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 October 28, 2014 and should be read in conjunction with the audited consolidated financial statements and related notes thereto of the Company for the year ended June 30, 2014.

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 "0FS-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.

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 an arrangement for the acquisition of the 41.79% interest where Orica reduced the debt to US$1,000,000.

As at June 30, 2014, the Company had a loan payable of $827,390 (US$775,000).

MicroCoal Technology

The MicroCoal technology is a technology where the Company is focused on commercializing the use of its patented technologies to upgrade low-rank coals to match the energy levels of high-rank coals for use by power utilities. The deployment of the technology offers utilities significant economic, as well as operational benefits.

The proprietary dry 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, and 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 produce an efficient power plant fuel from available raw coal.

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 CO_2 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:

- ✓ **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.

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 Mt[1] 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 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. 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.

[1] World Coal Institute

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 TM commercial facility utilizing the Company’s proprietary coal drying technology (the “Facility”). The contracted price for the construction of the Facility’s installation is US $6,000,000 (“Construction Fee”). The Company has received US$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. At the current time work has ceased at the Banjarmasin facility, pending contract resolution between the parties involved.

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

CRA has performed the 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 is 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,	2014	2013	2012
Revenues	Nil	Nil	96,037
Gross profit (loss)	Nil	Nil	31,628
Operating expense	4,500,773	4,961,789	4,535,526
Other income (expense)	(2,969,923)	1,326,936	(234,402)
Current income tax expense	-	(46,000)	-
Net loss for the year	(7,470,696)	(3,680,853)	(4,738,390)
Net loss per share	(0.10)	(0.06)	(0.07)
Total assets	203,249	3,783,418	5,889,512
Total long-term liabilities	Nil	Nil	Nil
Cash dividends declared	Nil	Nil	Nil

RESULTS OF OPERATIONS

During the year ended June 30, 2014, the Company had an operating loss of $4,500,773 showing a decrease of $461,016 to the previous year. During the year there was a change in management with a new chief executive officer and the discontinuance in the position of president. The Company has decided to focus on its coal technology in the United States and an ongoing program in Indonesia and China. Previously there were a number of initiatives in Poland which have been severed.

The Company has been intent on reducing overhead and also indebtedness as the previous levels have been unsustainable. The results of these programs are starting to show with a reduction in management and director fees of $303,257 and consulting fees of $195,664 in the current year. Some debt had been settled in the first quarter by the issuance of shares and warrants. In previous financial statements the difference in the fair value of the shares and warrants issued compared to the debt were expensed according to the expense category. In the current year, these amounts have been included in other income (expenses) as a gain (loss) on settlement of debt. The full effect of the debt reduction program will continue into the first quarter and second quarter of the new fiscal year.

The Company did an assessment of the plant prototype with the conclusion that new improvements and concepts would be too difficult to implement in the existing unit and followed through with dismantling of the unit. Previously the unit which included coal technology was being amortized at the rate of 20% per year.

With the decision to dismantle the unit, amortization was taken as usual ($1,411,864) and an impairment charge of $2,234,758 was taken.

The Company entered into a construction agreement with PT Wijaya Tri Utama ("PWTU") that provides for the design, construction, operation, and maintenance of the first 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. The Company received $1,419,108 (US$ 1,320,000) in advances. As at June 30, 2014 the Company had incurred construction, equipment expenditures and engineering costs of $1,304,058 leaving a balance of $115,050 as contracts in progress liability.

SUMMARY OF QUARTERLY RESULTS

Quarter ended	Total Assets	Revenues	Net profit (loss)	Profit (loss) per share
June 30, 2014	$ 203,249	$ -	$(3,364,413)	$ (0.04)
March 31, 2014	2,949,416	-	(1,052,355)	(0.01)
December 31, 2013	3,690,966	-	(1,419,124)	(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)

LIQUIDITY AND CAPITAL RESOURCES

The Company had cash on hand of $86,652 at June 30, 2014 (June 30, 2013 - $8,095) and a working capital deficiency of $2,942,247.

Year ended June 30, 2014

The Company received subscriptions of $107,598 ($USD 100,000) pursuant to a private placement of 500,000 units at a subscription price of $USD 0.20 per unit. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at an exercise price of $USD 0.30 for a period of one year. This private placement and issuance of the 500,000 shares were completed after June 30, 2014. Since the share purchase warrants were issued in a currency other than the functional currency of the Company, they were accounted for as a derivative liability and re-measured at year end with any change going to the profit or loss.

On May 20, 2014 the Company closed the third tranche of a non-brokered private placement in the amount of $USD 300,000 ($CAD 326,640). The Company issued 1,500,000 units at a subscription price of $USD 0.20 per Unit. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at an exercise price of $USD 0.30 for a period of one year. Since the share purchase warrants were issued in a currency other than the functional currency of the Company, they were accounted for as a derivative liability and re-measured at year end with any change going to the profit or loss.

On May 6, 2014 the Company closed the second tranche of a non-brokered private placement in the amount of $USD 300,000 ($CAD 326,955). The Company issued 1,500,000 units at a subscription price of $USD 0.20 per Unit. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at an exercise price of $USD 0.30 for a period of one year. The Company paid a cash commission of $USD 30,000 and granted finder's warrants to purchase units equal to 10% of the Units. Since the share purchase warrants were issued in a currency other than the functional currency of the Company, they were accounted for as a derivative liability and re-measured at year end with any change going to the profit or loss.

On April 11, 2014 the Company closed the first tranche of a non-brokered private placement in the amount of $USD 277,963 ($CAD 308,539). The Company issued an aggregate of 1,389,815 units of the Company at a subscription price of $USD 0.20 per unit. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at an exercise price of $USD 0.30 for a period of one year. The Company paid a cash commission of $USD 27,796, granted finder's warrants to purchase units equal to 10% of the Units and issued 100,000 common shares that had a value of $18,000 to an agent. Since the share purchase warrants were issued in a currency other than the functional currency of the Company, they were accounted for as a derivative liability and re-measured at year end with any change going to the profit or loss.

On October 21, 2013 the Company closed a private placement to 3,258,499 units at a subscription price of $0.30 per unit, for gross proceeds of $977,550. 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 fair value of the agent warrants of $46,552 were estimated using Black Scholes option using a risk free interest rate of 1.89%, an expected dividend yield of $nil, a volatility of 113.7%, and an expected life of 5 years.

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, 989,047 shares at $0.27 per shares and 557,639 warrants exercisable at $0.35 per share until May 31, 2016, 190,000 shares at $0.18 per share, 19,000 shares at $0.25 per shar and 50,000 shares at $0.205 per share to settle debts of $505,969. The fair value of the shares was $644,185 measured at date of issuance and of the warrants was $311,041 estimated using a Black Scholes option using a risk free interest rate of 1.429%, an expected dividend yield of $nil, a volatility of 115%, and an expected life of 2.83 years.

The Company issued 203,704 shares 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 $72,315 was measured at the issuance date and of the warrants of $48,463 was estimated using a Black Scholes option using a risk free interest rate of 1.364%, an expected dividend yield of $nil, a volatility of 115%, and an expected life of 2.76 years..

The Company issued 36,000 shares 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 $12,780 was measured at issuance date and of the warrants of $9,019 was estimated using a Black Scholes option using a risk free interest rate of 1.408%, an expected dividend yield of $nil, a volatility of 115%, and an expected life of 2.76 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 $247,023 was measured at issuance date and of the warrants was $168,821 estimated using a Black Scholes option using a risk free interest rate of 1.368%, an expected dividend yield of $nil, a volatility of 113.4%, and an expected life of 2.83 years.

The Company issued 3,820,000 common shares on exercise of stock options and warrants for cash proceeds of $625,850. 1,135,000 common shares issued were a cashless exercise of options worth $224,200 to a former chief executive officer of the Company recorded as consulting fees in consolidated net loss.

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

	June 30, 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 year ended June 30, 2014 the remaining loan balance was paid in full.	$ -	$ 100,000
Pursuant to a loan agreement, a total of $48,000 was advanced to the Company on an unsecured basis. A 20% loan bonus was charged with the loan amount calculated at $60,000 to be repaid. The interest rate is 10% per annum. During the year ended June 30, 2014 the loan was discharged.	-	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 year ended June 30, 2014 the loan was paid in full.	-	115,000
Pursuant to a loan agreement a total of 30,000 zloty was advanced to the Company. The interest rate was at 20% per annum. The loan was payable upon demand. During the year ended June 30, 2014, the loan was settled by the issuance of 36,000 common shares and warrants with a fair value of $21,799, resulting in a loss of $12,079.	-	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 year ended June 30, 2014, the loan was settled by the issuance of 203,704 common shares and warrants with a fair value of $120,778, resulting in a loss of $65,778.	-	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 was paid off subsequent to June 30, 2014.	106,710	-
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 at June 30, 2013. The loan was renegotiated in August 2014 and both parties agreed to settle the outstanding loan as well as the accrued interest in Note 6 for $160,065 ($USD 150,000). This amount was paid subsequent to the year end.	827,390	813,051
	$934,100	$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	Year ended June 30, 2014	Year ended June 30, 2013
Management, director' and professional fees	$ 1,045,517	$ 1,082,591
Consulting fees	-	90,600
Settlement fees to a former director/officer, cashless exercise of options	224,200	-
Bonus shares issued to management	-	400,000
Fair value of shares and warrants issued to key management personnel to settle debt	434,457	-
Stock-based compensation	71,421	159,822
Automobile allowance (travel and promotion)	-	28,800

Total key management personnel remuneration	$ 1,775,595	$ 1,761,813

Included in management and professional fees are project fees relating to the contracts in progress in the amount of $435,608 (2013 - $nil).

As at June 30, 2014 the Company owed $26,465 (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 June 30, 2014 the Company owed $106,710 (June 30, 2013 - $nil) to a director pursuant to loans payable.

EVENTS OCCURING AFTER REPORTING DATE

The Company closed three private placements and issued 5,270,000 units at a subscription price of $0.20 USD per unit. Each unit consists of one common share of the Company, and one warrant to purchase one common shares exercisable at $0.30 USD per share for a period of one year. The Company issued 127,000 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 were $25,400 USD.

The Company granted 80,000 stock options to two consultants at $0.20 USD per share for a period of two years.

100,000 stock options were exercised for proceeds of $11,000.

Loans payable of $106,710 ($100,000 USD) at June 30, 2014 was repaid to a director.

Settlement of Orica's debt was agreed on by both parties on payment of $160,065 ($150,000 USD) cash.

Subsequent to year end, the Company signed a $1,000,000 USD multi-draw working capital loan. Outstanding draws accrue interest at a rate of 4% per annum, payable quarterly and has a term of 1 year. Principal and interest repayments are without penalty. The loan is convertible into commons shares at the option of the holder at a conversion price of $0.15USD per share. The holder is the Chairman of the Company.

Subsequent to year end, the Company signed a $125,000 USD loan. The principal accrues interest at a rate of 4% per annum, payable quarterly and has a term of 1 year. Principal and interest repayments are without penalty. The loan is convertible into commons shares at the option of the holder at a conversion price of $0.225USD per share. The holder is the Chairman of the Company.

Subsequent to year end, the Company signed a joint venture agreement with Rubyfield Holdings Limited., a Hong Kong based private company, to operate a coal testing facility in Songjiang Industrial Park, Shanghai with the purpose of promoting the Company's technology in China and other parts of Asia. The joint venture agreement is for 5 years and shall automatically renew for another 5 year period unless terminated in writing by either party. In consideration for this transaction, the Company is to issue 10million common shares with 6million common shares at closing and 4million common shares that is 120 days from closing. The closing of the agreement has not been completed as of the date of this consolidated financial statements. The Company will own 51% of the shares of the joint venture entity with 49% being the share of the other party and the Company will have two out of three directors on the board of the joint venture.

FINANCIAL INSTRUMENTS

As at June 30, 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.

All financial assets and financial liabilities are recorded at fair value on initial recognition. Transaction costs are expensed when they are incurred, unless they are directly attributable to the acquisition of qualifying assets, in which case they are added to the costs of those assets until such time as the assets are substantially ready for their intended use or sale.

Level 1	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
Level 2	Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;
Level 3	Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity);

Under fair value accounting, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. As of June 30, 2014, the Company had derivative warrant liabilities (see Note 14(g)) that were required to be recorded at fair value using level 2 inputs. A 10% change in the call option value used in calculating the derivative would have an approximately $34,000 increase in consolidated net loss.

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 in 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	
	June 30, 2014	June 30, 2013
Cash	$ 70,541	$ 3,222
Accounts payable and accrued liabilities	(208,307)	(1,162,448)
Related parties	(8,376)	(30,000)
Loans payable	(934,100)	(813,051)
	$ (1,080,243)	$ (2,002,277)

The following exchange rates were applied:

	Year ended June 30, 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	0.9532

Standards, Amendments and Interpretations Not Yet Adopted

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

- **IFRS 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.

- **IAS 32 Amendments**

On May 29, 2013, the IASB made amendments to the disclosure requirements of IAS 36, requiring disclosure, in certain instances, of the recoverable amount of an asset or cash generating unit, and the basis for the determination of fair value less costs of disposal, when an impairment loss is recognized or when an impairment loss is subsequently reversed. These amendments are effective for annual periods beginning on or after January 1, 2014.

- **IAS 36 Impairment of Assets**

Amendments to IAS 36, 'Impairment of Assets' addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendments are effective for annual periods beginning on or after January 1, 2014 and should be applied retrospectively.

- **IFRIC 21 Levies Imposed by Governments**

IFRIC 21 - Levies ("IFRIC 21"), an interpretation of IAS 37 - Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past activity or event ("obligating event") described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014. The Company is currently evaluating the impact of the adoption of this interpretation on its consolidated financial statements.

The Company will adopt the amendments of IAS 9, IAS 32 and IAS 36 for its reporting period beginning July 1, 2014 and does not expect the adoption of these standards to have a significant impact on its consolidated financial statements.

OTHER REQUIREMENTS

Summary of Outstanding Share Data as at October 28, 2014

Authorized – unlimited shares without par value

Shares Issued:	
June 30, 2014	83,558,336
Private placement	5,270,000
Options exercised	100,000
Total at October 28, 2014	88,928,336

Stock options:	
June 30, 2014	3,465,000
Granted	80,000
Exercised	(100,000)
Total at October 28, 2014	3,445,000

Warrants:	
June 30, 2014	38,959,366
Issued	5,397,000
Total at October 28, 2014	44,356,366

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.