MICROCOAL TECHNOLOGIES INC.

Consolidated Financial Statements

Three months ended September 30, 2014

(in Canadian dollars)

MicroCoal Technologies Inc.

Condensed Consolidated Interim Statement of Financial Position

(in Canadian dollars)

	Notes	September 30, 2014	June 30, 2014
ASSETS			
Current			
Cash		$ 109,778	$ 86,652
Receivables	7	46,881	34,694
Prepaid expenses		120,810	3,217
		277,469	124,563
Property and equipment	8	134,855	78,686
Coal technology and plant prototype	6	-	-
Total assets		$ 412,324	$ 203,249
LIABILITIES			
Current			
Accounts payable and accrued liabilities	9	$ 721,518	$ 1,634,960
Income tax payable		46,395	46,000
Contracts in progress liability	14	-	115,050
Derivative liability	11g	675,867	336,700
Loans payable	10	138,038	934,100
		1,581,818	3,066,810
SHAREHOLDERS' EQUITY (CAPITAL DEFICIT)			
Share capital	11b	18,814,050	18,003,133
Share subscriptions	11b	-	68,676
Share-based payment reserve	11e	2,708,789	2,695,107
Deficit		(22,627,408)	(23,562,179)
Cumulative other comprehensive income		(64,925)	(68,298)
		(1,169,494)	(2,863,561)
Total liabilities and equity		$ 412,324	$ 203,249

Approved on behalf of the Board:

"Jim Young" — Director

"William Hudson" — Director

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

MicroCoal Technologies Inc.

Condensed Consolidated Interim Statements of Equity

(in Canadian dollars)

	Notes	Shares	Amount	Share subscriptions	Share-based payment reserves	Deficit	Cumulative other comprehensive income	Total
Balance, July 1, 2013		68,853,998	$ 14,415,464	$ -	$ 2,272,553	$ (16,091,483)	$ (150,181)	$ 446,353
Share issuance								
Private placement		-	-	195,000	-	-	-	195,000
Stock options		470,000	85,800	-	-	-	-	85,800
Fair value of stock options exercised		-	63,454	-	(63,454)	-	-	-
Exercise of warrants		2,000,000	520,000	-	-	-	-	520,000
Shares and warrants issued for debt and loans		2,877,024	879,642	-	501,709	-	-	1,381,351
Loss for the period		-	-	-	-	(1,780,263)	-	(1,780,263)
Other comprehensive income		-	-	-	-	-	145,459	145,459
Balance, September 30, 2013		74,201,022	$ 15,964,360	$ 195,000	$ 2,710,808	$ (17,871,746)	$ (4,722)	$ 993,700
Balance, July 1, 2014		83,558,336	$ 18,003,133	$ 68,676	$ 2,695,107	$ (23,562,179)	$ (68,298)	$ (2,863,561)
Share issuance								
Private placement - 4th tranche	11b	835,000	177,788	(68,676)	-	-	-	109,112
Private placement - 5th tranche	11b	1,675,000	359,511	-	-	-	-	359,511
Private placement - 6th tranche	11b	2,760,000	601,840	-	-	-	-	601,840
Issue costs	11b	-	(31,002)	-	11,878	-	-	(19,124)
Proceeds allocated to derivative	11g	-	(317,042)	-	-	-	-	(317,042)
Stock options exercised		100,000	11,000	-	-	-	-	11,000
Reclass of fair value of stock options exercised		-	8,822	-	(8,822)	-	-	-
Share-based compensation	11d	-	-	-	10,626	-	-	10,626
Loss for the period		-	-	-	-	934,771	-	934,771
Other comprehensive income		-	-	-	-	-	3,373	3,373
Balance, September 30, 2014		88,928,336	$ 18,814,050	$ -	$ 2,708,789	$ (22,627,408)	$ (64,925)	$ (1,169,494)

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

MicroCoal Technologies Inc.

Condensed Consolidated Interim Statements of Comprehensive Loss

(in Canadian dollars)

	Note	**Three months ended September 30, 2014**	Three months ended September 30, 2013
Expenses			
Amortization		$ 5,339	$ 353,792
Bank charges and interest		1,306	1,933
Consulting fees		80,083	113,347
Financing fees and commissions		-	24,897
Foreign exchange loss on operations		5,589	56,164
Interest on notes payable		559	18,934
Investor relations		28,128	36,517
Management and director fees	12	81,603	172,129
Office and miscellaneous		35,210	54,429
Patents and engineering		31,492	13,803
Professional fees	12	161,425	189,277
Rent		-	30,426
Share-based compensation	11d	10,626	-
Transfer agent and regulatory fees		8,963	9,395
Travel and promotion		82,702	49,564
Wages and benefits		-	5,609
Loss before other items		**(533,025)**	**(1,130,216)**
Other income (expenses)			
Gain (loss) on settlement of debt	9, 10	1,528,843	(650,047)
Fair value change in derivative liability	11g	(61,047)	-
		1,467,796	(650,047)
Net income (loss) for the period		**934,771**	**(1,780,263)**
Other comprehensive income (loss)			
Exchange gain arising on translation of foreign operations		3,373	145,459
Total comprehensive gain (loss)		**$ 938,144**	**$ (1,634,804)**
Loss per share, basic and diluted		**$ 0.01**	**$ (0.02)**
Weighted average number of common shares outstanding, basic and diluted		**87,385,314**	71,699,386

MicroCoal Technologies Inc.

Condensed Consolidated Interim Statements of Cash Flows

(in Canadian dollars)

	Note	Three months ended September 30, 2014	Three months ended September 30, 2013
Cash provided by (used in):			
Operating Activities			
Net loss for the year		$ 934,771	$ (1,780,263)
Items not involving cash:			
Amortization		5,339	353,792
Loss (gain) on settlement of debt		(1,528,843)	-
Share-based compensation		10,626	-
Unrealized foreign exchange		3,904	(11,178)
Fair value change in derivative liability		22,125	-
Interest accrual		-	2,515
Fair value of warrants issued for debt and loans		-	1,381,351
		(552,078)	(53,783)
Change in non-cash working capital:			
Receivables		(12,187)	(6,418)
Prepaid expenses		(117,593)	(41,448)
Accounts payable and accrued liabilities		(154,089)	(270,264)
Contracts in progress		(115,050)	602,741
Related parties		-	(240,135)
		(950,997)	(9,307)
Investing Activities			
Purchase of property and equipment		(61,644)	-
Rental deposit		-	5,951
		(61,644)	5,951
Financing Activities			
Share issuances		1,081,463	605,800
Share issuance costs		(19,124)	-
Share subscriptions		-	195,000
Loan proceeds		138,038	-
Loan repayments		(164,610)	(52,281)
		1,035,767	748,519
Increase in cash		23,126	745,163
Cash, beginning of period		86,652	8,095
Cash, end of period		$ 109,778	$ 753,258
Supplemental cash flow information:	5		

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

MICROCOAL TECHNOLOGIES INC.

Unaudited Condensed Consolidated Interim Financial Statements

Notice of No Auditor Review of Condensed Consolidated Interim Financial Statements

The accompanying unaudited condensed consolidated interim financial statements have been prepared by management and approved by the Audit Committee.

The Company's independent auditors have not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

(in Canadian dollars)

1. NATURE OF OPERATIONS

MicroCoal Technologies Inc., (formerly Carbon Friendly Solutions Inc.) ("the Company") was incorporated on April 6, 1990 under the laws of the Province of British Columbia and on June 19, 1997 the Company continued as a federal corporation under the Canada Business Corporation Act. The Company's 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

This condensed interim financial information for the three months ended September 30, 2014 have been prepared in accordance with IAS 34 “Interim financial reporting”. The condensed interim financial information should be read in conjunction with the annual financial statements for the year ended June 30, 2014, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

These financial statements were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on November 30, 2014.

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 - September 30, 2014	Ownership - June 30, 2014
Carbon Friendly Solution, formerly Global CO2 Reduction Inc. ("Global C(	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%

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.

3. GOING CONCERN ISSUES

The Company incurred a net profit of $938,144 (2013 - loss of $1,634,804) for the three months ended September 30, 2014, and has an accumulated deficit of $22,627,408 and working capital deficiency of $1,304,349 at September 30, 2014. These factors indicate the existence of a material uncertainity that may cast significant doubt about the Company's ability to continue as a going concern.

These condensed interim financial statements have been prepared using IFRS applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due. The continuation of the Company as a going concern is dependent upon the ability of the Company to obtain necessary financing (through debt, equity or sale or assets) to fund its future development capital requirements and thereby achieve a profitable level of operations through finding and developing reserves and optimizing future production. These material uncertainties lend doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

These condensed interim financial statements do not reflect the adjustments to the carrying value of assets and liabilities, the reported revenues and expenses and balance sheet classifications used that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

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.

(in Canadian dollars)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS continued

(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.

5. SUPPLEMENTAL CASH FLOW INFORMATION

		Three months ended September 30, 2014		Three months ended September 30, 2013
Interest paid	**$**	**559**	$	40,015
Income taxes paid	**$**	**-**	$	-
Items that are excluded from the investing and financing activities:				
Fair value of stock options exercised	**$**	**8,822**	$	63,454
Fair value of agent warrants issued as share issuance costs	**$**	**11,878**	$	-
Issuance of shares and warrants for debt settlements	**$**	**-**	$	798,143
Issuance of shares and warrants for loan repayments	**$**	**-**	$	81,499

(in Canadian dollars)

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 an additional US$100,000 after the acquisition with a resulting gain on settlement of debt of $1,843,167 for the year ended June 30, 2013. In August 2014 the Company negotiated a full and final settlement, and release from Orica. The Company paid US$ 150,000 ($164,610) to Orica in satisfaction of all amounts owing to Orica.

Principal amount due to Orica at the date of Share Exchange agreement I	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
Repayment and settlement of loan balance		(827,390)
Loan balance September 30, 2014		**$ -**

Accrued liabilities previously set up in 2011 and outstanding for the three months ended September 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
Reversal of accrual on repayment of loan	(795,537)
Balance, September 30, 2014	**$ -**

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.

	September 30, 2014	June 30, 2014
Coal technology and plant prototype	**$ -**	$ 7,059,324
Accumulated amortization	-	(4,824,566)
Impairment of plant prototype	-	(2,234,758)
Coal technology	**$ -**	$ -

(in Canadian dollars)

7. RECEIVABLES

	September 30, 2014	June 30, 2014
GST recoverable	$ 34,694	$ 25,340

8. PROPERTY AND EQUIPMENT

Property and equipment	Computer equipment	Equipment	Automotive equipment	Leasehold improvements	Total
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
Additions	-	61,644	-	-	61,644
September 30, 2014	$ -	$ 140,330	$ -	$ -	$ 140,330
Accumulated amortization					
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	-	-	-	-	-
Amortization	-	5,475		-	5,475
September 30, 2014	-	5,475	-	-	5,475
Net book value, June 30, 2014	$ -	$ 78,686	$ -	$ -	$ 78,686
Net book value, September 30, 2014	**$ -**	**$ 134,855**	**$ -**	**$ -**	**$ 134,855**

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2014	June 30, 2014
Trade accounts payable (i)	$ 721,518	$ 745,527
Provision until closing of acquisition of MicroCoal, Inc. by repayment of loan from Orica US Services Inc. ("Orica")	-	795,537
Related party accounts payable (ii)	-	26,465
Accrued interest payable	-	67,431
	$ 721,518	$ 1,634,960

(i) During the period ended September 30, 2014, the Company settled with Orica in full by a payment of $164,610 (USD$ 150,000) repaying loans payable and thereby closing the provision for accrued liabilities of $795,537. The gain on settlement of debt was $1,528,843 (including foreign exchange differences) was recorded in the consolidated statement of comprehensive gain (loss).

(ii) During the year ended June 30, 2014, 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 resulting in a net loss on settlement of $313,274 recorded in consolidated statement of comprehensive loss.

(ii) During the year ended June 30, 2014, 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 resulting in a loss on settlement of $231,127 recorded in consolidated statement of comprehensive loss.

(in Canadian dollars)

10. LOANS PAYABLE

	September 30, 2014	June 30, 2014
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 on August 15, 2014. On September 29, 2014 a new loan was advanced for USD $125,000.	**138,038**	106,710
On January 7, 2013 the Company concluded an agreement with Orica and acquired the remaining 41.79% ownership of MicroCoal Inc. (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 in the period ended September 30, 2014.	-	827,390
	$ 138,038	$ 934,100

11. SHARE CAPITAL

(a) Authorized: unlimited common shares without par value

(b) Issued and Outstanding

Three months ended September 30, 2014

On August 14, 2014 the Company closed the fourth tranche of a non-brokered private placement in the amount of $USD 552,000 ($CAD 601,840). The Company issued 2,760,000 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 5,000 and granted finder's warrants to purchase 26,000 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 September 30, 2014 with any change going to the profit or loss. See11(g) for more details.

On July 14, 2014 the Company closed the fourth tranche of a non-brokered private placement in the amount of $USD 335,000 ($CAD 359,511). The Company issued 1,676,000 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 2,500 and granted finder's warrants to purchase 17,500 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 September 30, 2014 with any change going to the profit or loss. See11(g) for more details.

On July 4, 2014 the Company closed the fourth tranche of a non-brokered private placement in the amount of $USD 167,000 ($CAD 117,788). The Company issued 835,000 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 10,000 and granted finder's warrants to purchase 83,500 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 September 30, 2014 with any change going to the profit or loss. See11(g) for more details.

11. SHARE CAPITAL continued

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. See11(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. See11(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. See11(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 fair 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. See11(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.

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.

(in Canadian dollars)

11. SHARE CAPITAL continued

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

c) **Warrants**

Three months ended September 30, 2014

Nil

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.

A summary of the status of the warrants outstanding is as follows:	Number of warrants	Price
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
Issued	**5,397,000**	0.30
Exercised	-	-
Expired	-	-
Balance, September 30, 2014	**44,356,366**	$ 0.30

(in Canadian dollars)

11. SHARE CAPITAL continued

The following table summarizes warrants outstanding and exercisable at September 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
835,000	835,000	$0.30 USD		July 4, 2015
83,500	83,500	$0.20 USD	****	July 4, 2015
1,675,000	1,675,000	$0.30 USD		July 14, 2015
17,500	17,500	$0.20 USD	****	July 14, 2015
2,760,000	2,760,000	$0.30 USD		August 14, 2015
26,000	26,000	$0.20 USD	****	August 14, 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
44,356,366	44,356,366			

* 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

**** On exercise there is an additional warrant available at a rate of $0.30 USD.

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 period ended September 30, 2014, the Company granted 80,000 options at an exercise price of $0.20 to consultants. The options vested immediately.

During the period ended September 30, 2014, share-based compensation has been recorded in the amount of $10,626 and included in share-based payment reserve.

(in Canadian dollars)

11. 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:

	Three months ended September 30, 2014	Year ended June 30, 2014
Risk free rate	**1.25%**	1.25%
Expected dividend yield	**nil%**	nil%
Stock price volatility	**135.0%**	122% - 127%
Expected life of options- years	**1**	1.5 to 3

Stock options outstanding are as follows:

	Number of options	Weighted Average Exercise Price
Outstanding, June 30, 2013	6,720,000	$ 0.21
Granted	750,000	0.25
Exercised	(1,820,000)	0.18
Expired	(2,185,000)	0.27
Outstanding, June 30, 2014	3,465,000	0.20
Granted	**80,000**	0.20
Exercised	**(100,000)**	0.11
Expired/Cancelled	-	-
Outstanding and exercisable, September 30, 2014	**3,445,000**	$ 0.20

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

Options Outstandin	**Exercise Price**	**Expiry Date**	**Options Exercisable**
225,000	$0.36	December 16, 2014	225,000
500,000	$0.28	August 13, 2015	500,000
620,000	$0.20	February 8, 2016	620,000
150,000	$0.16	May 7, 2016	150,000
230,000	$0.14	August 18, 2016	230,000
80,000	USD $0.20	August 29, 2016	80,000
100,000	$0.205	June 10, 2017	100,000
800,000	$0.11	August 10, 2017	800,000
310,000	$0.09	October 17, 2017	310,000
430,000	$0.335	January 7, 2018	430,000
3,445,000			**3,445,000**

(in Canadian dollars)

11. SHARE CAPITAL continued

e) Share-based payment reserve

	September 30, 2014	June 30, 2014
Balance, beginning of year	$ 2,695,107	$ 2,272,553
Fair values of options granted (note 14d)	10,626	93,537
Fair value of shares and warrants issued for debt (note 14b)	-	537,345
Fair value of stock options exercised	(8,822)	(263,551)
Fair value of equity components issued in a loan payable (note 13)	-	(5,993)
Fair value of agent's warrants issued for private placement	11,878	61,216
Balance, end of year	$ 2,708,789	$ 2,695,107

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 period ended September 30, 2014 and the year ended June 30, 2014, 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)

11. SHARE CAPITAL continued

	Three months ended September 30, 2014	Year ended June 30, 2014
Balance, beginning of period	$ 336,700	$ -
April 11, 2014 warrant issuance, at inception	-	37,296
May 6, 2014, warrant issuance, at inception	-	57,087
May 20, 2014 warrant issuance, at inception	-	102,188
July 4, 2014 warrant issuance, at inception	63,060	
July 14, 2014 warrant issuance, at inception	117,830	
August 14, 2014 warrant issuance, at inception	136,152	
Fair value increase in liability at end of period	61,047	101,207
Warrants attached to advanced share subscriptions	(38,922)	38,922
Balance, end of period	$ 675,867	$ 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:

	September 30, 2014	June 30, 2014
Risk free rate	1.00%	0.97 - 1.00%
Expected dividend yield	nil%	nil%
Stock price volatility	135% - 155%	126% - 147%
Expected life of warrants- years	0.53 to 0.87	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)

12. 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:

	Three months ended September 30, 2014	Three months ended September 30, 2013
Management, directors' and professional fees	$ 126,603	$ 142,414
Fair value of shares and warrants issued to key management personnel to settle debt	-	201,815
Total key management personnel remuneration	$ 126,603	$ 344,229

As at September 30, 2014 the Company owed $nil (June 30, 2014 - $26,465) to officers and directors. The amounts due are unsecured, non-interest bearing and have no fixed terms of repayment.

As at September 30, 2014 the Company owed $138,038 (June 30, 2014 - $106,710) to a director pursuant to loans payable. See note 13.

13. INCOME TAXES

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	$ -	$ -

14. 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 September 30, 2014, the Company had incurred construction, equipment expenditures and engineering costs of $1,419,108 (June 30, 2014 - $1,304,058) leaving a balance of $Nil (June 30, 2014 - $115,050) as construction deposit.

(in Canadian dollars)

15. SEGMENTED INFORMATION

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

Property and Equipment	September 30, 2014	June 30, 2014
Canada	$ -	$ -
USA	134,855	78,686
	$ 134,855	$ 78,686
Coal technology and plant prototype		
Canada	$ -	$ -
USA	-	-
	$ -	$ -

16. 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.

17. FINANCIAL INSTRUMENTS AND RISKS

As at September 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 September 30, 2014, the Company had derivative warrant liabilities (see Note 11(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 $64,000 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.

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.

(in Canadian dollars)

17. FINANCIAL INSTRUMENTS AND RISKS continued

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	
	September 30, 2014	June 30, 2014
Cash	**$ 68,881**	$ 70,541
Accounts payable and accrued liabilities	**(317,351)**	(208,307)
Related parties	**-**	(8,376)
Loans payable	**(138,038)**	(934,100)
	$ (386,508)	$ (1,080,242)

The following exchange rates were applied:

	Three months ended September 30, 2014		Year ended June 30, 2013	
	Average rate	**Spot rate**	Average rate	Spot rate
Canadian dollars to US dollars	**0.9191**	**0.8962**	0.9411	0.9039

18. CONTINGENCIES AND CONSTRUCTIVE OBLIGATIONS

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.

19. EVENTS OCCURING AFTER REPORTING DATE

i) On November 26, 2014 the Company closed a further tranche of its previously announced non-brokered private placement for US$202,348. The Company will issue an aggregate of 1,011,741 units of the Company at a subscription price equivalent to US$0.20 per Unit. Each Unit is comprised of one common share of the Company and one common share purchase warrant. Each Warrant will entitle the holder thereof to acquire one common share at an exercise price of US$0.30 for up to 24 months following the date of issuance. The Company will pay a cash commission of $11,300 and granted 50,000 finder's warrants to purchase Units.

ii) On November 19, 2014 the Company agreed to a settlement with two former consultants of the Company to pay a total and final sum of USD $260,000 and issue an aggregate of 200,000 common shares to the consultants as full consideration. As part of the settlement, the parties provided mutual releases, including a release of all claims by the consultants against the Company.

iii) On November 18, 2014 the Company announced it withdrew from coluntary bankruptcy it's wholly owned United States subsidiary, MicroCoal Inc.

iv) Subsequent to September 30, 2014, 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.

v) Subsequent to September 30, 2014, 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.