
Non-controlling interest	6		(335,625)		(951,404)
		$	(3,631,644)	$	(5,042,558)
Loss per share, basic and diluted		$	(0.06)	$	(0.07)
Weighted average number of common shares outstanding - basic and diluted			63,617,591		51,272,107

See accompanying notes to the financial statements

MICROCOAL TECHNOLOGIES INC.
(formerly Carbon Friendly Solutions Inc.)
Consolidated Statements of Cash Flows
For the years ended June 30, 2013 and 2012
(in Canadian dollars)

	Note	Year ended June 30, 2013	Year ended June 30, 2012
Cash provided by (used in):			
Operating Activities			
Net loss for the year		$ (3,680,853)	$ (4,738,390)
Items not involving cash:			
Amortization		1,493,878	1,444,089
Loss (gain) on sale of automotive equipment		24,093	(20,232)
Loss (gain) on settlement of debt		(1,843,167)	6,308
Share-based compensation		384,792	255,900
Unrealized foreign exchange gain		(9,224)	(5,592)
Interest accrual		15,098	208,303
Write down of receivable		9,617	24,748
Issuance of shares for services		552,594	-
Write down of property and equipment		364,157	-
Fair value of warrants issued for services rendered		72,315	-
Impairment of intangible assets		51,515	-
Impairment of goodwill		-	248,416
		(2,565,185)	(2,576,450)
Change in non-cash working capital:			
Receivables		200,001	(240,222)
Prepaid expenses and deposits		11,691	9,033
Accounts payable and accrued liabilities		353,835	25,756
Income tax payable		46,000	-
Related parties		(22,020)	(206,257)
		(1,975,678)	(2,988,140)
Investing Activities			
Purchase of property and equipment		(665)	(3,787)
Proceeds from sale of equipment		3,136	2,062
Cash received on acquisition of Carbiopel		-	7,172
		2,471	5,447
Financing Activities			
Issuances of shares		2,093,313	2,902,730
Share issuance costs		(150,673)	(148,487)
Share subscriptions		-	352,000
Proceeds of loans		67,370	173,000
Repayment of loans and interest expense		(60,000)	(257,664)
		1,950,010	3,021,579
Effect of foreign exchange on cash		-	(10,625)
Increase (decrease) in cash		(23,197)	28,261
Cash, beginning of year		31,292	3,031
Cash, end of year		$ 8,095	$ 31,292
Supplemental cash flow information:	5		

See accompanying notes to the financial statements

MICROCOAL TECHNOLOGIES INC.
(formerly Carbon Friendly Solutions Inc.)
Consolidated Statements of Changes in Equity
For the years ended June 30, 2013 and 2012
(in Canadian dollars)

	Attributable to Parent							
	Shares	Amount	Share subscriptions	Share-based payment reserves	Deficit	Cumulative other comprehensive income (loss)	Attributable to non-controlling interest	Total
Balance, June 30, 2011	44,183,955	$ 8,650,892	$(352,000)	$ 1,404,017	$ (8,959,269)	$ 104,778	$ 1,190,554	$ 2,038,972
Shares issued in:								
Private placement (Note 14b)	5,495,000	1,099,000	352,000	-	-	-	-	1,451,000
Private placement (Note 14b)	6,395,766	1,918,730	-	-	-	-	-	1,918,730
Share issuance costs (Note 14b)	-	(231,887)	-	83,400	-	-	-	(148,487)
Investment in Carbiopel (Note 10)	1,967,000	531,090	-	-	-	-	-	531,090
Shares for services rendered (Note 14b)	190,000	45,300	-	-	-	-	-	45,300
Share-based compensation (Note 14d)	-	-	-	255,900	-	-	-	255,900
Loss for the year	-	-	-	-	(3,786,986)	-	(951,404)	(4,738,390)
Other comprehensive item	-	-	-	-	-	(304,168)	-	(304,168)
Balance, June 30, 2012	58,231,721	12,013,125	-	1,743,317	(12,746,255)	(199,390)	239,150	1,049,947
Shares issued in:								
Private placement (Note 14b)	8,693,750	1,738,750	-	-	-	-	-	1,738,750
Share issuance costs (Note 14b)	-	(265,035)	-	114,362	-	-	-	(150,673)
Bonus shares (Note 14b)	1,777,777	444,444	-	-	-	-	-	444,444
Exercise of stock options	200,000	28,000	-	-	-	-	-	28,000
Fair value of options exercised	-	22,967	-	(22,967)	-	-	-	-
Exercise of warrants	943,750	326,563	-	-	-	-	-	326,563
Shares and warrants issued for debt (Note 14b)	507,000	108,150	-	69,716	-	-	-	177,866
Shares returned to treasury (Note 14b)	(1,500,000)	(1,500)	-	1,500	-	-	-	-
Equity component of convertible loan (Note 13)	-	-	-	5,993	-	-	-	5,993
Fair value of warrants issued pursuant to loan agreement (Note 14b)	-	-	-	12,162	-	-	-	12,162
Fair value of warrants issued for services rendered (Note 14b)	-	-	-	60,153	-	-	-	60,153
Share-based compensation (Note 14d)	-	-	-	384,792	-	-	-	384,792
Loss for the year	-	-	-	-	(3,345,228)	-	(335,625)	(3,680,853)
Other comprehensive item	-	-	-	-	-	49,209	-	49,209
Elimination of minority interest	-	-	-	(96,475)	-	-	96,475	-
Balance, June 30, 2013	68,853,998	$14,415,464	$ -	$ 2,272,553	$ (16,091,483)	$ (150,181)	$ -	$ 446,353

See accompanying notes to the financial statements

1. NATURE OF OPERATIONS

Microcoal Technologies Inc., (formerly Carbon Friendly Solutions Inc.) ("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 changed its name to MicroCoal Technologies Inc. on June 25, 2013.

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 "MTI".

The Company is in the business of providing a coal technology using patented technologies to dewater, decontaminate and upgrade low-rank coals for use by power utilities and coal companies. The Company also 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 from the completion of reforestation, biomass energy and renewable energy technology projects that are independently validated and verified to globally recognized standards and methodologies.

2. BASIS OF PREPARATION

(a) Statement of Compliance

These consolidate financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”).

These financial statements were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on October 28, 2013.

(b) Basis of Measurement

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

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

(c) Going Concern of Operations

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will continue to realize its assets and discharge its obligations and commitments in the normal course of operations. At June 30, 2013, the Company incurred a loss of $3,680,853 for the year then ended, had a working capital deficit of $3,270,164 and has accumulated losses of $16,091,483 since its inception and expects to incur further losses in the development of its business. The Company has also defaulted on certain loans and payables and is negotiating with the lenders and other creditors to extend the repayment terms, all of which indicates the existence of material uncertainty which casts significant doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. Management has a plan in place to address this concern and intends to obtain additional funds by equity financing to the extent there is a shortfall from operations. While the Company is continuing its best efforts to achieve the above plans, there is no assurance that any such activity will generate funds for operations or the Company will be able to raise funds in the future.

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

(in Canadian dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Consolidation

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

	Country of incorporation	Ownership - June 30, 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%	0.0%
MicroCoal International Inc. ("MicroCoal Canada")	Canada	100%	0.0%
MicroCoal Europe Sp. z o.o.	Poland	100%	0.0%

(b) Foreign currency translation

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

Transactions in foreign currencies are translated into their functional currency at exchange rates at the date of the transactions. Foreign currency differences arising during operations are recognized in profit or loss as foreign exchange loss (gain) on operations. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income. Exchange gains and losses arising on the retranslation of monetary available-for-sale financial assets are treated as a separate component of the change in fair value and recognized in net income. Exchange gains and losses on non-monetary available-for-sale financial assets form part of the overall gain or loss recognized in respect of the that financial instrument.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when acquired. All gains and losses on translation of these foreign currency transactions are included in profit or loss.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Revenue recognition

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

(d) Property and equipment

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

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

(e) Goodwill

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

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

(f) Impairment of non-financial assets

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Income taxes

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

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

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

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

(h) Financial instruments

Financial assets

Financial assets are classified as loans and receivables based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for loans and receivable is as follows:

Loans and receivables

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

Financial liabilities

Other financial liabilities

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

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

(i) Share capital

Financial Instruments Issued by the Company are classified as equity, only to the extent that they do not meet the definition of a financial liability or asset. The Company's common shares, share subscriptions, share warrants and share options are classified as equity instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Share-based payments

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

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

(k) Basic and diluted loss per share

Basic earnings or loss per share represents the income or loss for the year, divided by the weighted average number of common shares outstanding during the year. Diluted earnings or loss per share represents the income or loss for the year, divided by the weighted average number of common shares outstanding during the year plus the weighted average number of dilutive shares resulting from the exercise of stock options, warrants and other similar instruments where the inclusion of these would not be anti-dilutive.

(l) Standards, Amendments and Interpretations Not Yet Adopted

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning on or after January 1, 2013 or later years. The following standards and interpretations have been issued but are not yet effective:

- IFRS 7 Financial Instruments Disclosures (Amendment)

  In December 2011, the IASB amended this standard to set out additional disclosure requirements regarding the offsetting of financial assets and financial liabilities. The standard was also amended to reflect the effects of adopting IFRS 9, Financial Instruments. The Company is yet to assess the full impact of IFRS 7 and intends to adopt the standard no later than the accounting period beginning on July 1, 2013. The adoption of this standard will not have a significant impact on the Company’s financial statements.

- IFRS 9 Financial Instruments

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

- IFRS 10 Consolidated Financial Statements

  IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Company intends to adopt this standard no later than the accounting period beginning on July 1, 2013. The adoption of this standard will not have a significant impact on the Company’s financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- IFRS 11 Joint Arrangements

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

- IFRS 12 Disclosures of Interests in Other Entities

  IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Company intends to adopt this standard no later than the accounting period beginning on July 1, 2013. The adoption of this standard will not have a significant impact on the Company's financial statements.

- IFRS 13 Fair Value Measurement

  IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS or US GAAP. The Company intends to adopt this standard no later than the accounting period beginning on July 1, 2013. The adoption of this standard will not have a significant impact on the Company's financial statements.

- IAS 28 Investments in Associates and Joint Ventures

  As a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will provided the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee. The adoption of this standard will not have a significant impact on the Company's financial statements.

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 coal technology and plant prototype, and the determination of income taxes.

a) <u>Coal technology and plant prototype</u>

In determining the carrying values of coal technology and plant prototype, management makes estimates in estimating the economic useful lives of the assets. Management is required to evaluate the asset for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Impairment test compares the carrying value of the asset to its recoverable amount, based on the higher of the assets value in use, estimated using future discounted cash flows, or fair value less cost to sell. Impairment loss calculations contain uncertainties as they require assumptions and judgment about future cash flow and asset fair value. As at June 30, 2013 management assessed that there is no change to the useful life of 5 years and salvage value is estimated to be $Nil. For the year ended June 30, 2013, management completed an impairment assessment and concluded that no write down is necessary.

(in Canadian dollars)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(b) Income taxes

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

For the year ended June 30, 2013, the Company has not recognized a deferred tax asset as management believes it is not probable that taxable profit will be available against which a deductible temporary differences can be utilized.

5. SUPPLEMENTAL CASH FLOW INFORMATION

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the consolidated statements of cash flows during the years ended June 30, 2013 and 2012 are:

	June 30, 2013	June 30, 2012
Interest paid	$ 31,925	$ -
Income taxes paid	-	-
Fair value of stock options exercised	22,967	-
Fair value of agent warrants issued as share issuance costs	114,362	83,400
Issuance of shares for investment in Carbiopel (Note 11)	-	531,090
Issuance of shares for debts settlement	108,150	115,000
Issuance of shares for services rendered	444,444	45,300

6. COAL TECHNOLOGY AND PLANT PROTOTYPE

During the year ended June 30, 2011, the Company acquired a 58.21% interest in MicroCoal through issuance of the Company’s common shares in exchange for the equivalent shares of 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. Its principal asset is the coal technology and plant prototype.

When the Company entered into the Share Exchange agreement, MicroCoal had a principal amount of US$2,250,000 owing to Orica US Services Inc. (“Orica”), a creditor and a shareholder of MicroCoal. Pursuant to the conditions stipulated on the Share Exchange agreement and other amending agreements entered into between 2011 and 2013, if the Company agreed to acquire the remaining interest 41.79% interest in MicroCoal, Orica would reduce the principal amount to US$1,000,000 and waive the interest accruals up to the acquisition date. On January 7, 2013, the Company concluded the acquisition of the 41.79% interest and Orica has reduced the debt to US$1,000,000. The Company has also consigned 400,000 ISO 14064-2 Validated Voluntary Emission Reductions generated from the Northern Poland Afforestation Offset Project (“VERS”) to Orica as security on the loan.

As at the completion date of the acquisition, the Company has repaid US$125,000 to Orica and repaid additional US$100,000 after the acquisition. As at June 30, 2013, the Company has loan payable of $789,834 (US$775,000) and interest accrual of $23,217 owing to Orica. The gain on settlement of debt of $1,843,167 consisted of the following:

(in Canadian dollars)

6. COAL TECHNOLOGY AND PLANT PROTOTYPE (continued)

Principal amount due to Orica at the date of Share Exchange agreement	US$	2,250,000
Accrued interest on Orica loan		584,699
Principal owing to Orica		(1,000,000)
	US$	1,834,699
Foreign exchange		8,468
Gain on settlement of debts on acquisition	$	1,843,167

During the period from July 1, 2012 to January 7, 2013, MicroCoal incurred a net loss of approximately $803,000 of which $335,625 represented the portion attributed to the non-controlling interest.

The asset is being amortized on a straight-line basis over a period of 5 years commencing when the asset was available for use in March 2011.

		June 30, 2013		June 30, 2012
Coal technology and plant prototype	$	7,059,324	$	7,059,324
Accumulated amortization		(3,412,702)		(2,000,837)
	$	3,646,622	$	5,058,487

7. RECEIVABLES

		June 30, 2013		June 30, 2012
GST/HST/VAT recoverable	$	25,340	$	136,531
Trade receivables		-		93,287
	$	25,340	$	229,818

(in Canadian dollars)

8. PROPERTY AND EQUIPMENT

Costs	Computer equipment	Equipment	Automotive equipment	Leasehold improvements	Total
June 30, 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	-	665	-	-	665
Disposals	(12,564)	(54,077)	(4,590)	-	(71,231)
Effect of foreign exchange	355	30,395	4,956	-	35,706
June 30, 2013	$ 22,751	$ 515,608	$ 76,193	$ 8,614	$ 623,166
Accumulated amortization					
June 30, 2011	$ 23,766	$ 40,189	$ -	$ 3,692	$ 67,647
Acquisitions	-	125,108	27,675	-	152,783
Disposals	-	-	(471)	-	(471)
Amortization	3,365	22,035	5,840	984	32,224
Effect of foreign exchange	(456)	(8,380)	(3,656)	-	(12,492)
June 30, 2012	26,675	178,952	29,388	4,676	239,691
Acquisitions	-	-	-	-	-
Disposals	(7,353)	(34,811)	(3,250)	-	(45,414)
Amortization	4,457	61,815	14,953	788	82,013
Impairment	-	325,182	38,975	-	364,157
Effect of foreign exchange	(2,220)	(24,354)	(3,873)	-	(30,447)
June 30, 2013	21,559	506,784	76,193	5,464	610,000
Net book value, June 30, 2012	$ 8,285	$ 359,673	$ 46,439	$ 3,938	$ 418,335
Net book value, June 30, 2013	$ 1,192	$ 8,824	$ -	$ 3,150	$ 13,166

Automobile equipment was sold for $3,136 for a net loss of $114. Equipment related to the biomass operations was written down to a $nil value based on the ability and focus of the Company to continue with an economic biomass business model. The total impairment was $364,157.

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. Carbiopel is a biomass pellet producer based in Poland that focuses on aggregating biomass, particularly from agricultural residue, to use as feedstock for the Pellet Producing machinery. 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. As of June 30, 2013, the loan remains outstanding.

The value of the Company's 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 were classified as loans and receivables and consist primarily of VAT receivable.

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. In addition to the lack of continuous demand for the Biomass product, the synergies effect did not materialize as expected and the amount of $248,416 had been written off.

11. INTANGIBLE ASSETS

Intangible Assets		June 30, 2013		June 30, 2012
Exclusive contract (i)	$	106,636	$	104,695
Impairment charges (i)		(106,636)		(55,121)
	$	-	$	49,574

(i) Exclusive Sales Contract

As of June 30, 2013, the Company reviewed the carrying amount of its intangible assets and recognized an impairment charge of $51,515 (June 30, 2012 - $Nil) in the consolidated statements of comprehensive loss.

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. As of June 30, 2013, the Company has 1,512,364 (June 30, 2012 — estimated 1,500,000) verified emission reduction credits. The Company has written down the value of sales contracts and verified emission reduction credits on the basis that its core business is coal technology and it has yet to find a market for the emission reduction credits due to the changing in the emission standards. The Company will maintain the contracts in good standing and explore future opportunities.

(in Canadian dollars)

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2013	June 30, 2012
Accounts payable	$ 1,056,200	$ 649,975
Other payables owing to creditors in MicroCoal	747,837	794,632
Taxes and benefits	1,790	5,549
Accrued interest payable	63,013	581,222
	$ 1,868,840	$ 2,031,378

(in Canadian dollars)

13. LOANS PAYABLE

	June 30, 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 loan was due in January 2012 and the interest rate was 8% per annum. During the year ended June 30, 2013 the Company repaid $nil (2012 - $160,000). A payment of $50,000 was paid subsequent to June 30, 2013.	$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. The Company repaid a total of $60,000 in 2013.	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. A payment of $50,000 was paid subsequent to June 30, 2013.	115,000	115,000
Pursuant to a loan agreement a total of $10,870 (Polish Zloty 30,000) was advanced to the Company. The interest rate is at 20% per annum. The loan is payable upon demand. Subsequent to June 30, 2013, the loan was settled by the issuance of shares.	10,870	-
Pursuant to a loan agreement, a total of $55,000 was advanced to the Company on an unsecured basis less a loan fee of $500 and 100,000 warrants exercisable at $0.26 per share until May 24, 2016, prepaid interest to October 30, 2013 of $3,809 and legal fees of $1,722. The interest rate is 16% per annum and the principal is due at the earlier of November 1, 2013 or a financing was achieved by the Company. The value of warrants is $5,993 which is recognized as an component of equity. Subsequent to June 30, 2013 the loan was settled by the issuance of shares.	49,007	-
On January 7, 2013 the Company concluded an agreement with Orica US Services Inc. ("Orica") and acquired the remaining 41.79% ownership of MicroCoal (note 6). Orica transferred all remaining shares to the Company. Pursuant to various agreements in prior years, the Company agreed to pay the sum of US$1 million to Orica of which $225,000 had been paid, leaving a balance of US$775,000 bearing interest at a rate of 5% per annum. The Company has consigned 400,000 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. The balance consists of principal of $789,834 (US$775,000) plus interest accrual of $23,217 (Note 6).	813,051	2,178,370
	$1,089,428	$2,453,370

14. SHARE CAPITAL

(a) Authorized: unlimited common shares without par value

(b) Issued and Outstanding

Year ended June 30, 2013

On December 28, 2012 a private placement was completed of 8,693,750 units at a price of $0.20 per unit, for gross proceeds of $1,738,750. Each unit consisted 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 $150,673 were incurred and 1,245,250 finder's warrants were issued on the same terms as the unit warrants. The fair value of the broker's warrants of $114,362 was estimated using the Black-Scholes option pricing model using a risk free interest rate of 1.246%, an expected dividend yield of $nil, a volatility of 113% and an expected life of warrants of 2 years.

The Company issued 1,600,000 common shares as bonus to management and 177,777 common shares to a consultant with a market price of $0.25 per share at the date of issuance. During the year ended June 30, 2013, the Company recorded $400,000 as management and director fees and $44,444 as consulting fees in the consolidated statements of comprehensive loss.

The Company issued 282,000 shares at $0.20 per share and 282,000 warrants exercisable at $0.26 per share until May 16, 2016, and 225,000 shares at $0.23 per shares and 225,000 warrants exercisable at $0.26 per share until May 31, 2016 to settle debts of $101,400. The fair value of the shares of $108,150 and of the warrants of $69,716 was estimated using a Black Scholes option using a risk free interest rate of 1.246%, an expected dividend yield of $nil, a volatility of 111.6%, and an expected life of 3.0 years.

The Company issued 100,000 warrants exercisable at $0.26 per share until May 24, 2016, pursuant to a loan agreement. See note 13, "Loans payable". The fair value of the warrants of $12,162 was included as financing fee on the consolidated statements of comprehensive loss and the value was estimated using a Black-Scholes option pricing model using a risk free interest rate of 1.246%, an expected dividend yield of $nil, a volatility of 111.6%, and an expected life of 3.0 years.

The Company issued 300,000 warrants exercisable at $0.26 per share until May 31, 2016, pursuant to services rendered. The fair value of the warrants of $45,115 was included as fair value of warrants issued for services on the consolidated statements of comprehensive loss and the value was estimated using a Black-Scholes option pricing model using a risk free interest rate of 1.246%, an expected dividend yield of $nil, a volatility of 113%, and an expected life of 3.0 years.

The Company issued 100,000 warrants exercisable at $0.26 per share until May 31, 2016, pursuant to services rendered. The fair value of the warrants of $15 038 was included as fair value of warrants issued for services on the consolidated statements of comprehensive loss and the value was estimated using a Black-Scholes option pricing model using a risk free interest rate of 1.246%, an expected dividend yield of $nil, a volatility of 113%, and an expected life of 3.0 years.

The Company won a legal case against its former employees which resulted in the cancellation of 1,500,000 common shares of the Company for no consideration given. The shares have been returned to the treasury.

(in Canadian dollars)

14. SHARE CAPITAL (continued)

b) Issued and Outstanding (continued)

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 consisted 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 consisted 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.

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

c) Warrants

On May 17, 2013 the Company repriced the exercise price of 2,072,500 warrants expiring on August 29, 2013 from $0.75 to $0.26, the expiry date and exercise price of 5,272,750 warrants from June 30, 2013 to June 30, 2015 and from $0.35 to $0.26, the expiry date and exercise price of 5,495,000 warrants from October 19, 2013 to October 19, 2015 and from $0.35 to $0.26, and the expiry date of 851,250 agent's warrants at $0.20 from October 19, 2014 an additional year to October 19, 2015 at an exercise price of $0.26. All warrants were issued in connection with private placements.

During the year ended June 30, 2012, the Company extended expiry date on 2,072,500 warrants from August 29, 2012 to August 29, 2013.

	Number of shares	Exercise price
Balance, June 30, 2011	15,020,450	$ 0.41
Issued	13,039,925	0.40
Expired	(7,675,200)	0.35
Balance, June 30, 2012	20,385,175	0.42
Issued	10,945,000	0.34
Expired	(943,750)	0.35
Balance, June 30, 2013	30,386,425	$ 0.30

(in Canadian dollars)

14. SHARE CAPITAL (continued)

c) Warrants (continued)

The following table summarizes warrants outstanding and exercisable at June 30, 2013:

Warrants Outstanding	Exercise price	Expiry Date
* 2,072,500	$ 0.26	August 29, 2013
6,693,675	0.45	February 13, 2014
9,019,250	0.35	December 28, 2014
5,272,750	0.26	June 30, 2015
100,000	0.26	May 24, 2016
525,000	0.26	May 31, 2016
826,250	0.26	October 19, 2014/15
5,495,000	0.26	October 19, 2015
30,386,425		

*Subsequent to June 30, 2013, 2,000,000 warrants were exercised and the remaining warrants expired unexercised.

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.

During the year ended June 30, 2013, the Company granted 1,085,000 options at an exercise price of $0.11 per share, 670,000 options at a price of $0.09 per share and 885,000 options at a price of $0.335 per share to officers, directors and consultants. The options are exercisable for 5 years and vested immediately.

During the year ended June 30, 2012, the Company granted 790,000 options at an exercise price of $0.14 per share and 630,000 options at an exercise price of $0.32 per share to officers, directors and consultants. The options vested immediately and are exercisable for 5 years.

Stock options outstanding and exercisable 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
Cancelled	(261,620)	0.25
Outstanding, June 30, 2012	4,990,000	0.23
Granted	2,640,000	0.18
Exercised	(200,000)	0.14
Cancelled	(710,000)	0.24
Outstanding and exercisable, June 30, 2013	6,720,000	$ 0.21

(in Canadian dollars)

14. SHARE CAPITAL (continued)

d) Stock options (continued)

The following table summarizes stock options outstanding and exercisable at June 30, 2013:

Options Outstanding	Exercise price	Expiry Date
670,000	$ 0.09	October 17, 2017
1,085,000	0.11	August 16, 2017
590,000	0.14	August 18, 2016
1,600,000	0.20	February 8, 2016
805,000	0.23	October 6, 2013
410,000	0.32	December 22, 2016
885,000	0.335	January 7, 2018
675,000	0.36	December 16, 2014
6,720,000		

During the year ended June 30, 2013, share-based compensation has been recorded in the amount of $384,792 (2012 - $255,900) and included in share-based payment reserve. The weighted average life remaining of the options at June 30, 2013 is 3.9 years (2012 – 3.27 years).

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

	2013	2012
Risk free interest rate	1.25%	1.34%
Expected dividend yield	nil%	nil%
Stock price volatility	101.9%	118.2%
Expected life of options	5.00	5.00

e) Share-based payment reserve

	2013	2012
Balance, beginning of year	$ 1,743,317	$ 1,404,017
Stock-based compensation	384,792	255,900
Fair values of warrants issued as debt settlement (note 14b)	12,162	-
Fair values of warrants issued for services (note 14b)	60,153	-
Fair value of stock options exercised, reclassified to share capital	(22,967)	-
Fair value of warrants issued for debt	69,716	-
Fair value of shares returned to treasury	1,500	-
Fair value of equity components issued in a loan payable (note 13)	5,993	-
Fair value of agent's warrants issued for private placement	114,362	83,400
Elimination of minority interest	(96,475)	-
Balance, end of year	$ 2,272,553	$ 1,743,317

(in Canadian dollars)

14. SHARE CAPITAL (continued)

f) Nature and purpose of reserves

The reserves recorded in equity on the Company's Statements of Financial Position include 'Share subscriptions', 'Share-based payment reserve', 'Cumulative Other Comprehensive Income', 'Deficit' and 'Attributable to non-controlling interest'. Share subscriptions are used to record cash receipts in advance of issuance of shares. 'Share-based payment reserve' is used to recognize the value of stock option grants and share purchase warrants prior to exercise. 'Cumulative Other Comprehensive Income' includes the cumulative translation reserve which records exchange gains and losses on translating foreign operations into the Company's Canadian dollar functional currency. 'Deficit' is used to record the Company's change in deficit from earnings from year to year. Attributable to non-controlling interest is used to record the portion of loss pertaining to the minority shareholders.

g) Loss on settlement of debts

- During the year ended June 30, 2013, as described in Note 14(b) the Company issued a total of 507,000 common shares and 507,000 warrants to settle debts of $101,400. The aggregate fair value of the common shares and warrants were $177,866. The Company recognized a loss of $76,466 on the statements of comprehensive loss.

- During the year ended June 30, 2012, the Company issued 575,000 units at $0.20 per unit to settle loans payable and accrued interest of $101,270.

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

15. RELATED PARTIES

Key management includes the Chief Executive Officer and the Chief Financial Officer and their controlled companies. Compensation paid or payable to key management for services provided during the years ended June 30, 2013 and 2012 was as follows:

		June 30, 2013		June 30, 2012
Management and professional fees	$	878,580	$	648,851
Bonus shares issued to management (see note 14b)		400,000		-
Automobile allowances		28,800		38,999
Stock-based compensation		159,822		218,578
	$	1,467,202	$	906,428

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

		June 30, 2013		June 30, 2012
Management and directors' fees	$	932,591	$	617,781
Bonus shares issued to management (see note 14b)		400,000		-
Consulting		90,600		-
Professional fees		150,000		123,700
Automobile allowance (travel and promotion)		28,800		38,999
	$	1,601,991	$	780,480

(in Canadian dollars)

15. RELATED PARTIES (continued)

As at June 30, 2013 the Company is owing $332,797 (June 30, 2012 - $354,817) to officers and directors. The amounts due are unsecured, non-interest bearing and have no fixed terms of repayment.

16. INCOME TAXES

The material components of the income tax expense for the years ended June 30, 2013 and 2012 are as follows:

	June 30, 2013	June 30, 2012
Current income tax expense	$46,000	$ -
Deferred tax expense	-	-
	$46,000	$ -

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

	June 30, 2013	June 30, 2012
Income/(loss) before income taxes	$ (3,634,853)	$ (4,738,390)
Tax recovery based on the statutory rate of 25.25% (2012: 25.75%)	$ (918,000)	$ (1,220,000)
Change in tax rates on deferred tax	(103,000)	13,000
Non-deductible expenses	230,000	188,000
Different tax rates in other jurisdictions	(87,000)	(284,000)
Financing costs and other	(69,000)	(37,000)
Impact of initial recognition exemption on coal technology and plant prototype	537,000	537,000
Changes in unrecognized deferred tax assets	456,000	803,000
Current income tax expense	$ 46,000	$ -

Effective April 1, 2013, the BC provincial tax rate increased from 10% to 11% while the Canadian Federal corporate tax rate remained at 15%. The US tax rate remained at 38%.

Deferred Tax Assets and Liabilities

The nature and tax effect of the temporary differences giving rise to the deferred tax assets and liabilities at June 30, 2013 and 2012 are summarized as follows:

	June 30, 2013	June 30, 2012
Deferred tax assets		
Losses carried forward	$ 2,799,000	$ 2,361,000
Un-deducted financing costs	98,000	89,000
Capital assets	27,000	19,000
Other tax assets	15,000	14,000
	2,939,000	2,483,000
Unrecognized deferred tax asset	(2,939,000)	(2,483,000)
Deferred tax assets	$ -	$ -

(in Canadian dollars)

16. INCOME TAXES (continued)

Tax Losses

As at June 30, 2013, the Company has accumulated non-capital losses of approximately $10.767 million (2012- $7.789 million) 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 2033. The Company also has operating losses of approximately $Nil (2012-$1,086,000) in the United States. For Polish tax purposes, there is approximately $1.3 million (2012- $1.1million) operating losses which have not been included in the deferred tax assets above due to the uncertainty of the inclusion of these losses. The Company evaluates its deferred tax assets based on projected future operations. When circumstances change and this causes a change in management's judgment about the recoverability of deferred tax assets, the impact of the change on the unrecognized deferred tax assets are reflected in current income.

17. SEGMENTED INFORMATION

The Company currently operates in one industry segment and in the geographic areas as follows.

Sales for the period	Year ended June 30, 2013	Year ended June 30, 2012
Canada	$ -	$ -
USA	-	-
Poland	-	87,282
	$ -	$ 87,282

Property and Equipment	June 30, 2013	June 30, 2012
Canada	$ 13,166	$ 16,552
USA	-	24,477
Poland	-	377,306
	$ 13,166	$ 418,335

Intangible Assets	June 30, 2013	June 30, 2012
Canada	$ -	$ -
USA	-	-
Poland	-	49,574
	$ -	$ 49,574

Coal technology and plant prototype	June 30, 2013	June 30, 2012
Canada	$ -	$ -
USA	3,646,622	5,058,487
Poland	-	-
	$ 3,646,622	$ 5,058,487

(in Canadian dollars)

18. COMMITMENTS AND CONTINGENCIES

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

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

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

d) The Company entered into a consulting agreement for a period of 3 years commencing February 1, 2011 to 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:

2014	$94,923
2015	96,266
	$191,189

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 $106,636 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.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. As at June 30, 2013, cash amounted to $8,095, (2012 - $32,901). During the year ended June 30, 2013, the Company raised $1,942,640 (2012 - $2,869,243) through the issuance of common shares in a private placement. The Company has closed the first tranches of 3,428,499 units in a private placement, of which 2,735,800 units have been issued and received $607,150 from the exercise of stock options and warrants after June 30, 2013 (Note 21). These additional funds were used for working capital requirements.

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

20. FINANCIAL INSTRUMENTS AND RISKS

As at June 30, 2013, the Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities and loans payable. The carrying values of these financial instruments approximate their fair values because of their current nature.

Market Risk

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

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due and the going concern assumption (note 2). As at June 30, 2013, the Company has working capital deficiency of $3,270,164. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined in note 19. The Company continues to monitor its actual cash flows and to seek equity financing to ensure sufficient liquidity to meet financial obligations when they become due. Subsequent to June 30, 2013, the Company has received $820,740 from the first tranche of a private placement and of $607,150 from the exercise of stock options and warrants.

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.

(in Canadian dollars)

20. FINANCIAL INSTRUMENTS AND RISKS (continued)

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.

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	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Cash	$ 3,222	$ 8,428	$ 72	$ 1,216
Receivables	-	-	6,018	95,217
Accounts payable and accrued liabilities	(1,162,448)	(1,774,971)	(93,813)	(65,380)
Related parties	(30,000)	(176,338)	(26,809)	(20,293)
Loans payable	(813,051)	(2,178,370)	-	-
	$(2,002,277)	$(4,121,251)	$(114,532)	$10,760

The following exchange rates were applied:

	Year ended June 30, 2013		Year ended June 30, 2012	
	Average rate	Spot rate	Average rate	Spot rate
Canadian dollars to US dollars	0.9957	0.9532	0.9969	0.9755
Canadian dollars to Zloty	3.1888	3.1502	3.1675	3.3584

21. EVENTS OCCURING AFTER REPORTING DATE

The Company has entered into a sales agreement with PT Wijaya Tri Utama ("PWTU") that provides for the design, construction, operation, and maintenance of the first MicroCoal TM commercial facility utilizing the Company's proprietary coal drying technology (the "Facility"). The contracted price for the construction of the Facility's installation is US $6,000,000 ("Construction Fee"). The Company has received US$ 900,000 as a portion of the construction fee, with the balance of the funding for the Facility to be secured by an irrevocable letter of credit arranged by PWTU for the benefit of the Company. In addition to the one time construction fee, PWTU has agreed to pay the Company an annual fee for a period of six years and maintenance fees.

The Company announced a non-brokered private placement of up to 10,000,000 units at a price of $0.30 per unit, for gross proceeds of up to $ 3,000,000. Each unit consists of one common share and an equal number of non-transferable warrants to purchase common shares exercisable at $0.45 per common share for period of five years. The warrants shall have a "forced exercise" provision if the common shares trade at $0.90 or higher for ten consecutive trading days on the Canadian National Stock Exchange (the "CNSX") (or if the common shares are no longer listed on the CNSX then such other stock exchange on which the common shares are listed). Finders' fees may be paid in accordance with CNSX policies. The Company has closed a first tranche of 3,428,499 units, of which 2,735,800 units have been issued.

22. EVENTS OCCURING AFTER REPORTING DATE (continued)

The Company issued 1,407,798 units at $0.22 per unit, each unit consists of one common share and one warrant to purchase one additional share for $0.26 each until May 31, 2016 to settle debts of $309,716. In addition the Company issued 1,469,226 units at $0.27 per unit, each unit consists of one common share and one warrant to purchase one additional share for $0.35 each until May 31, 2016 te settle debts of $396,691.

The Company received $87,150 from the exercise of 485,000 stock options and $520,000 from the exercise of 2,000,000 warrants.