



**REPORT FOR THE SIX MONTHS ENDED
DECEMBER 31, 2013
MANAGEMENT DISCUSSION AND ANALYSIS**

This Management Discussion and Analysis (“MD&A”) of MicroCoal Technologies Inc. (formerly Carbon Friendly Solutions Inc.), (the “Company”) has been prepared by management as of February 28, 2014 and should be read in conjunction with the unaudited condensed consolidated interim financial statements and related notes thereto of the Company for the six months ended December 31, 2013.

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). Except as otherwise disclosed, all dollar figures included therein and in the following management discussion and analysis (“MD&A”) are quoted in Canadian dollars.

FORWARD LOOKING INFORMATION

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

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

COMPANY OVERVIEW

The Company was incorporated on April 6, 1990 as a provincial company under the laws of British Columbia, and on June 19, 1997 the Company continued as a federal corporation under the Canada Business Corporation Act. On September 2, 2008, the Company completed a share exchange with Global CO₂ Reduction Inc. (Global CO₂) and changed its name to Carbon Friendly Solutions Inc. On June 25, 2013 the Company changed its name to MicroCoal Technologies Inc. (“MicroCoal”). The Company is listed on the Canadian Securities Exchange (“CSE”) under the symbol “MTI” and the Frankfurt Stock Exchange under the symbol “OFS-FRA” (“zero FS-FRA”).

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.

MicroCoal, Inc.

MicroCoal, Inc. is a materials technology company that developed a process using microwave energy and related process technologies to transform coal and other minerals into higher quality and higher value industrial materials by the removal of moisture and contaminants (“MicroCoal”). Our initial target market was the coal-fired segment of the North American electrical utility industry. Coal-fired power plants currently produce nearly 50% of the electricity in the U.S.A. The MicroCoal proprietary on-site process cleans up coal at the power plant prior to combustion by reducing contaminants like sulfur and mercury and also improving fuel efficiency by removing water. This is helping to accelerate the existing trend of fuel switching to low-rank Powder River Basin (western) coals. We are building on our extensive portfolio of patents pending and proprietary know-how and see significant growth potential into new geographies and new industrial markets.



During the year ended June 30, 2011, the Company acquired a 58.21% interest in MicroCoal, Inc. through issuance of the Company's common shares in exchange for the equivalent shares of MicroCoal, Inc. MicroCoal, Inc. holds the patents to the MicroCoal technology. The Company is focused on commercializing the use of microwave energy and related process technologies to transform coal and other minerals into higher quality and higher value industrial materials. The principal assets of MicroCoal, Inc. are the coal technology patents and plant prototype.

When the Company entered into the Share Exchange agreement, MicroCoal, Inc. had a principal amount of US\$2,250,000 owing to Orica US Services Inc. ("Orica"), a creditor and a shareholder of MicroCoal, Inc. 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, Inc, 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 whereby MicroCoal, Inc. has a debt recovery of US\$2,250,000 and accrued interest of US\$584,699, and the parent Company has assumed the US\$1,000,000 Orica debt. 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 repaid US\$125,000 to Orica and repaid additional US\$100,000 after the acquisition. As at December 31, 2013, the Company has a loan payable of \$828,785 (US\$775,000).

MicroCoal Technology

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

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

On February 19, 2013 the Company announced that its wholly owned subsidiary, MicroCoal Inc., has been granted a trademark registration (the "Registration") on MicroCoal™ by the US Patent and Trade Mark Office.

The Service Mark 'MICROCOAL', is a broad registration, which covers an extensive range of services, including coal purification, coal treatment, and coal cleaning using microwave energy and related process technologies to transform coal and other minerals into higher quality and higher value industrial materials. The Registration is valid for a ten (10) year term and can be renewed for an additional term, at the Company's discretion. Further, the Registration may be expanded to include European countries and Asia.



On April 10, 2013 the Company announced that Mr. Robert Randall Johnson had agreed to join MicroCoal as Senior Project Manager. Mr. Johnson brings over 30 years of engineering and project management expertise in the coal industry. He joined Massey Energy in 1999, eventually becoming Vice President of Operations and Chief Engineer in 2008 at Massey Energy's Martin County Coal Corporation. He was responsible for numerous key projects along with their budgets, permits, and operations. Prior to that position, he was a Vice President at Coal Handling Solutions, LLC, a joint venture between Massey Energy and Penn Virginia, where he was involved in major US and international projects, from start to completion, some of which had 15 year terms and ran 24 hours a day. He was responsible for construction and design of projects in Canada, Texas, Florida, Wisconsin, North Dakota, Kentucky, Tennessee, Virginia, and Brazil. After Alpha Natural Resources, America's third largest coal company by revenue, acquired Massey in June 2011, he worked at Alpha as a Business Unit Project Manager. He was responsible for preliminary design and layout of proposed surface and underground operations, oversaw construction designs, managed construction from start of project to finish, managed budgets, and day-to-day operation for major projects and environmental issues. In 2000-2003, he was Chief Engineer with Martin County Coal Corporation. He was responsible for managing the engineering department, its budget, permits and Department of Natural Resource inspections. In that role, he coordinated and managed environmental clean-up and mitigation activities for the October 11, 2000 Slurry Spill at Martin County Coal.

On February 7, 2013 the Company announced the appointment of Dr. Isaac Yaniv, a world renowned scientist, to the Company's Board of Advisors. Dr. Yaniv brings over 35 years of experience as a material scientist to the Company. He obtained a PhD in 1978 in Mineral Processing and Materials from the Technological Institute (Technion) in Haifa, and a Business Management degree from Tel Aviv University in 1987. He is responsible for more than 20 patents related to materials and mineral processing, including key patents on separation of contaminants from coal. He was R&D manager for Israel Chemicals Ltd. (ICL) until 1994. After leaving ICL, he helped found five firms, including MicroCoal Inc. He currently is CEO of ORIS Advanced Materials Ltd., which undertakes international technology transfers.

On January 31, 2013 the Company announced that MicroCoal had extended its existing base of patents on its MicroCoal™ technology and submitted a US patent application (the "Application") based on a provisional patent application filed in 2012. The Application is related to the apparatus and methods of treating a solid material by exposing the solid material to electromagnetic radiation, which includes microwave and radiofrequency radiation. Further, the Application broadly applies the apparatus and methods to coal, other fossil fuels and cellular biomass.

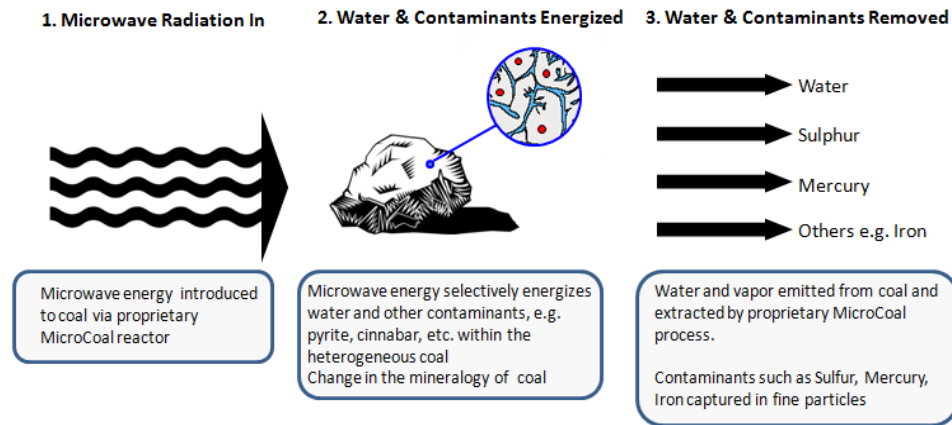
On July 11, 2012 the Company announced that Mr. Steve Sears and Mr. Larry Palmer had joined Carbon Friendly's Advisory Board and would hold senior executive positions in its wholly owned subsidiary, MicroCoal International Inc. ("MCII"). Mr. Steve Sears became CEO of MCII and Mr. Larry Palmer was appointed as the Financial Director, with a mandate to sell and deploy the MicroCoal Technology in America, China, and other countries.

Mr. Sears brings with him 31 years of knowledge and experience in the coal industry. He joined Massey Coal in 1981, eventually becoming Vice President Sales and Marketing of Massey Energy Company in 2008. He concurrently held senior level positions in several Massey subsidiaries. Mr. Sears has been an innovator throughout his tenure at Massey, responsible for significantly increasing revenues during his 25 year tenure. He also was a founder of Massey Industrial Sales Company and Coal Handling Solutions Inc., which eventually accounted for revenue in excess of \$250 MM/year. He also founded, and was President of Coalsolve LLC, which had technology to remove sulfur, mercury, and CO₂ from flue gas. He holds an MBA from Averett University and a B.S. in Business Administration from Virginia Commonwealth University.

Mr. Palmer has been in the coal industry since 1980, focused on financial, legal and tax aspects of coal transactions. He was Vice President of Taxation and Assistant Secretary of Massey Energy Company until 2011. In that role he was also responsible for major transactions in excess of \$100 MM. Massey was America's fourth largest producer of coal in the US until May of 2011, when it was acquired by Apha Natural Resources. He served in a transitional position at Alpha until March of this year, assisting in the successful integration of Alpha with Massey. He is a Certified Management Accountant (CMA), and has an MBA from Indiana University of Pennsylvania.

The MicroCoal patented technology suite revolves around the use of microwave energy to dewater and upgrade low-rank coals. In addition to microwave, MicroCoal has developed supplementary processes to further remove contaminants and CO₂, and produce an efficient power plant fuel from available raw coal.

Figure 1: How it works



The Benefits of MicroCoal's Process

According to the World Coal Institute, up to 5% of the carbon footprint of utilities can be eliminated by drying the coal prior to combustion. A further 22% of CO₂ emission can be reduced, improving generation efficiency. The direct result of this is a worldwide interest in clean coal and coal drying technologies, which is the focus of the MicroCoal's business initiative.

The deployment of the MicroCoal technology will give the utility three main benefits:

- ✓ **Environmental benefits**, due to a significant reduction of coal contaminants and CO₂ emission;
- ✓ **Economic benefits**, due to fuel switch from expensive high-rank coal to cheaper low-rank coal and with increased heat value of the latter, as well as additional revenue from generating carbon offsets;
- ✓ **Operational benefits**, due to marked change of slagging and ash build-up.

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

Typical 500 MW Coal-Fired Power Plant
Indicative Benefits

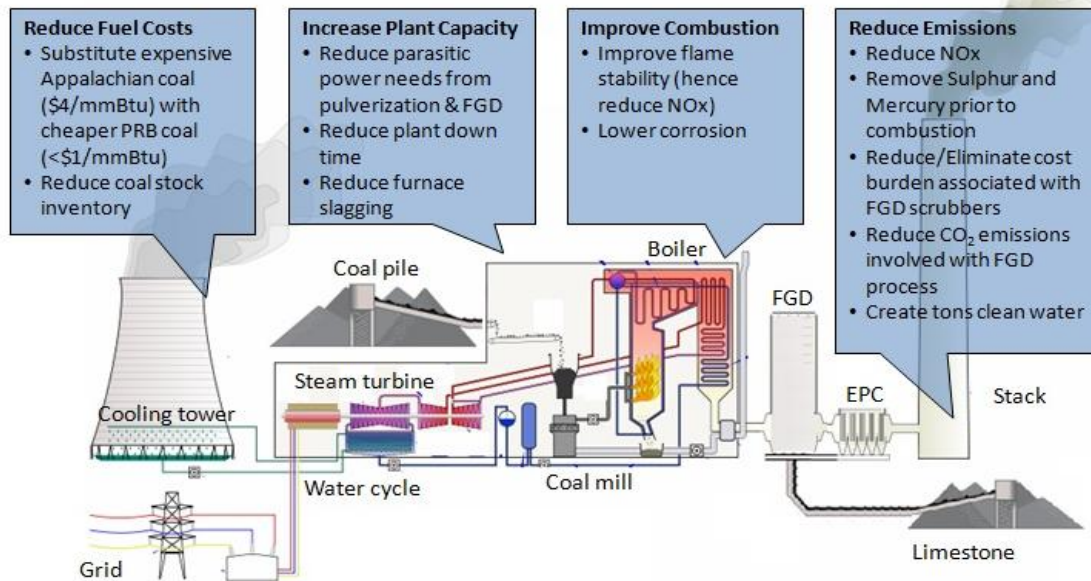


Figure 2: Indicative Benefits

MicroCoal Market Opportunity

Coal is, and will continue to be, an indispensable part of the global energy mix. However, coal requires innovation to enhance its long term appeal by improving its emissions profile and improving the efficiency of coal as a source of fuel. Over 4030 Mt¹ of coal is currently produced globally and is expected to reach 7 billion tonnes in 2030 – with China accounting for around half the increase over this period. The top five producers are China, the USA, India, Australia and South Africa. Coal currently fuels 39% of the world’s electricity and this proportion is expected to remain at similar levels over the next 30 years. The biggest market for coal is Asia, which currently accounts for 54% of global coal consumption – although China is responsible for a significant proportion of this.

The U.S. Market

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

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

A combination of the above two options could also be applied. Approximately 40% of generation units have deployed FGD, while many have switched to PRB coal, as is evident in its spectacular growth. The

¹ World Coal Institute



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

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

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

International Market

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

On December 17, 2012 the Company announced that it had entered into a binding letter of intent ("LOI") with Carbon 2 Power Ventures Inc., of Vancouver, BC ("C2P"), and PT Wijaya Tri Utama, of Kalimantan, Indonesia ("PAK"), whereby a small scale commercial MCI plant ("SSCP") will be constructed at the 15MW power plant, Banjarmasin Power Plant ("TTP") owned and operated by PAK. Pursuant to the terms of the LOI: 1) the Company and PAK will provide project financing for the SSCP; 2) the parties shall work together to improve: a) the cost economics of the input coal that has been targeted by the parties and b) to reduce the operating costs by way of an investment with a payback of three years; 3) PAK will engage the Company as the sole provider of upgrades and maintenance for all technology installed at TTP; and 4) the installation will be in two phases, and the parties have agreed that it shall take between six to twelve months. In April 2013 the Company successfully tested two shipments of coal from PT Kalimantan Powerindo Power Plant Industries in Indonesia at the MicroCoal pilot facility outside Denver, Colorado. This testing is part of the LOI. The Company has tested the Indonesian Coal to determine the optimal processing and design of the MicroCoal™ facility to be constructed this year.

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™ 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\$1,320,000 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.



Carbon Reduction Using Biomass

Previously the Company had various biomass energy and renewable energy technology projects in Poland through the operations of subsidiary companies in Poland, namely, Carbiopel S.A. (“Carbiopel”) and CO2 Reduction Poland Sp. z o.o. (“CO2 Reduction Poland”). The Company is focused on its coal technology and is no longer pursuing biomass projects in Poland. The Company is in the process of winding up both Carbiopel and CO2 Reduction Poland. The Company has written down associated costs in previous years’ operations, and is not making any provision for nominal costs in the future. Any recoveries from the disposition of plant and equipment or other sources are unknown.

Poland Afforestation Project

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

The Project was submitted on August 2012 to Det Norske Veritas Business Assurance Poland Sp. z o.o. (“DNV”) for the verification as GHG project. Verification was carried out on 1 September through 12 November, 2012. The Project was designed to generate 1,517,025 tCO₂e ,high-quality validated VERs. The market value of the VERs is unknown currently and has an accounting value of \$nil.

SELECTED ANNUAL INFORMATION

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

June 30,	2013	2012	2011
Revenues	\$ Nil	\$ 96,037	\$ 7,980
Gross profit (loss)	Nil	31,628	(1,587)
Operating expense	4,961,789	4,535,526	3,006,714
Other income (expense)	(1,326,936)	234,402	(2,246)
Current income tax expense	(46,000)	-	-
Net loss for the year	(3,680,853)	(4,738,390)	(3,008,960)
Net loss per share	(0.06)	(0.07)	(0.08)
Total assets	3,783,418	5,889,512	6,774,460
Total long-term liabilities	Nil	Nil	Nil
Cash dividends declared	Nil	Nil	Nil

RESULTS OF OPERATIONS

During the six months ended December 31, 2013, the Company had an operating loss of \$2,981,058 showing an increase in expenses of 22%. The Company issued shares and warrants during the three month period ended September 30, 2013 to settle various debt obligations of \$706,407. The Company issued 1,407,798 shares at \$0.22 each, 1,469,226 shares at \$0.27 each, 1,407,798 warrants at \$0.27



and 1,037,818 warrants at \$0.34 each. The fair value of the shares (market price on the date issued) was \$879,642 and a Black Scholes model value of the warrants was estimated to be \$501,708. The cost of the original debt has been recorded in the Company's records according to the date of the invoice, but the fair values are reflected in the current operating costs as the settlement date occurred in the current operating period. The effect of these debt settlements has recorded \$674,971 in the 1st quarter. Adjusting for the effect of this amount, expenses for the first quarter would have been \$1,105,319 as compared to the 2nd quarter expense of \$1,273,665. Adjusting for amortization and the effect of the fair values of the shares and warrants, expense for the 1st quarter was \$751,527 and \$919,969 in the 2nd quarter. Travel was higher in the 2nd quarter with trips to Indonesia concerning the Company's sales contract.

The Company 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 an advance of US\$ 1,320,000 as a portion of the Construction Fee. The Company was to receive a letter of credit to be drawn down on completion of the project. 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 has recorded the funds received less direct costs as deferred income/revenue. Revenue will be recognized on completion of the project.

SUMMARY OF QUARTERLY RESULTS

Quarter ended	Total Assets	Revenues	Net profit (loss)	Profit (loss) per share
December 31, 2013	\$3,690,966	\$ -	\$(1,273,665)	\$ (0.02)
September 30, 2013	4,216,850	-	(1,634,804)	(0.02)
June 30, 2013	3,783,418	-	(2,883,005)	(0.04)
March 31, 2013	4,741,336	-	1,499,085	0.02
December 31, 2012	5,540,854	-	(1,544,472)	(0.03)
September 30, 2012	5,341,651	-	(657,252)	(0.01)
June 30, 2012	5,889,512	83,325	(572,530)	(0.01)
March 31, 2012	6,500,254	12,712	(1,098,455)	(0.02)

LIQUIDITY AND CAPITAL RESOURCES

The Company had cash on hand of \$667,068 at December 31, 2013 (June 30, 2013 - \$8,095) and a working capital deficiency of \$2,634,737.

Six months ended December 31, 2013

On October 21, 2013 the Company closed 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 Securities Exchange (the "CSE") (or if the common shares are no longer listed on the CSE, 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.



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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 shares to management as a bonus and 177,777 common shares to a consultant with a market price of \$0.25 per share at the date of issuance as consideration for efforts made as approved by the board of directors and the CSE Exchange. During the year ended June 30, 2013 the Company recorded a bonus of \$400,000 as management and directors fees and \$44,444 as legal expense.

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 years.

The Company issued 100,000 warrants exercisable at \$0.26 per share until May 24, 2016, pursuant to a loan agreement. See financial statement note 13, "Loans payable". The fair value of the warrants of \$12,162 was included as financing fees 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 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 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 years.

Pursuant to a British Columbia Supreme Court decision 1,500,000 previously issued founders' shares were cancelled and returned to treasury. The shares had been issued at a value of \$0.001 per share.

The Company will continue to remain focused on seeking a listing on a US Exchange; however, in order to maximize the Company's value in advance of a listing in the US, the Company will be focused on securing additional MicroCoal™ sales and opportunities. In addition to its current agreements, the Company will follow-through with other utilities and prospects that have expressed keen interest in the MicroCoal technology and its benefits.

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

LOANS PAYABLE

	December 31, 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 December 31, 2013 the Company repaid \$36,255 (June 30, 2013 - \$nil).	\$63,745	\$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.	-	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 December 31, 2013 the Company repaid \$56,431 (June 30, 2013 - \$nil).	57,069	115,000



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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.	828,785	813,053
	\$949,599	\$1,089,428

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not utilize off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers.

Key management personnel remuneration	Six months ended December 31, 2013	Six months ended December 31, 2012
Management and professional fees	\$ 407,933	\$ 211,993
Fair value of shares and warrants issued for debt to key management personnel	191,083	-
Directors` fees (including \$46,706 for the fair value of shares and warrants issued for debt)	65,706	-
Automobile allowance (travel and promotion)	-	14,400



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Total key management personnel remuneration	\$ 664,722	\$ 226,393
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As at December 31, 2013 the Company owes \$65,852 (June 30, 2013 - \$332,797) to officers and directors. The amounts due are unsecured, non-interest bearing and have no fixed terms of repayment.

EVENTS OCCURRING AFTER REPORTING DATE

In February 2014 the Company announced amendments to 6,395,766 outstanding share purchase warrants and 297,909 finder's warrants to be extended from February 13, 2014 to November 13, 2014, and the exercise price changed from \$0.45 to \$0.28 per share.

In February 2014 an executive officer of the Company stepped down from management and exercised 1,135,000 stock options at a value of \$224,200 on a cashless basis as settlement for services.

The Company arranged an early surrender of its office lease without penalty or cost to the Company.

COMMITMENTS

The Company is in dispute with an investor relations company who claims that the Company agreed, pursuant to an agreement, to pay a finder's fee in connection with the acquisition of MicroCoal. A formal lawsuit has been filed by the investor relations company and the fees claimed are \$450,000. The 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.

FINANCIAL INSTRUMENTS

As at December 31, 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



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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.

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	
	December 31, 2013	June 30, 2013	December 31, 2013	June 30, 2013
Cash	\$ -	\$ 3,222	\$ -	\$ 72
Receivables	-	-	-	6,019
Accounts payable and accrued liabilities	(1,156,089)	(1,162,448)	-	(93,813)
Related parties	-	(30,000)	-	(26,809)
Loans payable	(828,785)	(813,051)	-	-
	\$ (1,984,874)	\$ (2,002,277)	\$ -	\$ (114,532)

The following exchange rates were applied:

	Six months ended December 31, 2013		Year ended June 30, 2013	
	Average rate	Spot rate	Average rate	Spot rate
Canadian dollars to US dollars	1.0439	0.9698	0.9957	0.9572
Canadian dollars to Zloty	3.1364			



Standards, Amendments and Interpretations 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 and are 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 adopted this standard in the accounting period beginning on July 1, 2013. The adoption of this standard did not have a significant impact on the Company's financial statements.

. 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 adopted this standard in the accounting period beginning on July 1, 2013. The adoption of this standard did not have a significant impact on the Company's financial statements.

. 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 adopted this standard in the accounting period beginning on July 1, 2013. The adoption of this standard did 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 adopted this standard in the accounting period beginning on July 1, 2013. The adoption of this standard did 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 adopted this standard in the



accounting period beginning on July 1, 2013. The adoption of this standard did not have a significant impact on the Company's financial statements.

Standards, Amendments and Interpretations Not Yet Adopted

. 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.

. 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 provide 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.

OTHER REQUIREMENTS

Summary of Outstanding Share Data as at February 28, 2014

Authorized – unlimited shares without par value

Shares Issued:	
December 31, 2013	77,744,521
Issued	1,135,000
Total at February 28, 2014	78,879,521

Stock options:	
December 31, 2013	4,905,000
Options exercised	(1,135,000)
Options cancelled	(200,000)
Total at February 28, 2014	3,570,000

Warrants:	
December 31, 2013	34,430,570



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Issued	-
Total at February 28, 2014	34,430,570

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