

MICROCOAL TECHNOLOGIES INC.

Condensed Consolidated Interim Financial Statements

Nine months ended March 31, 2014

(in Canadian dollars)

MICROCOAL TECHNOLOGIES INC.

**Unaudited Condensed Consolidated Interim Financial Statements
Nine months ended March 31, 2014**

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	March 31, 2014	June 30, 2013
ASSETS			
Current			
Cash		\$ 319,391	\$ 8,095
Receivables	7	23,626	25,340
Prepaid expenses		18,674	33,466
		361,691	66,901
Non-current			
Deposit	9	-	56,729
Property and equipment	8	-	13,166
Coal technology and plant prototype	6	2,587,725	3,646,622
Intangible assets	11	-	-
Total assets		\$ 2,949,416	\$ 3,783,418
LIABILITIES			
Current			
Accounts payable and accrued liabilities	12	\$ 1,553,944	\$ 2,201,637
Income tax payable		46,000	46,000
Deferred revenue	17	516,702	-
Loans payable	13	1,015,286	1,089,428
		3,131,932	3,337,065
SHAREHOLDERS' EQUITY			
Share capital	14b	17,078,145	14,415,464
Share subscriptions	22	308,539	-
Share-based payment reserve	14e	2,726,283	2,272,553
Deficit		(20,197,766)	(16,091,483)
Cumulative other comprehensive income		(97,717)	(150,181)
		(182,516)	446,353
Total liabilities and equity		\$ 2,949,416	\$ 3,783,418

Approved on behalf of the Board:

"Jim Young"

Director

"William Hudson"

Director

MicroCoal Technologies Inc.

Condensed Consolidated Interim Statements of Comprehensive Loss

(in Canadian dollars)

Note	Three months ended March 31, 2014	Three months ended March 31, 2013	Nine months ended March 31, 2014	Nine months ended March 31, 2013
Expenses				
Amortization	\$ 352,973	\$ 350,793	\$ 1,060,461	\$ 1,101,851
Bank charges and interest	3,712	1,638	6,798	7,642
Consulting fees	14b 32,917	141,483	795,954	550,982
Financing fees	38,000	-	126,038	-
Foreign exchange loss (gain) on operations	1,164	(25,716)	43,911	5,085
Interest on notes payable	12,359	9,075	47,913	135,988
Investor relations	14,957	43,899	87,447	77,715
Management and director fees	14b, 15 301,891	526,971	679,849	815,703
Office and miscellaneous (recovery)	(37,576)	35,048	185,641	91,690
Professional fees	15 183,571	95,426	675,629	317,989
Rent	34,399	25,817	89,623	81,657
Share-based compensation	24,937	135,014	24,937	347,136
Transfer agent and regulatory fees	9,782	8,177	32,286	17,996
Travel and promotion	59,976	37,564	223,308	133,106
Wages and benefits	7,593	28,949	14,788	86,187
Write down (recovery) of receivable	-	(189)	-	(13,810)
	(1,040,655)	(1,413,949)	(4,094,583)	(3,756,917)
Loss before other items	(1,040,655)	(1,413,949)	(4,094,583)	(3,756,917)
Impairment of goodwill	-	-	-	(48,897)
Write off of debt	-	70,203	-	70,203
Loss on disposal of capital assets	(11,700)	(19,674)	(11,700)	(23,834)
	(11,700)	50,529	(11,700)	(2,528)
Net Loss for the period	(1,052,355)	(1,363,420)	(4,106,283)	(3,759,445)
Other comprehensive income (loss)				
Exchange gain (loss) arising on translation of foreign operations	(20,406)	(157,952)	52,464	19,474
Total comprehensive loss	\$ (1,072,761)	\$ (1,521,372)	\$ (4,053,819)	\$ (3,739,971)
Loss for the period attributable to:				
Owners of parent	\$ (1,052,355)	\$ (1,602,570)	\$ (4,106,283)	\$ (3,759,445)
Non-controlling interest	-	239,150	-	-
	\$ (1,052,355)	\$ (1,363,420)	\$ (4,106,283)	\$ (3,759,445)
Total comprehensive loss attributable to:				
Owners of parent	(1,072,761)	(1,760,522)	(4,053,819)	(3,739,971)
Non-controlling interest	-	239,150	-	-
	\$ (1,072,761)	\$ (1,521,372)	\$ (4,053,819)	\$ (3,739,971)
Loss per share, basic and diluted	\$ (0.01)	\$ (0.02)	\$ (0.05)	\$ (0.02)

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

MicroCoal Technologies Inc.
Condensed Consolidated Interim Statements of Cash Flows
(in Canadian dollars)

	Note	Nine months ended March 31, 2014	Nine months ended March 31, 2013
Cash provided by (used in):			
Operating Activities			
Net loss for the period		\$ (4,106,283)	\$ (3,759,445)
Items not involving cash:			
Amortization		1,060,461	1,101,851
Loss on disposal of capital assets		-	23,834
Unrealized foreign exchange		(112,082)	(50,394)
Interest accrual		58,210	-
Share-based compensation		24,937	347,136
Issuance of shares for services and loans		906,642	-
Issuance of warrants for services and loans		501,709	-
Impairment of intangible assets		-	509,095
		(1,666,406)	(1,827,923)
Change in non-cash working capital:			
Receivables		1,768	106,020
Prepaid expenses and deposits		14,791	7,236
Deposits		31,963	-
Accounts payable and accrued liabilities		(427,797)	238,559
Deferred revenue		660,800	-
Related parties		(313,549)	(185,076)
		(1,698,430)	(1,661,184)
Investing Activities			
Purchase of property and equipment		-	(664)
Rent deposit		-	(2,500)
		-	(3,164)
Financing Activities			
Share issuances		1,734,123	1,939,350
Share subscriptions		257,539	-
Loan proceeds		110,750	-
Loan repayments		(92,686)	(150,679)
		2,009,726	1,788,671
Effect of foreign exchange		-	(10,173)
Increase in cash		311,296	114,150
Cash, beginning of period		8,095	31,292
Cash, end of period		\$ 319,391	\$ 145,442

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 issuance									
Private placement		8,673,750	1,738,750	-	-	-	-	-	1,738,750
Issue costs		-	(138,025)	-	-	-	-	-	(138,025)
Bonus shares issued		1,777,777	444,444	-	-	-	-	-	444,444
Share-based compensation		-	-	-	347,136	-	-	-	347,136
Stock options		200,000	28,000	-	-	-	-	-	28,000
Fair value of stock options exercised		-	22,967	-	(22,967)	-	-	-	-
Exercise of warrants		887,500	310,625	-	-	-	-	-	310,625
Loss for the period		-	-	-	-	(3,759,445)	-	-	(3,759,445)
Other comprehensive income		-	-	-	-	-	19,474	(239,150)	(219,676)
Balance, March 31, 2013		69,770,748	\$ 14,419,886	\$ -	\$ 2,067,486	\$ (16,505,700)	\$ (179,916)	\$ -	\$ (198,244)
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	3,428,499	1,028,550	(51,000)	-	-	-	-	977,550
Private placement	22	-	-	308,539	-	-	-	-	308,539
Issue costs		100,000	(136,477)	-	-	-	-	-	(136,477)
Stock options		1,720,000	322,050	-	-	-	-	-	322,050
Fair value of stock options exercised		-	72,916	-	(72,916)	-	-	-	-
Exercise of warrants		2,000,000	520,000	-	-	-	-	-	520,000
Shares and warrants issued for debt	14b	2,002,347	596,367	-	289,897	-	-	-	886,264
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
Share-based compensation		-	-	-	24,937	-	-	-	24,937
Loss for the period		-	-	-	-	(4,106,283)	-	-	(4,106,283)
Other comprehensive income		-	-	-	-	-	52,464	-	52,464
Balance, March 31, 2014		79,129,521	\$ 17,129,145	\$ 257,539	\$ 2,726,283	\$ (20,197,766)	\$ (97,717)	\$ -	\$ (182,516)

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 nine months ended March 31, 2014

(in Canadian dollars)

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 and on June 19, 1997 the Company continued as a federal corporation under the Canada Business Corporation Act. The Company's head office is located at 1000 - 925 West Georgia Street, Vancouver, British Columbia, Canada, V6C 3L2. 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 Securities Exchange (the 'CSE') 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.

2. BASIS OF PREPARATION

This condensed interim financial information for the nine months ended March 31, 2014 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 May 29, 2014.

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 March 31, 2014 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 March 31, 2014, management completed an impairment assessment and concluded that no write down is necessary.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended March 31, 2014

(in Canadian dollars)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS continued

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

	Nine months ended March 31, 2014	Nine months ended March 31, 2013
Interest paid	\$ 40,015	\$ -
Income taxes paid	\$ -	\$ -
Items that are excluded from the investing and financing activities:		
Fair value of stock options exercised	\$ 72,916	\$ 22,967
Issuance of shares for debt settlements	\$ 825,143	\$ -
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 March 31, 2014, the Company has a loan payable of \$828,785 (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.

	March 31, 2014	June 30, 2013
Coal technology and plant prototype	\$ 7,059,324	\$ 7,059,324
Accumulated amortization	\$ (4,471,599)	(3,412,702)
	\$ 2,587,725	\$ 3,646,622

Microcoal Technologies Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended March 31, 2014

(in Canadian dollars)

7. RECEIVABLES

	March 31, 2014	June 30, 2013
GST/HST/VAT recoverable	\$ 23,626	\$ 25,340
	\$ 23,626	\$ 25,340

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
Disposals	(22,751)	(515,608)	(76,193)	(8,614)	(623,166)
March 31, 2014	\$ -	\$ -	\$ -	\$ -	\$ -
Accumulated amortization					
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
Disposals	(21,827)	(507,757)	(76,193)	(5,779)	(611,556)
Amortization	268	973	-	315	1,556
March 31, 2014	-	-	-	-	-
Net book value, June 30, 2013	\$ 1,192	\$ 8,824	\$ -	\$ 3,150	\$ 13,166
Net book value, March 31, 2014	\$ -	\$ -	\$ -	\$ -	\$ -

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.

For the nine months ended March 31, 2014 the Company has written off all remaining property and equipment.

9. DEPOSIT

The deposit represents an amount paid in advance for the lease of office premises. The Company arranged an early surrender of its office lease without penalty or cost to the Company. As at March 31, 2014, the Company had \$NIL deposit and was refunded in full.

Microcoal Technologies Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended March 31, 2014

(in Canadian dollars)

10. BIOMASS ENERGY AND RENEWABLE ENERGY TECHNOLOGY PROJECTS

Previously the Company had various biomass energy and renewable energy technology projects in Poland through the operations of subsidiary companies in Poland, namely, Carbiopel Sp. z o.o. ("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.

11. INTANGIBLE ASSETS

	March 31, 2014	June 30, 2013
Exclusive sales contract (i)	\$ -	\$ 106,636
Impairment charge (i)	-	(106,636)
	\$ -	\$ -

(i) Exclusive Sales Contract

As of March 31, 2014, 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 March 31, 2014, 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

	March 31, 2014	June 30, 2013
Trade accounts payable	\$ 687,861	\$ 1,056,200
Provision until closing of acquisition of MicroCoal, Inc. by repayment of loan from Orica US Services Inc. ("Orica"), see note 13, Loans Payable.	788,625	747,837
Office and Related party accounts payable	19,248	332,797
Taxes and benefits	-	1,790
Accrued interest payable	58,210	63,013
	\$ 1,553,944	\$ 2,201,637

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended March 31, 2014

(in Canadian dollars)

13. LOANS PAYABLE

	March 31, 2014	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 March 31, 2014 the Company repaid \$36,255 (June 30, 2013 - \$nil).	\$ 28,970	\$ 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 March 31, 2014 the Company repaid \$56,431 (June 30, 2013 - \$nil).	18,170	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 March 31, 2014, 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 a component of equity. During the period ended March 31, 2014, the loan was settled by the issuance of shares.	-	49,007
Pursuant to a loan agreement a director of the Company advanced the sum of \$100,000 USD to the Company. The interest rate is at 4% per annum. The loan is payable on or before February 27, 2015. Interest payments are payable on a quarterly basis in shares or cash at the discretion of the lender.	110,750	-
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.	857,396	813,051
	\$ 1,015,286	\$ 1,089,428

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended March 31, 2014

(in Canadian dollars)

14. SHARE CAPITAL

Total (a) Authorized: unlimited common shares without par value

(b) Issued and Outstanding

Nine months ended March 31, 2014

The Company received subscriptions of \$308,539 pursuant to a private placement 1,389,815 units at a subscription price of \$0.20 USD per unit. Each unit consists of one common share of the Company, and one non-listed, non-transferable warrant to purchase one common shares exercisable at \$0.30 USD per share for a period of one year.

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 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.

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.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended March 31, 2014

(in Canadian dollars)

14. SHARE CAPITAL continued

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

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

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

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

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	10,945,000	0.34
Expired	(943,750)	0.35
Balance, June 30, 2013	30,386,425	0.33
Issued	6,136,645	0.39
Exercised	(2,000,000)	0.26
Expired	(72,500)	0.26
Balance, March 31, 2014	34,450,570	\$ 0.34

The following table summarizes warrants outstanding and exercisable at March 31, 2014:

Warrants Outstanding	Warrants Exercisable	Exercise Price	Expiry Date
6,693,675	6,693,675	\$0.28	November 13, 2014
9,019,250	9,019,250	\$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	\$0.26	October 19, 2015
3,691,029	3,691,029	\$0.45	* October 21, 2018
34,450,570	34,450,570		

* Subject to an acceleration clause wherein if the closing price of the stock is \$0.90 or better for 10 or more consecutive days, written notice can be given to the holder to exercise and a news release issued whereupon the holder will have a minimum of 20 days after the news release to exercise their warrants

** Repriced to \$0.26 on May 28, 2014

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended March 31, 2014

(in Canadian dollars)

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	500,000	0.28
Exercised	(1,720,000)	0.19
Expired/Cancelled	(1,430,000)	0.21
Outstanding and exercisable, March 31, 2014	4,070,000	\$ 0.21

The following table summarizes stock options outstanding and exercisable at March 31, 2014:

Options Outstanding	Exercise Price	Expiry Date	Options Exercisable
310,000	\$0.09	October 17, 2017	310,000
1,000,000	\$0.11	August 18, 2016	1,000,000
230,000	\$0.14	August 18, 2016	230,000
1,000,000	\$0.20	February 8, 2016	1,000,000
60,000	\$0.32	December 22, 2016	60,000
500,000	\$0.28	August 13, 2015	500,000
545,000	\$0.335	January 7, 2018	545,000
425,000	\$0.36	December 16, 2014	425,000
4,070,000			4,070,000

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended March 31, 2014

(in Canadian dollars)

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

	Nine months ended March 31, 2014	Year ended June 30, 2013
Balance, beginning of period	\$ 2,272,553	\$ 1,743,317
Fair values of options granted	24,937	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	(72,916)	(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	\$ 2,726,283	\$ 2,272,553

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.

15. 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.

	Nine months ended March 31, 2014	Nine months ended March 31, 2013
Key management personnel remuneration		
Management and professional fees	\$ 544,400	\$ 506,286
Bonus shares issued to management	-	400,000
Fair value of shares and warrants issued to key management personnel to settle debt	415,283	-
Directors' fees (including \$46,706 for the fair value of shares and warrants issued for debt)	65,706	-
Stock-based compensation	24,937	108,594
Automobile allowance (travel and promotion)	-	21,600
Total key management personnel remuneration	\$ 1,050,326	\$ 1,036,480

As at March 31, 2014 the Company owed \$19,248 (June 30, 2013 - \$332,797) to officers and directors. The amounts due are unsecured, non-interest bearing and have no fixed terms of repayment.

As at March 31, 2014 the Company owed \$110,750 (June 30, 2013 - \$nil) to a director pursuant to loans payable. See note 13.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended March 31, 2014

(in Canadian dollars)

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 advances of \$1,391,486 (US\$1,320,000). As at March 31, 2014 the Company had incurred construction, equipment expenditures and engineering costs of \$874,784 leaving a balance of \$516,702 as deferred revenue.

18. SEGMENTED INFORMATION

The Company currently operates in one industry segment, being its coal technology and in the geographic areas as follows.

	March 31,	
	2014	June 30, 2013
Property and Equipment		
Canada	\$ -	\$ 13,166
USA	-	-
Poland	-	-
	\$ -	\$ 13,166
Coal technology and plant prototype		
Canada	\$ -	\$ -
USA	2,587,725	3,646,622
Poland	-	-
	\$ 2,587,725	\$ 3,646,622

19. CAPITAL DISCLOSURES

The Company manages its capital structure and makes adjustments based on the funds available in order to support continued operation and future business opportunities. The board of directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company considers its capital to be share capital. The capital management objectives remain the same as for the previous fiscal period.

The Company's operations are currently not generating positive cash flow; as such, the Company is dependent on external financing to fund its activities. In order to carry out potential expansion and to continue operations, and pay for administrative costs, the Company will spend its existing working capital, and raise additional amounts as needed. Companies in this stage typically rely upon equity and debt financing or joint venture partnerships to fund its operations. There is no certainty with respect to the Company's ability to raise capital.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

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

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended March 31, 2014

(in Canadian dollars)

20. FINANCIAL INSTRUMENTS AND RISKS

As at March 31, 2014, 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.

Currency Risk

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

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

	United States		Poland	
	March 31, 2014	June 30, 2013	March 31, 2014	June 30, 2013
Cash	\$ -	\$ 3,222	\$ -	\$ 72
Receivables	-	-	-	6,019
Accounts payable and accrued liabilities	(1,075,182)	(1,162,448)	-	(93,813)
Related parties	-	(30,000)	-	(26,809)
Loans payable	(857,396)	(813,051)	-	-
	\$ (1,932,578)	\$ (2,002,277)	\$ -	\$ (114,531)

The following exchange rates were applied:

	Nine months ended March 31, 2014		Year ended June 30, 2013	
	Average rate	Spot rate	Average rate	Spot rate
Canadian dollars to US dollars	0.9411	0.9039	0.9957	0.9572
Canadian dollars to Zloty	2.9252	2.7002	3.1888	3.1502

Microcoal Technologies Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the nine months ended March 31, 2014

(in Canadian dollars)

21. EVENTS OCCURRING AFTER REPORTING DATE

The Company closed private placements to issue 2,889,815 units at a subscription price of \$0.20 USD per unit. Each unit consists of one common share of the Company, and one non-listed, non-transferable warrant to purchase one common shares exercisable at \$0.30 USD per share for a period of one year. The Company issued 288,891 finder's warrants to purchase units at \$0.20 USD on the same basis as the private placement for a period of one year. Cash commissions are \$57,796 USD.

The Company repriced 9,019,250 warrants at \$0.35 per share to \$0.26 per share.

The Company issued 159,000 shares to settle indebtedness of \$29,750.

The Company granted 150,000 stock options to a consultant at \$0.16 per share for a period of two years.