CARBON FRIENDLY SOLUTIONS INC.

Consolidated Financial Statements

Six months ended December 31, 2010

CARBON FRIENDLY SOLUTIONS INC.

(the "Company")

Interim Consolidated Financial Statements
Six months ended December 31, 2010

NOTICE TO READER

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management acknowledges responsibility for the preparation and presentation of the unaudited interim financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances.

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the unaudited interim financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited interim financial statements and (ii) the unaudited interim financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited interim financial statements.

The Board of Directors is responsible for reviewing and approving the unaudited interim financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited interim financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited interim financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the interim consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

CARBON FRIENDLY SOLUTIONS INC.

Consolidated Balance Sheets

	December 31, 2010	June 30, 2010
ASSETS		
Current		
Cash and cash equivalents	$ 38,124	$ 156,840
Receivables (Note 3)	101,750	113,184
Inventory (Note 4)	9,567	9,567
Prepaid expenses	6,472	22,063
	155,913	301,654
Deposit (Note 6)	56,729	56,729
Property and equipment (Note 5)	28,142	31,666
Intangible assets (Note 7)	-	-
Website development costs (Note 8)	25,941	30,519
	$ 266,725	$ 420,568
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 603,804	$ 214,731
Loans payable (Note 9)	260,000	-
	863,804	214,731
SHAREHOLDERS' EQUITY		
Share capital (Note 10 (b))	5,403,869	5,321,753
Contributed surplus (Note10 (f))	1,110,078	1,147,344
Deficit	(7,111,026)	(6,263,260)
	(597,079)	205,837
	$ 266,725	$ 420,568

Commitments (Note 13)
Subsequent Events (Notes 16)

Approved on behalf of the Board:

"Stan Lis"
Director

"Slawomir Smulewicz"
Director

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

CARBON FRIENDLY SOLUTIONS INC.

Consolidated Statements of Operations and Deficit

	Three months ended December 31, 2010	Three months ended December 31, 2009	Six months ended December 31, 2010	Six months ended December 31, 2009
Revenues				
Carbon credits	$ 8	$ -	$ 666	$ -
Cost of credits	-	-	-	-
	8	-	666	-
Expenses				
Amortization	4,486	(1,073)	9,049	4,393
Bank charges and interest	2,952	1,484	3,774	2,221
Consulting fees	68,354	157,190	228,821	218,537
Finance and sponsorship fees	47,835	2,109	47,835	12,109
Investor relations	22,804	22,106	32,014	30,516
Management fees	62,233	69,300	146,207	158,100
Office and miscellaneous	31,677	64,261	51,802	89,348
Professional fees	89,101	85,921	143,369	118,691
Rent	26,199	34,240	57,063	69,616
Stock-based compensation	-	347,757	-	352,081
Transfer agent and regulatory fees	16,366	23,983	19,399	26,232
Travel and promotion	23,184	19,159	43,536	61,869
Wages and benefits	18,280	23,057	37,887	45,531
Website design	-	1,500	-	15,000
	(413,471)	(850,994)	(820,756)	(1,204,244)
Loss before other items	(413,463)	(850,994)	(820,090)	(1,204,244)
Other items				
Interest income	-	159	-	1,375
Loss on disposal of Pacific Briquetters	(63)	-	(2,122)	-
Write down on intangible assets	(1,424)	-	(55,269)	-
Foreign exchange gain (loss)	11,783	(466)	29,715	32,536
	10,296	(307)	(27,676)	33,911
Net loss and comprehensive loss for the period	(403,167)	(851,301)	(847,766)	(1,170,333)
Deficit, beginning of period	(6,707,859)	(3,971,863)	(6,263,260)	(3,652,831)
Deficit, end period	$ (7,111,026)	$ (4,823,164)	$ (7,111,026)	$ (4,823,164)
Loss per share, basic and diluted	$ (0.01)	$ (0.03)	$ (0.03)	$ (0.04)
Weighted average number of shares				
Basic and diluted	27,753,427	27,498,427	27,753,427	27,498,427

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

CARBON FRIENDLY SOLUTIONS INC.

Consolidated Statements of Cash Flows

	Three months ended December 31, 2010	Three months ended December 31, 2009	**Six months ended December 31, 2010**	Six months ended December 31, 2009
Cash provided by (used in):				
Operating Activities				
Net loss for the period	$ (403,167)	$ (851,301)	$ (847,766)	$ (1,170,333)
Items not involving cash:				
Amortization	4,486	(1,073)	9,049	4,393
Stock-based compensation	-	347,757	-	352,081
Write down of inventory	-	-	6,867	-
Write down of receivable	-	-	56,830	-
Unrealized foreign exchange	-	-	(63,697)	
Change in non-cash working capital:				
Receivables	(17,112)	50,628	11,434	36,374
Inventory	-	(8,937)	-	(14,933)
Prepaid expenses and deposits	(70)	(17,672)	15,591	(15,258)
Accounts payable and accrued liabilities	184,483	(26,097)	389,073	(60,641)
	(231,380)	(506,695)	(422,619)	(868,317)
Financing Activities				
Proceeds of loans	260,000	-	260,000	-
Proceeds from common shares issued, net of costs	-	1,847,746	44,850	1,850,046
	260,000	1,847,746	304,850	1,850,046
Investing Activity				
Deferred costs	12	-	(947)	-
	12	-	(947)	-
Increase (decrease) in cash	28,632	1,341,051	(118,716)	981,729
Cash, beginning of period	9,492	130,246	156,840	489,568
Cash, end of period	$ 38,124	$ 1,471,297	$ 38,124	$ 1,471,297
Supplemental cash flow information:				
Interest paid			$ -	$ -
Income taxes paid			$ -	$ -
Non-cash operating, investing and financing activities				
Issuance of shares to settle notes payable			$ -	$ -

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

1. NATURE OF OPERATIONS and SIGNIFICANT ACCOUNTING POLICIES

The Company was incorporated on April 6, 1990 under the laws of the Province of British Columbia.

The Company is in the business of providing solutions for companies, organizations and individuals looking to reduce or offset their global warming impact caused by greenhouse gas emissions, while including the generation of carbon credits for sale in the global Voluntary and Compliance markets from the completion of reforestation, biomass energy and renewable energy technology projects that are independently validated and verified to globally recognized standards and methodologies.

On October 31, 2007, the Company entered into an agreement with the shareholders of Global CO2 Reduction Inc. ("Global CO2", formerly Carbon Friendly Solutions Inc.) whereby Global CO2 would become a wholly-owned subsidiary of the Company in a reverse takeover transaction. The share exchange closed in September 2008.

These financial statements include the accounts of the Company since the effective date of the reverse takeover transaction being September 2008 and the historical accounts of the business of Global CO2. Upon closing the acquisition, the Company legally changed its name to Carbon Friendly Solutions Inc.

	December 31, 2010	June 30, 2010
Deficit	$ (7,111,026)	$ (6,263,260)
Working capital	$ (447,891)	$ 86,923

These interim financial statements should be read in conjunction with the audited June 30, 2010 annual financial statements.

These interim financial statements follow the same accounting policies and methods of their application as in the June 30, 2010 annual financial statements. These interim financial statements do not conform in all respects to the requirements of Canadian generally accepted accounting principles for annual financial statements in that they do not include all note disclosures.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities at the date of the financial statements and expenses for the periods reported. Actual results could differ from those estimates.

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

	Country of incorporation	Ownership
Global CO2 Reduction Inc.	Canada	100%
CO2 Reduction Poland Sp. z. o. o.	Poland	100%
Pacific Briquettes Inc.	Canada	0%

1. NATURE OF OPERATIONS and SIGNIFICANT ACCOUNTING POLICIES continued

Adoption of new accounting standards

CICA Handbook Section 3064 - Goodwill and other intangibles assets

This new section replaces Section 3062, Goodwill and other intangible assets and Section 3450, Research and development costs. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Management does not expect that the adoption of this new standard will have a material impact on the Company's financial statements. The Company adopted the new standard for its fiscal year beginning July 1, 2009.

Future changes in accounting policies

Business Combinations, Non-controlling Interest and Consolidated Financial Statements

In January 2009, the CICA issued Handbook Sections 1582 "Business Combinations", 1601 "Consolidated Financial Statements" and 1602 "Non-controlling Interests" which replace CICA Handbook Sections 1581 "Business Combinations" and 1600 "Consolidated Financial Statements". Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for the Company's business combinations with acquisition dates on or after March 1, 2011. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning July 1, 2011. Early adoption of these Sections is permitted and all three Sections must be adopted concurrently.

International financial reporting standards

In addition to the above new accounting standards, the Accounting Standards Board ("AcSB"), in 2006, published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of July 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

2. REVERSE TAKEOVER ("RTO") OF GLOBAL CO2 REDUCTION INC.

Pursuant to a Share Exchange Agreement dated October 31, 2007 with the shareholders of Avigo Resources (Avigo), the Company, (legal parent), acquired all of the issued and outstanding shares of Global CO2, (legal subsidiary), in exchange for the issuance of 8 million common shares of the Company. In addition, the Company issued 50,000 common shares as a finder's fee with respect to the acquisition.

Of the 8 million common shares issued in connection with the transaction, 6.05 million are subject to Tier 2 value securities escrow provisions. The escrow provisions contemplate the release of 10 per cent of the escrow shares on the issuance of the TSX-V bulletin and 15 per cent released every six months thereafter, for a total escrow period of 36 months. See Note 10(e)

The amounts assigned to the assets and liabilities of the Company are based on the estimated fair value of the net assets of the Company, which equal their carrying values as at September 2, 2008, as follows:

Net assets acquired at assigned value	
Cash	$ 1,416,345
Short-term investments	300,000
Receivables	17,459
Advances receivable (i)	325,000
Deferred costs (ii)	311,010
Prepaid expenses	30,000
	2,399,814
Accounts payable and accrued liabilities	(71,873)
Share subscriptions received in advance (iii)	(1,519,680)
Consideration (8,050,000 common shares)	$ 808,261

(i) The advance receivable of $325,000 was funds advanced by the legal parent to the legal subsidiary to assist in working capital requirements prior to the reverse takeover transaction. This amount was settled on the completion of the transaction.

(ii) On completion of the transaction, the deferred costs of $311,010 were charged against share capital.

(iii) In conjunction with the reverse takeover, the Company closed a private placement for gross proceeds of $2,072,500 of which $1,519,680 was received by Avigo prior to the close of the private placement and share exchange and is included above in the net assets acquired.

Under reverse takeover accounting, the results of operations of the legal parent have been included in the consolidated financial statements from September 2, 2008.

3. RECEIVABLES

	December 31, 2010	June 30, 2010
GST/HST Receivable	$ 70,678	$ 35,351
VAT Receivable	31,072	32,833
Trades Receivable	-	45,000
	$ 101,750	$ 113,184

4. INVENTORY

	December 31, 2010	June 30, 2010
	$ 9,567	$ 9,567

5. PROPERTY AND EQUIPMENT

	December 31, 2010			June 30, 2010
	Cost	**Accumulated amortization**	**Net book value**	Net book value
Computer equipment	$ 22,674	$ 9,968	$ 12,706	$ 13,475
Furniture and equipment	24,660	14,761	9,899	12,038
Leasehold improvements	8,614	3,077	5,537	6,153
Total	$ 55,948	$ 27,806	$ 28,142	$ 31,666

6. DEPOSIT

The deposit represents an amount paid in advance for the lease of office premises.

7. INTANGIBLE ASSETS

	December 31, 2010	June 30, 2010
Exclusive sales contract (i)	$ -	$ 55,121
Trees for Clean Air Project (TFCA) (ii)	-	-
Rights to wood waste and recycling permit (Note 11) (iii)	-	24,500
Impairment charge	-	(79,621)
	$ -	$ -

(i) Exclusive sales contract

During the year ended June 30, 2010, the Company entered into additional a sales contract 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.

7. INTANGIBLE ASSETS - Continued

(ii) Trees for Clean Air Project

During the year ended June 30, 2009, the Company entered into an agreement with Trees for Clean Air ("TFCA") for its North American land based carbon sequestration project. This 45 hectare reforestation pilot project is located in Northern Ontario and will generate a high-quality carbon credits for sale in the Voluntary offset market.

Pursuant to the Agreement, the Company paid TFCA $95,000 to cover reforestation costs associated with the project including coordinating the signing of the lease agreements with land owners for the 100-year rights to all carbon stored above and below ground, site preparation, the growth and development of seedlings, planting, fencing where required, tree replacement up to five years, ongoing maintenance and silviculture during the first five years to maximize growth rates and carbon sequestration.

These carbon credits were validated during the year ended June 30, 2010 to international standards by an accredited third party validation company. Upon validation, the Company transferred the $95,000 to its carbon credit inventory.

(iii) Rights to wood waste and recycling permit

Pursuant to the agreements with TCG the Company paid $24,500 to TCG in connection with the PBI venture arrangement (Note 11). On October 6, 2010, the Company terminated this agreement and arrangement with TCG (Note 11).

As of September 30, 2010, the Company reviewed the carrying amount of its intangible assets and recognized an impairment charge of $53,845 in the consolidated statement of operations. (June 30, 2010 -$57,882)

8. WEBSITE DEVELOPMENT COSTS

	December 31, 2010			June 30, 2010
	Cost	Accumulated amortization	Net book value	Net book value
Website development costs	$ 69,756	$ 43,815	$ 25,941	$ 30,519

9. LOANS PAYABLE

The Company arranged loans of $260,000 from four lenders at a rate of 8% interest per annum with a 20% bonus in cash. Repayment is the earlier of the completion of a financing or one year.

10. SHARE CAPITAL

(a) Authorized: 100,000,000 common shares without par value

(b) Issued and Outstanding		**Amount**
Balance, June 30, 2009	19,913,927	$ 3,498,850
Stock options exercised	297,500	74,175
Private placement	7,347,000	1,983,690
Share issuance costs	-	(226,626)
Fair value of agent's warrants	-	(65,191)
Fair value of stock options exercised	-	56,855
Balance, June 30, 2010	27,558,427	5,321,753
Stock options exercised	195,000	44,850
Fair value of stock options exercised	-	37,266
Balance, December 31, 2010	27,753,427	$ 5,403,869

Fiscal 2010

During the year, a private placement was completed consisting of 7,347,000 units at $0.27 per unit, each unit consisting of one common share and one share purchase warrant to purchase one common share at $0.35 per share for a period of two years. The private placement was completed in three tranches consisting of 1,882,000, 1,400,000 and 4,065,000 respectively from November 20, 2009 to December 11, 2009 . In connection with the private placement 328,200 share purchase warrants were issued as finder fees' ("agent warrants") exercisable at a price of $0.35 per share for a period of two years. The fair value of the agent warrants was $65,191 using the Black Scholes Option Pricing Model assuming no dividends are to be paid, with a weighted average expected life of 2 years, a weighted average volatility of 110% and an average annual risk free interest rate of 0.5%. The Company paid share issuance costs of $226,626 related to legal fees, transfer fees and finders' fees.

All proceeds from the above private placements were allocated to share capital with no amounts allocated to the attached warrants based on the residual method.

During the year, the Company issued 297,500 shares on exercise of stock options for proceeds of $74,175.

10. SHARE CAPITAL continued

c) Warrants

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

	Number of shares	Exercise Price
Balance, June 30, 2009	2,072,500	$ 0.75
Issued	7,675,200	0.35
Balance, June 30, 2010	9,747,700	0.44
Issued	-	-
Balance, December 31, 2010	9,747,700	$ 0.44

The following table summarizes warrants outstanding and exercisable at December 31, 2010:

Warrants Outstanding	Warrants Exercisable	Exercise Price	Expiry Date
2,072,500 *	2,072,500	$0.75	August 29, 2012
2,070,200	2,070,200	$0.35	November 30, 2011
1,540,000	1,540,000	$0.35	December 3, 2011
4,065,000	4,065,000	$0.35	December 11, 2011
9,747,700	9,747,700		

* Subsequent to June 30, 2010, 2,072,500 warrants with original expiry date of August 29, 2010 were extended to August 29, 2012.

d) Stock options

Stock options outstanding are as follows:

Outstanding, June 30, 2009	1,965,000	$ 0.24
Granted	1,150,000	0.36
Exercised	(297,500)	0.25
Outstanding, June 30, 2010	2,817,500	0.29
Cancelled	(487,500)	0.29
Exercised	(195,000)	0.23
Outstanding, December 31, 2010	2,135,000	$ 0.28

10. SHARE CAPITAL continued

The following table summarizes stock options outstanding and exercisable at December 31, 2010:

Options Outstanding	Exercise Price	Expiry Date	Options Exercisable
75,000	$0.27	April 20, 2012	75,000
1,180,000	$0.23	October 6, 2013	1,180,000
30,000	$0.23	March 14, 2014	30,000
850,000	$0.36	December 16, 2014	850,000
2,135,000			2,135,000

e) Escrow shares

Pursuant to the reverse takeover transaction (Note 2), 6.05 million common shares are subject to Tier 2 value securities escrow provisions. The escrow provisions contemplate the release of 10 per cent of the escrow shares on the issuance of the TSX-V bulletin and 15 per cent released every six months thereafter, for a total escrow period of 36 months.

As at December 31, 2010, 1,815,000 (June 30, 2010 – 2,722,500) common shares remain in escrow. 907,500 common shares were released from escrow during the six months ended December 31, 2010.

f) Contributed Surplus

	December 31, 2010	June 30, 2010
Balance, beginning of period	$ 1,147,344	$ 736,508
Stock-based compensation	-	402,500
Fair value of agent warrants (Note 10 (b))	-	65,191
Fair value of stock options exercised, reclassified to share capital (Note 10 (b))	(37,266)	(56,855)
Balance, end of period	$ 1,110,078	$ 1,147,344

11. RELATED PARTY TRANSACTIONS

The following expenses were incurred with directors and officers of the Company	**For the six months ended December 31, 2010**	For the six months ended December 31, 2009
Management and directors' fees	$ 119,700	$ 88,800
Consulting	26,000	30,000
Automobile allowance (Travel and Promotion)	19,200	-
Rent	-	3,200
Professional fees	32,552	-
Office and miscellaneous	-	7,500
Total	$ 197,452	$ 129,500

As at December 31, 2010 accounts payable and accrued liabilities included $53,407 (June 30, 2010 - $8,630) owing to officers and directors for management and accounting fees. The amounts due are unsecured, non-interest bearing and have no fixed terms of repayment.

The amounts charged to the Company for the services provided have been determined by negotiation among the parties and in certain cases, by signed agreements. These transactions were measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

12. PACIFIC BRIQUETTERS INC. ("PBI")

During the year ended June 30, 2010, the Company incorporated Pacific Briquetters Inc. ("PBI"), a British Columbia company, for the purpose of owning, financing, developing, constructing and operating a proposed briquette and bio energy manufacturing and distribution facility and business to be operated on certain lands and premises located in Mission, BC (the "Premises"), which are owned and operated by Green River Log Sales Ltd., an affiliate of 0733403 B.C. Ltd. ("TCG") and a company unrelated to Carbon Friendly Solutions Inc., which, in consideration thereof, is a 25% shareholder, with the Company owning 75%, in PBI going forward (collectively, the "Venture").

During the year ended June 30, 2010, the Company paid the sum of $100,000 towards start up costs of PBI and paid $24,500 on initiation of the agreement to TCG.

The Company had determined as of June 30, 2010 that the performance vesting criteria has not been met as no gross profits from the venture had occurred or is reasonably expected to occur and therefore, has not issued to TCG measured or recognized the common share purchase warrants in these financial statements. On October 6, 2010 the agreement with PBI was terminated and all costs written off.

13. COMMITMENTS

(a) The Company and officers of the Company entered into three consulting agreements for a period of 3 years commencing July 1, 2007 for $144,000, July 1, 2008 for $120,000 and July 1, 2009 for $120,000 per year, respectively. In each case there is an annual increase of 5% per annum. In an event of a change in control, and an 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. Subsequent to June 30, 2010, an officer has terminated his consulting agreement.

(b) The Company entered into a joint land agreement with a former director of the subsidiary to pay USD$3,101 ($3,256) annually for 15 years upon commencement of the reforestation of the property. The Company is responsible for covering all costs relating to the reforestation, maintenance and cultivation of the property.

(c) The Company entered into an agreement to lease additional office space for five years as follows:

2011	$	94,923
2012		94,923
2013		94,923
2014		96,714
2015		74,774
	$	456,257

(d) During the year ended June 30, 2010, the Company renewed three 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 144,650 PLN ($44,000) for these exclusive sales contract rights and has committed to pay 411,570 PLN (approximately $127,000) within 30 days subject to obtaining carbon credit certification or sale of a carbon credit unit from the lands. The right expires December 30, 2010.

(e) During the six months ended December 31, 2010, the Company renewed four additional 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 106,326 PLN (approximately $33,000) for these exclusive sales contract rights and has committed to pay 933,492 PLN (approximately $287,000) within 30 days subject to obtaining carbon credit certification or sale of a carbon credit unit from the lands. The right expires December 31, 2010.

14. 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 December 31, 2010, cash amounted to $38,124. During the twelve month period ended June 30, 2010, the Company raised $1.8 million through the issuance of common shares in a private placement and on exercise of stock options. These additional funds were used for the acquisition of property and equipment and intangible assets and for working capital requirements.

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

15. FINANCIAL INSTRUMENTS AND RISKS

As at December 31, 2010, the Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities and loans payable. The fair values of these financial instruments approximate their carrying values because of their current nature or adjustments to fair value made at each period end.

Fair Value

The Company classifies its fair value measurements in accordance with an established hierarchy that prioritizes the inputs in valuation techniques used to measure fair value as follows:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, and

Level 3 - Inputs that are not based on observable market date

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	December 31, 2010
Cash	$ 38,124	$ -	$ -	$ 38,124

	Level 1	Level 2	Level 3	June 30, 2010
Cash	$ 156,840	$ -	$ -	$ 156,840

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 interest bearing debt. The Company's ability to raise capital to fund mineral resource exploration is subject to risks associated with fluctuations in mineral resource prices. Management closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

15. FINANCIAL INSTRUMENTS AND RISKS - Continued

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined in Note 14.

The Company monitors its ability to meet its short-term administrative expenditures by matching investment income received to expenditures to be incurred, and by disposing its marketable securities when required. All of the Company's financial liabilities have contractual maturities of 30 days or less are due on demand and are subject to normal trade terms.

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.

Credit Risk

The Company is not exposed to significant credit risk on its financial assets due to cash being placed with major financial institutions and GST/HST recoverable is due from government agencies.

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. A small portion of purchases are made in Polish Zloty. 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

v) Other Price and Market Risk

The Company's financial instruments are all short term and exposed to other price and market risks should the fair value of future cash flows from financial instruments fluctuate.

Management does not feel that the Company is exposed to significant risk as its financial instruments are not expected to significantly fluctuate over the short term.

16. SUBSEQUENT EVENTS

On January 31, 2011 the Company announcd it had finalized the acquisition of 58.21% of the outstanding share capital of MicroCoal Inc. ("MCI" or "MicroCoal"), as announced on January 12, 20, 21, 2011 and October 26, 2010. In accordance with the share purchase agreement and its amendment, all MicroCoal shareholders, except for one, exchanged their shares of MicroCoal on a pro rata basis for 10,957,778 common shares of Company stock at a price of $0.27 per share, which equals a total of US$3 million (the "Share Exchange"). In addition to the Share Exchange and in accordance with the share purchase agreement, the Company is to complete a private placement financing of up to CAD$6 million (the "Financing") and from such proceeds, the Company is to pay (i) US$1 million cash to a certain creditor/shareholder of MCI in consideration for the forgiveness of certain outstanding debt owed to such creditor by MCI and for the re-purchase of such creditor's 1,013 MCI shares for cancellation; and (ii) up to US$85,000 cash to certain other creditors of MCI to settle other outstanding indebtedness owed by MCI. Upon completion of the entire transaction, the Company will own 100% of MicroCoal. Furthermore, upon completion of the entire transaction, a consultant and shareholder of the Company will receive an introduction fee of CAD$450,000.

The Company granted 2,321,620 stock options to its directors, officers and consultants.