MICROCOAL TECHNOLOGIES INC.

Consolidated Financial Statements

Year ended June 30, 2014

(in Canadian dollars)

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Independent Auditor's Report

To the shareholders of MicroCoal Technologies Inc.

We have audited the accompanying financial statements of MicroCoal Technologies Inc., which comprise the consolidated statements of financial position as at June 30, 2014 and 2013 and the consolidated statements of comprehensive loss, cash flows and changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of MicroCoal Technologies Inc. as at June 30, 2014 and 2013 and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 2 in the financial statements, which indicates that at June 30, 2014, the Company has net loss of $7,470,696, a working capital deficiency of $2,942,247 and an accumulated deficit of $23,562,179 since inception and expects to incur further losses in the development of its business. The Company's ability to continue as a going concern is contingent upon the Company's ability to obtain necessary financing and generate future profitable operations. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern.

/s/ "BDO Canada LLP"

Chartered Accountants
Vancouver, British Columbia
October 27, 2014

MicroCoal Technologies Inc.

Consolidated Statement of Financial Position

For the years ended June 30

(in Canadian dollars)

	Notes		2014		2013
ASSETS					
Current					
Cash		$	86,652	$	8,095
Receivables	7		34,694		25,340
Prepaid expenses			3,217		33,466
			124,563		66,901
Non-current					
Deposit	9		-		56,729
Property and equipment	8		78,686		13,166
Coal technology and plant prototype	6		-		3,646,622
Total assets		$	203,249	$	3,783,418
LIABILITIES					
Current					
Accounts payable and accrued liabilities	12	$	1,634,960	$	2,201,637
Income tax payable			46,000		46,000
Contracts in progress liability	17		115,050		-
Derivative liability	14g		336,700		-
Loans payable	13		934,100		1,089,428
			3,066,810		3,337,065
SHAREHOLDERS' EQUITY (CAPITAL DEFICIT)					
Share capital	14b		18,003,133		14,415,464
Share subscriptions	14b,g		68,676		-
Share-based payment reserve	14e		2,695,107		2,272,553
Deficit			(23,562,179)		(16,091,483)
Cumulative other comprehensive income			(68,298)		(150,181)
			(2,863,561)		446,353
Total liabilities and equity		$	203,249	$	3,783,418

Approved on behalf of the Board:

"Jim Young"
Director

"William Hudson"
Director

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

MicroCoal Technologies Inc.

Consolidated Statements of Comprehensive Loss

For the years ended June 30

(in Canadian dollars)

	Note		2014		2013
Expenses					
Amortization		$	1,413,330	$	1,493,878
Bank charges and interest			48,419		6,219
Consulting fees	14b		377,619		573,283
Fair value of warrants issued for services rendered			-		60,153
Financing fees and commissions	17		136,526		79,162
Foreign exchange loss on operations			102,824		28,094
Interest on notes payable			49,697		108,177
Investor relations			243,710		138,210
Management and director fees	14b, 15		664,511		967,768
Office and miscellaneous			103,061		80,205
Patents and engineering			141,385		51,950
Legal, accounting and audit	15		599,366		515,289
Rent			104,623		107,323
Share-based compensation	14d		93,537		384,792
Transfer agent and regulatory fees			38,864		20,022
Travel and promotion			288,415		203,155
Wages and benefits			94,886		134,492
Write down of receivable			-		9,617
Loss before other items			**(4,500,773)**		**(4,961,789)**
Other income (expenses)					
Gain (loss) on settlement of debt	12,13		(622,258)		(76,466)
Gain on settlement of debts on acquisition			-		1,843,167
Impairment of plant prototype	6		(2,234,758)		-
Write down of property and equipment			-		(364,157)
Impairment of intangible assets			-		(51,515)
Fair value change in derivative liability	14g		(101,207)		-
Loss on disposal of property and equipment			(11,700)		(24,093)
			(2,969,923)		1,326,936
Loss before income taxes			**(7,470,696)**		**(3,634,853)**
Current income tax expense	16		-		(46,000)
Net loss for the year			**(7,470,696)**		**(3,680,853)**
Other comprehensive income (loss)					
Exchange gain arising on translation of foreign operations			81,883		49,209
Total comprehensive loss		**$**	**(7,388,813)**	**$**	**(3,631,644)**
Loss for the year attributed to:					
Owners of parent		$	(7,470,696)	$	(3,345,228)
Non-controlling interest			-		(335,625)
		$	(7,470,696)	$	(3,680,853)
Total comprehensive loss					
Owners of parent		$	(7,388,813)	$	(3,296,019)
Non-controlling interest			-		(335,625)
		$	(7,388,813)	$	(3,631,644)
Loss per share, basic and diluted		**$**	**(0.10)**	**$**	**(0.06)**
Weighted average number of common shares outstanding, basic and diluted			**77,233,998**		**63,617,591**

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

MicroCoal Technologies Inc.
Consolidated Statements of Cash Flows
For the years ended June 30
(in Canadian dollars)

	Note	2014	2013
Cash provided by (used in):			
Operating Activities			
Net loss for the year		$ (7,470,696)	$ (3,680,853)
Items not involving cash:			
Amortization		1,413,330	1,493,878
Loss on disposal of capital assets		11,700	24,093
Loss (gain) on settlement of debt		622,258	(1,843,167)
Share-based compensation		93,537	384,792
Unrealized foreign exchange		64,712	(9,224)
Fair value change in derivative liability		101,207	-
Interest accrual		1,450	15,098
Write down of receivable		-	9,617
Issuance of shares for services		224,200	552,594
Finance cost on reversal of equity component		(5,993)	-
Fair value of warrants issued for debt and loans		-	72,315
Write down of property and equipment		-	364,157
Impairment of plant prototype		2,234,758	-
Impairment of intangible assets		-	51,515
		(2,709,537)	(2,565,185)
Change in non-cash working capital:			
Receivables		(9,354)	200,001
Prepaid expenses		30,249	11,691
Accounts payable and accrued liabilities		377,405	353,835
Income tax payable		-	46,000
Contracts in progress		115,050	-
Related parties		-	(22,020)
		(2,196,187)	(1,975,678)
Investing Activities			
Purchase of property and equipment		(78,686)	(665)
Proceeds from sale of equipment		-	3,136
Rental deposit		20,094	-
		(58,592)	2,471
Financing Activities			
Share issuances		2,521,159	2,093,313
Share issuance costs		(187,131)	(150,673)
Share subscriptions		107,598	-
Loan proceeds		106,710	67,370
Loan repayments		(215,000)	(60,000)
		2,333,336	1,950,010
Increase in cash		78,557	(23,197)
Cash, beginning of year		8,095	31,292
Cash, end of year		$ 86,652	$ 8,095
Supplemental cash flow information:	5		

MicroCoal Technologies Inc.

Consolidated 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	14b	8,693,750	1,738,750	-	-	-	-	-	1,738,750
Issue costs	14b	-	(265,035)	-	114,362	-	-	-	(150,673)
Bonus shares issued	14b	1,777,777	444,444	-	-	-	-	-	444,444
Stock options		200,000	28,000	-	-	-	-	-	28,000
Fair value of stock options exercised		-	22,967	-	(22,967)	-	-	-	-
Exercise of warrants		943,750	326,563	-	-	-	-	-	326,563
Shares and warrants issued for debt		507,000	108,150	-	69,716	-	-	-	177,866
Shares returned to treasury	14b	(1,500,000)	(1,500)	-	1,500	-	-	-	-
Equity component of convertible loan		-	-	-	5,993	-	-	-	5,993
Fair value of warrants issued pursuant to loan agreement	14b	-	-	-	12,162	-	-	-	12,162
Fair value of warrants issued for services rendered	14b	-	-	-	60,153	-	-	-	60,153
Share-based compensation	14d	-	-	-	384,792	-	-	-	384,792
Loss for the year		-	-	-	-	(3,345,228)	-	(335,625)	(3,680,853)
Other comprehensive income		-	-	-	-	-	49,209	-	49,209
Elimination of minority interest		-	-	-	(96,475)	-	-	96,475	-
Balance, June 30, 2013		68,853,998	$ 14,415,464	$ -	$ 2,272,553	$ (16,091,483)	$ (150,181)	$ -	$ 446,353
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	3,258,499	977,550		-	-	-	-	977,550
Private placement	22	4,389,815	962,134		-	-	-	-	962,134
Proceeds allocated to derivative	14g		(196,571)						(196,571)
Issue costs		-	(248,347)	-	61,216	-	-	-	(187,131)
Share subscriptions	14b	-		107,598	-	-	-	-	107,598
Proceeds allocated to derivative	14g			(38,922)					(38,922)
Stock options exercised		1,820,000	333,050	-	-	-	-	-	333,050
Reclass of fair value of stock options exercised		-	263,551	-	(263,551)	-	-	-	-
Exercise of warrants		2,000,000	520,000	-	-	-	-	-	520,000
Shares and warrants issued for debt	14b	2,896,320	885,770	-	470,016	-	-	-	1,355,786
Shares and warrants issued for loans	13, 14b	239,704	90,532	-	67,329	-	-	-	157,861
Issuance of shares for due diligence costs	14b	100,000	18,000	-	-	-	-	-	18,000
Share issuance costs on due diligence			(18,000)						(18,000)
Share-based compensation	14d	-	-	-	93,537	-	-	-	93,537
Reversal equity portion of converible loan on settlement					(5,993)				(5,993)
Loss for the year		-	-	-	-	(7,470,696)	-	-	(7,470,696)
Other comprehensive income		-	-	-	-	-	81,883	-	81,883
Balance, June 30, 2014		83,558,336	$ 18,003,133	$ 68,676	$ 2,695,107	$ (23,562,179)	$ (68,298)	$ -	$ (2,863,561)

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 registered 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

(a) Statement of Compliance

These consolidate financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”).

These financial statements were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on October 27, 2014.

(b) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis, other than the derivative liabilities which are at fair value. These consolidated financial statements have been presented in Canadian dollars ("CDN").

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.

(c) Going Concern of Operations

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will continue to realize its assets and discharge its obligations and commitments in the normal course of operations. At June 30, 2014, the Company incurred a loss of $7,470,696 for the year then ended, had a working capital deficit of $2,942,247 and has accumulated losses of $23,562,179 since its inception and expects to incur further losses in the development of its business. At June 30, 2014, the Company has defaulted on certain loans and payables and have either negotiated or repaid the amounts owing with the lenders and other creditors subsequent to year end. However, the Company remains reliant on external financing to settle obligations and maintain operations, all of which indicates the existence of material uncertainty which casts significant doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. Management has a plan in place to address this concern and intends to obtain additional funds by equity financing and continue to negotiate debt settlements at amounts lower than the contractual obligation. While the Company is continuing its best efforts to achieve the above plans, there is no assurance that any such activity will generate funds for operations or the Company wilt be able to raise funds in the future.

These consolidated financial statements do not give effect to any adjustments required to realize it assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

(in Canadian dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLOCIES

(a) Basis of Consolidation

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

	Country of incorporation	Ownership - June 30, 2014	Ownership - June 30, 2013
Carbon Friendly Solution, formerly Global CO2 Reduction Inc. ("Global CO2")	Canada	100%	100%
CO2 Reduction Poland Sp. z. o. o. ("CO2 Reduction") (inactive)	Poland	100%	100%
MicroCoal Inc. ("MicroCoal") (filed for bankruptcy August 14, 2014)	USA	100%	100%
Carbiopel - ESP S.A. (inactive)	Poland	100%	100%
MicroCoal International Inc. ("MicroCoal Canada")	Canada	100%	100%

(b) Foreign currency translation

The presentation currency of the Company and the functional currency of the Company is the Canadian dollar. Subsidiaries whose functional currency differs from that of the parent company ("foreign operations") are translated into Canadian dollars as follows: assets and liabilities-at the closing rate as at the reporting date, and income and expenses-at the average rate of the period. All resulting changes are recognized in other comprehensive income as exchange gain (loss) arising on translation of foreign operations.

Transactions in foreign currencies are translated into their functional currency at exchange rates at the date of the transactions. Foreign currency differences arising during operations are recognized in profit or loss as foreign exchange loss (gain) on operations. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income. Exchange gains and losses arising on the re-translation of monetary assets are treated as a separate component of the change in fair value and recognized in net income(loss). Exchange gains and losses on non-monetary financial assets form part of the overall gain or loss recognized in respect of the that financial instrument.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when acquired. All gains and losses on translation of these foreign currency transactions are included in net income (loss).

The functional currency of the Company and its subsidiaries are as follows:

	Functional currency
Carbon Friendly Solution, formerly Global CO2 Reduction Inc. ("Global CO2")	Canadian dollars
MicroCoal Inc. ("MicroCoal")	U.S. dollars
MicroCoal International Inc. ("MicroCoal Canada")(a)	U.S. dollars
CO2 Reduction Poland Sp. z. o. o. ("CO2 Reduction")	Zloty
Carbiopel - ESP S.A.	Zloty

3. SIGNIFICANT ACCOUNTING POLICIES continued

(a) Due to economic circumstances in MicroCoal Inc. during the year, in August 2013, management reassessed the functional currency of this entity and determined that the U.S. dollar became the dominant currency in which expenses were paid and funds were raised. Previous to this determination, the Canadian dollar was the functional currency. As a result of adopting this change prospectively, there is no impact to the results of previously reported financial periods. The translated amounts for non-monetary items at the end of the prior period become the historical basis for those items in the period of the change and subsequent period. In addition, unrealized gains and losses due to movements in exchange rates on balances held in foreign currencies are shown separately in accumulated other comprehensive income(loss) as a translation reserve.

(c) Revenue recognition

Revenue from construction contracts for the design, engineering and manufacturing is recognized using the percentage of completion method when the revenue, contract costs to complete and the stage of contract completion at the end of the reporting period can be measured reliably and when the contract csots can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates, and the economic benefit associated with the transaction will flow to the Company. Provisions for estimated contract losses are recognized in the period in which the loss is determined. Progress payments received on contracts are deducted from the amount due from the customer as the contract is completed. Progress payments received before the corresponding work has been performed are classified as Contracts in Progress:liabilities. When the outcome of the construction contract cannot be estimated reliably, management will only recognize the revenue to extent of the contract costs incurred that is probable will be recoverable. For the purpose of presentation, management will offset revenue and related expenses when it reflects the substance of the transaction.

(d) Property and equipment

Property and equipment are recorded at cost less accumulated amortization and impairment losses. The asset’s residual value, useful life and depreciation method are evaluated annually and changes to estimated useful lives, residual values or depreciation methods resulting from such review are accounted for prospectively. The significant classes of depreciable property and equipment is recorded using the following rates and methods:

Assets	Rate	Basis
Computer equipment	30-45%	Declining-balance
Equipment	10-100%	Declining-balance
Automotive equipment	14-40%	Declining-balance
Leasehold improvements	7 years	Straight-line

(e) Goodwill

Goodwill, if any, represents the excess of the purchase price paid for an acquisition of a business over the fair value of the net assets acquired. Goodwill is not amortized, but is subject to an impairment test annually or more frequently if events or circumstances indicate that it may be impaired.

3. SIGNIFICANT ACCOUNTING POLICIES continued

(f) Impairment of non-financial assets

Impairment tests on intangible assets with indefinite useful economic lives are undertaken annually at the financial year-end. Other non-financial assets with finite lives, including coal technology and plant prototype assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets. The Company has one cash-generating unit for which impairment testing is performed.

An impairment loss is charged to profit or loss, except to the extent they reverse gains previously recognized in accumulated other comprehensive loss/income.

(g) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss/income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting year the Company reassesses unrecognized deferred tax assets, The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

(h) Financial instruments

Financial assets

Financial assets are classified as into one of the following categories based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted on an active market. Such assets are initially recognized at fair value plus any direct attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Cash and trade receivables are classified as loans and receivables.

3. SIGNIFICANT ACCOUNTING POLICIES continued

Financial liabilities

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method. Liabilities in this category include accounts and other payables.

The Company classified its financial liabilities which consisted of accounts payable and accrued liabilities, related parties, and loans payable as other liabilities.

Derivative financial instruments

Derivative financial instruments are measured at their fair value. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported as charges or credits to net income(loss). For warrant-based derivative financial liabilities, the Company uses the Black-Scholes option pricing model to estimate fair value of the derivative instruments. To the extent that the initial fair values of the freestanding and/or bifurcated derivative instrument liabilities exceed the total proceeds received, an immediate charge to income is recognized, in order to initially record the derivative instrument liabilities at their fair value.

(i) Share capital

Financial Instruments Issued by the Company are classified as equity, only to the extent that they do not meet the definition of a financial liability or asset. The Company's common shares, share subscriptions, share warrants and share options are classified as equity instruments.

(j) Share-based payments

The fair value of equity settled stock options awarded to employees defined under IFRS 2 (i.e. employees for legal and tax purpose, directors and certain consultants), determined as of the date of grant, and awarded to non-employees defined under IFRS 2, as of the date of delivery of service, is recognized as share-based compensation expense, included in general and administrative expenses in the statement of comprehensive income, over the vesting period of the stock options based on the estimated number of options expected to vest, with a corresponding increase to equity. The fair value of stock options is determined using the Black-Scholes option pricing model with market related inputs as of the date of grant or the date of delivery of service. Stock options with graded vesting schedules are accounted for as separate grants with different vesting periods and fair values. Changes to the estimated number of awards that will eventually vest are accounted for prospectively.

The Company has a share-based compensation plan. See Note 14d for details with respect to the fair value determination, including assumptions.

(k) Basic and diluted loss per share

Basic earnings or loss per share represents the income or loss for the year, divided by the weighted average number of common shares outstanding during the year. Diluted earnings or loss per share represents the income or loss for the year, divided by the weighted average number of common shares outstanding during the year plus the weighted average number of dilutive shares resulting from the exercise of stock options, warrants and other similar instruments where the inclusion of these would not be anti-dilutive.

(l) 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:

3. SIGNIFICANT ACCOUNTING POLICIES continued

- **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.

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. During the year ended June 30, 2014 management decided to disassemble the pilot plant and write down the undepreciated balance as an impairment charge of $2,191,318 (Note 6) due to the uncertainty around the future economic benefit of this prototype.

(b) Outcome of contingent liabilities

Judgment is required in determining whether to record a contingent liability arising from a legal claim. There are legal actions during the ordinary course of business for which the ultimate determination of outcome is uncertain. The Company recognizes liabilities and contingencies for anticipated outcomes based on the Company's current understanding of the law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the liability. 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 initially anticipated.

(c) Estimated costs under percentage of completion

The Company uses the percentage-of-completion method in accounting for its fixed-price contracts to deliver services and manufacture products. Use of the percentage-of-completion method requires the Company to estimate the work performed to date as a proportion of the total work to be performed.

(d) Share-based payments

The Company measures the cost of cash and equity settled transactions with employees and non-employees by reference to the fair value of the related instrument at the date in which they are granted and fair value of services, respectively. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant, which is dependent on the terms and conditions of the grant.

(in Canadian dollars)

5. SUPPLEMENTAL CASH FLOW INFORMATION

		Year ended June 30, 2014		Year ended June 30, 2013
Interest paid	**$**	**40,015**	$	31,925
Income taxes paid	**$**	**-**	$	-
Items that are excluded from the investing and financing activities:				
Fair value of stock options exercised	**$**	**263,551**	$	22,967
Fair value of agent warrants issued as share issuance costs	**$**	**61,216**	$	114,362
Issuance of shares and warrants for debt settlements	**$**	**885,770**	$	108,150
Issuance of shares and warrants for loan repayments	**$**	**90,532**	$	-
Issuance of shares for services rendered	**$**	**18,000**	$	444,444
Issuance of shares for consulting services	**$**	**224,200**	$	-

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.

As at the completion date of the acquisition, the Company had repaid US$125,000 to Orica and repaid an additional US$100,000 after the acquisition with a resulting gain on settlement of debt of $1,843,167 for the year ended June 30, 2013. The balance of the loan owing to Orica at June 30, 2014 is $827,390 (2013 - $828,785 or $USD 775,000).

(in Canadian dollars)

6. COAL TECHNOLOGY AND PLANT PROTOTYPE continued

Principal amount due to Orica at the date of Share Exchange agreement US$	USD	$	2,250,000
Accrued interest on Orica loan			584,699
Foreign exchange			8,468
Gain on settlement of debt on acquisition			(1,843,167)
Payments to June 30, 2013	USD		(225,000)
Loan balance June 30, 2013	USD		**775,000**
Foreign exchange			**52,390**
Loan balance June 30, 2014		**$**	**827,390**

Accrued liabilities previously set up in 2011 and oustanding for the year ended June 30, 2014 related to estimated accrued loan interest.

Estimated accrued liabilities to Orica set up in 2011, as at June 30, 2013	**$**	**747,837**
Foreign exchange		**47,700**
Accrued liabilities estimate to Orica, as at June 30, 2014	**$**	**795,537**

Subsequent to June 30, 2014, the entire estimated accrued liability was derecognized on the settlement of the Orica loan for an amount of USD $150,000. See Note 13.

The asset was being amortized on a straight-line basis over a period of 5 years commencing when the asset is available for use in March 2011.

During the year ended June 30, 2014, the Company decided to decommission the pilot plant and move any salvageable components to alternative locations. The Company began the decommissioning in April 2014 and completed the task subsequent to June 30, 2014. A total of $1,411,864 was charged as amortization for the year ended June 30, 2014, for accumulated amortization of $4,824,566 with the balance of $2,234,758 being written off as an impairment charge against the carrying value of the asset. Management of the Company determined that sufficient uncertainty existed with respect to the future economic benefit of the prototype that existed at the pilot plant resulting in an impairment charge.

		June 30, 2014		June 30, 2013
Coal technology and plant prototype	**$**	**7,059,324**	$	7,059,324
Accumulated amortization		**(4,824,566)**		(3,412,702)
Impairment of plant prototype		**(2,234,758)**		-
Coal technology	**$**	**-**	$	3,646,622

(in Canadian dollars)

7. RECEIVABLES

		June 30, 2014		June 30, 2013
GST recoverable	**$**	**34,694**	$	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
Additions		-		78,686		-		-		78,686
Disposals		(22,751)		(515,608)		(76,193)		(8,614)		(623,166)
June 30, 2014	$	-	$	78,686	$	-	$	-	$	78,686
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
Amortization		268		883				315		1,466
Disposals		(21,827)		(507,667)		(76,193)		(5,779)		(611,466)
June 30, 2014		-		-		-		-		-
Net book value, June 30, 2013	$	1,192	$	8,824	$	-	$	3,150	$	13,166
Net book value, June 30, 2014	**$**	**-**	**$**	**78,686**	**$**	**-**	**$**	**-**	**$**	**78,686**

9. DEPOSIT

The deposit represented 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 June 30, 2014, the Company had received a refund of $20,094 with the balance of $36,635 applied to rent.

(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 it`s coal technology and is no longer pursuing biomass projects in Poland. The Company abandoned 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

	June 30, 2014	June 30, 2013
Exclusive sales contract (i)	**$ -**	$ 106,636
Accumulated impairment charge (i)	**-**	(106,636)
	$ -	$ -

(i) Exclusive Sales Contract

As of June 30, 2014, the Company reviewed the carrying amount of its intangible assets and did not reverse previous years impairment charge. In June 30, 2013, the Company recorded an impairment provision of $51,515 for an accumulated impairment charge of $106,636 in the consolidated statements of comprehensive loss.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2014	June 30, 2013
Trade accounts payable (i)	**$ 745,527**	$ 1,056,200
Provision until closing of acquisition of MicroCoal, Inc. by repayment of loan from Orica US Services Inc. ("Orica"), derecognized susbequent to year end. see Note 13	**795,537**	747,837
Related party accounts payable (ii)	**26,465**	332,797
Taxes and benefits	**-**	1,790
Accrued interest payable	**67,431**	63,013
	$ 1,634,960	$ 2,201,637

(i) During the year, the Company settled approximately $748,000 accounts payable to vendors by paying cash of $98,057 and issuing 2,111,347 common shares and warrants at fair value of $948,138 (Note 14b) resulting in a net loss on settlement of $313,274 (2013 - $76,466) recorded in consolidated statement of comprehensive loss.

(ii) During the year, the Company settled $184,718 accounts payable to related parties by issuing 784,973 common shares and warrants at a fair value of $415,845 (Note 14b) resulting in a loss on settlement of $231,127 (2013 -$nil) recorded in consolidated statement of comprehensive loss.

(in Canadian dollars)

13. 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 was 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 (Note 14(b)).	**-**	10,870
Pursuant to a loan agreement, a total of $55,000 was advanced to the Company on an unsecured basis less a loan fee of $500 and 100,000 warrants exercisable at $0.26 per share until May 24, 2016, prepaid interest to October 30, 2013 of $3,809 and legal fees of $1,722. The interest rate is 16% per annum and the principal is due at the earlier of November 1, 2013 or a financing was achieved by the Company. The value of warrants is $5,993 which is recognized as an component of equity. During the 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. (Note 14(b))	**-**	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

14. SHARE CAPITAL

(a) Authorized: unlimited common shares without par value

(b) Issued and Outstanding

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 remeasured at year end with any change going to the profit or loss. See14(g) for more details.

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 remeasured at year end with any change going to the profit or loss. See14(g) for more details.

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 remeasured at year end with any change going to the profit or loss. See14(g) for more details.

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 138,981 finder's warrants to purchase units equal to 10% of the Units and issued 100,000 common shares at a vair value of $18,000 to an agent closing of the issuance. 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 remeasured at year end with any change going to the profit or loss. See14(g) for more details.

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 share 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 share 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.

14. SHARE CAPITAL continued

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 excerise 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, which was recorded as consulting fees in the consolidated net loss, to a former chief executive officer of the Company.

<u>Year ended June 30, 2013</u>

On December 28, 2012 a private placement was completed of 8,693,750 units at a price of $0.20 per unit, for gross proceeds of $1,738,750. Each unit consisted of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share of the Company at an exercise price of $0.35 per common share until December 28, 2014. Finders' fees of $150,673 were incurred and 1,245,250 finder's warrants were issued on the same terms as the unit warrants. The fair value of the broker's warrants of $114,362 was estimated using the Black-Scholes option pricing model using a risk free interest rate of 1.246%, an expected dividend yield of $nil, a volatility of 113% and an expected life of warrants of 2 years.

The Company issued 1,600,000 common shares as bonus to management and 177,777 common shares to a consultant with a market price of $0.25 per share at the date of issuance. During the year ended June 30, 2013, the Company recorded $400,000 as management and director fees and $44,444 as consulting fees in the consolidated statements of comprehensive loss.

The Company issued 282,000 shares at $0.20 per share and 282,000 warrants exercisable at $0.26 per share until May 16, 2016, and 225,000 shares at $0.23 per shares and 225,000 warrants exercisable at $0.26 per share until May 31, 2016 to settle debts of $101,400. The fair value of the shares of $108,150 and of the warrants of $69,716 was estimated using a Black Scholes option using a risk free interest rate of 1.246%, an expected dividend yield of $nil, a volatility of 111.6%, and an expected life of 3.0 years.

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

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

(in Canadian dollars)

14. SHARE CAPITAL continued

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

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

c) Warrants

Year ended June 30, 2014

On May 28, 2014 the Company repriced the exercise price of 9,019,250 warrants expiring on December 28, 2014 from $0.35 to $0.26. All warrants were issued in connection with private placements. On February 7, 2014 the Company repriced the exercise price of 6,693,675 warrants from $0.45 to $0.28, and extended the expiry date from February 13, 2014 to November 13, 2014. All warrants were issued in connection with private placements and no additional value was attributed to the modification.

Year ended June 30, 2013

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		0.30
Issued	**10,645,441**		0.35
Exercised	**(2,000,000)**		0.26
Expired	**(72,500)**		0.26
Balance, June 30, 2014	**38,959,366**	$	0.29

(in Canadian dollars)

14. SHARE CAPITAL continued

The following table summarizes warrants outstanding and exercisable at June 30, 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	** $0.26	December 28, 2014
1,389,815	1,389,815	$0.30 USD	April 11, 2015
138,981	138,981	$0.20 USD	April 11, 2015
1,500,000	1,500,000	$0.30 USD	May 6, 2015
150,000	150,000	$0.20 USD	May 6, 2015
1,500,000	1,500,000	$0.30 USD	May 20, 2015
5,272,750	5,272,750	$0.26	June 30, 2015
6,321,250	6,321,250	$0.26	October 19, 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
3,521,029	3,521,029	$0.45	*** October 21, 2018
38,959,366	38,959,366		

* Repriced from $0.45 to $0.28, extended the expiry date from February 13, 2014 to November 13, 2014 on February 7, 2014

** Repriced from $0.35 to $0.26 on May 28, 2014

*** 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

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, 2014, the Company granted 500,000 options at an exercise price of $0.28, 150,000 options at a price of $0.16 and 100,000 options at a price of $0.205 to officers, directors and consultants. The options vested immediately.

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, 2014, share-based compensation has been recorded in the amount of $93,537 (2013 - $384,792) and included in share-based payment reserve. The weighted average life remaining of the options at June 30, 2014 is 2.33 years (2013 – 3.9 years).

(in Canadian dollars)

14. SHARE CAPITAL continued

The compensation costs recorded in the consolidated statements of comprehensive loss were calculated using the Black-Scholes option pricing model using the following range of assumptions:

	2014	2013
Risk free rate	**1.25%**	1.25%
Expected dividend yield	**nil%**	nil%
Stock price volatility	**122% - 127%**	101.9%
Expected life of options- Yrs	**1.5 to 3**	5

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	0.21
Granted	**750,000**	0.25
Exercised	**(1,820,000)**	0.18
Expired/Cancelled	**(2,185,000)**	0.27
Outstanding and exercisable, June 30, 2014	**3,465,000**	$ 0.20

The following table summarizes stock options outstanding and exercisable at June 30, 2014:

Options Outstanding	**Exercise Price**	**Expiry Date**	**Options Exercisable**
310,000	$0.09	October 17, 2017	310,000
900,000	$0.11	August 10, 2017	900,000
230,000	$0.14	August 18, 2016	230,000
150,000	$0.16	May 7, 2016	150,000
620,000	$0.20	February 8, 2016	620,000
100,000	$0.205	June 10, 2017	100,000
500,000	$0.28	August 13, 2015	500,000
430,000	$0.335	January 7, 2018	430,000
225,000	$0.36	December 16, 2014	225,000
3,465,000			**3,465,000**

(in Canadian dollars)

14. SHARE CAPITAL continued

e) Share-based payment reserve

	June 30, 2014	June 30, 2013
Balance, beginning of year	**$ 2,272,553**	$ 1,743,317
Fair values of options granted (note 14d)	**93,537**	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)	**537,345**	69,716
Fair value of stock options exercised	**(263,551)**	(22,967)
Fair value of equity components issued in a loan payable (note 13)	**(5,993)**	5,993
Fair value of shares returned to treasury	**-**	1,500
Fair value of agent's warrants issued for private placement	**61,216**	114,362
Minority interest elimination	**-**	(96,475)
Balance, end of year	**$ 2,695,107**	$ 2,272,553

f) Nature and purpose of reserves and non-controlling interest

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.

g) Derivative liability - Warrants

During the year, the Company issued share purchase warrant that met the criteria of a derivative liability instrument because they were exercisable in a currency other than the functional currency of the Company and thereby not meeting the "fixed-for-fixed" criteria for equity instrument classification. As a result, the Company accounted for these warrants as derivative liability instrument and recorded the instrument at fair value with mark-to-market adjustments at each reporting period being charged or credited to the statement of loss.

During the month of June 30, 2014, the Company received advanced proceeds on shares subscriptions that were issued subsequent to year end which contained a common share and warrant. The warrant contained a derivative feature that met the criteria for derivative liability accounting as note above. The fair value of the warrant at year end of $38,922 was estimated using a Black Scholes option pricing model and recorded as a derivative liability with the remaining proceeds allocated to share subscriptions.

(in Canadian dollars)

14. SHARE CAPITAL continued

	June 30, 2014	June 30, 2013
Balance, beginning of year	$ -	$ -
April 11, 2014 warrant issuance, at inception	37,296	-
May 6, 2014, warrant issaunce, at inception	57,087	-
May 20, 2014 warrant issuance, at inception	102,188	-
Fair value increase in liability at year end	101,207	-
Warrants attached to advanced share subscriptions	38,922	
Balance, end of year	$ 336,700	$ -

The fair value of the derivative liability were calculated at inception as well at reporting period using the Black-Scholes option pricing model using the following range of assumptions:

	2014	2013
Risk free rate	0.97 - 1.00%	-
Expected dividend yield	nil%	-
Stock price volatility	126% - 147%	-
Expected life of warrants- Yrs	0.78 to 1	-

h) Shareholder rights plan

During the year ended June 30, 2014, the Company adopted a shareholder rights plan to ensure that all shareholders of the Company, and the Board of Directors, have adequate time to consider and evaluate any unsolicited bid for the common shares of the Company.

(in Canadian dollars)

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. The company incurred the following transactions with key management personnel:

		2014		2013
Management, directors' and professional fees	**$**	**1,045,517**	$	1,082,591
Consulting fees		**-**		90,600
Settlement fees to a former director/officer, cashless exercise of options (Note 14b)		**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 contacts in progress in the amount of $435,608 (2013 - $Nil). See note 17 for details.

The Company incurred the following transactions with a former President:

		2014		2013
Consulting fees	**$**	**51,975**	$	-

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. See note 13.

(in Canadian dollars)

16. INCOME TAXES

The difference between tax expense for the year and the expected income taxes based on the statutory tax rate arises as follows:

		2014		2013
Income (loss) before income taxes	**$**	**(7,470,696)**	$	(3,634,853)
Tax recovery based on the statutory rate of 26% (2013: 25.25%)	**$**	**(1,942,000)**	$	(918,000)
Change in tax rates on deferred tax		**-**		(103,000)
Non-deductible expenses		**261,000**		230,000
Different tax rates in other jurisdictions		**(433,000)**		(87,000)
Financing costs and other		**(53,000)**		(69,000)
Impact of initial recognition exemption on coal technology and plant prototype		**1,374,000**		537,000
Changes in unrecognized deferred tax assets		**793,000**		456,000
Total income tax expense	**$**	**-**	$	46,000

Effective July 1, 2013, the BC provincial tax rate and the Canadian Federal corporate tax rate remained at 11% and 15%. The US tax rate remained at 38%.

The material components of the curent income tax expense for the years ended June 30, 2014 is $nil (2013 - $46,000).

Deferred Tax Assets and Liabilities

The nature and tax effect of the temporary differences giving rise to the deferred tax assets and liabilities at June 30, 2014 and 2013 are summarized as follows:

		2014		2013
Tax losses carried forward	**$**	**3,584,000**	$	2,799,000
Undeducted financing costs		**103,000**		98,000
Capital assets		**30,000**		27,000
Other tax assets		**15,000**		15,000
		3,732,000		2,939,000
Unrecognized deferred tax asset		**(3,732,000)**		(2,939,000)
Deferred tax assets	**$**	**-**	$	-

As at June 30, 2014, the Company has accumulated non-capital losses of approximately $13.7 million (2013- $10.767 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 2034. The Company also has operating losses of approximately $Nil (2013-$Nil) in the United States. For Polish tax purposes, there is approximately $1.3 million (2013- $1.3million) 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.

(in Canadian dollars)

17. CONTRACTS IN PROGRESS LIABILITY

Pursuant to a contract that was entered into with a third party during the year for US$6 million to construct a coal handling facility using the Company's coal technology, the Company received advances of $1,419,108 (US$1,320,000). 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 construction deposit. Subsequent to year end, the Company is presently in negotiations with the contracting party to amend certain terms of the agreement.

During the year, the Company paid commissions of $99,322 to a consulting firm for brokering the contract, which is included in financing fees and commssions in the consolidated statement of comprehensive loss.

18. SEGMENTED INFORMATION

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

Property and Equipment		**June 30, 2014**		June 30, 2013
Canada	**$**	**-**	$	13,166
USA		**78,686**		-
	$	**78,686**	$	13,166
Coal technology and plant prototype				
Canada	**$**	**-**	$	-
USA		**-**		3,646,622
	$	**-**	$	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.

20. FINANCIAL INSTRUMENTS AND RISKS

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 approximate effect of $34,000 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.

(in Canadian dollars)

20. FINANCIAL INSTRUMENTS AND RISKS continued

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.

Currency Risk continued

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

21. CONTINGENCIES AND CONSTRUCTIVE OBLIGATIONS

As at June 30, 2014, the Company is currently involved in a number of legal disputes. Any amounts provided for represents management's best estimate of the Company's liability having taken legal advice. Uncertainties relate to whether claims will be settled out of court or if not whether the Company is successful in defending any action.

The Company is currently involved in disputes with two individuals who claim that the Company agreed, pursuant to agreements, to pay consulting fees. Formal lawsuits have been filed by the individuals and the fees claimed are $USD 692,151 and $USD 475,903. The amounts have not been recorded as uncertainties exist related to whether claims will be settled out of court and if not whether the Company will be successful in defending any action. The Company is defending these actions vigorously and regards these actions as without merit.

Subsequent to year end, the Company signed a two year sublease with a 1 year automatic renewal for premises in Virginia. The annual rent is the issuance of 80,000 stock options with an exercise price of $0.20 expiring in 3 years, or the monetary equivalent, due in advance, with the first payment due within 30 days following the effective date of the sublease of August 28, 2014. The lease agreement also includes an option to purchase the premise at the sole discretion of the landlord at a price that is not to exceed $375,000USD, or an equivalent amount of stock options of the Company, where the option price is equal to a six month average price prior to exercising the option to purchase. On issuance, the stock options shall expire in 3 years.

22. EVENTS OCCURING AFTER REPORTING DATE

i) The Company closed private placements subsequent to year end and issued 5,270,000 units at a subscription price of $0.20 USD per unit. Each unit consisted of one common share of the Company, and one warrant to purchase one common share 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.

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

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

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

v) Settlement of Orica's debt (Note 6&13) was agreed on by both parties on payment of $160,065 ($150,000 USD) cash.

vi) 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 common shares at the option of the holder at a conversion price of $0.15USD per share. The holder is the Chairman of the Company.

vii) 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 common shares at the option of the holder at a conversion price of $0.225USD per share. The holder is the Chairman of the Company.

vii) 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 Microcoal'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 is subject to the securities exchange approval and 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.