NOTICE OF MEETING

AND

MANAGEMENT INFORMATION CIRCULAR

RELATING TO

AN ANNUAL AND SPECIAL MEETING

OF SHAREHOLDERS OF

MICROCOAL TECHNOLOGIES INC.

Date and Time:	May 14, 2015 at 9:00 a.m. (Vancouver time)
Place:	Suite 2300, 1066 West Hastings Street Vancouver, British Columbia

April 15, 2015

IF YOU HAVE QUESTIONS OR NEED ASSISTANCE VOTING YOUR SHARES, CONTACT THE COMPANY'S PROXY AGENT AT 1-904-240-5818, OR BY EMAIL AT DDARMANJIAN@MTICOAL.COM.

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NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 14, 2015

TO THE HOLDERS OF COMMON SHARES OF MICROCOAL TECHNOLOGIES INC.:

NOTICE IS HEREBY GIVEN that an annual and special meeting (the "**Meeting**") of shareholders of MicroCoal Technologies Inc. ("**MTI**") will be held at Suite 2300, 1066 West Hastings Street, Vancouver, British Columbia, on May 14, 2015, at 9:00 a.m. (Vancouver time) for the following purposes:

1. to receive and consider the audited financial statements of MTI for the financial year ended June 30, 2014, and the report of the auditors thereon;

2. to elect the directors of MTI for the ensuing year;

3. to re-appoint BDO Canada LLP, Chartered Accountants, as the auditors of MTI for the ensuing year and to authorize the directors of MTI to fix the auditors' remuneration;

4. to consider, pursuant to an interim order of the Supreme Court of British Columbia dated April 15, 2015, (the "**Interim Order**") and, if thought advisable, to pass, with or without variation, a special resolution (the "**Arrangement Resolution**"), the full text of which is set forth at Schedule "A" to the accompanying management information circular (the "**Circular**"), to approve an arrangement (the "**Arrangement**") under Section 192 of the *Canada Business Corporations Act* (Canada) (the "**CBCA**") involving MTI, the securityholders of MTI and Targeted Microwave Solutions Inc., all as more particularly described in the Circular; and

5. to transact such further or other business as may properly come before the Meeting and any adjournment(s) or postponement(s) thereof.

The board of directors of MTI has fixed April 7, 2015, as the record date for determining shareholders who are entitled to attend and vote at the Meeting. The accompanying Circular provides additional information relating to the matters to be dealt with at the Meeting and forms part of this Notice of Meeting.

Accompanying this Notice of Meeting are the Circular, a form of proxy and letter(s) of transmittal in respect of the securities relating to the Arrangement.

Copies of the Arrangement Resolution, the Arrangement Agreement, which includes the Plan of Arrangement, the Interim Order and the Notice of Application, as defined herein or in the Circular, are attached to the Circular as Schedules "A", "B", "C" and "D", respectively. The foregoing documents are also available for inspection prior to the Meeting at the head office of MTI at Suite 2300, 1066 West Hastings Street, Vancouver, British Columbia, during regular business hours, and have been publicly filed on SEDAR at www.sedar.com.

If you are a registered shareholder of MTI, whether or not you are able to attend the Meeting, you are requested to complete, execute and deliver the enclosed form of proxy in accordance with the instructions set forth on the form to MTI, c/o Computershare Investor Services Inc., Attn.: Proxy Department, 8th Floor, 100 University Avenue, Toronto, Ontario M5J 2Y1, by no later than 9:00 a.m. (Vancouver time) on May 12, 2015 or, if the Meeting is adjourned or postponed, not less than 48 hours (excluding Saturdays, Sundays and holidays) prior to any adjournment(s) or postponement(s) thereof. The time limit for the deposit of proxies may be waived by the chair of the Meeting at his discretion without notice. Registered shareholders of MTI can also vote their proxies via

telephone or the internet in accordance with the instructions provided in the form of proxy.

If you are a non-registered holder of MTI common shares and you receive these materials through your broker, custodian, nominee or other intermediary, you should follow the instructions provided by your broker, custodian, nominee or other intermediary in order to vote your common shares.

The MTI board of directors unanimously recommends that shareholders vote IN FAVOUR of the Arrangement Resolution. In the absence of any instruction to the contrary, the common shares represented by proxies appointing the management designees named in the accompanying form of proxy will be voted in favour of the Arrangement Resolution.

DATED at Vancouver, British Columbia, this 15th day of April, 2015.

MICROCOAL TECHNOLOGIES INC.

Per: *"James Young"*
Chairman and Director

NOTICE TO UNITED STATES SHAREHOLDERS

Unless the context otherwise requires, capitalized terms used in this Notice and not otherwise defined shall have the meanings set forth in the "Glossary of Defined Terms" in the accompanying Circular.

NEITHER THE ARRANGEMENT NOR THE SECURITIES ISSUABLE IN CONNECTION WITH THE ARRANGEMENT HAVE BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION ("SEC") OR THE SECURITIES REGULATORY AUTHORITY IN ANY STATE OF THE UNITED STATES, NOR HAS THE SEC OR THE SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES PASSED UPON THE ADEQUACY OR ACCURACY OF THE INFORMATION CONTAINED IN THIS CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Target Shares and the Acquisition Swap Shares to be issued under the Arrangement have not been and are not expected to be registered under the U.S. Securities Act or the securities laws of any state of the United States and are being issued in reliance on the exemption from registration set forth in Section 3(a)(10) of the U.S. Securities Act on the basis of the approval of the Arrangement by the Court. See the section of this Circular entitled "*The Arrangement — Certain Securities Law Matters — U.S. Securities Law Matters*".

This solicitation of proxies hereby is not subject to the proxy requirements of Section 14(a) of the U.S. Exchange Act. Accordingly, the solicitation of proxies contemplated herein is made in accordance with Canadian corporate and securities laws, and the Circular has been prepared in accordance with applicable Canadian disclosure requirements. Shareholders in the United States should be aware that such requirements differ from those of the United States applicable to proxy statements under the U.S. Exchange Act.

Financial statements included herein have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, which may differ from United States generally accepted accounting principles in certain material respects, and thus are not directly comparable to financial statements of United States companies.

MTI Shareholders should be aware that the transactions contemplated pursuant to the Arrangement may have tax consequences in both the United States and Canada. Such consequences for MTI Shareholders who are resident in, or citizens of, the United States may not be described fully herein. MTI Shareholders are advised to consult their tax advisors to determine the particular tax consequences to them of participating in the Arrangement and the acquisition, ownership and disposition of the Target Shares and Acquisition Swap Shares acquired pursuant to the Arrangement. See the section of this Circular entitled "*Income Tax Considerations — Certain U.S. Federal Income Tax Considerations*".

Information concerning any properties and operations of MTI, including those that may be acquired by MTI pursuant to the Acquisition, has been prepared in accordance with Canadian standards under applicable Canadian securities laws and may not be comparable to similar information for United States companies.

The enforcement by MTI Shareholders of civil liabilities under the United States securities laws may be affected adversely by the fact that MTI is existing under the laws of Canada, that some or all of its officers and directors are not residents of the United States, that some or all of the experts named herein may be residents of a country other than the United States and that a substantial portion of the assets of MTI and such persons may be located outside the United States. As a result, it may be difficult or impossible for MTI Shareholders resident in the United States to effect service of process within the United States upon MTI, its officers and directors or any experts named herein, or to realize against them on judgments of courts of the United States. In addition, MTI Shareholders resident in the United States should not assume that the courts of Canada: (a) would enforce judgments of United States courts obtained in actions against such persons predicated upon civil liabilities under the securities laws of the United States; or (b) would enforce, in original actions, liabilities against such persons predicated upon civil liabilities under the securities laws of the United States.

FORWARD-LOOKING STATEMENTS

Except for statements of historical fact contained herein, the information presented in this Circular constitutes "forward-looking statements" or "information" (collectively "**statements**"). These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management.

MTI has obtained certain information contained in this Circular concerning the industry in which it operates from publicly available information from third party sources. MTI has not verified the accuracy or completeness of any information contained in such publicly available information. In addition, MTI has not determined if any such third party has omitted to disclose any facts, information or events which may have occurred prior to or subsequent to the date as of which any such information became publicly available or which may affect the significance or accuracy of any information contained in any such information and summarized herein.

Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects" or "does not expect", "is expected", "anticipates" or "does not anticipate", "plans, "estimates" or "intends", or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved) are not statements of historical fact and may be "forward-looking statements". Such forward-looking statements, including, but not limited to, those with respect to: timing and completion of the Arrangement, including timing and receipt of shareholder, Court and/or CSE or other regulatory approvals therefor; the benefits of and development and commercialization, if at all, of the MicroCoal Technology, including the "Generation 2.0" MicroCoal reactors; timing and completion of the acquisition of the Target Assets; exploration and development of the Target Assets; the timing and completion of any listing of the Target Shares or Acquisition Swap Shares on the CSE or any other exchange or quotation service and the timing and completion of the delisting of the MTI Shares or Acquisition Swap Shares from the CSE; financial information regarding Target Company and/or its availability and use of funds; the officers and directors of Target Company and Acquisition Company following the Effective Time; the cancellation of all or any portion of the outstanding MTI Options; demand for coal and electricity generation; the status of environmental and other regulation, including in respect of coal fired utilities and mining projects; MTI Shareholders' interest in Acquisition Company; the anticipated benefits of the Arrangement to MTI and its securityholders; the ability of MTI and/or Target Company to satisfy the conditions to, and complete, the Arrangement; the timing, completion or benefits of any joint venture or similar arrangement, including Target HK and Target India; the timing and completion, if at all, and the cost of the Virginia Plant; CSE acceptance and completion of the Target Warrant Amendments; MTI Shareholders' interest in Acquisition Company; the business activities, if any, of Acquisition Company; the acquisition of additional mineral properties by Acquisition Company; the completion of an NI 43-101 compliant technical report for the Target Assets; exploration of the Goldsmith property; the funds available to Acquisition Company following completion of the Arrangement; the price of metals; the timing and amount of estimated future mineralization and economic viability of properties; capital expenditures; costs and timing of exploration projects; permitting timelines; title to properties; the timing and possible outcome of exploration projects; and other factors and events described in this Circular.

Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual plans, results, performance or achievements of each of MTI, Target Company and Acquisition Company to be materially different from any future plans, results, performance or achievements expressed or implied by such forward-looking statements. Such risks and other factors include, among others: the timing, closing or non-completion of the Arrangement, including due to MTI failing to receive, in a timely manner and on satisfactory terms, the necessary Court, shareholder and/or CSE or other regulatory approvals; the benefits of the MicroCoal Technology failing to materialize as expected or a commercial market for such technology failing to develop; failure to receive in the time expected, or at all, final approval for the listing of the Target Shares or Acquisition Swap Shares; actual operating costs, total cash, transaction costs, administrative costs and other costs of Target Company or Acquisition Company differing materially from those anticipated; risks related to international operations; risks relating to partnership or joint venture operations; failure to obtain consents for the cancellation of all or any portion of the outstanding MTI Options; defects in title; failure of any person to accept an offer of employment with, or consent to serve as a director of, either Target Company or Acquisition Company; failure to satisfy all CSE conditions for the Target Warrant Amendments; failure to complete the Virginia Plant on time, on budget or at all; changes in environmental regulations or other regulations affecting coal utilities or mining activities; failure to

complete the acquisition of the Target Assets when expected or at all; inability of MTI or Target Company to satisfy or waive in a timely manner the conditions to closing the Arrangement; construction and technological risks related to the Virginia Plant or the MicroCoal Technology generally; inability to successfully complete new development projects or other projects within the timelines anticipated; failure to receive a satisfactory and NI 43-101 compliant report on the Goldsmith property; and other factors discussed under the headings "*The Arrangement – Risk Factors Relating to the Arrangement*", "*Target Company after the Arrangement – Risk Factors Relating to the Target Business*" and "*MTI After the Arrangement – Risk Factors Relating to Acquisition Company's Business*". Although MTI has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in the forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements contained in this Circular and in any schedules.

Forward-looking statements are made based on management's beliefs, estimates and opinions on the date the statements are made, and MTI undertakes no obligation to update any forward-looking statement if these beliefs, estimates and opinions or other circumstances should change, except as may be required by applicable law.

GLOSSARY OF DEFINED TERMS

Unless the context otherwise requires, the following defined terms shall have the meanings set forth below. Words importing the singular number shall include the plural and vice versa and words importing any gender shall include all genders.

"**Acquisition**" means the acquisition by MTI of all of the Vendor's right, title and interest in and to the Target Assets pursuant to the Acquisition Agreement;

"**Acquisition Agreement**" means the acquisition agreement between MTI and the Vendor dated April 10, 2015;

"**Acquisition Company**" means MTI after giving effect to the Arrangement;

"**Acquisition Swap Shares**" means the new class of common shares without par value which MTI plans to create pursuant to the Plan of Arrangement and which, immediately after the Effective Time, will have substantially the same rights and restrictions as the MTI Shares;

"**Arrangement**" means an arrangement under Section 192 of the CBCA, on the terms and conditions set forth in the Arrangement Agreement and the Plan of Arrangement, subject to any amendment(s) or supplement(s) thereto made in accordance therewith, or at the direction of the Court;

"**Arrangement Agreement**" means the agreement dated April 13, 2015, between MTI and Target Company, a copy of which is attached as Schedule "B", and any amendment(s) or variation(s) thereto;

"**Arrangement Resolution**" means the special resolution to be considered by the MTI Shareholders to approve the Arrangement, the full text of which is set out at Schedule "A";

"**Audit Committee**" means the audit committee of MTI, as same may be constituted from time to time;

"**BCBCA**" means the *Business Corporations Act* (British Columbia), S.B.C. 2002, c.57, as may be amended, restated or replaced from time to time;

"**Board**" means the board of directors of MTI;

"**Business Day**" means a day which is not a Saturday, Sunday or statutory holiday in Vancouver, British Columbia;

"**CBCA**" means the *Canada Business Corporations Act* (Canada), R.S.C. 1985, c. C-44, as may be amended, restated or replaced from time to time;

"**Circular**" means this management information circular dated April 15, 2015;

"**Computershare**" means Computershare Investor Services Inc., the registrar and transfer agent of MTI and the proposed depositary for the MTI Shares under the Arrangement;

"**Court**" means the Supreme Court of British Columbia;

"**CSE**" means the Canadian Securities Exchange;

"**Depositary**" means (i) in respect of the Acquisition Swap Shares and Target Shares, Computershare, or such other depositary as MTI may determine; and (ii) in respect of the Target Warrants, Target Company or its duly appointed agent;

"**Dissenting Shareholder**" means a registered MTI Shareholder who exercises Dissent Rights in respect of the

Arrangement in strict compliance with the CBCA, as modified or supplemented by the Interim Order, Plan of Arrangement or any other order(s) of the Court;

"**Dissent Rights**" means the right of registered holders of MTI Shares to exercise a right of dissent under section 190 of the CBCA;

"**Effective Date**" means the date upon which the Arrangement becomes effective;

"**Effective Time**" means 12:01 a.m. (Vancouver time) on the Effective Date (or such other time on the Effective Date that the Board determines);

"**Excluded Assets**" means any assets of MTI not acquired by Target Company pursuant to the Arrangement, as determined by the Target Board in its sole and absolute discretion, such as certain non-material books, records, contracts, securities and trademarks;

"**Final Order**" means the final order of the Court approving the Arrangement;

"**Hazen**" means Hazen Research Labs;

"**Interim Order**" means the interim order of the Court dated April 15, 2015, in respect of the Meeting and the Arrangement, a copy of which is attached as Schedule "C";

"**Intermediaries**" refers to brokers, investment firms, clearing houses and similar entities that own securities on behalf of beneficial shareholders;

"**LTIP Plan**" means MTI's existing long-term incentive plan, as may be amended from time to time;

"**Meeting**" means the annual and special meeting of MTI Shareholders to be held on May 14, 2015, and any adjournment(s) or postponement(s) thereof, held in order to, among other things, consider and, if thought fit, approve the Arrangement;

"**MicroCoal Delaware**" means MicroCoal Inc., a wholly-owned subsidiary of MTI existing under the laws of Delaware;

"**MicroCoal Technology**" means the patented MicroCoal® technology of MTI and/or its direct or indirect wholly-owned subsidiaries;

"**MTI**" or the "**Company**" means MicroCoal Technologies Inc.;

"**MTI Assets**" means all right, title and interest of MTI in and to the entirety of MTI's assets and undertaking, including all cash, receivable(s) (including tax rebates), promissory note(s), contracts, tangibles, goodwill, intellectual property (including all patents), property, leasehold improvements, equipment and securities in Target USA and Target HK, and including, for greater certainty, the MicroCoal Technology, but excluding any Excluded Assets;

"**MTI Business**" means the business being conducted by MTI as a going concern as at the Effective Time, and including, for greater certainty, substantially all of the assets and property of MTI, including the MicroCoal Technology;

"**MTI Options**" means options to purchase MTI Shares outstanding immediately prior to the Effective Time under the LTIP Plan;

"**MTI Optionholder**" means a holder of MTI Options;

"**MTI Class A Shares**" means the renamed and redesignated MTI Shares pursuant to the Plan of Arrangement;

"**MTI Class B Preferred Shares**" means the class "B" preferred shares in the capital of MTI without par value which will be created and issued pursuant to the Plan of Arrangement;

"**MTI Shareholder**" means a holder of MTI Shares as at the Effective Time;

"**MTI Shares**" means the common shares without par value in the authorized share structure of MTI, as constituted immediately prior to the Effective Time;

"**MTI Warrants**" means warrants of MTI outstanding immediately prior to the Effective Time entitling the holder thereof to acquire MTI Shares or MTI Shares and further common share purchase warrants of MTI at a specified price;

"**MTI Warrantholder**" means a holder of MTI Warrants;

"**NI 43–101**" means National Instrument 43-101 – *Standards of Disclosure for Mineral Projects*;

"**NI 52-110**" means National Instrument 52-110 – *Audit Committees*;

"**Notice of Application**" means the notice of application of the Final Order attached as Schedule "D";

"**Notice of Meeting**" means the notice of annual and special meeting in respect of the Meeting;

"**Plan of Arrangement**" means the plan of arrangement attached as Schedule "A" to the Arrangement Agreement, and any amendment(s) and variation(s) thereto;

"**Record Date**" means the record date for notice of and voting at the Meeting, such date currently being fixed at April 7, 2015;

"**SEDAR**" means the System for Electronic Document Analysis and Retrieval of the Canadian Securities Administrators;

"**Share Letter of Transmittal**" means the letter of transmittal to be sent to the MTI Shareholders for receiving the Acquisition Swap Shares and the Target Shares;

"**SOHL**" means Satellite Overseas (Holdings) Limited;

"**SOHL Financing**" means the private placement financing by SOHL for MTI Shares completed in January 2015;

"**Swap Share Consolidation**" means the consolidation of the issued and outstanding Acquisition Swap Shares on a 50:1 basis pursuant to the Plan of Arrangement;

"**Target Assets**" means the gold mineral exploration and development property located near Kaslo, British Columbia, proposed to be acquired by MTI pursuant to the Acquisition, commonly referred to as the "Goldsmith Property", and as further described in Schedule "K" attached to this Circular;

"**Target Board**" means the board of directors of Target Company, as same may be constituted from time to time;

"**Target Business**" means the business to be carried on by Target Company on completion of the Arrangement, being the MTI Business;

"**Target Company**" means Targeted Microwave Solutions Inc., a company incorporated under the BCBCA and, as at the date hereof, a wholly-owned subsidiary of MTI;

"**Target Shares**" means class A voting common shares without par value in the authorized share structure of Target Company;

"**Target USA**" means Targeted Microwave Solutions Inc., a wholly-owned subsidiary of MTI existing under the laws of Virginia;

"**Target Warrants**" means purchase warrants of Target Company to be issued to MTI Warrantholders in exchange for the MTI Warrants held by them at the Effective Time, all of which will: (i) have an exercise price equal to the existing exercise price of the MTI Warrants exchanged; and (ii) have a term equal to the term remaining on the MTI Warrants exchanged, subject, in each case, to any Target Warrant Amendments;

"**Target Warrants Amendments**" means the proposed amendments to the MTI Warrants to: (a) extend the expiry date thereof by a period of one year; and (b) reduce the exercise price thereof to the lowest exercise price permitted by the rules and policies of the CSE, as more particularly described in the section of this Circular entitled "*Target Company After the Arrangement – Target Company Warrants*";

"**Tax Act**" means the *Income Tax Act* (Canada), R.S.C. 1985, c. 1 (5th Supp) as may be amended, restated or replaced from time to time;

"**TSX**" means the Toronto Stock Exchange;

"**TSX-V**" means the TSX Venture Exchange;

"**U.S. Exchange Act**" means the United States *Securities Exchange Act of 1934*, as may be amended, restated or replaced from time to time;

"**U.S. Securities Act**" means the United States *Securities Act of 1933*, as may be amended, restated or replaced from time to time;

"**Vendor**" means the vendor of the Target Assets pursuant to the Acquisition Agreement; and

"**Warrant Letter of Transmittal**" means the letter of transmittal to be sent to the MTI Warrantholders for receiving the Target Warrants.

SUMMARY

The following is a summary of certain information contained in this Circular. This summary is not intended to be complete and is qualified in its entirety by the more detailed information, financial data and statements contained in this Circular. MTI Shareholders should read the entire Circular, including the Schedules, and any documents referenced herein. Capitalized terms used in this summary are defined in the Glossary of Defined Terms or elsewhere in this Circular.

The Meeting

The Meeting will be held at Suite 2300, 1066 West Hastings Street, Vancouver, British Columbia on May 14, 2015, at 9:00 a.m. (Vancouver time). At the Meeting, MTI Shareholders will be asked, in addition to the other matters set forth in the Notice of Meeting, to consider and, if thought fit, to pass the Arrangement Resolution approving the Arrangement.

The Record Date for determining the MTI Shareholders eligible to receive notice of and vote at the Meeting is April 7, 2015.

The Arrangement

The Arrangement has been proposed to, *inter alia*, facilitate the re-organization of the MTI Business, being primarily the research, development and commercialization of the MicroCoal Technology. Through the Arrangement, it is planned that, at the Effective Time, MTI Shareholders will receive Target Shares, giving such shareholders an interest in the Target Business to be carried on by Target Company on completion of the Arrangement, in the same amount as the interest held by them as MTI Shareholders in the MTI Business prior to the Effective Time. As an additional benefit, MTI Shareholders will continue to hold an interest in Acquisition Company, which plans to focus on the exploration and development of the Target Assets following any completion of the Acquisition.

The Board has reviewed the terms and conditions of the Plan of Arrangement and has unanimously concluded that they are fair and reasonable to, and are in the best interests of, MTI and the MTI securityholders. In arriving at its conclusion, the Board considered a number of factors. The Board believes that the Acquisition represents a value added business opportunity for MTI and that it would be in the best interests of MTI and the MTI Shareholders to complete the Acquisition. However, on any completion of the Acquisition, MTI would be operating in two separate industries, and MTI's interest in the Target Assets would not align with its core business. The Board believes that companies with a defined focus on a core business have a competitive advantage and are best positioned to respond to changing market conditions. The transfer of the MTI Business, therefore, will provide each resulting company with a clear mandate to pursue its respective business strategies. Additionally, because the resulting entities will be focused in their respective industries, they will be more readily understood by investors, allowing each company to be in a better position to raise capital. The Arrangement will also provide MTI Shareholders with a direct interest in two separate companies, providing MTI Shareholders with greater investment flexibility. MTI Shareholders would continue to maintain their effective interest in the MTI Business through their ownership of Target Shares following completion of the Arrangement, and they would acquire all of the Vendor's right, title and interest in and to the Target Assets through their ownership of Acquisition Swap Shares following any closing of the Acquisition. Closing of the Acquisition is expected to occur contemporaneously with, or as near as possible following, completion of the Arrangement.

At the Effective Time, the current management of MTI are expected to be appointed as management of Target Company and implement its business plan to develop and commercialize the MicroCoal Technology. Acquisition Company will add its own executives with experience appropriate for an early-stage, mineral exploration company. Accordingly, the two separate companies will be operated by management teams with knowledge and experience in their respective industries.

See the section of this Circular entitled "*The Arrangement – Reasons for the Arrangement*".

Recommendation of Directors

The Board has concluded that the terms of the Arrangement are fair and reasonable to, and in the best interests of, MTI and the MTI securityholders. The Board has therefore approved the Arrangement and authorized the submission of the Arrangement to the MTI Shareholders and the Court for approval. The Board recommends that MTI Shareholders vote FOR the approval of the Arrangement Resolution at the Meeting. In reaching this conclusion, the Board considered the benefits to MTI and the MTI Shareholders, as well as the financial position, opportunities and outlook for the future potential and operating performance of Target Company and Acquisition Company.

See the section of this Circular entitled "*The Arrangement – Recommendation of Directors*".

Fairness of the Arrangement

The Arrangement was determined to be fair to the MTI Shareholders by the Board based upon the following factors, among others:

1. the procedures by which the Arrangement will be approved, including the requirement for 66 ⅔% MTI Shareholder approval at the Meeting and approval by the Court after a hearing at which fairness will be considered;

2. each MTI Shareholder, as at the Effective Time, will participate in the Arrangement such that each MTI Shareholder, upon completion of the Arrangement, will continue to hold the same interest in Target Company that such MTI Shareholder held in MTI prior to the completion of the Arrangement, and will continue to hold substantially the same *pro rata* interest in Acquisition Company that such MTI Shareholder held in MTI prior to the completion of the Arrangement, subject to the issuance of Acquisition Swap Shares to the Vendor in connection with any closing of the Acquisition;

3. the proposed listing of the Target Shares on the CSE as at the Effective Time; and

4. the opportunity for MTI Shareholders who are opposed to the Arrangement, upon compliance with certain conditions, to dissent from the approval of the Arrangement in accordance with the Interim Order.

See the section of this Circular entitled "*The Arrangement – Fairness of the Arrangement*".

Conditions to Closing

The Arrangement will be subject to the fulfillment of certain conditions, including the following:

1. the Arrangement must be approved by the Court in the manner referred to in the section of this Circular entitled "*The Arrangement – Court Approval of the Arrangement*";

2. the Arrangement must be approved by the MTI Shareholders at the Meeting in the manner referred to in the section of this Circular entitled "*The Arrangement – Shareholder Approval of the Arrangement*";

3. the CSE must have approved the Arrangement and the transactions contemplated thereby; and

4. all other consents, orders, regulations and approvals, including regulatory and judicial approvals and orders, required, necessary or desirable for the completion of the Arrangement must have been obtained or received, each in a form acceptable to MTI.

Although MTI currently expects the closing of the Acquisition to occur contemporaneous with, or as near as possible following, any completion of the Arrangement, closing of the Acquisition is not a condition to the completion of the Arrangement. There is no assurance that the Acquisition will be completed as contemplated, or at all.

See the section of this Circular entitled "*The Arrangement – Conditions to Closing*".

Court Approval

The Arrangement, as structured, requires the approval of the Court. Prior to the mailing of this Circular, MTI obtained the Interim Order authorizing the calling and holding of the Meeting and providing for certain other procedural matters. The Interim Order does not constitute approval of the Arrangement or the contents of this Circular by the Court.

The Notice of Application for the Final Order is attached as Schedule "D". In hearing the petition for the Final Order, the Court will consider, among other things, the fairness of the Arrangement to the MTI Shareholders. Assuming approval of the Arrangement by MTI Shareholders at the Meeting, the hearing for the Final Order is scheduled to take place at 9:45 a.m. (Vancouver time) on May 19, 2015, at the Law Courts, 800 Smithe Street, Vancouver, British Columbia, or at such other date and time as the Court may direct. At the hearing, any MTI Shareholder or director, creditor, auditor or other interested party of MTI who wishes to participate or to be represented or who wishes to present evidence or argument may do so, subject to filing an appearance and satisfying certain other requirements. See the section of this Circular entitled "*The Arrangement – Court Approval of the Arrangement*".

Stock Exchange Listings

The MTI Shares are currently listed and traded on the CSE, and, following the Arrangement, it is proposed that the Target Shares will be listed on the CSE. MTI has applied to list the Target Shares on the CSE. Listing will be subject to Target Company fulfilling all the listing requirements of the CSE. The CSE has advised that for the Acquisition Swap Shares to be listed on the CSE, Acquisition Company will likely need to meet the original listing criteria of the CSE applicable to companies seeking listing on the exchange, including obtaining a final receipt for a prospectus from the applicable Canadian securities commissions. As Acquisition Company is not expected to have obtained a final receipt for a prospectus before the Effective Time, it is expected that the Acquisition Swap Shares will not be listed on the CSE (or any other stock exchange or quotation system) upon completion of the Arrangement. However, Acquisition Company intends to make an application to list the Acquisition Swap Shares on the CSE promptly following closing of the Arrangement, once it believes that it can meet the foregoing original listing requirements. See the section of this Circular entitled "*The Arrangement – Effect of the Arrangement on CSE Listing and Reporting Issuer Status*".

Information Concerning Acquisition Company and Target Company after the Arrangement

Following completion of the Arrangement, Target Company will be a public company listed on the CSE, the shareholders of which will be the holders of MTI Shares as at the Effective Time. Target Company is expected to continue the Target Business. See the information under the heading "*Target Company after the Arrangement*" for a description of the Target Business and Target Company's corporate structure, as well as selected unaudited *pro-forma* financial information for Target Company assuming completion of the Arrangement.

Following completion of the Arrangement, Acquisition Company will continue to be a reporting issuer in the Provinces of British Columbia, Alberta and Ontario, but the Acquisition Swap Shares will not be listed on any stock exchange or quotation system. The shareholders of Acquisition Company will be the holders of MTI Shares as at

the Effective Time, together with the Vendor on any completion of the Acquisition. Acquisition Company will have no active business immediately following closing of the Arrangement but will focus, following any completion of the Acquisition, on the exploration and development of the Target Assets and commencing operations as a mining issuer. See the section of the Circular entitled "*Acquisition Company after the Arrangement*" for a summary description of Acquisition Company, assuming completion of the Arrangement.

Selected Unaudited *Pro–Forma* Consolidated Financial Information for Target Company

The following selected unaudited *pro-forma* consolidated financial information for Target Company is based on the assumptions described in the notes to Target Company's unaudited *pro-forma* condensed consolidated statement of financial position as at December 31, 2014. See Schedule "E" to the Circular entitled "*Pro-Forma Unaudited Condensed Consolidated Financial Statement of Target Company as at December 31, 2014*", which has been prepared based on the assumption that, among other things, the Arrangement occurred on December 31, 2014.

	Selected Pro-Forma Financial Information of Target Company as at December 31, 2014 ($) (unaudited)
Cash	$ 11,889,883
Property, leasehold improvements and equipment	688,682
Total assets	**$ 12,578,565**
Derivative liability	$ 611,973
Loans payable	838,861
Shareholders' equity	11,860,674
Total liabilities and shareholders' equity	**$ 12,578,565**

Treatment of MTI Warrants

The Plan of Arrangement provides that the MTI Warrants will be exchanged for Target Warrants. On completion of the Arrangement, the Target Warrants will entitle the holders thereof to receive, upon exercise of such warrants, a number of Target Company securities equivalent to the number of MTI securities that such holder would have been entitled to receive on the exercise of his, her or its MTI Warrants immediately prior to the Effective Time.

Distribution of Certificates

Concurrent with the mailing of this Circular, MTI will mail the Share Letter of Transmittal to registered MTI Shareholders, which will be used to exchange their certificates representing MTI Shares for share certificates representing the Acquisition Swap Shares and the Target Shares. After giving effect to the Swap Share Consolidation, each MTI Share will be exchanged for 0.02 of an Acquisition Swap Share and 1.00 Target Share. Until exchanged, each certificate representing MTI Shares will, after the Effective Time, represent only the right to receive, upon surrender, Acquisition Swap Shares and Target Shares. No fractional Acquisition Swap Shares will be issued, and MTI Shareholders will not receive any compensation for any resulting fractional Acquisition Swap Shares.

Concurrent with the mailing of this Circular, MTI will also mail the Warrant Letter of Transmittal to registered holders of MTI Warrants, which will be used to exchange their certificates representing MTI Warrants for certificates representing Target Warrants. Until exchanged, each certificate representing MTI Warrants will, after the Effective Time, represent only the right to receive, upon surrender, Target Warrants.

Cancellation of Rights after Six Years

Any certificate which immediately prior to the Effective Time represented MTI Shares or MTI Warrants, as the case

may be, and which has not been surrendered with all other documents required by the Depositary, as applicable, on or prior to the sixth anniversary of the Effective Date, will cease to represent any claim against or interest of any kind or nature in Acquisition Company or Target Company. **Accordingly, persons who tender certificates for the MTI Shares or MTI Warrants after the sixth anniversary of the Effective Date will not receive Acquisition Swap Shares, Target Shares or Target Warrants, as the case may be, will not own any interest in Acquisition Company or Target Company and will not be paid any cash or other compensation in lieu thereof.**

Dissent Rights

If you are a registered MTI Shareholder, you are entitled to dissent from the Arrangement Resolution in the manner described herein, as modified or supplemented by the Interim Order, the Plan of Arrangement or any other order(s) of the Court. For a summary of the Dissent Rights, see the information under the heading "*Dissent Rights*" in this Circular. For a summary of certain Canadian federal income tax considerations relevant to a Dissenting Shareholder, see the information under the heading "*Income Tax Considerations — Certain Canadian Federal Income Tax Considerations*" in this Circular.

Canadian Securities Laws Matters

The securities of Acquisition Company and Target Company to be distributed to MTI Shareholders and MTI Warrantholders, as applicable, pursuant to the Arrangement will be made pursuant to exemptions from the registration and prospectus requirements contained in applicable provincial securities legislation in Canada. Under applicable provincial securities laws, the Acquisition Swap Shares and Target Shares may be resold in Canada without hold period restrictions, provided the sale is not a "control distribution" as defined by applicable securities laws, no unusual effort is made to prepare the market or create a demand for the securities, no extraordinary commission or consideration is paid in respect of the sale and, if the selling security holder is an insider or officer, the selling security holder has no reasonable grounds to believe that Acquisition Company or Target Company, as the case may be, is in default of securities legislation. See the section of this Circular entitled "*The Arrangement – Certain Securities Law Matters — Canadian Securities Law Matters*".

United States Securities Laws Matters

The Acquisition Swap Shares, Target Shares and Target Warrants to be distributed pursuant to the Arrangement will not be registered under the U.S. Securities Act or the securities laws of any state of the United States and will be distributed in reliance upon the exemption from registration provided by Section 3(a)(10) of the U.S. Securities Act. The Acquisition Swap Shares and the Target Shares will generally not be subject to resale restrictions under U.S. federal securities laws for persons who are not affiliates of MTI following the Arrangement or within 90 days prior to the Arrangement. See the section of this Circular entitled "*The Arrangement – Certain Securities Law Matters — U.S. Securities Law Matters*".

Certain Canadian Income Tax Considerations

A summary of certain Canadian federal income tax considerations for MTI Shareholders who participate in the Arrangement is set out in the section of this Circular entitled "*Income Tax Considerations – Certain Canadian Federal Income Tax Considerations*".

MTI Shareholders should carefully review the tax considerations applicable to them under the Arrangement and are urged to consult their own legal, tax and financial advisors in regard to their particular circumstances.

Risk Factors

In considering whether to vote for the approval of the Arrangement, MTI Shareholders should be aware that there are various risks, as described elsewhere in this Circular. MTI Shareholders should carefully consider these risk factors, together with the other information included in this Circular, before deciding whether to approve the Arrangement. See the section of this Circular entitled "*The Arrangement – Risk Factors Relating to the Arrangement*".

MANAGEMENT INFORMATION CIRCULAR

INFORMATION CONTAINED IN THIS CIRCULAR

The information contained in this Circular is given as of April 15, 2015, unless otherwise noted.

No person has been authorized to give any information or to make any representation in connection with the Arrangement and the other matters described herein other than those contained in this Circular and, if given or made, any such information or representation should be considered not to have been authorized by MTI.

No securities regulatory authority has expressed an opinion about the securities described in this Circular, and it is an offence to claim otherwise.

This Circular does not constitute the solicitation of an offer to purchase any securities or the solicitation of a proxy by any person in any jurisdiction in which such solicitation is not authorized or in which the person making such solicitation is not qualified to do so or to any person to whom it is unlawful to make such solicitation.

Information contained in this Circular should not be construed as legal, tax or financial advice, and MTI Shareholders are urged to consult their own professional advisers in connection with such matters.

Descriptions in the body of this Circular of the terms of the Arrangement Agreement and the Plan of Arrangement are merely summaries of the terms of those documents. MTI Shareholders should refer to the full text of the Arrangement Agreement and the Plan of Arrangement for complete details of those documents. The full text of the Arrangement Agreement is attached to this Circular as Schedule "B", and the Plan of Arrangement is attached as Schedule "A" to the Arrangement Agreement.

REPORTING CURRENCY

All currency amounts in this Circular are expressed in Canadian dollars, unless otherwise indicated.

GENERAL PROXY INFORMATION

Solicitation of Proxies

This Circular is being furnished in connection with the solicitation by management of MTI of proxies to be used at the Meeting for the purposes set out in the accompanying Notice of Meeting. It is expected that the solicitation will be made primarily by mail, but proxies may also be solicited personally or by telephone, email and facsimile, or other communication by directors, officers and consultants of MTI (who will not be specifically remunerated therefore). MTI has also retained Diedre Darmanjian to assist with MTI's communications with shareholders and solicitation of proxies. In connection with these services, Ms. Darmanjian is entitled to a fee of US$25.00 per each hour of service. In addition, MTI will pay Ms. Darmanjian's reasonable expenses, if any, in connection with these services.

IF YOU HAVE QUESTIONS OR NEED ASSISTANCE VOTING YOUR SHARES, CONTACT THE COMPANY'S PROXY AGENT AT 1-904-240-5818, OR BY EMAIL AT DDARMANJIAN@MTICOAL.COM.

MTI does not reimburse shareholders, nominees or agents for costs incurred in obtaining, from the principals of such persons, authorization to execute forms of proxy, except that MTI has requested brokers and nominees who hold MTI Shares in their respective names to furnish this Circular and related proxy materials to their clients, and MTI will reimburse such brokers and nominees for their related out of pocket expenses.

The cost of solicitation, including the mailing of materials in connection with the Meeting, will be borne by MTI.

No person has been authorized to give any information or to make any representation other than as contained in this Circular in connection with the solicitation of proxies. If given or made, such information or representations must not be relied upon as having been authorized by MTI. The delivery of this Circular shall not create, under any circumstances, any implication that there has been no change in the information set forth herein since the date of this Circular.

Record Date

The Board has set the close of business on April 7, 2015, as the Record Date for determining which MTI Shareholders shall be entitled to receive notice of and to vote at the Meeting. Only MTI Shareholders of record as of the Record Date are entitled to receive notice of and to vote at the Meeting. Holders of MTI Shares who acquire their common shares after the Record Date will not be entitled to vote such common shares at the Meeting.

Appointment of Proxyholders

The person(s) named in the accompanying Proxy as proxyholder(s) are management's representatives. A shareholder of MTI wishing to appoint some other person or company (that need not be a shareholder of MTI) to represent him, her or it at the Meeting may do so, either by striking out the printed names and inserting the desired person or company's name in the blank space provided in the Proxy or by completing another Proxy and, in either case, delivering the completed Proxy to the office of Computershare Investor Services Inc., 8th Floor, 100 University Avenue, Toronto, Ontario M5J 2Y1 or by fax to 1-866-249-7775 (North America) or 1-416-263-9524 (International) not less than 48 hours (excluding Saturdays, Sundays and holidays) before the time fixed for the Meeting or any adjournment(s) or postponement(s) thereof. The chair of the Meeting has the discretion to accept Proxies received after that time. Registered MTI Shareholders may also vote their Proxies via telephone or the internet in accordance with the instructions provided in the Proxy.

Voting of Proxies

If the Proxy is completed, signed and delivered to MTI, the person(s) named as proxyholders therein shall vote or withhold from voting the MTI Shares in respect of which they are appointed as proxyholders at the Meeting in accordance with the instructions of the shareholder of MTI appointing them, on any show of hands and/or on any ballot that may be called for, and if the shareholder specifies a choice with respect to any matter to be acted upon at the Meeting, the person(s) appointed as proxyholder(s) shall vote accordingly. The Proxy confers discretionary authority upon the person(s) named therein with respect to: (a) each matter or group of matters identified therein for which a choice is not specified; (b) any amendment to or variation of any matter identified therein; and (c) to transact such other business as may properly come before the Meeting or any adjournment(s) or postponement(s) thereof. As of the date of this Circular, the Board knows of no such amendments, variations or other matters to come before the Meeting, other than matters referred to in the Notice of Meeting. However, if other matters should properly come before the Meeting, the Proxy will be voted on such matters in accordance with the best judgment of the person(s) voting the Proxy.

If no choice is specified by a MTI Shareholder with respect to any matter identified in the Proxy or any amendment or variation to such matter, it is intended that the person(s) designated by management in the Proxy will vote the shares represented thereby in favour of such matter.

Non-Registered Holders

Only registered MTI Shareholders as of the Record Date or duly appointed proxyholders are permitted to vote at the Meeting. Most MTI Shareholders are "non-registered shareholders" because the shares they own are not registered in their name but are instead registered in the name of the brokerage firm, bank or trust company through which they purchased their MTI Shares. More particularly, a person is not a registered shareholder in respect of MTI Shares which are held on behalf of that person (the "**Non-Registered Holder**") but which are registered either: (a) in the name of an intermediary (an "**Intermediary**") that the Non-Registered Holder deals with in respect of the MTI Shares (Intermediaries include, among others, banks, trust companies, securities dealers or brokers and trustees or administrators of self-administered RRSPs, RRIFs, RESPs and similar plans); or (b) in the name of a depository (such as The Canadian Depository for Securities Limited) of which the Intermediary is a participant. In accordance with the requirements of applicable securities laws, MTI has distributed copies of the Notice of Meeting, this Circular, the Proxy and applicable letter(s) of transmittal (collectively, the "**Meeting Materials**") to the depositories and Intermediaries for onward distribution to Non-Registered Holders.

Intermediaries are required to forward the Meeting Materials to Non-Registered Holders unless a Non-Registered Holder has waived the right to receive them. Very often, Intermediaries will use service companies to forward the Meeting Materials to Non-Registered Holders. Generally, Non-Registered Holders who have not waived the right to receive Meeting Materials will either:

(a) be given a Proxy which has already been signed by the Intermediary (typically by a facsimile, stamped signature), which is restricted as to the number of MTI Shares beneficially owned by the Non-Registered Holder but which is otherwise not completed. Because the Intermediary has already signed the Proxy, this Proxy is not required to be signed by the Non-Registered Holder when submitting the Proxy. In this case, the Non-Registered Holder who wishes to submit the Proxy should otherwise properly complete the Proxy and deliver it to the offices of MTI; or

(b) more typically, be given a voting instruction form which is not signed by the Intermediary and which, when properly completed and signed by the Non-Registered Holder and returned to the Intermediary or its service company, will constitute voting instructions (often called a proxy authorization form) which the Intermediary must follow.

In either case, the purpose of this procedure is to permit Non-Registered Holders to direct the voting of the MTI Shares which they beneficially own. Should a Non-Registered Holder who receives one of the above forms wish to vote at the Meeting in person, the Non-Registered Holder should strike out the names of the management proxyholder(s) and insert the Non-Registered Holder's name in the blank space provided, or in the case of a proxy authorization form, follow the corresponding instructions on the form. **In either case, Non-Registered Holders should carefully follow the instructions of their Intermediary, including those regarding when and where the Proxy or proxy authorization form is to be delivered.**

Revocability of Proxy

Any MTI Shareholder returning the enclosed Proxy may revoke the same at any time insofar as it has not been exercised. In addition to revocation in any other manner permitted by law, a Proxy may be revoked by instrument in writing duly executed by the shareholder or by the shareholder's attorney authorized in writing or, if the shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized, and delivered either to Computershare or to the registered office of MTI at any time up to and including the last Business Day preceding the day of the Meeting, or any adjournment(s) or any postponement(s) thereof, or with the chair of the Meeting prior to the commencement of the Meeting. A revocation of a proxy will not affect any matter on which a vote is taken before the revocation.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

Other than as described herein, no informed person of MTI, proposed nominee for election as a director of MTI, or

any affiliate or associate of any such informed person or proposed nominee, had any material interest, direct or indirect, in any transaction since the beginning of the last financial year of MTI or in any proposed transaction which has materially affected or would materially affect MTI or any of its subsidiaries.

INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON

Other than as disclosed herein, none of the directors or executive officers of MTI, nor any person who has held such a position since the beginning of the last completed financial year of MTI, nor any proposed nominee for election as a director of MTI, nor any associate or affiliate of the foregoing persons, has any substantial or material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted on at the Meeting.

VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

MTI's authorized capital consists of an unlimited number of common shares. As at the Record Date, there were a total of 179,500,076 MTI Shares outstanding. Each MTI Share entitles the holder thereof to one vote.

As at April 14, 2015, the closing market price of the MTI Shares on the CSE was $0.095.

Principal Holders of MicroCoal Shares

The following table lists, to the knowledge of the directors and executive officers of MTI, based on public information, those persons or companies who beneficially own, directly or indirectly, or exercise control or direction over, MTI Shares carrying 10% or more of the voting rights attached to all of the issued and outstanding MTI Shares as at the Record Date:

Name	Number of MTI Shares	Percentage of Issued and Outstanding MTI Shares
SOHL, Inc.[1]	79,046,666	44.04%

Note:
(1) The reported MTI Shares are controlled and directed by SOHL.

ELECTION OF DIRECTORS

The Board is recommending four persons (the "**Nominees**") for election as directors at the Meeting. Except as contemplated herein, each of the four persons whose name appears below is proposed by the Board to be nominated for election as a director of MTI to serve until the next annual general meeting of shareholders or until the director sooner ceases to hold office.

The following table (and notes thereto) states the name and province or state and country of residence of each Nominee, all offices of MTI now held by him, the period of time for which he has been a director of MTI and the number of common shares of MTI beneficially owned by him, directly or indirectly, or over which he exercises control or direction, as at the date hereof:

Name and Province or State and County of Residence	Current Position with MTI	Director Since	MTI Shares Beneficially Owned or Controlled and Directed (#)
Dr. James Young[(1)(2)] Maryland, United States	Chairman and Director	September 5, 2013	3,175,050[(3)]
Ian Hume[(2)] Washington, D.C., United States	Director	September 15, 2010	289,600[(4)]
William Hudson[(2)] Texas, United States	Director	October 26, 2010	429,498[(5)]
Stan Lis British Columbia, Canada	Director	August 7, 2008	2,049,000

Notes:

(1) Dr. Young has control and direction, but not beneficial ownership, of 300,000 of the reported MTI Shares.
(2) A member of the Audit Committee, which is currently comprised of Messrs. Young, Hudson and Hume.
(3) Dr. Young also holds MTI Warrants exercisable for an aggregate of 3,500,050 MTI Shares.
(4) Mr. Hume also holds MTI Warrants exercisable for an aggregate of 189,600 MTI Shares.
(5) Mr. Hudson also holds MTI Warrants exercisable for an aggregate of 324,000 MTI Shares.

Set out below are profiles of MTI's proposed directors, including particulars of their principal occupations for the past five years:

James Young, age 63, Chairperson and Director. Dr. Young currently serves as chairman of the board of directors of Novavax, Inc. (NASDAQ: NVAX) and is on the board of directors of 3-V Biosciences, Inc., a private drug company. Dr. Young was president of research and development for MedImmune, Inc. from 1988 - 2008 following its US$15.6 billion sale to AstraZeneca PLC in 2007. During his tenure, Dr. Young was directly involved in the development of approximately twenty clinical programs and the commercialization of numerous key drugs while managing approximately 1,500 people and controlling an annual budget in excess of US$700 million. At the time of his retirement from MedImmune, Inc., Dr. Young was a director in the Department of Molecular Genetics at Smith Kline and French Laboratories, now part of GlaxoSmithKline. Dr. Young has served on the boards of directors of Xencor, Inc., Iomai, Inc. and Arriva Pharmaceuticals, Inc. Dr. Young received his Ph.D. in Microbiology and Immunology from the Baylor College of Medicine, Houston, Texas, U.S.A.

Ian Hume, age 75, Director. Mr. Hume joined the World Bank in 1969 as an economist. Mr. Hume's career at the World Bank included macroeconomic work, project assignments and management positions, including Division Chief, Assistant Director of Energy, Resident Representative and Country Director in Poland. Since 1994, Mr. Hume has worked on a range of private energy ventures in electric power and coal industries, including technical advisor to EUROGAZ Gas Pipeline, from 1995 to 1996, and coordinator of a consortium for an LNG Feasibility Study in Poland in 2007. Mr. Hume also formed and oversaw an independent evaluation and quality assurance group for the World Bank between 2005 and 2010. Since 2009, Mr. Hume also acted as a local U.S. partner for a private Hong Kong based green technology company pursuing the construction of coal to energy/coal to liquids plants.

William Hudson, age 60, Director. In 1992, Mr. Hudson founded The Domus Group, a private holding company formed to invest in and develop real estate properties in South Texas, including a 1,000-acre planned community with 2,600 households. In 1989, Mr. Hudson also co-founded UNP Holdings Ltd. and was a key member in its going public transaction, helping raise the initial $20 million investment capital. Prior to UNP, Mr. Hudson co-founded Hudson & Hudson Partners, a Texas general partnership that managed real estate, mineral exploration and production and securities investments. Mr. Hudson worked as a geologist with the Continental Oil Company from 1975-1980. From 1968 to 1997, Mr. Hudson was a director of First Valley Bank Group, Inc., located in the Rio Grande Valley of Texas.

Stan Lis, age 64, Director. Mr. Lis was a co-founder and director of MTI since its inception in 2006, and was president from 2006 to February 2014. From 2000 until 2006, Mr. Lis was president, chief executive officer and director of Stream Communications Network & Media Inc., a publicly listed cable company, where he oversaw

the company from the start up phase to approximately 60,000 subscribers, and helped raise over US$37 million for the company. From 1993 until 2000, Mr. Lis acted as president, chief executive officer and director of Trooper Technologies Inc., which focused on waste management in Central Europe. In 1988, Mr. Lis founded International UNP Holdings Ltd., a Toronto Stock Exchange listed investment company used to acquire and finance privatized Polish state enterprises. Mr. Lis previously studied Business Administration and Securities at Simon Fraser University located near Vancouver, British Columbia.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

None of MTI's directors or executive officers is, as at the date of this Circular, or was, within 10 years before the date of this Circular, a director, chief executive officer or chief financial officer of any company (including MTI) that:

(i) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than thirty consecutive days; or

(ii) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

Other than as described herein, none of MTI's directors, executive officers or shareholders holding a sufficient number of securities of MTI to affect materially the control of MTI:

(i) is, as at the date of this Circular, or has been within the 10 years before the date of this Circular, a director or executive officer of any company (including MTI) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceeding, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets; or

(ii) has, within the 10 years before the date of this Circular, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold his assets.

Conflicts of Interest

Other than as disclosed herein, to MTI's knowledge, there are no known existing or potential conflicts of interest among MTI directors and officers as a result of their outside business interests, except that certain of the directors and officers serve as directors, officers, promoters and members of management of other companies and therefore it is possible that a conflict may arise between their duties as a director and officer of MTI and their duties as a director, officer, promoter or member of management of such other companies.

MTI's directors and officers have been advised of the existence of laws governing accountability of directors and officers regarding corporate opportunity and requiring disclosures by directors of conflicts of interest, and MTI will rely upon such laws in respect of any directors' and officers' conflicts of interest or in respect of any breaches of duty by any of its directors or officers. All such conflicts are required to be disclosed by such directors or officers in accordance with the CBCA, and they are required to govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law.

STATEMENT OF EXECUTIVE COMPENSATION

General

Pursuant to applicable securities legislation, MTI is required to provide a summary of all annual and long-term compensation for services in all capacities to MTI and its subsidiaries for the most recently completed financial year in respect of the individuals comprised of the chief executive officer, the chief financial officer and the other three most highly compensated executive officers of MTI, including its subsidiaries, whose individual total compensation for the most recently completed financial year exceeded $150,000, and any individual who would have satisfied these criteria but for the fact that the individual was not serving as an officer of MTI or its subsidiaries at the end of the most recently completed financial year (the "**Named Executive Officers**" or "**NEOs**").

Compensation Discussion and Analysis

The principal objective of MTI's compensation policy is to attract and retain key executive officers that are considered critical to the growth and success of MTI. Presently, MTI relies primarily on board discussions without any formal objectives, criteria and analysis in determining compensation, which consists of base salary and grants of long-term incentive plan awards ("**LTIP Awards**") under the LTIP Plan, which may include share-based and/or option-based awards. MTI does not assess its compensation through benchmarks or peer groups at this time.

Elements of Compensation

Under MTI's compensation structure, compensation for executive officers may consist of:

Base Salary. Base salary is currently the foundation of MTI's compensation policy and is intended to compensate competitively based on the past experience of the executive, while taking into consideration MTI's current level of development. The desire is for base salary to be high enough to secure exceptional executives that can further the annual and long-term objectives of MTI, while at the same time not being excessive with a view to MTI's available cash resources. The Board reviews salary levels periodically and may recommend adjustments, if warranted, as a result of competitive positioning, the stage of development of MTI or an increase in responsibilities assumed by an executive.

LTIP Awards. The Board may also grant LTIP Awards under the LTIP Plan as part of an executive's compensation package. The primary objective of making grants of LTIP Awards is to encourage executive officers to acquire an ownership interest in MTI over a period of time, thus better aligning the interests of executive officers with the interests of shareholders, and thereby discouraging excessive risk taking. Additionally, LTIP Awards may be granted to help enhance the overall competitiveness of an executive's compensation package, where necessary, while helping maintain MTI's available cash resources.

MTI considers various factors when determining the number of LTIP Awards to be granted to specific individuals, including the level of responsibility and base salary level associated with the position held by such individual. MTI's management periodically submits to the Board for approval its recommendations in respect of the number of LTIP Awards to be granted to specific individuals. When determining possible future LTIP Award grants, the Board considers past grants. In the 2014 fiscal year ended June 30, 2014, MTI did not grant any options to its NEOs under the LTIP Plan. The Black-Scholes model is used to determine the fair value of stock options on the date of grant.

Risk Management

The Board has not undertaken a formal evaluation of the implications of any risks associated with MTI's compensation policies and practices. The Board does not believe that MTI's compensation program results in unnecessary or inappropriate risk taking, including risks that are likely to have a material adverse effect on MTI.

Hedging

MTI does not have any formal policy respecting the purchase by an NEO or a director of financial instruments.

Compensation Governance

The Board is responsible for establishing and administering MTI's compensation policies for executive officers and directors. The members of the Board have broad business experience and are well-versed in executive compensation matters. The members of the Board bring a wide range of skills and experiences that help them make decisions in respect of MTI's compensation policies and practices. These skills and experiences include, but are not limited to, industry knowledge, operational experience, financial knowledge and international business experience. The members of the Board assess performance on both an individual and an organizational level.

Summary Compensation Table

The following table (and notes thereto) states the name of each Named Executive Officer, his or her annual compensation, consisting of salary and other annual compensation, and long-term compensation, for example LTIP Awards, for the three most recently completed financial years of MTI, or such shorter period for which the NEO has been an executive officer of MTI:

Name and Principal Position	Year	Salary ($)	Option-based Awards[1] ($)	All Other Compensation ($)	Total Compensation ($)
Lawrence Siegel[2] Chief Executive Officer	2014	188,081[3]	Nil	5,070	193,151
	2013	N/A	N/A	N/A	N/A
	2012	N/A	N/A	N/A	N/A
Slawomir Smulewicz[4] Chief Executive Officer	2014	197,400	76,500[5]	241,318[6]	515,218
	2013	318,200	60,568	14,400	393,168
	2012	84,000	41,341	14,400	139,741
Stan Lis[7] President	2014	212,000	Nil	2,143	214,143
	2013	410,380	60,568	14,400	485,348
	2012	183,785	37,896	14,400	236,081
Ping Shen[8] Chief Financial Officer	2014	180,000	Nil	2,084	182,084
	2013	150,000	12,221	Nil	162,221
	2012	123,700	11,484	Nil	135,184

Notes:

(1) The Black-Scholes option valuation model has been used to determine the fair value on the date of grant. The Black-Scholes option valuation is determined using the expected life of the stock option, expected volatility of the MTI Share price, expected dividend yield and risk free interest rate. The Black-Scholes pricing model was used to estimate the fair value of options as MTI believes it is a commonly used methodology. The inputs used by MTI in the Black-Scholes pricing model were a risk free interest rate of 1%, expected life of 1.5 years and annualized volatility of 121.66%.

(2) Mr. Siegel was appointed chief executive officer of MTI effective February 13, 2014.

(3) Compensation is paid to Mr. Siegel in U.S. dollars. The amount reported represents the Canadian dollar equivalent translated at market average rates during the applicable period based on Bank of Canada data, being 0.9491 to each U.S. dollar.

(4) Mr. Smulewicz resigned as chief executive officer and vice-president of MTI effective February 13, 2014.

(5) The reported amount includes the value of options received by Mr. Smulewicz as a consultant to MTI following his resignation as chief executive officer and vice-president of MTI effective February 13, 2014.

(6) The reported amount includes $224,200 paid to Mr. Smulewicz in connection with his resignation as chief executive officer and vice-president of MTI effective February 13, 2014. See the Section of this Circular entitled "*Statement of Executive Compensation – Termination and Change of Control Benefits*".

(7) Mr. Lis resigned as president of MTI effective February 13, 2014.

(8) Ms. Shen resigned as chief financial officer of MTI effective November 28, 2014.

Incentive Plan Awards – Named Executive Officers

Outstanding Option-Based Awards for Named Executive Officers

The following table states the name of each Named Executive Officer, the number of options available for exercise and the exercise price and expiration date for each option, as at June 30, 2014:

Name and Principal Position	Option-Based Awards			
	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price ($)	Option Expiration Date	Value of Unexercised In-The-Money Options[1] ($)
Lawrence Siegel[2] Chief Executive Officer	Nil	N/A	N/A	N/A
Slawomir Smulewicz[3] Chief Executive Officer	500,000	0.28	August 13, 2015	Nil
Stan Lis[4] President	175,000 120,000 230,000 310,000 140,000	0.36 0.20 0.14 0.09 0.335	December 16, 2014 February 8, 2016 August 18, 2016 October 15, 2017 January 7, 2018	Nil 3,600 20,700 43,400 Nil
Ping Shen[5] Chief Financial Officer	50,000 200,000 45,000	0.36 0.20 0.335	December 16, 2014 February 8, 2016 January 7, 2018	Nil 6,000 Nil

Notes:
(1) Calculated based on the difference between the closing price of the MTI Shares on the CSE as at June 30, 2014, being $0.23 per share, and the noted option exercise price.
(2) Mr. Siegel's employment as chief executive officer of MTI commenced on February 13, 2014.
(3) Mr. Smulewicz resigned as chief executive officer and vice-president of MTI effective February 13, 2014.
(4) Mr. Lis resigned as president of MTI effective February 13, 2014.
(5) Ms. Shen resigned as chief financial officer of MTI effective November 28, 2014.

As at June 30, 2014, the value of the "in-the-money" unexercised options held by the Named Executive Officers was $73,700.

Incentive Plan Awards - Value Vested or Earned During the Year for Named Executive Officers

The table below discloses the aggregate dollar value that would have been realized by an NEO if stock options under option-based awards had been exercised on the vesting-date, as well as the aggregate dollar value realized upon vesting of share-based awards by an NEO:

Name and Principal Position	Option-based Awards – Value Vested During the Year ($)
Lawrence Siegel[1]	Nil
Slawomir Smulewicz[2]	Nil
Stan Lis[3]	Nil
Ping Shen[4]	Nil

Notes:
(1) Mr. Siegel's was appointed chief executive officer of MTI effective February 13, 2014.
(2) Mr. Smulewicz resigned as chief executive officer and vice-president of MTI effective February 13, 2014.
(3) Mr. Lis resigned as president of MTI effective February 13, 2014.
(4) Ms. Shen resigned as chief financial officer of MTI effective November 28, 2014.

Pension Plan Benefits

As at the fiscal year ended June 30, 2014, MTI did not maintain any defined benefit plans, defined contribution plans or deferred compensation plans.

Termination and Change of Control Benefits

Mr. Smulewicz resigned as chief executive officer and vice-president of MTI effective February 13, 2014. In connection with his resignation, MTI negotiated a severance package with Mr. Smulewicz, pursuant to which Mr. Smulewicz received an upfront severance payment in the aggregate amount of $224,200, provided that Mr. Smulewicz exercise such number of his existing MTI Options such that the aggregate exercise price of such options was equal to the upfront severance payment. MTI also agreed to "gross-up" the severance amount to account for the applicable GST payable thereon. Mr. Smulewicz also agreed to act as a consultant to MTI pursuant to which he agreed to provide MTI such services as may be reasonably requested by MTI in connection with the transition of the new chief executive officer. As compensation for his consulting services, Mr. Smulewicz was granted 500,000 MTI Options at an exercise price of $0.28 per option for a term expiring not later than August 13, 2015. The consulting agreement was terminated effective May 22, 2014.

Subsequent to the end of the most recent financial year, Ms. Shen resigned as chief financial officer of MTI. In connection with her resignation, Ms. Shen was paid her consulting fees in the ordinary course up to and including the date of her resignation, as well as a "gross-up" to account for the applicable GST payable thereon. MTI also agreed to maintain her employee benefit coverage and certain perquisite benefits, up to a maximum aggregate total of $500 per month, until January 31, 2015. Ms. Shen agreed to act as a consultant to MTI for a period of six months following her resignation on market terms. All of the MTI Options held by Ms. Shen as at the date of her resignation were relinquished, provided that, pursuant to her consulting agreement, Ms. Shen was granted an aggregate of 313,333 MTI Options at an exercise price of $0.15 per option for a term expiring December 1, 2015.

Director Compensation

MTI has no standard arrangements, pursuant to which directors are compensated by MTI or its subsidiaries for their services in their capacity as directors, for committee participation, involvement in special assignments or for services as a consultant or an expert during the most recently completed financial year. The directors are, however, reimbursed for reasonable expenses incurred in connection with their services as directors and are eligible for the grant of LTIP Awards under the LTIP Plan.

The following states the name of each outside director and the fees earned by him for the most recently completed financial year of MTI.

Name	Fees Earned ($)	Option-Based Awards ($)	All Other Compensation ($)	Total ($)
James Young	3,000	Nil	Nil	3,000
Ian Hume	8,000	Nil	Nil	8,000
William Hudson	8,000	Nil	Nil	8,000

Incentive Plan Awards – Directors

Outstanding Option-Based Awards for Directors

The following table sets out all option-based awards outstanding as of June 30, 2014 to MTI's outside directors:

Name	Option-based awards			
	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price ($)	Option Expiration Date	Value of Unexercised In-The-Money Options[(1)] ($)
James Young	Nil	N/A	N/A	N/A
Ian Hume	150,000 100,000 100,000	0.20 0.11 0.335	February 8, 2016 August 18, 2016 January 7, 2018	4,500 12,000 Nil
William Hudson	150,000 100,000	0.20 0.335	February 8, 2016 January 7, 2018	4,500 Nil

Note:
(1) Calculated based on the difference between the closing price of the MTI Shares on the CSE as at June 30, 2014, being $0.23 per share, and the noted option exercise price.

Incentive Plan Awards - Value Vested or Earned During the Year for Directors

The table below discloses the aggregate dollar value that would have been realized by a director if stock options under option-based awards had been exercised on the vesting-date:

Name and Principal Position	Option-based Awards – Value Vested During the Year ($)
James Young	Nil
Ian Hume	Nil
William Hudson	Nil

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

Equity Compensation Plan Information

The following table sets forth information relating to the LTIP Plan as at June 30, 2014:

Plan Category	Plan Name	Number of securities to be issued upon exercise of outstanding awards (a)	Weighted-average exercise price of outstanding awards (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	Long-term incentive plan	3,465,000	$0.20	6,861,678

The LTIP Plan

The MTI shareholders approved and adopted the LTIP Plan at the annual and special meeting of shareholders of MTI held on December 27, 2013. The aggregate maximum number of MTI Shares issuable under the LTIP Plan upon adoption thereof in respect of awards was fixed at 11,661,678 MTI Shares.

The LTIP Plan is available to directors, key employees and consultants of MTI, as determined by the Board (the "**Eligible Employees**"). So long as it may be required by the rules and policies of the applicable stock exchange (the "**Exchange**") upon which the MTI Shares are listed for trading, (a) the total number of MTI Shares issuable to any participant under the LTIP Plan, at any time, together with shares reserved for issuance to such participant under any other security-based compensation arrangements of MTI, shall not exceed 5% of the issued and outstanding MTI Shares, unless MTI obtains disinterested shareholder approval, and (b) the total number of MTI Shares issuable to insiders within any one-year period and at any given time under the LTIP Plan, together with any other security-based compensation arrangement of MTI, shall not exceed 15% of the issued and outstanding MTI Shares. The total number of MTI Shares issuable to non-executive directors under the LTIP Plan shall not exceed 1% of the issued and outstanding MTI Shares. Except as otherwise determined by the Board, neither awards nor any rights under any such awards granted under the LTIP Plan shall be assignable or transferable.

The Board may at any time, in its sole and absolute discretion and without the approval of shareholders, amend, suspend, terminate or discontinue the LTIP Plan and may amend the terms and conditions of any grants thereunder, subject to (a) any required approval of any applicable regulatory authority or the Exchange, and (b) approval of the MTI Shareholders as required by the rules of the Exchange or applicable law, provided that shareholder approval shall not be required for the following amendments and the Board may make changes which may include but are not limited to: (i) amendments of a "housekeeping nature"; (ii) any amendment for the purpose of curing any ambiguity, error or omission in the LTIP Plan or to correct or supplement any provision of the LTIP Plan that is inconsistent with any other provision of the LTIP Plan; (iii) an amendment which is necessary to comply with applicable law or Exchange requirements; (iv) amendments respecting administration and eligibility for participation under the LTIP Plan; (v) changes to terms and conditions on which awards may be or have been granted pursuant to the LTIP Plan, including changes to the vesting provisions and terms of any awards; (vi) amendments which alter, extend or accelerate the terms of vesting applicable to any award; and (vii) changes to the termination provisions of an award or the LTIP Plan which does not entail an extension beyond the original fixed term. If the LTIP Plan is terminated, prior awards shall remain outstanding and in effect in accordance with their applicable terms and conditions. The Board may waive any conditions or rights under, or amend any terms of, any awards, provided that no such amendment or alteration shall be made which would impair the rights of any participant, without such participant's consent, unless the Board determines that such amendment or alteration either: (i) is required or advisable in order to conform to any law, regulation or accounting standard; or (ii) is not reasonably likely to diminish the benefits provided under such award.

Restricted Share Units. The LTIP Plan provides that the Board may, from time to time, in its sole discretion, grant awards of restricted share units ("**RSUs**") to directors and key employees. Each RSU shall represent one MTI Share. RSUs shall be subject to such restrictions as the Board may establish in the applicable award agreement. All RSUs will vest and become payable by the issuance of MTI Shares at the end of the applicable restriction period if all applicable restrictions have lapsed. Restrictions on any RSUs shall lapse immediately and become fully vested in the participant upon a change of control. Upon the death of a participant, subject to the applicable award agreement, any RSUs that have not vested will be immediately forfeited and cancelled without payment, provided that any RSUs granted to such participant that had vested prior to the participant's death will accrue to the participant's estate in accordance with the LTIP Plan. If a participant's employment is terminated for cause, any RSUs granted to the participant will immediately terminate without payment and be cancelled as of the termination date. If a participant's employment is terminated without cause, is voluntarily terminated by the participant or termination is due to the participant's retirement or disability, any RSUs granted to the participant will, subject to the applicable award agreement, immediately terminate without payment and be cancelled as of the termination date, provided, however, that any RSUs granted to such participant that had vested prior to the participant's termination without cause, voluntary termination, retirement or disability will accrue to the participant in accordance with the LTIP Plan, provided that no RSUs may be redeemed by a participant at any time during a leave of absence. In the case of directors, if a participant ceases to be a director for any reason, RSUs granted to such participant will immediately terminate without payment and be cancelled, provided, however, that any RSUs granted to such participant that had vested prior to the participant ceasing to be a director will accrue to the participant in accordance with the LTIP Plan.

Performance Share Units. The LTIP Plan provides that the Board may, from time to time, in its sole

discretion, grant awards of performance share units ("**PSUs**") to key employees. Each PSU shall, contingent upon the attainment of the performance criteria within the applicable performance cycle, represent one MTI Share. The performance criteria will be established by the Board which, without limitation, may include criteria based on the participant's individual performance and/or financial performance of MTI and its subsidiaries, which will determine vesting of the PSUs. The Board may, in its sole discretion, revise the performance criteria during a performance cycle or after it has ended, if unforeseen events occur, including, without limitation, changes in capitalization, equity restructuring, acquisitions or divestitures, if such events have a substantial effect on the financial results of the Corporation and make the application of the performance criteria unfair absent a revision. All PSUs will vest and become payable to the extent that the performance criteria are satisfied in the sole determination of the Board. PSUs granted to a participant shall become fully vested and payable to such participant within 95 days after the last day of the performance cycle or upon a change of control. Upon the death of a participant, subject to the applicable award agreement, all PSUs granted to the participant which, prior to the participant's death, had not vested, will immediately be forfeited and cancelled without payment, provided, however, that the Board may determine, in its discretion, the number of the participant's PSUs that will vest based upon the extent to which the applicable performance criteria have been satisfied in that portion of the performance cycle that has lapsed. If a participant's employment is terminated for cause, any PSUs granted to the participant will immediately terminate without payment and be cancelled as of the termination date. If a participant's employment is terminated without cause, by voluntary termination, or if the participant's employment terminates due to retirement or disability, all PSUs granted to the participant which, prior to such termination without cause, voluntary termination, retirement or disability, had not vested, will immediately be forfeited and cancelled without payment, provided, however, that the Board may determine, in its discretion, the number of the participant's PSUs that will vest based upon the extent to which the applicable performance criteria have been satisfied in that portion of the performance cycle that has lapsed. No PSUs may be redeemed by a participant at any time during a leave of absence.

Deferred Share Units. The LTIP Plan provides that the Board may, from time to time, in its sole discretion, grant awards of deferred share units ("**DSUs**") to directors in lieu of director fees. A director becomes a participant effective as of the date he or she is first appointed or elected as a director and ceases to be a participant at the time he or she ceases to be a director for any reason. The number of DSUs to be granted to a participant shall be calculated by dividing the amount of fees selected by the director by the market price on the grant date. The market price is defined in the LTIP Plan as the volume weighted average trading price of a MTI Share for the five trading days on which trading in the MTI Shares took place prior to the grant date.

Each participant shall be entitled to receive, subsequent to the effective date that the participant ceases to be a director for any reason, either (a) that number of MTI Shares equal to the number of DSUs granted to such participant, or (b) a cash payment in an amount equal to the market price of the DSUs granted to such participant on the trading day following the day that the participant ceases to be a director, net of applicable withholdings, and subject to adjustments if the value of a DSU is determined during applicable black-out periods. Upon the death of a participant, such participant's estate shall be entitled to receive, within 120 days, a cash payment or MTI Shares that would otherwise have been payable upon such participant ceasing to be a director.

Options. The LTIP Plan provides that the Board may, from time to time, in its discretion, grant awards of options to directors, key employees and consultants. The number of options to be granted, the exercise price and the time(s) at which an option may be exercised shall be determined by the Board in its sole discretion, provided that the exercise price of options shall not be lower than the exercise price permitted by the Exchange, and further provided that the term of any option shall not exceed ten years. So long as it may be required by the rules and policies of the Exchange, options shall not be granted if the exercise thereof would result in the issuance of more than 2% of the issued MTI Shares in any twelve-month period to any one consultant or to key employees conducting investor relations activities.

In the event of a change of control, each outstanding option shall automatically become fully and immediately vested and exercisable, subject to the policies of the Exchange. Upon the death of an optionee, any option held by such optionee shall be exercisable by the person(s) to whom the rights of the optionee under the option shall pass by will or the laws of descent and distribution for a period of 120 days or prior to the expiration of the option period in respect of the option, whichever is sooner, and then only to the extent that such optionee was entitled to exercise the

option at the date of death of such optionee. If an optionee shall cease to be an eligible person for cause, no option held shall be exercisable following the date on which such optionee ceases to be an eligible person. If an optionee ceases to be an eligible person by reason of termination without cause, by voluntary termination or in the case of retirement, subject to the applicable award agreement, any option held shall remain exercisable in full for a period of 60 days after the date on which the optionee's employment is terminated without cause, voluntarily or due to retirement or prior to the expiration of the option period in respect of the option, whichever is sooner, and then only to the extent that such optionee was entitled to exercise the option at such time. If an optionee becomes afflicted by a disability, all options granted to the optionee will continue to vest in accordance with the terms of such options. Where a participant's employment is terminated due to disability, subject to the applicable award agreement, any option held by such optionee shall remain exercisable for a period of 120 days after the date of termination due to disability of the optionee or prior the expiration of the option period in respect of the option, whichever is sooner, and then only to the extent that such optionee was entitled to exercise the option at the date of termination.

AUDIT COMMITTEE DISCLOSURE

The Board appoints the Audit Committee to assist in monitoring: (i) the integrity of MTI's financial statements; (ii) MTI's compliance with legal and regulatory requirements; and (iii) the qualifications, appointment, independence and performance of MTI's external auditors and senior financial executives. The Audit Committee's authority and responsibilities include meeting with MTI's auditor and reviewing MTI's annual financial statements and making recommendations for the approval of such financial statements to the Board. Material issues related to the audit of MTI's internal accounting controls and information systems are discussed with the Audit Committee as such issues arise. The Audit Committee has direct access to MTI's auditors.

Audit Committee Charter

The Audit Committee Charter sets out the responsibilities and duties, qualifications for membership, procedures for committee member appointment and reporting to the Board. A copy of the Audit Committee Charter is attached hereto as Schedule "F".

Composition of Audit Committee

The Audit Committee is currently comprised of three members, being Messrs. Young, Hume and Hudson. Each member of the Audit Committee is "financially literate" within the meaning of NI 52-110, and each is "independent", as that term is used in NI 52-110.

Relevant Education and Experience

Set out below is a description of the education and experience of each member of the Audit Committee relevant to the performance of his responsibilities as a member of the Audit Committee:

Dr. James Young. Dr. Young currently serves as chairman of the board of directors of Novavax, Inc. (NASDAQ: NVAX) and is on the board of directors for 3-V Biosciences, Inc., a private drug company. Dr. Young was President of research and development for MedImmune, Inc. from 1988 - 2008 following its US$15.6 billion sale to AstraZeneca PLC in 2007. During his tenure, Dr. Young was directly involved in the commercialization of numerous key drugs while managing approximately 1,500 people and controlling an annual budget in excess of US$700 million. Dr. Young has also served on the boards of directors of Xencor, Inc., Iomai, Inc. and Arriva Pharmaceuticals, Inc

Ian Hume. Mr. Hume joined the World Bank in 1969 as an economist. Mr. Hume's career at the World Bank included macroeconomic work, project assignments and management positions, including Division Chief, Assistant Director of Energy, Resident Representative and Country Director in Poland. Since 1994, Mr. Hume has worked on a range of private energy ventures in electric power and coal industries, including technical advisor to EUROGAZ Gas Pipeline from 1995 to 1996, and coordinator of a consortium for an LNG Feasibility Study in

Poland in 2007. Mr. Hume also formed and oversaw an independent evaluation and quality assurance group for the World Bank between 2005 and 2010.

William Hudson. In 1992, Mr. Hudson founded The Domus Group, a private holding company formed to invest in and develop real estate properties in South Texas, including a 1,000-acre planned community. Mr. Hudson also co-founded UNP Holdings Ltd. and was a key member in its going public transaction, raising the initial $20 million investment capital. Prior to UNP, Mr. Hudson co-founded Hudson & Hudson Partners, a Texas general partnership that managed real estate, mineral exploration and production and securities investments. From 1968 to 1997, Mr. Hudson was a director of First Valley Bank Group, Inc., located in the Rio Grande Valley of Texas.

Pre-Approval Policies and Procedures

The Audit Committee Charter includes responsibilities regarding the provision of non-audit services by MTI's external auditors. The Audit Committee Charter states that the Audit Committee shall: (i) pre-approve the retention of the independent auditor for all audit and non-audit services, including tax services, and the fees for such non-audit services which are provided to MTI and its subsidiaries; (ii) consider whether the provision of non-audit services is compatible with maintaining the auditor's independence; and (iii) if so determined by the Audit Committee, recommend that the Board take appropriate action to satisfy itself of the independence of the auditor.

Audit Committee Oversight

At no time since the commencement of MTI's most recently completed financial year was a recommendation of the Audit Committee to nominate or compensate an external auditor not adopted by the Board.

Audit Fees

The aggregate fees billed by MTI's external auditor for audit services were $57,000 for the fiscal year ended June 30, 2014, and $82,000 for the fiscal year ended June 30, 2013.

Audit Related Fees

The aggregate fees billed for assurance and related services by MTI's external auditor that are reasonably related to the performance of the audit or review of MTI's financial statements were $nil for the fiscal year ended June 30, 2014 and $nil for the fiscal year ended June 30, 2013.

Tax Fees

The aggregate fees billed for professional services rendered by MTI's external auditor for tax compliance, tax advice and tax planning was $3,706 for the fiscal year ended June 30, 2014 and $3,273 for the fiscal year ended June 30, 2013.

All Other Fees

The aggregate fees billed for services provided by MTI's external auditor, other than for the services reported above, were $nil for the fiscal year ended June 30, 2014 and $nil for the fiscal year ended June 30, 2013.

CORPORATE GOVERNANCE DISCLOSURE

Board of Directors

The directors are responsible for managing and supervising the management of MTI's business and affairs. Each year, the Board must review the relationship that each director has with MTI in order to satisfy themselves that the relevant independence criteria have been met.

Other than interests arising from shareholdings in MTI, and other than as set forth herein, all of the current directors of MTI are "independent" within the meaning of NI 52-110, in that they are free from any interest which could reasonably interfere with their exercise of independent judgment as directors of MTI. Mr. Lis is a former executive officer of MTI and therefore is not independent.

In order to facilitate its exercise of independent judgment in carrying out its responsibilities, the Board may establish informal committees on an as needed basis consisting solely of independent directors to consider certain matters to be considered by the Board. The Board, or any committee, may also seek advice from outside advisors. The Board also follows a practice whereby any director who has an interest in a matter that the Board is considering will either abstain from voting on the matter or exit the Board meeting. The independent directors may hold meetings at which non-independent directors and members of management are not in attendance. However, in order to facilitate open and candid discussion among independent directors, communication among the independent directors also occurs on an informal and ongoing basis as such need arises.

Directorships

The following director(s) of MTI currently hold directorship(s) in other reporting issuer(s) as set out below:

Name of Director	Name of Other Reporting Issuer(s)
James Young	Novavax, Inc.

Committees of the Board

Presently, the Audit Committee is the only standing committee of the Board. The Audit Committee is currently comprised of Dr. James Young, Ian Hume and William Hudson. The Audit Committee is appointed by the Board to assist in monitoring: (i) the integrity of the financial statements of MTI; (ii) compliance by MTI with legal and regulatory requirements; and (iii) the qualification, appointment, independence and performance of MTI's external auditors and senior financial executives.

Special committees may be formed by the Board from time to time as required to review particular matters or transactions.

Orientation and Continuing Education

The Board does not have any formal procedures to orient new directors, nor does it have a formal policy of providing continuing education for directors. When a new director is appointed, he or she has the opportunity to meet other directors, executives, management and employees of MTI with orientation tailored to the needs and experience of the new director, as well as overall needs of the Board. New directors are provided with information respecting MTI and its business and operations.

MTI relies upon the advice of its professional advisors to update the knowledge of its directors in respect of changes in relevant policies and regulations. Some of MTI's directors are also directors of other publicly traded companies and benefit from exposure to boards of directors of such companies. New directors are generally selected on the basis of their breadth of experience with respect to MTI's business, having regard to the requirements for appropriate skill sets required by MTI.

Directors are also encouraged to communicate with executives, management, auditors and technical consultants to keep themselves current with the business and affairs of MTI. Directors have access to MTI's records at all times.

Ethical Business Conduct

The Board relies upon the selection of directors, officers, employees and consultants whom it considers as meeting the highest ethical standards to promote a culture of ethical business conduct.

The Board itself must comply with the conflict of interest provisions of applicable Canadian corporate law, as well as the relevant securities regulatory instruments, in order to ensure that directors exercise independent judgment in considering transactions and agreements in respect of which a director or executive officer has a material interest.

Nomination and Assessment

The Board has not appointed a nominating committee to propose new Board nominees. Nomination and review of potential new directors is reviewed by the complete Board and senior management. Nominees are generally the result of recruitment efforts by Board members, including both formal and informal discussions among Board members and MTI's executive officers.

Compensation

MTI has not constituted a compensation committee to discharge the Board's responsibilities relating to compensation of MTI's directors and officers. The Board, in consultation with its executives, periodically reviews compensation paid to its directors and officers.

Assessments

The Board is responsible for keeping management informed of its evaluation of the performance of MTI and its senior officers in achieving and carrying out the Board's established goals and policies, and the Board is also responsible for advising management of any remedial action or changes which it may consider necessary. Additionally, directors are expected to devote the time and attention to MTI's business and affairs as necessary to discharge their duties as directors effectively.

The Board does not have a formal process to monitor the effectiveness of the Board, its committee(s) and individual members, but rather relies on an informal review process. In order to gauge performance, the Board considers the following:

(a) input from directors, where appropriate;

(b) attendance of directors at meetings of the Board and any committee;

(c) the charter(s) of committee(s); and

(d) the competencies and skills each individual director is expected to bring to the Board and any committee.

APPOINTMENT AND REMUNERATION OF AUDITORS

Management of MTI will recommend at the Meeting that shareholders appoint BDO Canada LLP, Chartered Accountants, as auditors of MTI until the next annual meeting of shareholders and to authorize the directors to fix their remuneration.

THE ARRANGEMENT

General

MTI is a publicly traded company whose primary business is the research, development and commercialization of the MicroCoal Technology. The Arrangement has been proposed to, *inter alia*, facilitate the re-organization of MTI's primary business from development of the Target Assets following any completion of the Acquisition. Pursuant to the Arrangement, Target Company will acquire MTI's interest in the MTI Business for aggregate consideration of 179,500,076 Target Shares, which will be distributed to MTI Shareholders who hold MTI Shares as

at the Effective Time. Each MTI Shareholder as at the Effective Time will, immediately after the Arrangement, continue to hold substantially the same *pro rata* interest in Acquisition Company that such MTI Shareholder held in MTI prior to the completion of the Arrangement, subject to the issuance of any Acquisition Swap Shares in connection with any closing of the Acquisition, and will hold one Target Share for each MTI Share held immediately prior to the Arrangement. On completion of the Arrangement, as structured, it is planned that MTI Shareholders will hold an interest in the Target Business to be carried on by Target Company, in the same amount as the interest held by them as MTI Shareholders in the MTI Business prior to the Effective Time. As an additional benefit, MTI Shareholders will continue to hold an interest in Acquisition Company, which plans to focus on the exploration and development of the Target Assets following any completion of the Acquisition.

Closing of the Acquisition is expected to occur contemporaneously with, or as near as possible following, completion of the Arrangement, however, completion of the Acquisition is not a condition to the closing of the Arrangement. There is no assurance that the Acquisition will close as contemplated, or at all.

Reasons for the Arrangement

Management of MTI continually reviews opportunities to bring value to MTI and thereby maximize MTI Shareholder value. The Board believes that the Acquisition represents a value added business opportunity for MTI and that it would be in the best interests of MTI and the MTI Shareholders to complete the Acquisition. However, upon any completion of the Acquisition, MTI would be operating in two separate industries, and MTI's interest in the Target Assets would not align with its core business. The Board believes that companies with a defined focus on a core business have a competitive advantage and are best positioned to respond to changing market conditions. The transfer of the MTI Business, therefore, will provide each resulting company with a clear mandate to pursue its respective business strategies. Additionally, because the resulting entities will be focused in their respective industries, they will be more readily understood by investors, allowing each company to be in a better position to raise capital. The Arrangement will also provide MTI Shareholders with a direct interest in two separate companies, providing MTI Shareholders with greater investment flexibility. MTI Shareholders would continue to maintain their effective interest in the MTI Business through their ownership of Target Shares following completion of the Arrangement, and they would acquire all of the Vendor's right, title and interest in and to the Target Assets through their ownership of Acquisition Swap Shares following any closing of the Acquisition.

The Board has determined that management should concentrate its efforts on MTI's primary business activities. To this end, the Board approved the reorganization of MTI pursuant to the Arrangement as described in this Circular. The Board is of the view that the Arrangement will benefit MTI and the MTI Shareholders. This conclusion is based on the following primary determinations:

- MTI's primary focus is the research, development and commercialization of the MicroCoal Technology. This focus will hamper the exploration and development of the Target Assets following any completion of the Acquisition.

- Following the Arrangement, management of Target Company will be free to continue to focus entirely on its primary business activities, and Acquisition Company will establish its own management that has knowledge and expertise specific to Acquisition Company's industry.

- Following the Arrangement, MTI Shareholders will have a direct interest in two separate companies dedicated to the pursuit of their respective businesses. Among other advantages, this separation will provide MTI Shareholders with greater investment flexibility.

- As separate companies, each of Acquisition Company and Target Company will have direct separate access to public and private capital markets and will have the opportunity to issue debt and equity to fund their separate business operations and unique business plans and strategies.

Recommendation of Directors

The Board has concluded that the terms of the Arrangement are fair and reasonable to, and in the best interests of, MTI and the MTI Shareholders. The Board has therefore approved the Arrangement and authorized the submission of the Arrangement to the MTI Shareholders and the Court for approval. The Board recommends that MTI Shareholders vote FOR the approval of the Arrangement Resolution at the Meeting. In reaching this conclusion, the Board considered the benefits to MTI and the MTI Shareholders, as well as the financial position, opportunities and outlook for the future potential and operating performance of Acquisition Company and Target Company.

Fairness of the Arrangement

The Arrangement was determined to be fair to the MTI Shareholders by the Board based upon the following factors, among others:

1. the procedures by which the Arrangement will be approved, including the requirement for 66⅔% MTI Shareholder approval at the Meeting and approval by the Court after a hearing at which fairness will be considered;

2. each MTI Shareholder, as at the Effective Time, will participate in the Arrangement such that each MTI Shareholder, upon completion of the Arrangement, will continue to hold substantially the same *pro rata* interest in Acquisition Company that such MTI Shareholder held in MTI prior to the completion of the Arrangement, subject to the issuance of any Acquisition Swap Shares in connection with any closing of the Acquisition, and will continue to hold the same interest in Target Company that such MTI Shareholder held in MTI prior to the completion of the Arrangement;

3. the proposed listing of the Target Shares on the CSE as at the Effective Time; and

4. the opportunity for MTI Shareholders who are opposed to the Arrangement, upon compliance with certain conditions, to dissent from the approval of the Arrangement in accordance with the Interim Order.

Details of the Arrangement

The following description of the Arrangement is qualified in its entirety by reference to the full text of the Plan of Arrangement, attached as Schedule "A" to the Arrangement Agreement attached as Schedule "B". The Plan of Arrangement should be read carefully in its entirety.

Pursuant to the Plan of Arrangement, the following principal steps will occur and be deemed to occur in the following chronological order as part of the Arrangement at the Effective Time:

1. each MTI Share in respect of which a Dissenting Shareholder has validly exercised his, her or its Dissent Rights shall be deemed to be directly transferred and assigned by such Dissenting Shareholder to MTI (free and clear of any liens) in accordance with Article 4 of the Plan of Arrangement;

2. MTI will transfer all of the MTI Assets to Target Company in consideration for that number of Target Shares as is equal to the number of MTI Shares issued and outstanding immediately prior to the Effective Time less the number of MTI Shares transferred to MTI pursuant to step (1), above, and MTI will be added to the central securities register of Target Company in respect of such Target Shares;

3. in the course of a reorganization of MTI's authorized and issued share capital, the articles of MTI

shall be amended to:

a. alter the identifying name of the MTI Shares to class A common shares without par value, being the "MTI Class A Shares";

b. create a new class consisting of unlimited number of common shares without par value, having the rights and restrictions described in Appendix "I" to the Plan of Arrangement being the "Acquisition Swap Shares"; and

c. create a class consisting of an unlimited number of class B preferred shares without par value, having the rights and restrictions described in Appendix "II" to the Plan of Arrangement, being the "MTI Class B Preferred Shares";

4. each issued MTI Class A Share will be exchanged for one Acquisition Swap Share and one MTI Class B Preferred Share, and the holders of the MTI Class A Shares will be removed from the central securities register of MTI and will be added to the central securities register as the holders of the number of Acquisition Swap Shares and MTI Class B Preferred Shares that they have received on the exchange;

5. all of the issued MTI Class A Shares will be cancelled with the appropriate entries being made in the central securities register of MTI, and the aggregate paid–up capital (as that term is used for purposes of the Tax Act) of the MTI Class A Shares immediately prior to the Effective Time will be allocated between the Acquisition Swap Shares and the MTI Class B Preferred Shares so that the aggregate paid–up capital of the MTI Class B Preferred Shares is equal to the aggregate fair market value of the Target Shares as at the Effective Time, and each MTI Class B Preferred Share so issued will be issued by MTI at an issue price equal to such aggregate fair market value divided by the number of issued MTI Class B Preferred Shares, such aggregate fair market value of the Target Shares to be determined as at the Effective Time by the Board;

6. MTI will redeem the issued MTI Class B Preferred Shares for consideration consisting solely of the Target Shares, such that each holder of MTI Class B Preferred Shares will receive that number of Target Shares that is equal to the number of MTI Class B Preferred Shares held by such holder;

7. the name of each holder of MTI Class B Preferred Shares will be removed as such from the central securities register of MTI, and all of the issued MTI Class B Preferred Shares will be cancelled with the appropriate entries being made in the central securities register of MTI;

8. the Target Shares transferred to the holders of the MTI Class B Preferred Shares pursuant to step (5) above will be registered in the names of the former holders of the MTI Class B Preferred Shares and MTI will provide Target Company and its registrar and transfer agent notice to make the appropriate entries in the central securities register of Target Company;

9. the Target Share(s) held by MTI immediately prior to the Effective Time will be cancelled without further consideration therefor with the appropriate entries being made in the central securities register of Target Company;

10. the MTI Class A Shares and the MTI Class B Preferred Shares, none of which will be allotted or issued once the steps referred to in steps (1) to (9) above are completed, will be cancelled and the authorized share structure of MTI will be changed by eliminating the MTI Class A Shares and the MTI Class B Preferred Shares therefrom;

11. the articles and bylaws of MTI will be amended as necessary to reflect the changes to its authorized share structure made pursuant to this Arrangement;

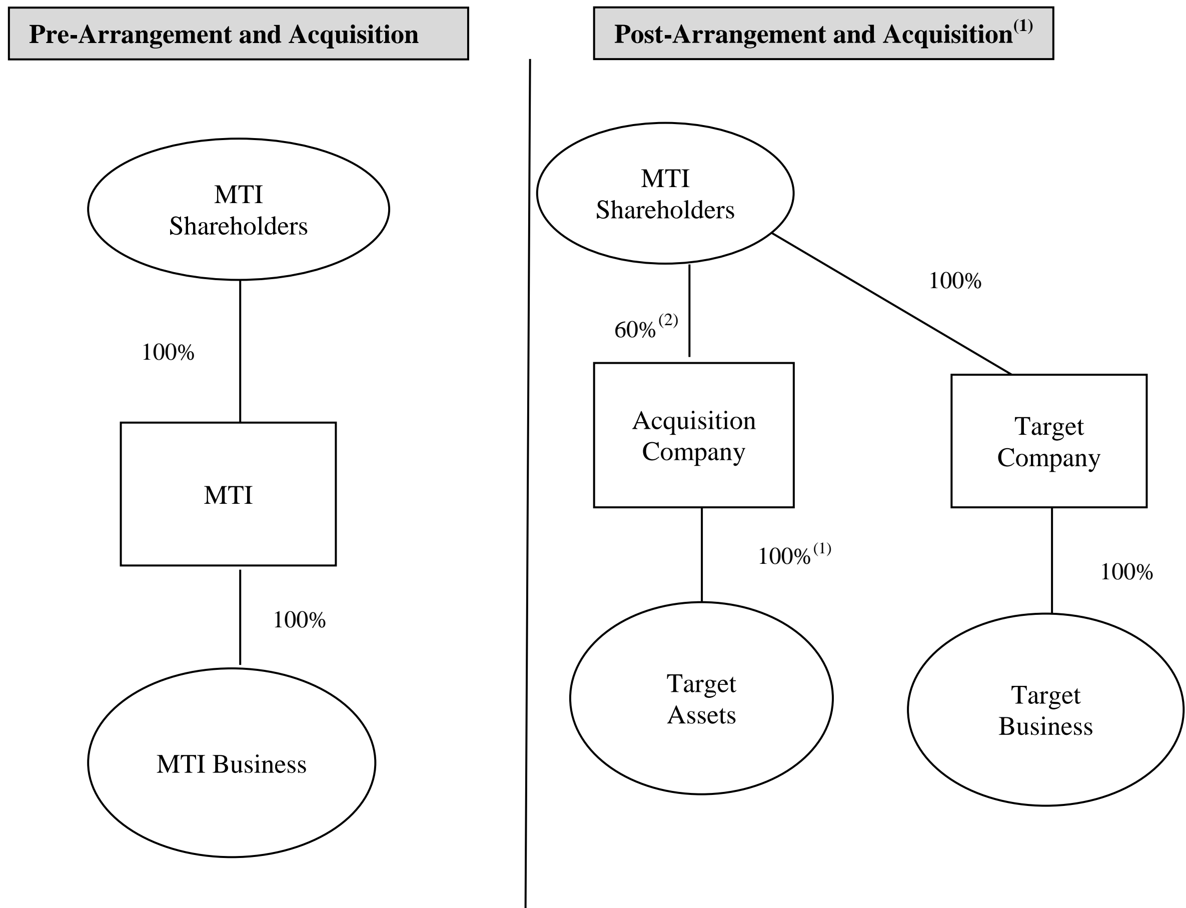
12. each MTI Warrant held by a MTI Warrantholder will be exchanged for one (1) Target Warrant and the MTI Warrants shall be cancelled and terminated and cease to represent any right or claim whatsoever;

13. MTI will consolidate the Acquisition Swap Shares on a 50:1 basis such that each holder of Acquisition Swap Shares shall receive one (1) consolidated Acquisition Swap Share for each 50 Acquisition Swap Shares held immediately prior to such consolidation subject to the rounding of fractions;

14. MTI will change its name to "La Jolla Capital Inc." or such other name as determined by the directors of MTI; and

15. the stated capital of the Acquisition Swap Shares shall be reduced to an amount equal to the net realizable value of the assets of MTI determined immediately following the completion of steps (1) to (13), above, by the Board.

The effect of the Arrangement, assuming completion of the Acquisition, can be summarized by the following diagrams:



Notes:

(1) Although MTI currently expects closing of the Acquisition to occur contemporaneously with, or as near as possible following, completion of the Arrangement, closing of the Acquisition is not a condition to completion of the Arrangement. There is no assurance that the Acquisition will close as contemplated, or at all.

(2) Pursuant to the terms of the Acquisition Agreement, an aggregate of approximately 2,393,334 post-consolidation Acquisition Swap Shares are issuable to the Vendor from treasury on any closing of the Acquisition.

IF YOU HAVE QUESTIONS OR NEED ASSISTANCE VOTING YOUR SHARES, CONTACT THE COMPANY'S PROXY AGENT AT 1-904-240-5818, OR BY EMAIL AT DDARMANJIAN@MTICOAL.COM.

Authority of the Board

By passing the Arrangement Resolution, the MTI Shareholders will also be giving authority to the Board to use its best judgment to proceed with and cause MTI to complete the Arrangement or to abandon the Arrangement without any requirement to seek or obtain any further approval of the MTI Shareholders.

The Arrangement Resolution also provides that the terms of the Plan of Arrangement may be amended by the Board before or after the Meeting without further notice to MTI Shareholders. Although the Board has no current intention to amend the terms of the Plan of Arrangement, it is possible that the Board may determine that appropriate amendments are necessary or desirable.

Conditions to the Arrangement

The Arrangement will be subject to the fulfillment or waiver of certain conditions, including the following:

1. the Arrangement must be approved by the Court in the manner referred to in the section of this Circular entitled "*The Arrangement – Court Approval of the Arrangement*";

2. the Arrangement must be approved by the MTI Shareholders at the Meeting in the manner referred to in the section of this Circular entitled "*The Arrangement – Shareholder Approval of the Arrangement*";

3. the CSE must have approved the Arrangement and the transactions contemplated thereby and the conditional listing of the Target Shares; and

4. all other consents, orders, regulations and approvals, including regulatory and judicial approvals and orders, required, necessary or desirable for the completion of the Arrangement must have been obtained or received, each in a form acceptable to MTI.

Although MTI currently expects the closing of the Acquisition to occur contemporaneously with, or as near as possible following, completion of the Arrangement, closing of the Acquisition is not a condition to the completion of the Arrangement. There is no assurance that the Acquisition will be completed as contemplated, or at all.

If any of the conditions of the Arrangement set out herein are not fulfilled or performed, the Arrangement may be terminated, or, in certain cases, MTI may waive the condition in whole or in part. As soon as practicable after the fulfillment of the conditions of the Arrangement, the Board intends to cause a certified copy of the Final Order and articles of arrangement to be filed with the Director under the CBCA, together with such other material as may be required by the Director, in order that the Arrangement will become effective.

Management of MTI believes that all material consents, orders, approvals or assurances required for the completion of the Arrangement will be obtained in the ordinary course upon application therefor.

Court Approval of the Arrangement

The Arrangement requires the approval of the Court. Prior to the mailing of the Circular, MTI obtained the Interim Order authorizing the calling and holding of the Meeting and providing for certain other procedural matters. The Interim Order is attached as Schedule "C". The Notice of Application for the Final Order is attached as Schedule "D".

Assuming approval of the Arrangement Resolution by the MTI Shareholders at the Meeting, the hearing for the Final Order is scheduled to take place at 9:45 a.m. (Vancouver time) on May 19, 2015 at the Law Courts, 800 Smithe Street, Vancouver, British Columbia, or at such other date and time as the Court may direct. At this hearing, any securityholder or creditor of MTI who wishes to participate or to be represented or present evidence or argument

may do so, subject to filing an appearance and satisfying certain other requirements.

The Court has broad discretion under the CBCA when making orders in respect of arrangements, and the Court may approve the Arrangement as proposed or as amended in any manner the Court may direct, subject to compliance with such terms and conditions, if any, as the Court thinks appropriate. The Court, in hearing the application for the Final Order, will consider, among other things, the fairness of the terms and conditions of the Arrangement to the MTI Shareholders.

Shareholder Approval of the Arrangement

Subject to any further order(s) of the Court, the Arrangement must be approved by at least 66⅔% of the votes cast by MTI Shareholders present, in person or by proxy, and entitled to vote at the Meeting. Notwithstanding the foregoing, the Arrangement Resolution authorizes the Board, without further notice to or approval of the MTI Shareholders and subject to the terms of the Arrangement Agreement, to amend the Plan of Arrangement or to decide not to proceed with the Arrangement at any time prior to the Effective Time. As at the date hereof, SOHL has indicated its agreement to vote all of the MTI Shares held by it in favour of the Arrangement Resolution.

In the absence of any instruction to the contrary, the MTI Shares represented by proxies appointing the management designees named in the form of proxy will be voted in favour of the Arrangement Resolution.

Effect of the Arrangement on CSE Listing and Reporting Issuer Status

MTI is currently a reporting issuer in British Columbia, Alberta and Ontario. Upon completion of the Arrangement, it is expected that Acquisition Company will be, and Target Company will become, a reporting issuer in the same jurisdictions and will be subject to the continuous disclosure and other obligations of such jurisdictions. Target Company is incorporated under the BCBCA. Accordingly, the holders of the Target Shares may have different rights and restrictions under the BCBCA than as MTI Shareholders under the CBCA.

The MTI Shares are currently listed on the CSE under the symbol "MTI". MTI has applied to list the Target Shares on the CSE under the symbol "TMS", which approval is subject to the satisfaction of certain conditions, including approval of the Arrangement by MTI Shareholders at the Meeting, the closing of the Arrangement, the filing of all documents required by the CSE and payment of fees required pursuant to the policies of the CSE and Target Company meeting the listing requirements of the CSE.

The CSE has advised that for the Acquisition Swap Shares to be listed on the CSE, Acquisition Company will likely need to meet the original listing criteria of the CSE applicable to companies seeking listing on the exchange, including obtaining a final receipt for a prospectus from the applicable Canadian securities commissions. As Acquisition Company is not expected to have obtained a final receipt for a prospectus before the Effective Time, it is expected that the Acquisition Swap Shares will not be listed on the CSE (or any other stock exchange or quotation system) upon completion of the Arrangement. However, Acquisition Company intends to make an application to list the Acquisition Swap Shares on the CSE promptly following closing of the Arrangement once it believes that it can meet the foregoing original listing requirements.

Proposed Timetable for the Arrangement

The anticipated timetable for the completion of the Arrangement and the key dates proposed are as follows:

Annual and special meeting:	May 14, 2015
Final Court approval:	May 19, 2015
Effective Date:	May 21, 2015

IF YOU HAVE QUESTIONS OR NEED ASSISTANCE VOTING YOUR SHARES, CONTACT THE COMPANY'S PROXY AGENT AT 1-904-240-5818, OR BY EMAIL AT DDARMANJIAN@MTICOAL.COM.

Mailing of certificates: May 22, 2015

Notice of the actual Effective Date will be given to the MTI securityholders through one or more news releases. The Board will determine the Effective Date upon satisfaction or waiver of the conditions to the Arrangement.

Treatment of MTI Convertible Securities

The Plan of Arrangement provides that the MTI Warrants will be exchanged for Target Warrants and that MTI Warrants will thereafter be cancelled and will cease to represent any right or claim whatsoever in MTI. On completion of the Arrangement, the Target Warrants will entitle the holder thereof to receive, upon exercise of such securities, a number of Target Company securities equivalent to the number of MTI securities that such holder would have been entitled to receive on the exercise of his, her or its MTI Warrants immediately prior to the Effective Time.

Prior to the Effective Time, MTI intends to cancel all of the outstanding MTI Options, substantially all of which are held by the directors, employees and consultants of MTI, without any compensation to the holders thereof.

Distribution of Certificates

Concurrent with the mailing of this Circular, MTI will mail the Share Letter of Transmittal to registered MTI Shareholders, which will be used to exchange their certificates representing MTI Shares for share certificates representing the Acquisition Swap Shares and the Target Shares. After giving effect to the Swap Share Consolidation, each MTI Share will be exchanged for 0.02 of an Acquisition Swap Share and 1.00 Target Share. Until exchanged, each certificate representing MTI Shares will, after the Effective Time, represent only the right to receive, upon surrender, Acquisition Swap Shares and Target Shares. No fractional Acquisition Swap Shares will be issued, and, as a result, all fractions will be rounded down to the next whole number and MTI Shareholders will not receive any compensation for any resulting fractional Acquisition Swap Shares.

Concurrent with the mailing of this Circular, MTI will also mail the Warrant Letter of Transmittal to registered holders of MTI Warrants, which will be used to exchange their certificates representing MTI Warrants for certificates representing Target Warrants. Until exchanged, each certificate representing MTI Warrants will, after the Effective Time, represent only the right to receive, upon surrender, Target Warrants.

Cancellation of Rights after Six Years

Any certificate which immediately prior to the Effective Time represented MTI Shares or MTI Warrants, as the case may be, and which has not been surrendered with all other documents required by the Depositary, on or prior to the sixth anniversary of the Effective Date, will cease to represent any claim against or interest of any kind or nature in Acquisition Company or Target Company. **Accordingly, persons who tender certificates for the MTI Shares or MTI Warrants after the sixth anniversary of the Effective Date will not receive Acquisition Swap Shares, Target Shares or Target Warrants, as the case may be, will not own any interest in Acquisition Company or Target Company and will not be paid any cash or other compensation in lieu thereof.**

Certain Securities Law Matters

The following discussion is only a general overview of certain requirements of Canadian and United States securities laws applicable to trades in securities of Acquisition Company and Target Company. All holders of securities are urged to consult with their own legal counsel to ensure that any resale of their securities of Acquisition Company or Target Company complies with applicable securities legislation.

Canadian Securities Law Matters

The issuance of Acquisition Swap Shares, Target Shares and Target Warrants in connection with the Arrangement,

and the issuance of Target Shares (and, in certain cases Target Share purchase warrants) from time to time upon the exercise of the Target Warrants, should be exempt from the prospectus and registration requirements of applicable Canadian securities laws. The sale of Acquisition Swap Shares and Target Shares received pursuant to the Arrangement will be free from restriction on the first trade of such shares pursuant to Canadian Securities Laws, provided that: (i) at the time of such first trade, Acquisition Company or Target Company, as the case may be, is and has been a reporting issuer in a jurisdiction of Canada for at least four months (Target Company is expected to be a reporting issuer after closing of the Arrangement and pursuant to National Instrument 45-106 − "*Resale of Securities*" will be deemed to have been a reporting issuer for more than four months as at the Effective Date); (ii) such sale is not a control distribution; (iii) no unusual effort is made to prepare the market or to create a demand for the securities; (iv) no extraordinary commission or consideration is paid to a person or company in respect of such sale; and (v) if the selling security holder is an insider or officer of Acquisition Company or Target Company, as the case may be, the selling security holder has no reasonable grounds to believe that Acquisition Company or Target Company, as the case may be, is in default of Canadian securities laws.

U.S. Securities Law Matters

The offer and sale of the securities to be issued to securityholders under the Arrangement have not been and will not be registered under the U.S. Securities Act or the securities laws of any state of the United States. Such securities will be issued in reliance upon the exemption from registration provided by Section 3(a)(10) of the U.S. Securities Act. Section 3(a)(10) exempts securities issued in exchange for one or more outstanding securities from the general requirement of registration where the terms and conditions of such issuance and exchange are approved by any court of competent jurisdiction, after a hearing upon the fairness of such terms and conditions at which all persons to whom the securities will be issued have the right to appear and receive timely notice thereof. The Court is authorized to conduct a hearing at which the fairness of the terms and conditions of the Arrangement will be considered. The Court granted the Interim Order on April 15, 2015 and, subject to the approval of the Arrangement by MTI Shareholders, a hearing on the Arrangement will be held on May 19, 2015 by the Court. The Final Order, if granted, will constitute the basis for the Section 3(a)(10) exemption from the registration requirements of the U.S. Securities Act.

The Target Warrants and securities issuable pursuant thereto have not been and will not be registered under the U.S. Securities Act or any state securities law and may not be exercised or otherwise converted in the United States or by or on behalf of a person in the United States or a U.S. person unless an exemption from registration is available.

The securities to be issued to securityholders under the Arrangement will (to the extent such securities are, by their terms, transferable) be freely tradable under U.S. federal securities laws, except by persons who are "affiliates" of MTI after the Arrangement or within 90 days prior to the Arrangement. Persons who may be deemed to be "affiliates" of an issuer include individuals or entities that control, are controlled by, or are under common control with, the issuer, whether through the ownership of voting securities, by contract or otherwise, and generally include executive officers and directors of the issuer as well as principal shareholders of the issuer. Any resale of such securities by such an affiliate (or, if applicable, former affiliate) may be subject to the registration requirements of the U.S. Securities Act, absent an exemption therefrom. Subject to certain limitations, affiliates may be able to resell securities outside the United States without registration under the U.S. Securities Act pursuant to the requirements and restrictions under Regulation S thereof. If available, such affiliates (and former affiliates) may also resell such securities pursuant to Rule 144 under the U.S. Securities Act subject to compliance with all of the requirements of Rule 144.

Expenses of the Arrangement

The costs relating to the Arrangement, including, without limitation, financial, advisory, accounting and legal fees, will be borne by MTI.

Risk Factors Relating to the Arrangement

The following risk factors should be considered by MTI Shareholders in evaluating whether to approve the

Arrangement. These risk factors should be considered in conjunction with the other information included in this Circular and the risk factors disclosed under the headings "*Target Company after the Arrangement – Risk Factors Relating to the Target Business*" and "*MTI after the Arrangement – Risk Factors Relating to Acquisition Company's Business*" below.

Termination of the Arrangement

Each of MTI and Target Company has the right to terminate the Arrangement Agreement in certain circumstances. Accordingly, there is no certainty, nor can MTI provide any assurance, that the Arrangement Agreement will not be terminated before the completion of the Arrangement. In addition, the completion of the Arrangement is subject to a number of conditions, certain of which are outside the control of MTI, including MTI Shareholders approving the Arrangement and required regulatory approvals, including of the Court and CSE, being obtained. There is no certainty, nor can MTI provide any assurance, that these conditions will be satisfied. If for any reason the Arrangement is not completed, the market price of MTI Shares may be adversely affected. Moreover, if the Arrangement Agreement is terminated, there is no assurance that MTI will be able to acquire the Target Assets or identify an equivalent opportunity.

Income Tax

The Arrangement may give rise to adverse tax consequences to MTI Shareholders and each MTI Shareholder is urged to consult with his, her or its own tax advisor. See "*Income Tax Considerations*" below.

Costs of the Arrangement

There are certain costs related to the Arrangement, such as legal and accounting fees incurred, that must be paid even if the Arrangement is not completed.

Pro-Forma Financial Statements

The *pro-forma* financial statements attached to this Circular and information derived therefrom contain in this Circular are presented for illustrative purposes only and may not be an indication of Target Company's financial condition following the Arrangement for several reasons. For example, such *pro-forma* financial statements have been derived from the historical financial statements of MTI and certain assumptions have been made. The information upon which these assumptions have been made is historical, preliminary and subject to change. Moreover, the *pro-forma* financial statements do not reflect all costs that are expected to be incurred by MTI and/or Target Company in connection with the Arrangement. In addition, the assumptions used in preparing the *pro-forma* financial statements may not prove to be accurate.

Exercise of Dissent Rights

Registered MTI Shareholders have the right to exercise Dissent Rights and demand payment equal to the fair value of their MTI Shares in cash. If Dissent Rights are exercised in respect of a significant number of MTI Shares, a substantial cash payment may be required to be made to such MTI Shareholders, which could have an adverse effect on Acquisition Company's or Target Company's financial condition and cash resources. Under the Arrangement Agreement, Target Company has agreed to indemnify Acquisition Company for costs relating to the exercise of Dissent Rights by MTI Shareholders. Further, MTI may elect, in its sole discretion, not to complete the Arrangement if a significant number of MTI Shareholders exercise Dissent Rights.

INCOME TAX CONSIDERATIONS

Certain Canadian Federal Income Tax Considerations

The following is a summary of the principal Canadian federal income tax considerations relating to the Arrangement applicable to a MTI Shareholder (in this summary, a "**Holder**") who, at all material times for purposes of the Tax

Act:

- holds all MTI Shares, and will hold all Acquisition Swap Shares and Target Shares, solely as capital property;
- deals at arm's length with Acquisition Company and Target Company;
- is not "affiliated" with Acquisition Company and Target Company;
- is not a "financial institution" for the purposes of the mark–to–market rules in the Tax Act; and
- has not acquired MTI Shares on the exercise of an employee stock option.

MTI Shares, Acquisition Swap Shares and Target Shares generally will be considered to be capital property of the Holder unless the Holder holds the shares in the course of carrying on a business or acquired them in a transaction considered to be an adventure in the nature of trade.

This summary is based on the current provisions of the Tax Act and the regulations thereunder (the "**Regulations**"), as well as the current administrative practices and policies of the Canada Revenue Agency (the "**CRA**"). It also takes into account specific proposals to amend the Tax Act and Regulations (the "**Proposed Amendments**") announced by the Minister of Finance (Canada) prior to the date hereof. It is assumed that all Proposed Amendments will be enacted in their present form, and that there will be no other relevant change to any relevant law or administrative practice, although no assurances can be given in these respects. This summary does not take into account any provincial, territorial or foreign income tax considerations which may differ from the Canadian federal income tax considerations discussed below. An advance income tax ruling will not be sought from the CRA in respect of the Arrangement.

This summary also assumes that as at the Effective Time, the Acquisition Swap Shares and the MTI Class B Preferred Shares will be listed on the CSE and is qualified accordingly.

This summary is of a general nature only, and is not exhaustive of all possible Canadian federal income tax considerations. This summary is not intended to be, and should not be construed to be, legal or tax advice to any MTI Shareholder. Accordingly, MTI Shareholders should each consult their own tax and legal advisers for advice as to the income tax consequences of the Arrangement applicable to them in their particular circumstances.

Holders Resident in Canada

The following portion of the summary is applicable only to Holders (each, in this portion of the summary, a "**Resident Holder**") who are or are deemed to be residents in Canada for the purposes of the Tax Act.

Exchange of MTI Shares for Acquisition Swap Shares and MTI Class B Preferred Shares

A Resident Holder whose MTI Class A Shares are exchanged for Acquisition Swap Shares and MTI Class B Preferred Shares pursuant to the Arrangement will not realize any capital gain or loss as a result of the exchange. The Resident Holder will be required to allocate the adjusted cost base ("**ACB**") of the Holder's MTI Shares, determined immediately before the Arrangement, *pro-rata* to the Acquisition Swap Shares and MTI Class B Preferred Shares received on the exchange based on the relative fair market values of those Acquisition Swap Shares and MTI Class B Preferred Shares immediately after the exchange.

Redemption of MTI Class B Preferred Shares

Pursuant to the Arrangement, the paid-up capital of the MTI Class A Shares immediately before their exchange for Acquisition Swap Shares and MTI Class B Preferred Shares will be allocated to the MTI Class B Preferred Shares to

be issued on the exchange to the extent of an amount equal to the fair market value of the Target Shares to be issued to MTI Shareholders pursuant to the Arrangement and the balance of such paid-up capital will be allocated to the Acquisition Swap Shares to be issued on the exchange.

MTI expects that the fair market value of the Target Shares to be so issued will be materially less than the paid-up capital of the MTI Class A Shares immediately before the exchange, and, for the purposes of this summary, it has been assumed that MTI's expectation is correct. Accordingly, MTI is not expected to be deemed to have paid, and no Resident Holder is expected to be deemed to have received, a dividend as a result of the distribution of Target Shares on the redemption of the MTI Class B Preferred Shares pursuant to the Arrangement.

Each Resident Holder whose MTI Class B Preferred Shares are redeemed for Target Shares pursuant to the Arrangement will realize a capital gain (capital loss) equal to the amount, if any, by which the fair market value of the Target Shares, less reasonable costs of disposition, exceed (are exceeded by) their ACB immediately before the redemption. Any capital gain or loss so arising will be subject to the usual rules applicable to the taxation of capital gains and losses described below (see the section of this Circular entitled "*Income Tax Considerations — Certain Canadian Federal Income Tax Considerations — Holders Resident in Canada — Taxation of Capital Gains and Losses*").

The cost to a Resident Holder of Target Shares acquired on the exchange will be equal to the fair market value of the Target Shares at the time of their distribution.

Disposition of Acquisition Swap Shares and Target Shares

A Resident Holder who disposes of an Acquisition Swap Share or Target Share will realize a capital gain (capital loss) equal to the amount by which the proceeds of disposition of the share, less reasonable costs of disposition, exceed (are exceeded by) the ACB of the share to the Resident Holder determined immediately before the disposition. Any capital gain or loss so arising will be subject to the usual rules applicable to the taxation of capital gains and losses described below. See "*Holders Resident in Canada — Taxation of Capital Gains and Losses*".

Taxation of Capital Gains and Losses

A Resident Holder who realizes a capital gain (capital loss) in a taxation year must include one half of the capital gain ("**taxable capital gain**") in income for the year, and may deduct one half of the capital loss ("**allowable capital loss**") against taxable capital gains realized in the year, and to the extent not so deductible, against taxable capital gains arising in any of the three preceding taxation years or any subsequent taxation year.

The amount of any capital loss arising from a disposition or deemed disposition of a MTI Class B Preferred Share, Acquisition Swap Share, or Target Share by a Resident Holder that is a corporation may, to the extent and under circumstances specified in the Tax Act, be reduced by the amount of certain dividends received or deemed to be received by the corporation on the share. Similar rules may apply if the corporation is a member of a partnership or beneficiary of a trust that owns shares, or where a partnership or trust of which the corporation is a member or beneficiary is a member of a partnership or a beneficiary of a trust that owns shares.

A Resident Holder that is a "Canadian-controlled private corporation" for the purposes of the Tax Act may be required to pay an additional 6⅔% refundable tax in respect of any net taxable capital gain that it realizes on disposition of a MTI Class B Preferred Share, Acquisition Swap Share or Target Share.

Taxation of Dividends

A Resident Holder who is an individual will be required to include in income any dividend that the Resident Holder receives, or is deemed to receive, on Acquisition Swap Shares or Target Shares, and will be subject to the gross–up and dividend tax credit rules applicable to taxable dividends received from taxable Canadian corporations.

A Resident Holder that is a corporation will be required to include in income any dividend that it receives or is

deemed to be received on Acquisition Swap Shares or Target Shares, and generally will be entitled to deduct an equivalent amount in computing its taxable income. A "private corporation" (as defined in the Tax Act) or any other corporation controlled or deemed to be controlled by or for the benefit of an individual or a related group of individuals may be liable under Part IV of the Tax Act to pay a refundable tax of 33⅓% on any dividend that it receives or is deemed to be received on Acquisition Swap Shares or Target Shares to the extent that such dividends are deductible in computing the corporation's taxable income. Any such Part IV tax will be refundable to it at the rate of $1 for every $3 of taxable dividends that it pays on its shares.

Alternative Minimum Tax on Individuals

A capital gain realized or deemed to be realized by a Resident Holder who is an individual (including certain trusts and estates) may give rise to liability to alternative minimum tax under the Tax Act.

Eligibility for Investment

MTI Class B Preferred Shares and Acquisition Swap Shares will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, and registered education savings plans ("**Registered Plans**") at any particular time provided that, at that time, either the shares are listed on a "designated stock exchange" or MTI is a "public corporation" as defined for the purposes of the Tax Act.

Target Shares will be qualified investments under the Tax Act for Registered Plans at any particular time provided that, at that time, either the Target Shares are listed on a "designated stock exchange" or Target Company is a "public corporation" as so defined.

Holders Not Resident in Canada

The following portion of this summary is applicable only to Holders (each in this portion of the summary a "**Non–resident Holder**") who:

- have not been, are not, and will not be resident or deemed to be resident in Canada for purposes of the Tax Act;
- do not and will not, and are not and will not be deemed to, use or hold MTI Shares, Acquisition Swap Shares, MTI Class B Preferred Shares, or Target Shares in connection with carrying on a business in Canada; and
- whose MTI Shares, MTI Class B Preferred Shares, Acquisition Swap Shares and Target Shares will not at the Effective Date under the Arrangement, or at any material time thereafter, constitute "taxable Canadian property" for the purposes of the Tax Act.

Generally, a MTI Share, MTI Class B Preferred Share, Acquisition Swap Share, or Target Share, as applicable, owned by a Non-resident Holder will not be taxable Canadian property of the Non-resident Holder at a particular time provided that, at that time, (i) the share is listed on a designated stock exchange (which includes the TSX, TSX-V and CSE), (ii) neither the Non-resident Holder nor persons with whom the Non-resident Holder does not deal at arm's length alone or in any combination has owned 25% or more of the shares of any class or series in the capital of the issuing corporation within the previous five years, and (iii) the share was not acquired in a transaction as a result of which it was deemed to be taxable Canadian property of the Non-resident Holder.

Special rules, which are not discussed in this summary, may apply to a Non-resident Holder that is an insurer carrying on business in Canada.

Capital Gains and Capital Losses on Share Exchanges and Subsequent Dispositions of Shares

A Non-resident Holder who participates in the Arrangement will not be subject to tax under the Tax Act on any capital gain realized on the exchange of MTI Class A Shares (the redesignated MTI Shares) for Acquisition Swap Shares and MTI Class B Preferred Shares, nor on the redemption of MTI Class B Preferred Shares in consideration for Target Shares.

Similarly, any capital gain realized by a Non-resident Holder on the subsequent disposition or deemed disposition of a Target Share or Acquisition Swap Share acquired pursuant to the Arrangement will not be subject to tax under the Tax Act, provided either that the shares do not constitute taxable Canadian property of the Non-resident Holder at the time of disposition, or an applicable income tax treaty exempts the capital gain from tax under the Tax Act.

Non-resident Holders will be exempt from the reporting and withholding obligations of section 116 of the Tax Act in respect of the disposition of MTI Shares and MTI Class B Preferred Shares pursuant to the Arrangement.

Deemed Dividends on the Redemption of MTI Class B Preferred Shares

For the reasons set above under "*Holders Resident in Canada — Redemption of MTI Class B Preferred Shares*", MTI expects that no Non-Resident Holder will be deemed to have received a dividend on the redemption of MTI Class B Preferred Shares for Target Shares.

Taxation of Dividends

A Non-resident Holder to whom a dividend on an Acquisition Swap Share or Target Share is or is deemed to be paid, or credited, will be subject to Canadian withholding tax under the Tax Act at the rate of 25% of the gross amount of the dividend, unless reduced by an applicable income tax treaty, if any.

Certain U.S. Federal Income Tax Considerations

Scope of This Disclosure

Transactions Addressed

The following discussion is a summary of the anticipated material U.S. federal income tax considerations arising from and related to the Distribution (as defined below) that are generally applicable to U.S. Holders (as defined below) of MTI Shares. The following discussion of the anticipated material U.S. federal income tax considerations arising from and related to the Distribution is for general information only and does not purport to be a complete analysis or description of all U.S. federal income tax consequences that may apply to a U.S. Holder of MTI Shares as a result of the Distribution. **U.S. Holders of MTI Shares are urged to consult their own tax advisors regarding the particular tax consequences of the Distribution, including the application and effect of U.S. federal, state, local and other tax laws.**

Notice Pursuant to IRS Circular 230

Anything contained in this summary concerning any U.S. federal tax issue is not intended or written to be used, and it cannot be used by a U.S. Holder, for the purpose of avoiding U.S. federal tax penalties under the Code (as defined below). This summary was written to support the promotion or marketing of the transactions or matters addressed by the Circular (including the Arrangement). Each U.S. Holder should seek U.S. federal tax advice, based on such U.S. Holder's particular circumstances, from an independent tax advisor.

Authorities

This summary is based on the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), the Treasury Regulations (proposed, temporary and final) issued under the Code, the Convention Between Canada and the United

States of America with Respect to Taxes on Income and on Capital, signed September 26, 1980, as amended (the "**Canada–U.S. Tax Convention**") and judicial and administrative interpretations of the Code and Treasury Regulations, in each case as in effect and available as at the date of the Circular. However, the Code, Treasury Regulations and judicial and administrative interpretations thereof may change at any time, and any such change could be retroactive to the date of the Circular. The Code, Treasury Regulations and judicial and administrative interpretations thereof are also subject to various interpretations, and the U.S. Internal Revenue Service (the "**IRS**") or the U.S. courts could disagree with the explanations or conclusions contained in this summary. This summary does not consider the potential effects, whether adverse and beneficial, of any proposed legislation that, if enacted, could be applied, possibly on a retroactive basis, at any time.

U.S. Holder

For purposes of this summary, a "**U.S. Holder**" is a beneficial owner of MTI Shares that, for U.S. federal income tax purposes, is (a) a citizen or individual resident of the U.S., (b) a corporation created or organized in or under the laws of the U.S. or of any political subdivision thereof, (c) an estate whose income is taxable in the U.S. irrespective of source or (d) a trust subject to the primary supervision of a court within the U.S. and control of a U.S. fiduciary as described Section 7701(a)(30) of the Code. If a partnership or other "pass-through" entity holds MTI Shares, the U.S. federal income tax treatment of the partners or owners of such partnership or other "pass-through" entity generally will depend on the status of such partners or owners and the activities of such partnership or "pass-through" entity.

Non-U.S. Holders

A "**non-U.S. Holder**" is a beneficial owner of MTI Shares other than a U.S. Holder. This summary does not address the U.S. federal income tax consequences arising from or related to the Arrangement (as hereinafter defined) with respect to non-U.S. Holders of MTI Shares. **Non-U.S. Holders of MTI Shares are urged to consult their own tax advisors regarding the U.S. federal income tax consequences of the Distribution.**

Transactions Not Addressed

This summary does not address the U.S. federal income tax consequences of transactions effectuated prior or subsequent to, or concurrently with, the Distribution (whether or not any such transactions are undertaken in connection with the Distribution), including, without limitation, the following transactions:

- any exercise of any stock option, warrant or other right to acquire MTI Shares;
- any conversion of any MTI notes, debentures or other debt instruments into MTI Shares;
- any transaction in which MTI Shares are acquired (other than pursuant to the Distribution); or
- any transaction in which Target Shares are disposed of.

Persons Not Addressed

This summary does not address the U.S. federal income tax consequences arising from and related to the Distribution with respect to the following persons (including persons that are U.S. holders):

- MTI or Target Company;
- persons that may be subject to special U.S. federal income tax treatment, such as persons who are tax-exempt organizations, qualified retirement plans, individual retirement accounts and other tax-deferred accounts, financial institutions, insurance companies, real estate investment trusts, regulated investment companies or brokers or dealers in securities;

- persons that acquired MTI Shares pursuant to the exercise of employee stock options or rights, or otherwise as compensation for services;
- persons having a functional currency for U.S. federal income tax purposes other than the U.S. dollar;
- persons that hold MTI Shares as part of a position in a straddle or as part of a hedging or conversion transaction;
- persons subject to the alternative minimum tax provisions of the Code;
- persons that own, directly or indirectly (including through the application of ownership attribution rules under the Code), 10% or more of the MTI Shares;
- U.S. expatriates or other former long-term residents of the United States;
- persons that are partners or owners of partnerships or other "pass-through" entities; or
- persons who own their MTI Shares other than as a capital asset, as defined in the Code.

Such persons are urged to consult their own tax advisors regarding the U.S. federal income tax consequences of the Distribution, including the application of any special U.S. federal income tax rules in light of their particular circumstances.

State and Local Taxes, Foreign Jurisdictions Not Addressed

This summary does not address U.S. state or local tax consequences, or tax consequences in jurisdictions other than the U.S., arising from or related to the Distribution. **Each U.S. Holder is urged to consult their own tax advisor regarding the U.S. state and local tax consequences, and the tax consequences in jurisdictions other than the U.S., of the Distribution.**

Particular Circumstance of any Particular U.S. Holder Not Addressed

This summary does not take into account the particular facts and circumstances with respect to U.S. federal income tax issues of any particular U.S. Holder. **Each U.S. Holder is urged to consult their own tax advisor regarding the U.S. federal income tax consequences of the Distribution in light of their particular circumstances.**

Distribution of Target Shares

This summary assumes that the series of transactions undertaken pursuant to the Arrangement involving (a) the renaming and redesignation of the MTI Shares as MTI Class A Shares, (b) the exchange of each issued and outstanding MTI Class A Share for one Acquisition Swap Share and one MTI Class B Preferred Share, (c) the redemption by MTI of each issued and outstanding MTI Class B Preferred Share for one Target Share, and (d) the cancellation of each MTI Class A Share and each MTI Class B Preferred Share (collectively the "**Distribution**") will be treated by the IRS, under the step-transaction doctrine or otherwise, as if (i) MTI directly distributed the Target Shares to the holders of the MTI Shares and (ii) the intervening steps of the Distribution (including those steps of the Distribution described in the preceding sentence) did not occur. However, because the Distribution will be effected under the applicable provisions of Canadian law that are technically different from analogous provisions of U.S. corporate law, there can be no assurances that the IRS or a U.S. court would not take a contrary view of the Distribution. In particular, it is possible that the IRS could analyze the various steps of the Distribution described above separately and independently, and could determine the U.S. federal income tax consequences of the various steps of the Distribution on such a separate and independent basis.

Assuming that the Distribution is treated for U.S. federal income tax purposes in the manner described in the

paragraph immediately above, subject to the passive foreign investment company ("**PFIC**") rules discussed below, the Distribution will result in the following U.S. federal income tax consequences to U.S. Holders:

- U.S. Holders will be required to include in gross income as a dividend for U.S. federal income tax purposes the fair market value of the Target Shares received, determined as at the date of the Distribution, to the extent that the Company has current or accumulated "earnings and profits" as calculated for U.S. federal income tax purposes (without reduction for any Canadian income tax withheld). Dividend income recognized by a U.S. Holder as a result of the Distribution generally will be treated as "foreign source" income for purposes of applying the U.S. foreign tax credit rules. See "*Income Tax Considerations — Certain U.S. Federal Income Tax Considerations — Foreign Tax Credit*" below. A dividend resulting from the Distribution generally will be taxed at the preferential tax rates applicable to long-term capital gains if (a) MTI is a "qualified foreign corporation" (as defined below), (b) the U.S. Holder receiving such dividend is an individual, estate, or trust, and (c) such dividend is paid on MTI Shares that have been held by such U.S. Holder for at least 61 days during the 121-day period beginning 60 days before the "ex-dividend date." MTI generally will be a "qualified foreign corporation" under Section 1(h)(11) of the Code (a "**QFC**") if (a) MTI is eligible for the benefits of the Canada-U.S. Tax Convention, or (b) the MTI Shares are readily tradable on an established securities market in the U.S. However, even if MTI satisfies one or more of such requirements, MTI will not be treated as a QFC if MTI is a PFIC for the tax year during which the Distribution occurs or for the preceding tax year. As discussed below, MTI anticipates that it will qualify as a PFIC for the tax year that includes the date of the Distribution. Accordingly, MTI anticipates that it will not be a QFC. Assuming that MTI is not a QFC, a dividend resulting from the Distribution to a U.S. Holder, including a U.S. Holder that is an individual, estate, or trust generally will be taxed at ordinary income tax rates (and not at the preferential tax rates applicable to long–term capital gains). **The dividend rules are complex, and each U.S. Holder is urged to consult its own tax advisor regarding the application and effect of the dividend rules.**

- To the extent that the fair market value of the Target Shares received, determined as at the date of the Distribution, exceeds current and accumulated "earnings and profits" of MTI, such excess will be treated (a) first as a return of capital, up to the U.S. Holder's adjusted tax basis in the MTI Shares (which will reduce a U.S. Holder's tax basis in such MTI Shares), and (b) thereafter, as gain from the sale or exchange of MTI Shares. Preferential tax rates for long-term capital gains are applicable to a U.S. Holder that is an individual, estate or trust. There are currently no preferential tax rates for long-term capital gains for a U.S. Holder that is a corporation (other than an S Corporation). Deductions for capital losses are subject to significant limitations. Capital gain recognized by a U.S. Holder as a result of the Distribution generally will be treated as "U.S. source" gain for purposes of applying the U.S. foreign tax credit rules. See " *Income Tax Considerations — Certain U.S. Federal Income Tax Considerations — Foreign Tax Credit*" below.

- A U.S. Holder's initial tax basis in the Target Shares received in the Distribution will be equal to the fair market value of such Target Shares, determined on the date of the Distribution.

- A U.S. Holder's holding period for the Target Shares received by a U.S. Holder will begin on the day after receipt.

PFIC Rules

Definition of a PFIC

Section 1297 of the Code defines a PFIC as a corporation that is not formed in the U.S. and, for any taxable year, either (a) 75% or more of its gross income is "passive income" or (b) the average percentage, by fair market value (or, if the corporation is not publicly traded and either is a controlled foreign corporation or makes an election, by adjusted tax basis), of its assets that produce or are held for the production of "passive income" is 50% or more. "Passive income" includes, for example, dividends, interest, certain rents and royalties, certain gains from the sale of stock and securities and certain gains from commodities transactions.

For purposes of the PFIC income test and asset test described above, if the corporation owns, directly or indirectly, 25% or more of the total value of the outstanding shares of another foreign corporation, such corporation will be treated as if it (a) held a proportionate share of the assets of such other foreign corporation and (b) received directly a proportionate share of the income of such other foreign corporation. In addition, for purposes of the PFIC income test and asset test described above, "passive income" does not include any interest, dividends, rents, or royalties that are received or accrued by the corporation from a "related person" (as defined in Section 954(d)(3) of the Code), to the extent such items are properly allocable to the income of such related person that is not passive income.

PFIC Status of MTI

Based on MTI's current and projected income, assets and activities, MTI anticipates that it will qualify as a PFIC for the tax year that includes the date of the Distribution. In addition, MTI believes that it qualified as a PFIC for its most recent tax year ended on or prior to the date of the Distribution and in previous tax years. The determination of whether MTI will be a PFIC for a taxable year depends, in part, on the application of complex U.S. federal income tax rules, which are subject to differing interpretations. In addition, whether MTI will be a PFIC for the taxable year that includes the date of the Distribution depends on the assets and income of MTI over the course of such taxable year and, as a result, cannot be predicted with certainty as at the date of the Circular. However, there can be no assurances that MTI's determination regarding its past, current or anticipated PFIC status will not be challenged by the IRS.

Impact of PFIC Rules on U.S. Holders in the Distribution

QEF Election

The impact of the PFIC rules on a U.S. Holder in the Distribution will depend on whether the U.S. Holder has made a timely and effective election to treat MTI as a qualified electing fund under Section 1295 of the Code (a "**QEF Election**") for the tax year that is the first year in the U.S. Holder's holding period of the MTI Shares during which MTI qualified as a PFIC. A U.S. Holder of MTI who made such a QEF Election will be referred to in this summary as an "**Electing Shareholder**" and a U.S. Holder of MTI who did not make such a QEF Election will be referred to in this summary as a "**Non-Electing Shareholder**". The impact of the PFIC rules on a U.S. Holder in the Distribution may also depend on whether the U.S. Holder has made a mark to market election under Section 1296 of the Code. See "*Income Tax Considerations — Certain U.S. Federal Income Tax Considerations — PFIC Rules — Mark-to-Market Election*" below.

If a U.S. Holder has not made a timely and effective QEF Election with respect to the first year in the U.S. Holder's holding period in which MTI qualified as a PFIC, such U.S. Holder may qualify as an Electing Shareholder by filing on a timely filed U.S. income tax return (including extensions) a QEF Election and a "deemed sale election" to recognize, under the rules of Section 1291 of the Code, any gain that the U.S. Holder would otherwise recognize if the U.S. Holder sold his or her stock on the "qualification date". The qualification date is the first day of MTI's tax year in which MTI qualified as a "qualified electing fund" with respect to such U.S. Holder. The deemed sale election can only be made if such U.S. Holder held MTI Shares on the qualification date. By timely making such QEF and deemed sale elections, the U.S. Holder will be deemed to have made a timely QEF Election. In addition to the above rules, under very limited circumstances, a U.S. Holder may make a retroactive QEF Election if such U.S. Holder failed to file the QEF Election documents in a timely manner.

If a U.S. Holder has made a QEF Election with respect to MTI, then MTI would have to annually provide such U.S. Holder with certain information concerning MTI's income and gain, calculated in accordance with the Code, and also would have to comply with certain record-keeping requirements imposed on a QEF in order for such U.S. Holder to satisfy the QEF reporting rules. MTI has not provided its U.S. Holders with such QEF information in prior tax years and does not intend to provide such QEF information in the current tax year.

U.S. Holders are urged to contact their own tax advisors regarding the advisability of and procedure for making the QEF election, and the U.S. federal income tax consequences of making the QEF election.

Mark-to-Market Election

U.S. Holders who hold, actually or constructively, "marketable stock" (as specifically defined in the Treasury Regulations) of a foreign corporation that qualifies as a PFIC may annually elect to mark such stock to the market (a "**Mark-to-Market Election**"). If a Mark-to-Market Election is made, a U.S. Holder generally will not be subject to the special taxation rules of Section 1291 of the Code discussed below. However, if the Mark-to-Market Election is made by a Non-Electing Shareholder after the beginning of the holding period for the MTI Shares during a time in which MTI qualified as a PFIC, then the Section 1291 rules discussed below will apply to certain dispositions of distributions on and other amounts taxable with respect to such MTI Shares.

U.S. Holders are urged to contact their own tax advisors regarding the advisability of and procedure for making the Mark-to-Market Election, and the U.S. federal income tax consequences of making the Mark-to-Market Election.

Taxation of Distribution under PFIC Rules

With respect to a Non-Electing Shareholder, special rules under Section 1291 of the Code will apply to gains recognized by a Non-Electing Shareholder on disposition of the MTI Shares and to "excess distributions" (generally, distributions received in the current tax year that are in excess of 125% of the average distributions received during the three preceding years or, if shorter, the U.S. Holder's holding period for the MTI Shares) received by such Non-Electing Shareholder from MTI. A Non-Electing U.S. Holder generally would be required to pro–rate all such gains and "excess distributions" over the entire holding period for such MTI Shares. The portion of the gain or excess distribution allocated to prior years in such Non-Electing Shareholder's holding period for such MTI Shares (other than years prior to the first taxable year of MTI during such Non-Electing Shareholder's holding period and beginning after January 1, 1987 for which MTI qualified as a PFIC) will be taxed at the highest tax rate applicable to ordinary income for each such prior year. The Non-Electing Shareholder will also be liable for interest on the resulting tax liability for each such prior year, calculated as if such tax liability had been due with respect to each such prior year. A Non-Electing Shareholder that is not a corporation must treat this interest charge as "personal interest" which is wholly non–deductible. The portion of the gain or excess distribution allocated to the current tax year will be treated as ordinary income in the year of the disposition or "excess distribution," and no interest charge will be owed with respect to the resulting tax liability.

If and to the extent that the Distribution of the Target Shares constitutes an "excess distribution" under the PFIC rules with respect to a Non-Electing Shareholder, such Non-Electing Shareholder will be subject to the foregoing tax rules with respect to the receipt of the Target Shares in the Distribution. In addition, the Distribution of the Target Shares pursuant to the Arrangement may be treated, under proposed Treasury Regulations, as the "indirect disposition" by a Non-Electing Shareholder of such Non-Electing Shareholder's indirect interest in Target Company, which generally would be subject to the rules of Section 1291 of the Code discussed above.

Electing Shareholders generally will not be subject to the special taxation rules of Section 1291 applicable to "excess distributions" with respect to the Distribution. See "*Income Tax Considerations — Certain U.S. Federal Income Tax Considerations — PFIC Rules — QEF Election*" above. Also, as discussed above, a U.S. Holder who makes a Mark-to-Market Election with respect to MTI Shares held, generally will not be subject to the special taxation rules of Section 1291 applicable to "excess distributions" with respect to the Distribution. However, if the Mark-to-Market Election is made by a Non-Electing Shareholder after the beginning of the holding period for the MTI Shares during a time in which MTI qualified as a PFIC, then the Section 1291 rules may continue to apply to the Distribution. See "*Income Tax Considerations — Certain U.S. Federal Income Tax Considerations — PFIC Rules — Mark-to-Market Election*" above.

Lack of Guidance

The PFIC rules are complex and subject to interpretation. The implementation of certain aspects of the PFIC rules requires the issuance of Treasury Regulations that, in many instances, have not been promulgated and that may have retroactive effect when promulgated. There can be no assurance that any of these proposals will be enacted or

promulgated, and if so, the form they will take or the effect that they may have on this summary. **Accordingly, and due to the complexity of the PFIC rules, U.S. Holders are urged to consult their own tax advisors concerning the impact of the PFIC rules on the Distribution, including, without limitation, whether a QEF Election or Mark–to–Market Election may be used to reduce the significant adverse U.S. federal income tax consequences of the PFIC rules.**

Currency Gains

The fair market value of any Canadian currency received by a U.S. Holder in the Distribution generally will be based on the rate of exchange on the date of the Distribution. A subsequent disposition of any Canadian currency received (including its conversion into U.S. currency) generally will give rise to gain or loss, treated as ordinary income or loss. **U.S. Holders are urged to consult their own tax advisors concerning the U.S. federal income tax consequences of acquiring, holding and disposing of Canadian dollars.**

Foreign Tax Credit

A U.S. Holder who pays (or has withheld) Canadian income tax with respect to the Distribution may be entitled, at the option of the U.S. Holder, to either receive a deduction or a tax credit for U.S. federal income tax purposes with respect to such foreign tax paid or withheld. Generally, it will be more advantageous to claim a credit because a credit reduces U.S. federal income taxes on a dollar-for-dollar basis, while a deduction merely reduces the taxpayer's income subject to U.S. federal income tax. This election is made on a year-by-year basis and applies to all foreign taxes paid by (or withheld from distributions to) the U.S. Holder during that year. There are significant and complex limitations that apply to the foreign tax credit, among which is the general limitation that the credit cannot exceed the proportionate share of the U.S. Holder's U.S. income tax liability that the U.S. Holder's "foreign source" income bears to his or its worldwide taxable income. In applying this limitation, the various items of income and deduction must be classified as either "foreign source" or "U.S. source". Complex rules govern this classification process. In addition, this limitation is calculated separately with respect to specific classes of income. **U.S. Holders who pay (or have withheld) Canadian income tax with respect to the Distribution are urged to consult their own tax advisors regarding the foreign tax credit rules and the potential benefits of the Canada-U.S. Tax Convention.**

No Ruling or Legal Opinion

No opinion of legal counsel and no ruling from the IRS concerning the U.S. federal income tax consequences of the Distribution has been obtained or will be requested. This summary is not binding on the IRS, and the IRS is not precluded from taking a different position or positions. U.S. Holders should be aware that some of the U.S. federal income tax consequences of the Distribution are governed by provisions of the Code as to which there are no final Treasury Regulations and little or no judicial or administrative guidance.

Backup Withholding Tax and Information Reporting Requirements

Payments to certain U.S. Holders of dividends made on, or the proceeds of the sale or other disposition of, the MTI Shares may be subject to information reporting and U.S. federal backup withholding tax at the rate of 28% (subject to periodic adjustment) if the U.S. Holder fails to supply an accurate taxpayer identification number or otherwise fails to comply with applicable U.S. information reporting or certification requirements (typically provided on IRS Form W-9). Any amount withheld from a payment to a U.S. Holder under the backup withholding rules is allowable as a credit against the U.S. Holder's U.S. federal income tax, provided that the required information is furnished to the IRS. **U.S. Holders are urged to consult their own tax advisors concerning the backup withholding tax rules and compliance with applicable certification requirements.**

DISSENT RIGHTS

If you are a registered MTI Shareholder, you are entitled to dissent from the Arrangement Resolution in the manner provided in Section 190 of the CBCA, as modified or supplemented by the Interim Order, the Plan of Arrangement or any other order(s) of the Court.

The following description of the rights of registered MTI Shareholders to dissent from the Arrangement Resolution is not a comprehensive statement of the procedures to be followed by a Dissenting Shareholder who seeks payment of the fair value of his, her or its MTI Shares. A registered MTI Shareholder's failure to follow exactly the procedures set forth in Section 190 of the CBCA, as modified or supplemented by the Interim Order, Plan of Arrangement or any other order(s) of the Court, will result in the loss of such registered MTI Shareholder's Dissent Rights. If you are a MTI Shareholder and wish to dissent, you should obtain your own legal advice and carefully read the Arrangement Agreement, which includes the Plan of Arrangement, the Interim Order and the provisions of Section 190 of the CBCA, which are attached to this Circular as Schedule "B", Schedule "C" and Schedule "L", respectively. In addition to any other restrictions under Section 190 of the CBCA (as modified or supplemented by the Interim Order, the Plan of Arrangement or any other order(s) of the Court), holders of MTI Warrants and MTI Options are not entitled to exercise Dissent Rights.

A MTI Shareholder may exercise Dissent Rights only in respect of all of the MTI Shares that are registered in that MTI Shareholder's name (the "**Dissenting Shares**"). In many cases, MTI Shares beneficially owned by a beneficial shareholder are registered either (a) in the name of an intermediary, or (b) in the name of a clearing agency (such as CDS or similar entities) of which an intermediary is a participant. Accordingly, a beneficial shareholder will not be entitled to exercise Dissent Rights directly unless the MTI Shares are re-registered in the beneficial shareholder's name.

A beneficial shareholder who wishes to exercise Dissent Rights should contact the intermediary with whom the beneficial shareholder deals in respect of its MTI Shares and either:

(a) instruct the intermediary to exercise the Dissent Rights on the beneficial shareholder's behalf (which, if the MTI Shares are registered in the name of CDS or other clearing agency, would require that the MTI Shares first be re-registered in the name of the intermediary); or

(b) instruct the intermediary to re-register the MTI Shares in the name of the beneficial shareholder, in which case, further to the registration of the MTI Shares in the name of the beneficial shareholder, the new registered MTI Shareholder would be able to exercise the Dissent Rights directly. In this regard, the beneficial shareholder will have to demonstrate that such person beneficially owned on the Record Date established for the Meeting, the MTI Shares in respect of which the Dissent Rights are being exercised.

Any Dissenting Shareholder will be entitled, in the event that the Arrangement becomes effective, to be paid the fair value of the Dissenting Shares held by such Dissenting Shareholder, determined as at the close of business on the day immediately preceding the Meeting, and will not be entitled to any other payment or consideration. There can be no assurance that a Dissenting Shareholder will receive consideration for its Dissenting Shares of equal value to the consideration that such Dissenting Shareholder would have otherwise received upon completion of the Arrangement.

A registered MTI Shareholder who wishes to dissent must ensure that a written objection to the Arrangement Resolution (a "**Dissent Notice**") is received by MTI c/o its legal counsel, Sangra Moller LLP (i) at Suite 1000, 925 West Georgia Street, Vancouver, British Columbia V6C 3L2; or (ii) by facsimile transmission to (604) 669-8803 (Attention: Gary S. Gill), in either case, to be received by no later than 9:00 a.m. (Vancouver time) on May 12, 2015 or two Business Days prior to any adjournment(s) or postponement(s) of the Meeting. The filing of a Dissent Notice does not deprive a MTI Shareholder of the right to vote; however, a MTI Shareholder who has submitted a Dissent Notice and who votes in favour of the Arrangement Resolution will no longer be considered a Dissenting Shareholder with respect to MTI Shares voted by such MTI Shareholder in favour of the Arrangement Resolution. If such Dissenting Shareholder votes in favour of the Arrangement Resolution in respect of a portion of the MTI

Shares registered in his, her or its name and held by same on behalf of any one beneficial owner, such vote approving the Arrangement Resolution will be deemed to apply to the entirety of MTI Shares held by such Dissenting Shareholder in the name of that beneficial owner, given that Section 190 of the CBCA provides there is no right of partial dissent. A vote against the Arrangement Resolution will not constitute a Dissent Notice.

Within ten days after the MTI Shareholders have adopted the Arrangement Resolution, MTI is required to notify each Dissenting Shareholder that the Arrangement Resolution has been adopted. Such notice is not required to be sent to any Dissenting Shareholder who voted in favour the Arrangement Resolution or who has withdrawn its Dissent Notice.

A Dissenting Shareholder who has not withdrawn its Dissent Notice prior to the Meeting must then, within 20 days after receipt of notice that the Arrangement Resolution has been adopted, or if the Dissenting Shareholder does not receive such notice, within 20 days after learning that the Arrangement Resolution has been adopted, send by courier to MTI, care of MTI's transfer agent, Computershare, at 100 University Avenue, 8th Floor, Toronto, Ontario, M5J 2Y7 (Attention: Corporate Action), a written notice containing his or her name and address, the number of Dissenting Shares in respect of which he or she dissents and a demand for payment of the fair value of such Dissenting Shares (the "**Demand for Payment**"). Within 30 days after sending a Demand for Payment, the Dissenting Shareholder must send to MTI, care of MTI's transfer agent, Computershare, certificates representing the Dissenting Shares. MTI will or will cause Computershare to endorse on the applicable Dissenting Share certificates received from a Dissenting Shareholder a notice that the holder is a Dissenting Shareholder and will forthwith return such Dissenting Share certificates to the Dissenting Shareholder. Failure to strictly comply with the requirements set forth in Section 190 of the CBCA, as modified or supplemented by the Plan of Arrangement or Interim Order, may result in the loss of any right to dissent. After sending a Demand for Payment, a Dissenting Shareholder ceases to have any rights as held by such Dissenting Shareholder, except where: (i) the Dissenting Shareholder withdraws its Dissent Notice before Acquisition Company makes an offer to pay (an "**Offer to Pay**"); (ii) Acquisition Company fails to make an Offer to Pay and the Dissenting Shareholder withdraws the Demand for Payment; or (iii) MTI rescinds the Arrangement Resolution, in which case the Dissenting Shareholder's rights as a MTI Shareholder will be reinstated as of the date of the Demand for Payment. Acquisition Company is required, not later than seven days after the later of the Effective Date or the date on which a Demand for Payment is received from a Dissenting Shareholder, to send to each Dissenting Shareholder who has sent a Demand for Payment an Offer to Pay for its Dissenting Shares in an amount considered by the Acquisition Company board of directors to be the fair value of the MTI Shares accompanied by a statement showing the manner in which the fair value was determined. Every Offer to Pay must be on the same terms. Acquisition Company must pay for the Dissenting Shares of a Dissenting Shareholder within ten days after an Offer to Pay has been accepted by a Dissenting Shareholder, but any such offer lapses if Acquisition Company does not receive an acceptance within 30 days after the Offer to Pay has been made.

If Acquisition Company fails to make an Offer to Pay for Dissenting Shares, or if a Dissenting Shareholder fails to accept an Offer to Pay that has been made, Acquisition Company may, within 50 days after the Effective Date or within such further period as the Court may allow, apply to the Court to fix the fair value of the Dissenting Shares. If Acquisition Company fails to apply to the Court, a Dissenting Shareholder may apply to the Court for the same purpose within a further period of 20 days or within such further period as the Court may allow. A Dissenting Shareholder is not required to give security for costs in respect of such an application.

If Acquisition Company or a Dissenting Shareholder makes an application to the Court, Acquisition Company will be required to notify each affected Dissenting Shareholder of the date, place and consequences of the application and of its right to appear and be heard in person or by counsel. Upon an application to the Court, all Dissenting Shareholders who have not accepted an Offer to Pay will be joined as parties and will be bound by the decision of the Court. Upon any such application to the Court, the Court may determine whether any person is a Dissenting Shareholder who should be joined as a party, and the Court will then fix a fair value for the Dissenting Shares of all Dissenting Shareholders. The final order of the Court will be rendered against Acquisition Company in favour of each Dissenting Shareholder for the amount of the fair value of its Dissenting Shares as fixed by the Court. The Court may, in its discretion, allow a reasonable rate of interest on the amount payable to each Dissenting Shareholder from the Effective Date until the date of payment.

Under the Arrangement, all MTI Shares held by MTI Shareholders who exercise their Dissent Rights will, if the holders are ultimately entitled to be paid the fair value thereof, be deemed to be transferred to Acquisition Company in consideration for a claim against Acquisition Company for the fair value of such MTI Shares which fair value, notwithstanding anything to the contrary contained in Part XV of the CBCA, shall be determined as of the close of business on the day before the Arrangement Resolution was adopted. If such MTI Shareholders ultimately are not entitled, for any reason, to be paid fair value for such MTI Shares, they shall be deemed to have participated in the Arrangement on the same basis as a non-dissenting holder of MTI Shares.

Under the Arrangement Agreement, Target Company has agreed to indemnify Acquisition Company for costs relating to the exercise of Dissent Rights by MTI Shareholders.

The above summary does not purport to provide a comprehensive statement of the procedures to be followed by Dissenting Shareholders who seek payment of the fair value of their MTI Shares. Section 190 of the CBCA requires adherence to the procedures established therein and failure to do so may result in the loss of all rights thereunder. Accordingly, each MTI Shareholder who is considering exercising Dissent Rights should carefully consider and comply with the provisions of that section, the full text of which is set out in Schedule "L" to this Circular, as modified or supplemented by the Interim Order, the Plan of Arrangement or any other order of the Court and should consult their own legal advisors.

TARGET COMPANY AFTER THE ARRANGEMENT

The following is a description of Target Company assuming completion of the Arrangement.

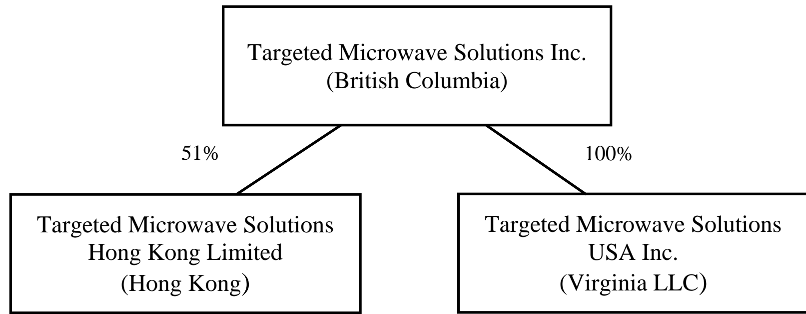
Name, Address, Incorporation and Exchange Listing

Target Company was formed under the BCBCA on April 10, 2015. Target Company's registered and records office is located at Suite 1000, 925 West Georgia Street, Vancouver, British Columbia V6C 3L2. Target Company's head office is located at Suite 2300, 1066 West Hastings Street, Vancouver, British Columbia V6E 3X2. A copy of Target Company's articles is attached as Schedule "G".

Following completion of the Arrangement, Target Company anticipates being listed on the CSE under the trading symbol "TMS".

Intercorporate Relationships

Following the Arrangement, Target Company's corporate structure is expected to be as summarized in the following diagram:



Description of Share Capital

The holders of Target Shares are entitled to receive notice of any meeting of shareholders and to attend and vote at those meetings, except those meetings at which only the holders of shares of another class or of a particular series are entitled to vote. Each Target Share entitles the holder to one vote. Subject to the prior rights of the holders of

any Target Company preferred shares, the holders of Target Shares are entitled to receive, on a proportionate basis, dividends as and when declared by the Target Board out of funds legally available therefor. In the event of the dissolution, liquidation, winding-up or other distribution of the Target Company assets among shareholders, the holders of the Target Shares are entitled to receive, on a proportionate basis, all of the assets remaining after payment of all of Target Company's liabilities, subject to the rights of holders of any Target Company preferred shares. The Target Shares carry no pre-emptive or conversion rights and are not subject to redemption.

The Target Board may issue preferred shares from time to time in one or more series, with each series to consist of such number of preferred shares as may be determined by the Target Board. Before the issue of a series of preferred shares, the Target Board may, at its sole discretion, determine the designation, rights, privileges, restrictions and conditions attaching to the series of preferred shares.

Prior Sales

Target Company issued one (1) Target Share to MTI at a price of $1.00 on incorporation on April 10, 2015, which share is expected to be cancelled as at the Effective Time.

Dividends

Target Company does not anticipate paying any dividends on the Target Shares in the short or medium term. Any decision to pay dividends on the Target Shares in the future will be made by the Target Board in its discretion on the basis of earnings, financial requirements and such other conditions as the Target Board may consider relevant at such time.

Business of Target Company

General Development of Target Company's Business

Target Company has not carried on any business since incorporation and will not carry on any business until the Effective Time. The principal business of Target Company following completion of the Arrangement will be to carry on the Target Business, being the research, development and commercializing of the MicroCoal Technology.

Business of Target Company

Assuming completion of the Arrangement, Target Company will carry on the MTI Business as currently carried on by MTI. The MTI Business is summarized below.

Business Overview

MTI is the developer of a patented microwave dehydration process that is being designed to allow coal fired utilities to, *inter alia*, reduce polluting emissions and unlock the energy potential of high moisture, low-rank coal.

Coal is a combustible, heterogeneous rock. Coal is of organic origin, and it is composed of carbon, hydrogen and oxygen. A fossil fuel, coal is derived from decayed plant matter that has been subjected to extreme heat and pressure over a prolonged period of time and has solidified to a greater or lesser degree. High-rank bituminous coal, including "Illinois Basic" and "Appalachian Eastern" coals (collectively, "**high-rank coal**"), typically used by the coal industry for power generation, is generally high in fixed carbon and therefore delivers a high heat value. However, as a result of its geological characteristics, high-rank coal is generally considered expensive to mine and routinely contains elevated levels of sulfur and other contaminants that generate polluting emissions when burned. On the other hand, many coal-consuming nations possess vast deposits of low-rank "Powder River Basin" bituminous coal and sub-bituminous brown coal (collectively, "**low-rank coal**"). Low-rank coal typically contains a fraction of the polluting elements of high-rank coal and is generally considered much less expensive to mine. Despite these significant advantages, low-rank coal is largely ignored by many participants in the coal industry because of its high moisture content, which lowers its heat value and may render it unsuitable for use in coal-fired

power plants.

The MicroCoal Technology dehydration process is being designed to remove surface and internal moisture from low-rank coal, while at the same time preserving its low-polluting characteristics, transforming it into a high-energy feedstock suitable for power generation. The desired result is an upgraded coal product that is environmentally superior and less expensive than available high-rank coals in the international market.

MTI is focused on researching, developing and commercializing its proprietary technology to become a global green technology leader in upgrading the energy content of low-polluting, high moisture low-rank coal. In the near term, MTI also plans to expand the application of the MicroCoal Technology to unlock the clean energy potential of other high-carbon content materials that attract and retain moisture, including pulp, industrial waste and renewable biomass. In pursuing a multi-pronged approach, MTI aims to create opportunities for future growth, diversify its risk and further reinforce its status as a leader in the green technology sector.

Acquisition of the MicroCoal Technology

In September 2010, MTI announced that it had entered into a letter of intent (the "**LOI**") with the shareholders of MicroCoal Delaware for the acquisition of 100% of MicroCoal Delaware, which was engaged in developing the MicroCoal Technology. Pursuant to the LOI, MTI agreed to issue US$3,000,000 worth of MTI Shares at a deemed price per share of $0.35 to the shareholders of MicroCoal Delaware and make a cash payment of up to US$1,085,000 to settle certain indebtedness owing by MicroCoal Delaware. In October 2010, MTI announced that it had signed a definitive share purchase agreement (the "**Delaware Purchase Agreement**") to acquire 100% of the outstanding shares of MicroCoal Delaware, in consideration for approximately 10,000,000 MTI Shares and payment of up to US$1,085,000 to settle certain indebtedness owing by MicroCoal Delaware.

In January 2011, MTI announced amendments to the Delaware Purchase Agreement such that it would acquire an initial 58.21% of the outstanding shares of MicroCoal Delaware, and up to 100% of its shares upon satisfaction of certain conditions. Pursuant to the Delaware Purchase Agreement, as amended, MTI agreed to issue 10,957,778 MTI Shares at a deemed price of $0.27 per share to become the majority shareholder of MicroCoal Delaware and to pay US$1,000,000 to a shareholder of MicroCoal Delaware in full satisfaction of certain indebtedness owing from MicroCoal Delaware to that shareholder and up to US$85,000 to settle certain third party indebtedness of MicroCoal Delaware. On January 31, 2011, MTI announced that it had finalized the acquisition of 58.21% of the outstanding shares of MicroCoal Delaware, and MTI issued 10,957,778 MTI Shares in consideration therefor.

In December 2011, MTI announced that it had reached an agreement (the "**VER Agreement**") with Orica US Services, Inc. ("**Orica**") to settle the outstanding debt owed from MicroCoal Delaware to Orica and to transfer its remaining 41.79% equity interest in MicroCoal Delaware to MTI. Pursuant to the VER Agreement, MTI agreed to make an initial payment of US$125,000 to Orica, transfer 200,000 voluntary emission reduction credits ("**VERs**") to Orica and make a final payment in respect of any shortfall in value.

In April 2012, MTI announced that it had received a letter from Orica alleging default under the VER Agreement with respect to the transfer of the VERs to Orica. In May 2012, MTI and Orica entered into amendments to the VER Agreement pursuant to which MTI would be granted additional time to pay the US$875,000 that remained owing to Orica under the VER Agreement In December 2012, MTI announced further amendments providing extensions under the VER Agreement and the payment of US$100,000 to Orica. Pursuant to these amendments, Orica agreed to transfer its remaining shares of MicroCoal Delaware to MTI, and, in January 2013, MTI became the sole shareholder and owner of MicroCoal Delaware. In August 2014, MTI entered into a full and final settlement agreement with Orica, pursuant to which MTI agreed to pay Orica an aggregate of US$150,000.

The MicroCoal® Technology

MTI's proprietary microwave technology is being designed to achieve maximum dehydration of target coal with minimum input energy cost. MTI's ability to achieve this result will be tied to the unique way in which microwaves interact with the physical composition of coal. The dielectric properties of coal make it almost entirely transparent

to microwave energy. When coal is exposed to microwave energy, the microwaves pass through the coal and are therefore only absorbed by trace metallic minerals and water deposits trapped in the coal. As the moisture inside the coal and on its surface absorbs microwave energy, the affected water molecules begin to rapidly move, generating heat and pressure. These forces cause moisture on the surface of the coal to liberate from the coal in vapour form, while at the same time causing internal moisture trapped in the microscopic capillaries of the coal to burst outwards as liquid. After the coal is de-watered, its heat generating content (carbon and volatile matter) has been observed to increase, transforming what was originally an undesired low-heat value product, into a cleaner, less expensive feedstock for power generation.

Development of the MicroCoal Technology

MicroCoal Delaware was established in 2005 to focus on developing the MicroCoal Technology, and it established a pilot facility in Golden, Colorado, USA (the "**Pilot Facility**") at Hazen in order to advance and test the MicroCoal Technology. During 2011, MicroCoal Delaware conducted testing at the Pilot Facility of sample coals provided by utility companies in order to assess the effectiveness of and further develop the MicroCoal Technology. In December 2011, MTI announced its intent to proceed with certain re-configurations to the Pilot Facility in order to expand its capabilities.

In April 2012, MTI announced that it had successfully installed an upgraded reactor at the Pilot Facility and had received a shipment of 25 tons of low-rank coal for testing. MTI worked with Hazen to analyze the raw and treated coal samples in order to optimize moisture reduction in treated coal, and MTI continued to expand its database by testing samples of different coals.

In January 2013, MTI announced that MicroCoal Delaware had submitted a U.S. patent application relating to the apparatus and methods of treating a solid material by exposing that material to electromagnetic radiation, including microwaves. The application was based on an earlier provisional application filed in 2012, and it applies the apparatus and methods to coal and certain other substances. In February 2013, MicroCoal Delaware was granted trademark registration on MicroCoal™ by the U.S. Patent and Trade Mark Office. The registration is valid for 10 years from the date of registration.

In June 2014, MTI announced that it had reached an agreement with Hazen to exit the Pilot Facility. In connection with this move, MTI removed certain of its equipment from the Pilot Facility to be refurbished and utilized in further research and development activities. In August 2014, MTI opened a new research laboratory in Gaithersburg, Maryland, USA (the "**Gaithersburg Facility**"), which incorporated certain of the equipment from the Pilot Facility. The Gaithersburg Facility is equipped with a microwave test system and analytical equipment in order to provide an immediate opportunity to begin optimizing parameters for "Generation 2.0" MicroCoal reactors. MTI is currently in advance stage discussions to move the Gaithersburg Facility to a larger facility in Germantown, Maryland, which will serve as a testing and process optimization center.

MTI also announced, in August 2014, that it had entered into a two-year lease with a one-year renewal option at the discretion of MTI and an option to purchase five acres of land in the Fontainebleau Industrial Park in King William County, Virginia, USA, where MTI has begun construction of a commercial-scale "Generation 2.0" MicroCoal reactor (the "**Virginia Plant**"). The Virginia Plant is being designed to feature a raw materials storage/handling facility, offices and laboratory space, a welding/fabrication area and a fully operational MicroCoal™ commercial scale reactor. While the Gaithersburg Facility is equipped for specific parametric testing, the Virginia Plant is designed to, once completed, allow MTI to demonstrate the complete MicroCoal™ process from start to finish. By January 2015, steel structure work on the Virginia Plant was substantially completed and power boxes and conduits were installed at the site. MTI has also begun construction work on an adjacent office building intended to include a coal storage facility and analytical laboratory. It is intended that after the Virginia Plant is completed, it will serve as the primary research and development facility in the United States.

Intellectual Property

MTI is focused on commercializing the use of microwave energy and related process technologies to transform coal

and other materials into higher quality and higher value industrial materials. The principal asset of MTI is the MicroCoal Technology. MTI protects its intellectual property through a combination of patent protection, trademarks, licences, non-disclosure agreements and contractual provisions. MTI enters into a non-disclosure and confidentiality agreement with each of its employees, consultants and third parties that have access to its proprietary technology.

MTI currently holds six patents in Australia, Canada, Eurasia, India, New Zealand and South Africa addressing energy management in a power generation plant. An additional 12 patent applications are currently pending internationally, addressing: energy management in a power generation plant; a method and system for separation of contaminants from coal; a system and method for treatment of materials by electromagnetic radiation; an apparatus and method for treating solids by electromagnetic radiation; and a method and apparatus for storing power from irregular and poorly controlled power sources. See Schedule "H" for more details on MTI's patents and patent applications.

On February 19, 2013, MTI was granted a trademark registration on MicroCoal™ by the U.S. Patent and Trade Marks Office. The Service Mark "MICROCOAL" is a broad registration, which covers an extensive range of services, including coal purification, coal treatment, and coal cleaning using microwave energy and related process technologies to transform coal and other minerals into higher quality and higher value industrial materials. The registration is valid for a ten year term and can be renewed for an additional term, at MTI's discretion. Further, the registration may be expanded to include European countries and Asia.

Traditional Coal Processing

Whether from an underground or a surface mine, coal is rarely extracted in a form suitable for use without further processing. In general, the processing involves the use of physical and/or chemical processes to separate coal from the in-seam impurities, to ensure that it more closely matches the market's requirements. Although chemical processing usually achieves better results, its higher cost limits its commercial application. Physical processing, also referred to as coal beneficiation, takes advantage of the difference in such things as densities, surface properties and electrical conductivity between the coal and gangue and is generally the preferred method for separating one from the other. The technologies enlisted to process coal vary widely but invariably involve four principal steps: (i) pre-treatment of raw coal; (ii) separation of coal from gangue; (iii) de-watering; and (iv) amelioration of the tailings.

Pre-treatment generally involves taking the run-of-mine coal crushed or ground to liberate the coal from the host material and then passing it through a series of sieves to produce specific coarse and fine middling's for the next stage of processing. Since the coal and its host minerals usually have wide differences in physical characteristics such as hardness and density, it is relatively easy to separate it even with open-circuit crushing. Sometimes a closed-circuit crushing process, where over-screen portions return to the upstream crushers for further pulverizing, is necessary to strictly control the specific particle sizes. Two main techniques are commonly used for coal beneficiation. The first is "gravity separation", which is based on the difference in the relative densities between the coal and the associated minerals and is mainly applied for processing coal with relatively coarse particle sizes. The second is "flotation", which is based on the difference in the surface properties between the coal and the liberated gangue and is utilized for processing fine particle sizes. Other techniques, such as magnetic, electrostatic, chemical and/or biological separating processes, are less common and are typically only used in specific cases.

Effective de-watering of coal is an increasingly important step toward meeting current product specifications. The mechanical equipment used in many coal preparation plants for de-watering includes vibrating screens, cyclones and basket centrifuges for coarse coal, scroll centrifuges for fine coal and vacuum filters for froth flotation concentrates.

As the last stage of coal processing, tailings treatment is often the most difficult and expensive step, because many modern plants are required to employ closed water circuits in response to increasing environmental pressure to reduce the discharge of liquid effluents. The flotation tailings are introduced into thickeners for the settling of suspended solids with or without flocculants. The clarified water is collected for recycling, and the underflow of the thickener is generally pumped to a plate-and-frame filter press for solid-liquid separation.

Since coal is cleaned by wet-processing methods such as gravity separation and/or froth flotation in most preparation plants, the overall moisture content of coal concentrate is usually in the range of 12-25%, depending on the proportion of fine coal to the final product. The finer the particle sizes, the higher the moisture content, because the larger surface area of the fine coal increases its capacity to retain moisture. The high moisture content is generally considered to adversely affect the processing of coal by contributing to, among other things: (i) a decrease in boiler efficiency; (ii) increases in emissions; and (iii) inflation of maintenance costs. Conventional mechanical de-watering processes can usually reduce the moisture content by approximately 10-15%, but are nevertheless below the needs of many industry participants.

Thermal drying is the most widely employed method to dry wet coal. Heat energy is transferred from the surface to the interior through convection, conduction and radiation during the conventional thermal drying process. Industrial drying is generally achieved in the dryer by direct contact between the wet coal and currents of hot combustion gases. The most common types of dryers are rotary dryers, multi-louver dryers, fluid-bed dryers, and flash dryers.

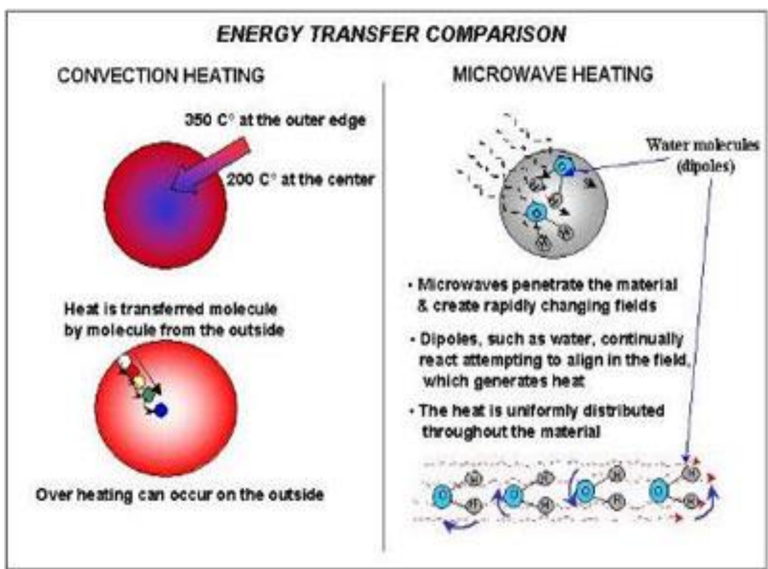
In a rotary dryer operation, the wet coal is fed to the dryer by a rotary feeder. As the shelves in the dryer vibrate, the coal cascades through a rotary drum called a "tumbler" and meets the heated air drawn upward through and between the wedge wire shelves inside the drum. The water is evaporated from the drum, and the dried coal is collected on a conveyor at the bottom of the tumbler.

A louver dryer is generally more suitable for large volumes and for rapid coal drying. The coal is carried up on flights (the welded metal sheets on the dryer for lifting materials) and then flows downward in a shallow bed over ascending flights. It gradually moves across the dryer from the feed point to the discharge point. In fluid-bed dryers, a bed of wet coal is fluidized through vibration or air flow. The coal powders are then dried by direct heating from hot air or combusted gas flow (direct) or through contact with heated surfaces (indirect). A fluid-bed dryer operates under negative pressure in which drying gases are drawn from the heat source through a fluidizing chamber. Dryer and furnace temperature controllers are employed in the control system to readjust the heat input to match the evaporative load changes.

Flash dryers use a heated carrier gas (usually air) to pneumatically force coal through the flash tube and into a primary gas-separation device (most commonly, a cyclone or series of cyclones in series or parallel). The carrier is induced or forced into the wet coal throat from a hot gas generator that heats the gas to the desired operating inlet temperature. In the feed throat, the gas entrains the feed, and the moisture is evaporated quickly as the product is fed through the system to the primary gas and product separation device.

MTI's Approach to Coal Processing

Microwave drying of coal appears to offer significant advantages over conventional thermal methods. First, because microwaves can penetrate materials with comparative ease, they can rapidly increase the material's kinetic energy and, in turn, temperature. Second, in addition to increasing the volumetric temperature, microwaves can be utilized to selectively heat. When the constituents in a material have different dielectric properties, microwaves will selectively couple with the high loss materials, as described by the following diagram:



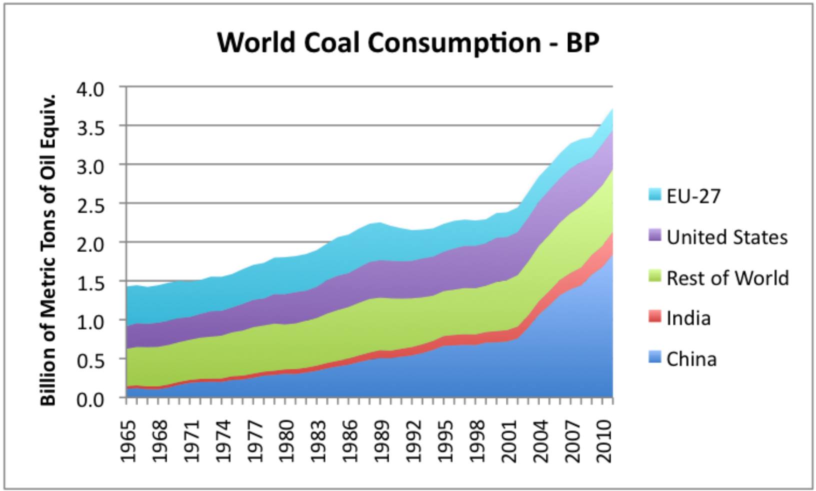
Since water in wet materials usually has a relatively high dielectric loss factor compared to other components, microwave drying can be intrinsically self-regulating. This can lead to the phenomenon of automatic moisture leveling and, ultimately, to efficient drying. Third, microwave energy uses power only when required and is instantly available, making the process suitable for automatic control.

Industry Trends – Consumption and Production

Coal continues to be a major energy source all over the world. According to the International Energy Agency, coal provides 40% of the world's electricity needs and is second only to oil as a source of energy. While coal consumption grew by 2.5% in 2012, below the 10-year average of 4.4%, it remains the world's fastest growing fossil fuel stock.

By 2010, world coal consumption had already exceeded 7.99 billion tons, with demand expecting to increase to 9.8 billion tons by 2030. China produced 3.83 billion tons of coal in 2011, and India produced approximately 637.1 million tons in that same period. Significantly, about 68.7% of China's electricity comes from coal. The U.S. consumed about 13% of the world total of coal in 2010, or about 1.05 billion tons, using 93% of it for generation of electricity. Approximately 46% of total power generated in the U.S. in 2010 was derived from the burning of coal.

The following diagram sets forth the world consumption of coal for the periods indicated:



Despite the prevalence of coal as an energy source, electric utilities operating coal-fired power plants have yet to develop a cost-effective method of mitigating emissions from high-energy coal that produces high levels of nitrogen oxide, sulfur oxide and carbon dioxide. Outside of the U.S., boiler configurations of many coal-fired power plants require the heat energy to be provided by high heat coal, even if this coal is more polluting. This trend continues despite the fact that, in many coal-consuming countries, lignite and sub-bituminous coal is abundant and inexpensive to mine. The MicroCoal Technology is being designed to afford countries the ability to economically, and ecologically, unlock this untapped resource and, in the process, make burning coal a more environmentally responsible option for producing low-cost energy.

Major Markets for Coal

About 30 countries around the world operate coal-fired power plants. Some of the major markets for coal are discussed below:

United States of America

Although the number of coal-fired plants in the U.S. has steadily declined since 2002, today there are still several hundred in operation, of which a majority are owned by public utilities, a significant number by independent power producers and the remainder by industrial and commercial producers of heat and power. The majority of these continue to use polluting coal. However, rising demand for energy (fueled by a recovering economy) suggests that there is a significant opportunity for coal utilities to realize profits and contribute to this demand if they adopt technology that can mitigate pollution.

According to the Energy Information Association, these plants collectively produce in excess of 330,000 megawatts and consumed a total of 925 million of short tons of coal in 2013 (a 4% increase over 2012). The increase was primarily a result of increased consumption in the electric power sector due to higher natural gas prices. Consumption continued to grow at a rate of 4.2%, to 964 million of short tons, in 2014 as electricity demand grew and natural gas prices remained well above their 2012 level. Total coal consumption is projected to decline by 2.4% in 2015, however, as retirements of coal power plants rise in response to the implementation of the United States *Mercury and Air Toxics Standards Act*, and generation from renewable resources (such as, wind, hydro, mass, geothermal and solar) is expected to grow by more than 3%.

Asia

The primary markets consuming coal in Asia are China, India, Indonesia and the Philippines. A brief overview of

each of these markets follows:

- *China* – The People's Republic of China is the world's largest consumer of coal, using more coal each year than the United States, the European Union and Japan combined. Coal power has been the dominant source of energy used to fuel the rapid economic development of China over the past two decades, with significant impacts on its physical environment and human population. China relies on coal power for approximately 70-80% of its energy, with 45% used for the industrial sector and the remainder used to generate electricity. By 2010, China comprised 48% of total world coal consumption.

China's coal production has more than tripled since 1990, from one billion tons to approximately 3.47 billion in 2011. Coal power is managed by China's State Power Grid Corporation.

In 2007, China's demand for coal outpaced its supply, and it became a net importer of coal for the first time. The World Coal Institute estimates that China imported 46 million tons of coal in that year; imports reached 190 million tons in 2011. In March 2012, China reported that it expected to consume 270 million tons per year less standard coal equivalent for electricity generation by 2015, compared with 2011 levels. The country stated that this would be achieved through development of more non-fossil energies and improving coal-consuming technologies. By 2020, China's electricity industry will save-if estimates hold-approximately 235 million tons per year of standard coal equivalent compared with the coal consumption level in 2015. China currently operates over 3,000 coal-fired plants.

According to the World Resources Institute, 1,199 new coal-fired plants, with a total installed capacity of approximately 1.4 million megawatts, are being proposed globally. While these projects are spread across 59 countries, China and India together account for 76% of the proposed new coal power capacity.

- *India* – About 60% of the power generation in India currently comes from coal-fired power plants. India's reliance on coal is generally believed to be increasing as it is burning its natural gas supplies at the quickest rate among Asian countries, putting it on track to become a major player in the US$69 billion global coal market.

Coal in India is mostly of poor quality, with high ash content and low calorific value. India was expected to become the world's largest importer of coal for power stations by 2014, even as demand for imports from China slows, as China's economy increases its reliance on domestic supplies and attempts to move toward greener alternatives.

According to Bloomberg, for the twelve months ended March 2013, India imported 20% of its total coal requirements, a number that is expected to grow to 23% by 2017. The demand for power station fuel is expected to rise 43% to 730 million tons by 2017, while the supply from domestic sources is expected rise 38% in the same period. A large proportion of India's coal imports come from Indonesia.

- *Indonesia* – Indonesia possesses significant coal reserves. Coal production has been rising steadily, reaching a high of 386 million tons in 2012. Medium rank coal predominates in Indonesia and is widely exported (approximately 75% of the coal mined is for export). Based on data from the Geological Agency of Indonesia (2011), Indonesia has total reserves of ± 28 billion tons consisting of:

Rating	Specification
very high	(> 7100 cal / gram) 231 million tons
high	(6100-7100 cal / kg) 1.655 million tons
medium	(5100-6100 cal / kg) 16,128 million tons

Utilization of low-rank coal is still considered lacking, due to the limited market for coal having high moisture content (30-45%). Domestic demand for coal is expected to rise significantly in the years ahead in accordance with Indonesian Presidential Decree No. 52006, which sets out the mix of energy that will power the country in the coming decades. Coal is projected to represent 33% of the electricity production mix in Indonesia by 2025.

- *The Philippines* – The Philippines consumed 13.31 million tons of coal in 2013, exceeding the capacity of its mining industry and forcing it to import 10.97 million tons, valued at approximately US$466 million.

IF YOU HAVE QUESTIONS OR NEED ASSISTANCE VOTING YOUR SHARES, CONTACT THE COMPANY'S PROXY AGENT AT 1-904-240-5818, OR BY EMAIL AT DDARMANJIAN@MTICOAL.COM.

Domestic consumption of the fossil fuel has more than doubled from the 1999 figure of 6.42 million tons. About 9.64 million tons of coal was used to generate electricity last year, or 72.5% of the total.

Coal comprised approximately one third of the country's installed power capacity in 2012, followed by natural gas with a 19.5% share and oil with 17.5%. Several coal-fired power projects are in development to boost electricity supply, including a 600-megawatt facility to be built in Subic Bay Freeport Zone, north of Manila.

<u>Europe</u>

As a result of the rising demand for natural gas in the United States, the price of United States coal has fallen, resulting in some European countries switching from natural gas to coal. While it is unlikely that this trend will continue indefinitely, it has caused demand to surge in Germany and the United Kingdom.

Faced with rising gas prices, Poland, like Germany and the United Kingdom, has stepped up production of coal. Poland has hard coal reserves totaling 16.9 billion tons, mainly located in Upper Silesia and the Lublin basin. Mineable lignite reserves amount to almost 15 billion tons.

More than half of Poland's power stations are over 25 years old, and about one quarter have been in operation for over 30 years. The lignite-fired power plants are among the newest and are being refurbished to meet European Union standards. Poland has no nuclear power stations, but has plans to construct a new nuclear power plant by 2020.

Human Resources

As at June 30, 2014, MTI and its subsidiaries had a total of 10 employees and consultants.

Continued development of the MicroCoal Technology will require a skilled team with a depth of relevant industry experience, including in industrial electromagnetic technology development, aggregate and material process handling, emissions control, laminar and non-laminar hydro-flow management and commercialized industrial automation. Target Company's research and technology development team is planned to be led by an engineering scientist with over 20 years of relevant industry experience and professional training in electrical engineering, industrial processing and material management. As a whole, the research and development team is expected to be comprised of up to about 15 staff members made up of employees and consultants with an average of 10 years' experience and backgrounds working in coal utilities and related industries as researchers, scientists, engineers and technicians. In addition, Target Company intends to appoint an advisory board consisting of individuals with significant experience and high-level academic qualifications in the fields of electromagnetic propagation, material sciences and chemistry.

Commercial Contracts

<u>Indonesia Commitment</u>

In December 2012, MTI announced that its wholly-owned subsidiary had signed a binding letter of intent with PT Wijaya Tri Utama ("**PT Wijaya**") to build a commercial plant incorporating the MicroCoal Technology at PT Wijaya's coal power plant in Banjarmasin, Indonesia (the "**Banjarmasin Facility**").

In July 2013, MTI announced that its wholly-owned subsidiary entered into a formal agreement with PT Wijaya (the "**Banjarmasin Contract**") to supersede and replace the letter of intent. The Banjarmasin Contract provided that MTI's subsidiary would design, build, operate and maintain a commercial MicroCoal plant at the Banjarmasin Facility in consideration for a construction fee of US$6,000,000 and annual payments of US$360,000 per year for the first six years of operation of such MicroCoal plant. The Banjarmasin Contract provided that the MicroCoal plant would be required to upgrade a minimum of 190,000 tons of coal annually.

In September 2013, MTI's subsidiary engaged a local contractor in Indonesia to perform construction activities for

the MicroCoal plant at the Banjarmasin Facility, and, in August 2013, MTI announced that it had received the first payment from PT Wijaya under the Banjarmasin Contract for construction and related activities. In September 2013, the local contractor began initial site work on the plant, and, in December 2013, PT Wijaya advanced a further tranche of the construction fee. In August 2014, with the concrete foundation poured and certain additional design and construction work completed, MTI and PT Wijaya determined to temporarily halt construction on the plant while MTI's research and development activities for its "Generation 2.0" reactors at the Gaithersburg Facility were completed. Following completion of these activities, MTI and PT Wijaya intend to enter into a new definitive agreement for the construction of a commercial MicroCoal plant in Indonesia to supersede and replace the Banjarmasin Contract, which has since lapsed by agreement of the parties in accordance with its terms.

China Joint Venture

In October 2014, MTI announced that it had entered into a definitive joint venture agreement (the "**China JV Agreement**") with an affiliate of Jiu Feng Investments Inc., a private Hong Kong company, to establish a joint venture company ("**Target HK**") to carry out activities in China and elsewhere in Asia. Pursuant to the China JV Agreement, MTI agreed to licence the MicroCoal Technology to Target HK to permit the joint venture to lease and operate a commercial-scale test facility in Songjiang Industrial Park near Shanghai, China (the "**Shanghai Facility**"). The Shanghai Facility includes a research and development facility featuring a MicroCoal batch oven system, a coal storage area and analytical laboratory and is designed to be capable of supporting a commercial-scale operating reactor tower. The Shanghai Facility is also intended to serve as a promotional showroom with scale models of commercial MicroCoal equipment. In January 2015, MTI announced that it had closed the China JV Agreement and acquired a 51% equity interest in Target HK, with its joint venture partner holding the remaining 49% equity interest.

India Joint Venture

In January 2015, in connection with the SOHL Financing, MTI announced that it had entered into a joint venture agreement (the "**India JV Agreement**") with Cadila Pharmaceuticals Limited ("**Cadila**") to carry out activities in India. MTI and Cadila are continuing to work toward closing of the India JV Agreement and establishing a joint venture company in India ("**Target India**"). The India JV Agreement contemplates that Target India will establish and operate a testing and demonstration facility in India for the MicroCoal Technology and that it will market and promote the technology with the goal of developing one or more commercial-scale facilities in India.

Selected Unaudited Pro–Forma Consolidated Financial Information of Target Company

Target Company was incorporated on April 10, 2015, and has not yet conducted any commercial operations. The following is a summary of certain financial information on a *pro-forma* basis for Target Company as at December 31, 2014, assuming, among other things, completion of the Arrangement and should be read in conjunction with the unaudited *pro-forma* consolidated financial statements of Target Company appended to this Circular as Schedule "E". The unaudited *pro-forma* consolidated financial statements of Target Company were prepared as if the Arrangement had occurred on December 31, 2014, taking into account the assumptions stated therein, including completion of the SOHL Financing. The unaudited *pro-forma* financial statements are not necessarily reflective of the financial position that would have resulted if the events described therein had occurred on December 31, 2014. In addition, the unaudited *pro-forma* consolidated financial statements are not necessarily indicative of the financial position that may be attained in the future.

	Selected *Pro-Forma* Financial Information of Target Company as at December 31, 2014 ($)
	(unaudited)
Cash	$ 11,889,883
Property, leasehold improvements and equipment	688,682
Total assets	**$ 12,578,565**
Derivative liability	$ 611,973
Loans payable	838,851
Shareholders' equity	11,860,674
Total liabilities and shareholders' equity	**$ 12,578,565**

Available Funds

The estimated unaudited *pro-forma* cash on hand of Target Company as at December 31, 2014 is $11,889,883, which will be available to Target Company upon completion of the Arrangement. Assuming completion of the Arrangement, Target Company intends to use the available funds as follows:

Use of Available Funds	
General administration and other operating expenses	$ 1,933,000
Professional fees, regulatory expenses, patents and insurance	$ 1,174,000
Research and development costs	$ 6,909,000
Business development expenses	$ 507,000
Loan repayment	$ 1,334,000
Unallocated	$ 32,883
Total	$ 11,889,883

Target Company currently intends to spend the available funds as set out above. There may be circumstances, however, where, for business reasons, a reallocation of funds may be necessary or desirable.

Directors and Officers

The name, province or state, and country of residence and position with Target Company of Target Company's directors and executive officers as expected as at the Effective Time, as well as the number of Target Shares each such director and officer is expected to beneficially own, directly or indirectly, or over which he is expected to exercise control or direction as at the Effective Time, is as follows:

Name and Province or State and Country of Residence	Position with Target Company	Director Since	Target Shares Beneficially Owned or Controlled and Directed (#)
James Young[1] Maryland, USA	Chairman and Director	April 10, 2015	3,175,050[2]
Rajiv Modi[1] Gujarat, India	Director	Not applicable	Nil[3]
Stephen D. Crocker[1] California, USA	Director	Not applicable	Nil
Ian Hume Washington, D.C., USA	Director	Not applicable	289,600
William Hudson Texas, USA	Director	Not applicable	429,498
Lawrence Siegel California, USA	Chief Executive Officer	Not applicable	Nil
Tom Stefan British Columbia, Canada	Chief Financial Officer	Not applicable	Nil
Jan Kindler British Columbia, Canada	Vice President, Business Development	Not applicable	82,000

Notes:

(1) An expected member of the Target Company audit committee as at the Effective Time, which is expected to be comprised of Messrs. Young (chair), Modi and Crocker.

(2) As at the Effective Time, Dr. Young is also expected to hold 3,500,050 Target Warrants exercisable for an aggregate of 3,500,050 Target Shares.

(3) As at the Effective Time, an aggregate of 79,046,666 Target Shares are expected to be owned or controlled and directed by SOHL. Dr. Modi is expected to be the SOHL representative to the Target Board pursuant to the SOHL Financing and is a director of SOHL.

At the Effective Time, the Target Board is expected to be comprised of five members, being Messrs. Young, Modi, Crocker, Hume and Hudson. Members of the Target Board will be elected at each annual general meeting of shareholders of Target Company by the shareholders entitled to vote thereat. Each director will cease to hold office immediately before the election of directors at the annual general meeting, unless they earlier resign or are removed in accordance with the articles of Target Company and the BCBCA, but is eligible for re-election.

The officers of Target Company will be appointed annually by the Target Board following Target Company's annual general meeting and serve until the earlier of their resignation or removal with or without cause by the Target Board.

Following the Effective Time, Target Company intends to adopt a long-term incentive plan for its directors, officers, employees and consultants. Target Company also intends to adopt such corporate governance guidelines, board mandate, committee mandates (including an audit committee charter), and any other policies, guidelines and operational practices as the Target Board believes are necessary or desirable.

As at the Effective Time, based on the number of MTI Shares held by the directors and executive officers of MTI as at the date hereof, the Target Company directors and executive officers will, as a group, beneficially own, directly or indirectly, or exercise control or direction over, a total of 3,976,148 Target Shares, representing approximately 2.2% of the issued and outstanding Target Shares.

Management of Target Company

Set out below are profiles of Target Company's expected executive officers and directors, including particulars of their principal occupations for the past five years. For profiles of those expected Target Company directors not noted below, see "*Election of Directors*" above:

Rajiv I. Modi, age 54, Director. Dr. Rajiv I. Modi is the chairman and managing director of Cadila Pharmaceuticals Ltd. ("**Cadila**"), one of the largest privately-held pharmaceuticals companies in India. Being a biotechnologist, Dr. Modi has played a major role in developing Cadila's biotechnology division, focusing on new developments and breakthrough innovations. Under his leadership, Cadila inked strategic alliances with many research driven international companies. Dr. Modi is also the chair of the Confederation of Indian Industry National Committee on Pharma for 2014-2015, which supports the government through advisory and consultative processes for drafting policies for the Indian pharmaceutical industry. Dr. Modi has been elected as Fellow of the Indian National Academy of Engineering, Delhi, India, a top-tier academy with prominent industry leaders, academicians and scientists amongst its Fellows. Dr. Modi holds a Ph.D. in Biological Science from the University of Michigan, Ann Arbor, Michigan, U.S.A., a M.Sc. in Biochemical Engineering from University College, London, England and a B.Tech. in Chemical Engineering from the Indian Institute of Technology in Mumbai, Maharashtra, India.

Stephen D. Crocker, age 70, Director. Dr. Crocker is Chair of the ICANN board of directors and is chief executive officer and co-founder of Shinkuro, Inc., an Internet research and development company building tools for cooperation and collaboration across the Internet and government sponsored projects in Internet security. Dr. Crocker has been involved in the Internet since its inception. In the late 1960's and early 1970's, while Mr. Crocker was a graduate student at the University of California in Los Angeles ("**UCLA**"), he was part of the team that developed the protocols for the Arpanet and laid the foundation for today's Internet. Mr. Crocker organized the Network Working Group, which was the forerunner of the modern Internet Engineering Task Force, initiated the Request for Comment (RFC) series of notes through which protocol designs are documented and shared, and laid the foundation for the open architectural structure of the Internet Protocols. For this work, Dr. Crocker was awarded the 2002 IEEE Internet Award. Mr. Crocker remained active in the Internet standards work through the IETF and IAB and served as the first security area director on the Internet Engineering Steering Group from 1989 to 1994. Dr. Crocker's experience includes research management at DARPA, USC/ISI and The Aerospace Corporation, vice-president of Trusted Information Systems, and co-founder of CyberCash, Inc. and Longitude Systems, Inc. Dr. Crocker earned his Bachelor of Arts in Mathematics and a Ph.D. in computer science at UCLA, and studied artificial intelligence at the Massachusetts Institute of Technology. Mr. Crocker has an honorary doctorate from the University of San Martin des Porres in Lima, Perú and was selected in the initial group of members of the Internet Society's Internet Hall of Fame Pioneers.

Lawrence Siegel, age 66, Chief Executive Officer. Mr. Siegel joined MTI in January 2014 as a consultant to the MTI Board. Subsequently, Mr. Siegel was named chief executive officer of MTI. Mr. Siegel is a seasoned executive with forty years of international business experience. A graduate of UCLA, Mr. Siegel holds a degree in history, as well as a degree in geogrpahy. Mr. Siegel has been the president of a number of high profile corporations, including Seeburg (NASDAQ: XCOR), Atari (ASE: ATI), U.S. Digital Communications (NASDAQ: USDI) and Sega Europe (NIKKEI: SGAMY), and he has held managerial or consulting positions with such well-known companies as Bally, WMS, Sony, Mattel, SGI, Konami, Taito, Data East and THQ.

Tom Stefan, age 49, Chief Financial Officer. Mr. Stefan is a seasoned executive with 29 years' experience in both U.S. and Canadian based corporate finance and financial management. Mr. Stefan was most recently chief financial officer and vice-president finance and corporate services at Taiga Building Products Ltd., where he was responsible for executing a strategic realignment and re-financing program. Mr. Stefan's career includes working in forest products, mining, public accounting and real estate. Mr. Stefan has held positions at NorskeCanada (TSX), Bema Gold Corporation (TSX), Teck Corporation (NYSE, TSX) and KPMG.

Jan Kindler, age 30, Vice-President Business Development. Prior to joining MTI in 2014, Mr. Kindler was principal of Carbon 2 Power Ventures Inc., a private energy consulting firm retained to help develop MTI's business

in Asia. Mr. Kindler was directly responsible for helping broker MTI's first commercial contract related to the MicroCoal Technology in Indonesia. Mr. Kindler, a former corporate attorney and member of the Law Society of British Columbia, graduated from the University of British Columbia with a Bachelor of Arts (International Relations/Mandarin Chinese), and a Juris Doctor of Law, before pursuing a career structuring cross-border commercial transactions in Canada, Indonesia, Hong Kong, and the People's Republic of China.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

None of Target Company's proposed directors or executive officers is as at the date of this Circular, or was within 10 years before the date of this Circular, a director, chief executive officer or chief financial officer of any company (including Target Company) that:

(i) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than thirty consecutive days; or

(ii) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

Except as disclosed below, none of Target Company's proposed directors, executive officers or shareholders holding a sufficient number of securities of Target Company to affect materially the control of Target Company:

(i) is, as at the date of this Circular, or has been within the 10 years before the date of this Circular, a director or executive officer of any company (including Target Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceeding, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets; or

(ii) has, within the 10 years before the date of this Circular, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director.

Mr. Lawrence Siegel, the Chief Executive Officer of MTI, previously made a voluntary assignment in bankruptcy, for which he was subsequently discharged.

Conflicts of Interest

Other than as disclosed herein, to MTI's knowledge, there are no known existing or potential conflicts of interest among the expected Target Company directors and officers as a result of their outside business interests except that certain of the directors and officers serve as directors, officers, promoters and members of management of other companies and therefore it is possible that a conflict may arise between their duties as a director and officer of Target Company and their duties as a director, officer, promoter or member of management of such other companies.

Target Company's proposed directors and officers shall be advised of the existence of laws governing accountability of directors and officers regarding corporate opportunity and requiring disclosures by directors of conflicts of interest, and Target Company will rely upon such laws in respect of any directors' and officers' conflicts of interest or in respect of any breaches of duty by any of its directors or officers. All such conflicts are required to be disclosed by such directors or officers in accordance with the BCBCA, and they are required to govern themselves in

respect thereof to the best of their ability in accordance with the obligations imposed upon them by law.

Executive Compensation

Target Company has not carried on any active business to date and has not completed a fiscal year of operations. Target Company has not paid any compensation to its executive officers since incorporation and none will be paid until after the Effective Time. As at the date of this Circular, there are no employment or consulting agreements in place between Target Company and any of the expected officers of Target Company. At or about the Effective Time, Target Company expects to enter into employment or consulting arrangements with its senior executive officers on terms and conditions commensurate with their particular roles and responsibilities with Target Company and comparable to companies of similar size and in a similar industry as Target Company. At the Effective Time, the base salary and fees payable to Target Company's proposed executive officers are expected to be substantially similar to those which the executive officers receive as officers of MTI.

Target Company has not established an annual retainer fee or meeting attendance fee for directors. However, Target Company expects to establish directors' fees in the future and expects to reimburse directors for reasonable expenses incurred in the course of the performance of their duties as directors.

Indebtedness of Directors and Executive Officers of Target Company

No individual who is a director or executive officer of Target Company, or an associate or affiliate of such an individual, is, or has been since Target Company's incorporation, indebted to Target Company.

Audit Committee Disclosure

Composition of the Audit Committee

As at the Effective Time, it is expected that Target Company's audit committee will be comprised of James Young (chair), Rajiv Modi and Stephen Crocker. Each proposed member of Target Company's audit committee is financially literate and James Young and Stephen Crocker will be independent members. Mr. Modi is not expected to be an independent member of the Target Company audit committee by virtue of being SOHL's nominee to the Target Board.

Relevant Education and Experience

For a description of the education and experience of each proposed member of the Target Company audit committee relevant to the performance of his responsibilities as a member thereof, please see "*Target Company After the Arrangement – Management of Target Company*" above.

Share Capital of Target Company

The following table represents the share capitalization of Target Company as at the Effective Time based on the issued and outstanding MTI Shares as at the date hereof, and assuming completion of the Arrangement.

Share Capital	Authorized	Prior to the Completion of the Arrangement	After Completion of the Arrangement
Target Shares	Unlimited	1[(1)]	179,500,076

Note:

(1) Incorporator's share issued to Target Company on incorporation, which incorporator's share is expected to be cancelled as at the Effective Time.

Target Company Warrants

The following Target Warrants will be outstanding as at the Effective Time, based on 37,592,682 MTI Warrants

issued and outstanding at the date hereof, and assuming that no MTI Warrants are exercised or cancelled after the date hereof and prior to the Effective Time:

Designation of Security	Date of Expiry	Number of Target Shares issuable upon exercise	Exercise Price
Target Warrants	Various[1]	38,008,663 [1]	Various[2]

Notes:
(1) Assumes the exercise in full of the share purchase warrants issuable upon the exercise of unit purchase Target Warrants.
(2) MTI has applied to the CSE to extend the expiry date of the MTI Warrants by a period of one year and to reduce the exercise price thereof to the lowest exercise price permitted by the rules and policies of the CSE.

The above table does not give effect to any MTI Options held by the directors, employees and consultants of MTI as at the date hereof, all of which are expected to be forfeited and cancelled prior to the Effective Time. The directors, employees and consultants of Target Company may, however, be granted options or other stock awards under any long-term incentive plan adopted by Target Company after the Effective Time.

In connection with the Arrangement, MTI made an application to the CSE to amend the terms of the MTI Warrants to: (a) extend the expiry date thereof by a period of one year and (b) reduce the exercise price thereof to the lowest exercise price permitted by the rules and policies of the CSE. There is no assurance that CSE will approve the Target Warrants Amendments as contemplated, or at all.

Fully Diluted Share Capital of Target Company

The *pro-forma* fully diluted share capital of Target Company, assuming completion of the Arrangement and the exercise of all Target Warrants is set out below:

Designation of Target Securities	Number of Target Shares	Percentage of Total
Target Shares issued pursuant to the Arrangement, which shares will be distributed to the MTI Shareholders	179,500,076	82.53%
Target Shares issuable pursuant to the Target Warrants	38,008,663	17.47%
Total	**217,508,739**	**100%**

Principal Shareholders of Target Company

To the knowledge of the directors and executive officers of MTI, other than as set out below, no person or company will hold, directly or indirectly, as at the Effective Time or will have control or direction over, or a combination of direct or indirect beneficial ownership of and control or direction over, voting securities that will constitute more than 10% of the issued Target Shares as at the Effective Time.

Name	Number of Target Shares	Percentage of Issued and Outstanding Target Shares
SOHL, Inc.[1]	79,046,666	44.04% [2]

Notes:
(1) The reported Target Shares are expected to be controlled and directed by SOHL.
(2) As at the Effective Time, on a fully diluted basis, SOHL is expected to own 36.34% of the issued and outstanding Target Shares.
(3) Pursuant to SOHL Financing, SOHL agreed, subject to certain exceptions, not to sell any of its MTI Shares for a period of six months following closing of the financing. SOHL also agreed that, for a period of twelve months thereafter, it would not dispose of any of its MTI Shares in any three-month period in excess of 10% of the issued and outstanding MTI Shares as at the first day of such three-month period without first providing MTI written notice of its intention to dispose of such shares and providing MTI the opportunity to identify a private purchaser thereof.

Promoters

MTI may be considered a promoter of Target Company.

Risk Factors Relating to the Target Business

The following risk factors, as well as risks not currently known to Target Company, could materially adversely affect Target Company's future business, operations and financial condition and could cause them to differ materially from estimates described in forward-looking statements relating to Target Company. MTI Shareholders should carefully consider the risk factors set out below. In addition, Target Company will face substantially the same risks that MTI currently faces with respect to its business and affairs.

Limited Operating History

Target Company was incorporated in April 2015 and has no history of earnings or operations. Its lack of operating history or revenue precludes management from forecasting operating results based on historical results, including those based on the MTI Business. Target Company's proposed business strategies described in this Circular incorporate its senior management's current best analysis of potential markets, opportunities and difficulties that it faces. No assurance can be given that the underlying assumptions accurately reflect current trends in its industry, terms of possible project investments, that it will successfully develop any products, its potential customers' reactions to any such products or that such products will be successful. Its business strategies may and likely will change substantially from time to time as Target Company's senior management reassesses its opportunities and reallocates its resources, and any such strategies may be changed or abandoned at any time. If Target Company is unable to develop or implement these strategies through its projects and its technology, it may never achieve profitability which could impair Target Company's ability to continue as a going concern. Even if Target Company does achieve profitability, it may not be sustainable, and management cannot predict the level of such profitability.

Financing Risks

Target Company has no history of earnings, and, due to the nature of its business, there can be no assurance that Target Company will be profitable. Target Company has paid no dividends on its shares since incorporation and does not anticipate doing so in the foreseeable future. The primary present source of funds available to Target Company is expected to be cash on hand and any funds raised through the sale of its equity shares. Even if the results of the development and/or commercialization of its technology are encouraging, Target Company may not have sufficient funds to conduct such further testing and development as may be necessary to successfully commercialize its technology. While Target Company may generate additional working capital through further equity offerings, there is no assurance that any such funds will be available on terms acceptable to Target Company, or at all. If available, future equity financing may result in substantial dilution to shareholders. At present, it is impossible to determine with any certainty what amounts of additional funds, if any, may be required.

Shareholder Influence

SOHL will control a significant portion of Target Company's outstanding common shares and is expected to have control of approximately 44.04% of the issued and outstanding Target Shares after giving effect to the Arrangement. SOHL may be able to exercise significant influence over matters requiring shareholder approval, including the election of directors and approval of significant corporate transactions such as a merger or other sale of Target Company or its assets. This concentration of ownership may make it more difficult for other shareholders to effect substantial changes in Target Company, may have the effect of delaying, preventing or expediting, as the case may be, a change in control of Target Company and may adversely affect the market price of the Target Shares. Further, the interests of SOHL may not necessarily be aligned in all respects with Target Company's other shareholders. In addition, SOHL has certain contractual rights under the SOHL Financing, including to designate one individual to be appointed or nominated for election as a director of Target Company for so long as it holds at least 5% of the then issued and outstanding Target Shares.

Technical Issues and Delays

As Target Company develops, refines and implements its technology, it may have to solve technical,

manufacturing, construction and/or equipment-related issues. Because Target Company's technology is new and under development, some of these issues may be unanticipated. If Target Company must revise existing processes, hire or retain additional staff or contractors or order specialized equipment to address a particular issue, it may not meet its projected timetables for further developing or commercializing its technology. Such delays may interfere with projected construction or operating schedules and delay receipt of, or result in the loss of, revenues from operations.

Commercial Viability of Processed Coal

Target Company does not yet know whether coal processed using its technology can be produced and sold on a commercial basis in a cost effective manner. Because Target Company has not established any full scale commercial operation, it has not yet fully developed an efficient cost structure or revenue model. Target Company is currently using the estimates for anticipated pricing and costs, as well as the qualities of the coal processed in the testing facility and laboratory setting, to make such estimates. Target Company may experience technical problems that could make the processed coal more expensive than anticipated. Failure to address both known and unforeseen technical challenges may materially and adversely affect Target Company's business, results of operations and financial condition.

Negative Results of Technology Testing and Development

MTI has been evaluating and Target Company expects to continue evaluating the attributes of coal processed using its technology on a laboratory scale and, ultimately, a commercial scale. Target Company does not currently know if or to what extent these evaluations will result in positive findings concerning the moisture content, heat value, emission-levels, burn qualities or other aspects of its processed coal. Furthermore, even if current evaluations indicate that coal processed using its technology performs to design specifications, Target Company does not know if later tests or larger scale processing will confirm these current results or that the processed coal will be readily accepted by the market. The process of introducing its technology into the market may be further delayed if these tests do not produce the expected results or if potential customers conduct their own tests of the processed coal to determine whether it meets their individual requirements and the results are not acceptable. MTI has historically conducted a number of tests of the technology using a variety of feed stocks in its current and former facilities. The ability to use feed stocks from other locations in the United States or overseas will depend on the results of future tests on different types of coal. If these tests limit the range of viable low-grade coal feed stocks for use in Target Company's process, site locations for future plants may be limited and the commercial appeal of the process may be less than anticipated. If this continuing process of evaluation and market introduction results in negative findings concerning the technology, it could have a material adverse effect on the marketability of the technology and on Target Company's financial condition, results of operations and future prospects.

There can be no assurance that the Virginia Plant will be completed as designed, on time, within budget or at all. Once completed, the Virginia Plant and the "Generation 2.0" MicroCoal Technology may fail to perform as expected or may require additional time and/or expenditures prior to performing as expected.

Commercial Acceptance

While Target Company believes that a commercial market will develop for clean coal products such as coal processed using the MicroCoal Technology, Target Company may face the following risks, among others, due to the developing market for cleaner coal technology:

- limited pricing information;
- changes in the price differential between low- and high-rank coal;
- unknown costs and methods of transportation to bring processed coal to market;

- alternative fuel supplies available at a lower price;
- the cost and availability of emissions-reducing equipment or competing technologies;
- failure of governments to implement and enforce new environmental standards; and
- a decline in energy prices which could make processed coal less price competitive.

If Target Company is unable to develop markets for its processed coal, its ability to generate revenues and profits will be negatively impacted.

Construction of Commercial Plants

Target Company's future success depends, in part, on its ability to secure partners to locate, develop and construct future commercial plants and generate profits therefrom. A number of different variables, risks and uncertainties affect such commercialization, including:

- the complex, lengthy and costly regulatory permit and approval process;
- local opposition to development of projects, which can increase costs and delay timelines;
- increases in construction costs, such as for contractors, workers and raw materials;
- transportation costs and availability of transportation;
- the inability to acquire adequate amounts of low-rank feedstock coal at forecasted prices to meet projected goals;
- engineering, operational and technical difficulties; and
- possible price fluctuations of low-rank coal which could impact profitability.

In August 2014, MTI and PT Wijaya determined to temporarily halt construction on the Benjarmasin Facility. There can be no assurance that Target Company will successfully demonstrate the "Generation 2.0" MicroCoal Technology to PT Wijaya or that, even if successfully demonstrated, Target Company and PT Wijaya will enter into a new definitive agreement for the construction of a commercial plant at the Benjarmasin Facility or elsewhere in Indonesia.

Management of Growth

Target Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of Target Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expend, train and manage its employee base. The inability of Target Company to successfully deal with this growth could have a material adverse impact on its business, operations and prospects.

Joint Ventures

The existence or occurrence of one or more of the following circumstances and events could have a material adverse impact on Target Company's profitability or the viability of its interests held through joint ventures, which could have a material adverse impact on Target Company's future cash flows, earnings, results of operations and financial condition: (i) failure to establish joint ventures pursuant to, and consistent with, the terms of joint venture agreements; (ii) disagreement with joint venture partners on how to develop and commercialize Target

Company's technology effectively; (iii) inability of joint venture partners to meet their obligations under the joint venture or to third parties; (iv) inability of Target Company to meet its obligations under the joint venture, which could result in restrictions on or loss of its ability to conduct operations in the jurisdictions covered by such joint venture; and (v) litigation or arbitration between joint venture partners regarding joint venture matters.

Termination of any of Target Company's joint ventures or other key business relationships may require it to seek another collaborative relationship in that territory. There can be no assurance that a suitable alternative third party would be identified and, even if identified, that the terms of any new relationship would be commercially acceptable to Target Company or that a definitive agreement with such third party will be entered into.

Relationships with Strategic Partners

Target Company will depend, in part, on its relationships with its strategic partners (including its joint venture partners) to accelerate its expansion, fund development efforts, better understand market practices and regulatory issues and more effectively handle challenges that may arise. Target Company's future success will depend, in part, on these relationships and any other strategic relationships that it may enter into. There can be no assurance that Target Company will satisfy the conditions required to maintain these relationships under existing agreements or that it can prevent the termination of these agreements. There can also be no assurance that Target Company will be able to enter into relationships with future strategic partners on acceptable terms. The termination of any relationship with an existing strategic partner or the inability to establish additional strategic relationships may limit Target Company's ability to successfully market and commercialize its technology and may have a material adverse effect on it business and financial condition.

Foreign Operations

Political and related legal and economic uncertainty may exist in countries where Target Company may operate, including China, India and Indonesia. Target Company's activities may be adversely affected by political instability and changes to government regulation relating to the utilities or coal industries or the environment generally. Other risks of foreign operations include political unrest, labour disputes, invalidation of governmental orders and permits, corruption, war, civil disturbances and terrorist actions, arbitrary changes in law or policies of particular countries, foreign taxation, price controls, currency controls, delays in obtaining or the inability to obtain necessary governmental permits, opposition to coal-based electricity production from environmental or other non-governmental organizations, limitations on foreign ownership, limitations on the repatriation of earnings, and increased financing costs. These risks may limit or disrupt Target Company's projects, restrict the movement of funds or result in the deprivation of contract rights or the taking of property by nationalization or expropriation without fair compensation.

In addition, certain countries in which Target Company may operate have historically had management, financial control and reporting and other business practices which may differ significantly from the standards governing Canadian reporting issuers. As a result, Target Company may have difficulty in establishing management, legal and financial controls, collecting financial data and preparing financial statements, books of account and corporate records and instituting business practices consist with accepted practices for Canadian reporting issuers.

The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on Target Company's operations or profitability.

Foreign Subsidiaries and Repatriation of Earnings

Target Company may conduct its operations through foreign subsidiaries, joint ventures or divisions, and some or a large portion of its assets may be held in such entities. Accordingly, any limitation on the transfer of cash or other assets between the parent corporation and such entities, or among such entities, could restrict Target Company's ability to fund its operations efficiently. Any such limitations, or the perception of such limitations, could have an adverse impact on Target Company's valuation and share price. There is no assurance that China, India, Indonesia or any other foreign country in which Target Company may operate in the future will not impose

or strengthen restrictions on the repatriation of earnings to foreign entities.

Technology and Protection of Intellectual Property

Building and maintaining a competitive position will require Target Company to establish a technological lead by developing new features which meet market needs. Linked to maintaining a technological lead is the successful protection of intellectual property. Target Company's ability to compete and grow its business could suffer if these rights are not adequately protected. To establish and protect its intellectual property rights, Target Company will rely on a combination of copyright, trade secret and trademark laws, patents, confidentiality procedures, contractual provisions, and other similar measures to protect its proprietary information, all of which offer only limited protection.

There can be no assurance that Target Company's patent applications will result in patents being issued or that current or additional patents will afford protection against competitors. No guarantee can be given that others will not independently develop substantially equivalent proprietary information or techniques, or otherwise gain access to Target Company's proprietary technology.

As patents or patent applications do not cover a significant part of Target Company's intellectual property, it will seek to protect this proprietary intellectual property in part by confidentiality agreements with its customers, strategic partners, distributors, contractors and employees. These agreements afford limited protection and may not provide Target Company with adequate remedies for any breach or prevent other persons or institutions from asserting rights to intellectual property arising out of these relationships.

Furthermore, effective patent, trademark, service mark, copyright and trade secret protection may not be available in every country in which Target Company conducts, directly or through its joint venture partners, research and development activities or will market any future products. The steps Target Company has or will take to protect its intellectual property may not prevent the misappropriation of proprietary rights or the reverse engineering of its technology. Moreover, others may independently develop technologies that are competitive with or superior to those of Target Company or that infringe its intellectual property. The enforcement of Target Company's intellectual property rights may depend on it taking legal action against such infringing parties, and Target Company cannot be sure that these actions will be successful, even when its rights have been infringed. Enforcing Target Company's rights to its technology could be costly, time-consuming and distracting. Any significant failure or inability to adequately protect Target Company's proprietary assets will harm its business and reduce its ability to compete.

In addition, courts outside of Canada may be less willing than Canadian courts to protect trade secrets or other intellectual property rights. If Target Company's competitors independently develop equivalent knowledge, methods and know-how, Target Company may not be able to assert its trade secrets against them and its business could be harmed.

Invalidation of Patents

Third parties may seek to challenge, invalidate, circumvent or render unenforceable any patents or proprietary rights owned by or licenced to Target Company based on, among other things:

- subsequently discovered prior art;
- lack of entitlement to the priority of an earlier, related application; or
- failure to comply with the written description, best mode, enablement or other applicable requirements.

Patent law in certain jurisdictions requires that a patent must disclose the "best mode" of creating and using the invention covered by a patent. If the inventor of a patent knows of a better way, or "best mode," to create the invention and fails to disclose it, that failure could result in the loss of patent rights. Any decisions of Target

Company to protect certain elements of its proprietary technologies as trade secrets and to not disclose such technologies in patent applications, may serve as a basis for third parties to challenge and ultimately invalidate certain of its related patents based on a failure to disclose the best mode of creating and using the invention claimed in the applicable patent. If a third party is successful in challenging the validity of Target Company's patents, Target Company's inability to enforce it intellectual property rights could seriously harm its business.

Intellectual Property Infringement

Target Company's technology may be the subject of claims of intellectual property infringement in the future. Target Company's technology may not be able to withstand any third party claims or rights against their use. Any intellectual property claims, with or without merit, could be time-consuming, expensive to litigate or settle, could divert resources and attention and could require Target Company to obtain a licence to use the intellectual property of third parties. Target Company may be unable to obtain licence from these third parties on favourable terms, if at all. Even if a licence is available, Target Company may have to pay substantial royalties to obtain it. If Target Company cannot defend such claims or obtain necessary licences on reasonable terms, Target Company may be precluded from offering most or all of its technology and its business and results of operations will be adversely affected.

Environmental and Safety Regulations and Risks

Environmental laws and regulations may affect the operations of Target Company. These laws and regulations set various standards regulating certain aspects of health and environmental quality. They provide for penalties and other liabilities for the violation of such standards and establish, in certain circumstances, obligations to rehabilitate current and former facilities and locations where operations are or were conducted. The permission to operate can be withdrawn temporarily where there is evidence of serious breaches of health and safety standards, or even permanently in the case of extreme breaches. Significant liabilities could be imposed on Target Company in the future for damages, clean-up costs or penalties in the event of certain discharges into the environment, environmental damage caused by previous owners of acquired properties or noncompliance with environmental laws or regulations. In all major developments, Target Company expects to generally rely on recognized designers and development contractors from which Target Company expects to, in the first instance, seek indemnities. Target Company intends to minimize risks by taking steps to ensure compliance with environmental, health and safety laws and regulations and operating to applicable environmental standards. There is a risk that environmental laws and regulations may become more onerous, making Target Company's operations more expensive.

In addition, these laws and regulations may require obtaining a permit before construction and/or operations at a facility commence. All aspects, from design to construction and, ultimately, operation, may be highly regulated. At various stages, environmental impact assessment reports or feasibility studies may be required to be presented to and approved by various levels of government and may first require community or stakeholder engagement. Target Company may be required to expend significant resources to comply with such requirements or may experience significant delays in completing projects while it seeks to comply with these requirements.

Dependence on Key Management Personnel, Employees and Consultants

The success of Target Company is and/or will be dependent on a relatively small number of key management personnel, employees and consultants. The loss of the services of one or more of such key management personnel could have a material adverse effect on Target Company. Target Company's ability to manage its research and development activities and commercialize its technology, and hence its success, will depend in large part on the efforts of these individuals. Target Company faces intense competition for qualified personnel, and there can be no assurance that Target Company will be able to attract and retain such personnel.

Anti-bribery and Anti-corruption

Target Company's activities will be subject to a number of laws that prohibit various forms of corruption,

including local laws that prohibit both commercial and official bribery and anti-bribery laws that have a global reach, including the *Corruption of Foreign Public Officials Act* (Canada) (the "**CFPOA**"). The increasing number and severity of enforcement actions in recent years present particular risks with respect to Target Company's business activities, to the degree that any employee or other person acting on Target Company's behalf might offer, authorize, or make an improper payment to a foreign government official, party official, candidate for political office, political party, employee of a foreign state-owned or state-controlled enterprise, or an employee of a public international organization.

Certain countries in which Target Company operates or may in the future operate present heightened risks from an anti-corruption perspective. Target Company has entered into joint venture agreements with third parties and may have limited ability to control the activities of its joint venture partners.

Target Company intends to develop internal controls and procedures intended to address compliance and business integrity issues, and Target Company intends to advise its employees on anti-bribery compliance on a global basis. However, despite careful establishment and implementation there can be no assurance that these or other anti-bribery, anti-fraud or anti-corruption policies and procedures are or will be sufficient to protect against fraudulent and/or corrupt activity. In particular, Target Company, in spite of its best efforts, may not always be able to prevent or detect corrupt or unethical practices by employees or third parties, such as sub-contractors or joint venture partners, which may result in reputational damage, civil and/or criminal liability (under the CFPOA or any other relevant compliance, anti-bribery, anti-fraud or anti-corruption laws) being imposed on Target Company or its officers or directors, which could have a material adverse effect on its business, financial condition, results of operations or prospects.

Capital Cost Estimates

Capital and operating cost estimates made in respect of Target Company's current and future research and development and commercial projects may not prove to be accurate. Capital and operating costs are estimated based on management's current expectations. Any of the following events, among the other events and uncertainties described herein, could affect the ultimate accuracy of such estimates: delay in construction schedules, unanticipated transportation costs; cost and availability of financing; the accuracy of major equipment and construction cost estimates; availability and cost of skilled personnel; changes in government regulation (including regulations regarding prices, cost of consumables, royalties, duties, taxes, and permitting); and prices for raw materials.

Increased Demand for Services and Equipment

If personnel, services or equipment cannot be obtained in a timely manner due to inadequate availability, this may increase potential scheduling difficulties and costs due to the need to coordinate the availability of personnel, services or equipment, any of which could materially increase project construction costs or result in project delays or both. Any such material increase in costs would adversely affect Target Company's results of operations and financial conditions.

Competition

The market for Target Company's technology may become highly competitive on a global basis, with a number of competitors having significantly greater resources and/or gaining more market share than it. Some of Target Company's competitors may have greater financial and/or technical resources and more widely known brand names, which may enable them to adapt more quickly to changes in Target Company's industry or devote greater resources to the development and sale of new technologies and products. Target Company's ability to compete is dependent on the success of the MicroCoal Technology, which may take time to develop and be accepted by the market. To improve its competitive position, Target Company may need to make significant ongoing investments in research and development, intellectual property protection, marketing, sales, and service and support. Target Company may have insufficient resources to continue to make such investments or to secure a competitive position. In addition, Target Company or its technologies may also compete indirectly with companies or

technologies that provide alternatives to fossil fuels or other methods of reducing emissions from coal-fired power plants.

Currency Fluctuations

Target Company expects to maintain accounts in United States and Canadian dollars. While MTI's recent financings have primarily been conducted in United States dollars, Target Company expects to conduct its business using various currencies depending on the location of the operations in question and the payment obligations involved. Accordingly, the results of Target Company's operations are subject to currency exchange risks, particularly to changes in the exchange rate between the United States and Canadian dollars. To date, Target Company has not engaged in any formal hedging program to mitigate these risks. The fluctuations in currency exchange rates, particularly between the United States and Canadian dollars, may significantly impact Target Company's financial position and results of operations in the future.

Natural and Human Caused Disasters

Target Company's current and future operations may be subject to adverse natural or human caused events such as fires, severe weather conditions, floods, earthquake activity, explosions, sabotage or terrorism. These events could damage or destroy Target Company's physical facilities, and similar events could also affect the facilities of Target Company's suppliers or customers. Any such damage or destruction could adversely affect Target Company's financial results.

Litigation

Target Company may from time to time become party to claims and litigation proceedings that arise in the course of business. Such matters are subject to many uncertainties, and Target Company cannot predict with assurances the outcomes and ultimate financial impacts of them. There can be no guarantees that actions that may be brought against Target Company in the future will be resolved in its favour or that any insurance Target Company carries will be available or paid to cover any litigation exposure. Any losses from settlements or adverse judgments arising out of these claims could be materially adverse to Target Company.

Possible Conflicts of Interest of Directors and Officers of the Company

Certain of the directors and officers of Target Company may also serve from time to time as directors and/or officers of other companies, and, consequently, there exists the possibility for such directors and officers to be in a position of conflict. Additionally, Dr. Modi serves as a director of SOHL, which may have different interests than Target Company with respect to Target India. Target Company expects that any decision made by any of such directors and officers involving Target Company will be made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of Target Company and its shareholders, but there can be no assurance in this regard. In addition, each of the directors is required to declare and refrain from voting on any matter in which such directors may have a conflict of interest or which are governed by the procedures set forth in the BCBCA and any other applicable law.

Market Price and Listing of Common Shares

Target Company has applied to have the Target Shares listed and posted for trading on the CSE. An investment in Target Company's securities is highly speculative. Securities of companies involved in the research and development or clean energy industries have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. The price of the Target Shares may also be significantly affected by changes in commodity prices, particularly the price of coal, proposed or enacted legislation or regulations or in Target Company's financial condition or results of operations as reflected in its quarterly and annual financial statements.

There is currently no public market through which the Target Shares may be sold, and there can be no assurance

that an active trading market will develop or be sustained for the Target Shares. Shareholders may not be able to resell the Target Shares received pursuant to the Arrangement, which may affect the pricing of the Target Shares in the secondary market, the transparency and availability of trading prices and the liquidity of the Target Shares. Although Target Company has applied for approval to list the Target Shares on the CSE, such listing is subject to Target Company fulfilling all of the listing requirements of the CSE, and there is no guarantee such listing will be obtained as contemplated or at all. If Target Company receives final approval for listing the Target Shares on the CSE, there is no assurance that it will maintain such listing on the CSE or any other exchange or quotation service. If an active or liquid market for the Target Shares fails to develop or be sustained, the price at which the Target Shares trade may be adversely affected.

Regulatory Risks

Target Company's current and anticipated future operations are or will be subject to extensive general and industry-specific federal, state, provincial, municipal and other local laws and regulations, including those governing utilities, exports, taxes, employees, labour standards, occupational health and safety, waste disposal, environmental protection and remediation, protection of endangered and protected species and land use and expropriation. As at the Effective Time, Target Company or its projects may be subject to the laws of Canada, the United States, Indonesia, China and India, among others. Target Company will be required to obtain approvals, permits and licences for its operations, which may impose conditions that must be complied with. If Target Company is unable to extend or renew, or is delayed in extending or renewing, a material approval permit or licence, its operations or financial condition could be adversely affected. There is no assurance that these laws, regulations or government policy, or the administrative interpretation or enforcement of existing laws, regulations and government policy, will not change in the future in a manner that may require Target Company to incur significant capital expenditures or could adversely affect its operations or financial condition. Failure to comply with applicable laws or regulations, including approvals, permits and licences and new laws and regulations, could result in fines, penalties or enforcement actions, including orders suspending or curtailing Target Company's operations or requiring corrective measures or remedial actions.

Tax Exposures

In the normal course of business, Target Company will take various tax filing positions without the assurance that tax authorities will accept and not challenge such positions. In addition, Target Company is subject to further uncertainties concerning the interpretation and application of tax laws in various operating jurisdictions. Target Company maintains reserves for known estimated tax exposures in all jurisdictions. These exposures are settled primarily through the closure of audits with the jurisdictional taxing authorities. In addition, Target Company has agreed to indemnify Acquisition Company in respect of certain tax positions taken in connection with the Arrangement and in the course of the MTI Business prior to the Effective Time.

Availability and Cost of Low-Rank Coal

Target Company's technology may have the greatest competitive advantage in situations where there is a ready source of low-rank, low-cost coal to utilize as a feedstock. Target Company may seek to locate projects in areas where low-cost coal is available or where it can be moved to a project site at a reasonable cost with minimal transportation issues. The future success of Target Company's projects and those of its customers will depend in part on the supply of low-rank coal. If a source of low-rank coal for these projects cannot be obtained effectively or if such source faces supply disruptions or shuts down, Target Company's business and operating results could be seriously adversely affected.

Changes in Laws and Regulations

A significant factor in expanding the potential U.S. market for coal processed using Target Company's technology is the numerous federal, state and local environmental regulations, which provide various air emission requirements for power generating facilities and industrial coal users. The use of clean-burning fuel technologies may help utility companies comply with the air emission regulations and limitations. However, Target Company

is unable to predict future regulatory changes and their impact on the demand for its technology. While more stringent laws and regulations, including mercury emission standards, limits on carbon dioxide, sulfur dioxide and nitrogen oxide emissions, may increase demand for Target Company's technology, such regulations may result in reduced coal use and increased reliance on alternative fuel sources. Similarly, amendments to the numerous federal and state environmental regulations that have the effect of relaxing emission limitations could have a material adverse effect on Target Company's prospects.

Uninsurable Risks

Target Company's business may be subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to Target Company's or its customers' facilities, personal injury or death, environmental damage to its projects, delays in operations, monetary losses and possible legal liability.

Although Target Company intends to acquire such insurance as its senior management determines is commercially reasonable for a company of its size, stage of development and industry, there can be no assurance that Target Company will not incur losses beyond the limits of, or outside the coverage of, any such insurance. From time to time, various types of insurance for companies in the research and development or utilities industries have not been available on commercially acceptable terms or, in some cases, have been unavailable. In addition, there can be no assurance that in the future Target Company will be able to maintain existing coverage or that premiums will not increase substantially.

Current Global Financial Conditions

The recent events in global financial markets have had a profound impact on the global economy. The volatility in global equities, commodities, foreign exchange, and a lack of market liquidity, may adversely affect the development or commercial viability of Target Company's technologies. A global credit/liquidity crisis could also impact the cost and availability of financing and the price of the Target Shares on any exchanges where the Target Shares are traded.

Material Contracts

The Arrangement Agreement is the only contract that is material to Target Company and which has been entered into within the two years prior to the date of this Circular.

In addition, at the Effective Time, certain material contracts related to the MTI Business may be assigned and transferred to Target Company pursuant to the transfer of the MTI Assets to Target Company under the Arrangement.

The material contract described above is attached as Schedule "B" to this Circular and may be inspected at the head office of Target Company at Suite 2300, 1066 West Hastings Street, Vancouver, British Columbia, during normal business hours prior to the Meeting and for a period of thirty days thereafter.

Auditors

At or about the Effective Time, Target Company intends to appoint BDO Canada LLP, Chartered Accountants, as the auditors of Target Company. The address of the auditors is Suite 600, 925 West Georgia Street, Vancouver, British Columbia V6C 3L2.

Transfer Agent and Registrar

Prior to the Effective Time, Target Company intends to appoint Computershare Investor Services Inc. as its registrar and transfer agent at its principal office in Vancouver, British Columbia and sub-agency office in Toronto, Ontario.

MTI AFTER THE ARRANGEMENT

The following is a description of MTI assuming completion of the Arrangement.

Name, Address and Exchange Listing

Following completion of the Arrangement, MTI will continue to exist under the CBCA and is expected to be renamed "La Jolla Capital Inc.". The head and registered office of Acquisition Company is expected to be Suite 1895, 1066 West Hastings Street, Vancouver, British Columbia V6E 3X1.

The CSE has advised that for the Acquisition Swap Shares to be listed on the CSE, Acquisition Company will likely need to meet the original listing criteria of the CSE applicable to companies seeking listing on the exchange, including obtaining a final receipt for a prospectus from the applicable Canadian securities commissions. As Acquisition Company is not expected to have obtained a final receipt for a prospectus before the Effective Time, it is expected that the Acquisition Swap Shares will not be listed on the CSE (or any other stock exchange or quotation system) upon completion of the Arrangement. However, Acquisition Company intends to make an application to list the Acquisition Swap Shares on the CSE promptly following closing of the Arrangement once it believes that it can meet the CSE's original listing requirements.

Intercorporate Relationships

As at the Effective Time, Acquisition Company is not expected to have any material subsidiaries.

General Development of Acquisition Company's Business

Generally

On completion of the Arrangement, Acquisition Company will be a Canadian based mineral exploration company. Acquisition Company will have no active business immediately following the Arrangement. Prior to the date hereof, MTI entered into the Acquisition Agreement with the Vendor, pursuant to which MTI agreed, subject to the satisfaction or waiver of certain conditions, including completion of the Arrangement, to acquire the Target Assets in consideration for the issuance to the Vendor of an aggregate of approximately 2,393,334 post-consolidation Acquisition Swap Shares. If the Acquisition does not complete concurrent with the completion of the Arrangement, Acquisition Company's principal goal following completion of the Arrangement will be to complete the acquisition of the Target Assets.

Stated Business Objectives

The principal business of Acquisition Company following completion of the Arrangement is expected to be the acquisition, exploration and development of mineral properties, and, following any completion of the Acquisition, the exploration and development of the Target Assets. In addition, Acquisition Company may seek and acquire additional mineral properties worthy of exploration and development from time to time as such opportunities arise. If businesses other than mineral exploration and development properties are acquired, the strategic direction with respect to those businesses will be determined at the time of acquisition.

Milestones

The first milestone that must be achieved in order for Acquisition Company to meet its stated business objectives will be the closing of the Acquisition. Although MTI currently expects closing of the Acquisition to occur contemporaneously with, as near as possible following, completion of the Arrangement, closing of the Acquisition is not a condition to the completion of the Arrangement. There is no guarantee that the Acquisition will be completed as contemplated, or at all.

Following any completion of the Acquisition, Acquisition Company intends to commence work towards completion of a report on the Target Assets that is compliant with the requirements of NI 43-101. A decision to implement any exploration on the Target Assets will be based upon the recommended work program set forth in such report and the availability of further exploration funds. MTI cannot provide any assurance that a satisfactory technical report that is compliant with the requirements of NI 43-101 will be completed, or, if completed, that such report will recommend any further exploration or development of the Target Assets.

Trends

Acquisition Company has no history of earnings as a mineral exploration and development company. There are no mineral resource estimates for, or known commercial quantities of mineral reserves on, the Goldsmith property. Exploration and development of the Goldsmith property will only follow upon completion of a satisfactory report that is compliant with NI 43-101. There is no assurance that, even if a NI 43-101 compliant report is completed, that such report will recommend any further exploration or development of the Target Assets. Further, even if a work program is recommended, there is no assurance that Acquisition Company's exploration and development activities will result in any discoveries of commercial bodies of gold or any other minerals.

Acquisition Company's Business

Generally

On completion of the Arrangement, Acquisition Company will be a Canadian based mineral exploration company whose focus will be the acquisition, exploration and development of mineral properties. Acquisition Company will have no active business immediately following completion of the Arrangement. If the Acquisition does not complete concurrent with the completion of the Arrangement, Acquisition Company's principal goal following the Effective Time will be to complete the acquisition of the Target Assets, and the subsequent exploration and development of the Goldsmith property. Acquisition Company may also acquire additional properties and carry out early stage exploration on such mineral properties and then sell, option or joint venture the properties or, depending upon Acquisition Company's financial revenues and other factors, develop such properties to commercial production if and as such opportunities arise. If businesses other than mineral exploration and development properties are acquired, the strategic direction with respect to those businesses will be determined at the time of acquisition.

Description of the Target Assets

Pursuant to the Acquisition Agreement, Acquisition Company will acquire all of the Vendor's interest in and to the Target Assets for approximately 2,393,334 post-consolidation Acquisition Swap Shares. The Target Assets consist primarily of the mineral claims covering approximately 350 hectares referred to as the "Goldsmith property", an early-stage gold mineral exploration and development project located approximately 65 kilometres north of Kaslo, British Columbia, as more particularly set forth at Schedule "K". The Goldsmith property covers a portion of the Poplar Creek Gold Camp in the Lardeau Area. The Goldsmith property has had some historic exploration and development work conducted on it since as early as about 1900, but, to the knowledge of MTI, to date there has been no NI 43-101 compliant report that has been prepared on the property.

Results of Operations

Acquisition Company has not carried on any commercial operations to date as a mineral exploration and development company.

Competitive Conditions

The mining industry is intensely competitive in all of its phases, and Acquisition Company will compete with many companies possessing much greater financial and technical resources than itself. Competition in the mineral mining industry is primarily for: mineral rich properties that can be developed and produced economically; technical expertise to find, develop, and operate such properties; labour to operate the properties; and capital for the purpose

of funding such properties. Many competitors not only explore for and mine minerals, but conduct refining and marketing operations on a global basis. Such competition may result in Acquisition Company being unable to acquire desired properties, to recruit or retain qualified employees or to acquire the capital necessary to fund Acquisition Company's operations and develop mining properties.

Summary of Material Property Commitments

Other than as disclosed herein, Acquisition Company will have no obligations to maintain the Target Assets in good standing for the first twelve months after closing of the Acquisition. Pursuant to the agreement through which the Vendor acquired its interest in the Target Assets, the following payments are required to be made in order to maintain the interest in the Target Assets:

Payment Amount	Payment Date
$10,000	April 30, 2015(1)
$35,000	April 30, 2016
$75,000	April 30, 2017
$110,000	April 30, 2018

Note:
(1) Expected to be paid by the Vendor prior to any closing of the Acquisition.

If, following any closing of the Acquisition, Acquisition Company fails to make the above payments, the Target Assets will revert back to the prior claim holders and Acquisition Company will lose all of its right, title and interest in and to the Goldsmith property. In addition to the above payments, an additional payment of $1,000,000 is due to the prior claim holders upon any commencement of commercial production on the Goldsmith property (or any portion thereof), and the Goldsmith property is also subject to a 3% net smelter returns royalty in favour of the prior claim holders, provided that one-half of this royalty may be repurchased for $1,500,000.

Available Funds

Following completion of the Arrangement, Acquisition Company will be an early stage mineral exploration company and, therefore, will not have any source of income. On completion of the Arrangement, Acquisition Company will only have a minimum of cash, estimated to be approximately $50,000, and no other material assets. Acquisition Company intends to use its cash on hand for working capital and general corporate purposes, and to prepare a report on the Goldsmith property that complies with NI 43-101 following any completion of the Acquisition. Any exploration and development of any properties acquired by Acquisition Company, including the Target Assets following any closing of the Acquisition, will be based on Acquisition Company's ability to raise funds, primarily from equity sources. Acquisition Company's available cash at the Effective Time will be insufficient to fund any exploration and development of any mineral exploration and development properties, including the Target Assets. There is no assurance that there will be any financing available to Acquisition Company to fund any exploration and development program on the Target Assets or any other mineral properties acquired by it, or to maintain its interest therein, or, if available, that such financing will be available on reasonable commercial terms.

Dividends

No dividends will be paid in the immediate or foreseeable future with respect to the Acquisition Swap Shares. The future payment of dividends will be dependent upon the financial requirements of Acquisition Company to finance future growth, the financial condition of Acquisition Company and other factors which the board of directors of Acquisition Company may consider appropriate in the circumstances.

Principal Shareholders of Acquisition Company

To the knowledge of the directors and executive officers of MTI, other than as set out below, no person or company

will hold, directly or indirectly, as at the Effective Time, or will have control or direction over, or a combination of direct or indirect beneficial ownership of and control or direction over, voting securities that will constitute more than 10% of the issued Acquisition Swap Shares as at the Effective Time.

Name	Number of Acquisition Swap Shares	Percentage of Issued and Outstanding Acquisition Swap Shares
1029845 B.C. Ltd.	2,393,334[(1)]	40.00%[(1)]
SOHL, Inc.	1,580,933[(2)]	26.42%[(1)]

Notes:
(1) Assuming completion of the Acquisition.
(2) The reported Acquisition Swap Shares will be controlled and directed by SOHL.

Share Capital

The following table represents the share capital of Acquisition Company assuming completion of the Arrangement.

Share Capital	Authorized	After Completion of the Arrangement and the Acquisition
Acquisition Swap Shares	Unlimited	5,983,335[(1)]

Note:
(1) Includes an aggregate of approximately 2,393,334 post-consolidation Acquisition Swap Shares to be issued to the Vendor in connection with any closing of the Acquisition.

Directors and Officers

The name, province or state, and country of residence and position with Acquisition Company of Acquisition Company's directors and executive officers as expected as at the Effective Time, as well as the number of Acquisition Swap Shares each such director and officer is expected to beneficially own, directly or indirectly, or over which he is expected to exercise control or direction as at the Effective Time, and the principal occupation of each such person within the five preceding years, is as follows:

Name and Province or State and Country of Residence	Principal Occupation	Position with Acquisition Company	Director Since	Acquisition Swap Shares Beneficially Owned or Controlled and Directed (#)
Eugene Beukman[1] British Columbia, Canada	Corporate consultant to public companies since January 1994; director and/or officer of several reporting companies listed on the TSX-V and CSE; President of Pender Street Corporate Consulting.	Director and Chief Executive Officer	Not applicable	Nil
Damanjit Gahunia[1] British Columbia, Canada	Senior Accountant of CGG Services Canada Inc., since November 2010.	Director and Chief Financial Officer	Not applicable	Nil
Ian Hume Washington, D.C., USA	Independent consultant to the World Bank, other development banks and private companies	Director	September 15, 2010	5,792
William Hudson[1] Brownsville, Texas, USA	Manager of real estate investments; and property management and development.	Director	October 26, 2010	8,589

Note:
(1) An expected member of the Acquisition Company audit committee as at the Effective Time, which is expected to be comprised of Messrs. Beukman (chair), Gahunia and Hudson.

As at the Effective Time, based on the number of MTI Shares held by the directors and executive officers of MTI as at the date hereof, and assuming completion of the Arrangement and the Acquisition, the Acquisition Company directors and executive officers will, as a group, beneficially own, directly or indirectly, or exercise control or direction over, a total of 14,381 Acquisition Swap Shares, representing approximately 0.2% of the issued and outstanding Acquisition Swap Shares.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Except as disclosed herein, none of Acquisition Company's proposed directors or executive officers is as at the date of this Circular, or was within 10 years before the date of this Circular, a director, chief executive officer or chief financial officer of any company (including MTI) that:

(i) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than thirty consecutive days; or

(ii) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

None of Acquisition Company's proposed directors, executive officers or shareholders holding a sufficient number of securities of Acquisition Swap Shares to affect materially the control of Acquisition Company:

(i) is, as at the date of this Circular, or has been within the 10 years before the date of this Circular, a director or executive officer of any company (including MTI) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made

a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceeding, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets; or

(ii) has, within the 10 years before the date of this Circular, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director.

Conflicts of Interest

Other than as disclosed herein, to MTI's knowledge, there are no known existing or potential conflicts of interest among Acquisition Company's expected directors and officers as a result of their outside business interests except that certain of the directors and officers serve as directors, officers, promoters and members of management of other companies and therefore it is possible that a conflict may arise between their duties as a director and officer of Acquisition Company and their duties as a director, officer, promoter or member of management of such other companies.

Acquisition Company's proposed directors and officers shall be advised of the existence of laws governing accountability of directors and officers regarding corporate opportunity and requiring disclosures by directors of conflicts of interest, and Acquisition Company will rely upon such laws in respect of any directors' and officers' conflicts of interest or in respect of any breaches of duty by any of its directors or officers. All such conflicts are required to be disclosed by such directors or officers in accordance with the CBCA, and they are required to govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law.

Personal Bankruptcies

No proposed director, officer, promoter or other member of management of Acquisition Company has, during the ten years prior to the date of this Circular, been declared bankrupt or made a voluntary assignment into bankruptcy, made a proposal under any legislation relating to bankruptcy or insolvency or has been subject to or instituted any proceedings, arrangement, or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold his assets.

Indebtedness of Directors and Executive Officers of Acquisition Company

No individual who is a director or executive officer of Acquisition Company, or an associate or affiliate of such an individual, is or was, at the end of the most recently completed financial year, indebted to MTI or any of its subsidiaries since the beginning of the most recently completed financial year of MTI, or is or has been indebted to another entity that is or has been the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by MTI or any of its subsidiaries during that period.

Executive Compensation

As the Effective Time, the named executive officers of Acquisition Company are expected to be Eugene Beukman, chief executive officer, and Damanjit Gahunia, chief financial officer.

Acquisition Company does not expect to have an employment contract with any of such named executive officers at the Effective Time pursuant to which such officers will be compensated for their services as executive officers of Acquisition Company. Future management compensation will be determined by the board of directors of Acquisition Company in its discretion.

Audit Committee Disclosure

Composition of the Audit Committee

As at the Effective Time, it is expected that Acquisition Company's audit committee will be comprised of Messrs. Beukman, Gahunia and Hudson. Each proposed member of Acquisition Company's audit committee is financially literate, and Mr. Hudson will be an independent member. Messrs. Beukman and Gahunia will not be independent as the chief executive officer and chief financial officer, respectively, of Acquisition Company.

Relevant Education and Experience

Set out below is a description of the education and experience of Messrs. Beukman and Gahunia as relevant to the performance of their respective responsibilities as members of the Acquisition Company audit committee. For a description of the education and experience of Mr. Hudson relevant to the performance of his responsibilities as a member of the Acquisition Company audit committee, see "*Audit Committee Disclosure – Relevant Education and Experience*" above:

Eugene Beukman. Mr. Beukman graduated from Rand University of Johannesburg, South Africa, with a Bachelor of Law degree and a Bachelor of Law Honours Postgraduate degree in 1987. From 1987 until January 1993, when he moved to Vancouver, British Columbia, Mr. Beukman was employed as a legal advisor to the predecessor of BHP Billiton. Mr. Beukman has over twenty years' experience in the acquisition of assets and joint ventures. Mr. Beukman is also an Admitted Advocate of the Supreme Court of South Africa. Mr. Beukman also serves as an audit committee member for a number of other publicly listed companies.

Damanjit Gahunia. Mr. Gahunia is the senior accountant with CGG Services Canada Inc., a position he has held since November 2010. Mr. Gahunia graduated from the British Columbia Institute of Technology in 2009 with a Bachelor of Technology Degree in Accounting and is a Certified General Accountant. Mr. Gahunia has over 7 years' experience working with publicly listed companies in both Vancouver and Calgary.

Risk Factors Relating to Acquisition Company's Business

An investment in Acquisition Company should be considered speculative because of the nature of Acquisition Company's proposed business plan. The following risk factors, as well as risks not currently known to MTI, could materially adversely affect Acquisition Company's future business, operations and financial condition and could cause them to differ materially from estimates described in forward-looking statements relating to Acquisition Company. MTI Shareholders should carefully consider the risk factors set out below.

Possible Non-Completion of Arrangement or Acquisition of Goldsmith Property

There is no assurance that the Arrangement will receive regulatory, court or shareholder approval or will complete. If the Arrangement does not complete, Acquisition Company may not acquire the Target Assets. Even if the Arrangement does complete, Acquisition Company's acquisition of the Target Assets remains subject to the fulfillment of certain closing conditions. If the Arrangement completes and Acquisition Company does not acquire the Target Assets, Acquisition Company may not be able to find another suitable project or business in a timely fashion or at all, in which case Target Company may have a prolonged period in which it has no material assets or active business.

Financing Risks

Following completion of the Arrangement, Acquisition Company will have only minimal working capital and additional funding will be required to fulfill any obligations under applicable agreements in order to maintain any interest it acquires in the Target Assets and to undertake any exploration program thereon. There can be no assurance that Acquisition Company will be able to obtain adequate financing or that the terms of such financing

will be favourable. Failure to obtain such financing could result in delay or indefinite postponement of any exploration program, the possible loss of the Target Assets and the insolvency of Acquisition Company.

Acquisition Company has no history of earnings, and, due to the nature of its business, there can be no assurance that Acquisition Company will be profitable. Acquisition Company does not anticipate paying any dividends on the Acquisition Swap Shares in the foreseeable future. The only present source of funds available to Acquisition Company is through the sale of its equity shares. Even if the results of exploration are encouraging, Acquisition Company may not have sufficient funds to conduct the further exploration that may be necessary to determine whether or not a commercially minable deposit exists on the Target Assets or any other mineral property it acquires. While Acquisition Company may generate additional working capital through further equity offerings, there is no assurance that any such funds will be available on terms acceptable to Acquisition Company, or at all. If available, future equity financing may result in substantial dilution to shareholders. At present, it is impossible to determine what amounts of additional funds, if any, may be required.

No market for the Acquisition Swap Shares

The Company currently anticipates that, even if Acquisition Company completes the acquisition of the Target Assets, the Acquisition Swap Shares will be delisted by the CSE on or about the closing of the Arrangement, and the Acquisition Swap Shares may cease to be quoted on the OTC or listed on the Frankfurt Stock Exchange. If the CSE delists the Acquisition Swap Shares, there may be no market through which the Acquisition Swap Shares may be sold, and holders of Acquisition Swap Shares may not be able to resell their shares. There can be no assurance that Acquisition Company will seek a listing for the Acquisition Swap Shares or that, if sought, such a listing will be successfully obtained.

No Operating History in Mining Exploration or Development

Acquisition Company has no history of earnings. There are no known commercial quantities of mineral reserves on the Goldsmith property. Development of the Target Assets will only follow upon receipt of a report that is compliant with the requirements of NI 43-101, and that recommends further exploration and development of the Goldsmith property. Exploration and the development of natural resources involve a high degree of risk and few properties which are explored are ultimately developed into producing properties. There is no assurance that any exploration and development activities by Acquisition Company will result in any discoveries of commercial bodies of ore. The long-term profitability of Acquisition Company's operations will be in part directly related to the cost and success of its exploration programs, which may be affected by a number of factors.

Further, Acquisition Company will be subject to many risks common to mineral exploration companies, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources and a lack of revenues. There is no assurance Acquisition Company will be successful in achieving a return on shareholder's investment and the likelihood of success must be considered in light of its early stage operations.

Loss of Interest in Properties

The Target Assets are subject to an agreement which requires Acquisition Company to make cash payments to the previous holders of the property in order to maintain its interest therein. Acquisition Company's ability to maintain an interest in the Target Assets will be dependent on its ability to raise additional funds by equity financing. Failure to obtain additional financing will result in Acquisition Company being unable to make the payments required for the maintenance of the Goldsmith property and could result in a delay or postponement of any exploration and the partial or total loss of Acquisition Company's interest in the Goldsmith property.

Commercial Ore Deposits

The Target Assets are an early exploration stage project and are without known bodies of commercial ore. Development of Acquisition Company's mineral projects would follow only if favourable exploration results are

obtained. The business of exploration for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines.

Exploration, Development and Operating Risks

Resource exploration and development is a speculative business, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but also from finding mineral deposits that, though present, are insufficient in quantity and quality to return a profit from production. The marketability of minerals acquired or discovered by Acquisition Company may be affected by numerous factors which are beyond the control of Acquisition Company and which cannot be accurately predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environmental protection, the combination of which factors may result in Acquisition Company not receiving an adequate return of investment capital.

There is no assurance that Acquisition Company's mineral exploration and development activities will result in any discoveries of commercial bodies of ore. The long-term profitability of Acquisition Company's operations will in part be directly related to the costs and success of its exploration programs, which may be affected by a number of factors. Substantial expenditures are required to establish reserves through drilling and to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that funds required for development can be obtained on a timely basis.

There is no certainty that the expenditures made by Acquisition Company towards the search for and evaluation of mineral deposits will result in discoveries of commercial quantities of ore.

Uninsurable Risks

In the course of exploration, development and production of mineral properties, certain risks, and in particular, unexpected or unusual geological operating conditions including rock bursts, cave-ins, fires, flooding and earthquakes may occur. Such occurrences could result in damage to mineral properties or facilities thereon, personal injury or death, environmental damage to Acquisition Company's properties or the properties of others, delays in mining, monetary losses and possible legal liability.

Although Acquisition Company intends to maintain insurance to protect against certain risks in such amounts as it considers reasonable, its insurance will not cover all of the potential risks associated with its operations. Acquisition Company may also be unable to maintain insurance to cover certain risks at economically feasible premiums. In addition, insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of Acquisition Company.

Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to Acquisition Company or to other companies in the mining industry on acceptable terms. As a result, Acquisition Company may become subject to liability for pollution or other hazards that may not be insured against. Losses from these events may cause Acquisition Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

Permits and Government Regulations

The future operations of Acquisition Company may require permits from various governmental authorities and will be governed by laws and regulations governing prospecting, development, mining, production, export, taxes, labour standards, occupational health, waste disposal, land use, environmental protections, mine safety and other matters. There can be no guarantee that Acquisition Company will be able to obtain all necessary licences, permits and

approvals that may be required to undertake exploration activity or commence construction or operation of mine facilities on the Target Assets or on any other properties it may acquire.

Mining and exploration activities are also subject to various laws and regulations relating to the protection of the environment. Although Acquisition Company expects that its exploration activities will be carried out in accordance with all of the applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner that could limit or curtail the production or development of Acquisition Company's properties. Amendments to current laws and regulations governing the operations and activities of Acquisition Company or a more stringent implementation thereof could have a material adverse effect on Acquisition Company's business, financial condition and results of operations.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, the installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of mining activities and may be subject to civil or criminal fines or penalties for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or a more stringent implementation thereof, could have a material adverse impact on Acquisition Company and cause increases in exploration expenses, capital expenditures or production costs, reduction in levels of production at producing properties, or abandonment or delays in development of new mining properties.

Environmental and Safety Regulations and Risks

Environmental laws and regulations may affect the operations of Acquisition Company. These laws and regulations set various standards regulating certain aspects of health and environmental quality. They provide for penalties and other liabilities for the violation of such standards and establish, in certain circumstances, obligations to rehabilitate current and former facilities and locations where operations are or were conducted. The permission to operate can be withdrawn temporarily where there is evidence of serious breaches of health and safety standards, or even permanently in the case of extreme breaches. Significant liabilities could be imposed on Acquisition Company for damages, clean-up costs or penalties in the event of certain discharges into the environment, environmental damage caused by previous owners of acquired properties or noncompliance with environmental laws or regulations. In all major developments, Acquisition Company generally relies on recognized designers and development contractors from which Acquisition Company will, in the first instance, seek indemnities. Acquisition Company intends to minimize risks by taking steps to ensure compliance with environmental, health and safety laws and regulations and operating to applicable environmental standards. There is a risk that environmental laws and regulations may become more onerous, making Acquisition Company's operations more expensive.

Mineral Titles

The acquisition of title to mineral properties is a very detailed and time-consuming process. Title to, and the area of, mineral concessions may be disputed. Although Acquisition Company expects to take or believes it has taken reasonable measures to ensure proper title to its interests in any properties, there is no guarantee that title to any such properties will not be challenged or impaired. Third parties may have valid claims underlying portions of Acquisition Company's interests, including prior unregistered liens, agreements, transfers or claims, including Aboriginal land claims, and title may be affected by, among other things, undetected defects. In addition, Acquisition Company may be unable to operate on such properties as permitted or to enforce its rights with respect to such properties.

Aboriginal Claims

Canadian court decisions have recognized the existence of Aboriginal title and rights, which may include title or rights of use to lands historically used or occupied by Aboriginals. Aboriginal groups have claimed Aboriginal

rights and/or title over a significant portion of British Columbia, and few treaties are in place between the Crown and Aboriginal groups in British Columbia. While certain Aboriginal groups in British Columbia have entered into treaty negotiations with the Crown, such negotiations involve complex issues that may take many years to resolve, if at all, and the results of such negotiations cannot be predicted.

Courts have held that the Crown has an obligation to consult with Aboriginal groups when the Crown has knowledge of either existing rights or the potential existence of Aboriginal title or rights and is contemplating actions that may potentially impact such title or rights. Failure of the Government of British Columbia to adequately discharge its obligations to Aboriginal groups may affect the validity of its actions in dealing with public rights, including the granting of Crown mineral tenures.

In 2014, the Supreme Court of Canada (the "**SCC**") for the first time recognized the existence of Aboriginal title over land in British Columbia. The SCC also found that provincial laws of general application may apply to land subject to Aboriginal title, provided that certain conditions are met, including that the laws are not unreasonable, impose no undue hardship and do not deny the holders of such Aboriginal title of certain rights. As a result, future court decisions may be required to determine whether and to what extent provincial laws, including law related to mining and mineral tenures granted by the Provincial Crown thereunder, apply on lands subject to Aboriginal title. There can be no assurance that Aboriginal title will not in the future be recognized over all or any portion of the area of the Target Assets or any future mineral projects acquired by Acquisition Company. There can be no assurance that Aboriginal claims will not in the future have a material adverse effect on Acquisition Company's mineral projects or its ability to secure other mineral projects.

Current Global Financial Conditions

The recent events in global financial markets have had a profound impact on the global economy. The volatility in global equities, commodities, foreign exchange, precious and base metals and a lack of market liquidity, may adversely affect the development of the Goldsmith property. A global credit/liquidity crisis could also impact the cost and availability of financing and the price of Acquisition Company's common shares.

Acquisition of Additional Mineral Properties

In order to grow its business, Acquisition Company may seek to acquire additional mineral interests or merge with or invest in new companies or opportunities. A failure to make acquisitions or investments may limit Acquisition Company's growth. In pursuing acquisition and investment opportunities, Acquisition Company faces competition from other companies having similar growth and investment strategies, many of which may have substantially greater resources than Acquisition Company. Competition for these acquisitions or investment targets could result in increased acquisition or investment prices, higher risks and a diminished pool of businesses, services or products available for acquisition or investment. Additionally, if Acquisition Company loses or abandons its interest in any of its mineral projects, there is no assurance that it will be able to acquire another mineral property of merit or that such an acquisition would be approved by any applicable regulators.

Fluctuating Price of Gold

Acquisition Company's revenues, if any, are expected to be in large part derived from the extraction and sale of base and precious metals such as gold. The price of those commodities has fluctuated widely, particularly in recent years, and is affected by numerous factors beyond Acquisition Company's control, including international, economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumptive patterns, speculative activities and increased production due to new extraction developments and improved extraction and production methods. These factors may affect the price of base and precious metals, and, therefore, the economic viability of any of Acquisition Company's future exploration projects cannot accurately be predicted.

Competition

The mining industry is intensely competitive in all of its phases, and Acquisition Company expects to compete with many companies possessing greater financial and technical resources than itself. Competition in the precious metals mining industry is primarily for: mineral rich properties that can be developed and produced economically; technical expertise to find, develop, and operate such properties; labour to operate the properties; and capital for the purpose of funding such properties. Many competitors not only explore for and mine precious metals, but conduct refining and marketing operations on a global basis. Such competition may result in Acquisition Company being unable to acquire desired properties, to recruit or retain qualified employees or to acquire the capital necessary to fund its operations and develop mining properties. Existing or future competition in the mining industry could materially adversely affect Acquisition Company's prospects for mineral exploration and success in the future.

Infrastructure

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, railways, bridges, power sources and water supply are important determinants that affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect Acquisition Company's operations, financial condition and results of operations.

Capital Cost Estimates

Capital and operating cost estimates made in respect of Acquisition Company's current and future development projects and mines may not prove to be accurate. Capital and operating costs are estimated based on the interpretation of geological data, feasibility studies, anticipated climatic conditions and other factors. Any of the following events, among the other events and uncertainties described herein, could affect the ultimate accuracy of such estimates: unanticipated changes in grade and tonnage of ore to be mined and processed; incorrect data on which engineering assumptions are made; delay in construction schedules; unanticipated transportation costs; the accuracy of major equipment and construction cost estimates; labour negotiations; changes in government regulation (including regulations regarding prices, cost of consumables, royalties, duties, taxes, permitting and restrictions on production quotas on exportation of minerals); and title claims.

Increased Demand for Services and Equipment

Increased demand for services and equipment could cause project costs to increase materially, resulting in delays if services or equipment cannot be obtained in a timely manner due to inadequate availability, and could increase potential scheduling difficulties and costs due to the need to coordinate the availability of services or equipment, any of which could materially increase project exploration, development or construction costs or result in project delays or both. Any such material increase in costs would adversely affect Acquisition Company's results of operations and financial conditions.

Litigation

Acquisition Company is subject to litigation risks. All industries, including the mining industry, are subject to legal claims, with and without merit. Defense and settlement costs of legal claims can be substantial, even with respect to claims that have no merit. Due to the inherent uncertainty of the litigation process, the resolution of any particular legal proceeding to which Acquisition Company is or may become subject could have a material effect on its financial position, results of operations or mining and project development operations.

Possible Conflicts of Interest of Directors and Officers of Acquisition Company

Certain of the directors and officers of Acquisition Company may also serve as directors and/or officers of other companies involved in natural resource exploration and development, and, consequently, there exists the possibility for such directors and officers to be in a position of conflict. Acquisition Company expects that any decision made

by any of such directors and officers involving Acquisition Company will be made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of Acquisition Company and its shareholders, but there can be no assurance in this regard. In addition, each of the directors is required to declare and refrain from voting on any matter in which such directors may have a conflict of interest or which are governed by the procedures set forth in the CBCA and any other applicable law.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

During the last completed financial year, no director, executive officer, or nominee for director of MTI nor any of their associates has been indebted to MTI or any of its subsidiaries, nor has any of these individuals been indebted to another entity which indebtedness is the subject of a guarantee, support in agreement, letter of credit or other similar arrangement or understanding provided by MTI or any of its subsidiaries.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

Except as disclosed herein, since the commencement of the last completed financial year, no "informed person", any proposed director of MTI, or an associate or affiliate of any informed person or proposed director had any material interest, direct or indirect, in any transaction or any proposed transaction which has materially affected or would materially affect MTI or any of its subsidiaries. "Informed Person" means: (a) a director or executive officer of MTI; (b) a director or officer of a person or company that is itself an informed person or subsidiary of MTI; or (c) any person or company who beneficially owns, or controls or directs, directly or indirectly, voting securities of MTI carrying more than 10% of the voting rights attached to all outstanding voting securities of MTI.

MANAGEMENT CONTRACTS

The management functions of MTI are performed by its directors and executive officers, and MTI has no management agreements or arrangements under which such management functions are performed by persons other than the directors and executive officers of MTI.

LEGAL PROCEEDINGS

Neither MTI nor Target Company are subject to any legal or other actions, current or pending, which may materially affect either MTI's or Target Company's operating results, financial position or property ownership.

SHAREHOLDER PROPOSALS

The final date by which MTI must receive any proposals for any matter that a person entitled to vote at an annual meeting of shareholders of MTI proposes to raise at the next annual meeting of shareholders of MTI is January 16, 2016, subject to the requirements of the CBCA.

ADDITIONAL INFORMATION

Additional information relating to MTI is on SEDAR at www.sedar.com. Financial information is provided in MTI's financial statements and management's discussion and analysis ("**MD&A**") for the most recently completed financial year.

MTI will provide to any MTI Shareholder, upon request, copies of MTI's financial statements and MD&A for the most recently completed financial year. Please direct your request to MTI at Suite 2300, 1066 West Hastings Street, Vancouver, British Columbia, V6E 3X2.

BOARD APPROVAL

The Board has approved the contents and the delivery of this Circular to its MTI Shareholders.

DATED at Vancouver, British Columbia, this 15th day of April, 2015.

ON BEHALF OF THE BOARD OF DIRECTORS
MICROCOAL™ TECHNOLOGIES INC.

Per: *"James Young"*
Chairman and Director

IF YOU HAVE QUESTIONS OR NEED ASSISTANCE VOTING YOUR SHARES, CONTACT THE COMPANY'S PROXY AGENT AT 1-904-240-5818, OR BY EMAIL AT DDARMANJIAN@MTICOAL.COM.

SCHEDULE "A"

ARRANGEMENT RESOLUTION

.

"BE IT RESOLVED AS A SPECIAL RESOLUTION THAT:

1. the arrangement (the "**Arrangement**") pursuant to Section 192 of the *Canada Business Corporations Act* (Canada) (the "**CBCA**") involving MicroCoal Technologies Inc. ("**MTI**"), its securityholders and Targeted Microwave Solutions Inc., as more particularly described and set forth in the information circular of MTI dated April 15, 2015 (the "**Circular**"), and all transactions contemplated thereby, are hereby approved and authorized;

2. the plan of arrangement (the "**Plan of Arrangement**"), as it has been or may be modified or amended in accordance with its terms, the full text of which is set forth in Schedule "A" of the arrangement agreement dated April 13, 2015 (the "**Arrangement Agreement**") attached as Schedule "B" to the Circular, is hereby authorized and approved;

3. the Arrangement Agreement, the actions of the directors of MTI in approving the Arrangement and the actions of the officers and/or directors of MTI in executing and delivering the Arrangement Agreement and any amendments thereto, including the Plan of Arrangement, are hereby ratified, adopted and confirmed;

4. notwithstanding that this special resolution has been passed by the shareholders of MTI or that the Arrangement has received the approval of the Supreme Court of British Columbia, the directors of MTI are hereby authorized and empowered, at their discretion, without further notice to or approval of shareholders of MTI to amend the terms of the Arrangement Agreement and/or Plan of Arrangement and/or to decide not to proceed with the Arrangement or revoke this special resolution at any time prior to the filing of the articles of arrangement giving effect to the Arrangement with the director under the CBCA without further approval of the shareholders of MTI; and

5. any one director or officer of MTI be and is hereby authorized and directed, for and on behalf of MTI, to execute and deliver all such documents and to do all such other acts and things as such director or officer may determine to be necessary or advisable to give effect to this special resolution (including, without limitation, the execution and delivery of the articles of arrangement to the director under the CBCA), the execution and delivery of any such document or the doing of any such other act or thing being conclusive evidence of such determination."

SCHEDULE "B"

ARRANGEMENT AGREEMENT INCLUDING PLAN OF ARRANGEMENT

(Please see attached.)

THIS ARRANGEMENT AGREEMENT, made as of the 13th day of April, 2015.

BETWEEN:

> **MICROCOAL TECHNOLOGIES INC.**, a company duly existing under the laws of Canada, having its registered office at Suite 1000 – 925 West Georgia Street, Vancouver, British Columbia V6C 3L2
>
> (hereinafter referred to as "**MTI**")

OF THE FIRST PART

AND:

> **TARGETED MICROWAVE SOLUTIONS INC.**, a company duly incorporated under the laws of British Columbia, having its registered office at Suite 1000 – 925 West Georgia Street, Vancouver, British Columbia V6C 3L2
>
> (hereinafter referred to as the "**Company**")

OF THE SECOND PART

WITNESSES THAT, WHEREAS:

A. MTI and the Company wish to implement a transaction by completion of the Plan of Arrangement (as hereinafter defined) whereby, among other things, a series of share exchanges will take place with the result that shareholders of MTI will have the same, or substantially the same, percentage shareholding in each of MTI and the Company at the Effective Time of the Arrangement (as hereinafter defined) on the Effective Date (as hereinafter defined) and the shareholders of MTI will become the shareholders of the Company;

B. Pursuant to the Plan of Arrangement, among other things:

   (i) the MTI Assets (as hereinafter defined) will be transferred from MTI to the Company in exchange for common shares of the Company;

   (ii) MTI will reorganize its capital; and

   (iii) MTI will distribute the common shares of the Company which it receives in exchange for the MTI Assets to the MTI Shareholders; and

C. MTI proposes to have the MTI Shareholders consider the Arrangement at the Meeting (as hereinafter defined) on the terms set forth in the Plan of Arrangement.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein set forth, the parties covenant and agree as follows:

1. DEFINITIONS

1.1 In this Agreement, all capitalized terms which are not otherwise defined in this Agreement shall have the meaning ascribed to them in the Plan of Arrangement:

(a) "**1933 Act**" means the United States *Securities Act of 1933*, as amended, and the rules and regulations promulgated thereunder;

(b) "**Acquisition Swap Shares**" has the meaning ascribed to such term in the Plan of Arrangement;

(c) "**Agreement**" means this Agreement, as the same may be supplemented or amended from time to time;

(d) "**Arrangement**" means the proposed arrangement pursuant to Section 192 of the CBCA as set forth in the Plan of Arrangement, subject to any amendments or variations thereto made in accordance with this Agreement, the Plan of Arrangement or at the direction of the Court, in accordance with the terms hereof;

(e) "**Asset Purchase Agreement**" has the meaning set forth in Section 4.1(h);

(f) "**Business Day**" means a day which is not a Saturday, Sunday or a statutory holiday in the City of Vancouver, British Columbia;

(g) "**CBCA**" means the *Canada Business Corporations Act* (Canada), R.S.C. 1985, c. C-44, as may be amended or replaced from time to time;

(h) "**Company**" has the meaning ascribed to such term on the first page of this Agreement;

(i) "**Company Business**" means the business to be carried on by the Company on completion of the Arrangement, being the MTI Business;

(j) "**Company Shares**" means all of the issued and outstanding common shares in the capital of the Company;

(k) "**Court**" means the Supreme Court of British Columbia;

(l) "**CSE**" means the Canadian Securities Exchange;

(m) "**Damages**" means, collectively, damage, loss, liability, demand, claim, judgment, settlement, fine, penalty, deficiency, cost and expense (including without limitation reasonable expenses of investigation and reasonable attorneys' fees and expenses in connection with any action, suit or proceeding);

(n) "**Director**" means an individual appointed by the federal Minister of Industry under Section 260 of the CBCA;

(o) "**Effective Date**" has the meaning ascribed to such term in the Plan of Arrangement;

(p) "**Effective Time**" has the meaning ascribed to such term in the Plan of Arrangement;

(q) "**Excluded Assets**" means those assets not acquired by the Company pursuant to the Arrangement, as determined by the Company in its sole and absolute discretion, such as certain non-material books, records, contracts, securities and trademarks;

(r) "**Final Order**" means the final order of the Court approving the Arrangement;

(s) "**Information Circular**" means the information circular to be prepared and sent to the MTI Shareholders in connection with the Meeting, and any amendment(s) or supplement(s(thereto;

(t) "**Interim Order**" means the interim order of the Court providing for, among other things, the calling and holding of the Meeting and the requisite majority for the approval of the Arrangement by the MTI Shareholders;

(u) "**Meeting**" means the annual and special meeting of MTI Shareholders, and any adjournment(s) or postponement(s) thereof, held in order to, among other things, consider and, if thought fit, approve the Arrangement;

(v) "**MicroCoal Technology**" means the patented MicroCoal® technology of MTI and/or its direct or indirect wholly-owned subsidiaries;

(w) "**MTI**" has the meaning ascribed to such term on the first page of this Agreement;

(x) "**MTI Assets**" all right, title and interest of MTI in and to the entirety of MTI's assets and undertaking, including all cash, receivable(s) (including tax rebates), promissory note(s), contracts, tangibles, goodwill, intellectual property (including all patents), property, equipment and securities in certain of MTI's subsidiaries owned or held by MTI, and including, for greater certainty, the MicroCoal Technology, but excluding certain excluded assets;

(y) "**MTI Business**" means the business being conducted by MTI as a going concern as at the Effective Time, and including, for greater certainty, substantially all of the assets and property of MTI, including the MicroCoal Technology;

(z) "**MTI Class A Shares**" has the meaning ascribed to such term in the Plan of Arrangement;

(aa) "**MTI Class B Preferred Shares**" has the meaning ascribed to such term in the Plan of Arrangement;

(bb) "**MTI Shares**" means the common shares without par value in the authorized share structure of MTI, as constituted immediately prior to the Effective Time;

(cc) "**MTI Shareholders**" means all of the holders of MTI Shares as at the Effective Time;

(dd) "**MTI Warrants**" means common share purchase warrants of MTI outstanding as at the Effective Time entitling the holder thereof to acquire MTI Shares at a specified price per MTI Share;

(ee) "**Party**" means either of MTI or the Company and "**Parties**" means both of MTI and the Company;

(ff) "**Plan of Arrangement**" means the plan of arrangement attached to this Agreement as Schedule "A", as may be amended or varied in accordance with the terms thereof;

(gg) "**Securityholders**" means, collectively, the MTI Shareholders and the holders of MTI Warrants;

(hh) "**Special Resolution**" means a resolution passed by a majority of not less than two-thirds of the votes cast by MTI Shareholders in respect of such resolution at the Meeting; and

(ii) "**Taxes**" means all federal, provincial, state, local and foreign net income, alternative or add-on minimum, estimated, gross income, gross receipts, sales, use, ad valorem, value added, transfer, franchise, capital profits, lease, service, license, withholding, payroll, employment, excise, severance, stamp, occupation, premium, property, environmental or windfall profit taxes, customs duties and other taxes, governmental fees and other like assessments and charges of any kind whatsoever, together with all interest, penalties, additions to tax and additional amounts with respect thereto.

Headings, etc.

1.2 The division of this Agreement into articles, sections and subsections, and the insertion of headings, are for convenience of reference only and shall not affect the construction or interpretation of this Agreement. The terms "this Agreement", "hereof" and "hereunder" and similar expressions refer to this Agreement and not to any particular article or section hereof and include any agreement or instrument supplemental therewith, references herein to articles and sections are to articles and sections of this Agreement.

Date For Any Action

1.3 In the event that any date on or by which any action is required or permitted to be taken hereunder is not a Business Day, such action shall be required or permitted to be taken on or by the next succeeding day which is a Business Day.

Inclusive Terminology

1.4 Whenever used in this Agreement, the words "includes" and "including" and similar terms of inclusion shall not, unless expressly modified by the words "only" or "solely", be construed as terms of limitation, but rather shall mean "includes but is not limited to" and "including but not limited to", so that references to included matters shall be regarded as illustrative without being either characterizing or exhaustive.

Number, etc.

1.5 In this Agreement, unless something in the context is inconsistent therewith, words importing the singular number only shall include the plural and vice versa, words importing the masculine gender shall include the feminine and neuter genders and vice versa, words importing persons shall include individuals, partnerships, limited partnerships, joint ventures, syndicates, sole proprietorships, associations, trusts, trustees, executors, administrators, unincorporated organizations and corporations with or without share capital or other legal personal representatives and vice versa and words importing shareholders shall include members.

Statutory References

1.6 Except as otherwise set out in this Agreement, any reference in this Agreement to a statute includes all regulations made thereunder, all amendments to such statute or regulations in force from time-to-time, and any statute or regulation that supplements or supersedes such statute or regulations.

Currency

1.7 All dollar amounts referred to in this Agreement are expressed in Canadian currency.

Schedules

1.8 Attached hereto and deemed to be incorporated into and forming part of this Agreement is Schedule "A", being the Plan of Arrangement.

2. ARRANGEMENT

2.1 The parties agree to carry out the Arrangement on the terms and subject to the conditions as set out in this Agreement and in the Plan of Arrangement.

2.2 Subject to the satisfaction of the terms and conditions contained in this Agreement, MTI and the Company shall each use all reasonable commercial efforts and do all things reasonably required to cause the Arrangement to become effective on the Effective Date. Without limiting the generality of the foregoing, the parties shall proceed forthwith to apply for the Interim Order and, upon obtainment thereof, the Company shall call the Meeting and mail the Information Circular to the MTI Shareholders.

2.3 The Arrangement will be effective at the Effective Time on the Effective Date.

2.4 As soon as is reasonably practicable after the date of execution of this Agreement, MTI shall:

(a) file, proceed with and diligently prosecute an application to the Court for the Interim Order, providing for, among other things, the calling and holding of the Meeting for the purpose of, among other things, considering and, if deemed advisable, approving the Arrangement; and

(b) subject to obtaining the approvals as contemplated by the Interim Order (including the approval of the Special Resolution approving the Arrangement by the MTI Shareholders) and as may be directed by the Court in the Interim Order, file, proceed with and diligently prosecute an application for the Final Order which application shall be in form and substance satisfactory to the parties hereto.

2.5 The notice to the Court and related materials for the applications referred to in this section shall be in a form satisfactory to MTI and the Company prior to filing, and, in the case of the application to the Court for the Interim Order, shall inform the Court that, based on the Court's determination of the fairness of the Plan of Arrangement, MTI will rely on Section 3(a)(10) of the 1933 Act for an exemption from the 1933 Act registration requirements with respect to the securities to be issued under the Plan of Arrangement. In order to ensure the availability of such exemption, the parties agree that the Arrangement will be carried out on the following basis:

(a) the Arrangement will be subject to the approval of the Court;

(b) the Court will be required to satisfy itself as to the fairness of the Arrangement to the Securityholders subject to the Arrangement;

(c) the Final Order will expressly state that the Arrangement is approved by the Court as being fair to the Securityholders to whom securities will be issued;

(d) MTI will ensure that each Securityholder will be given adequate and timely notice advising them of their right to attend the hearing of the Court to give approval of the Arrangement and providing them with sufficient information necessary for them to exercise that right;

(e) the Securityholders will be advised that the securities issued in the Arrangement have not been registered under the 1933 Act and will be issued by MTI and the Company in reliance on the exemption from the registration requirements of the 1933 Act provided by Section 3(a)(10) of the 1933 Act and may be subject to restrictions on resale under the securities laws of the United States, including, as applicable, Rule 144 under the 1933 Act with respect to affiliates of MTI and the Company after the Effective Time or within 90 days prior to the Effective Time;

(f) the Interim Order will specify that each Securityholder will have the right to appear before the Court at the hearing of the Court to give approval of the Arrangement so long as such Securityholder files and delivers an appearance within a reasonable time; and

(g) the Final Order shall include a statement substantially to the following effect:

"This Order will serve as a basis of a claim to an exemption, pursuant to Section 3(a)(10) of the United States Securities Act of 1933, as amended, from the registration requirements otherwise imposed by that act, regarding the distribution of securities of MicroCoal Technologies Inc. and Targeted Microwave Solutions Inc., pursuant to or in connection with the Plan of Arrangement."

2.6 Subject to the rights of termination contained in Article 5 hereof, upon the MTI Shareholders approving the Arrangement by Special Resolution in accordance with the provisions of the Interim Order, as applicable, and the CBCA, MTI obtaining the Final Order and the other conditions contained in Article 4 hereof being complied with or waived, MTI shall make the filings with the Director pursuant to Sections 192(5) and 192(6) of the CBCA as necessary to effect the Arrangement.

2.7 Both MTI and the Company shall be required to make, do and execute or cause and procure to be made, done and executed all such further acts, deeds, agreements, transfers, assurances, instruments or documents as may be required to further document or evidence any of the transactions or events required in connection with the Arrangement, including, without limitation, any resolutions of directors authorizing the issue, exchange, transfer, redemption or purchase for cancellation of shares, any share transfer powers evidencing the transfer of shares and any receipt therefore, any necessary additions to or deletions from share registers or other register whether before or after the Effective Date and shall cooperate with each other after the Effective Date as necessary to achieve the objectives of the Arrangement. Upon the Arrangement becoming effective, MTI and the Company shall exchange such other documents as may be necessary or desirable in

connection with the completion of the transactions contemplated by this Agreement and the Plan of Arrangement.

3. REPRESENTATIONS AND WARRANTIES

3.1 Each of the parties hereby represents and warrants to the other that:

(a) it is a corporation duly incorporated and validly subsisting under the laws of its jurisdiction of existence and has full capacity and authority to enter into this Agreement and to perform its covenants and obligations hereunder;

(b) it has taken all corporate actions necessary to authorize the execution and delivery of this Agreement and this Agreement has been duly executed and delivered by it;

(c) neither the execution and delivery of this Agreement nor the performance of any of its covenants and obligations hereunder will constitute a material default under, or be in any material contravention or breach of: (i) any provision of its constating or governing corporate documents; (ii) any judgment, decree, order, law, statute, rule or regulation applicable to it; or (iii) any agreement or instrument to which it is a party or by which it is bound; and

(d) no dissolution, winding up, bankruptcy, liquidation or similar proceedings have been commenced or are pending or proposed in respect of it.

4. CONDITIONS PRECEDENT

Mutual Conditions Precedent

4.1 The respective obligations of the parties to complete the transactions contemplated in this Agreement are subject to satisfaction of the following conditions on or before the Effective Date:

(a) all necessary approvals of the MTI Shareholders by the requisite majorities shall have been obtained in respect of the Arrangement;

(b) the Interim Order, the Final Order and any other necessary order(s) of the Court with respect to the Arrangement shall have been obtained from the Court on terms acceptable to each of the parties hereto, acting reasonably, and shall not have been set aside or modified in a manner unacceptable to any of the parties, on appeal or otherwise;

(c) all other consents, orders, regulations and approvals, including regulatory and judicial approvals and orders, necessary or desirable for the completion of the transactions provided for in this Agreement and the Plan of Arrangement shall have been obtained or received from the persons, authorities or bodies having jurisdiction in the circumstances, subject only to compliance with the usual conditions of such approval, each in form acceptable to MTI and the Company;

(d) the CSE shall have received notice of the Arrangement in accordance with its rules and policies and shall have no objection to the Arrangement as of the Effective Date;

(e) the CSE shall have conditionally approved the listing of the MTI Class A Shares in substitution for the MTI Shares, the delisting of the MTI Class A Shares, the listing of the MTI Class B Preferred Shares, the delisting of the MTI Class B Preferred Shares upon their redemption and the listing of the Company Shares on the CSE, subject to compliance with the requirements of the CSE;

(f) there shall not be in force any order or decree restraining or enjoining the consummation of the transactions contemplated by this Agreement or the Arrangement;

(g) none of the consents, orders, regulations or approvals contemplated herein shall contain terms or conditions or require undertakings or security deemed unsatisfactory or unacceptable by any of the parties hereto, acting reasonably;

(h) MTI and the Company will have entered into an asset purchase agreement (the "Asset Purchase Agreement") in the form agreed to by MTI and the Company, each acting reasonably, pursuant to which MTI will sell the MTI Assets and the Company will purchase the MTI Assets and assume certain liabilities, all as more particularly set forth therein; and

(i) this Agreement shall not have been terminated under Article 5.

Merger of Conditions

4.2 The conditions set out in Section 4.1 hereof shall be deemed conclusively to have been satisfied, waived or released at the Effective Time.

5. SURVIVAL; INDEMNIFICATION

Survival

5.1 Notwithstanding any right of MTI or the Company (whether or not exercised) to investigate the affairs of the Company or MTI, respectively, each Party shall have the right to rely fully upon the representations, warranties, covenants and agreements of the other Party contained in this Agreement and the certificates and instruments delivered at the Effective Time, or otherwise as expressly provided for in this Agreement or other certificates and instruments delivered in connection herewith. The representations and warranties of the Parties hereto contained in this Agreement or in any certificate or other instrument or writing delivered pursuant hereto or in connection herewith shall survive the Effective Time until the first anniversary of the Effective Date. The covenants herein to be completed subsequent to the Effective Time shall survive the Effective Time.

MTI Indemnity

5.2 The Company (in this article 5, the "**Indemnifying Party**") hereby indemnifies MTI (in this article 5, the "**Indemnified Party**") against and agrees to hold them harmless from any and all Damages incurred or suffered by the Indemnified Party, by reason of or in connection with or arising out of: (i) any actions, causes of action, suits, contracts, claims, counterclaims, sums of money, costs, expenses, demands, debts, damages and dues of any nature or kind whatsoever and wheresoever, whether in law or in equity, whether known or unknown, suspected or unsuspected (collectively, "**Claims**"), arising from any act (or failure to act), matter or thing existing prior to the Effective Time in connection with the MTI Business or the MTI Assets; (ii) the exercise of Dissent Rights (as that term is defined in the Plan of Arrangement) by any MTI Shareholder or former MTI Shareholder; and (iii) Claims in connection with Taxes arising in connection with the Arrangement and/or the conduct of the MTI Business prior to the Effective Time. The Company's maximum aggregate liability under (i), above, of this section 5.2 shall not exceed, in any circumstances and for whatever reason, $100,000.

Notice of Claim

5.3 The Indemnified Party shall give prompt notice (the "**Notice of Claim**") to the Indemnifying Party upon becoming aware of the assertion of any claim, or the commencement of any suit, action or proceeding in respect of which indemnity may be sought under section 5.2. The Notice of Claim shall request indemnification and specify the basis on which indemnification is sought, indicate the amount of the Indemnified Party's claim for indemnification (or, if such amount is not then determined, a good faith estimate thereof), give a general description of the nature of the claim, demand or facts that serve as a basis therefore, indicate a reasonably approximate date the action, event or circumstance giving rise to the claim first arose (or, if not known to the Indemnified Party, the date the Indemnified Party became aware of the action or event), and in the case of a third party claim, containing (by attachment or otherwise) such other information as the Indemnified Party shall have concerning such third party claim. The delay or failure of the Indemnified Party to notify the Indemnifying Party of such claim shall not relieve the Indemnifying Party of any liability that the Indemnifying Party may have with respect to such claim except to the extent that the Indemnifying Party demonstrates that the defence of such claim is materially prejudiced by such delay or failure.

Procedures

5.4 If the Notice of Claim delivered pursuant to section 5.3 involves a matter other than a third party claim, the Indemnifying Party shall have fifteen (15) Business Days from receipt of thereof to object to such Notice of Claim by delivery of a written notice of such objection to the Indemnified Party specifying in reasonable detail the basis for such objection. Failure to timely so object shall constitute a final and binding acceptance of the Notice of Claim by the Indemnifying Party. If an objection is timely interposed by the Indemnifying Party, then the Indemnifying Party and Indemnified Party shall negotiate in good faith for a period of forty-five (45) Business Days from the date the Indemnified Party receives such objection prior to commencing or defending any proceeding with

respect to such Notice of Claim. Upon determination of the amount of a Notice of Claim that is binding on both the Indemnifying Party and the Indemnified Party pursuant to this section 5.4, pursuant to the written agreement of the Parties, or pursuant to a final judgment obtained by an Indemnified Party with respect thereto, the amount of such Notice of Claim shall be paid by the Indemnifying Party no later than five (5) Business Days after the date such amount is determined or agreed.

Third Party Claims

5.5 With respect to third party claims or demands by third parties as to which the Indemnified Party may seek indemnification hereunder, whenever the Indemnified Party will have received notice that such a claim or demand has been asserted or threatened, the Indemnified Party will promptly notify the Indemnifying Party of such claim or demand and of the facts within the Indemnified Party's knowledge that relate thereto as promptly as practicable after receiving such notice. The Indemnifying Party will then have the right to defend, contest, negotiate or settle any such claim or demand through counsel of its own selection solely at the Indemnifying Party's own cost and expense. If the Indemnifying Party does not timely proceed to defend, contest, or negotiate any such claim or demand through counsel selected by it, the Indemnified Party may, after providing written notice to the Indemnifying Party of its intent, engage counsel to do so, all at the sole cost and expense of the Indemnifying Party. Notwithstanding the preceding sentence, the Indemnifying Party will not settle, compromise or offer to settle or compromise any such claim or demand without the prior written consent of the Indemnified Party, unless any such settlement or compromise unconditionally releases the Indemnified Party from all liability with respect to any such third party claim or demand, such consent not to be unreasonably withheld or delayed. The assumption of the defence of any such third party claim by the Indemnifying Party shall not be an acknowledgment of the obligation of the Indemnifying Party to indemnify the Indemnified Party with respect to such claim hereunder. If the Indemnified Party desires to participate in, but not control, any such defence it may do so at its sole cost and expense. If the Indemnifying Party gives notice to the Indemnified Party within fifteen (15) Business Days after the Indemnified Party has notified the Indemnifying Party that any such third party claim or demand has been made that the Indemnifying Party elects to have the Indemnified Party defend or contest any such claim or demand, then the Indemnified Party will have the right to contest and/or settle any such claim or demand and seek indemnification pursuant to this article 5 as to any Damages; provided, however, that the Indemnified Party will not settle, compromise or offer to settle or compromise any such third party claim or demand without the prior written consent of the Indemnifying Party, which consent will not be unreasonably withheld or delayed.

Access

5.6 In connection with the defence or settlement of any third party claim or demand, the Indemnified Party and Indemnifying Party shall use reasonable efforts to provide access to the counsel, accountants and other representatives of such other Party during normal business hours and upon reasonable written notice to all reasonably relevant properties, personnel, books, tax records, contracts, commitments and all other business records of such Party and will furnish to such other Party copies of all such documents as may

reasonably be requested (certified if requested) and shall otherwise cooperate in determining the validity or defence of any such third party claim and in the defence or settlement thereof.

Non-Exclusive Remedies

5.7 The obligations of the Company under this article 5 shall be in addition to any liability which the Company may otherwise have and shall extend, upon the same terms and conditions, to any affiliates of MTI. MTI shall also have all rights and remedies available to it under the law and in equity, in addition to the rights and benefits of this article 5.

6. AMENDMENT, CLOSING AND TERMINATION

Amendment

6.1 This Agreement and the Plan of Arrangement may, at any time and from time to time before the Effective Time, be amended by written agreement of the parties hereto without, subject to applicable law and the Final Order, further notice to or authorization on the part of the MTI Securityholders. Without limiting the generality of the foregoing, any such amendment may:

(a) change the time for performance of any of the obligations or acts of the parties hereto;

(b) waive any inaccuracies or modify any representation contained herein or any document to be delivered pursuant hereto;

(c) waive compliance with or modify any of the covenants herein contained or waive or modify performance of any of the obligations of the parties hereto; or

(d) amend the terms of the Plan of Arrangement and the sequence of transactions described in the Plan of Arrangement, subject to any required approval of the MTI Shareholders, given in the same manner as required for the approval of the Arrangement or as may be ordered by the Court.

Termination

6.2 This Agreement may, at any time before or after the holding of the Meeting but no later than the Effective Time, be terminated by resolution of the board of directors of MTI without further notice to, or action on the part of, its shareholders and nothing expressed or implied herein or in the Plan of Arrangement shall be construed as fettering the absolute discretion by the board of directors of MTI to elect to terminate this Agreement and discontinue efforts to effect the Arrangement for whatever reasons it may consider appropriate.

Effect of Termination

6.3 Upon termination of this Agreement, no party shall have any liability or further obligation to any other party hereunder.

Closing

5.4 Unless this Agreement is terminated earlier pursuant to the provisions hereof, the parties shall meet at the offices of Sangra Moller LLP, Suite 1000, 925 West Georgia Street, Vancouver, British Columbia V6C 3L2, at 12:01 a.m. (Vancouver time) on the Effective Date, or at such other time or on such other date as they may mutually agree, and each of them shall deliver to the other of them:

(a) the documents required to be delivered by it hereunder to complete the transactions contemplated hereby, provided that each such document required to be dated the Effective Date shall be dated as of, or become effective on, the Effective Date and shall be held in escrow to be released upon the occurrence of the Effective Date; and

(b) confirmation as to the satisfaction or waiver by it of the conditions in its favour contained in this Agreement.

7. ASSIGNMENT

7.1 No party may assign its rights or obligations under this Agreement without the prior written consent of the other.

8. WAIVER

8.1 Any waiver or release of any conditions of this Agreement, to be effective, must be in writing executed by the party or parties for whom such condition is expressed by this Agreement to benefit.

9. GENERAL

9.1 Time is of the essence of this Agreement.

9.2 MTI will pay the costs, fees and expenses of the Arrangement incurred up to and including the Effective Date, and thereafter each party will be their respective costs, fees and expenses.

9.3 Each party hereto will, from time to time, at the request of the other parties, do such further acts and execute and deliver all such further documents, agreements and instruments as may be reasonably required in order to fully perform and carry out the terms, conditions and intent of this Agreement.

9.4 The parties intend that this Agreement will be binding upon them until terminated.

9.5 Any demand, notice or other communication to be given in connection with this Agreement shall be given in writing and will be given by personal delivery, courier, registered mail, fax or email addressed to the recipient as follows:

(a) if to the Company, to:

Targeted Microwave Solutions Inc.
Suite 2300 – 1066 West Hastings Street
Vancouver, BC V6E 3X2

Attention: Lawrence Siegel

(b) if to MTI, to:

MicroCoal Technologies Inc.
Suite 2300 – 1066 West Hastings Street
Vancouver, BC V6E 3X2

Attention: James Young

(c) and, in each case, with a copy (which shall not constitute notice) to:

Sangra Moller LLP
#1000 – 925 West Georgia Street
Vancouver, British Columbia
V6C 3L2

Attention: Gary S. Gill
Facsimile: (604) 669-8803
E-mail: ggill@sangramoller.com

and any such notice delivered on a Business Day in accordance with the foregoing will be deemed to have been received on the date of delivery.

9.6 This Agreement and the rights and obligations of the parties hereunder will be governed by and construed according to the laws of the Province of British Columbia.

9.7 This Agreement will enure to the benefit of and be binding upon the parties hereto and their heirs, administrators and successors.

9.8 This Agreement constitutes the entire agreement among the parties hereto and supersedes all other prior agreements, understandings, negotiations and discussions, whether oral or written among the parties hereto with respect to the matters hereof and thereof.

9.9 This Agreement may be executed in counterparts with the same effect as if the parties had signed the same document. All of these counterparts will for all purposes constitute one agreement, binding on the parties, notwithstanding that all parties are not signatories to the same counterpart.

IN WITNESS WHEREOF the parties hereto have executed this Agreement as of the year and day set out on first page hereof.

MICROCOAL TECHNOLOGIES INC.

By: *"Tom Stefan"*
Name: Tom Stefan
Title: CFO, VP Finance

TARGETED MICROWAVE SOLUTIONS INC.

By: *"Tom Stefan"*
Name: Tom Stefan
Title: CFO, VP Finance

SCHEDULE "A"

PLAN OF ARRANGEMENT

UNDER Section 192 OF PART XV OF
***THE CANADA BUSINESS CORPORATIONS ACT* (CANADA)**
R.S.C. 1985, c. C-44

ARTICLE 1
DEFINITIONS AND INTERPRETATION

1.1 **Definitions**: In this plan of arrangement, unless there is something in the subject matter or context inconsistent therewith, the following capitalized words and terms shall have the following meanings:

(a) "**Acquisition Company**" means La Jolla Capital Inc., the Company after giving effect to the Arrangement;

(b) "**Acquisition Swap Shares**" means the new class of common shares without par value which the Company plans to create pursuant to Section 3.1(c)(ii) of this Plan of Arrangement and which, immediately at the Effective Time, will be identical in every material respect to the MTI Shares;

(c) "**Arrangement**" means the arrangement under the Arrangement Provisions pursuant to which the Company is proposing to reorganize its business and assets**,** and which is set out in this Plan of Arrangement, subject to any amendments or variations thereto made in accordance with Article 6, the Arrangement Agreement or made at the direction of the Court in the Final Order;

(d) "**Arrangement Agreement**" means the arrangement agreement dated April 13, 2015 between MTI and Target Company, as it may be amended, amended and restated or supplemented from time to time in accordance with its terms;

(e) "**Arrangement Provisions**" means Section 192 of Part XV – *Fundamental Changes* of the CBCA;

(f) "**Arrangement Resolution**" means the special resolution approving the Arrangement presented to the MTI Shareholders at the Meeting;

(g) "**Asset Purchase Agreement**" means the asset purchase agreement to be entered into between MTI and Target Company pursuant to the Arrangement Agreement;

(h) "**BCBCA**" means the *Business Corporations Act* (British Columbia), S.B.C. 2002, c.57, as may be amended, restated or replaced from time to time;

(i) "**Business Day**" means a day which is not a Saturday, Sunday or statutory holiday in Vancouver, British Columbia or Toronto, Ontario;

(j) "**CBCA**" means the *Canada Business Corporations Act* (Canada), R.S.C. 1985 c. C-44, as may be amended, restated or replaced form time to time;

(k) "**Circular**" means the notice of the Meeting and accompanying management information circular, including all schedules, appendices and exhibits thereto and enclosures therewith, to be sent to the MTI Shareholders in connection with the Meeting, as amended, supplement or otherwise modified from time to time;

(l) "**Court**" means the Supreme Court of the British Columbia;

(m) "**CSE**" means the Canadian Securities Exchange;

(n) "**Depositary**" means: (i) in respect of the Acquisition Swap Shares and Target Shares, Computershare Investor Services Inc., or such other depositary as MTI may determine; and (ii) in respect of the Target Warrants, Target Company or its duly appointed agent;

(o) "**Dissent Rights**" means the rights of dissent granted in favour of MTI Shareholders as set out in Article 4 of this Plan of Arrangement;

(p) "**Dissenting Shareholders**" means an MTI Shareholder who has duly and validly exercised his, her or its Dissent Rights in respect of the Arrangement in strict compliance with the Dissent Rights and who has not withdrawn or been deemed to have withdrawn such exercise of Dissent Rights;

(q) "**Effective Date**" means the date upon which the Arrangement becomes effective, which shall be the second Business Day following the date on which all of the conditions precedent to the completion of the Arrangement contained in Article 4 of the Arrangement Agreement have been satisfied or waived in accordance with the Arrangement Agreement (other than those conditions which cannot, by their terms, be satisfied until the Effective Date, but subject to satisfaction or waiver of such conditions as of the Effective Date), or such other date as may be mutually agreed by MTI and Target Company;

(r) "**Effective Time**" means 12:01 a.m. (Vancouver time) on the Effective Date (or such other time on the Effective Date as may be mutually agreed by MTI and Target Company);

(s) "**Excluded Assets**" has the meaning set forth in the Asset Purchase Agreement;

(t) "**Liens**" means any hypothecs, mortgages, pledges, assignments, liens, charges, security interests, encumbrances and adverse rights or claims, other third party interest or encumbrance of any kind, whether contingent or absolute, and any agreement, option, right or privilege (whether by law, contract or otherwise) capable of becoming any of the foregoing;

(u) "**Meeting**" means the annual and special meeting of MTI Shareholders, and any adjournment(s) or postponement(s) thereof, held in order to, among other things consider and, if thought fit, approve the Arrangement;

(v) "**MicroCoal Technology**" means the patented MicroCoal® technology of MTI and/or its direct or indirect wholly-owned subsidiaries;

(w) "**MTI**" or the "**Company**" means MicroCoal Technologies Inc., a company existing under the CBCA;

(x) "**MTI Assets**" has the meaning set forth in the Asset Purchase Agreement;

(y) "**MTI Business**" means the business being conducted by MTI as a going concern as at the Effective Time, and including, for greater certainty, substantially all of the assets and property of MTI, including the MicroCoal Technology;

(z) "**MTI Class A Shares**" means the renamed and redesignated MTI Shares described in Section 3.1(c)(i) of this Plan of Arrangement;

(aa) "**MTI Class B Preferred Shares**" means the class "B" preferred shares without par value in the capital of MTI which will be created and issued pursuant to Section 3.1(c)(iii) of this Plan of Arrangement;

(bb) "**MTI Shareholder**" means a holder of MTI Shares as at the Effective Time;

(cc) "**MTI Shares**" means the common shares without par value in the authorized share structure of the Company, as constituted immediately prior to the Effective Time;

(dd) "**MTI Warrants**" mean common share or unit purchase warrants of MTI outstanding at the Effective Time entitling the holder thereof to acquire MTI Shares or units, as applicable, at a specified price per MTI Share or unit, as applicable;

(ee) "**MTI Warrantholder**" means a holder of MTI Warrants as at the Effective Time;

(ff) "**Plan of Arrangement**" means this Plan of Arrangement, as may be amended or restated from time to time;

(gg) "**Shareholder Letter of Transmittal**" means the letter of transmittal to be forwarded by MTI to MTI Shareholders together with the Circular;

(hh) "**Target Business**" means the business to be carried on by Target Company on completion of the Arrangement, being the MTI Business;

(ii) "**Target Company**" means Targeted Microwave Solutions Inc., a company incorporated under the BCBCA and, as of the date hereof, a wholly-owned subsidiary of MTI;

(jj) "**Target Shares**" means common shares without par value in the authorized share structure of Target Company, as constituted immediately after the Effective Time;

(kk) "**Target Warrants**" means common share or unit purchase warrants of Target Company to be issued to MTI Warrantholders in exchange for the MTI Warrants held by them at the Effective Time, all of which will: (i) have an exercise price equal to the existing exercise price of the MTI Warrants exchanged; and (ii) have a term equal to the term remaining on the MTI Warrants exchanged, subject, in each case, to any Target Warrants Amendments;

(ll) "**Target Warrants Amendments**" means the proposed amendments to the MTI Warrants to: (a) extend the expiry date thereof by a period of one year and (b) reduce the exercise price thereof to the lowest exercise price permitted by the rules and policies of the CSE;

(mm) "**Tax Act**" means the *Income Tax Act* (Canada), as may be amended, restated or replaced from time to time; and

(nn) "**Warrantholder Letter of Transmittal**" means the letter of transmittal to be forwarded by MTI to MTI Warrantholders together with the Circular.

1.2 **Interpretation Not Affected by Headings**: The division of this Plan of Arrangement into articles, sections, subsections, paragraphs and subparagraphs and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Plan of Arrangement. Unless otherwise specifically indicated, the terms "this Plan of Arrangement", "hereof", "hereunder" and similar expressions refer to this Plan of Arrangement as a whole and not to any particular article, section, subsection, paragraph or subparagraph and include any agreement or instrument supplementary or ancillary hereto.

1.3 **Number and Gender**: Unless the context otherwise requires, words importing the singular shall include the plural and vice versa, words importing the use of either gender shall include both genders and neuter, and words importing a person shall include a partnership or corporation.

1.4 **Meaning**: Undefined words and phrases used herein that are defined in the CBCA shall have the same meaning herein as in the CBCA unless the context otherwise requires.

1.5 **Date for any Action**: If the date on which any action is required to be taken hereunder is not a Business Day, such action shall be required to be taken on the next succeeding day which is a Business Day.

1.6 **Time**: Time shall be of the essence in every matter or action contemplated hereunder. All times expressed herein are local time in Vancouver, British Columbia unless otherwise stipulated herein.

1.7 **Governing Law**: This Plan of Arrangement shall be governed by and construed in accordance with the laws of the Province of British Columbia and the federal laws of Canada applicable therein.

ARTICLE 2
ARRANGEMENT AGREEMENT

2.1 **Arrangement Agreement**: This Plan of Arrangement is made pursuant and subject to the Arrangement Agreement, except in respect of the sequence of the steps comprising the Arrangement, which shall occur in the order set forth herein and on the terms and conditions set forth herein.

2.2 **Binding Effect**: At the Effective Time, this Plan of Arrangement shall be binding on:

(a) MTI;

(b) Target Company;

(c) all registered and beneficial MTI Shareholders, including Dissenting Shareholders; and

(d) all registered and beneficial holders of MTI Warrants.

ARTICLE 3
THE ARRANGEMENT

3.1 **The Arrangement**: At the Effective Time, the following shall occur and be deemed to occur in the following chronological order without further act or formality, notwithstanding anything contained in the provisions attaching to any of the securities of MTI:

(a) each MTI Share in respect of which a Dissenting Shareholder has validly exercised his, her or its Dissent Rights shall be deemed to be directly transferred and assigned by such Dissenting Shareholder to MTI (free and clear of any Liens) in accordance with Article 4 hereof;

(b) MTI will transfer all of the MTI Assets to Target Company in consideration for that number of Target Shares as is equal to the number of MTI Shares issued and outstanding immediately prior to the Effective Time less the number of MTI Shares transferred to MTI pursuant to paragraph (a) above, all in accordance with the Asset Purchase Agreement, and MTI will be added to the central securities register of Target Company in respect of such Target Shares;

(c) in the course of a reorganization of the Company's authorized and issued share capital, the articles of MTI shall be amended to:

(i) alter the identifying name of the MTI Shares to class A common shares without par value, being the "MTI Class A Shares";

(ii) create a new class consisting of an unlimited number of common shares without par value, having the rights and restrictions described in Appendix "I" hereto, being the "Acquisition Swap Shares"; and

(iii) create a new class consisting of an unlimited number of class B preferred shares without par value, having the rights and restrictions described in Appendix "II" hereto, being the "MTI Class B Preferred Shares";

(d) each issued MTI Class A Share (other than any MTI Shares held by MTI and any MTI Shares in respect of which a Dissenting Shareholder has validly exercised his, her or its Dissent Rights) will be exchanged for one Acquisition Swap Share and one MTI Class B Preferred Share, and the holders of the MTI Class A Shares will be removed from the central securities register of the Company and will be added to the central securities register as the holders of the number of Acquisition Swap Shares and MTI Class B Preferred Shares that they have received on the exchange;

(e) all of the issued MTI Class A Shares will be cancelled with the appropriate entries being made in the central securities register of the Company, and the aggregate paid–up capital (as that term is

used for purposes of the Tax Act) of the MTI Class A Shares immediately prior to the Effective Time will be allocated between the Acquisition Swap Shares and the MTI Class B Preferred Shares so that the aggregate paid–up capital of the MTI Class B Preferred Shares is equal to the aggregate fair market value of the Target Shares as at the Effective Time, and each MTI Class B Preferred Share so issued will be issued by the Company at an issue price equal to such aggregate fair market value divided by the number of issued MTI Class B Preferred Shares, such aggregate fair market value of the Target Shares to be determined as at the Effective Time by the board of directors of MTI;

(f) MTI will redeem the issued MTI Class B Preferred Shares for consideration consisting solely of the Target Shares such that each holder of MTI Class B Preferred Shares will, subject to the exercise of rights of dissent, receive that number of Target Shares that is equal to the number of MTI Class B Preferred Shares held by such holder;

(g) the name of each holder of MTI Class B Preferred Shares will be removed as such from the central securities register of MTI, and all of the issued MTI Class B Preferred Shares will be cancelled with the appropriate entries being made in the central securities register of MTI;

(h) the Target Shares transferred to the holders of the MTI Class B Preferred Shares pursuant to step (f) above will be registered in the names of the former holders of MTI Class B Preferred Shares, and the Company will provide Target Company and its registrar and transfer agent notice to make the appropriate entries in the central securities register of Target Company;

(i) the Target Share(s) held by MTI immediately prior to the Effective Time will be cancelled without further consideration therefor with the appropriate entries being made in the central securities register of Target Company;

(j) the MTI Class A Shares and the MTI Class B Preferred Shares, none of which will be allotted or issued once the steps referred to in steps (d) to (h) above are completed, will be cancelled and the authorized share structure of the Company will be changed by eliminating the MTI Class A Shares and the MTI Class B Preferred Shares therefrom;

(k) the articles and by-laws of MTI will be amended to reflect the changes to its authorized share structure made pursuant to this Arrangement;

(l) each MTI Warrant held by a MTI Warrantholder will be exchanged for one (1) Target Warrant and the MTI Warrants shall be cancelled and terminated and cease to represent any right or claim whatsoever;

(m) MTI will consolidate the Acquisition Swap Shares on a 50:1 basis such that each holder of Acquisition Swap Shares shall receive one (1) consolidated Acquisition Swap Share for each 50 Acquisition Swap Shares held immediately prior to such consolidation, subject to the rounding of fractions;

(n) MTI will change its name to "La Jolla Capital Inc.", or such other name as determined by the directors of MTI; and

(o) the stated capital of the Acquisition Swap Shares shall be reduced to an amount equal to the net realizable value of the assets of Acquisition Company determined immediately following the completion of steps (a) to (m), above, by the board of directors of Acquisition Company.

3.2 **No Fractional Shares**: Notwithstanding Section 3.1, no fractional Acquisition Swap Shares shall be distributed to the MTI Shareholders and, as a result, all fractional amounts arising under such sections shall be rounded down to the next whole number and such MTI Shareholder shall not receive cash or any other compensation in lieu of such fractional share. Any Acquisition Swap Shares not distributed as a result of this rounding down shall be dealt with as determined by the board of directors of MTI in its absolute discretion.

3.3 **Deemed Time for Redemption**: In addition to the chronological order in which the transactions and events set out above shall occur and shall be deemed to occur, the time on the Effective Date for the exchange of the MTI

Class B Preferred Shares set out in Section 3.1(f) above shall occur and shall be deemed to occur immediately after the time of listing of the MTI Class B Preferred Shares on the CSE on the Effective Date.

3.4 **Deemed Fully Paid and Non-Assessable Shares**: All Acquisition Swap Shares, Target Shares and MTI Class B Preferred Shares issued pursuant to this Plan of Arrangement shall be deemed to be validly issued and outstanding as fully paid and non-assessable shares for all purposes of the CBCA or BCBCA, as applicable.

3.5 **Arrangement Effectiveness**: The Arrangement shall become final and conclusively binding on the MTI Shareholders, Target Company and the Company at the Effective Time.

3.6 **Supplementary Actions**: Notwithstanding that the transactions and events set out in Section 3.1 shall occur and shall be deemed to occur in the chronological order therein set out without any act or formality, the Company shall be required to make, do and execute or cause and procure to be made, done and executed all such further acts, deeds, agreements, transfers, assurances, instruments or documents as may be required to give effect to, or further document or evidence, any of the transactions or events set out in Section 3.1, including, without limitation, any resolutions of directors authorizing the issue, transfer or redemption of shares, any share transfer powers evidencing the transfer of shares and any receipt therefore, and any necessary additions to or deletions from share registers.

ARTICLE 4
RIGHTS OF DISSENT

4.1 **Dissent Rights**: Each MTI Shareholder shall have the right to exercise Dissent Rights with respect to the Arrangement in accordance with Section 190 of the Act, as modified by the Interim Order provided that the notice of dissent is received by the Company no later than 9:00 a.m. (Vancouver time) on the date which is 48 hours (excluding Saturdays, Sundays and holidays) prior to the date of the Meeting. The fair value of the MTI Shares shall be determined as at the close of business on the Business Day immediately preceding the date on which the Arrangement Resolution is approved by MTI Shareholders, but in no event shall the Company or Target Company be required to recognize such Dissenting Shareholders as shareholders of the Company after the Effective Date, and the names of such Dissenting Shareholders shall be removed from the register of shareholders at the time and in the manner set forth herein. For greater certainty, in addition to any other restrictions in Section 190 of the Act, no person who has voted in favour of the Arrangement shall be entitled to dissent with respect to the Arrangement.

4.2 **Rights of Dissenting Shareholders**: Any holder of MTI Shares may exercise rights of dissent with respect to such MTI Shares pursuant to and in the manner set forth in Section 190 of the Act in connection with the Arrangement, as the same may be modified by the Interim Order or the Final Order as if that section (as modified) was applicable to such MTI Shareholders. Any:

(a) MTI Shareholders who are ultimately entitled to be paid fair value, which fair value, notwithstanding anything to the contrary contained in Part XV of the CBCA, shall be determined as of the close of business on the Business Day before the Arrangement Resolution is approved, for their MTI Shares in respect of which they dissent shall be deemed to have transferred such MTI Shares to MTI (free and clear of any Liens) on the Effective Date at the same time as the events described in Section 3.1 of this Plan of Arrangement occur and such holders thereof shall be entitled to receive an amount equal to the fair value for their MTI Shares from MTI; or

(b) MTI Shareholders who are ultimately not entitled, for any reason, to be paid fair value for their MTI Shares in respect of which they dissent, shall be deemed to have participated in the Arrangement on the same basis as a non-dissenting MTI Shareholder, and shall be entitled to receive the Target Shares and Acquisition Swap Shares that such non-dissenting MTI Shareholders are entitled to receive, on the basis set forth in Section 3.1 of this Plan of Arrangement.

For greater certainty, in no circumstances shall the Company, Target Company or any other person be required to recognize: (i) a person exercising Dissent Rights unless such person is a registered MTI Shareholder in respect of which such rights are sought to be exercised; or (ii) a Dissenting Shareholder after the Effective Time, and the name of each Dissenting Shareholder shall be deleted from the register of shareholders on the Effective Date at the same time as the events described in Section 3.1 of this Plan of Arrangement occur. In addition to any other restrictions under section 190 of the CBCA: (i) MTI Shareholders who voted, or instructed a proxyholder to vote, in favour of

the Arrangement Resolution, shall not be entitled to exercise Dissent Rights; and (ii) MTI Warrantholders shall not be entitled to exercise Dissent Rights.

ARTICLE 5
CERTIFICATES

5.1 **MTI Class A Shares**: Recognizing that the MTI Shares shall be renamed and redesignated as MTI Class A Shares pursuant to Section 3.1(c)(i) and that the MTI Class A Shares shall be exchanged partially for Acquisition Swap Shares pursuant to Section 3.1(d), MTI shall not issue replacement share certificates representing the MTI Class A Shares.

5.2 **Target Shares**: Recognizing that the Target Shares shall be transferred to the MTI Shareholders as consideration for the redemption of the MTI Class B Preferred Shares pursuant to Section 3.1(f), the Company will provide Target Company and its registrar and transfer agent notice to make the appropriate entries in the central securities register of Target Company. As soon as practicable after the Effective Date, Target Company shall deliver or shall cause to be delivered to the Depositary certificates representing the Target Shares required to be issued to registered holders of MTI Shares as at the Effective Time in accordance with the provisions of Section 3.1(h) hereof, which certificates shall be held by the Depositary as agent and nominee for such holders for distribution thereto in accordance with the provisions of Section 6.1 hereof.

5.3 **MTI Class B Preferred Shares**: Recognizing that all of the MTI Class B Preferred Shares issued to the MTI Shareholders pursuant to Section 3.1(d) will be redeemed by MTI as consideration for the distribution and transfer of the Target Shares under Section 3.1(f), MTI shall issue one share certificate representing all of the MTI Class B Preferred Shares issued pursuant to Section 3.1(d) in the name of the Depositary, to be held by the Depositary for the benefit of the MTI Shareholders until such MTI Class B Preferred Shares are redeemed, and such certificate shall then be cancelled.

5.4 **Target Warrants**: As soon as practicable after the Effective Date, Target Company (or its duly appointed agent) shall deliver certificates representing the Target Warrants required to be issued to registered holders of MTI Warrants as at the Effective Time in accordance with the provisions of Section 3.1(l) hereof, which certificates shall be held by the Target Company (or its duly appointed agent) as agent and nominee for such holders for distribution thereto in accordance with the provisions of Section 6.2 hereof.

5.5 **Acquisition Swap Shares**: As soon as practicable after the Effective Date, Acquisition Company shall deliver or shall cause to be delivered to the Depositary certificates representing the consolidated Acquisition Swap Shares required to be issued to registered holders of MTI Shares as at the Effective Time in accordance with the provisions of Section 3.1(m) hereof, which certificates shall be held by the Depositary as agent and nominee for such holders for distribution thereto in accordance with the provisions of Section 6.1 hereof.

ARTICLE 6
DELIVERY OF SHARES AND WARRANTS

6.1 **Delivery of Target Shares and Acquisition Swap Shares**:

(a) Upon surrender to the Depositary for cancellation of a certificate that immediately before the Effective Time represented one or more outstanding MTI Shares, together with a duly completed and executed Shareholder Letter of Transmittal and such additional documents and instruments as the Depositary may reasonably require, the holder of such surrendered certificate will be entitled to receive in exchange therefor, and the Depositary shall deliver to such holder following the Effective Time, a certificate representing the Target Shares and a certificate representing the consolidated Acquisition Swap Shares that such holder is entitled to receive in accordance with Section 3.1 hereof.

(b) After the Effective Time and until surrendered for cancellation as contemplated by Section 6.1(a) hereof, each certificate that immediately prior to the Effective Time represented one or more MTI Shares shall be deemed at all times to represent only the right to receive in exchange therefor a certificate representing the Target Shares and a certificate representing the consolidated

Acquisition Swap Shares that such holder is entitled to receive in accordance with Section 3.1 hereof.

6.2 **Delivery of Target Warrants**:

(a) Upon surrender to the Depositary for cancellation of a certificate that immediately before the Effective Time represented one or more outstanding MTI Warrants, together with a duly completed and executed Warrantholder Letter of Transmittal and such additional documents and instruments as the Depositary may reasonably require, the holder of such surrendered certificate will be entitled to receive in exchange therefor, and the Depositary shall deliver to such holder following the Effective Time, a certificate representing the Target Warrants that such holder is entitled to receive in accordance with Section 3.1 hereof.

(b) After the Effective Time and until surrendered for cancellation as contemplated by Section 6.2(a) hereof, each certificate that immediately prior to the Effective Time represented one or more MTI Warrants shall be deemed at all times to represent only the right to receive in exchange therefor a certificate representing the Target Warrants that such holder is entitled to receive in accordance with Section 3.1 hereof.

6.3 **Lost Certificates**: If any certificate that immediately prior to the Effective Time represented one or more outstanding MTI Shares or MTI Warrants that were exchanged for the Target Shares and Acquisition Swap Shares or Target Warrants, as applicable, in accordance with Section 3.1 hereof, shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the holder claiming such certificate to be lost, stolen or destroyed, the Depositary shall deliver in exchange for such lost, stolen or destroyed certificate, the Target Shares and Acquisition Swap Shares or Target Warrants, as applicable, that such holder is entitled to receive in accordance with Section 3.1 hereof. When authorizing such delivery of the Target Shares and Acquisition Swap Shares or Target Warrants, as applicable, that such holder is entitled to receive in exchange for such lost, stolen or destroyed certificate, the holder to whom such securities are to be delivered shall, as a condition precedent to the delivery of such Target Shares and Acquisition Swap Shares or Target Warrants, as applicable, give a bond satisfactory to Acquisition Company, Target Company and the Depositary in such amount as Acquisition Company, Target Company and the Depositary may direct, or otherwise indemnify Acquisition Company, Target Company and the Depositary in a manner satisfactory to Acquisition Company, Target Company and the Depositary, against any claim that may be made against Acquisition Company, Target Company or the Depositary with respect to the certificate alleged to have been lost, stolen or destroyed and shall otherwise take such actions as may be required by the articles and by-laws of Acquisition Company.

6.4 **Distributions with Respect to Unsurrendered Certificates**: No dividend or other distribution declared or made after the Effective Time with respect to Target Shares or Acquisition Swap Shares with a record date after the Effective Time shall be delivered to the holder of any unsurrendered certificate that, immediately prior to the Effective Time, represented outstanding MTI Shares unless and until the holder of such certificate shall have complied with the provisions of Section 6.1 or Section 6.3 hereof. Subject to applicable Law and to Section 6.6 hereof, at the time of such compliance, there shall, in addition to the delivery of the Target Shares and consolidated Acquisition Swap Shares to which such holder is thereby entitled, be delivered to such holder, without interest, the amount of the dividend or other distribution with a record date after the Effective Time theretofore paid with respect to such Target Shares and/or Acquisition Swap Shares, as applicable.

6.5 **Limitation and Proscription**: To the extent that a former MTI Shareholder or MTI Warrantholder shall not have complied with the provisions of Sections 6.1, 6.2 and/or 6.3 hereof, as applicable, on or before the date that is six (6) years after the Effective Date (the "**Final Proscription Date**"), then the Target Shares and Acquisition Swap Shares or Target Warrants, as applicable, that such former MTI Shareholder or MTI Warrantholder was entitled to receive shall be automatically cancelled without any repayment of capital in respect thereof and the Target Shares and Acquisition Swap Shares or Target Warrants, as applicable, to which such MTI Shareholder or MTI Warrantholder, as applicable, was entitled, shall be delivered to Acquisition Company (in the case of the Acquisition Swap Shares) or Target Company (in the case of the Target Shares or Target Warrants) by the Depositary and certificates representing such Target Shares and Acquisition Swap Shares or Target Warrants, as applicable, shall be cancelled by Acquisition Company and Target Company, as applicable, and the interest of the former MTI Shareholder or MTI Warrantholder in such Target Shares and Acquisition Swap Shares or Target Warrants, as applicable, to which it was entitled shall be terminated as of such Final Proscription Date.

6.6 **Withholding Rights**: Acquisition Company or Target Company, as applicable, and the Depositary shall be entitled to deduct and withhold from any consideration, dividend or other distribution otherwise payable to any holder of MTI Shares, Acquisition Swap Shares or Target Shares such amounts as the Company or the Depositary determines, acting reasonably, are required or permitted to be deducted and withheld with respect to such payment under Canadian or United States tax laws or any other applicable law. To the extent that the withheld amount may be reduced, the Company or the Depositary, as the case may be, acting reasonably, shall withhold on such lower amount. To the extent that amounts are so withheld, such withheld amounts hall be treated for all purposes hereof as having been paid to the person in respect of which such deduction and withholding was made, provided that such withheld amounts are actually remitted to the appropriate taxing agency.

6.7 **No Liens**: Any exchange or transfer of securities pursuant to this Plan of Arrangement shall be free and clear of any Liens.

6.8 **Paramountcy**: From and after the Effective Time: (i) this Plan of Arrangement shall take precedence and priority over any and all MTI Shares and MTI Warrants issued prior to the Effective Time; (ii) the rights and obligations of the registered holders of MTI Shares and MTI Warrants and MTI, Target Company, the Depositary and any transfer agent or other depositary therefor in relation thereto, shall be solely as provided for in this Plan of Arrangement; and (iii) all actions, causes of action, claims or proceedings (actual or contingent and whether or not previously asserted) based on or in any way relating to any MTI Share or MTI Warrants shall be deemed to have been settled, compromised, released and determined without liability to Acquisition Company or Target Company except as set forth herein.

ARTICLE 7
AMENDMENTS

7.1 **Amendments to Plan of Arrangement**:

(a) MTI and Target Company reserve the right to amend, modify or supplement this Plan of Arrangement at any time and from time to time, provided that each such amendment, modification or supplement must be: (i) set out in writing; (ii) agreed to in writing by MTI and Target Company; (iii) filed with the Court and, if made following the Meeting, approved by the Court; and (iv) communicated to the holders or former holders of MTI Shares and/or MTI Warrants if and as required by the Court.

(b) Any amendment, modification or supplement to this Plan of Arrangement may be proposed by MTI at any time prior to the Meeting provided that Target Company shall have consented thereto in writing, with or without any other prior notice or communication, and, if so proposed and accepted by the persons voting at the Meeting (other than as may be required under the Interim Order), shall become part of this Plan of Arrangement for all purposes.

(c) Any amendment, modification or supplement to this Plan of Arrangement that is approved by the Court following the Meeting shall be effective only if: (i) it is consented to in writing by each of MTI and Target Company; (ii) it is filed with the Court; and (iii) if required by the Court, it is consented to by holders of the MTI Shares voting in the manner directed by the Court.

(d) Any amendment, modification or supplement to this Plan of Arrangement may be made following the Effective time by the written agreement of MTI and Target Company, provided that is concerns a matter that, in the reasonable opinion of each of MTI and Target Company, is of an administrative nature required to better give effect to the implementation of this Plan of Arrangement and is not adverse to the economic interest of any Target Shareholder, MTI Shareholder or former holder of MTI Warrants.

(e) This Plan of Arrangement may be withdrawn prior to the Effective Time in accordance with the terms of the Arrangement Agreement.

ARTICLE 8
FURTHER ASSURANCES

8.1 **Further Assurances**: Notwithstanding that the transactions and events set out herein shall occur and be deemed to occur in the order set out in this Plan of Arrangement without any further act or formality, each of the parties to the Arrangement Agreement shall make, do and execute, or cause to be made, done and executed, all such further acts, deeds, agreements, transfers, assurances, instruments or documents as may reasonably be required by any of them in order to further document or evidence any of the transactions or events set out therein.

APPENDIX "I"

SPECIAL RIGHTS OR RESTRICTIONS

Attaching to the Acquisition Swap Shares

The Common Shares shall have attached thereto, as a class, the following rights, privileges, restrictions and conditions:

1. Voting Rights

Subject to applicable law and the conditions attaching to the common shares without par value in the capital of the Corporation (the "Common Shares"), the holders of the Common Shares (the "Common Shareholders") shall be entitled to receive notice and to attend and vote at any meetings of shareholders of any class of common shares of the Corporation.

2. Liquidation, Dissolution or Winding-Up

In the event of any distribution of the assets of the Corporation on the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or in the event of any other distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs (the "Liquidation Distribution"), the Common Shareholders shall be entitled to receive, before any Liquidation Distribution is made to the holders of the Class A Common Shares without par value in the capital of the Corporation but after any prior rights of any preferred shares, the stated capital with respect to each Common Share held by them, together with all declared and unpaid dividends (if any and if preferential) thereon, up to the date of such Liquidation Distribution, and thereafter the Common Shareholders shall rank *pari passu* with all other classes of common shares in connection with the Liquidation Distribution.

3. Pari Passu

Other than special rights and restrictions set out in section 2 above, the Common Shares shall rank pari passu with all other classes of common shares.

APPENDIX "II"

SPECIAL RIGHTS OR RESTRICTIONS

Attaching to the Class B Preferred Shares

The Class B Preferred Shares shall have attached thereto, as a class, the following rights, privileges, restrictions and conditions:

1. Voting Rights

Subject to applicable law, the holders (the "Class B Shareholders") of the class B preferred shares without par value in the Capital of the Corporation (the "Class B Shares") shall not be entitled to receive notice and to attend and vote at any meetings of the shareholders of the Corporation.

2. Issue Price

The issue price for each of the Class B Shares shall be an amount equal to the fair market value of one common share (each, a "TMS Share") in the capital of Targeted Microwave Solutions Inc. (the "Redemption Amount").

3. Dividends

The holders of Class B Shares shall be entitled to receive non-cumulative cash dividends if, as and when declared by the board of directors of the Corporation out of the assets of the Corporation lawfully applicable to the payment of dividends in such amounts and payable in such manner as the board of directors may from time to time determine. Subject to the rights of the holders of any other class of shares of the Corporation entitled to receive dividends in priority to or concurrently with the holders of the Class B Shares, the board of directors may, in its sole discretion, declare dividends on the Class B Shares to the exclusion of any other class of shares of the Corporation.

4. Liquidation, Dissolution or Winding-Up

In the event of any distribution of the assets of the Corporation on the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or in the event of any other distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs (the "Liquidation Distribution"), the Class B Shareholders shall be entitled to receive, before any Liquidation Distribution is made to the holders of any class of common shares of the Corporation, the stated capital with respect to each Class B Share held by them, together will all declared and unpaid dividends (if any and if preferential) thereon, up to the date of such Liquidation Distribution. Except as aforesaid, the Class B Shareholders shall not as such be entitled to receive or participate in any distribution of the property and assets of the Corporation among its shareholders.

5. Redemption

Subject to the provisions of the *Canada Business Corporations Act*, the Corporation may at any time and from time to time redeem all or any part of the Class B Shares at an amount per share (which shall be paid in money or, at the discretion of the Corporation, by the distribution in specie of TMS Shares) equal to the Redemption Amount.

6. Retraction

Subject to the provisions of the *Canada Business Corporations Act*, every registered holder of Class B Shares may at any time, at the option of such holder, require the Corporation to redeem the whole or any part of the Class B Shares registered in such holder's name by depositing with the Corporation an irrevocable written request for the same, together with the share certificate or certificates, if any, representing the Class B Shares to be redeemed. Upon receipt of such request and certificate or certificates the Corporation shall, subject to the provisions of the *Canada Business Corporations Act*, redeem such Class B Shares and pay such holder the Redemption Amount (which shall be paid in money or, at the discretion of the Corporation, by the distribution in specie of TMS Shares) for each Class B Share so redeemed.

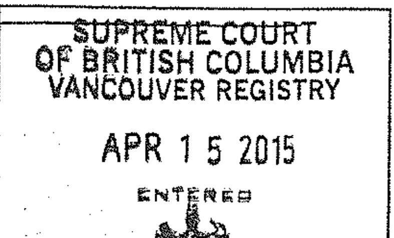
7. Cancellation

Any Class B Shares that are redeemed by the Corporation pursuant to any of the provisions hereof shall for all purposes be considered to have been redeemed on, and shall be cancelled concurrently with, the payment by the Corporation to or to the benefit of the holder thereof of the Redemption Amount (whether paid in money or by the distribution in specie of TMS Shares).

SCHEDULE "C"

INTERIM ORDER

(Please see attached.)



No. S-153012
VANCOUVER REGISTRY

IN THE SUPREME COURT OF BRITISH COLUMBIA

IN THE MATTER OF SECTION 192
OF THE *CANADA BUSINESS CORPORATIONS ACT*, R.S.C. 1985, c. C-44
AND AMENDMENTS THERETO

AND

IN THE MATTER OF A PROPOSED ARRANGEMENT
INVOLVING MICROCOAL TECHNOLOGIES INC., ITS
SECURITYHOLDERS AND TARGETED MICROWAVE SOLUTIONS INC.

MICROCOAL TECHNOLOGIES INC.

PETITIONER

ORDER MADE AFTER APPLICATION
(INTERIM ORDER)

BEFORE Master Baker	)))	WEDNESDAY, THE 15TH DAY OF APRIL, 2015

ON THE APPLICATION of the Petitioner, MicroCoal Technologies Inc., for an Interim Order pursuant to its Petition filed on April 13, 2015

[x] without notice coming on for hearing at Vancouver, British Columbia on April 15, 2015 and on hearing Evan Pogust Griffith, counsel for the Petitioner, and upon reading the Petition and the Affidavit of Tom Stefan sworn on April 13, 2015 and filed herein (the "**Affidavit**");

THIS COURT ORDERS THAT:

THE MEETING

1. Pursuant to Section 192 of the *Canada Business Corporations Act*, R.S.C., 1985, c. C-44, as amended (the "**Act**"), the Petitioner is authorized and directed to call, hold and conduct a meeting of the holders of common shares of the Petitioner (the "**MTI Shareholders**") to be held at 9:00 a.m. (Vancouver time) on May 14, 2015, at Suite 2300, 1066 West Hastings Street, Vancouver, British Columbia (the "**Meeting**"):

   (a) to receive and consider the audited financial statements of the Petitioner for the financial year ended June 30, 2014, and the report of the auditors thereon;

   (b) to elect the directors of the Petitioner for the ensuing year;

   (c) to re-appoint BDO Canada LLP, Chartered Accountants, as the auditors of the Petitioner for the ensuing year and to authorize the directors of the Petitioner to fix the auditor's remuneration;

   (d) to consider and, if deemed advisable, approve, with or without variation, a special resolution of the MTI Shareholders (the "**Arrangement Resolution**") adopting, with or without amendment, an arrangement (the "**Arrangement**") involving the Petitioner, MTI Shareholders, the holders of warrants ("**MTI Warrantholders**" and, collectively with MTI Shareholders, "**MTI Securityholders**") to acquire common shares of the Petitioner and Targeted Microwave Solutions Inc., as more particularly set forth in the plan of arrangement (the "**Plan of Arrangement**"), a copy of which is attached as Exhibit "A" to the Affidavit; and

   (e) transact such further and other business as may properly come before the Meeting or any adjournment(s) or postponement(s) thereof.

2. The Meeting shall be called, held and conducted in accordance with the Notice of Meeting to be delivered to MTI Shareholders in substantially the form attached to and forming part of the Petitioner's management information circular (the "**Circular**"), attached as Exhibit "B" to the Affidavit and filed herein, and in accordance with the applicable provisions of the Act, the by-laws of the Petitioner (the "**By-laws**"), the *Securities Act* (British Columbia), R.S.B.C. 1996, c. 418, as amended (the "**Securities Act**"), and related rules and policies, the terms of this Order (the "**Interim Order**") and any further Order of this Court, and the rulings and directions of the Chair of the Meeting, and to the extent of an inconsistency or discrepancy between this Interim Order and the terms of any of the foregoing, the Interim Order shall govern.

RECORD DATE

3. The record date for determination of the MTI Shareholders and registered MTI Warrantholders entitled to receive the Notice of Meeting, the Circular, the applicable letter of transmittal and, in the case of MTI Shareholders, a form of proxy (collectively, the "**Meeting Materials**") will be the close of business on April 7, 2015 (the "**Record Date**") or such other date as the Petitioner's board of directors (the "**Board**") may determine in accordance with the By-laws, the Act and the Securities Act, and disclosed in the Meeting Materials.

NOTICE OF MEETING

4. The Meeting Materials, with such amendments or additional documents as counsel for the Petitioner may advise are necessary or desirable, and that are not inconsistent with this Interim Order, and a copy of this Interim Order and the Notice of Application for Final Order (the "**Notice of Application**"), will be sent no less than twenty-one (21) days

prior to the date of the Meeting to: (a) MTI Shareholders who are registered shareholders on the Record Date and to brokerage intermediaries on behalf of beneficial MTI Shareholders where applicable, by prepaid ordinary mail addressed to each registered MTI Shareholder at his, her or its address as maintained by the registrar and transfer agent of the Petitioner or delivery of same by courier service or by facsimile or email transmission to any such MTI Shareholder who identifies himself, herself or itself to the satisfaction of the Petitioner and who requests such courier, facsimile or email transmission; (b) registered MTI Warrantholders on the Record Date, by prepaid ordinary mail addressed to each registered MTI Warrantholder at his, her or its address last shown in the books of the Petitioner or delivery of same by courier service or by facsimile or email transmission to any such MTI Warrantholder who identifies himself, herself or itself to the satisfaction of the Petitioner and who requests such courier, facsimile or email transmission, and/or notice of the Meeting may also be communicated by one or more press release(s) and/or newspaper advertisement(s), and MTI Warrantholders, including any who have not received the Meeting Materials in accordance with the foregoing, may request a copy of the Meeting Materials by facsimile or email transmission; and (c) the director under the Act and the directors and auditors of the Petitioner by prepaid ordinary mail or by facsimile or email transmission.

5. The accidental failure or omission by the Petitioner to give notice of the Meeting, the Record Date or the Notice of Application or to deliver the Meeting Materials or the Interim Order to any one or more MTI Shareholders or MTI Warrantholders, or the non-receipt of such notices or materials by one or more MTI Shareholders or MTI Warrantholders, or any failure or omission to give such notice as a result of events

beyond the reasonable control of the Petitioner (including, without limitation, any inability to use postal services), shall not constitute a breach of this Interim Order or defect in calling of the Meeting, and shall not invalidate any resolution passed or proceeding taken at the Meeting, but if any such failure or omission is brought to the attention of the Petitioner, then it shall use reasonable best efforts to rectify it by the method and in the time most reasonably practicable in the circumstances.

6. The distribution of the Meeting Materials pursuant to paragraph 4 of this Interim Order shall constitute good and sufficient notice of the Meeting for all purposes to registered and non-registered MTI Shareholders, MTI Warrantholders, to the directors of the Petitioner, to the director under the Act and to the auditors of the Petitioner.

7. The Petitioner be at liberty to give notice of this application to persons outside the jurisdiction of this Court in the manner specified herein.

8. The form of Notice of Application, in substantially the form attached as Exhibit "C" to the Affidavit, is acceptable and shall constitute compliance with Rule 8-1(4) of the *Supreme Court Civil Rules*.

AMENDMENTS

9. The Petitioner is hereby authorized to make such amendments, revisions or supplements to the Meeting Materials ("**Additional Information**") in accordance with the terms of the Arrangement as the Petitioner may determine to be necessary or desirable, and notice of such Additional Information may be communicated to MTI Shareholders by press release, newspaper advertisement or one of the methods by which the Meeting Materials will be distributed.

DEEMED RECEIPT OF MEETING MATERIALS

10. The Meeting Materials, Interim Order and the Notice of Application will be deemed, for the purposes of this Interim Order, to have been received:

    (a) in the case of mailing, the day, Saturdays, Sundays and holidays excepted, following the date of mailing;

    (b) in the case of delivery by courier, the day following delivery to the person's address; and

    (c) in the case of delivery by facsimile transmission or email transmission, when dispatched or delivered for dispatch,

    whether they reside within the jurisdiction of British Columbia or another jurisdiction.

11. Subject to other provisions of this Interim Order, no other form of service or delivery of the Meeting Materials or any portion thereof need be made, or notice give, or other material served in respect of the Meeting to any persons described in paragraph 4 of this Interim Order or to any other persons.

QUORUM AND VOTING

12. The quorum required at the Meeting shall be two or more MTI Shareholders who are present in person or by proxy and who are authorized to cast a vote at the Meeting.

13. The requisite approval of the Arrangement Resolution will be 66 and 2/3rds percent of the votes cast on the Arrangement Resolution by the MTI Shareholders present in person or by proxy at the Meeting, voting as a single class. Each common share of the Petitioner will carry one vote.

14. The only persons entitled to attend the Meeting will be: (i) the MTI Shareholders or their respective valid proxyholders as determined by the Chair of the Meeting as at the close of

business on the Record Date; (ii) the Petitioner's officers, directors, auditors and advisors; and (iii) any other person admitted on the invitation of the Chair of the Meeting or with the consent of the Chair of the Meeting, and the only persons entitled to be represented and to vote at the Meeting will be the registered MTI Shareholders as at the close of business on the Record Date, or their respective valid proxyholders as determined by the Chair of the Meeting.

15. For the purposes of the Meeting, any spoiled votes, illegible votes, defective votes and abstentions shall be deemed to be votes not cast. Proxies that are properly signed and dated but which do not contain voting instructions shall be voted in favour of the Arrangement Resolution.

SCRUTINEERS

16. A representative of the Petitioner's registrar and transfer agent (or any agent thereof) is authorized to act as a scrutineer for the Meeting or such other person as appointed by the Chair of the Meeting.

ADJOURNMENTS AND POSTPONEMENTS

17. Notwithstanding any provision of the Act or the By-laws, the Board, by resolution, will be entitled, if it deems it advisable, to adjourn or postpone the Meeting on one or more occasions without the necessity of first convening the Meeting or first obtaining any vote of the MTI Shareholders respecting the adjournment or postponement and without the need for approval of the Court.

18. The Record Date for MTI Shareholders entitled to notice of and to vote at the Meeting will not change in respect of adjournment(s) or postponements(s) of the Meeting.

SOLICITATION OF PROXIES

19. The Petitioner is authorized to use the form of proxy in connection with the Meeting in substantially the same form contained in Exhibit "B" to the Affidavit, and the Petitioner may, in its discretion, waive generally the time limits for deposit of proxies by MTI Shareholders if the Petitioner deems it reasonable to do so. The Petitioner is authorized, at its expense, to solicit proxies, directly and through its officers, directors and employees, and through such agents or representatives as it may retain for that purpose, and by mail or such other forms of personal, telephone or electronic communication as it may determine.

20. The procedure for the use of proxies at the Meeting shall be as set out in the Meeting Materials.

DISSENT RIGHTS

21. Each registered MTI Shareholder shall be accorded the rights of dissent with respect to the Arrangement Resolution approving the Arrangement, as set out in Section 190 of the Act, as may be modified by the Plan of Arrangement and this Interim Order provided that written notice of dissent must be received by MTI at its offices at Suite 2300, 1066 West Hastings Street, Vancouver, British Columbia, no later than 9:00 a.m. (Vancouver time) on the date which is 48 hours (excluding Saturdays, Sundays and holidays) prior to the date of the Meeting (as it may be adjourned or postponed from time to time.

APPLICATION FOR FINAL ORDER

22. Unless the Board by resolution determines to abandon the Arrangement, upon the approval, with or without variation, by the MTI Shareholders of the Arrangement

Resolution in the manner set forth in this Interim Order, the Petitioner may apply for an Order of this Honourable Court approving the Plan of Arrangement (the "**Final Order**"):

(a) Pursuant to Section 192 of the Act, declaring that the Arrangement, including the terms and conditions thereof and the issuances, exchanges and/or adjustments of securities contemplated therein, is fair and reasonable to the MTI Securityholders; and

(b) Pursuant to Section 192 of the Act, approving the Arrangement including the terms and conditions thereof and the issuances, exchanges and/or adjustments of securities contemplated therein,

and that the Petition be set down for hearing before the presiding Judge in Chambers at the Courthouse at 800 Smithe Street, Vancouver, British Columbia on May 19, 2015 at 9:45 a.m., or as soon thereafter as counsel may be heard or such other date and time as this Court may direct, and that the Petitioner be at liberty to proceed with the Final Order on that date.

23. Any MTI Shareholder, director or auditor of the Petitioner or any other interested party has the right to appear (either in person or by counsel) and make submissions at the hearing of the application for the Final Order, provided that such person shall file a Response to Petition (the "**Response**") in the form prescribed by the *Supreme Court Civil Rules* with this Court and deliver a copy of the filed Response together with a copy of all materials on which such person intends to rely at the application for the Final Order, including an outline of such person's proposed submissions, to the solicitors for the Petitioner at Sangra Moller LLP, 1000 Cathedral Place, 925 West Georgia Street,

Vancouver, British Columbia, V6C 3L2, Attention: Gary S. Gill at or before 9:00 a.m. (Vancouver time) on May 14, 2015, or as the Court may otherwise direct.

24. The only persons entitled to notice of any further proceedings herein, including any hearing to sanction and approve the Arrangement, and to appear and be heard thereon, shall be the solicitors for the Petitioner and those persons who have delivered a Response in accordance with this Interim Order.

25. Subject to other provisions in this Interim Order, no material other than that contained in the Meeting Materials need be served on any persons in respect of these proceedings and, in particular, service of the Petition herein and the accompanying Affidavit and additional affidavits as may be filed is hereby dispensed with.

26. If the application for the Final Order is adjourned, only those persons who have filed and delivered a Response in accordance with this Interim Order need to be served and provided with notice of the adjourned date and any filed materials.

27. The Petitioner shall be entitled, at any time, to apply to vary this Interim Order or for such further order or orders as may be appropriate.

28. The provisions of Rule 16-1 and Rule 8-1 are hereby dispensed with for the purposes of any further application to be made pursuant to this Petition.

29. To the extent of any inconsistency or discrepancy between this Interim Order and the Circular, the Act, applicable securities laws or the By-laws, this Interim Order shall govern.

ENDORSEMENTS ATTACHED

BY THE COURT

REGISTRAR

AS TO FORM

S 153012

THE FOLLOWING PARTIES APPROVE THE FORM OF THIS ORDER AND CONSENT TO EACH OF THE ORDERS, IF ANY, THAT ARE INDICATED ABOVE AS BEING BY CONSENT:

APPROVE AS TO FORM:

Evan P Griffith

Evan Pogust Griffith
Counsel for the Petitioner

BY THE COURT

REGISTRAR

SCHEDULE "D"

NOTICE OF APPLICATION

(Please see attached.)

NOTICE OF APPLICATION

TAKE NOTICE that a Petition has been filed by MicroCoal Technologies Inc. (the "**Petitioner**") in the Supreme Court of British Columbia (the "**Court**") for approval of a plan of arrangement (the "**Arrangement**") pursuant to the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended (the "**Act**"), and for a determination that the terms and conditions of the Arrangement, and the exchange of securities and other matters contemplated therein, are fair and reasonable to the securityholders of the Petitioner (the "**Securityholders**"), and that the Arrangement be binding upon the Petitioner and the Securityholders upon taking effect, will be heard at the courthouse at 800 Smithe Street, Vancouver, British Columbia V6Z 2E1 on May 19, 2015 at 9:45 a.m. (Vancouver time) or as soon thereafter as counsel may be heard (the "**Final Order**");

AND NOTICE IS FURTHER GIVEN that by an Interim Order of the Court, pronounced April 15, 2015, the Court has given directions as to the calling of a annual and special meeting of the holders of the common shares in the capital of the Petitioner for the purpose of, *inter alia*, considering and voting upon the Arrangement and approving the Arrangement;

AND NOTICE IS FURTHER GIVEN that the Final Order approving the Arrangement as procedurally and substantively fair and reasonable to the Securityholders of the Petitioner shall, if made, serve as the basis of an exemption from the registration requirement of the United States *Securities Act of 1933*, as amended, pursuant to Section 3(a)(10) thereof with respect to securities issued and exchanged under the Arrangement.

IF YOU WISH TO BE HEARD, any shareholder of the Petitioner affected by the Final Order sought may appear (either in person or by counsel) and make submissions at the hearing of the Final Application if such person has filed with the Court Registry at 800 Smithe Street, Vancouver, British Columbia, a Response to Petition (the "**Response**") in the form prescribed by the *Supreme Court Civil Rules* and delivered a copy of the filed Response, together with all material on which such person intends to rely at the hearing of the Final Order, including an outline of such person's proposed submissions, by or before 9:00 a.m. (Vancouver time) on May 14, 2015, or as the Court may otherwise direct.

The Petitioner's address for delivery is:

Sangra Moller LLP
1000 Cathedral Place
925 West Georgia Street
Vancouver, B.C. V6C 3L2

Attention: Gary S. Gill

ANY OTHER INTERESTED PARTY WHO WISHES TO BE HEARD may, with leave of the Court, appear to support or oppose the application and/or make submissions at the hearing of the application for the Final Order, subject to filing a Response and delivering a copy of the filed Response together with a copy of any additional affidavits and other materials on which the person intends to rely at the hearing for the Final Order by or before 9:00 a.m. (Vancouver time) on May 14, 2015, or as the Court may otherwise direct.

The Petitioner's address for delivery is:

Sangra Moller LLP
1000 Cathedral Place
925 West Georgia Street
Vancouver, B.C. V6C 3L2

Attention: Gary S. Gill

IF YOU WISH TO BE NOTIFIED OF ANY ADJOURNMENT(S) OF THE FINAL APPLICATION, YOU MUST GIVE NOTICE OF YOUR INTENTION by filing and delivering the form of "Response" as aforesaid.

AT THE HEARING OF THE FINAL APPLICATION, the Court may approve the Arrangement as presented, or may approve it subject to such terms and conditions as the Court deems fit.

IF YOU DO NOT FILE AN RESPONSE and attend either in person or by counsel at the time of such hearing, the Court may approve the Arrangement as presented, or may approve it

subject to such terms and conditions as the Court shall deem fit, all without any further notice to you. If the Arrangement is approved, it will significantly affect the rights of the Securityholders.

A copy of the said Petition and other documents in the proceeding will be furnished to any Shareholder upon request in writing addressed to the solicitors of the Petitioner at the address for delivery set out above.

Dated: April 15, 2015

SCHEDULE "E"

PRO-FORMA UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF TARGET COMPANY AS AT DECEMBER 31, 2014

(Please see attached.)

Targeted Microwave Solutions Inc.

Pro Forma Condensed Consolidated Financial Statements

(Unaudited)

Six months ended December 31, 2014

(in Canadian dollars)

Targeted Microwave Solutions Inc.

Pro Forma Condensed Consolidated Statement of Financial Position
(unaudited)
(in Canadian dollars)

	Microcoal Technologies Inc. December 31, 2014	Pro forma Adjustments	Pro forma January 2015 private placement	Notes	Targeted Microwave Solutions Inc.December 31, 2014
ASSETS					
Current					
Cash	$ 32,883	$ -	$ 11,857,000	2c	$ 11,889,883
Receivables	81,845	(81,845)	-		-
Prepaid expenses	97,560	(97,560)	-		-
	212,288	(179,405)	11,857,000		11,889,883
Property, leasehold improvments and equipment	833,203	(144,521)	-	2a	688,682
Total assets	$ 1,045,491	$ (323,926)	$ 11,857,000		$ 12,578,565
LIABILITIES	-				-
Current					
Accounts payable and accrued liabilities	$ 637,576	$ (637,576)	$ -		$ -
Income tax payable	48,348	(48,348)	-		-
Derivative liability	1,046,620	(434,647)	-	2d	611,973
Loans payable	838,861	-	-	2d	838,861
	2,571,405	(1,120,571)	-		1,450,834
SHAREHOLDERS' EQUITY (CAPITAL DEFICIT)					
Share capital	19,001,818	(19,001,818)	11,860,674	2abcd	11,860,674
Contributed surplus			-		-
Share-based payment reserve	2,698,368	(2,698,368)	-		-
Deficit	(23,119,785)	22,390,516	(3,674)		(732,943)
Cumulative other comprehensive income	(106,315)	106,315	-		-
	(1,525,914)	796,645	11,857,000		11,127,731
Total liabilities and equity	$ 1,045,491	$ (323,926)	$ 11,857,000		$ 12,578,565
	-	-	-		-

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

Targeted Microwave Solutions Inc.

Pro Forma Condensed Consolidated Statement of Loss
(unaudited)
(in Canadian dollars)

	Six months ended December 31, 2014	Pro forma Adjustments	Pro forma January 2015 private placement	Notes	Six months ended December 31, 2014
Expenses					
Amortization	$ 5,730	$ (5,730)	$ -	2e	$ -
Accretion expense	77,596	-	-	2e	77,596
Foreign exchange gain	(74,005)	74,005	-	2e	-
Interest on notes payable	11,837	(11,837)	-	2e	-
Investor relations, agents and fees	46,110	(46,110)	-	2e	-
Consulting, management and director fees	680,659	(48,421)	-	2e	632,238
Office, premises and other	66,557	(51,574)	-	2e	14,983
Professional fees	321,002	(246,002)	-	2e	75,000
Share based compensation	26,284	(26,284)	-	2e	-
Travel and promotion	128,187	(113,187)	-	2e	15,000
Loss before other items	**(1,289,957)**	475,140	-		**(814,817)**
Other income (expenses)					
Gain on settlement of debt	1,494,843	(1,494,843)	-	2e	-
Fair value change in derivative liability	237,508	(155,634)	-	2e	81,874
	1,732,351	(1,650,477)	-		81,874
Net income (loss) for the period	**$ 442,394**	$ (1,175,337)	$ -		**$ (732,943)**
Earnings (loss) per share, basic	**$ 0.00**				**$ (0.00)**
Loss per share, diluted	**$ (0.00)**				**$ (0.00)**
Weighted average number of common shares outstanding, basic and diluted	**88,408,504**			3a,b	**173,455,170**

Targeted Microwave Solutions Inc.

Notes to Pro Forma Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended December 31, 2014

1. Basis of Presentation

The accompanying unaudited pro forma condensed consolidated financial statements (the “Pro Forma Financial Statements”) were prepared by Microcoal Technologies Inc. (“Microcoal”, or “MTI”) and reflect the proposed reorganization under a statutory plan of arrangement as contemplated by an arrangement agreement dated (April 15, 2015) (the “Arrangement”) between Microcoal and the security holders of Microcoal.

The Pro Forma Condensed Consolidated Financial Statements have been prepared by the management of Microcoal in accordance with International Financial Reporting Standards (“IFRS”). The accounting principles used in preparation of the Pro Forma Financial Statements are consistent with those used by Microcoal in preparation of its amended condensed consolidated financial statements as at and for the six months ended December 31, 2014. The Pro Forma Financial Statements include:

a) An unaudited pro forma condensed consolidated statement of financial position as at December 31, 2014,

    i. Prepared from the unaudited amended consolidated statement of financial position of Microcoal as at December 31, 2014, which reflects the Arrangement as if it had occurred on December 31, 2014.

    ii. An adjustment to eliminate all account balances, except direct pilot plant project capital costs and certain liabilities recorded in a Virginia, USA based subsidiary. This subsidiary holds the pilot plant project, and

    iii. A retroactive adjustment for the effect of the January 21, 2015 investment agreement between Microcoal and Satellite Overseas (Holdings) Limited, an affiliate of Cadila Pharmaceuticals Limited (“Investment Agreement”).

b) An unaudited condensed consolidated statement of comprehensive loss as at December 31, 2014, prepared from the unaudited amended consolidated statement of loss of Microcoal for the six month period ended December 31, 2014, which reflects the Arrangement as if it had occurred on July 1, 2014..

The Pro Forma Financial Statements should be read in conjunction with the consolidated financial statements of Microcoal, in particular the audited consolidated financial statements for the years ended June 30, 2014 and June 30, 2013 and the unaudited amended condensed consolidated financial statements for the six months ended December 31, 2014. In the opinion of management, these Pro Forma Financial Statements include all adjustments necessary for a fair presentation.

The Pro Forma Financial Statements are not necessarily indicative of the results of operations or the financial position that would have resulted, had the transactions indicated above, been effected on the Pro Forma Financial Statement date’s. In preparing these Pro Forma Financial Statements, no adjustments have been made to reflect ongoing costs or savings that may result from the Arrangement.

2. Pro Forma Assumptions and Adjustments

On April 15, 2015 Microcoal received an interim order, granted by the Supreme Court of British Columbia, to reorganize Microcoal's business, being primarily research, development and commercialization of Microcoal technology, pursuant to the Canada Business Corporations Act. Through the arrangement, MTI shareholders will receive Targeted Microwave Solutions Inc. ("TMS" or the "Company") shares in the same proportion as shareholders' interest held in Microcoal, assuming all conditions of the Arrangement are met. Refer to the Information Circular date April 15, 2015 for discussion of the Arrangement. The following are the terms of the Arrangement and assumptions are reflected in the Pro Forma Financial Statements:

a) Ownership of the assets included in the Virginia, USA based subsidiary Targeted Microwave Solutions (USA) Inc. will be transferred to Targeted Microwave Solutions Inc. As at December 31, 2014 Targeted Microwave Solutions (USA) Inc. has capital assets of approximately of $688,682 in Leaseholds and Equipment, representing the spending to December 31, 2014 on the pilot plant project. These assets form part of the net assets transferred from MTI to TMS for TMS shares.

b) Certain intangible assets of nominal value will be transferred to Targeted Microwave Solutions Inc. in exchange for TMS shares.

c) $11,857,000 in cash received pursuant to the Investment Agreement and $32,883 cash balance will be transferred to Targeted Microwave Solutions Inc. The $11,889,883 forms part of the net assets transferred from MTI to TMS for TMS shares.

d) The carrying value of the loans payable and derivative liability totaling $1,450,834 will be transferred to the TMS, and forms part of the net assets transferred from MTI to TMS for TMS shares.

e) General and administrative expenses allocated to TMS relate to current levels of key management, consultants and activities continuing with Targeted Microwave Solutions Inc. estimated for a 6 month period of normal activities. The allocation of general and administrative expenses in the pro forma condensed consolidated statement of loss has been calculated on the basis of the anticipated costs incurred for the activities related to the assets transferred to TMS in the period presented as compared to the costs incurred for all the activities of MTI in the period presented. Management believes the assumptions and allocations underlying the Pro Forma Financial Statements are reasonable and appropriate under the circumstances.

3. Subsequent Events

The Pro Forma Financial Statements were prepared specifically to reflect the consequences of the Arrangement and the Investment Agreement as at December 31, 2014 for the unaudited pro forma condensed consolidated statement of financial position as at December 31, 2014 and the unaudited pro forma condensed consolidated statement of comprehensive loss for the six months ended as at December 31, 2014. Subsequent to December 31, 2014, Microcoal entered into several business arrangements which have the following impact on the Pro Forma Financial Statements.

a) On January 16, 2015, Microcoal announced that it signed a definitive Investment Agreement with an affiliate of Cadila Pharmaceuticals Limited and that it entered into a joint venture agreement with Cadila to develop future business opportunities in the Republic of India.

   Pursuant to the Investment Agreement agreed to invest $11,857,000 by subscribing for 79,046,666 Microcoal common shares (see Press Release dated January 16, 2015)

   The joint venture agreement and interest in the joint venture will be transferred to Targeted Microwave Solutions Inc. This event has been reflected in the pro forma financial statements.

b) On January 22, 2015, Microcoal announced that it closed a joint venture agreement in China and thereafter completed the issuance of 10,000,000 shares to Jiu Feng Investments Inc., through which Microcoal would work to establish a marketing office and research and development facility in China (see Press Release dated January 22, 2015).

   The joint venture agreement and interest in the joint venture will be transferred to Targeted Microwave Solutions Inc. There is no value attributed to this arrangement in the pro forma financial statements other than the inclusion of the shares in the loss per share calculation.

SCHEDULE "F"

AUDIT COMMITTEE CHARTER

Audit Committee Charter

I. Committee Composition

The audit committee (the "**Committee**") shall be comprised of three or more members, and each member of the committee must be a member of the Board of Directors ("**Board**"). The members of the Committee shall, subject to appointments made as a result of resignations, removals and retirements, be appointed annually by the Directors of MicroCoal Technologies Inc. (the "**Company**"), taking into account the recommendations made by the Nominating and Corporate Governance Committee with respect to who should serve on the Committee. The Board shall annually designate a Chair of the Committee from among the members of the Committee. Any member of the Committee may be removed, with or without cause, by a majority vote of the Board.

Majority of the members of the Committee must be determined by the Board to be independent and shall satisfy the independence requirements under applicable securities law, stock exchange and any other regulatory requirements applicable to the Corporation.

Each member of the Committee must be financially literate, meaning that they have an ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that could reasonably be expected to be raised by the Corporation's financial statements.

In addition, where possible, at least one member of the Committee shall quality as an "Audit Committee financial expert" within the meaning of applicable securities law.

Sub-committees

The Committee may form and delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant a pre-approvals of audit and permitted non-audit services, provided that a decision of such subcommittee to grant a pre-approval shall be presented to the full Committee at its next scheduled meeting.

II. Meetings

The Committee shall hold at least four (4) regularly scheduled meetings in each calendar year in person or by conference call or by means of similar communications equipment hook-up, and shall meet more frequently if circumstances warrant, including convening a meeting to cover any matters at the request of the independent auditors. Attendance by a majority of members of the Committee either in person or by conference call or by means of similar communications equipment hookup shall constitute a quorum for the transaction of any business that may properly come before any meeting of such Committee.
The Committee is authorized to invite officers and employees of the Corporation and outsiders with relevant experience and expertise to attend or participate in its meetings and proceedings if it considers this appropriate. In addition, the Committee will meet with the Auditor and management annually to review the Company's financial statements in a manner consistent with Section III of this Charter.

The Committee will appoint a Secretary who will keep minutes of all meetings. The Secretary may be the Company's Corporate Secretary or another person who does not need to be a member of the Committee. The Secretary for the Committee can be changed by simple notice from the Chair.

III. Duties and Responsibilities

(A) Purpose

The purpose of the Committee is to provide independent and objective assistance to the Board in its oversight of:

1. The financial statements and other financial information provided by the Company to its shareholders, the public and others;
2. The Company's compliance with legal and regulatory requirements;
3. The qualification, independence and performance of the Auditors; and
4. The Company's risk management and internal financial and accounting controls, and management information systems.

In fulfilling their responsibilities, it is recognized that majority of the members of the Committee are not full-time employees of the Company and are not, and do not represent themselves to be, performing the functions of accountants or auditors. As such, it is not the duty or responsibility of the Committee or any of its members to serve in such capacity.

(B) Duties and Responsibilities

The Committee shall:

With respect to the external auditors (the "Auditors"):

1. Recommend to the Board the Auditors to be nominated for appointment as auditors of the Company at the Company’s annual meeting; be responsible for the oversight of the work of the Auditors, including the resolution of disagreements between management and the auditors regarding financial reporting; and recommend to the Board and the shareholders the termination of the appointment of the auditors, if and when advisable;
2. Approve, or recommend to the Board for approval, all audit engagement fees and terms, as well as all non-audit engagements of the auditors prior to the commencement of the engagement. Review and approve any disclosures required to be included in periodic reports under applicable securities law, stock exchange and other regulatory requirements with respect to non-audit services;
3. Evaluate the independence of the Auditor and any potential conflicts of interests and (to assess the auditors' independence) all relationships between the Auditors and the Company, including obtaining and reviewing an annual report prepared by the Auditors describing all relationships between the Auditors and the Company;
4. Review with the Auditors the plan and scope of the quarterly review and annual audit engagements. Also review their staffing, materiality, and general audit approach;
5. Setting hiring policies with respect to the employment of current or former employees of the Auditors; and
6. Consider the tenure of the lead audit partner on the engagement in light of applicable securities law, stock exchange or applicable regulatory requirements.

With respect to financial statements and financial information:

7. Review, discuss with management and recommend to the Board for approval the annual audited financial statements and related "management's discussion and analysis of financial and operating results" prior to filing with securities regulatory authorities and delivery to shareholders;
8. Review and discuss with the Auditors the results of their reviews and audit, any issues arising and managements' response, including any restrictions on the scope of the external auditors’ activities or requested information and any significant disagreements with management, and resolving any disputes;

9. Review and discuss with management and the Auditors, the Company's interim financial statements, including managements' discussion and analysis, and the auditors' review of interim financial statements, prior to filing or distribution of such statements;
10. Review and discuss with management and the Auditors major issues regarding accounting principles used in the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles. Review and discuss analyses prepared by management and the Auditors setting forth significant financial reporting issues and judgements made in connection with the preparation of the financial statements, including analyses of the effects of alternative approaches under generally accepted accounting principles;
11. Be satisfied that adequate procedures are in place for the review of the Company's disclosure of financial information and extracted or derived from the Company's financial statements and periodically assess the adequacy of these procedures;
12. Review and discuss with management the Company's earnings press releases, as well as any type of financial information and earnings guidance (if any) provided to analysts and ratings agencies;
13. Review and discuss such other relevant public disclosures containing financial information as the Committee may consider necessary or appropriate; and
14. Review and discuss with management any regulatory initiatives and material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of the Company with unconsolidated entities or other persons, that may have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital resources, capital reserves or significant components of revenues or expenses. Obtain explanations from management of all significant variances between comparative reporting periods.

With respect to internal control and risk management:

15. Review and discuss with management the effectiveness of the Company's internal controls over financial reporting, particularly any significant deficiencies in the design or operation of internal controls, and any possibility of fraud being perpetrated, whether or not material, by management or other employees who have a significant role in the Company's internal controls over financial reporting;
16. In consultation with management, review the adequacy of the Company's internal control structure and procedures designed to insure compliance with laws and regulations, and discuss the responsibilities, budget and staffing needs of the Company's financial and accounting group;
17. Review and discuss with management the Company's process with respect to risk assessment (including fraud risk), risk management and the Company's major financial risks and financial reporting exposures, all as they relate to internal controls over financial reporting, and the steps management has taken to monitor and control such risks;
18. Approve and recommend to the Board for adoption of policies and procedures on risk oversight and management to establish an effective system for identifying, assessing, monitoring and managing risk;
19. Review and discuss with management the Company's Code of Business Conduct and Ethics and anti-fraud program and the actions taken to monitor and enforce compliance; and
20. Establish procedures for:

a. The receipt, retention and treatment of complaints regarding accounting, internal controls or auditing matters; and
b. the confidential; anonymous submission by employees of the Company of concerns regarding questionable accounting, internal controls or auditing matters;

With respect to reporting:

21. Meet separately, periodically, with each of management, and the Auditors;
22. Report regularly to the Board and shall submit the minutes of all meetings of the Committee to the Board. The Committee shall also report to the Board on the proceeding and deliberations of the Committee at such times and in such manner as the Board may require;
23. Review and assess its mandate and recommend any proposed changes to the Nominating and Company Governance Committee of the Board on an annual basis; and
24. Evaluate the functioning of the Committee on an annual basis, including with reference to the discharge of its mandate, with the results to be reported to the Nominating and Company Governance Committee, which shall report on the Board.

IV. Authority and Resources

The Committee, in discharging its oversight role, is empowered to study or investigate any matter of interest or concern which the Committee in its sole discretion deems appropriate for study or investigation by the Committee.

The Committee shall have unrestricted access to the Company's internal accounting staff, managers, other staff and Auditors as necessary to carry out these duties. While acting within the scope of its stated mandate, the Committee shall have all the authority of, but shall remain subject to, the Board.

The Committee shall have the authority, including approval of fees and other retention terms, to obtain advice and assistance from outside legal, accounting or other advisors in its sole discretion, at the expense of the Company, which shall provide adequate funding for such purposes. The Company shall also provide the Committee with adequate funding for the ordinary administrative expenses of the Committee.

SCHEDULE "G"

ARTICLES OF TARGET COMPANY

(Please see attached.)

Incorporation number: BC1033076

TARGETED MICROWAVE SOLUTIONS INC.
(the "Company")

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1. INTERPRETATION

1.1 Definitions. In these Articles, unless the context otherwise requires:

(1) "business day" means any day other than a day which is a Saturday, Sunday or a statutory holiday within the Province of British Columbia;

(2) "board of directors", "directors" and "board" mean the directors or sole director of the Company for the time being;

(3) "*Business Corporations Act*" means the *Business Corporations Act* (British Columbia) from time to time in force and all amendments thereto and includes all regulations and amendments thereto made pursuant to that Act;

(4) "legal personal representative" means the personal or other legal representative of a shareholder and includes executors, administrators, trustees in bankruptcy and duly constituted representatives in lunacy;

(5) "month" means a calendar month;

(6) "registered address" means the address recorded in any register maintained by the Company pursuant to the provisions of the *Business Corporations Act*; and

(7) "seal" means the seal of the Company, if any.

1.2 Business Corporations Act and Interpretation Act Definitions Applicable. The definitions in the *Business Corporations Act* and the definitions and rules of construction in the *Interpretation Act* (British Columbia), with the necessary changes, so far as applicable, and unless the context requires otherwise, apply to these Articles as if they were an enactment. If there is a conflict between a definition in the *Business Corporations Act* and a definition or rule in the *Interpretation Act* (British Columbia) relating to a term used in these Articles, the definition in the *Business Corporations Act* will prevail in relation to the use of the term in these Articles. If there is a conflict between these Articles and the *Business Corporations Act*, the *Business Corporations Act* will prevail.

1.3 Documents in Writing. Expressions referring to writing include references to printing, lithographing, typewriting, photography, and other modes of representing or reproducing words in a visible form.

1.4 Inclusive Meanings. Words importing the singular include the plural, and vice versa. Words importing a male person include a female person. Words importing persons shall include corporations and unincorporated entities.

1.5 Imperative. "Will" is to be construed as imperative.

2. SHARES AND SHARE CERTIFICATES

2.1 Authorized Share Structure. The authorized share structure of the Company consists of the number of shares of the class or classes and series, if any, described in the Notice of Articles of the Company.

2.2 Form of Share Certificate. Each share certificate issued by the Company will be in such form as the directors approve and will comply with, and be signed as required by, the *Business Corporations Act*.

2.3 Shareholder Entitled to Certificate or Acknowledgment. Each shareholder is entitled, without charge, to one share certificate representing the share or shares of each class or series of shares registered in the shareholder's name or a non-transferable written acknowledgment of the shareholder's right to obtain such a share certificate; provided that in respect of a share or shares held jointly by several persons, the Company is not bound to issue more than one share certificate and delivery of a share certificate for a share to the first named of several joint shareholders or to that shareholder's duly authorized agents will be sufficient delivery to all.

2.4 Delivery by Mail. Any share certificate or non-transferable written acknowledgment of a shareholder's right to obtain a share certificate may be sent to the shareholder by mail at the shareholder's registered address and neither the Company nor any director, officer or agent of the Company is liable for any loss to the shareholder because the share certificate or acknowledgement is lost in the mail or stolen.

2.5 Replacement of Worn Out or Defaced Certificate or Acknowledgement. If the directors are satisfied that a share certificate or a non-transferable written acknowledgment of the shareholder's right to obtain a share certificate is worn out or defaced, they must, on production to them of the share certificate or acknowledgment, as the case may be, and on such other terms, if any, as they think fit, order the share certificate or acknowledgment, as the case may be, to be cancelled and issue a replacement share certificate or acknowledgment, as the case may be.

2.6 Replacement of Lost, Stolen or Destroyed Certificate or Acknowledgment. If a share certificate or a non-transferable written acknowledgment of a shareholder's right to obtain a share certificate is lost, stolen or destroyed, a replacement share certificate or acknowledgment, as the case may be, must be issued to the person entitled to that share certificate or acknowledgment, as the case may be, if the directors receive proof satisfactory to them that the share certificate or acknowledgment is lost, stolen or destroyed and any indemnity the directors consider adequate.

2.7 Splitting Share Certificates. If a shareholder surrenders a share certificate representing more than one share and registered in the name of the shareholder to the Company with a written request that the Company issue in the shareholder's name two or more share certificates, each representing a specified number of shares and in the aggregate representing the same number of shares as the share certificate so surrendered, the Company must cancel the surrendered share certificate and issue replacement share certificates in accordance with that request.

2.8 Certificate Fee. There must be paid to the Company, in relation to the issue of any share certificate under Articles 2.5, 2.6 or 2.7, the amount, if any and which must not exceed the amount prescribed under the *Business Corporations Act*, determined by the directors.

2.9 Recognition of Trusts. Except as required by law or statute or these Articles, the Company may treat a person whose name is entered in the central securities register as the absolute owner of any share and no person will be recognized by the Company as holding any share upon any trust, and the Company will not be bound by or compelled in any way to recognize (even when having notice thereof) any equitable, contingent, future or partial interest in any share or fraction of a share or (except as by law or statute or these Articles provided or as ordered by a court of competent jurisdiction) any other rights in respect of any share except an absolute right to the entirety thereof in the shareholder.

2.10 Execution of Certificates. Every share certificate shall be signed manually by at least one officer or director of the Company, or by or on behalf of a registrar, branch registrar, transfer agent or branch transfer agent of the Company and any additional signature may be printed, lithographed, engraved or otherwise mechanically reproduced in accordance with these Articles.

3. ISSUE OF SHARES

3.1 Directors Authorized. Subject to the *Business Corporations Act* and the rights of the holders of issued shares of the Company, the Company may issue, allot, grant options on, sell or otherwise dispose of the unissued

shares, and issued shares held by the Company, at the times, to the persons, including directors, in the manner, on the terms and conditions and for the issue prices (including any premium at which shares with par value may be issued) that the directors in their absolute discretion may determine. The issue price for a share with par value must be equal to or greater than the par value of the share.

3.2 Share Purchase Warrants and Rights. Subject to the *Business Corporations Act*, the Company may issue share purchase warrants, options and rights upon such terms and conditions as the directors determine, which share purchase warrants, options and rights may be issued alone or in conjunction with debentures, debenture stock, bonds, shares or any other securities issued or created by the Company from time to time.

3.3 Commissions and Discounts. Subject to the *Business Corporations Act*, the directors may pay a commission or allow a discount to any person in consideration of his subscribing or agreeing to subscribe, whether absolutely or conditionally, for any shares, debentures, share rights, warrants or debenture stock in the Company, or procuring or agreeing to procure subscriptions, whether absolute or conditional, for any such shares, debentures, share rights, warrants or debenture stock, provided that if the Company is not a specially limited company, the rate of the commission and discount shall not in the aggregate exceed 25 percent of the amount of the subscription price of such shares, debentures, share rights, warrants or debenture stock and if the Company is a specially limited company, the rate of the commission and discount shall not in the aggregate exceed 98 percent of the amount of the subscription price of such shares, debentures, share rights, warrants or debenture stock.

3.4 Brokerage. The Company may pay such brokerage fee or other consideration as may be lawful for or in connection with the sale or placement of its securities.

3.5 Conditions of Issue. Except as provided for by the *Business Corporations Act*, no share may be issued until it is fully paid. A share is fully paid when consideration is provided to the Company for the issue of the share in the form of one or more of past services actually performed for the Company, property and money. The value for the purposes of this Article 3.5 of the property or services received by the Company shall be the value determined by the directors by resolution to be in all circumstances of the transaction, the fair market value thereof and shall equal or exceed the issue price set for the share under Article 3.1.

4. SHARE REGISTERS

4.1 Central Securities Register. As required by and subject to the *Business Corporations Act*, the Company must maintain in British Columbia a central securities register. The directors may, subject to the *Business Corporations Act*, appoint an agent to maintain the central securities register. The directors may also appoint one or more agents, including the agent which keeps the central securities register, as transfer agent for its shares or any class or series of its shares, as the case may be, and the same or another agent as registrar for its shares or such class or series of its shares, as the case may be. The directors may terminate such appointment of any agent at any time and may appoint another agent in its place.

4.2 Branch Securities Registries. Subject to the *Business Corporations Act*, the Company may keep or cause to be kept one or more branch securities registries at such place or places as may be determined by the directors.

4.3 Closing Register. The Company must not at any time close its central securities register.

5. SHARE TRANSFERS

5.1 Authority to Transfer. Subject to any restrictions set forth in these Articles, a shareholder may transfer any of his shares by instrument in writing executed by or on behalf of such shareholder and delivered to the registered office of the Company or the office of the transfer agent of the Company.

5.2 Registering Transfers. Where an instrument of transfer together with the share certificate or certificates or non-transferrable written acknowledgment, as applicable, and such other evidence of title as the directors may

require is delivered to the Company, the directors will, subject to any restrictions set forth in these Articles, cause the name of the transferee to be entered into the central securities register. All instruments of transfer where the transfer is registered shall be retained by the Company or its transfer agent and any instrument of transfer where the transfer is not registered, shall be returned to the person depositing the same together with the share certificate or non-transferrable acknowledgment which accompanied the same when tendered for registration.

5.3 Form of Instrument of Transfer. The instrument of transfer in respect of any share of the Company must be either in the form, if any, on the back of the Company's share certificates or in any other form that may be approved by the directors from time to time.

5.4 Transferor Remains Shareholder. Except to the extent that the *Business Corporations Act* otherwise provides, the transferor of shares is deemed to remain the holder of the shares until the name of the transferee is entered in a securities register of the Company in respect of the transfer.

5.5 Signing of Instrument of Transfer. If a shareholder, or his or her duly authorized attorney, signs an instrument of transfer in respect of shares registered in the name of the shareholder, the signed instrument of transfer constitutes a complete and sufficient authority to the Company and its directors, officers and agents to register the number of shares specified in the instrument of transfer or specified in any other manner, or, if no number is specified, all the shares represented by the share certificates or set out in the written acknowledgments deposited with the instrument of transfer in the name of the person named as transferee in that instrument of transfer, or, if no person is named as transferee in that instrument of transfer, in the name of the person on whose behalf the instrument is deposited for the purpose of having the transfer registered.

5.6 Enquiry as to Title Not Required. Neither the Company nor any director, officer or agent of the Company is bound to inquire into the title of the person named in the instrument of transfer as transferee or, if no person is named as transferee in the instrument of transfer, of the person on whose behalf the instrument is deposited for the purpose of having the transfer registered or is liable for any claim related to registering the transfer by the shareholder or by any intermediate owner or holder of the shares, of any interest in the shares, of any share certificate representing such shares or of any written acknowledgment of a right to obtain a share certificate for such shares.

5.7 Transfer Fee. There must be paid to the Company, in relation to the registration of any transfer, the amount, if any, determined by the directors.

6. TRANSMISSION OF SHARES

6.1 Legal Personal Representative Recognized on Death. In case of the death of a shareholder, the legal personal representative, or if the shareholder was a joint holder, the surviving joint holder, will be the only person recognized by the Company as having any title to the shareholder's interest in the shares. Before recognizing a person as a legal personal representative, the directors may require proof of appointment by a court of competent jurisdiction, a grant of letters probate, letters of administration or such other evidence or documents as the directors consider appropriate.

6.2 Rights of Legal Personal Representative. The legal personal representative has the same rights, privileges and obligations that attach to the shares held by the shareholder, including the right to transfer the shares in accordance with these Articles and to receive dividends, provided the documents required by the *Business Corporations Act* and the directors have been deposited with the Company but he will not be entitled in respect of such shares to vote or exercise any other rights conferred by share ownership in respect of shareholders' meetings until his name appears in the central securities register.

6.3 Registration of Transmitted Shares. A person who is entitled to a share because of the death or bankruptcy of a shareholder, upon producing the evidence required by the directors and the *Business Corporations Act*, may be registered as the owner of the share or may transfer the share, but the directors will in

either case have the same rights under Article 27.3 as they have in the case of a share transfer before death or bankruptcy. A person who is entitled to a share because of an order of a court of competent jurisdiction or because of a statute, upon producing such evidence as the directors may require, may be registered as the holder of the share.

7. PURCHASE AND REDEMPTION OF SHARES BY COMPANY

7.1 Company Authorized to Purchase and Redeem Shares. Subject to Article 7.2, the special rights and restrictions attached to the shares of any class or series and the *Business Corporations Act*, the Company may, if authorized by the directors, purchase, redeem or otherwise acquire any of its shares at the price and upon the terms specified in such resolution.

7.2 Prohibition When Insolvent. The Company must not make a payment or provide any other consideration to purchase, redeem or otherwise acquire any of its shares if there are reasonable grounds for believing that the Company is insolvent or making the payment or providing the consideration would render the Company insolvent.

7.3 Purchase or Redemption of Some Shares. If the Company proposes to purchase or redeem some but not all of the shares of any class or series, the directors may, in their absolute discretion, subject to the rights and restrictions attached to the class or series of shares, decide the number of and the manner in which the shares to be purchased or redeemed will be selected and any such purchase or redemption need not be made rateably among every shareholder who holds shares of the class or series to be purchased or redeemed.

7.4 Sale and Voting of Purchased or Redeemed Shares. If the Company retains a share purchased, redeemed or otherwise acquired by it, the Company may sell, gift, issue or otherwise dispose of the share, but, while such share is held by the Company, the Company is not entitled to vote the share at a meeting of its shareholders, must not pay a dividend in respect of the share and must not make any other distribution in respect of the share.

8. BORROWING POWERS

8.1 The Company, if authorized by the directors, may:

(1) borrow money in the manner and amount, on the security, from the sources and on the terms and conditions that they consider appropriate;

(2) issue bonds, debentures and other debt obligations either outright or as security for any liability or obligation of the Company or any other person and at such discounts or premiums and on such other terms and with such rights or privileges as they consider appropriate at or before the time of issue;

(3) guarantee the repayment of money by any other person or the performance of any obligation of any other person; and

(4) mortgage, pledge, charge, whether by way of specific or floating charge, grant a security interest in, or give other security on, the whole or any part of the present and future assets and undertaking of the Company.

8.2 Register of Debentures. The Company may keep one or more branch registers of its debentureholders inside or outside the Province of British Columbia as the directors may determine.

8.3 Execution of Debt Obligations. Every bond, debenture or other debt obligation of the Company shall be signed manually by at least one director or officer of the Company or by or on behalf of a trustee, registrar, branch registrar, transfer agent or branch transfer agent for the bond, debenture or other debt obligation appointed by the

Company or under any instrument under which the bond, debenture or other debt obligation is issued and any additional signatures may be printed or otherwise mechanically reproduced thereon and, in such event, a bond, debenture or other debt obligation so signed is as valid as if signed manually notwithstanding that any person whose signature is so printed or mechanically reproduced shall have ceased to hold the office that he is stated on such bond, debenture or other debt obligation to hold at the date of the issue thereof.

9. ALTERATIONS

9.1 Alteration of Authorized Share Structure. Subject to Article 9.2 and the *Business Corporations Act*, the Company may by special resolution:

(1) create one or more classes of shares with par value or without par value or, if none of the shares of a class of shares are allotted or issued, eliminate that class of shares;

(2) increase, reduce or eliminate the maximum number of shares that the Company is authorized to issue out of any class of shares or establish a maximum number of shares that the Company is authorized to issue out of any class of shares for which no maximum is established;

(3) if the Company is authorized to issue shares of a class of shares with par value:

(a) decrease the par value of those shares; or

(b) if none of the shares of that class of shares are allotted or issued, increase the par value of those shares;

(4) change all or any of its unissued, or fully paid issued, shares with par value into shares without par value or any of its unissued shares without par value into shares with par value;

(5) alter the identifying name of any of its shares; or

(6) otherwise alter its shares or authorized share structure when required or permitted to do so by the *Business Corporations Act*.

All new shares will be subject to the same provisions with reference to transfer, transmissions and otherwise as the existing shares of the Company.

9.2 Special Rights and Restrictions. Subject to the *Business Corporations Act*, the Company may by special resolution create special rights or restrictions for, and attach those special rights or restrictions to, the shares of any class of shares, whether or not any or all of those shares have been issued or vary or delete any special rights or restrictions attached to the shares of any class of shares, whether or not any or all of those shares have been issued. No special right or restriction attached to any issued shares shall be prejudiced or interfered with unless all shareholders holding shares of each class whose special right or restriction is so prejudiced or interfered with consent thereto in writing, or unless a resolution consenting thereto is passed at a separate class meeting of the holders of the shares of each such class by the majority required to pass a special resolution, or such greater majority as may be specified by the special rights attached to the class of shares of the issued shares of such class.

9.3 Alterations by Directors. The Company may by directors' resolutions: (a) authorize an alteration of its Notice of Articles to change its name or adopt or change any translation of that name; or (b) subdivide or consolidate all or any of its unissued, or fully paid issued, shares.

9.4 Alterations to Articles. If the *Business Corporations Act* does not specify the type of resolution and these Articles do not specify another type of resolution, the Company may by ordinary resolution alter these Articles.

9.5 Class Meetings. Unless these Articles otherwise provide, the provisions of these Articles relating to general meetings shall apply, with the necessary changes and so far as they are applicable to a class meeting of shareholders holding a particular class of shares, but the quorum at a class meeting shall be one person holding or representing by proxy a simple majority of the shares affected.

10. MEETINGS OF SHAREHOLDERS

10.1 Annual General Meetings. Unless an annual general meeting is deferred or waived in accordance with the *Business Corporations Act*, the Company must hold its first annual general meeting within 18 months after the date on which it was incorporated or otherwise recognized, and after that must hold an annual general meeting at least once in each calendar year and not more than 15 months after the last annual reference date at such time and place as may be determined by the directors. In default of the meeting being held, the meeting may be convened by any one or more shareholders in accordance with the *Business Corporations Act*.

10.2 Resolution Instead of Annual General Meeting. Notwithstanding Article 10.1, if all of the shareholders who are entitled to vote at an annual general meeting consent by a unanimous resolution under the *Business Corporations Act* to all of the business that is required to be transacted at that annual general meeting, the annual general meeting is deemed to have been held on the date of the unanimous resolution. The shareholders must, in any unanimous resolution passed under this Article 10.2, select as the Company's annual reference date a date that would be appropriate for the holding of the applicable annual general meeting.

10.3 Calling of Meetings of Shareholders. The directors may, whenever they think fit, call a meeting of shareholders.

10.4 Convening Meetings. A general meeting, if requisitioned in accordance with the *Business Corporations Act*, may be convened by the directors or, if not convened by the directors, may be convened by the requisitionists as provided in the *Business Corporations Act*.

10.5 Location of Meetings. A general meeting of the Company must be held in British Columbia or may be held at a location outside of British Columbia if approved by an ordinary resolution.

10.6 Notice for Meetings of Shareholders. The Company must send notice of the date, time and location of any meeting of shareholders, in the manner provided in these Articles, or in such other manner, if any, as may be prescribed by ordinary resolution (whether previous notice of the resolution has been given or not), to each shareholder entitled to attend the meeting, to each director and to the auditor of the Company, unless these Articles otherwise provide. Such notice must be given not more than two months before the meeting and, if and for so long as the Company is a public company, at least 21 days before the meeting and, otherwise, at least 10 days.

10.7 Record Date for Notice. The directors may set a date as the record date for the purpose of determining shareholders entitled to notice of any meeting of shareholders. The record date must not precede the date on which the meeting is to be held by more than two months or, in the case of a general meeting requisitioned by shareholders under the *Business Corporations Act*, by more than four months. The record date must not precede the date on which the meeting is held by fewer than 21 days if and for so long as the Company is a public company and, otherwise, 10 days. If no record date is set, the record date is 5 p.m. on the day immediately preceding the first date on which the notice is sent or, if no notice is sent, the beginning of the meeting.

10.8 Record Date for Voting. The directors may set a date as the record date for the purpose of determining shareholders entitled to vote at any meeting of shareholders. The record date must not precede the date on which the meeting is to be held by more than two months or, in the case of a general meeting requisitioned by shareholders under the *Business Corporations Act*, by more than four months. If no record date is set, the record date is 5 p.m. on the day immediately preceding the first date on which the notice is sent or, if no notice is sent, the beginning of the meeting.

10.9 Failure to Give Notice and Waiver of Notice. The accidental omission to send notice of any meeting to, or the non-receipt of any notice by, any of the persons entitled to notice does not invalidate any proceedings at that meeting. Any person entitled to notice of a meeting of shareholders may, in writing or otherwise, waive or reduce the period of notice of such meeting.

10.10 Notice of Special Business at Meetings of Shareholders. If a meeting of shareholders is to consider special business within the meaning of Article 11.1, the notice of meeting must state the general nature of the special business and if the special business includes considering, approving, ratifying, adopting or authorizing any document or the signing of or giving of effect to any document, have attached to it a copy of the document or state that a copy of the document will be available for inspection by shareholders at the Company's records office, or at such other reasonably accessible location in British Columbia as is specified in the notice during statutory business hours on any one or more specified days before the day set for the holding of the meeting.

10.11 Meetings by Telephone or Other Communications Medium. A shareholder or proxy holder may participate in a meeting of shareholders in person or by telephone if all shareholders and proxy holders participating in the meeting, are able to communicate with each other. A shareholder or proxy holder may participate in a meeting of shareholders by a communication medium other than by telephone if all shareholders and proxy holders participating in the meeting are able to communicate with each other and all shareholders and proxy holders who wish to participate in the meeting agree to such manner of participation. A shareholder or proxy holder who participates in a meeting in a manner contemplated by this Article 10.11 is deemed for all purposes of the *Business Corporations Act* and these Articles to be present at the meeting and to have agreed to participate in that manner and the meeting is deemed to be held at the location specified in the notice of meeting.

11. PROCEEDINGS AT MEETINGS OF SHAREHOLDERS

11.1 Special Business. At a meeting of shareholders, the following business is special business:

(1) at a meeting of shareholders that is not an annual general meeting, all business is special business except business relating to the conduct of or voting at the meeting; and

(2) at an annual general meeting, all business is special business except for the following:

- (a) business relating to the conduct of or voting at the meeting;
- (b) consideration of any financial statements of the Company presented to the meeting;
- (c) consideration of any reports of the directors or auditor;
- (d) the setting or changing of the number of directors;
- (e) the election or appointment of directors;
- (f) the appointment of an auditor;
- (g) the setting of the remuneration of an auditor;
- (h) business arising out of a report of the directors not requiring the passing of a special resolution; and
- (i) any other business which, under these Articles or the *Business Corporations Act*, may be transacted at a meeting of shareholders without prior notice of the business being given to the shareholders.

11.2 Special Majority. The majority of votes required for the Company to pass a special resolution at a meeting of shareholders is two-thirds of the votes cast on the resolution.

11.3 Quorum. Subject to the special rights and restrictions attached to the shares of any class or series of shares, the quorum for the transaction of business at a meeting of shareholders is two persons who are, or who represent by proxy, shareholders who, in the aggregate, hold at least one-twentieth of the issued shares entitled to be voted at the meeting.

11.4 One Shareholder May Constitute Quorum. If there is only one shareholder entitled to vote at a meeting of shareholders the quorum is one person who is, or who represents by proxy, that shareholder, and that shareholder, present in person or by proxy, may constitute the meeting.

11.5 Other Persons May Attend. The directors, the president (if any), the secretary (if any), the assistant secretary (if any), any lawyer for the Company, the auditor of the Company and any other persons invited by the directors are entitled to attend any meeting of shareholders, but if any of those persons does attend a meeting of shareholders, that person is not to be counted in the quorum and is not entitled to vote at the meeting unless that person is a shareholder or proxy holder entitled to vote at the meeting.

11.6 Requirement of Quorum. No business, other than the election of a chair of the meeting and the adjournment of the meeting, may be transacted at any meeting of shareholders unless a quorum of shareholders entitled to vote is present at the commencement of the meeting, but such quorum need not be present throughout the meeting.

11.7 Lack of Quorum. If, within one-half hour from the time set for the holding of a meeting of shareholders, a quorum is not present then, in the case of a general meeting requisitioned by shareholders, the meeting is dissolved, and, in the case of any other meeting of shareholders, the meeting stands adjourned to the same day in the next week at the same time and place.

11.8 Lack of Quorum at Succeeding Meeting. If, at the meeting to which the meeting referred to in Article 11.7 was adjourned, a quorum is not present within one-half hour from the time set for the holding of the meeting, the person or persons present and being, or representing by proxy, one or more shareholders entitled to attend and vote at the meeting constitute a quorum.

11.9 Chair. The chair of the board, if any, or if the chair of the board is absent or unwilling to act as chair of the meeting, the president of the Company, if any, or in his absence a vice-president of the Company, if any, will preside as chairman at every meeting of shareholders.

11.10 Selection of Alternate Chair. If, at any meeting of shareholders, there is no chair of the board or president present within 15 minutes after the time set for holding the meeting, or if the chair of the board and the president are unwilling to act as chair of the meeting, or if the chair of the board and the president have advised the secretary, if any, or any director present at the meeting, that they will not be present at the meeting, the directors present must choose one of their number to be chair of the meeting or if all of the directors present decline to take the chair or fail to so choose or if no director is present, the shareholders entitled to vote at the meeting who are present in person or by proxy may choose any person present at the meeting to chair the meeting. The chairman need not be a shareholder.

11.11 Adjournments. The chair of a meeting of shareholders may, with the consent of the meeting, and will, if so directed by the meeting, adjourn the meeting from time to time and from place to place, but no business may be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.

11.12 Notice of Adjourned Meeting. It is not necessary to give any notice of an adjourned meeting or of the business to be transacted at an adjourned meeting of shareholders except that, when a meeting is adjourned for 30 days or more, notice of the adjourned meeting must be given as in the case of the original meeting.

11.13 Decisions by Show of Hands or Poll. Subject to the *Business Corporations Act*, every motion put to a vote at a meeting of shareholders will be decided on a show of hands unless a poll, before or on the declaration of

the result of the vote by show of hands, is directed by the chair or demanded by at least one shareholder entitled to vote who is present in person or by proxy.

11.14 Declaration of Result. The chair of a meeting of shareholders must declare to the meeting the decision on every question in accordance with the result of the show of hands or the poll, as the case may be, and that decision must be entered in the minutes of the meeting. A declaration of the chair that a resolution is carried by the necessary majority or is defeated is, unless a poll is directed by the chair or demanded under Article 11.13, conclusive evidence without proof of the number or proportion of the votes recorded in favour of or against the resolution.

11.15 Motion Need Not be Seconded. No motion proposed at a meeting of shareholders need be seconded unless the chair of the meeting rules otherwise, and the chair of any meeting of shareholders is entitled to propose or second a motion.

11.16 Casting Vote. In case of an equality of votes, the chair of a meeting of shareholders does not, either on a show of hands or on a poll, have a second or casting vote in addition to the vote or votes to which the chair may be entitled as a shareholder.

11.17 Manner of Taking Poll. If a poll is duly demanded at a meeting of shareholders it will be taken at the meeting, or within seven days after the date of the meeting, as the chair of the meeting directs and in the manner, at the time and at the place that the chair of the meeting directs. The result of the poll is effective from the time of the meeting at which the poll is demanded. The demand for the poll may be withdrawn by the person who demanded it and, notwithstanding the foregoing, a poll demanded at a meeting of shareholders on a question of adjournment or the election of the chair of the meeting will be taken immediately at the meeting without adjournment.

11.18 Chair Must Resolve Dispute. In the case of any dispute as to the admission or rejection of a vote given on a poll, the chair of the meeting must determine the dispute, and his or her determination made in good faith is final and conclusive.

11.19 Casting of Votes. On a poll, a shareholder entitled to more than one vote need not cast all the votes in the same way.

11.20 Demand for Poll Not to Prevent Continuance of Meeting. The demand for a poll at a meeting of shareholders does not, unless the chair of the meeting so rules, prevent the continuation of a meeting for the transaction of any business other than the question on which a poll has been demanded.

11.21 Retention of Ballots and Proxies. The Company must, for at least three months after a meeting of shareholders, keep each ballot cast on a poll and each proxy voted at the meeting, and, during that period, make them available for inspection during normal business hours by any shareholder or proxyholder entitled to vote at the meeting. At the end of such three month period, the Company may destroy such ballots and proxies.

12. VOTES OF SHAREHOLDERS

12.1 Number of Votes by Shareholder or by Shares. Subject to any special rights or restrictions attached to any shares and to the restrictions imposed on joint shareholders under Article 12.3 on a vote by show of hands, every person present who is a shareholder or proxy holder and entitled to vote on the matter has one vote and, on a poll, every shareholder entitled to vote on the matter has one vote in respect of each share entitled to be voted on the matter and held by that shareholder and may exercise that vote either in person or by proxy.

12.2 Votes of Persons in Representative Capacity. A person who is not a shareholder may vote at a meeting of shareholders, whether on a show of hands or on a poll, and may appoint a proxy holder to act at the meeting, if,

before doing so, the person satisfies the chair of the meeting, or the directors, that the person is a legal personal representative or a trustee in bankruptcy for a shareholder who is entitled to vote at the meeting.

12.3 Votes by Joint Holders. If there are joint shareholders registered in respect of any share, any one of the joint shareholders may vote at any meeting, either personally or by proxy, in respect of the share as if that joint shareholder were solely entitled to it or, if more than one of the joint shareholders is present at any meeting, personally or by proxy, and more than one of them votes in respect of that share, then the vote of the joint shareholder present whose name stands first on the central securities register in respect of the share will be counted to the exclusion of the votes of the other joint holders.

12.4 Legal Personal Representatives as Joint Shareholders. Two or more legal personal representatives of a shareholder in whose sole name any share is registered are, for the purposes of Article 12.3, deemed to be joint shareholders.

12.5 Representation by Committee. A shareholder for whom a committee has been duly appointed may vote, whether on a show of hands or on a poll, by his committee. A committee may appoint a proxy holder.

12.6 Representative of a Corporate Shareholder. If a corporation, that is not a subsidiary of the Company, is a shareholder, that corporation may appoint a person to act as its representative at any meeting of shareholders of the Company provided that the instrument appointing a representative is received at the registered office of the Company or at any other place specified in the notice calling the meeting for the receipt of proxies, at least the number of business days specified in the notice for the receipt of proxies, or if no number of days is specified, two business days before the day set for the holding of the meeting or is provided at the meeting to the chair of the meeting or to a person designated by the chair of the meeting. Evidence of the appointment of any such representative may be sent to the Company by written instrument, fax or any other method of transmitting legibly recorded messages. If a representative is appointed under this Article 12.6, the representative is entitled to exercise in respect of and at that meeting the same rights on behalf of the corporation that the representative represents as that corporation could exercise if it were a shareholder who is an individual, including, without limitation, the right to appoint a proxy holder and the representative, if present at the meeting, is to be counted for the purpose of forming a quorum and is deemed to be a shareholder present in person at the meeting.

12.7 Proxy Provisions Do Not Apply to All Companies. Articles 12.8 to 12.15 do not apply to the Company if and for so long as it is a public company or a pre-existing reporting company which has the Statutory Reporting Company Provisions as part of its Articles or to which the Statutory Reporting Company Provisions apply.

12.8 Appointment of Proxy Holders. Every shareholder of the Company, including a corporation that is a shareholder but not a subsidiary of the Company, entitled to vote at a meeting of shareholders of the Company may, by proxy, appoint one or more (but not more than five) proxy holders to attend and act at the meeting in the manner, to the extent and with the powers conferred by the proxy. A proxy will be in writing under the hand of the appointor and, if the appointor is a corporation, under the hand of an officer or attorney duly authorized for that purpose. A proxy holder is not required to be a shareholder.

12.9 Alternate Proxy Holders. A shareholder may appoint one or more alternate proxy holders to act in the place of an absent proxy holder.

12.10 Deposit of Proxy. A proxy and any power of attorney or other authority under which it is signed or a notarially certified copy of the power of attorney for a meeting of shareholders must be received at the place specified in the notice calling the meeting for the receipt of proxies, or, if no place is specified, at the registered office of the Company, at least the number of business days specified in the notice, or if no number of days is specified, two business days before the day set for the holding of the meeting.

A proxy may be sent to the Company by written instrument, fax or any other method of transmitting legibly recorded messages.

12.11 Validity of Proxy Vote. A vote given in accordance with the terms of a proxy is valid notwithstanding the death or incapacity of the shareholder giving the proxy and despite the revocation of the proxy or the revocation of the authority under which the proxy is given, unless notice in writing of that death, incapacity or revocation is received at the registered office of the Company, at any time up to and including the last business day before the day set for the holding of the meeting at which the proxy is to be used or by the chair of the meeting, before the vote is taken.

12.12 Form of Proxy. A proxy, whether for a specified meeting or otherwise, must be either in the following form or in any other form approved by the directors:

[name of company at the relevant time]
(the "Company")

> The undersigned, being a shareholder of the Company, hereby appoints *[name]* or, failing that person, *[name]*, as proxy holder for the undersigned to attend, act and vote for and on behalf of the undersigned at the meeting of shareholders of the Company to be held on *[month, day, year]* and at any adjournment of that meeting.
>
> Number of shares in respect of which this proxy is given (if no number is specified, then this proxy is given in respect of all shares registered in the name of the shareholder): ______________________
>
> Signed *[month, day, year]*
>
> ____
> *[Signature of shareholder]*
>
> ____
> *[Name of shareholder—printed]*

12.13 Revocation of Proxy. Subject to Article 12.14, every proxy may be revoked by an instrument in writing that is received at the registered office of the Company at any time up to and including the last business day before the day set for the holding of the meeting at which the proxy is to be used or provided, at the meeting, to the chair of the meeting.

12.14 Revocation of Proxy Must Be Signed. An instrument referred to in Article 12.13 must be signed, where the shareholder for whom the proxy holder is appointed is an individual, by the shareholder or his or her legal personal representative or trustee in bankruptcy or, where the shareholder for whom the proxy holder is appointed is a corporation, by the corporation or by a representative appointed for the corporation under Article 12.6.

12.15 Production of Evidence of Authority to Vote. The chair of any meeting of shareholders may, but need not, inquire into the authority of any person to vote at the meeting and may, but need not, demand from that person production of evidence as to the existence of the authority to vote.

13. DIRECTORS

13.1 First Directors; Number of Directors. The first directors of the Company are the persons designated as directors of the Company in the first Notice of Articles filed for the Company under the *Business Corporations Act* and, at the time of filing, the number of directors, excluding additional directors appointed under Article 14.8, is set at the number of first directors. Thereafter, the number of directors, excluding additional directors, will be not less than one (or, if the Company is a public Company, three) and not more than 20. Within this range, unless

the number of directors is set by ordinary resolution or set under Article 14.4, the number may be determined by the directors.

13.2 Change in Number of Directors. If the number of directors is set by ordinary resolution, the shareholders may elect or appoint the directors needed to fill any vacancies in the board of directors up to that number and if the shareholders do not elect or appoint the directors needed to fill any vacancies in the board of directors up to that number contemporaneously with the setting of that number, then the directors may appoint, or the shareholders may elect or appoint, directors to fill those vacancies.

13.3 Directors' Acts Valid Despite Vacancy. An act or proceeding of the directors is not invalid merely because fewer than the number of directors set or otherwise required under these Articles is in office.

13.4 Qualifications of Directors. A director is not required to hold a share in the capital of the Company as qualification for his or her office but must be qualified as required by the *Business Corporations Act* to become, act or continue to act as a director.

13.5 Remuneration of Directors. The directors are entitled to such remuneration for acting as directors, if any, as the directors may from time to time determine or if the directors so decide, as shareholders may determine by ordinary resolution. That remuneration may be in addition to any salary or other remuneration paid to any officer or employee of the Company as such, who is also a director.

13.6 Reimbursement of Expenses of Directors. The Company must reimburse each director for the reasonable expenses that he or she may properly incur in and about the business of the Company.

13.7 Special Remuneration for Directors. If any director performs any extra professional or other services for the Company that in the opinion of the directors are outside the ordinary duties of a director, or if any director is otherwise specially occupied in or about the Company's business, he or she may be paid remuneration fixed by the directors, or, at the option of the directors, fixed by ordinary resolution, and such remuneration may be either in addition to, or in substitution for, any other remuneration that he or she may be entitled to receive.

13.8 Gratuity, Pension or Allowance on Retirement of Director. Unless otherwise determined by ordinary resolution, the directors on behalf of the Company may pay a gratuity or pension or allowance on retirement to any director who has held any salaried office or place of profit with the Company or to his or her spouse or dependants and may make contributions to any fund and pay premiums for the purchase or provision of any such gratuity, pension or allowance.

14. ELECTION AND REMOVAL OF DIRECTORS

14.1 Election at Annual General Meeting. At every annual general meeting and in every unanimous resolution contemplated by Article 10.2:

(1) the shareholders entitled to vote at the annual general meeting for the election of directors must elect, or in the unanimous resolution appoint, a board of directors consisting of the number of directors for the time being set under these Articles; and

(2) all the directors cease to hold office immediately before the election or appointment of directors under paragraph (1), but are eligible for re-election or re-appointment.

14.2 Consent to be a Director. No election, appointment or designation of an individual as a director is valid unless:

(1) that individual consents to be a director in the manner provided for in the *Business Corporations Act*;

(2) that individual is elected or appointed at a meeting at which the individual is present and the individual does not refuse, at the meeting, to be a director; or

(3) with respect to first directors, the designation is otherwise valid under the *Business Corporations Act*.

14.3 Failure to Elect or Appoint Directors. Where the Company fails to hold an annual general meeting and all of the shareholders who are entitled to vote at an annual general meeting fail to pass the unanimous resolution contemplated by Article 10.2 on or before the date by which the annual general meeting is required to be held under the *Business Corporations Act* or where the shareholders fail, at the annual general meeting or in the unanimous resolution contemplated by Article 10.2, to elect or appoint any directors, then each director then in office continues to hold office until his or her successor is elected or appointed or he or she otherwise ceases to hold office under the *Business Corporations Act* or these Articles, whichever is earlier. Each continuing director is deemed to have been elected or appointed as a director on the last day on which the annual general meeting would have been held pursuant to these Articles.

14.4 Places of Retiring Directors Not Filled. If, at any meeting of shareholders at which there should be an election of directors, the places of any of the retiring directors are not filled by that election, those retiring directors who are not re-elected and who are asked by the newly elected directors to continue in office will, if willing to do so, continue in office to complete the number of directors for the time being set pursuant to these Articles until further new directors are elected at a meeting of shareholders convened for that purpose. If any such election or continuance of directors does not result in the election or continuance of the number of directors for the time being set pursuant to these Articles, the number of directors of the Company is deemed to be set at the number of directors actually elected or continued in office.

14.5 Directors May Fill Casual Vacancies. Any casual vacancy occurring in the board of directors may be filled for the unexpired term by the remaining directors.

14.6 Remaining Directors' Power to Act. The directors may act notwithstanding any vacancy in the board of directors, but if the Company has fewer directors in office than the number set pursuant to these Articles as the quorum of directors, the directors may only act for the purpose of appointing directors up to that number or of summoning a meeting of shareholders for the purpose of filling any vacancies on the board of directors or, subject to the *Business Corporations Act*, for any other purpose.

14.7 Shareholders May Fill Vacancies. If the Company has no directors or fewer directors in office than the number set pursuant to these Articles as the quorum of directors, the shareholders may elect or appoint directors to fill any vacancies on the board of directors.

14.8 Additional Directors. Notwithstanding Articles 13.1 and 13.2, between annual general meetings or unanimous resolutions contemplated by Article 10.2, the directors may appoint one or more additional directors, but the number of additional directors appointed under this Article 14.8 must not at any time exceed one-third of the number of first directors, if, at the time of the appointments, one or more of the first directors have not yet completed their first term of office or, in any other case, one-third of the number of the current directors who were elected or appointed as directors other than under this Article 14.8. Any additional director so appointed ceases to hold office immediately before the next annual general meeting or resolution in lieu thereof, but is eligible for re-election or re-appointment.

14.9 Ceasing to be a Director. A director ceases to be a director when:

(1) the term of office of the director expires;

(2) the director dies;

(3) the director resigns as a director by notice in writing provided to the Company or a lawyer for the Company; or

(4) the director is removed from office pursuant to Articles 14.10 or 14.11.

14.10 Removal of Director by Shareholders. The Company may remove any director before the expiration of his or her term of office and appoint a replacement director in respect thereof by special resolution. If the shareholders do not elect or appoint a director to fill the resulting vacancy contemporaneously with the removal, then the directors may appoint or the shareholders may elect, or appoint by ordinary resolution, a director to fill that vacancy.

14.11 Removal of Director by Directors. The directors may remove any director before the expiration of his or her term of office if the director is convicted of an indictable offence or if the director ceases to be qualified to act as a director of a company and does not promptly resign, and the directors may appoint a director to fill the resulting vacancy.

15. ALTERNATE DIRECTORS

15.1 Appointment of Alternate Director. Any director (an "appointor") may by notice in writing received by the Company appoint any person, whether a shareholder or a director or not, (an "appointee") who is qualified to act as a director to be his or her alternate to act in his or her place at meetings of the directors or committees of the directors at which the appointor is not present unless (in case of an appointee who is not a director) the directors have reasonably disapproved the appointment of such person as an alternate director and have given notice to that effect to his or her appointor within a reasonable time after the notice of appointment is received by the Company.

15.2 Notice of Meetings. Every alternate director so appointed is entitled to attend and vote as a director at any meeting of directors or of a committee of directors at which his or her appointor is not present and, if the appointor so directs in the notice of appointment delivered under Article 15.1, notice of meetings of directors and of committees of the directors, as applicable, will be sent to the alternate director and not to the appointor.

15.3 Alternate for More Than One Director Attending Meetings. A person may be appointed as an alternate director by more than one director and in such case, the alternate director will be counted in determining the quorum for a meeting of directors or a meeting of a committee of directors once for each of his or her appointors, as applicable, and, in the case of an appointee who is also a director or a member of that committee, once more in that capacity. Subject to the relevant appointor having so directed in the notice of appointment, an alternate director will have a separate vote at a meeting of directors or a meeting of committee of directors for each of his or her appointors, as applicable, and, in the case of an appointee who is also a director or a member of that committee, an additional vote in that capacity.

15.4 Consent Resolutions. Every alternate director, if authorized by the notice appointing him or her, may sign in place of his or her appointor any resolutions to be consented to in writing.

15.5 Alternate Director Not an Agent. Every alternate director is deemed not to be the agent of his or her appointor.

15.6 Revocation of Appointment of Alternate Director. An appointor may at any time, by notice in writing received by the Company, revoke the appointment of an alternate director appointed by him or her.

15.7 Ceasing to be an Alternate Director. The appointment of an alternate director ceases when:

(1) his or her appointor ceases to be a director and is not promptly re-elected or re-appointed;

(2) his or her appointor revokes the appointment of the alternate director in accordance with Article 15.6;

(3) the alternate director dies;

(4) the alternate director resigns as an alternate director by notice in writing provided to the Company or a lawyer for the Company;

(5) the alternate director ceases to be qualified to act as a director; or

(6) the alternate director is convicted of an indictable offence and the other directors shall have resolved to remove him.

15.8 Remuneration and Expenses of Alternate Director. The Company may reimburse an alternate director for the reasonable expenses that would be properly reimbursed if he or she were a director, and the alternate director is entitled to receive from the Company such proportion, if any, of the remuneration otherwise payable to the appointor as the appointor may from time to time direct.

16. POWERS AND DUTIES OF DIRECTORS

16.1 Powers of Management. The directors must, subject to the *Business Corporations Act* and these Articles, manage or supervise the management of the business and affairs of the Company and have the authority to exercise all such powers of the Company as are not, by the *Business Corporations Act* or by these Articles, required to be exercised by the shareholders of the Company.

16.2 Appointment of Attorney of Company. The directors may from time to time, by power of attorney or other instrument, under seal if so required by law, appoint any person to be the attorney of the Company for such purposes, and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the directors under these Articles and excepting the power to fill vacancies in the board of directors, to remove a director, to change the membership of, or fill vacancies in, any committee of the directors, to appoint or remove officers appointed by the directors and to declare dividends) and for such period, and with such remuneration and subject to such conditions as the directors may think fit. Any such power of attorney may be made in favour of any of the directors or any of the shareholders of the Company or in favour of any corporation, firm or joint venture and any such appointment may contain such provisions for the protection or convenience of persons dealing with such attorney as the directors think fit. Any such attorney may be authorized by the directors to sub-delegate all or any of the powers, authorities and discretions for the time being vested in him or her.

17. DISCLOSURE OF INTEREST OF DIRECTORS

17.1 Obligation to Account for Profits. A director or senior officer who holds a disclosable interest (as that term is used in the *Business Corporations Act*) in a contract or transaction into which the Company has entered or proposes to enter is liable to account to the Company for any profit that accrues to the director or senior officer under or as a result of the contract or transaction only if and to the extent provided in the *Business Corporations Act*.

17.2 Restrictions on Voting by Reason of Interest. A director who holds a disclosable interest in a contract or transaction into which the Company has entered or proposes to enter is not entitled to vote on any directors' resolution to approve that contract or transaction, unless all of the directors have a disclosable interest in that contract or transaction, in which case any or all of those directors may vote on such resolution.

17.3 Interested Director Counted in Quorum. A director who holds a disclosable interest in a contract or transaction into which the Company has entered or proposes to enter and who is present at the meeting of directors at which the contract or transaction is considered for approval will be counted in the quorum at the meeting whether or not the director votes on any or all of the resolutions considered at the meeting.

17.4 Disclosure of Conflict of Interest or Property. A director or senior officer who holds any office or possesses any property, right or interest that could result, directly or indirectly, in the creation of a duty or interest

that materially conflicts with that individual's duty or interest as a director or senior officer, must disclose the nature and extent of the conflict as required by the *Business Corporations Act*.

17.5 Director Holding Other Office in the Company. A director may hold any office or place of profit with the Company, other than the office of auditor of the Company, in addition to his or her office of director for the period and on the terms (as to remuneration or otherwise) that the directors may determine.

17.6 No Disqualification. No director or intended director is disqualified by his or her office from contracting with the Company either with regard to the holding of any office or place of profit the director holds with the Company or as vendor, purchaser or otherwise, and, subject to compliance with the provisions of the *Business Corporations Act*, no contract or transaction entered into by or on behalf of the Company in which a director is in any way interested is liable to be voided for that reason.

17.7 Professional Services by Director or Officer. Subject to the *Business Corporations Act*, a director or officer, or any person in which a director or officer has an interest, may act in a professional capacity for the Company, except as auditor of the Company, and the director or officer or such person is entitled to remuneration for professional services as if that director or officer were not a director or officer.

17.8 Director or Officer in Other Corporations. A director or officer may be or become a director, officer or employee of, or otherwise interested in, any corporation or firm in which the Company may be interested as a shareholder or otherwise, and, subject to the *Business Corporations Act*, the director or officer shall not be accountable to the Company for any remuneration or other benefits received by him or her as director, officer or employee of, or from his or her interest in, such other corporation or firm.

18. PROCEEDINGS OF DIRECTORS

18.1 Meetings of Directors. The directors may meet together for the conduct of business, adjourn and otherwise regulate their meetings as they think fit, and meetings of the directors held at regular intervals may be held at the place, at the time and on the notice, if any, as the directors may from time to time determine.

18.2 Voting at Meetings. Questions arising at any meeting of directors are to be decided by a majority of votes and, in the case of an equality of votes, the chair of the meeting does not have a second or casting vote.

18.3 Chair of Meetings. The chair of the board, if any, or, in his absence, the president, if any, if the president is a director, or, if neither the chair of the board nor the president, if a director, is present at the meeting within 15 minutes after the time set for holding the meeting or is willing to chair the meeting or each of the chair of the board and the president, if any and if a director, have advised the secretary, if any, or any other director, that they will not be present at the meeting, then any other director chosen by the directors shall preside as chairman at a meeting of directors.

18.4 Meetings by Telephone or Other Communications Medium. A director may participate in a meeting of the directors or of any committee of the directors in person or by telephone if all directors participating in the meeting, whether in person or by telephone or other communications medium, are able to communicate with each other. A director may participate in a meeting of the directors or of any committee of the directors by a communications medium other than telephone if all directors participating in the meeting, whether in person or by telephone or other communications medium, are able to communicate with each other and if all directors who wish to participate in the meeting agree to such manner of participation. A director who participates in a meeting in a manner contemplated by this Article 18.4 is deemed for all purposes of the *Business Corporations Act* and these Articles to be present at the meeting and to have agreed to participate in that manner. Where each director or his alternate is in communication with each other director or his alternate in the manner contemplated by this Article 18.4, a resolution concurred to by all directors or alternate directors in the course of such transmission shall be deemed to be a resolution of the board duly passed by the requisite majority.

18.5 Calling of Meetings. A director may, and the secretary or an assistant secretary of the Company, if any, on the request of a director must, call a meeting of the directors at any time.

18.6 Notice of Meetings. Other than for meetings held at regular intervals as determined by the directors pursuant to Article 18.1, reasonable notice of each meeting of the directors, specifying the place, day and time of that meeting must be given to each of the directors and the alternate directors by any method set out in Article 24.1 or orally or by telephone.

18.7 When Notice Not Required. It is not necessary to give notice of a meeting of the directors to a director or an alternate director if the meeting is to be held immediately following a meeting of shareholders at which that director was elected or appointed, or is the meeting of the directors at which that director is appointed or the director or alternate director, as the case may be, has waived notice of the meeting in accordance with Article 18.9.

18.8 Meeting Valid Despite Failure to Give Notice. The accidental omission to give notice of any meeting of directors to, or the non-receipt of any notice by, any director or alternate director, does not invalidate any proceedings at that meeting.

18.9 Waiver of Notice of Meetings. Any director or alternate director may send to the Company a document signed by him or her waiving notice of any past, present or future meeting or meetings of the directors and may at any time withdraw that waiver with respect to meetings held after that withdrawal. After sending a waiver with respect to all future meetings and until that waiver is withdrawn, no notice of any meeting of the directors need be given to that director and, unless the director otherwise requires by notice in writing to the Company, to his or her alternate director, and all meetings of the directors so held are deemed not to be improperly called or constituted by reason of notice not having been given to such director or alternate director.

18.10 Quorum. The quorum necessary for the transaction of the business of the directors may be set by the directors and, if not so set, is deemed to be set at two directors or, if the number of directors is set at one, is deemed to be set at one director, and that director may constitute a meeting.

18.11 Validity of Acts Where Appointment Defective. Subject to the *Business Corporations Act*, an act of a director or officer is not invalid merely because of an irregularity in the election or appointment or a defect in the qualification of that director or officer.

18.12 Consent Resolutions in Writing. A resolution of the directors or of any committee of the directors consented to in writing by all of the directors entitled to vote on it, whether by signed document, fax, email or any other method of transmitting legibly recorded messages, is as valid and effective as if it had been passed at a meeting of the directors or of the committee of the directors duly called and held. Such resolution may be in two or more counterparts which together are deemed to constitute one resolution in writing. A resolution passed in that manner is effective on the date stated in the resolution or on the latest date stated on any counterpart. A resolution of the directors or of any committee of the directors passed in accordance with this Article 18.12 is deemed to be a proceeding at a meeting of directors or of the committee of the directors and to be as valid and effective as if it had been passed at a meeting of the directors or of the committee of the directors that satisfies all the requirements of the *Business Corporations Act* and all the requirements of these Articles relating to meetings of the directors or of a committee of the directors.

19. EXECUTIVE AND OTHER COMMITTEES

19.1 Appointment and Powers of Executive Committee. The directors may, by resolution, appoint an executive committee consisting of the director or directors that they consider appropriate, which committee shall have and may exercise during the intervals between meetings of the board of directors, all of the powers of the board except the power to fill vacancies in the board, the power to remove a director, the power to change the

membership of, or fill vacancies in, any committee of the directors, and such other powers, if any, as may be set out in the resolution or any subsequent directors' resolution.

19.2 Appointment and Powers of Other Committees. The directors may, by resolution appoint one or more committees (other than the executive committee) consisting of the director or directors that they consider appropriate and delegate to any such committee any of the directors' powers, except the power to fill vacancies in the board, the power to remove a director, the power to change the membership of, or fill vacancies in, any committee of the directors and the power to appoint or remove officers appointed by the directors; and, in each case, subject to the conditions set out in the resolution or any subsequent directors' resolution.

19.3 Obligations of Committees. Any committee appointed under Article 19.1 or 19.2, in the exercise of the powers delegated to it, must conform to any rules that may from time to time be imposed on it by the directors, keep regular minutes of every act or thing done in exercise of those powers and cause such minutes to be recorded in books kept for that purpose and report the same to the board at such times as the board may from time to time require. Subject to any rules imposed on it by the directors, any committee may make rules for the conduct of its business and may appoint such assistants as it may deem necessary. A majority of the members of a committee shall constitute a quorum of such committee.

19.4 Powers of Board. The board shall have the power at any time, to revoke or alter the authority given to the committee, or override a decision made by the committee, except as to acts done before such revocation, alteration or overriding and to terminate the appointment of, or change the membership of, the committee including to fill vacancies in the committee.

19.5 Committee Meetings. Subject to Article 19.3 and unless the directors otherwise provide in the resolution appointing the committee or in any subsequent resolution, a committee appointed under Article 19.1 or 19.2 may meet and adjourn as it thinks proper and a majority of the members of the committee will constitute a quorum of the committee. The committee may elect a chair of its meetings but, if no chair of a meeting is elected, or if at a meeting the chair of the meeting is not present within 15 minutes after the time set for holding the meeting, the directors present who are members of the committee may choose one of their number to chair the meeting. Questions arising at any meeting of the committee are determined by a majority of votes of the members present, and in case of an equality of votes, the chair of the meeting does not have a second or casting vote.

20. OFFICERS

20.1 Directors May Appoint Officers. The directors may, from time to time, appoint such officers, if any, as the directors determine and the directors may, at any time, terminate any such appointment.

20.2 Functions, Duties and Powers of Officers. The directors may determine the functions and duties of each officer and entrust to and confer on the officer any of the powers exercisable by the directors on such terms and conditions and with such restrictions as the directors think fit. The directors may, at any time and from time to time, revoke, withdraw, alter or vary all or any of the functions, duties and powers of the officer.

20.3 Qualifications. No officer may be appointed unless that officer is qualified in accordance with the *Business Corporations Act*. One person may hold more than one position as an officer of the Company. Any person appointed as the chair of the board or as the managing director must be a director. Any other officer need not be a director.

20.4 Remuneration and Terms of Appointment. All appointments of officers are to be made on the terms and conditions and at the remuneration (whether by way of salary, fees, wages, commission, participation in profits or any other means or all of these modes) that the directors think fit and are subject to termination at the pleasure of the directors, and an officer may in addition to such remuneration be entitled to receive, after he or she ceases to hold such office or leaves the employment of the Company, a pension or gratuity.

20.5 Interested Officers. Every officer of the Company who holds any office or possesses any property whereby, whether directly or indirectly, duties or interests might be created in conflict with his duties or interests as an officer of the Company shall, in writing, disclose to the directors the fact and the nature, character and extent of the conflict.

21. INDEMNIFICATION OF DIRECTORS AND OFFICERS AND PAYMENT OF EXPENSES

21.1 Definitions. In this Article 21:

"associated corporation" has the meaning set out in the *Business Corporations Act*;

"eligible party" means an individual who is or was a director or officer of the Company or of another corporation at a time when the corporation is or was an affiliate of the Company or at the request of the Company, or, who, at the request of the Company, is or was, or holds or held a position equivalent to that of a director or officer of a partnership, trust, joint venture or other unincorporated entity, and includes, except in a reference to an act done by an eligible party, the heirs and personal or other legal representatives of that individual;

"eligible penalty" means a judgment, penalty or fine awarded or imposed in, or an amount paid in settlement of, an eligible proceeding;

"eligible proceeding" means any legal proceeding or investigative action, whether current, threatened, pending or completed in which an eligible party or any of the heirs and personal or other legal representatives of the eligible party, by reason of the eligible party being or having been a director or officer of, or holding or having held a position equivalent to that of a director or officer of, the Company or an associated corporation is or may be joined as a party, or is or may be liable for or in respect of a judgment, penalty or fine in, or expenses related to, the proceeding; and

"expenses" has the meaning set out in the *Business Corporations Act*.

21.2 Liability of Directors. Subject to the *Business Corporations Act*, a director or other officer of the Company is not liable for:

(a) any act, receipt, neglect, or default of any other director or officer;

(b) joining in any act for conformity;

(c) loss or damage arising from bankruptcy, insolvency or tortious acts of any person with whom any monies, securities or effects are deposited;

(d) loss or damage arising or happening to the Company through the insufficiency or deficiency of any security in or upon which assets of the Company may be invested;

(e) any loss occasioned by any error or oversight on his part; or

(f) any loss, damage or misfortune whatsoever happening in the execution of the duties of his office or in relation thereto,

unless it happens through his own dishonesty.

21.3 Mandatory Indemnification of Directors and Former Directors. Subject to Article 21.7 and the *Business Corporations Act*, the Company must indemnify a director, former director or alternate director of the

Company and his or her heirs and legal personal representatives against all eligible penalties to which such person is or may be liable, and the Company must, after the final disposition of an eligible proceeding, pay the expenses actually and reasonably incurred by such person in respect of that proceeding. Each director and alternate director is deemed to have contracted with the Company on the terms of the indemnity contained in this Article 21.3.

21.4 Authority to Indemnify Other Persons. Subject to Article 21.7 and the *Business Corporations Act*, the Company may indemnify an eligible party against all eligible penalties to which the eligible party is or may be liable and may also, after the final disposition of an eligible proceeding, pay the expenses actually and reasonably incurred by an eligible party in respect of that proceeding.

21.5 Mandatory Payment of Expenses. Subject to Article 21.7, the Company must, after the final disposition of an eligible proceeding, pay the expenses actually and reasonably incurred by an eligible party in respect of that proceeding if the eligible party has not been reimbursed for those expenses, and is wholly successful, on the merits or otherwise, in the outcome of the proceeding or is substantially successful on the merits in the outcome of the proceeding.

21.6 Authority to Advance Expenses. Subject to Article 21.7, the Company may pay, as they are incurred in advance of the final disposition of an eligible proceeding, the expenses actually and reasonably incurred by an eligible party in respect of that proceeding, provided that the Company must not make such payments unless the Company first receives from the eligible party a written undertaking that, if it is ultimately determined that the payment of expenses is prohibited by Article 21.7, the eligible party will repay the amounts advanced.

21.7 Indemnification Prohibited. The Company must not indemnify an eligible party under Articles 21.3 or 21.4 or pay the expenses of an eligible party under Articles 21.3, 21.5 or 21.6 if any of the following circumstances apply:

(1) if the indemnity or payment is made under an earlier agreement to indemnify or pay expenses and, at the time that the agreement to indemnify or pay expenses was made, the Company was prohibited from giving the indemnity or paying the expenses by its memorandum or articles;

(2) if the indemnity or payment is made otherwise than under an earlier agreement to indemnify or pay expenses and, at the time that the indemnity or payment is made, the Company is prohibited from giving the indemnity or paying the expenses by its memorandum or articles;

(3) if, in relation to the subject matter of the eligible proceeding, the eligible party did not act honestly and in good faith with a view to the best interests of the Company or the associated corporation, as the case may be; or

(4) in the case of an eligible proceeding other than a civil proceeding, if the eligible party did not have reasonable grounds for believing that the eligible party's conduct in respect of which the proceeding was brought was lawful.

The result of any action, suit or proceeding does not create a presumption that the person did not act honestly and in good faith with a view to the best interests of the Company, or that the person did not have reasonable grounds to believe that his conduct was lawful. The Company will apply to a court of competent jurisdiction for all court approvals which may be required to make this Article effective and enforceable.

21.8 Insurance. The Company may purchase and maintain insurance for the benefit of an eligible party or the heirs and personal or other legal representatives of the eligible party against any liability that may be incurred by reason of the eligible party being or having been a director or officer of, or holding or having held a position equivalent to that of a director or officer of, the Company or an associated corporation.

22. DIVIDENDS

22.1 Payment of Dividends Subject to Special Rights. The provisions of this Article 22 are subject to the special rights, if any, as to dividends attached to any shares.

22.2 Declaration of Dividends. Subject to the *Business Corporations Act*, the directors may from time to time declare and authorize payment of such dividends as they may deem advisable and pay the same out of any funds of the Company available for that purpose. The directors may, before declaring a dividend, set aside out of the profits of the Company such moneys as they think proper as a reserve or reserves which will be applicable for meeting contingencies or equalizing dividends, or for any other purpose to which the profits of the Company may be properly applied, and the moneys may, pending this application, either be employed in the business of the Company or be invested as the directors think fit.

22.3 No Notice Required. The directors need not give notice to any shareholder of any declaration under Article 22.2.

22.4 Record Date. The directors may set a date as the record date for the purpose of determining shareholders entitled to receive payment of a dividend. The record date must not precede the date on which the dividend is to be paid by more than two months. If no record date is set, the record date is 5 p.m. on the date on which the directors pass the resolution declaring the dividend. The transfer of shares does not, as against the Company, transfer the right to any dividend declared thereon before the registration of the transfer.

22.5 Manner of Paying Dividend. A resolution declaring a dividend may direct payment of the dividend wholly or partly by the distribution of specific assets or of fully paid shares or of bonds, debentures or other securities of the Company or any other corporation, or in any one or more of those ways.

22.6 Settlement of Difficulties. If any difficulty arises in regard to a distribution under Article 22.5, the directors may settle the difficulty as they deem advisable, and, in particular, may issue fractional certificates, may set the value for distribution of specific assets, may determine that cash payments in substitution for all or any part of the specific assets to which any shareholders are entitled may be made to any shareholders on the basis of the value so fixed in order to adjust the rights of all parties and may vest any such specific assets in trustees for the persons entitled to the dividend.

22.7 When Dividend Payable. Any dividend may be made payable on such date as is fixed by the directors.

22.8 Dividends to be Paid in Accordance with Number of Shares. All dividends on shares of any class or series of shares must be declared and paid according to the number of such shares held.

22.9 Receipt by Joint Shareholders. If several persons are joint shareholders of any share, any one of them may give an effective receipt for any dividend, bonus or other money payable in respect of the share.

22.10 Dividend Bears No Interest. No dividend bears interest against the Company.

22.11 Fractional Dividends. If a dividend to which a shareholder is entitled includes a fraction of the smallest monetary unit of the currency of the dividend, that fraction may be disregarded in making payment of the dividend and that payment represents full payment of the dividend.

22.12 Payment of Dividends. Any dividend or other distribution payable in cash in respect of shares may be paid by cheque, made payable to the order of the person to whom it is sent, and mailed to the address of the shareholder, or in the case of joint shareholders, to the address of the joint shareholder who is first named on the central securities register, or to the person and to the address the shareholder or joint shareholders may direct in writing. The mailing of such cheque will, to the extent of the sum represented by the cheque (plus the amount of the tax required by law to be deducted), discharge all liability for the dividend unless such cheque is not paid on

presentation or the amount of tax so deducted is not paid to the appropriate taxing authority. The directors may deduct from any dividend payable to a shareholder all sums of money presently owing by that shareholder to the Company.

22.13 Capitalization of Surplus. Notwithstanding anything contained in these Articles, the directors may from time to time capitalize any surplus of the Company and may from time to time issue, as fully paid, shares or any bonds, debentures or other securities of the Company as a dividend representing the surplus or any part of the surplus.

23. DOCUMENTS, RECORDS AND REPORTS

23.1 Records Office Records. The Company will keep such records at its records office as are required by the *Business Corporations Act* to be so kept and no shareholder or former shareholder may inspect any of such records unless expressly authorized by the *Business Corporations Act*. Any inspection authorized pursuant to this Article 23.1 will be at the place and time and on the terms and conditions set by the directors for any such inspection.

23.2 Recording of Financial Affairs. The directors must cause to be kept books of account, accounting records and such other records as are necessary to record properly the financial affairs and condition of the Company and to comply with the *Business Corporations Act* and the provisions of other statutes applicable to the Company including with respect to the appointment of and qualifications of auditors for the Company. The books and records will be kept at such place or places as the directors may think fit and will be open to inspection by the directors.

23.3 Inspection of Accounting Records. No shareholder or former shareholder will be entitled to inspect any accounting records of the Company unless expressly authorized by the *Business Corporations Act*. Any inspection authorized pursuant to this Article 23.3 will be at the place and time and on the terms and conditions set by the directors for any such inspection.

23.4 Remuneration of Auditors. The auditors of the Company, if any, are entitled to such remuneration for acting as auditors as the directors may from time to time determine or, if the directors so decide, as the shareholders may determine by ordinary resolution.

24. NOTICES

24.1 Method of Giving Notice. Unless the *Business Corporations Act* or these Articles provides otherwise, a notice, statement, report or other record required or permitted by the *Business Corporations Act* or these Articles to be sent by or to a person may be sent by prepaid post or facsimile to him at his registered address or, if no such address is set out in any register of the Company, at his mailing address, or by email to the email address provided by the intended recipient for the sending of that record or records of that type, if any.

24.2 Deemed Receipt of Mailing. A record that is mailed to a person by ordinary mail to the applicable address for that person referred to in Article 24.1 is deemed to be received by the person to whom it was mailed on the business day following the date of mailing. A notice delivered personally is effective the day of delivery. A notice sent by facsimile or email is effective on the date the sender receives his facsimile or electronic answer back confirming receipt by the recipient's medium.

24.3 Certificate of Sending. A certificate signed by the secretary, if any, or other officer of the Company or of any other corporation acting in that behalf for the Company stating that a notice, statement, report or other record was addressed as required by Article 24.1, prepaid and mailed or otherwise sent as permitted by Article 24.1 is conclusive evidence of that fact.

24.4 Notice to Joint Shareholders. A notice, statement, report or other record may be provided by the Company to the joint shareholders of a share by providing the notice to the joint shareholder first named in the central securities register in respect of the share.

24.5 Notice to Trustees. A notice, statement, report or other record may be provided by the Company to the persons entitled to a share in consequence of the death, bankruptcy or incapacity of a shareholder by mailing the record, addressed to them by name, by the title of the legal personal representative of the deceased or incapacitated shareholder, by the title of trustee of the bankrupt shareholder or by any similar description and mail to the address supplied to the Company for that purpose by the persons claiming to be so entitled or, if no such address has been supplied, by giving the notice in a manner in which it might have been given if the death, bankruptcy or incapacity had not occurred.

25. SEAL

25.1 Who May Attest Seal. The directors may provide a seal for the Company. Except as provided in Articles 25.2 and 25.3, the Company's seal, if any, may be affixed to any instrument by, and any instrument may be executed on behalf of the Company in the presence of, the following persons:

(1) any two directors;

(2) any officer, together with any director;

(3) if the Company only has one director, that director; or

(4) any one or more directors or officers or persons as may be determined by the directors,

and the said persons in whose presence the seal is so affixed to an instrument shall sign such instrument.

25.2 Sealing Copies. For the purpose of certifying under seal a certificate of incumbency of the directors or officers of the Company or a true copy of any resolution or other document, despite Article 25.1, the impression of the seal may be attested by the signature of any one director or officer.

25.3 Mechanical Reproduction of Seal. The directors may authorize the seal to be impressed by third parties on share certificates or bonds, debentures or other securities of the Company as they may determine appropriate from time to time. To enable the seal to be impressed on any share certificates or bonds, debentures or other securities of the Company, whether in definitive or interim form, on which facsimiles of any of the signatures of the directors or officers of the Company are, in accordance with the *Business Corporations Act* or these Articles, printed or otherwise mechanically reproduced, there may be delivered to the person employed to engrave, lithograph or print such definitive or interim share certificates or bonds, debentures or other securities one or more unmounted dies reproducing the seal and the chair of the board or any senior officer together with the secretary, treasurer, secretary-treasurer, an assistant secretary, an assistant treasurer or an assistant secretary-treasurer may in writing authorize such person to cause the seal to be impressed on such definitive or interim share certificates or bonds, debentures or other securities by the use of such dies. Share certificates or bonds, debentures or other securities to which the seal has been so impressed are for all purposes deemed to be under and to bear the seal impressed on them.

25.4 Seal in Other Jurisdiction. The Company may have for use in any other province, state, territory or country an official seal which shall have on its face the name of the province, state, territory or country where it is to be used and all of the powers conferred by the *Business Corporations Act* with respect thereto may be exercised by the directors or by a duly authorized agent of the Company.

26. LIENS

26.1 The Company has a lien on every share registered in the name of a shareholder for all moneys owing by him to the Company, but the directors may at any time declare any share to be wholly or in part exempt from the provisions of this Part. The Company's lien on a share extends to all dividends payable thereon.

27. PROHIBITIONS

27.1 Definitions. In this Article 27:

"designated security" means a voting security of the Company, a security of the Company that is not a debt security and that carries a residual right to participate in the earnings of the Company or, on the liquidation or winding up of the Company, in its assets or a security of the Company convertible, directly or indirectly, into either of foregoing securities;

"security" has the meaning assigned in the *Securities Act* (British Columbia); and

"voting security" means a security of the Company that is not a debt security and carries a voting right either under all circumstances or under some circumstances that have occurred and are continuing.

27.2 Application. Articles 27.3 and 27.4 do not apply to the Company if and for so long as it is a public company or a pre-existing reporting company which has the Statutory Reporting Company Provisions as part of its Articles or to which the Statutory Reporting Company Provisions apply.

27.3 Consent Required for Transfer of Shares or Designated Securities. No share or designated security may be offered for sale to the public and no shares shall be sold, transferred or otherwise disposed of without the consent of the directors expressed by a resolution of the board and the directors are not required to give any reason for refusing to consent to any such sale, transfer or other disposition. The consent of the board required by this Article 27.3 may be in respect of a specific proposed trade or trades or trading generally, whether or not over a specified period of time or by specific persons or with such other restrictions or requirements as the directors may determine.

27.4 Restriction on Number of Shareholders. The number of persons who beneficially own shares of the Company shall be limited to 50.

28. SPECIAL RIGHTS AND RESTRICTIONS ATTACHED TO SHARES

28.1 Class A Shares. The special rights and restrictions attached to the Class A Voting Common Shares Without Par Value (the "Class A Shares") are as follows:

(a) The holders of the Class A Shares shall be entitled to receive notice of, to attend and to vote at any general meetings of the shareholders of the Company.

(b) Notwithstanding any other provision of these Articles except Article 28.4, and subject to payment of dividends declared but unpaid on the Class B Shares, dividends may be declared and paid, in the discretion of the directors, at any time upon the Class A Shares to the exclusion of all or any other class or classes of shares, or may be declared and paid upon all or any other class or classes of shares, to the exclusion of the Class A Shares.

(c) In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or in the event of the redemption, purchase or acquisition of any shares, the reduction of capital or any other return of capital, the holders of the Class A Shares shall be entitled to

receive, before any distribution of any part of the assets of the Company to the holders of any other shares except the Class B Shares, an amount equal to the paid-up capital thereon and any dividends declared thereon and unpaid, and if any of the assets of the Company thereafter remain available for distribution, the holders of the Class A Shares shall be entitled to such assets.

28.2 Class B Shares. The Class B Preferred Shares Without Par Value (the "Class B Shares") may be issued from time to time in one or more series and shall as a class have attached thereto the following special rights and restrictions:

(a) The directors, by resolution duly passed before the issuance of Class B Shares of the series to which the resolution relates, may, subject to the *Business Corporations Act*, do any one or more of the following:

(i) determine the maximum number of shares of any of those series of Class B Shares that the Company is authorized to issue, determine that there is no maximum number or alter any such determination previously made, and may authorize the alteration of the Notice of Articles accordingly;

(ii) alter these Articles, and authorize the alteration of the Notice of Articles, to create an identifying name by which the shares of any of those series of Class B Shares may be identified or to alter any identifying name previously created; and

(iii) alter these Articles and authorize the alteration of the Notice of Articles to attach special rights or restrictions to the shares of any of those series of Class B Shares or to alter any such special rights or restrictions including, without limitation: (A) the rate, amount or method of calculation of dividends and whether the same are subject to adjustments; (B) whether such dividends are cumulative, partly cumulative or non-cumulative; (C) the dates, manner and currency of payments of dividends and the date from which they accrue or become payable; (D) if redeemable or purchasable (whether at the option of the Company or holder or otherwise), the redemption or purchase prices and currencies thereof and terms and conditions of redemption or purchase, with or without provision for sinking or similar funds; (E) the voting rights, if any; (F) any conversion, exchange or reclassification rights; and (G) any other terms not inconsistent with these provisions.

(b) The holders of Class B Shares as a class shall, in preference to the holders of the Class A Shares, be entitled to receive dividends. The holders of the Class B Shares of any series shall also be entitled to such other preference, not inconsistent with these provisions, over the holders of the Class A Shares and the shares of any other class ranking junior to the Class B Shares as may be fixed in accordance with paragraph (a) of this Article 28.2.

(c) Unless specifically subordinated in priority by the special rights and restrictions attached to any particular series of Class B Shares, the holders of the Class B Shares as a class shall be entitled, on the distribution of the assets of the Company on the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or on any other distribution of the assets of the Company among its shareholders for the purpose of winding-up its affairs, to receive in priority before any distribution shall be made to holders of the Class A Shares or any other shares of the Company ranking junior to the Class B Shares with respect to repayment of capital, the amount paid up with respect to each Class B Share held by each of them respectively, together with the premium (if any) payable respectively on redemption of each such series of Class B Shares and all accrued and unpaid dividends (if any) which for such purpose shall be calculated as if such dividends were accruing on a day-to-day basis up to the date of such distribution. After payment to the holders of Class B Shares of the amounts so payable to them, such holders shall not be

entitled to share in any further distribution of the property or assets of the Company except as specifically provided in the special rights and restrictions attached to any particular series.

(d) No Class B Shares or shares of a class ranking prior to or on a parity with the Class B Shares with respect to the payment of dividends or the distribution of assets in the event of liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, or any other distribution of the assets of the Company among its shareholders for the purpose of winding-up its affairs, may be issued if the Company is in arrears in the payment of dividends on any outstanding series of Class B Shares without the approval of the holders of the Class B Shares given by a resolution passed by a majority of the holders of the Class B Shares.

(e) Except as hereinafter referred to or as required by law or in accordance with any voting rights which may from time to time be attached to any series of Class B Shares, the holders of Class B Shares as a class shall not be entitled as such to receive notice of, to attend or to vote at any meeting of the shareholders of the Company; provided that the holders of Class B Shares as a class shall be entitled to notice of meetings of shareholders called for the purpose of authorizing the dissolution of the Company or the sale of its undertaking or a substantial part thereof, or as required by the *Business Corporations Act.*

(f) The rights, privileges, restrictions and conditions attaching to the Class B Shares as a class may be added to, removed or changed but only with the approval of the holders of the Class B Shares given in accordance with the requirements of the *Business Corporations Act*.

(g) Where Class B Shares are issued in more than one series with identical preferred, deferred or other special rights, privileges, restrictions, conditions and designations attached thereto, all such series of Class B Shares shall rank *pari passu* and participate equally and proportionately without discrimination or preference as if all such series of Class B Shares had been issued simultaneously and all such series of Class B Shares may be designated as one series.

28.3 Alterations where Shares Issued. If alterations, determinations or authorizations contemplated by Article 28.2(a) are to be made in relation to a series of shares of which there are issued shares, those alterations, determinations and authorizations must be made by ordinary resolution.

28.4 Restriction on Dividends. Notwithstanding anything else contained in these Articles, no dividends will be paid on any class of shares nor will shares be redeemed if such act would result in the Company having insufficient net assets to redeem the Class B Shares, if applicable.

SCHEDULE "H"

PATENT INFORMATION

Country	Patent/Application No.	Status	Title
Australia	2004322058	Granted	ENERGY MANAGEMENT IN A POWER GENERATION PLANT
Brazil	PI0418989-2	Pending	ENERGY MANAGEMENT IN A POWER GENERATION PLANT
Canada	2576115	Granted	ENERGY MANAGEMENT IN A POWER GENERATION PLANT
Eurasian Patent	010201	Granted	ENERGY MANAGEMENT IN A POWER GENERATION PLANT
Europe	2004799384	Pending	ENERGY MANAGEMENT IN A POWER GENERATION PLANT
India	263717	Granted	ENERGY MANAGEMENT IN A POWER GENERATION PLANT
New Zealand	553550	Granted	ENERGY MANAGEMENT IN A POWER GENERATION PLANT
South Africa	200701075	Granted	ENERGY MANAGEMENT IN A POWER GENERATION PLANT
Canada	2766333	Pending	METHOD AND SYSTEM FOR SEPARATION OF CONTAMINANTS FROM COAL
China	200980123186.7	Pending	SYSTEM AND METHOD FOR TREATMENT OF MATERIALS BY ELECTROMAGNETIC RADIATION (EMR)
United States	12/999348	Pending	SYSTEM AND METHOD FOR TREATMENT OF MATERIALS BY ELECTROMAGNETIC RADIATION (EMR)
United States	14/368597	Pending	APPARATUS AND METHODS FOR TREATING SOLIDS BY ELECTROMAGNETIC RADIATION
Japan	2014-554927	Pending	APPARATUS AND METHODS FOR TREATING SOLIDS BY ELECTROMAGNETIC RADIATION
Canada	2865060	Pending	APPARATUS AND METHODS FOR TREATING SOLIDS BY ELECTROMAGNETIC RADIATION
Europe	13740678.1	Pending	APPARATUS AND METHODS FOR TREATING SOLIDS BY ELECTROMAGNETIC RADIATION

Country	Patent/Application No.	Status	Title
South Korea	10-2014-7023664	Pending	APPARATUS AND METHODS FOR TREATING SOLIDS BY ELECTROMAGNETIC RADIATION
United States	13/407563	Pending	METHOD AND APPARATUS FOR STORING POWER FROM IRREGULAR AND POORLY CONTROLLED POWER SOURCES
Canada	2865101	Pending	METHOD AND APPARATUS FOR STORING POWER FROM IRREGULAR AND POORLY CONTROLLED POWER SOURCES

SCHEDULE "I"

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF MTI FOR THE YEARS ENDED JUNE 30, 2014 AND 2013 AND FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

(Please see attached.)

MICROCOAL TECHNOLOGIES INC.

Consolidated Financial Statements

Year ended June 30, 2014

(in Canadian dollars)

Tel: 604 688 5421
Fax: 604 688 5132
www.bdo.ca

BDO Canada LLP
600 Cathedral Place
925 West Georgia Street
Vancouver BC V6C 3L2 Canada

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

BDO Canada LLP, a Canadian limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

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**

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		

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

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.

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.

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).

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

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.

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.

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.

Year ended June 30, 2013

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

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

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

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.

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

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).

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**

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.

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 issuance, 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.

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.

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.

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.

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.

MICROCOAL TECHNOLOGIES INC.
(Formerly Carbon Friendly Solutions Inc.)

Consolidated Financial Statements

For the years ended June 30, 2013 and 2012

(in Canadian dollars)

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of MicroCoal Technologies Inc. (formerly Carbon Friendly Solutions Inc.)

We have audited the accompanying consolidated financial statements of MicroCoal Technologies Inc. (formerly Carbon Friendly Solutions Inc.), which comprise the consolidated statements of financial position as at June 30, 2013 and 2012 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of MicroCoal Technologies Inc. (formerly Carbon Friendly Solutions Inc.) as at June 30, 2013 and 2012 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 consolidated financial statements, which indicates that the Company incurred a loss of $3,680,853 for the year then ended, had a working capital deficit of $3,270,164 and has accumulated a deficit of $16,091,483 since inception and expects to incur further losses in the development of its business. 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.

(signed) “BDO CANADA LLP”

Chartered Accountants
Vancouver, British Columbia
October 28, 2013

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MICROCOAL TECHNOLOGIES INC.
(formerly Carbon Friendly Solutions Inc.)
Consolidated Statements of Financial Position
(in Canadian dollars)

	Note	June 30, 2013	June 30, 2012
ASSETS			
Current			
Cash		$ 8,095	$ 31,292
Receivables	7	25,340	229,818
Prepaid expenses		33,466	45,277
		66,901	306,387
Non-current			
Deposit	9	56,729	56,729
Property and equipment	8	13,166	418,335
Coal technology and plant prototype	6	3,646,622	5,058,487
Intangibles	11	-	49,574
Total assets		$ 3,783,418	$ 5,889,512
LIABILITIES			
Current			
Accounts payable and accrued liabilities	12	$ 1,868,840	$ 2,031,378
Due to related parties	15	332,797	354,817
Income tax payable	16	46,000	-
Loans payable	13	1,089,428	2,453,370
		3,337,065	4,839,565
SHAREHOLDERS' EQUITY			
Share capital	14b	14,415,464	12,013,125
Share-based payment reserve	14e	2,272,553	1,743,317
Deficit		(16,091,483)	(12,746,255)
Cumulative other comprehensive income		(150,181)	(199,390)
Attributable to owners' of the parent		446,353	810,797
Attributable to the non-controlling interest		-	239,150
Total equity		446,353	1,049,947
Total liabilities and equity		$ 3,783,418	$ 5,889,512

Approved on behalf of the Board:

"Slawomir Smulewicz"	"Stan Lis"
Director	Director

See accompanying notes to the financial statements

MICROCOAL TECHNOLOGIES INC.
(formerly Carbon Friendly Solutions Inc.)
Consolidated Statements of Comprehensive Loss
For the years ended June 30, 2013 and 2012
(in Canadian dollars)

	Note	Year ended June 30, 2013	Year ended June 30, 2012
Revenues			
Biomass		$ -	$ 87,282
Miscellaneous		-	8,755
		-	96,037
Cost of goods sold			
Biomass		-	64,409
		-	64,409
		-	31,628
Expenses			
Amortization		1,493,878	1,444,089
Bank charges and interest		6,219	6,390
Consulting fees	14b ,15	573,283	615,715
Foreign exchange gain(loss) on operations		28,094	(5,592)
Fair value of warrants issued for services rendered	14b	60,153	-
Financing fees	14b	79,162	-
Interest on notes payable		108,177	208,303
Investor relations		138,210	90,728
Management and director fees	14b, 15	967,768	617,781
Office and miscellaneous		80,205	148,679
Professional fees	15	567,239	654,005
Rent		107,323	150,954
Share-based compensation	14b, 14d	384,792	255,900
Transfer agent and regulatory fees		20,022	18,284
Travel and promotion	15	203,155	175,375
Wages and benefits		134,492	130,167
Write down of receivable		9,617	24,748
		(4,961,789)	(4,535,526)
Loss before other items		(4,961,789)	(4,503,898)
Other income (expenses):			
Gain on settlement of debts on acquisition	6	1,843,167	-
Loss on settlement of debts	14g	(76,466)	(6,308)
Write down of property and equipment	8	(364,157)	-
Impairment of goodwill	10	-	(248,416)
Impairment of intangible assets	11	(51,515)	-
Gain (loss) on sale of automotive equipment		(24,093)	20,232
Loss before income taxes		(3,634,853)	(4,738,390)
Current income tax expense		(46,000)	-
Net loss for the year		(3,680,853)	(4,738,390)
Other comprehensive income (loss)			
Exchange gain (loss) arising on translation of foreign operations		49,209	(304,168)
Total comprehensive loss		$ (3,631,644)	$ (5,042,558)
Loss for the year attributable to:			
Owners of parent		$ (3,345,228)	$ (3,786,986)
Non-controlling interest	6	(335,625)	(951,404)
		$ (3,680,853)	$ (4,738,390)

See accompanying notes to the financial statements

MICROCOAL TECHNOLOGIES INC.
(formerly Carbon Friendly Solutions Inc.)
Consolidated Statements of Comprehensive Loss
For the years ended June 30, 2013 and 2012
(in Canadian dollars)

		2013	2012
Total comprehensive loss attributable to:			
Owners of parent		$ (3,296,019)	$ (4,091,154)
Non-controlling interest	6	(335,625)	(951,404)
		$ (3,631,644)	$ (5,042,558)
Loss per share, basic and diluted		$ (0.06)	$ (0.07)
Weighted average number of common shares outstanding - basic and diluted		63,617,591	51,272,107

See accompanying notes to the financial statements

MICROCOAL TECHNOLOGIES INC.
(formerly Carbon Friendly Solutions Inc.)
Consolidated Statements of Cash Flows
For the years ended June 30, 2013 and 2012
(in Canadian dollars)

	Note	Year ended June 30, 2013	Year ended June 30, 2012
Cash provided by (used in):			
Operating Activities			
Net loss for the year		$ (3,680,853)	$ (4,738,390)
Items not involving cash:			
Amortization		1,493,878	1,444,089
Loss (gain) on sale of automotive equipment		24,093	(20,232)
Loss (gain) on settlement of debt		(1,843,167)	6,308
Share-based compensation		384,792	255,900
Unrealized foreign exchange gain		(9,224)	(5,592)
Interest accrual		15,098	208,303
Write down of receivable		9,617	24,748
Issuance of shares for services		552,594	-
Write down of property and equipment		364,157	-
Fair value of warrants issued for services rendered		72,315	-
Impairment of intangible assets		51,515	-
Impairment of goodwill		-	248,416
		(2,565,185)	(2,576,450)
Change in non-cash working capital:			
Receivables		200,001	(240,222)
Prepaid expenses and deposits		11,691	9,033
Accounts payable and accrued liabilities		353,835	25,756
Income tax payable		46,000	-
Related parties		(22,020)	(206,257)
		(1,975,678)	(2,988,140)
Investing Activities			
Purchase of property and equipment		(665)	(3,787)
Proceeds from sale of equipment		3,136	2,062
Cash received on acquisition of Carbiopel		-	7,172
		2,471	5,447
Financing Activities			
Issuances of shares		2,093,313	2,902,730
Share issuance costs		(150,673)	(148,487)
Share subscriptions		-	352,000
Proceeds of loans		67,370	173,000
Repayment of loans and interest expense		(60,000)	(257,664)
		1,950,010	3,021,579
Effect of foreign exchange on cash		-	(10,625)
Increase (decrease) in cash		(23,197)	28,261
Cash, beginning of year		31,292	3,031
Cash, end of year		$ 8,095	$ 31,292
Supplemental cash flow information:	5		

See accompanying notes to the financial statements

MICROCOAL TECHNOLOGIES INC.
(formerly Carbon Friendly Solutions Inc.)
Consolidated Statements of Changes in Equity
For the years ended June 30, 2013 and 2012
(in Canadian dollars)

	Attributable to Parent							
	Shares	Amount	Share subscriptions	Share-based payment reserves	Deficit	Cumulative other comprehensive income (loss)	Attributable to non-controlling interest	Total
Balance, June 30, 2011	44,183,955	$ 8,650,892	$(352,000)	$ 1,404,017	$ (8,959,269)	$ 104,778	$ 1,190,554	$ 2,038,972
Shares issued in:								
Private placement (Note 14b)	5,495,000	1,099,000	352,000	-	-	-	-	1,451,000
Private placement (Note 14b)	6,395,766	1,918,730	-	-	-	-	-	1,918,730
Share issuance costs (Note 14b)	-	(231,887)	-	83,400	-	-	-	(148,487)
Investment in Carbiopel (Note 10)	1,967,000	531,090	-	-	-	-	-	531,090
Shares for services rendered (Note 14b)	190,000	45,300	-	-	-	-	-	45,300
Share-based compensation (Note 14d)	-	-	-	255,900	-	-	-	255,900
Loss for the year	-	-	-	-	(3,786,986)	-	(951,404)	(4,738,390)
Other comprehensive item	-	-	-	-	-	(304,168)	-	(304,168)
Balance, June 30, 2012	58,231,721	12,013,125	-	1,743,317	(12,746,255)	(199,390)	239,150	1,049,947
Shares issued in:								
Private placement (Note 14b)	8,693,750	1,738,750	-	-	-	-	-	1,738,750
Share issuance costs (Note 14b)	-	(265,035)	-	114,362	-	-	-	(150,673)
Bonus shares (Note 14b)	1,777,777	444,444	-	-	-	-	-	444,444
Exercise of stock options	200,000	28,000	-	-	-	-	-	28,000
Fair value of options exercised	-	22,967	-	(22,967)	-	-	-	-
Exercise of warrants	943,750	326,563	-	-	-	-	-	326,563
Shares and warrants issued for debt (Note 14b)	507,000	108,150	-	69,716	-	-	-	177,866
Shares returned to treasury (Note 14b)	(1,500,000)	(1,500)	-	1,500	-	-	-	-
Equity component of convertible loan (Note 13)	-	-	-	5,993	-	-	-	5,993
Fair value of warrants issued pursuant to loan agreement (Note 14b)	-	-	-	12,162	-	-	-	12,162
Fair value of warrants issued for services rendered (Note 14b)	-	-	-	60,153	-	-	-	60,153
Share-based compensation (Note 14d)	-	-	-	384,792	-	-	-	384,792
Loss for the year	-	-	-	-	(3,345,228)	-	(335,625)	(3,680,853)
Other comprehensive item	-	-	-	-	-	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

See accompanying notes to the financial statements

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. The Company's head office is located at 2500 - 555 West Hastings Street, Vancouver, British Columbia, Canada, V6B 4N5. The Company changed its name to MicroCoal Technologies Inc. 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 National Stock Exchange (the 'CNSX") 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. The Company also provides solutions for companies, organizations and individuals looking to reduce or offset their global warming impact caused by greenhouse gas emissions, while including the generation of carbon credits for sale in the global voluntary and compliance markets from the completion of reforestation, biomass energy and renewable energy technology projects that are independently validated and verified to globally recognized standards and methodologies.

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 28, 2013.

(b) Basis of Measurement

The financial statements have been prepared on the historical cost basis. 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, 2013, the Company incurred a loss of $3,680,853 for the year then ended, had a working capital deficit of $3,270,164 and has accumulated losses of $16,091,483 since its inception and expects to incur further losses in the development of its business. The Company has also defaulted on certain loans and payables and is negotiating with the lenders and other creditors to extend the repayment terms, 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 to the extent there is a shortfall from operations. 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 will be able to raise funds in the future.

These 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(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, 2013	Ownership - June 30, 2012
Global CO2 Reduction Inc. ("Global CO2")	Canada	100%	100%
CO2 Reduction Poland Sp. z. o. o. ("CO2 Reduction")	Poland	100%	100%
MicroCoal Inc. ("MicroCoal")	USA	100%	58.21%
Carbiopel - ESP S.A.	Poland	100%	0.0%
MicroCoal International Inc. ("MicroCoal Canada")	Canada	100%	0.0%
MicroCoal Europe Sp. z o.o.	Poland	100%	0.0%

(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 retranslation of monetary available-for-sale financial assets are treated as a separate component of the change in fair value and recognized in net income. Exchange gains and losses on non-monetary available-for-sale 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 profit or loss.

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

	Functional currency
MicroCoal Technologies Inc.	Canadian dollars
Global CO2 Reduction Inc. ("Global CO2")	Canadian dollars
CO2 Reduction Poland Sp. z. o. o. ("CO2 Reduction")	Polish zloty
MicroCoal Inc. ("MicroCoal")	U.S. dollars
Carbiopel - ESP S.A.	Polish zloty
MicroCoal International Inc. ("MicroCoal Canada")	Canadian dollars
MicroCoal Europe Sp. z o.o.	Polish zloty

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Revenue recognition

The Company's revenue represented sale of biomass. Revenue is recognized when the Company has transferred to the buyer the significant risks and rewards of the ownership of the materials or the carbon credits, the amount is reliably measureable, the costs incurred in respect of the transaction can be reliably measured and it is probable that the economic benefits will flow to the Company or its subsidiaries.

(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 are 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 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.

Goodwill impairment is assessed by comparing the fair value of its cash generating unit ("CGU") to the underlying carrying amount of the CGU's net assets, including goodwill. When the carrying amount of the CGU exceeds its fair value, the fair value of the CGU's goodwill is compared with its carrying amount to measure the amount of impairment loss, if any.

(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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 loans and receivables 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 loans and receivable 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.

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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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:

- IFRS 7 Financial Instruments Disclosures (Amendment)

  In December 2011, the IASB amended this standard to set out additional disclosure requirements regarding the offsetting of financial assets and financial liabilities. The standard was also amended to reflect the effects of adopting IFRS 9, Financial Instruments. The Company is yet to assess the full impact of IFRS 7 and intends to adopt the standard no later than the accounting period beginning on July 1, 2013. The adoption of this standard will not have a significant impact on the Company's financial statements.

- 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. The Company is in the process of evaluating the impact of the new standard on the accounting for the available-for-sale investment.

- IFRS 10 Consolidated Financial Statements

  IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Company intends to adopt this standard no later than the accounting period beginning on July 1, 2013. The adoption of this standard will not have a significant impact on the Company's financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Standards, Amendments and Interpretations Not Yet Adopted (continued)

- IFRS 11 Joint Arrangements

  IFRS 11 describes the accounting for arrangements in which there is joint control; proportionate consolidation is not permitted for joint ventures (as newly defined). IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities — Non-Monetary Contributions by Venturers. The Company intends to adopt this standard no later than the accounting period beginning on July 1, 2013. The adoption of this standard will not have a significant impact on the Company's financial statements.

- IFRS 12 Disclosures of Interests in Other Entities

  IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Company intends to adopt this standard no later than the accounting period beginning on July 1, 2013. The adoption of this standard will not have a significant impact on the Company's financial statements.

- IFRS 13 Fair Value Measurement

  IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS or US GAAP. The Company intends to adopt this standard no later than the accounting period beginning on July 1, 2013. The adoption of this standard will not have a significant impact on the Company's financial statements.

- IAS 28 Investments in Associates and Joint Ventures

  As a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will provided the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee. The adoption of this standard will not have a significant impact on the Company's 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) <u>Coal technology and plant prototype</u>

In determining the carrying values of coal technology and plant prototype, management makes estimates in estimating the economic useful lives of the assets. Management is required to evaluate the asset for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Impairment test compares the carrying value of the asset to its recoverable amount, based on the higher of the assets value in use, estimated using future discounted cash flows, or fair value less cost to sell. Impairment loss calculations contain uncertainties as they require assumptions and judgment about future cash flow and asset fair value. As at June 30, 2013 management assessed that there is no change to the useful life of 5 years and salvage value is estimated to be $Nil. For the year ended June 30, 2013, management completed an impairment assessment and concluded that no write down is necessary.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(b) Income taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

For the year ended June 30, 2013, the Company has not recognized a deferred tax asset as management believes it is not probable that taxable profit will be available against which a deductible temporary differences can be utilized.

5. SUPPLEMENTAL CASH FLOW INFORMATION

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the consolidated statements of cash flows during the years ended June 30, 2013 and 2012 are:

	June 30, 2013	June 30, 2012
Interest paid	$ 31,925	$ -
Income taxes paid	-	-
Fair value of stock options exercised	22,967	-
Fair value of agent warrants issued as share issuance costs	114,362	83,400
Issuance of shares for investment in Carbiopel (Note 11)	-	531,090
Issuance of shares for debts settlement	108,150	115,000
Issuance of shares for services rendered	444,444	45,300

6. COAL TECHNOLOGY AND PLANT PROTOTYPE

During the year ended June 30, 2011, the Company acquired a 58.21% interest in MicroCoal through issuance of the Company's common shares in exchange for the equivalent shares of MicroCoal. MicroCoal is a materials technology company focused on commercializing the use of microwave energy and related process technologies to transform coal and other minerals into higher quality and higher value industrial materials. Its principal asset is the coal technology and plant prototype.

When the Company entered into the Share Exchange agreement, MicroCoal had a principal amount of US$2,250,000 owing to Orica US Services Inc. ("Orica"), a creditor and a shareholder of MicroCoal. Pursuant to the conditions stipulated on the Share Exchange agreement and other amending agreements entered into between 2011 and 2013, if the Company agreed to acquire the remaining interest 41.79% interest in MicroCoal, Orica would reduce the principal amount to US$1,000,000 and waive the interest accruals up to the acquisition date. On January 7, 2013, the Company concluded the acquisition of the 41.79% interest and Orica has reduced the debt to US$1,000,000. The Company has also consigned 400,000 ISO 14064-2 Validated Voluntary Emission Reductions generated from the Northern Poland Afforestation Offset Project ("VERS") to Orica as security on the loan.

As at the completion date of the acquisition, the Company has repaid US$125,000 to Orica and repaid additional US$100,000 after the acquisition. As at June 30, 2013, the Company has loan payable of $789,834 (US$775,000) and interest accrual of $23,217 owing to Orica. The gain on settlement of debt of $1,843,167 consisted of the following:

6. COAL TECHNOLOGY AND PLANT PROTOTYPE (continued)

Principal amount due to Orica at the date of Share Exchange agreement	US$	2,250,000
Accrued interest on Orica loan		584,699
Principal owing to Orica		(1,000,000)
	US$	1,834,699
Foreign exchange		8,468
Gain on settlement of debts on acquisition	$	1,843,167

During the period from July 1, 2012 to January 7, 2013, MicroCoal incurred a net loss of approximately $803,000 of which $335,625 represented the portion attributed to the non-controlling interest.

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

	June 30, 2013	June 30, 2012
Coal technology and plant prototype	$ 7,059,324	$ 7,059,324
Accumulated amortization	(3,412,702)	(2,000,837)
	$ 3,646,622	$ 5,058,487

7. RECEIVABLES

	June 30, 2013	June 30, 2012
GST/HST/VAT recoverable	$ 25,340	$ 136,531
Trade receivables	-	93,287
	$ 25,340	$ 229,818

8. PROPERTY AND EQUIPMENT

Costs		Computer equipment		Equipment		Automotive equipment		Leasehold improvements		Total
June 30, 2011	$	35,412	$	73,769	$	-	$	8,614	$	117,795
Additions		-		496,930		85,329		-		582,259
Disposals		-		-		(2,829)		-		(2,829)
Effect of foreign exchange		(452)		(32,074)		(6,673)		-		(39,199)
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
Accumulated amortization										
June 30, 2011	$	23,766	$	40,189	$	-	$	3,692	$	67,647
Acquisitions		-		125,108		27,675		-		152,783
Disposals		-		-		(471)		-		(471)
Amortization		3,365		22,035		5,840		984		32,224
Effect of foreign exchange		(456)		(8,380)		(3,656)		-		(12,492)
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
Net book value, June 30, 2012	$	8,285	$	359,673	$	46,439	$	3,938	$	418,335
Net book value, June 30, 2013	$	1,192	$	8,824	$	-	$	3,150	$	13,166

Automobile equipment was sold for $3,136 for a net loss of $114. Equipment related to the biomass operations was written down to a $nil value based on the ability and focus of the Company to continue with an economic biomass business model. The total impairment was $364,157.

9. DEPOSIT

The deposit represents an amount paid in advance for the lease of office premises. See also note 18, commitments.

10. ACQUISITION OF CARBIOPEL - ESP S.A.

Pursuant to the original and amended agreements, on February 20, 2012 a total of 1,967,000 shares of the Company were issued with a fair value of $531,090 to acquire 100% ownership of Carbiopel. Carbiopel is a biomass pellet producer based in Poland that focuses on aggregating biomass, particularly from agricultural residue, to use as feedstock for the Pellet Producing machinery. The Company also agreed to lend up to $312,000 to Carbiopel at an interest rate of 4% per annum repayable on or before February 28, 2013. As of June 30, 2013, the loan remains outstanding.

The value of the Company's shares issued was calculated using the closing share price as at the date of acquisition. The acquisition was accounted for as a business combination and the aggregate fair values of assets acquired and liabilities assumed were as follows on acquisition date:

Cash	$	7,172
Amounts receivable		8,738
Prepaids		1,032
Property, plant and equipment		432,239
Accounts payable and accrued liabilities		(54,507)
Loan from parent		(112,000)
Fair value		282,674
Consideration (1,967,000 common shares)	$	531,090
Goodwill		248,416

The acquired amounts receivables were classified as loans and receivables and consist primarily of VAT receivable.

Incurred in connection with this acquisition was an immaterial amount of transaction costs, which were expensed during the year ended June 30, 2012.

The goodwill was attributable mainly to the skills and technical talent of Carbiopel's work force and the synergies expected to be achieved from integration of Polish operations. In addition to the lack of continuous demand for the Biomass product, the synergies effect did not materialize as expected and the amount of $248,416 had been written off.

11. INTANGIBLE ASSETS

Intangible Assets		June 30, 2013		June 30, 2012
Exclusive contract (i)	$	106,636	$	104,695
Impairment charges (i)		(106,636)		(55,121)
	$	-	$	49,574

(i) Exclusive Sales Contract

As of June 30, 2013, the Company reviewed the carrying amount of its intangible assets and recognized an impairment charge of $51,515 (June 30, 2012 - $Nil) in the consolidated statements of comprehensive loss.

During the years ended June 30, 2011 and 2010, the Company entered into additional sales contracts for the exclusive rights to sell carbon credits generated from the bedding and trees growing on plots of land located in Poland. Additional lease payments are conditional on the earlier of the date of certification of validation carbon credits or sale of a carbon credit units generated from the plots of land. The Company has not acquired additional rights to sell carbon credits. As of June 30, 2013, the Company has 1,512,364 (June 30, 2012 — estimated 1,500,000) verified emission reduction credits. The Company has written down the value of sales contracts and verified emission reduction credits on the basis that its core business is coal technology and it has yet to find a market for the emission reduction credits due to the changing in the emission standards. The Company will maintain the contracts in good standing and explore future opportunities.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2013	June 30, 2012
Accounts payable	$ 1,056,200	$ 649,975
Other payables owing to creditors in MicroCoal	747,837	794,632
Taxes and benefits	1,790	5,549
Accrued interest payable	63,013	581,222
	$ 1,868,840	$ 2,031,378

13. LOANS PAYABLE

	June 30, 2013	June 30, 2012
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, 2013 the Company repaid $nil (2012 - $160,000). A payment of $50,000 was paid subsequent to June 30, 2013.	$100,000	$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. The Company repaid a total of $60,000 in 2013.	1,500	60,000
Pursuant to a loan agreement a total of $125,000 was advanced to the Company. The interest rate is at 10% per annum. The loan was payable on or before March 23, 2012. A payment of $50,000 was paid subsequent to June 30, 2013.	115,000	115,000
Pursuant to a loan agreement a total of $10,870 (Polish Zloty 30,000) was advanced to the Company. The interest rate is at 20% per annum. The loan is payable upon demand. Subsequent to June 30, 2013, the loan was settled by the issuance of shares.	10,870	-
Pursuant to a loan agreement, a total of $55,000 was advanced to the Company on an unsecured basis less a loan fee of $500 and 100,000 warrants exercisable at $0.26 per share until May 24, 2016, prepaid interest to October 30, 2013 of $3,809 and legal fees of $1,722. The interest rate is 16% per annum and the principal is due at the earlier of November 1, 2013 or a financing was achieved by the Company. The value of warrants is $5,993 which is recognized as an component of equity. Subsequent to June 30, 2013 the loan was settled by the issuance of shares.	49,007	-
On January 7, 2013 the Company concluded an agreement with Orica US Services Inc. ("Orica") and acquired the remaining 41.79% ownership of MicroCoal (note 6). Orica transferred all remaining shares to the Company. Pursuant to various agreements in prior years, the Company agreed to pay the sum of US$1 million to Orica of which $225,000 had been paid, leaving a balance of US$775,000 bearing interest at a rate of 5% per annum. The Company has consigned 400,000 ISO 14064-2 Validated Voluntary Emission Reductions generated from the Northern Poland Afforestation Offset Project ("VERS") to Orica as security, the sale of which can reduce the debt. The balance consists of principal of $789,834 (US$775,000) plus interest accrual of $23,217 (Note 6).	813,051	2,178,370
	$1,089,428	$2,453,370

14. SHARE CAPITAL

(a) Authorized: unlimited common shares without par value

(b) Issued and Outstanding

Year ended June 30, 2013

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

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

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

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

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

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

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

14. SHARE CAPITAL (continued)

b) Issued and Outstanding (continued)

Year ended June 30, 2012

On February 13, 2012 a private placement was completed consisting of 6,395,766 units at $0.30 per unit, each unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of $0.45 per common share for a period of two years from the closing date of the private placement. The Company paid share issuance costs of $118,587 related to legal and professional fees and issued 297,909 broker warrants. The fair value of the broker's warrants of $35,990 was estimated using the Black-Scholes option pricing model using a risk free interest rate of 1.11%, an expected dividend yield of $nil, a volatility of 88% and an expected life of warrants of 2 years. The broker warrants have the same exercise price and terms as for the private placement units.

On October 19, 2011 a private placement was completed consisting of 5,495,000 units at $0.20 per unit, each unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of $0.35 per share for a period of two years. The Company paid share issuance costs of $29,900 related to legal and professional fees and issued 851,250 broker warrants for a period of three years at $0.20 each. The fair value of the broker's warrants of $47,410 was estimated using the Black-Scholes option pricing model using a risk free interest rate of 0.91%, an expected dividend yield of $Nil, a volatility of 118% and an expected life of warrants of 2 years. The broker warrants have the same exercise price and terms as for the private placement units.

During the year ended June 30, 2012, the Company issued 190,000 common shares (2011 – Nil) of the Company for services rendered of $52,722 by two former consultants of the Company.

c) Warrants

On May 17, 2013 the Company repriced the exercise price of 2,072,500 warrants expiring on August 29, 2013 from $0.75 to $0.26, the expiry date and exercise price of 5,272,750 warrants from June 30, 2013 to June 30, 2015 and from $0.35 to $0.26, the expiry date and exercise price of 5,495,000 warrants from October 19, 2013 to October 19, 2015 and from $0.35 to $0.26, and the expiry date of 851,250 agent's warrants at $0.20 from October 19, 2014 an additional year to October 19, 2015 at an exercise price of $0.26. All warrants were issued in connection with private placements.

During the year ended June 30, 2012, the Company extended expiry date on 2,072,500 warrants from August 29, 2012 to August 29, 2013.

	Number of shares	Exercise price
Balance, June 30, 2011	15,020,450	$ 0.41
Issued	13,039,925	0.40
Expired	(7,675,200)	0.35
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

14. SHARE CAPITAL (continued)

c) Warrants (continued)

The following table summarizes warrants outstanding and exercisable at June 30, 2013:

Warrants Outstanding	Exercise price	Expiry Date
* 2,072,500	$ 0.26	August 29, 2013
6,693,675	0.45	February 13, 2014
9,019,250	0.35	December 28, 2014
5,272,750	0.26	June 30, 2015
100,000	0.26	May 24, 2016
525,000	0.26	May 31, 2016
826,250	0.26	October 19, 2014/15
5,495,000	0.26	October 19, 2015
30,386,425		

*Subsequent to June 30, 2013, 2,000,000 warrants were exercised and the remaining warrants expired unexercised.

d) Stock options

On December 29, 2010, the Company adopted an incentive share option plan for granting options to directors, employees and consultants, under which the total outstanding options are limited to 10% of the issued and outstanding common shares of the Company. The options vest when granted except for options granted for investor relations activities which vest over a 12 month period with no more than 25% of the options vesting in any three month period.

During the year ended June 30, 2013, the Company granted 1,085,000 options at an exercise price of $0.11 per share, 670,000 options at a price of $0.09 per share and 885,000 options at a price of $0.335 per share to officers, directors and consultants. The options are exercisable for 5 years and vested immediately.

During the year ended June 30, 2012, the Company granted 790,000 options at an exercise price of $0.14 per share and 630,000 options at an exercise price of $0.32 per share to officers, directors and consultants. The options vested immediately and are exercisable for 5 years.

Stock options outstanding and exercisable are as follows:

	Number of shares	Weighted Average Exercise Price
Outstanding, June 30, 2011	3,831,620	$ 0.24
Granted	1,420,000	0.22
Cancelled	(261,620)	0.25
Outstanding, June 30, 2012	4,990,000	0.23
Granted	2,640,000	0.18
Exercised	(200,000)	0.14
Cancelled	(710,000)	0.24
Outstanding and exercisable, June 30, 2013	6,720,000	$ 0.21

14. SHARE CAPITAL (continued)

d) Stock options (continued)

The following table summarizes stock options outstanding and exercisable at June 30, 2013:

Options Outstanding	Exercise price	Expiry Date
670,000	$ 0.09	October 17, 2017
1,085,000	0.11	August 16, 2017
590,000	0.14	August 18, 2016
1,600,000	0.20	February 8, 2016
805,000	0.23	October 6, 2013
410,000	0.32	December 22, 2016
885,000	0.335	January 7, 2018
675,000	0.36	December 16, 2014
6,720,000		

During the year ended June 30, 2013, share-based compensation has been recorded in the amount of $384,792 (2012 - $255,900) and included in share-based payment reserve. The weighted average life remaining of the options at June 30, 2013 is 3.9 years (2012 – 3.27 years).

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

	2013	2012
Risk free interest rate	1.25%	1.34%
Expected dividend yield	nil%	nil%
Stock price volatility	101.9%	118.2%
Expected life of options	5.00	5.00

e) Share-based payment reserve

	2013	2012
Balance, beginning of year	$ 1,743,317	$ 1,404,017
Stock-based compensation	384,792	255,900
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 stock options exercised, reclassified to share capital	(22,967)	-
Fair value of warrants issued for debt	69,716	-
Fair value of shares returned to treasury	1,500	-
Fair value of equity components issued in a loan payable (note 13)	5,993	-
Fair value of agent's warrants issued for private placement	114,362	83,400
Elimination of minority interest	(96,475)	-
Balance, end of year	$ 2,272,553	$ 1,743,317

14. SHARE CAPITAL (continued)

f) Nature and purpose of reserves

The reserves recorded in equity on the Company's Statements of Financial Position include 'Share subscriptions', 'Share-based payment reserve', 'Cumulative Other Comprehensive Income', 'Deficit' and 'Attributable to non-controlling interest'. Share subscriptions are used to record cash receipts in advance of issuance of shares. 'Share-based payment reserve' is used to recognize the value of stock option grants and share purchase warrants prior to exercise. 'Cumulative Other Comprehensive Income' includes the cumulative translation reserve which records exchange gains and losses on translating foreign operations into the Company's Canadian dollar functional currency. 'Deficit' is used to record the Company's change in deficit from earnings from year to year. Attributable to non-controlling interest is used to record the portion of loss pertaining to the minority shareholders.

g) Loss on settlement of debts

- During the year ended June 30, 2013, as described in Note 14(b) the Company issued a total of 507,000 common shares and 507,000 warrants to settle debts of $101,400. The aggregate fair value of the common shares and warrants were $177,866. The Company recognized a loss of $76,466 on the statements of comprehensive loss.
- During the year ended June 30, 2012, the Company issued 575,000 units at $0.20 per unit to settle loans payable and accrued interest of $101,270.

  The aggregate fair values of the common shares were $160,300 and the Company recognized a loss of $6,308 on the statements of comprehensive loss.

15. RELATED PARTIES

Key management includes the Chief Executive Officer and the Chief Financial Officer and their controlled companies. Compensation paid or payable to key management for services provided during the years ended June 30, 2013 and 2012 was as follows:

		June 30, 2013		June 30, 2012
Management and professional fees	$	878,580	$	648,851
Bonus shares issued to management (see note 14b)		400,000		-
Automobile allowances		28,800		38,999
Stock-based compensation		159,822		218,578
	$	1,467,202	$	906,428

The Company incurred the following transactions with companies that are controlled by directors and/or officers of the Company. The transactions were measured at the exchange amount which approximates fair value, being the amount established and agreed to by the parties.

		June 30, 2013		June 30, 2012
Management and directors' fees	$	932,591	$	617,781
Bonus shares issued to management (see note 14b)		400,000		-
Consulting		90,600		-
Professional fees		150,000		123,700
Automobile allowance (travel and promotion)		28,800		38,999
	$	1,601,991	$	780,480

15. RELATED PARTIES (continued)

As at June 30, 2013 the Company is owing $332,797 (June 30, 2012 - $354,817) to officers and directors. The amounts due are unsecured, non-interest bearing and have no fixed terms of repayment.

16. INCOME TAXES

The material components of the income tax expense for the years ended June 30, 2013 and 2012 are as follows:

	June 30, 2013	June 30, 2012
Current income tax expense	$46,000	$ -
Deferred tax expense	-	-
	$46,000	$ -

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

	June 30, 2013	June 30, 2012
Income/(loss) before income taxes	$ (3,634,853)	$ (4,738,390)
Tax recovery based on the statutory rate of 25.25% (2012: 25.75%)	$ (918,000)	$ (1,220,000)
Change in tax rates on deferred tax	(103,000)	13,000
Non-deductible expenses	230,000	188,000
Different tax rates in other jurisdictions	(87,000)	(284,000)
Financing costs and other	(69,000)	(37,000)
Impact of initial recognition exemption on coal technology and plant prototype	537,000	537,000
Changes in unrecognized deferred tax assets	456,000	803,000
Current income tax expense	$ 46,000	$ -

Effective April 1, 2013, the BC provincial tax rate increased from 10% to 11% while the Canadian Federal corporate tax rate remained at 15%. The US tax rate remained at 38%.

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, 2013 and 2012 are summarized as follows:

	June 30, 2013	June 30, 2012
Deferred tax assets		
Losses carried forward	$ 2,799,000	$ 2,361,000
Un-deducted financing costs	98,000	89,000
Capital assets	27,000	19,000
Other tax assets	15,000	14,000
	2,939,000	2,483,000
Unrecognized deferred tax asset	(2,939,000)	(2,483,000)
Deferred tax assets	$ -	$ -

16. INCOME TAXES (continued)

Tax Losses

As at June 30, 2013, the Company has accumulated non-capital losses of approximately $10.767 million (2012- $7.789 million) for Canadian income tax purposes that may be carried forward to reduce taxable income derived in future years, which expire in various amounts from 2027 to 2033. The Company also has operating losses of approximately $Nil (2012-$1,086,000) in the United States. For Polish tax purposes, there is approximately $1.3 million (2012- $1.1million) operating losses which have not been included in the deferred tax assets above due to the uncertainty of the inclusion of these losses. The Company evaluates its deferred tax assets based on projected future operations. When circumstances change and this causes a change in management's judgment about the recoverability of deferred tax assets, the impact of the change on the unrecognized deferred tax assets are reflected in current income.

17. SEGMENTED INFORMATION

The Company currently operates in one industry segment and in the geographic areas as follows.

Sales for the period	Year ended June 30, 2013	Year ended June 30, 2012
Canada	$ -	$ -
USA	-	-
Poland	-	87,282
	$ -	$ 87,282

Property and Equipment	June 30, 2013	June 30, 2012
Canada	$ 13,166	$ 16,552
USA	-	24,477
Poland	-	377,306
	$ 13,166	$ 418,335

Intangible Assets	June 30, 2013	June 30, 2012
Canada	$ -	$ -
USA	-	-
Poland	-	49,574
	$ -	$ 49,574

Coal technology and plant prototype	June 30, 2013	June 30, 2012
Canada	$ -	$ -
USA	3,646,622	5,058,487
Poland	-	-
	$ 3,646,622	$ 5,058,487

18. COMMITMENTS AND CONTINGENCIES

a) The Company has a management agreement for a period of 3 years commencing July 1, 2011 and will pay management fees of $183,795 per year. There is an annual increase of 5% per annum. In an event of a change in control, and the officer is terminated within 12 months of such change of control, then the officer will receive a lump sum payment equal to the greater of (1) the compensation remaining for the rest of the period under the terms of engagement and (2) one year's compensation.

b) During the year ended June 30, 2012, the Company entered into a management agreement for a period of 3 years commencing July 1, 2011 and will pay management fees of $84,000 per year. There is an annual increase of 5% per annum. In an event of a change in control, and the officer is terminated within 18 months of such change of control, then the officer will receive a lump sum payment equal to the greater of (1) the compensation remaining for the rest of the period under the terms of engagement and (2) two year's compensation.

c) During the year ended June 30, 2012, the Company entered into a management agreement for a period of 3 years commencing April 1, 2012 and will pay management fees of $66,000 per year. There is an annual increase of 5% per annum. In an event of a change in control, and the officer is terminated within 12 months of such change of control, then the officer will receive a lump sum payment equal to the greater of (1) the compensation remaining for the rest of the period under the terms of engagement and (2) one year's compensation.

d) The Company entered into a consulting agreement for a period of 3 years commencing February 1, 2011 to pay consulting fees of $168,000 per year. There is an annual increase of 5% per annum. In an event of a change in control, and the consultant is terminated within 12 months of such change of control, then the consultant will receive a lump sum payment equal to the greater of (1) the compensation remaining for the rest of the period under the terms of engagement and (2) one year's compensation.

e) The Company entered into an agreement to lease additional office space as follows:

2014	$94,923
2015	96,266
	$191,189

f) In prior years, the Company has acquired the rights to over 100 properties wherein it has the exclusive sale contract rights to sell carbon credits generated from the bedding and trees growing in various plots of lands in Poland until 2040. The Company paid a total of $106,636 for these exclusive sales contract rights and has right to sell carbon credits into the market place. If sales are found through a carbon credit certification process, further amounts would be paid to the vendors of up to 8,222,251 PLN (approximately $2.4 million) within 30 days subject to obtaining carbon credit certification or sale of a carbon credit unit from the lands.

g) The Company is currently involved in dispute with an investor relations company who claims that the Company agreed, pursuant to an agreement, to pay a finder's fee in connection with the acquisition of MicroCoal. A formal lawsuit has been filed by the investor relations company and the fees claimed are $450,000. The amount has not been recorded as uncertainties existed related to whether claims will be settled out of court and if not whether the Company will be successful in defending any action.

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. As at June 30, 2013, cash amounted to $8,095, (2012 - $32,901). During the year ended June 30, 2013, the Company raised $1,942,640 (2012 - $2,869,243) through the issuance of common shares in a private placement. The Company has closed the first tranches of 3,428,499 units in a private placement, of which 2,735,800 units have been issued and received $607,150 from the exercise of stock options and warrants after June 30, 2013 (Note 21). These additional funds were used for working capital requirements.

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

20. FINANCIAL INSTRUMENTS AND RISKS

As at June 30, 2013, the Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities and loans payable. The carrying values of these financial instruments approximate their fair values because of their current nature.

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, investment fluctuations, and commodity and equity prices. Market conditions will cause fluctuations in the fair values of financial assets classified as held-for-trading and available-for-sale and cause fluctuations in the fair value of future cash flows for assets or liabilities classified as held-to-maturity, loans or receivables and other financial liabilities. The Company is not exposed to significant market risk. The Company is not exposed to significant interest rate risk as the Company has no variable interest debt. The Company's ability to raise capital to fund activities is subject to risks associated with fluctuations in the market. Management closely monitors individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due and the going concern assumption (note 2). As at June 30, 2013, the Company has working capital deficiency of $3,270,164. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined in note 19. The Company continues to monitor its actual cash flows and to seek equity financing to ensure sufficient liquidity to meet financial obligations when they become due. Subsequent to June 30, 2013, the Company has received $820,740 from the first tranche of a private placement and of $607,150 from the exercise of stock options and warrants.

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.

20. FINANCIAL INSTRUMENTS AND RISKS (continued)

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.

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

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

	United States		Poland	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Cash	$ 3,222	$ 8,428	$ 72	$ 1,216
Receivables	-	-	6,018	95,217
Accounts payable and accrued liabilities	(1,162,448)	(1,774,971)	(93,813)	(65,380)
Related parties	(30,000)	(176,338)	(26,809)	(20,293)
Loans payable	(813,051)	(2,178,370)	-	-
	$(2,002,277)	$(4,121,251)	$(114,532)	$10,760

The following exchange rates were applied:

	Year ended June 30, 2013		Year ended June 30, 2012	
	Average rate	Spot rate	Average rate	Spot rate
Canadian dollars to US dollars	0.9957	0.9532	0.9969	0.9755
Canadian dollars to Zloty	3.1888	3.1502	3.1675	3.3584

21. EVENTS OCCURING AFTER REPORTING DATE

The Company has entered into a sales agreement with PT Wijaya Tri Utama ("PWTU") that provides for the design, construction, operation, and maintenance of the first MicroCoal TM commercial facility utilizing the Company's proprietary coal drying technology (the "Facility"). The contracted price for the construction of the Facility's installation is US $6,000,000 ("Construction Fee"). The Company has received US$ 900,000 as a portion of the construction fee, with the balance of the funding for the Facility to be secured by an irrevocable letter of credit arranged by PWTU for the benefit of the Company. In addition to the one time construction fee, PWTU has agreed to pay the Company an annual fee for a period of six years and maintenance fees.

The Company announced a non-brokered private placement of up to 10,000,000 units at a price of $0.30 per unit, for gross proceeds of up to $ 3,000,000. Each unit consists of one common share and an equal number of non-transferable warrants to purchase common shares exercisable at $0.45 per common share for 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 then such other stock exchange on which the common shares are listed). Finders' fees may be paid in accordance with CNSX policies. The Company has closed a first tranche of 3,428,499 units, of which 2,735,800 units have been issued.

22. EVENTS OCCURING AFTER REPORTING DATE (continued)

The Company issued 1,407,798 units at $0.22 per unit, each unit consists of one common share and one warrant to purchase one additional share for $0.26 each until May 31, 2016 to settle debts of $309,716. In addition the Company issued 1,469,226 units at $0.27 per unit, each unit consists of one common share and one warrant to purchase one additional share for $0.35 each until May 31, 2016 te settle debts of $396,691.

The Company received $87,150 from the exercise of 485,000 stock options and $520,000 from the exercise of 2,000,000 warrants.

SCHEDULE "J"

AMENDED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF MTI FOR THE SIX MONTHS ENDED DECEMBER 31, 2014

(Please see attached.)

MICROCOAL TECHNOLOGIES INC.

Amended Condensed Consolidated Financial Statements
(Unaudited)

Six months ended December 31, 2014

(in Canadian dollars)

MICROCOAL TECHNOLOGIES INC.

Unaudited Amended Condensed Consolidated Interim Financial Statements

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

MicroCoal Technologies Inc.

Amended Condensed Consolidated Interim Statement of Financial Position

(in Canadian dollars)
(Unaudited)

	Notes	December 31, 2014 (restated) (Note 3)	June 30, 2014
ASSETS			
Current			
Cash		**$ 32,883**	$ 86,652
Receivables	8	**81,845**	34,694
Prepaid expenses		**97,560**	3,217
		212,288	124,563
Property and equipment	9	**833,203**	78,686
Total assets		**$ 1,045,491**	$ 203,249
LIABILITIES			
Current			
Accounts payable and accrued liabilities	10	**$ 637,576**	$ 1,634,960
Other payable		**48,348**	46,000
Contracts in progress liability	14	**-**	115,050
Derivative liability	12g	**1,046,620**	336,700
Loans payable	11	**838,861**	934,100
		2,571,405	3,066,810
CAPITAL DEFICIT			
Share capital	12b	**19,001,818**	18,003,133
Share subscriptions	12b	**-**	68,676
Share-based payment reserve	12e	**2,698,368**	2,695,107
Deficit		**(23,119,785)**	(23,562,179)
Accumulated other comprehensive loss		**(106,315)**	(68,298)
		(1,525,914)	(2,863,561)
Total liabilities and captial deficit		**$ 1,045,491**	$ 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.

Amended Condensed Consolidated Interim Statements of Comprehensive Income (loss)

For the three and six months ended

(in Canadian dollars)
(Unaudited)

	Note	**Three months ended December 31, 2014**	Three months ended December 31, 2013	**Six months ended December 31, 2014**	Six months ended December 31, 2013
		(restated) (Note 3)	(restated) (Note 3)	**(restated) (Note 3)**	(restated) (Note 3)
Expenses					
Amortization	7,9	$ 391	$ 353,696	$ 5,730	$ 707,488
Accretion expense	11	77,596	-	77,596	-
Financing fees and commissions		-	63,141	-	88,038
Foreign exchange (gain) loss		(79,594)	(13,417)	(74,005)	42,747
Interest on notes payable		5,653	26,989	11,837	50,300
Investor relations, agents and fees		9,019	49,082	46,110	94,994
Consulting ,management and director fees		518,973	370,544	680,659	466,051
Office, premise and other		30,041	196,325	66,557	288,722
Professional fees		159,577	288,978	321,002	492,058
Share-based compensation	12d	26,284	-	26,284	-
Travel and promotion		45,485	113,768	128,187	163,332
Loss before other items		**(793,425)**	(1,449,106)	**(1,289,957)**	**(2,393,730)**
Other income (expenses)					
Gain (loss) on settlement of debt and lawsuit	7,10,11	(34,000)	-	1,494,843	(763,025)
Fair value change in derivative liability	12g	302,979	-	237,508	-
		268,979	-	1,732,351	(763,025)
Net income (loss) for the period		**(524,446)**	(1,449,106)	**442,394**	**(3,156,755)**
Other comprehensive income (loss)					
Exchange gain (loss) - translation of foreign operations		(41,390)	(72,589)	(38,017)	72,870
Total comprehensive income (loss)		**$ (565,836)**	$ (1,521,695)	**$ 404,377**	**$ (3,083,885)**
Income (loss) per share, basic and diluted		**$ (0.01)**	$ (0.02)	**$ 0.00**	$ (0.04)
Weighted average common shares outstanding, basic and diluted		**89,491,089**	76,932,333	**88,408,504**	74,314,494

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

MicroCoal Technologies Inc.

Amended Condensed Consolidated Interim Statements of Cash Flows
For the six months ended

(in Canadian dollars)
(Unaudited)

	Note	**Six months ended December 31, 2014 (restated) (Note 3)**	Six months ended December 31, 2013 (restated) (Note 3)
Cash provided by (used in):			
Operating Activities			
Net Income (loss) for the period		**$ 442,394**	$ (3,156,755)
Items not involving cash:			
Amortization		**5,730**	707,488
Accretion		**77,596**	-
Share-based compensation		**26,284**	-
Gain (loss) on settlement of debt		**(1,494,843)**	763,025
Fair value of options issued for rent	12g	**10,325**	-
Fair value of shares issued for services	12b	**47,000**	
Finance cost on reversal of equity component			(5,993)
Unrealized foreign exchange		**(52,480)**	72,779
Fair value change in derivative liability		**(237,508)**	-
Interest accrual		**11,250**	26,277
		(1,164,252)	(1,593,179)
Change in non-cash working capital:			
Receivables		**(47,151)**	6,689
Prepaid expenses		**(94,343)**	37,339
Accounts payable and accrued liabilities		**(145,666)**	144,236
Contracts in progress		**(115,050)**	660,800
		(1,566,462)	(744,115)
Investing Activity			
Purchase of property and equipment		**(760,247)**	-
		(760,247)	-
Financing Activities			
Share issuances		**1,310,406**	1,595,400
Share issuance costs		**(38,494)**	(99,626)
Loan proceeds		**1,267,803**	
Loan repayments		**(266,775)**	(92,686)
		2,272,940	1,403,088
Increase (decrease) in cash		**(53,769)**	658,973
Cash, beginning of period		**86,652**	8,095
Cash, end of period		**$ 32,883**	$ 667,068
Supplemental cash flow information:	6		

MicroCoal Technologies Inc.

Amended Condensed Consolidated Interim Statements of Changes in Equity

For the six months ended

(in Canadian dollars)

(Unaudited)

(Restated- Note 3)	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		3,428,499	1,028,550	(51,000)	-	-	-	977,550
Issue cost		-	(146,178)	-	46,552	-	-	(99,626)
Stock options		585,000	97,850	-	-	-	-	97,850
Fair value of stock options exercised		-	69,547	-	(69,547)	-	-	-
Exercise of warrants		2,000,000	520,000	-	-	-	-	520,000
Shares and warrants issued for debt	10	2,637,320	841,555	-	470,016	-	-	1,311,571
Shares and warrants issued for loans	12	239,704	90,532	-	67,329	-	-	157,861
Loss for the period		-	-	-	-	(3,156,755)	-	(3,156,755)
Other comprehensive income (loss)		-	-	-	-	-	72,870	72,870
Balance, December 31, 2013		77,744,521	$ 16,917,320	$ (51,000)	$ 2,786,903	$ (19,248,238)	$ (77,311)	$ 327,674
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	12b	**835,000**	**177,788**	**(68,676)**	**-**	**-**	**-**	**109,112**
Private placement - 5th tranche	12b	**1,675,000**	**359,511**	**-**	**-**	**-**	**-**	**359,511**
Private placement - 6th tranche	12b	**2,760,000**	**601,840**	**-**	**-**	**-**	**-**	**601,840**
Private placement - 7th Tranche	12b	**1,011,741**	**228,943**	**-**	**-**	**-**	**-**	**228,943**
Issue costs	12b	**-**	**(55,172)**	**-**	**16,678**	**-**	**-**	**(38,494)**
Proceeds allocated to derivative	12g	**-**	**(445,926)**	**-**	**-**	**-**	**-**	**(445,926)**
Shares issued to settle lawsuit	12b	**200,000**	**34,000**		**-**	**-**	**-**	**34,000**
Stock options exercised	12b	**413,333**	**58,000**	**-**	**-**	**-**	**-**	**58,000**
Reclass of fair value of stock options exercised		**-**	**39,701**	**-**	**(39,701)**	**-**	**-**	**-**
Share-based settlements and payments for services	12d	**-**	**-**	**-**	**26,284**	**-**	**-**	**26,284**
Income (loss) for the period		**-**	**-**	**-**	**-**	**442,394**	**-**	**442,394**
Other comprehensive income (loss)		**-**	**-**	**-**	**-**	**-**	**(38,017)**	**(38,017)**
Balance, December 31, 2014		**90,453,410**	**$ 19,001,818**	**$ -**	**$ 2,698,368**	**$ (23,119,785)**	**$ (106,315)**	**$ (1,525,914)**

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

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 developing 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 and six months ended December 31, 2014 have been prepared in accordance with IAS 34 “Interim financial reporting”. The condensed interim financial information should be read in conjunction with the annual financial statements for the year ended June 30, 2014, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

These amended condensed consolidated financial statements were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on April 15, 2015.

Basis of Consolidation

These amended condensed 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 - December 31, 2014	Ownership - June 30, 2014
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")	USA	100%	100%
Carbiopel - ESP S.A. (inactive)	Poland	100%	100%
MicroCoal International Inc. ("MicroCoal Canada")	Canada	100%	100%
Targeted Microwave Solutions USA Inc. ("TMS")	USA	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 amended condensed consolidated financial statements are disclosed in note 5.

3. RESTATEMENT OF PREVIOUSLY ISSUED CONSOLIDATED FINANCIAL STATEMENTS

Subsequent to filing of the December 31, 2014 interim condensed consolidated financial statements, the Company identified errors related to its previously issued condensed consolidated financial statements for the same period. In those previously issued financial statements, the Company did not account for certain financial instrument, such as convertible loans and share purchase warrants in connection with private placements in foreign currency, as well as stock options granted to employees and consultants. The effect of the restatement is detailed as follows:

		December 31, 2014 *As previously reported*		Restatement			December 31, 2014 *As restated*
Consolidated Statement of Financial Position							
Cash	$	32,844	$	39	(a)	$	32,883
Property and equipment	$	736,788	$	96,415	(a)	$	833,203
Derivative liability	$	(182,694)	$	(863,926)	(b), (c), (d)	$	(1,046,620)
Loans payable	$	(1,139,592)	$	300,731	(c)	$	(838,861)
Share capital	$	(19,259,617)	$	257,799	(c), (e)	$	(19,001,818)
Share-based payment reserves	$	(2,708,789)	$	10,421	(d), (f)	$	(2,698,368)
Deficit	$	22,804,687	$	315,098	all	$	23,119,785
Cumulative other comprehensive loss	$	222,892	$	(116,577)	(a)	$	106,315

		3 months ended December 31, 2014 *As previously reported*		Restatement			3 months ended December 31, 2014 *As restated*
Statement of Comprehensive Loss							
Accretion expense	$	-	$	77,596	(c)	$	77,596
Foreign exchange loss	$	(3,442)	$	(76,152)	(c)	$	(79,594)
Interest on notes payable	$	28	$	5,625	(g)	$	5,653
Consulting, management and director fees	$	471,660	$	47,313	(g)	$	518,973
Office, premise and other	$	19,226	$	10,815	(g)	$	30,041
Professional fees	$	128,085	$	31,492	(g)	$	159,577
Share-based compensation	$	-	$	26,284	(f)	$	26,284
Loss on settlement of debt and lawsuit	$	-	$	34,000	(e)	$	34,000
Fair value change in derivative liability	$	(493,173)	$	190,194	(b), (c), (d)	$	(302,979)
Exchange loss on translation of foreign operations	$	157,967	$	(116,577)	(a)	$	41,390
Comprehensive loss	$	(335,246)	$	(230,590)	all	$	(565,836)

(a) The restatement was due to the translation of foreign operation in one subsidiary which was not done in the previously filed interim financial statements.

(b) The restatement related to errors in accounting for warrants issued in a foreign currency which should be accounted for as a derivative liability and remeasured at period end with any change in fair value going to profit and loss.

(c) The restatement was attributable to the accounting for the convertible loan. The conversion feature was previously accounted for as equity, however, since the conversion price was in a foreign currency other than the Company's functional currency, the conversion feature violated fix- for- fixed settlement and should be accounted for as a derivative liability, with fair value adjustments being recorded through profit and loss. The discount on the loan is amortized and recorded in the profit and loss as accretion expense. In addition, the foreign exchange on the loans was overstated in the previously filed interim financial statements, which was restated to correct amount.

(d) The restatement related to non-employee options with an exercise price in a foreign currency other than the Company's functional currency, the exercise feature violated fix- for-fixed settlement and should be accounted for as a derivative liability, with fair value adjustments being recorded through profit and loss.

(e) The restatement related to shares issued to settle lawsuits with two former consultants, which was recorded in share-based payment reserve in error.

(f) The Company issued stock options to its former CFO for her past services, the fair value of which was not previously recorded. Additionally, the Company granted cashless exercise on those options as consideration for her future services during the transition period. The fair value of the cashless exercise was recorded in share-based payment reserve in error.

(g) The restatement related to reclassification of expenses to proper accounts.

3. RESTATEMENT OF PREVIOUSLY ISSUED CONSOLIDATED FINANCIAL STATEMENTS continued

	6 months ended December 31, 2014 *As previously reported*	Restatement		6 months ended December 31, 2014 *As restated*
Statement of Comprehensive Loss				
Accretion expense	$ -	$ 77,596	(c)	$ 77,596
Foreign exchange loss	$ 2,147	$ (76,152)	(c)	$ (74,005)
Interest on notes payable	$ 587	$ 11,250	(g)	$ 11,837
Consulting, management and director fees	$ 633,346	$ 47,313	(g)	$ 680,659
Office, premise and other	$ 55,742	$ 10,815	(g)	$ 66,557
Share-based compensation	$ 10,626	$ 15,658	(f)	$ 26,284
Gain on settlement of debt and lawsuit	$ (1,528,843)	$ 34,000	(e)	$ (1,494,843)
Fair value change in derivative liability	$ (432,126)	$ 194,618	(b), (c), (d)	$ (237,508)
Exchange loss on translation of foreign operations	$ 154,594	$ (116,577)	(a)	$ 38,017
Comprehensive income	$ 602,898	$ (198,521)		$ 404,377
Statement of Cash Flow				
Cash used in operating activities	$ 1,683,970	$ (156,430)	(h)	$ 1,527,540
Cash used in investing activities	$ 658,102	$ 102,145	(h)	$ 760,247
Cash provided by financing activities	$ (2,288,264)	$ 54,246	(h)	$ (2,234,018)
Cash, end of period	$ 32,844	$ 39	(h)	$ 32,883
Statement of Equity				
Share capital	$ 19,259,617	$ (257,799)	(c), (d), (e), (f)	$ 19,001,818
Share-based payment reserves	$ 2,708,789	$ (10,421)	(c), (d), (e), (f)	$ 2,698,368
Deficit	$ (22,804,687)	$ (315,098)	all	$ (23,119,785)
Cumulative other comprehensive loss	$ (222,892)	$ 116,577	(a)	$ (106,315)
Total capital deficit	$ 1,059,173	$ 466,741	all	$ 1,525,914

(a) The restatement was due to the translation of foreign operation in one subsidiary which was not done in the previously filed interim financial statements.

(b) The restatement related to errors in accounting for warrants issued in a foreign currency which should be accounted for as a derivative liability and remeasured at period end with any change in fair value going to profit and loss.

(c) The restatement was attributable to the accounting for the convertible loan. The conversion feature was previously accounted for as equity, however, since the conversion price was in a foreign currency other than the Company's functional currency, the conversion feature violated fix- for- fixed settlement and should be accounted for as a derivative liability, with fair value adjustments being recorded through profit and loss. The discount on the loan is amortized and recorded in the profit and loss as accretion expense. In addition, the foreign exchange on the loans was overstated in the previously filed interim financial statements, which was restated to correct amount.

(d) The restatement related to non-employee options with an exercise price in a foreign currency other than the Company's functional currency, the exercise feature violated fix- for-fixed settlement and should be accounted for as a derivative liability, with fair value adjustments being recorded through profit and loss.

(e) The restatement related to shares issued to settle lawsuits with two former consultants, which was recorded in share-based payment reserve in error.

(f) The restatement related to the fair value of stock options granted to former CFO for her past services, which was not previously recorded.

(g) The restatement related to reclassification of expenses to proper accounts.

(h) The restatement in cash used in operating activities consists of adjustment of a $(59,644) in items included in net loss which do not involve cash and adjustment of $ (96,786) in change in non-cash working capital. This adjustment also impacted investing and financing activties.

3. RESTATEMENT OF PREVIOUSLY ISSUED CONSOLIDATED FINANCIAL STATEMENTS continued

In addition, the Company also restated the interim financial statements for the period ended December 31, 2013 for the errors identified and adjusted in the annual audit of the consolidated financial statements for the year ended June 30, 2014. These errors primarily related to incorrect accounting of equity instruments issued for settlement in debt and loans, as well as complex financial instruments, such as share purchase warrants issued in connection in the private placements which had an exercise price in foreign currency other tha the functional currency of the Company. The impact of the restatement is as follows:

	3 months ended December 31, 2013 *As previously reported*	Restatement		3 months ended December 31, 2013 *As restated*
Statement of Comprehensive Loss				
Financing fees and commissions	$ 17,204	$ 45,937	(a)	$ 63,141
Interest on notes payable	$ 16,620	$ 10,369	(a)	$ 26,989
Professional fees	$ 169,843	$ 119,135	(a)	$ 288,978
Comprehensive loss	$ (1,346,254)	$ (175,441)		$ (1,521,695)

	6 months ended December 31, 2013 *As previously reported*	Restatement		6 months ended December 31, 2013 *As restated*
Statement of Comprehensive Loss				
Interest on notes payable	$ 35,554	$ 14,746	(a)	$ 50,300
Consulting, management and director fees	$ 1,140,995	$ (674,944)	(b)	$ 466,051
Loss on settlement of debt	$ -	$ 763,025	(b)	$ 763,025
Comprehensive loss	$ (2,981,058)	$ (102,827)		$ (3,083,885)
Statement of Cash Flow				
Cash used in operating activities	$ 744,115	$ 30,686	(c)	$ 774,801
Cash provided by financing activities	$ (1,403,088)	$ (30,686)	(c)	$ (1,433,774)
Statement of Equity				
Share capital	$ 16,914,796	$ 2,524	(b)	$ 16,917,320
Share-based payment reserves	$ 2,701,346	$ 85,557	(b)	$ 2,786,903
Deficit	$ (19,145,411)	$ (102,827)	all	$ (19,248,238)
Total shareholders' equity	$ (342,420)	$ 14,746	all	$ (327,674)

(a) The restatement related to adjustments posted during the June 30, 2014 year end audit which were allocated to this corresponding period.

(b) The Company settled loans and debts through issuance of shares and warrants, the fair value of which and therefore the loss on settlement were valued inaccurately and not recorded in the proper account in the in the previously filed interim condensed consolidated financial statements.

(c) The restatement in cash used in operating activities consists of adjustment of $ 811,109 in items included in net loss that were "non-cash" items and an adjustment of $(780,423) in changes in non-cash working capital balances.

Certain current and comparative figures have been reclassified to conform with the amended condensed consolidated financial statement presentation adopted in the current period.

4. GOING CONCERN ISSUES

The Company produced a comprehensive income of $ 404,377 or $1,090,466 net loss after a one-time non-cash gain on settlement of debt of $1,494,843 for the six months ended December 31, 2014 (six months ended December 31, 2013 - comprehensive loss of $3,083,885), has an accumulated deficit of $23,119,785 and working capital deficiency of $2,359,117 at December 31, 2014, and is planning to incur losses in the future. The Company has no revenue from planned operations and are solely reliant on external funding to carry out its activities. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

These amended condensed consolidated 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 consolidated 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.

5. 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.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS continued

(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.

(e) Derivative financial instruments

Derivative financial instrument 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). The Company uses the Black-Scholes options pricing model to estimate the fair value of the derivative instruments. To the extent that the initial fair values of the freestanding and or bifurcated derivative instrument liabilities exceeds the total proceeds received, an immediate charge to income is recognized, in order to initially record the derivative instrument liabilities at their fair value.

6. SUPPLEMENTAL CASH FLOW INFORMATION

	Six months ended December 31, 2014	Six months ended December 31, 2013
Interest paid	**$ -**	$ -
Income taxes paid	**$ -**	$ -
Items that are excluded from the investing and financing activities:		
Fair value of stock options exercised	**$ 39,701**	$ 69,547
Fair value of agent warrants issued as share issuance costs	**$ 16,678**	$ 46,552
Issuance of shares and warrants for debt settlements	**$ -**	$ 841,555
Issuance of shares and warants for loan repayments	**$ -**	$ 90,532
Issuance of shares for services	**$ 47,000**	$ -

7. 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.

7. COAL TECHNOLOGY AND PLANT PROTOTYPE continued

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 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
Repayment and settlement of loan balance			(827,390)
Loan balance December 31, 2014		**$**	**-**

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, December 31, 2014	**$**	**-**

In the month of August 2014, the entire estimated accrued liabilities previously set up in 2011 was derecognized on the settlement of the Orica loan for an amount of USD$150,000. See Note 10.

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

During the year ended June 30, 2014, the Company decided to decommission and disassemble the pilot plant. 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, (three month period ended December 31, 2014 - $353,696 and six month period ended December 31, 2014 - $707,488) 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.

		December 31, 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	**$**	**-**	$	-

8. RECEIVABLES

		December 31, 2014		June 30, 2014
GST recoverable	**$**	**53,280**	$	34,694
Other advances		**28,565**		-
	$	**81,845**	$	34,694

9. 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	-	355,968	-	404,279	760,247
December 31, 2014	$ -	$ 434,654	$ -	$ 404,279	$ 838,933
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	-	5,730	-	-	5,730
December 31, 2014	-	5,730	-	-	5,730
Net book value, June 30, 2014	$ -	$ 78,686	$ -	$ -	$ 78,686
Net book value, December 31, 2014	**$ -**	**$ 428,924**	**$ -**	**$ 404,279**	**$ 833,203**

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2014	June 30, 2014
Trade accounts payable (ii)	**$ 626,326**	$ 745,527
Provision until closing of acquisition of MicroCoal, Inc. by repayment of loan from Orica US Services Inc. ("Orica") (i)	**-**	795,537
Related party accounts payable (ii)	**-**	26,465
Accrued interest payable	**11,250**	67,431
	$ 637,576	$ 1,634,960

(i) During the six month period ended December 31, 2014, the Company settled with Orica in full by a payment of USD$ 150,000 repaying loans payable and thereby closing the provision for accrued liabilities of $795,537 (notes 7 and 11).

(ii) During the period ended December 31, 2014, the Company settled accounts payable to vendors and related parties by issuing 2,637,320 common shares and warrants at fair value of $470,016 resulting in a net loss on settlement of $nil for the three month period then ended and $685,168 for the six month period then ended.

11. LOANS PAYABLE

	December 31, 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 4% per annum. The loan was paid off in the current period.	$ -	$ 106,710.00
Pursuant to a loan agreement a director of the Company advanced the sum of $139,313 ($125,000 USD) to the Company. On September 29, 2014 a new loan was made available for drawdown of $1,128,490 (USD $1,000,000) This loan was fully drawn by December 10, 2014. The Loans have a term of 1 year and have an interest rate of 4% payable quarterly. The loans are convertible, at the option of the lender, into common shares at US$0.225 and US$0.15 per share. With the conversion feature initially being valued at $53,805 and $476,294 (Note 12(g)), the resulting residual value allocated to the host debenture was $85,508 and $652,196 respectively. During the six months ended December 31, 2014, in addition to the amortization of the discount on the convertible debenture in the amount of $77,596, the Company incurred interest expense of $9,740 and unrealized foreign exchange loss of $23,561.	838,861	-
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 six month period ended December 31, 2014. The gain on settlement of debt of $1,528,843 was recorded in the consolidated statement of comprehensive income (loss).	-	827,390
	$ 838,861	$ 934,100

12. SHARE CAPITAL

(a) Authorized: unlimited common shares without par value

(b) Issued and Outstanding

Six months ended December 31, 2014

On November 26, 2014 the Company closed the seventh tranche of a non-brokered private placement in the amount of $USD 202,348 ($CAD 228,943). The Company issued 1,011,741 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 24 months. The Company paid a cash commission of $ 11,300 and granted finder's warrants to purchase 50,000 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 December 31, 2014 with any change going to the profit or loss. See12(g) for more details.

On August 14, 2014 the Company closed the sixth 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 5,200 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 December 31, 2014 with any change going to the profit or loss. See12(g) for more details.

On July 14, 2014 the Company closed the fifth tranche of a non-brokered private placement in the amount of $USD 335,000 ($CAD 359,511). The Company issued 1,675,000 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 3,500 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 December 31, 2014 with any change going to the profit or loss. See12(g) for more details.

12. SHARE CAPITAL continued

On July 4, 2014 the Company closed the fourth tranche of a non-brokered private placement in the amount of $USD 167,000 ($CAD 177,788). 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 16,700 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 December 31, 2014 with any change going to the profit or loss. See12(g) for more details.

The Company issued 200,000 shares at $0.17 per share to settle the disputes with two individuals who claimed that the Company agreed, pursuant to agreements, to pay consulting fees as disclosed in the financial statements for the year ended June 30, 2014. The loss of $34,000 was recorded in the consolidated net loss.

The Company issued 313,333 common shares in a cashless exercise of options worth $47,000, which was recorded as consulting fees in the consolidated net loss, to a former officer of the Company. The Company issued 100,000 common shares on exercise of options for proceeds of $11,000.

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.

During the six month period ended December 31, 2013, the Company issued 239,704 common shares to settle certain loans payable to unrelated parties. The settlement of these loans resulted in a net loss in settlement of $77,857 for the six month period then ended.

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. See12(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. See12(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. See12(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.

12. SHARE CAPITAL continued

c) Warrants

Six months ended December 31, 2014

On December 5, 2014 the Company amended the terms of 7,887,500 warrants set to expire on December 28, 2014, extending them to a new expiry date of December 28, 2015.

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	**6,458,741**		0.32
Expired	**(7,825,425)**		0.28
Balance, December 31, 2014	**37,592,682**	$	0.30

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

Warrants Outstanding	Warrants Exercisable	Exercise Price		Expiry Date
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
1,011,741	1,011,741	$0.30 USD		November 26, 2016
50,000	50,000	$0.20 USD	***	November 26, 2016
7,887,500	7,887,500	$0.26	*	December 28, 2015
3,521,029	3,521,029	$0.45	**	October 21, 2018
37,592,682	37,592,682			

* Repriced from $0.35 to $0.26 on May 28, 2014, expiry extended by 1 year to Dec 28 2015

** 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.

12. SHARE CAPITAL continued

d) Stock options

On December 29, 2010, the Company adopted an incentive share option plan for granting options to directors, employees and consultants, under which the total outstanding options are limited to 10% of the issued and outstanding common shares of the Company. The options vest when granted except for options granted for investor relations activities which vest over a 12 month period with no more than 25% of the options vesting in any three month period.

During the year ended June 30, 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 December 31, 2014, the Company granted 80,000 options at an exercise price of US$0.20 and 313,333 options at an exercise price of $0.15. The options vested immediately. Since the exercise price of the options were in a currency other than the functional currency of the Company, they were accounted for as a derivative liability and remeasured at period end with any change going to the profit and loss. See 12(g) for more details. The options with CAD exercise price were granted as payments for services valued at $26,284 and included in the share based payment reserve, in Note 12(e).

	December 31, 2014	June 30, 2014
Risk free rate	**0.98%**	1.25%
Expected dividend yield	**nil%**	nil%
Stock price volatility	**153%**	122% - 127%
Expected life of warrants- 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	**393,333**	0.16
Exercised	**(413,333)**	0.14
Expired/Cancelled	**(225,000)**	0.36
Outstanding and exercisable, December 31, 2014	**3,220,000**	$ 0.20

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

Options Outstanding	**Exercise Price**	**Expiry Date**	**Options Exercisable**
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
3,220,000			**3,220,000**

12. SHARE CAPITAL continued

e) Share-based payment reserve

	December 31, 2014	June 30, 2014
Balance, beginning of period	$ 2,695,107	$ 2,272,553
Fair values of options granted	26,284	93,537
Fair value of shares and warrants issued for debt and settlements	-	537,345
Fair value of stock options exercised	(39,701)	(263,551)
Fair value of equity components issued in a loan payable (note 11)	-	(5,993)
Fair value of agent's warrants issued for private placement	16,678	61,216
Balance, end of period	$ 2,698,368	$ 2,695,107

f) Nature and purpose of reserves

The reserves recorded in equity on the Company's condensed consolidated 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.

g) Derivative liability

Pursuant to a loan agreement, the Chairman of the Company advanced the sum of $125,000 USD to the Company and a loan faciilty was made available for drawdown of USD $1,000,000 (Note 11). The loans are convertible, at the option of the lender, into common shares at US$0.225 and US$0.15 per share. Since the conversion prices were in a currency other than the functional currency of the Company, the conversion feature was accounted for as a derivative liability, being valued using the Black Scholes model.

During the period ended December 31, 2014 and the year ended June 30, 2014, the Company issued share purchase warrants 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 period ended December 31, 2014, the Company issued stock options to non-employees that met the criteria of a derivative liability instrument because they were exercisable in a currency other than the functional currency and thereby not meeting the "fixed-for-fixed" criteria for equity instrument classification. As a result, the Company accounted for these equity instruments 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.

12. SHARE CAPITAL continued

	Six months ended December 31, 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	**64,229**	-
July 14, 2014 warrant issuance, at inception	**119,395**	-
August 14, 2014 warrant issuance, at inception	**175,919**	-
November 26, 2014 warrant issuance, at inception	**86,383**	-
Stock options with USD exercise price, at inception	**10,325**	-
Convertible loan - 1st tranche, at inception	**53,805**	-
Convertible loan - 2nd tranche, at inception	**476,294**	-
Fair value increase (decrease) in liability at end of period	**(237,508)**	101,207
Warrants attached to advanced share subscriptions	**(38,922)**	38,922
Balance, end of period	**$ 1,046,620**	$ 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:

	December 31, 2014	June 30, 2014
Risk free rate	**0.97 - 1.01%**	0.97 - 1.00%
Expected dividend yield	**nil%**	nil%
Stock price volatility	**135% - 183%**	126% - 147%
Expected life of warrants- years	**0.28 to 2**	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.

13. 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:

	Six months ended December 31, 2014	Six months ended December 31, 2013
Management, directors' and professional fees	**$ 231,418**	$ 142,414
Fair value of shares and warrants issued to key management personnel to settle debt	**26,284**	201,815
Total key management personnel remuneration	**$ 257,702**	$ 344,229

As at December 31, 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 December 31, 2014 the Company owed US$1,125,000 (June 30, 2014 - $106,710) to a director pursuant to loans payable. See note 11 and 12(g).

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 December 31, 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.

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	**December 31, 2014**	June 30, 2014
Canada	**$ -**	$ -
USA	**833,203**	78,686
	$ 833,203	$ 78,686

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 research and development, 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 December 31, 2014, the Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities and loans payable. The carrying values of these financial instruments approximate their fair values because of their current nature.

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 December 31, 2014, the Company had derivative liabilities (see Note 12(g)) that were required to be recorded at fair value using level 2 inputs.

17. FINANCIAL INSTRUMENTS AND RISKS continued

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 research and development, and corporate activities and anticipating investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of annual budgets and significant expenditures and commitments. Failure to realize additional funding, as required, could result in the delay or indefinite postponement of further development of the Company's projects.

Interest rate Risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and liabilities and amounts owing being non-interest bearing or bearing fixed rates of interest.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is mainly exposed to credit risk from credit sales and cash with major financial institutions. It is the Company's policy, implemented locally, to assess the credit risk of new customers before entering contracts. Such credit ratings are taken into account by local business practices.

Currency Risk

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

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

	United States	
	December 31, 2014	June 30, 2014
Cash	**$ 29,764**	$ 70,541
Accounts payable and accrued liabilities	**(223,673)**	(208,307)
Related parties	**-**	(8,376)
Loans payable	**(838,861)**	(934,100)
	$ (1,032,770)	$ (1,080,242)

The following exchange rates were applied:

	Six months ended December 31, 2014		Year ended June 30, 2014	
	Average	**Spot rate**	Average rate	Spot rate
Canadian dollars to US dollars	**0.8990**	**0.8600**	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 (Note 12(d) and (g)). 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 January 26, 2015, the Company repaid a loan in Note 11 from its Chairman in full, in the principal amount of US$1,125,000 plus accrued interest.

ii) On January 22, 2015 the Company closed a Joint Venture Agreement in China, with Jiu Feng Investments Inc. Pursuant to the terms of the JV agreement, MicroCoal and Jiu Feng Investments have formed a corporation domiciled in Hong Kong in which MicroCoal holds a 51% equity interest and majority position on its Board of Directors. As consideration for the substantial asset and expense contributions MicroCoal issued 10,000,000 common shares to Jiu Feng Investments. The joint venture corporation is expected to source and test coal samples from Asian markets and to promote MicroCoal technology in China.

iii) On January 21, 2015, the Company closed an Investment Agreement with Satellite Overseas (Holdings) Limited, an affiliate of Cadila Pharmaceuticals Limited. In connection with the agreement, MicroCoal issued 79,046,666 common shares to the investor at $0.15 per share for aggregate gross proceeds of $11.857 million (US$10 million). The investor and MicroCoal are working to establish a joint venture in India to bring MicroCoal technology to the marketplace.

iv) Subsequent to the period end, the Company is undertaking a Plan of Arrangement to facilitate the re-organization of the Company. Through the Arrangement, it is planned that, at the Effective Date, the shareholders of the Company will receive shares of Targeted Microwave Solutions Inc. ("Target"), a wholly-owed subsidiary of the Company in exchange of certain assets of the Company, including the proceeds from the Investment Agreement, giving such shareholders an interest in the business to be carried out by Target on completion of the Arrangement.

SCHEDULE "K"

TARGET ASSETS CLAIMS LIST

Claim name.	Lot or Tenure #	Current Expiry Date
Goldsmith	393579	2015/Oct/09
Morning	393580	2015/Oct/09
Swede 2	377404	2015/Oct/09

The above mineral claims are located in the Kaslo Mining Division in the Province of British Columbia.

SCHEDULE "L"

CBCA SECTION 190

190. (1) **Right to dissent** - Subject to sections 191 and 241, a holder of shares of any class of a corporation may dissent if the corporation is subject to an order under paragraph 192(4)(d) that affects the holder or if the corporation resolves to

(a) amend its articles under section 173 or 174 to add, change or remove any provisions restricting or constraining the issue, transfer or ownership of shares of that class;

(b) amend its articles under section 173 to add, change or remove any restriction on the business or businesses that the corporation may carry on;

(c) amalgamate otherwise than under section 184;

(d) be continued under section 188;

(e) sell, lease or exchange all or substantially all its property under subsection 189(3); or

(f) carry out a going-private transaction or a squeeze-out transaction.

(2) **Further right -** A holder of shares of any class or series of shares entitled to vote under section 176 may dissent if the corporation resolves to amend its articles in a manner described in that section.

(2.1) **If one class of shares** - The right to dissent described in subsection (2) applies even if there is only one class of shares.

(3) **Payment for shares** - In addition to any other right the shareholder may have, but subject to subsection (26), a shareholder who complies with this section is entitled, when the action approved by the resolution from which the shareholder dissents or an order made under subsection 192(4) becomes effective, to be paid by the corporation the fair value of the shares in respect of which the shareholder dissents, determined as of the close of business on the day before the resolution was adopted or the order was made.

(4) **No partial dissent -** A dissenting shareholder may only claim under this section with respect to all the shares of a class held on behalf of any one beneficial owner and registered in the name of the dissenting shareholder.

(5) **Objection** - A dissenting shareholder shall send to the corporation, at or before any meeting of shareholders at which a resolution referred to in subsection (1) or (2) is to be voted on, a written objection to the resolution, unless the corporation did not give notice to the shareholder of the purpose of the meeting and of their right to dissent.

(6) **Notice of resolution** - The corporation shall, within ten days after the shareholders adopt the resolution, send to each shareholder who has filed the objection referred to in subsection (5) notice that the resolution has been adopted, but such notice is not required to be sent to any shareholder who voted for the resolution or who has withdrawn their objection.

(7) **Demand for payment** - A dissenting shareholder shall, within twenty days after receiving a notice under subsection (6) or, if the shareholder does not receive such notice, within twenty days after learning that the resolution has been adopted, send to the corporation a written notice containing

(a) the shareholder’s name and address;

(b) the number and class of shares in respect of which the shareholder dissents; and

(c) a demand for payment of the fair value of such shares.

(8) **Share certificate** - A dissenting shareholder shall, within thirty days after sending a notice under subsection (7), send the certificates representing the shares in respect of which the shareholder dissents to the corporation or its transfer agent.

(9) **Forfeiture** - A dissenting shareholder who fails to comply with subsection (8) has no right to make a claim under this section.

(10) **Endorsing certificate** - A corporation or its transfer agent shall endorse on any share certificate received under subsection (8) a notice that the holder is a dissenting shareholder under this section and shall forthwith return the share certificates to the dissenting shareholder.

(11) **Suspension of rights** - On sending a notice under subsection (7), a dissenting shareholder ceases to have any rights as a shareholder other than to be paid the fair value of their shares as determined under this section except where

(a) the shareholder withdraws that notice before the corporation makes an offer under subsection (12),

(b) the corporation fails to make an offer in accordance with subsection (12) and the shareholder withdraws the notice, or

(c) the directors revoke a resolution to amend the articles under subsection 173(2) or 174(5), terminate an amalgamation agreement under subsection 183(6) or an application for continuance under subsection 188(6), or abandon a sale, lease or exchange under subsection 189(9),

in which case the shareholder's rights are reinstated as of the date the notice was sent.

(12) **Offer to pay** - A corporation shall, not later than seven days after the later of the day on which the action approved by the resolution is effective or the day the corporation received the notice referred to in subsection (7), send to each dissenting shareholder who has sent such notice

(a) a written offer to pay for their shares in an amount considered by the directors of the corporation to be the fair value, accompanied by a statement showing how the fair value was determined; or

(b) if subsection (26) applies, a notification that it is unable lawfully to pay dissenting shareholders for their shares.

(13) **Same terms -** Every offer made under subsection (12) for shares of the same class or series shall be on the same terms.

(14) **Payment** - Subject to subsection (26), a corporation shall pay for the shares of a dissenting shareholder within ten days after an offer made under subsection (12) has been accepted, but any such offer lapses if the corporation does not receive an acceptance thereof within thirty days after the offer has been made.

(15) **Corporation may apply to court -** Where a corporation fails to make an offer under subsection (12), or if a dissenting shareholder fails to accept an offer, the corporation may, within fifty days after the action approved by the resolution is effective or within such further period as a court may allow, apply to a court to fix a fair value for the shares of any dissenting shareholder.

(16) **Shareholder application to court -** If a corporation fails to apply to a court under subsection (15), a dissenting shareholder may apply to a court for the same purpose within a further period of twenty days or within such further period as a court may allow.

(17) **Venue -** An application under subsection (15) or (16) shall be made to a court having jurisdiction in the place where the corporation has its registered office or in the province where the dissenting shareholder resides if the corporation carries on business in that province.

(18) **No security for costs -** A dissenting shareholder is not required to give security for costs in an application made under subsection (15) or (16).

(19) **Parties -** On an application to a court under subsection (15) or (16),

(a) all dissenting shareholders whose shares have not been purchased by the corporation shall be joined as parties and are bound by the decision of the court; and

(b) the corporation shall notify each affected dissenting shareholder of the date, place and consequences of the application and of their right to appear and be heard in person or by counsel.

(20) **Powers of court -** On an application to a court under subsection (15) or (16), the court may determine whether any other person is a dissenting shareholder who should be joined as a party, and the court shall then fix a fair value for the shares of all dissenting shareholders.

(21) **Appraisers** - A court may in its discretion appoint one or more appraisers to assist the court to fix a fair value for the shares of the dissenting shareholders.

(22) **Final order -** The final order of a court shall be rendered against the corporation in favour of each dissenting shareholder and for the amount of the shares as fixed by the court.

(23) **Interest** - A court may in its discretion allow a reasonable rate of interest on the amount payable to each dissenting shareholder from the date the action approved by the resolution is effective until the date of payment.

(24) **Notice that subsection (26) applies -** If subsection (26) applies, the corporation shall, within ten days after the pronouncement of an order under subsection (22), notify each dissenting shareholder that it is unable lawfully to pay dissenting shareholders for their shares.

(25) **Effect where subsection (26) applies** - If subsection (26) applies, a dissenting shareholder, by written notice delivered to the corporation within thirty days after receiving a notice under subsection (24), may

(a) withdraw their notice of dissent, in which case the corporation is deemed to consent to the withdrawal and the shareholder is reinstated to their full rights as a shareholder; or

(b) retain a status as a claimant against the corporation, to be paid as soon as the corporation is lawfully able to do so or, in a liquidation, to be ranked subordinate to the rights of creditors of the corporation but in priority to its shareholders.

(26) **Limitation** - A corporation shall not make a payment to a dissenting shareholder under this section if there are reasonable grounds for believing that

(a) the corporation is or would after the payment be unable to pay its liabilities as they become due; or

(b) the realizable value of the corporation's assets would thereby be less than the aggregate of its liabilities.

SCHEDULE "M"

STATEMENT UNDER CBCA SECTION 110

(Please see attached.)

boughtonlaw

May 22, 2014

File #: 81223.4
Direct: 604 647 4108
Email: grafter@boughtonlaw.com

BY EMAIL AND COURIER

MicroCoal Technologies Inc.
c/o Suite 1000, 925 West Georgia Street
Vancouver, BC V6C 3L2

Attention: Dr. James Young

Dear Sirs:

Re: Slawomir Smulewicz

We are the solicitors for Slawomir Smulewicz. Mr. Smulewicz has instructed us to write to advise of his intention to resign as a director of MicroCoal Technologies Inc. ("MTI"), effective immediately. This letter should also serve as a notice of Mr. Smulewicz's termination of the Consulting Agreement between he and MTI dated February 13, 2014. Notice is given in accordance with Article 4.1 of the Consulting Agreement. As you know, Mr. Smulewicz had earlier resigned as director of a number of MTI subsidiearies and/or affiliates. Mr. Smulewicz requests that you kindly amend all corporate records to reflect this change as soon as possible.

Mr. Smulewicz is concerned that current management has taken steps or, in some cases, failed to take required actions, which have exposed the company and the remaining directors to potential liability. Specific examples will be set out below, but generally our client's concerns revolve around the following categories:

A. Issuance of shares contrary to policies of the Canadian Securities Exchange ("CSE");

B. Failing to report certain transactions or issue news releases;

C. Taking steps without consultation with, or the approval of, the Board of Directors.

In these circumstances, Mr. Smulewicz feels he has no choice but to resign from the Board.

The following are examples of matters with which Mr. Smulewicz takes issue:

- MTI is required to file with CSE a Form 7 – Monthly Progress Report ("Form 7 Report"). At item 14 of the February Form 7 Report, the company reported that *"On February 13, 2014, 1,135,000 common shares were issued upon the exercise of 1,135,000 stock options at a value of $224,200.00 on a cashless basis as settlement for services"*. This transaction should have been published in a news release and Form 9 – Notice of Proposed Issuance of Listed Securities ("Form 9"). Further, the statement is inaccurate as the settlement for services included a cash component along with the exercise of the stock options. There was also no information in the Form 7 Report for February with respect to options issued to our client, which should also have been reported in a news release and Form 11 – Notice of Proposed Stock Option Grant ("Form 11").

- In its Form 7 Report for March at item 14, the company reported *"On March 10, 2014, the issuer issued 50,000 common shares to C3 Capital Corp. pursuant to a settlement"*. The Form 7 Report for March went on to say *"On March 10, 2014, the issuer issued 100,000 common shares to Monarch Bay Securities, LLC for services performed"*. These transactions should have been, but were not, reported in a news release and in a Form 9. Furthermore, it is contrary to CSE policies to issue shares in a settlement or for services performed.

- The Form 7 Report for March, at item 15, reported *"On February 27, 2014, a loan of US $100,000 was advanced to the Issuer by the Chairman, Dr. James F. Young."* This transaction should also have been reported in a news release. This loan was made without discussion with or approval of the Board of Directors.

- The Form 7 Report for April, at item 2, stated, *"In March 2014, the Issuer's wholly owned subsidiary, MicroCoal Inc. incorporated a new subsidiary MicroCoal Services LLC. The incorporation of MicroCoal Services LLC will assist in advancing the Issuer's current and future projects in the USA"*. This transaction was also enacted without any discussion with or approval by the Board of Directors.

- The Form 7 Report for April, at item 13, stated, *"On February 27, 2014 a loan of US $100,000 was advanced to the Issuer by the Chairman, Dr. James F. Young. This loan has a term of 1 year, bearing an interest rate at 4% per annum, payable quarterly in shares or cash, at the lenders discretion."* This was the same information that was reported in the March report and, again, the terms of the loan were never discussed by or approved by the Board of Directors.

- The Form 7 Report for April, at item 14, reported that *"The issuer issued 19,000 common shares of the Issuer at a deemed price per share of $0.25 to settle amounts owing to another former consultant."* This transaction should have been reported in a news release and Form 9. As noted above, the issuance of shares to enact a settlement is contrary to CSE policies. The transaction was never discussed with or approved by the Board of Directors.

- On May 6, 2014, MTI issued a news release announcing, amongst other things, the appointment of a new vice president: *"The company is pleased to announce the appointment of Mr. Jan Kindler as MicroCoal's Vice President of Business Development..."* The appointment of Mr. Kindler was never discussed with or approved by the Board of Directors. The Board has no information about the nature or terms of his agreement. Previously, on July 19, 2012, MTI (under its former name, Carbon Friendly Solutions Inc.) entered into a Finder Agreement with a company owned by Mr. Kindler, namely Carbon2 Power Ventures Inc. The appointment of Mr. Kindler as a Vice President of MTI while the Finder Agreement is still in effect raises the very real possibility of a conflict of interest. Since this appointment was never discussed with the Board, there is no way to determine if this has caused a problem for the company or not.

- The same May 6, 2014 news release also reported *"MicroCoal also announced today that it has issued 140,000 common shares of the Company at a deemed price per share of $0.18 to settle amounts owing to a former consultant of the company. The common shares are subject to a 4-month hold from the date of issue. The Company wishes to update its news release dated April 11, 2014 which inadvertently stated that 119,000 rather than 19,000 common shares of the Company were issued at a deemed price per share of $0.25."* This transaction should have been reported on a Form 9 notice but was not. As noted above, it is contrary to CSE policies to issue shares for settlement. This transaction was not discussed with or approved by the Board.

- Since the beginning of 2014, there have been approximately 7 meetings with the Board of Directors. Minutes of those meetings have never been prepared or submitted to the directors for discussion or approval.

In brief, our client's concerns relate primarily to the issuance of shares contrary to the policies of the CSE and the failure to properly report these transactions. This has exposed the company and the directors of the company to potential liability.

Our client also instructs us that current management of the company has been circulating rumors and false innuendo in regards to Mr. Smulewicz, which is quite possibly a breach of Article 5 of the Settlement Agreement entered into between the parties in February, 2014. Spreading of such rumors must cease immediately.

Finally, the *Canada Business Corporations Act*, section 110 reads as follows:

> *110. (1) A director of a corporation is entitled to receive notice of and to attend and be heard at every meeting of shareholders.*
>
> *(2) A director who*
>
> *a) resigns,*
>
> *b) receives a notice or otherwise learns of a meeting of shareholders called for the purpose of removing the director from office, or*
>
> *c) receives a notice or otherwise learns of a meeting of directors or shareholders at which another person is to be appointed or elected to fill the office of director, whether because of the director's resignation or removal or because the director's term of office has expired or is about to expire,*
>
> *is entitled to submit to the corporation a written statement giving reasons for resigning or for opposing any proposed action or resolution.*
>
> *(3) A corporation shall forthwith send a copy of the statement referred to in subsection (2) to every shareholder entitled to receive notice of any meeting referred to in subsection (1) and to the Director unless the statement is included in or attached to a management proxy circular required by section 150.*
>
> *(4) No corporation or person acting on its behalf incurs any liability by reason only of circulating a director's statement in compliance with subsection (3).*

In accordance with section 110(3), you are required to immediately send a copy of this letter to any shareholder who is entitled to receive notice of any meeting. Kindly confirm with the writer when you have done so.

Yours truly,

Boughton Law Corporation
by Gregg Rafter Law Corporation

Per:
Gregg Rafter

GR/as