

**MICROCOAL TECHNOLOGIES INC.**

**Condensed Consolidated Interim Financial Statements**

**Three months ended September 30, 2013**

**(in Canadian dollars)**

**MICROCOAL TECHNOLOGIES INC.**

**Unaudited Condensed Consolidated Interim Financial Statements  
September 30, 2013**

**Notice of No Auditor Review of Condensed Consolidate Interim Financial Statements**

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

# MicroCoal Technologies Inc.

## Condensed Consolidated Interim Statement of Financial Position

(in Canadian dollars)

	Notes	September 30, 2013	June 30, 2013
<b>ASSETS</b>			
<b>Current</b>			
Cash		\$ 753,258	\$ 8,095
Receivables	7	31,810	25,340
Prepaid expenses		74,913	33,466
		859,981	66,901
<b>Non-current</b>			
Deposit	9	50,778	56,729
Property and equipment	8	12,434	13,166
Coal technology and plant prototype	6	3,293,657	3,646,622
Intangible assets	11	-	-
<b>Total assets</b>		<b>\$ 4,216,850</b>	<b>\$ 3,783,418</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	12	\$ 1,525,070	\$ 1,868,840
Related parties	15	93,691	332,797
Income tax payable		46,000	46,000
Deferred revenue	17	602,741	-
Loans payable	13	955,648	1,089,428
		3,223,150	3,337,065
<b>SHAREHOLDERS' EQUITY</b>			
		2,363,169	
Share capital	14b	15,964,360	14,415,464
Share subscriptions	22	195,000	-
Share-based payment reserve	14e	2,710,808	2,272,553
Deficit		(17,871,746)	(16,091,483)
Cumulative other comprehensive income		(4,722)	(150,181)
		993,700	446,353
Attributable to the non-controlling interest		-	-
<b>Total equity</b>		<b>993,700</b>	<b>446,353</b>
<b>Total liabilities and equity</b>		<b>\$ 4,216,850</b>	<b>\$ 3,783,418</b>

Approved on behalf of the Board:

"Slawomir Smulewicz"  
Director

"Stan Lis"  
Director

# MicroCoal Technologies Inc.

## Condensed Consolidated Interim Statements of Comprehensive Loss

(in Canadian dollars)

	Note	Three months ended September 30, 2013	Three months ended September 30, 2012
<b>Expenses</b>			
Amortization		353,792	368,897
Bank charges and interest		1,933	1,386
Consulting fees	14b	515,642	83,102
Financing fees		70,834	-
Foreign exchange loss (gain) on operations		56,164	(3,051)
Interest on notes payable		18,934	48,624
Investor relations		36,517	14,447
Management and director fees	14b, 15	373,944	114,807
Office and miscellaneous		54,429	12,992
Professional fees	15	203,080	75,369
Rent		30,426	28,646
Transfer agent and regulatory fees		9,395	2,288
Travel and promotion		49,564	29,130
Wages and benefits		5,609	31,934
Write down (recovery) of receivable		-	(13,381)
		(1,780,263)	(795,190)
Loss before other items		(1,780,263)	(795,190)
Impairment of goodwill		-	(48,897)
Gain (loss) on disposal of capital assets		-	(23,777)
		-	(72,674)
<b>Net Loss for the period</b>		(1,780,263)	(867,864)
<b>Other comprehensive income (loss)</b>			
Exchange gain (loss) arising on translation of foreign operations		145,459	210,612
<b>Total comprehensive income (loss)</b>		\$ (1,634,804)	\$ (657,252)
<b>Loss for the period attributable to:</b>			
Owners of parent		\$ (1,780,263)	\$ (628,714)
Non-controlling interest		-	(239,150)
		\$ (1,780,263)	\$ (867,864)
<b>Total comprehensive loss attributable to:</b>			
Owners of parent		\$ (1,634,804)	\$ (418,102)
Non-controlling interest		-	(239,150)
		\$ (1,634,804)	\$ (657,252)
<b>Loss per share, basic and diluted</b>		\$ (0.02)	\$ (0.01)

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

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

Note	Three months ended September 30, 2013	Three months ended September 30, 2012
<b>Cash provided by (used in):</b>		
<b>Operating Activities</b>		
Net loss for the period	\$ (1,780,263)	\$ (867,864)
Items not involving cash:		
Amortization	353,792	368,897
Loss on disposal of capital assets	-	27,885
Unrealized foreign exchange loss (gain)	(11,178)	29,083
Interest accrual	2,515	36,003
Issuance of shares for services and loans	879,642	-
Issuance of warrants for services and loans	501,709	-
Impairment of intangible assets	-	48,897
	(53,783)	(357,099)
Change in non-cash working capital:		
Receivables	(6,418)	148,600
Prepaid expenses and deposits	(41,448)	16,497
Deposits	5,951	-
Accounts payable and accrued liabilities	(270,264)	205,404
Deferred revenue	602,741	-
Related parties	(240,135)	(41,097)
	(3,356)	(27,695)
<b>Investing Activities</b>		
Purchase of property and equipment	-	(3,408)
	-	(3,408)
<b>Financing Activities</b>		
Share issuances	605,800	-
Share subscriptions	195,000	100,000
Loan repayments	(52,281)	(28,500)
	748,519	71,500
Effect of foreign exchange	-	-
Increase in cash	745,163	40,397
<b>Cash, beginning of period</b>	<b>8,095</b>	<b>31,292</b>
<b>Cash, end of period</b>	<b>\$ 753,258</b>	<b>\$ 71,689</b>

Supplemental cash flow information:

5



# MICROCOAL TECHNOLOGIES INC.

## Consolidated Condensed Interim Statements of Equity

(in Canadian dollars)

	Notes	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 issuances									
Private placement		-	-	130,000	-	-	-	-	130,000
Loss for the period		-	-	-	-	(628,714)	-	(239,150)	(867,864)
Comprehensive loss		-	-	-	-	-	210,612	-	210,612
Balance, September 30, 2012		58,231,721	\$ 12,013,125	\$ 130,000	\$ 1,743,317	\$ (13,374,969)	\$ 11,222	\$ -	\$ 522,695
Balance, July 1, 2013		68,853,998	\$ 14,415,464	\$ -	\$ 2,272,553	\$ (16,091,483)	\$ (150,181)	\$ -	\$ 446,353
Share issuance									
Private placement	22	-	-	195,000	-	-	-	-	195,000
Stock options		470,000	85,800	-	-	-	-	-	85,800
Fair value of stock options exercised		-	63,454	-	(63,454)	-	-	-	-
Exercise of warrants		2,000,000	520,000	-	-	-	-	-	520,000
Shares and warrants issued for debt	14b	1,852,347	569,367	-	289,897	-	-	-	859,264
Shares and warrants issued for loans	13, 14b	239,704	81,499	-	54,055	-	-	-	135,554
Shares and warrants issued for debt owing to officers and directors	14b	784,973	228,776	-	157,757	-	-	-	386,533
Loss for the period		-	-	-	-	(1,780,263)	-	-	(1,780,263)
Other comprehensive income		-	-	-	-	-	145,459	-	145,459
Balance, September 30, 2013		74,201,022	\$ 15,964,360	\$ 195,000	\$ 2,710,808	\$ (17,871,746)	\$ (4,722)	\$ -	\$ 993,700

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

Microcoal Technologies Inc.

**Notes to the Condensed Consolidated Interim Financial Statements**

For the three months ended September 30, 2013

(in Canadian dollars)

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**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 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**

This condensed interim financial information for the three months ended September 30, 2013 have been prepared in accordance with IAS 34 "Interim financial reporting". The condensed interim financial information should be read in conjunction with the annual financial statements for the year ended June 30, 2013, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These financial statements were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on November 29, 2013.

**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 of 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 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.



#### 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) Coal technology and plant prototype

In determining the carrying values of coal technology and plant prototype, management makes estimates in estimating the economic useful lives of the assets. Management is required to evaluate the asset for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The impairment test compares the carrying value of the asset to its recoverable amount, based on the higher of the 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 September 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 period ended September 30, 2013, management completed an impairment assessment and concluded that no write down is necessary.

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.

#### 5. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended September 30, 2013	Three months ended September 30, 2012
Interest paid	\$ 40,015	\$ -
Income taxes paid	\$ -	\$ -
Items that are excluded from the investing and financing activities:		
Fair value of stock options exercised	\$ 63,454	\$ -
Issuance of shares for debt settlements	\$ 798,143	\$ -
Issuance of shares for loan repayments	\$ 81,499	\$ -



## 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 September 30, 2013, the Company has a loan payable of \$799,134 (US \$775,000) (June 30, 2013 - \$813,051 (US\$775,000) owing to Orica. A gain on settlement of debt of \$1,843,167 consisted of the following:

Principal amount due to Orica at the date of Share Exchange agreement US\$	USD \$	2,250,000
Accrued interest on Orica loan		584,699
Principal owing to Orica		(1,000,000)
	USD	1,834,699
Foreign exchange		8,468
Gain on settlement of debt 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 is available for use in March 2011.

	September 30, 2013	June 30, 2013
Coal technology and plant prototype	\$ 7,059,324	\$ 7,059,324
Accumulated amortization	\$ (3,765,667)	(3,412,702)
	\$ 3,293,657	\$ 3,646,622

**Notes to the Condensed Consolidated Interim Financial Statements**

For the three months ended September 30, 2013

(in Canadian dollars)

**7. RECEIVABLES**

	September 30,	
	2013	June 30, 2013
GST/HST/VAT recoverable	\$ 31,810	\$ 25,340
Trade receivables	-	-
	<b>\$ 31,810</b>	<b>\$ 25,340</b>

**8. PROPERTY AND EQUIPMENT**

Property and equipment	Computer equipment	Equipment	Automotive equipment	Leasehold improvements	Total
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
Effect of foreign exchange	271	23,109	3,592	-	26,972
September 30, 2013	<b>\$ 23,022</b>	<b>\$ 538,717</b>	<b>\$ 79,785</b>	<b>\$ 8,614</b>	<b>\$ 650,138</b>
<b>Accumulated amortization</b>					
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
Amortization	134	441	-	157	732
Effect of foreign exchange	271	23,109	3,592	-	26,972
September 30, 2013	21,964	530,334	79,785	5,621	637,704
Net book value, June 30, 2013	\$ 1,192	\$ 8,824	\$ -	\$ 3,150	\$ 13,166
Net book value, September 30, 2013	<b>\$ 1,058</b>	<b>\$ 8,383</b>	<b>\$ -</b>	<b>\$ 2,993</b>	<b>\$ 12,434</b>

For the year ended June 30, 2013 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 19, commitments.

**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 September 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
Prepays		1,032
Property, plant and equipment		432,239
Accounts payable and accrued liabilities		(54,507)
Loan from parent		(112,000)
		282,674
Fair value		282,674
Consideration (1,967,000 common shares)		531,090
		248,416
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. Subsequent to the date of acquisition, management had anticipated the synergies effect did not materialize as expected and the amount of \$248,416 had been written off as of June 30, 2012.



**Notes to the Condensed Consolidated Interim Financial Statements**

For the three months ended September 30, 2013

(in Canadian dollars)

**11. INTANGIBLE ASSETS**

	September 30,	
	2013	June 30, 2013
Exclusive sales contract (i)	\$ -	\$ 106,636
Impairment charge (i)	-	(106,636)
	<u>\$ -</u>	<u>\$ -</u>

## (i) Exclusive Sales Contract

As of September 30, 2013, the Company reviewed the carrying amount of its intangible assets and recognized an impairment charge of \$nil ( June 30, 2013 - \$51,515) 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 September 30, 2013, the Company has 1,512,364 (June 30, 2013 - 1,512,364) 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.

**12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	September 30,	
	2013	June 30, 2013
Trade accounts payable	\$ 778,367	\$ 1,056,200
Other payables owing to creditors on MicroCoal	738,078	747,837
Taxes and benefits	6,110	1,790
Accrued interest payable	2,515	63,013
	<u>\$ 1,525,070</u>	<u>\$ 1,868,840</u>



**Notes to the Condensed Consolidated Interim Financial Statements**

For the three months ended September 30, 2013

(in Canadian dollars)

**13. LOANS PAYABLE**

	September 30,	
	2013	June 30, 2013
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 period ended September 30, 2013 the Company repaid \$50,000 (June 30, 2013 - \$nil).	\$ 72,550	\$ 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. During the period ended September 30, 2013, the company repaid a total of \$nil (June 30, 2013 - \$60,000).	1,500	1,500
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. During the period ended September 30, 2013 the Company repaid \$50,000 (June 30, 2013 - \$nil).	82,464	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. During the period ended September 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. During the period ended September 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.	799,134	813,051
	<b>\$ 955,648</b>	<b>\$ 1,089,428</b>

#### 14. SHARE CAPITAL

(a) Authorized: unlimited common shares without par value

(b) Issued and Outstanding

##### Three months ended September 30, 2013

The Company issued 863,300 shares at \$0.22 per share and 863,300 warrants exercisable at \$0.26 per share until May 31, 2016, and 989,047 shares at \$0.27 per shares and 557,639 warrants exercisable at \$0.35 per share until May 31, 2016 to settle debts of \$456,969. The fair value of the shares was \$569,367 and of the warrants was \$289,897 estimated using a Black Scholes option using a risk free interest rate of 1.246%, an expected dividend yield of \$nil, a volatility of 113.7%, and an expected life of 2.83 years.

The Company issued 203,704 at \$0.27 per share and 203,704 warrants exercisable at \$0.35 per share until May 31, 2016 to settle a loan of \$55,000. The fair value of the shares of \$69,259 and of the warrants of \$45,937 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 113.7%, and an expected life of 2.83 years.

The Company issued 36,000 at \$0.27 per share and 36,000 warrants exercisable at \$0.35 per share until May 31, 2016 to settle a loan of \$9,720. The fair value of the shares of \$12,240 and of the warrants of \$8,118 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 113.7%, and an expected life of 2.83 years.

The Company issued 544,498 shares at \$0.22 per share, 240,475 shares at \$0.27 per share, 544,498 warrants exercisable at \$0.26 per share and 240,475 warrants exercisable at \$0.35 per share until May 31, 2016 to settle amounts owing to officers and a director of \$184,718. The fair value of the shares was \$228,776 and of the warrants was \$157,757 estimated using a Black Scholes option using a risk free interest rate of 1.246%, an expected dividend yield of \$nil, a volatility of 113.7%, and an expected life of 2.83 years.

##### 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.

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**Notes to the Condensed Consolidated Interim Financial Statements**

For the three months ended September 30, 2013

(in Canadian dollars)

**14. SHARE CAPITAL continued**

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.

**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.

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

	Number of warrants	Price
Balance, June 30, 2012	20,385,175	0.42
Issued	10,925,000	0.34
Expired	(943,750)	0.35
Balance, June 30, 2013	30,366,425	0.33
Issued	2,445,616	0.30
Exercised	(2,000,000)	0.26
Expired	(72,500)	0.26
Balance, September 30, 2013	30,739,541	\$ 0.33

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

Warrants Outstanding	Warrants Exercisable	Exercise Price	Expiry Date
6,693,675	6,693,675	\$0.45	February 13, 2014
8,999,250	8,999,250	\$0.35	December 28, 2014
5,272,750	5,272,750	\$0.26	June 30, 2015
100,000	100,000	\$0.26	May 24, 2016
2,314,798	2,314,798	\$0.26	May 31, 2016
1,037,818	1,037,818	\$0.35	May 31, 2016
826,250	826,250	\$0.20/ \$0.26	October 19, 2014/15
5,495,000	5,495,000	\$0.35	October 19, 2015
30,739,541	30,739,541		

**14. SHARE CAPITAL continued****d) Stock options**

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

During the year ended June 30, 2013, the Company granted 1,085,000 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. During the year ended June 30, 2012, the Company granted 790,000 options at an exercise price of \$0.14 and 630,000 options at a price of \$0.32 to officers, directors and consultants. The options vested immediately.

Stock options outstanding are as follows:

	Number of options	Weighted Average Exercise Price
Outstanding, June 30, 2012	4,990,000	0.23
Granted	2,640,000	0.18
Exercised	(200,000)	0.14
Expired	(710,000)	0.24
Outstanding, June 30, 2013	6,720,000	0.23
Granted	-	-
Exercised	(470,000)	0.18
Cancelled	(550,000)	0.21
Outstanding and exercisable, September 30, 2013	5,700,000	\$ 0.21

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

Options Outstanding	Exercise Price	Expiry Date	Options Exercisable
650,000	\$0.09	October 17, 2016	650,000
1,085,000	\$0.11	August 18, 2016	1,085,000
490,000	\$0.14	August 18, 2016	490,000
1,250,000	\$0.20	February 8, 2016	1,250,000
680,000	\$0.23	October 6, 2013	680,000
260,000	\$0.32	December 22, 2016	260,000
685,000	\$0.335	January 7, 2018	685,000
600,000	\$0.36	December 16, 2014	600,000
5,700,000			5,700,000



**14. SHARE CAPITAL continued****e) Share-based payment reserve**

	<b>Three months ended</b>	
	<b>September 30, 2013</b>	<b>Year ended June 30, 2013</b>
Balance, beginning of period	\$ 2,272,553	\$ 1,743,317
Fair values of options granted	-	384,792
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 shares and warrants issued for debt (note 14b)	501,709	69,716
Fair value of stock options exercised	(63,454)	(22,967)
Fair value of equity components issued in a loan payable (note 13)	-	5,993
Fair value of shares returned to treasury	-	1,500
Fair value of agent's warrants issued for private placement	-	114,362
Minority interest elimination	-	(96,475)
Balance, end of period	<b>\$ 2,710,808</b>	<b>\$ 2,272,553</b>

**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.

Microcoal Technologies Inc.

**Notes to the Condensed Consolidated Interim Financial Statements**

For the three months ended September 30, 2013

(in Canadian dollars)

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**15. RELATED PARTIES**

Key management includes the Chief Executive Officer, the President and the Chief Financial Officer. Compensation paid or payable to key management for services provided during the periods ended September 30, 2013 and 2012 was as follows:

	Three months ended September 30, 2013	Three months ended September 30, 2012
<b>Key management personnel remuneration</b>		
Management and professional fees	\$ 142,414	\$ 101,407
Automobile allowance (travel and promotion)	-	7,200
<b>Total key management personnel remuneration</b>	<b>\$ 142,414</b>	<b>\$ 108,607</b>

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	\$ 373,944	\$ 104,994
Office and miscellaneous	-	\$ 3,138
Automobile allowance (travel and promotion)	-	7,200
Professional fees	45,000	16,000
<b>Total related party amounts</b>	<b>\$ 418,944</b>	<b>\$ 131,332</b>

As at September 30, 2013 the Company is owing \$93,691 (June 30, 2013 - \$332,797) 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, 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. DEFERRED REVENUE**

Pursuant to a contract for US\$6 million to construct a coal handling facility using the Company's coal technology, the Company received an advance of US\$900,000. As at September 30, 2013 the Company had incurred construction and equipment expenditures of \$342,529 leaving a balance of \$602,741 as deferred revenue.

**18. SEGMENTED INFORMATION**

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

	<b>September 30, 2013</b>	June 30, 2013
Property and Equipment		
Canada	\$ 13,166	\$ 13,166
USA	-	-
Poland	-	-
	<b>\$ 12,434</b>	<b>\$ 13,166</b>
Coal technology and plant prototype		
Canada	\$ -	\$ -
USA	3,293,657	3,646,622
Poland	-	-
	<b>\$ 3,293,657</b>	<b>\$ 3,646,622</b>



**19. COMMITMENTS AND CONTINGENCIES**

- (a) The Company entered into a management agreement for a period of 3 years commencing July 1, 2011 to 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 to 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 to 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 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	66,473
2015	96,266
	\$ 162,739

- (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.



## 20. 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 September 30, 2013, cash amounted to \$746,702, (June 30, 2013 - \$8,095). During the period ended September 30, 2013, the Company raised \$605,800 from the exercise of stock options and warrants. In addition a payment of US\$900,000 was received pursuant to a contract to construct a coal technology site. These additional funds were used for working capital requirements.

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

## 21. FINANCIAL INSTRUMENTS AND RISKS

As at September 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 obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise the funds required through future equity financings, asset sales or sales from contracts, or a combination thereof. The Company has no regular cash flow from its operating activities. The Company manages its liquidity risk by forecasting cash flow requirements for its planned exploration and corporate activities and anticipating investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of annual budgets and significant expenditures and commitments. Failure to realize additional funding, as required, could result in the delay or indefinite postponement of further development of the Company's projects.

### 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.

**Notes to the Condensed Consolidated Interim Financial Statements**

For the three months ended September 30, 2013

(in Canadian dollars)

**21. FINANCIAL INSTRUMENTS AND RISKS continued****Currency Risk**

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

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

	United States		Poland	
	September 30, 2013	June 30, 2013	September 30, 2013	June 30, 2013
Cash	\$ -	\$ 3,222	\$ 1,594	\$ 72
Receivables	-	-	6,591	6,019
Accounts payable and accrued liabilities	(1,123,919)	(1,162,448)	(64,325)	(93,813)
Related parties	-	(30,000)	(27,368)	(26,809)
Loans payable	799,134	(813,051)	-	-
	\$ (324,785)	\$ (2,002,277)	\$ (83,508)	\$ (114,531)

The following exchange rates were applied:

	Three months ended September 30, 2013		Year ended June 30, 2013	
	Average rate	Spot rate	Average rate	Spot rate
Canadian dollars to US dollars	0.9621	0.9698	0.9957	0.9572
Canadian dollars to Zloty	3.0793	3.0084	3.1888	3.1502

**22. EVENTS OCCURRING AFTER REPORTING DATE**

On October 21, 2013 the Company announced the closing the first tranche of a private placement to 3,428,499 units at a subscription price of \$0.30 per unit, for gross proceeds of \$1,028,549.70. Each unit consists of one common share of the Company, and one non-listed, non-transferable warrant to purchase one common shares exercisable at \$0.45 per share for a 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, on such other stock exchange on which the Common Shares are listed). The Company issued 262,530 warrants and incurred \$78,759 in issue costs to financial agents.