



CBp CARBON INDUSTRIES, INC.
Audited Consolidated Financial Statements
For The Year Ended June 30, 2009



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Consolidated Financial Statements
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<u>Table of Contents</u>	Page(s)
Independent Auditors' Report	2
Consolidated Balance Sheet	3
Consolidated Statement of Operations and Comprehensive Income	4
Consolidated Statement of Changes in Shareholders' Equity	5
Consolidated Statement of Cash Flows	6
Notes to the Consolidated Financial Statements	7-20



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Independent Auditors' Report

To The Shareholders Of
CBp Carbon Industries, Inc.
Tortola, British Virgin Islands

We have audited the accompanying consolidated balance sheet of CBp Carbon Industries, Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group"), as of June 30, 2009, and the related consolidated statements of operations and comprehensive income, shareholders' equity, and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements"). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group at June 30, 2009, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Group will continue as a going concern. The Group has suffered recurring losses from operations and has an accumulated deficit of \$50,316,443. The Group's continuance as a going concern is dependent upon the continued support of its shareholder to aid in financing its operations.

BDO Limited

Tortola, British Virgin Islands
April 30, 2010

CBp CARBON INDUSTRIES, INC.

Consolidated Balance Sheet

As at June 30, 2009

(Expressed in U.S. Dollars)

	Notes	2009
ASSETS		
Current Assets		
Cash and cash equivalents		3,799,595
Trading securities	4	1,025,882
Prepaid expenses and deposits		376,992
Due from related parties	11	770,774
Receivable on disposition of subsidiary		157,990
		6,131,233
Non-current assets		
Property, plant and equipment	5	10,965,856
Available-for-sale investments	6	1,668,206
License rights	7	7,000,000
Trademarks		204,780
		19,838,842
TOTAL ASSETS		\$ 25,970,075
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities		1,047,284
Shares to be issued	8	100,000
Total Current Liabilities		1,147,284
Shareholders' Equity		
Issued share capital	8	183,722
Additional paid in capital	8	65,586,454
Employee equity benefits reserve	9	9,963,994
Other comprehensive income		(594,936)
Accumulated deficit		(50,316,443)
Total Shareholders' Equity		24,822,791
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 25,970,075

The accompanying notes form an integral part of these consolidated financial statements

CBp CARBON INDUSTRIES, INC.

Consolidated Statement of Operations and Comprehensive Income
 For the Year Ended June 30, 2009
 (Expressed in U.S. Dollars)

	Notes	2009
INCOME		12,423
EXPENSES		
Consulting and management fees	11	3,095,164
Depreciation		18,268
General and administrative	11	1,333,637
Impairment loss		318,372
Professional fees	11	1,009,656
Loss on foreign exchange	12	8,209,894
Loss on investments - realized		465,109
Loss on investments - unrealized		411,667
Operating lease rental		16,140
Organizational costs		376,398
Rent	11	429,995
Stock-based compensation	9, 11	831,488
Transfer agent fees		8,396
Wages and benefits		370,214
Total expenses		16,894,398
Loss before interest		(16,881,975)
Interest income		680,231
Interest expense		(321,650)
Loss for the year		(16,523,394)
Currency translation differences		(354,070)
Total comprehensive loss for the period		\$ (16,877,464)
Per share amounts - loss for the year		
Diluted loss per share		\$ (0.10)
Basic loss per share		\$ (0.10)
Weighted average number of shares outstanding		
Diluted		173,339,736
Basic		173,042,668

The accompanying notes form an integral part of these consolidated financial statements

CBP CARBON INDUSTRIES, INC.

Consolidated Statement of Changes in Shareholders' Equity
For the Year Ended June 30, 2009
(Expressed in U.S. Dollars)

	Number of issued shares Preferred	Ordinary	Issued share capital	Additional paid-in capital	Employee equity benefits reserve	Other comprehensive income	Accumulated deficit	Total
June 30, 2008	10,000,000	172,971,835	\$182,972	\$65,037,204	\$9,132,506	(\$240,866)	(\$33,693,049)	\$40,418,767
Shares issued	-	1,150,000	1,150	948,850	-	-	-	950,000
Share-based payments	-	-	-	-	831,488	-	-	831,488
Net loss for the year	-	-	-	-	-	-	(16,523,394)	(16,523,394)
Share repurchase	-	(400,000)	(400)	(399,600)	-	-	(100,000)	(500,000)
Currency translation differences	-	-	-	-	-	(354,070)	-	(354,070)
June 30, 2009	10,000,000	173,721,835	\$183,722	\$65,586,454	\$9,963,994	(\$594,936)	(\$50,316,443)	\$24,822,791

The accompanying notes form an integral part of these consolidated financial statements

CBp CARBON INDUSTRIES, INC.

Consolidated Statement of Cash Flows
For the Year Ended June 30, 2009

(Expressed in U.S. Dollars)

	2009
OPERATING ACTIVITIES	
Net loss from operations	(16,523,394)
Adjustments to reconcile net income to net cash flows used in operating activities:	
Depreciation	18,268
Net loss on held-for-trading investments	876,773
Impairment loss	318,372
Stock based compensation	831,488
Net loss from operations before working capital changes	(14,478,493)
Decrease in advances	2,567,338
Increase in prepaid expenses and deposits	(73,354)
Decrease in accounts payable and accrued liabilities	(265,163)
Cash flows used in operating activities	(12,249,672)
INVESTING ACTIVITIES	
Purchase of trademarks	(203,966)
Sale of held-for-trading investments	1,726,744
Acquisition of property, plant and equipment	(5,586,688)
Advances to related parties	(592,385)
Cash flows used in investing activities	(4,656,295)
FINANCING ACTIVITIES	
Decrease in borrowings	(17,335,338)
Advances from related parties	(35,560)
Issuance of shares	950,000
Repurchase of shares	(500,000)
Decrease in shares to be issued	(400,000)
Cash flows from financing activities	(17,320,898)
Movement due to foreign currency translations	(354,070)
NET MOVEMENT IN CASH AND CASH EQUIVALENTS	(34,580,935)
Cash and cash equivalents at beginning of year	38,380,530
Cash and cash equivalents at end of year	\$ 3,799,595
Cash and cash equivalents comprise:	
Cash at bank	3,591,370
Cash held in trust	208,225
	\$ 3,799,595
Supplementary Cash Flow information:	
Interest received	680,231
Interest paid	321,650

The accompanying notes form an integral part of these consolidated financial statements

CBp CARBON INDUSTRIES, INC.

Notes to the Consolidated Financial Statements For the year ended June 30, 2009 (Expressed in U.S. Dollars)

1. Incorporation and Activity

CBp Carbon Industries, Inc. (the "Company") was incorporated in the State of Nevada on November 7, 2005. During the year ended June 30, 2007, the Company was incorporated in the British Virgin Islands under the BVI Business Companies Act, 2004 by way of continuation. The liability of the shareholders are limited by shares. The Company was established to acquire and commercialize a technology used for converting scrap automotive tires into reusable components and producing a commercial substitute for carbon black, a main commodity for the rubber and plastics industries. The Company does not yet have any production or commercial sales. The registered office of the Company is located at Sea Meadow House, Tobacco Wharf, PO Box 173, Road Town, Tortola, British Virgin Islands.

The financial statements represent the financial position and financial performance for the Company and its subsidiaries (see Note 3) (hereafter collectively referred to as the "Group") as at and for the year ended June 30, 2009.

2. Significant Accounting Policies

(a) Basis of Preparation

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). They have been prepared under the historical cost convention and are expressed in United States of America dollars.

For financial periods ended June 30, 2007 and June 30, 2008, the Group prepared its financial statements in accordance with International Financial Reporting Standards, ("IFRS"). No adjustments to the opening balance sheet have been necessitated by the transition from IFRS to US GAAP.

(b) Basis of Consolidation

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, income and expenses and unrealized gains and losses resulting from intra-group transactions are eliminated in full.

A subsidiary is consolidated until the date that control ceases or a decision is made to dispose of the subsidiary. If the decision is made to dispose of the subsidiary within a period of less than twelve-months following the balance sheet date and a sale is highly probable, then the assets and liabilities of the subsidiary are recorded as available for sale and any profits or losses from the operations of the disposed subsidiary are recognized in the statement of operations and comprehensive income discontinued operations.

(c) Use of estimates

The Group's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and this requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Group bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Accordingly, actual results may differ significantly from these estimates under different assumptions or conditions.

CBp CARBON INDUSTRIES, INC.

Notes to the Consolidated Financial Statements
For the year ended June 30, 2009
(Expressed in U.S. Dollars)

2. Significant Accounting Policies (continued)

(d) *Foreign currency translation*

Transactions in currencies other than the functional currency of the underlying operation are recorded at the rates of exchange prevailing at the date of the transaction. Monetary assets and liabilities in currencies other than the operation's functional currency are translated at rates of exchange prevailing at the balance sheet date to the operation's functional currency. Related transaction gains and losses are reported in the statements of operations and comprehensive income.

Upon consolidation, the results of operations of subsidiaries, whose functional currency is other than the reporting currency of the Company, the US Dollar, are translated at the average exchange rate for the period. Assets and liabilities, excluding equity account balances which are translated at historical rates, are translated at period end exchange rates. Currency translation adjustments are presented as comprehensive income in the consolidated financial statements and are included in net income only upon sale or liquidation of the related foreign subsidiary.

(e) *Cash and cash equivalents*

Cash and cash equivalents consist of cash and short term deposits with original maturities of three months or less when purchased. As of June 30, 2009, cash and cash equivalents consists of cash held with banks and cash held in trust. Because of short maturity of these investments, the carrying amounts approximate their fair values.

(f) *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. Expenditures for new facilities or equipment and expenditures that extend the useful lives of existing facilities or equipment are capitalized and depreciated using the straight-line method at rates sufficient to depreciate such costs over the estimated productive lives.

Construction in progress primarily represents the renovation costs of plant, machinery and equipment. Costs incurred are capitalized and transferred to property and equipment upon completion, at which time depreciation commences. Cost of repairs and maintenance is expensed as incurred.

The Groups depreciation rates on fixed assets other than construction in progress are as follows:

	Useful life (in years)
Building	25
Office equipment	10
Manufacturing equipment	5
Vehicles	5
Computer hardware	5

Gains and losses on the disposal of property, plant and equipment are determined by comparing proceeds with the carrying amount and are included in the consolidated statement of operations and comprehensive income.

CBp CARBON INDUSTRIES, INC.

Notes to the Consolidated Financial Statements

For the year ended June 30, 2009

(Expressed in U.S. Dollars)

2. Significant Accounting Policies (continued)

(g) *Intangible Assets*

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets are not capitalized and expenditure is recognized in the consolidated statement of operations and comprehensive income in the year in which the expenditure is incurred.

Identifiable intangible assets with finite lives are amortized on a straight-line basis over the useful economic life of the asset.

(h) *Recoverability of Long Lived Assets Including Goodwill and Other Acquired Intangible Assets*

We review property and equipment and intangible assets, excluding goodwill, for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. We measure recoverability of these assets by comparing the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If property and equipment and intangible assets are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds its fair market value. In addition, we test our goodwill for impairment at least annually or more frequently if events or changes in circumstances indicate that this asset may be impaired. Our tests are based on our single operating segment and reporting unit structure.

(i) *Revenue recognition*

The Group recognizes revenue, net of any taxes, when persuasive evidence of a customer or distributor arrangement exists or acceptance occurs, receipt of goods by customer occurs, the price is fixed or determinable, and the sales revenues are considered collectible. Subject to these criteria, the Company generally recognizes revenue at the time of shipment or delivery to the customer, and when the customer takes ownership and assumes risk of loss based on shipping terms.

(j) *Interest Income*

Income is recognized as interest accrues (using the effective interest rate, which discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

(k) *Operating leases*

All of the current leases held by the Group are determined as operating leases. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. No accrual has been included to recognize the outstanding commitments on the term of the operating lease (refer Note 10). Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of operations and comprehensive income on a straight-line-basis, over the period of the leases, where material.

(l) *Stock-based payment transactions*

Common stock, stock options and stock warrants issued to employees or directors are recorded at their fair values estimated at grant date using the Black-Scholes model and the portion that is ultimately expected to vest is recognized as compensation cost over the requisite service period.

CBp CARBON INDUSTRIES, INC.

Notes to the Consolidated Financial Statements
For the year ended June 30, 2009
(Expressed in U.S. Dollars)

2. Significant Accounting Policies (continued)

(m) *Valuation of trading securities*

The Group values investments in securities that are freely tradable and are listed on a national securities exchange at their last sales price as of the last business day of the period. Other securities traded in the over-the counter market and listed securities for which no sale was reported on that day are valued at their last reported "bid" price if held long, and last reported "asked" price if sold short.

The Group records its derivative activities on a mark-to-market or fair value basis. Market values are determined by using quoted market values when available. Otherwise, fair values are based on industry-accepted models or confirmation with counterparties.

Investments in securities and securities sold, not yet purchased are measured at fair value. Fair value is generally based on quoted market prices. If quoted market prices are not available, fair value is determined based on other relevant factors, including dealer price quotations, price activity for equivalent instruments and valuation pricing models.

ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Group. Unobservable inputs are inputs that reflect the Group's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Group has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Examples of assets and liabilities utilizing Level 2 inputs are: bonds, certain corporate loans and loan commitments, most over-the-counter ("OTC") derivatives and most structured notes.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement. Examples of assets and liabilities utilizing Level 3 inputs are: restricted stock, real estate and private equity investment portfolio companies, and long-dated or complex OTC derivatives.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Group's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Group uses prices and inputs that are current as of the measurement date, including during periods of market dislocation.

Exchange-traded equity securities

Exchange-traded equity securities are generally valued based on quoted prices from the exchange. To the extent these securities are actively traded, valuation adjustments are not applied and they are categorized in Level 1 of the fair value hierarchy.

CBp CARBON INDUSTRIES, INC.

Notes to the Consolidated Financial Statements
For the year ended June 30, 2009
(Expressed in U.S. Dollars)

2. Significant Accounting Policies (continued)

(n) *Available-for-sale instruments*

Available-for-sale investments are non-derivative financial assets that are either designated in this category or not classified as financial assets at fair value through income, held-to-maturity investments or loans and receivables. Available-for-sale investments are recognized at fair value on the trade date, which is the date that the Group commits to purchase or sell the asset and subsequently re-measured to fair value through equity. If there is no quoted market price in an active market and the fair value can not be reliably measured, the available for sale investments are subsequently carried at cost, including transaction costs and reviewed annually for impairment. When these investments are sold or impaired the accumulated fair value adjustments are included in the statement of operations as net realized gains/losses on financial assets.

(o) *Financial instruments*

Financial assets and financial liabilities are recognized on the consolidated balance sheet when the Group has become a party of the contractual provisions of the instrument.

The Group's financial instruments consist of cash and cash equivalents, trading securities, amounts due from related parties, advances, deposits, accounts payable, amounts due to related parties and borrowings. The fair value of cash and cash equivalents, trading securities, advances, deposits, amounts due to and from related parties, accounts payable and borrowings approximates their carrying values due to the immediate or short term maturity of these financial instruments.

(p) *Earnings (loss) per share*

Basic earnings per share is based on the weighted average number of common shares and participating securities outstanding during the period. Diluted earnings per share include the dilutive effect of additional potential common shares outstanding during the period.

(q) *Income taxes*

Tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. The Group has significant accumulated losses and accordingly has no taxation charge has been recognized in the consolidated statement of operations and comprehensive income.

The Financial Standards Accounting Board ("FASB") issued ASC 740 (previously known as Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109"), which establishes that a tax position taken or expected to be taken in a tax return is to be recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. ASC 740 also permits an entity to recognize interest and penalties related to tax uncertainties either as income tax expense or operating expenses.

The Group recognizes deferred tax liabilities and assets using the liability method. Under this method, deferred tax liabilities and assets are determined based on the temporary differences between the financial statements carrying values and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

CBp CARBON INDUSTRIES, INC.

Notes to the Consolidated Financial Statements
For the year ended June 30, 2009
(Expressed in U.S. Dollars)

3. Subsidiaries

The following subsidiaries of CBp Carbon Industries, Inc. have been included in the consolidated financial statements for the year ended June 30, 2009 (hereafter collectively, together with the Company, referred to as "the Group"):

	Country of incorporation or registration and operation	Proportion of voting rights and ordinary share capital held
Greenwood Commerce Ltd.	British Virgin Islands	100%
Environmental Solutions SRO	Slovakia	100%
CBp Cyprus Limited	Cyprus	100%
Colane Enterprises Limited	Cyprus	100%

4. Trading securities

	2009 Cost	2009 Market Value
Hedge Funds	1,437,548	1,025,882
	\$ 1,437,548	\$ 1,025,882

The Group's trading securities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with ASC 820. There are no liabilities measured at fair value. Assets measured at fair value as of June 30, 2009 are as follows:

Description	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)	Total
Hedge Funds	-	-	1,025,882	1,025,882
	\$ -	\$ -	\$ 1,025,882	\$ 1,025,882

Changes in Level 3 assets and liabilities are measured at fair value on a recurring basis for the period ended June 30, 2009:

	Beginning balance	Realized gains or losses	Unrealized gains or losses	Purchases and sales, net	Transfers in or out of level	Closing balance
Equities	988,266	(123,313)	-	(864,953)	-	-
Hedge Funds	2,641,133	(341,796)	(411,665)	(861,790)	-	1,025,882
Total	\$ 3,629,399	\$ (465,109)	\$ (411,665)	\$ (1,726,743)	-	\$ 1,025,882

CBp CARBON INDUSTRIES, INC.

Notes to the Consolidated Financial Statements
For the year ended June 30, 2009
(Expressed in U.S. Dollars)

5. Property, Plant and Equipment

	2009
Opening balance, July 1	5,397,436
Additions/(Transfers)	
Land	-
Building	-
Leasehold improvements	1,168,600
Construction in progress	4,920,526
Office equipment	15,741
Vehicles	80,424
Computer hardware and software	-
Balance before depreciation	11,582,727
Accumulated depreciation	(28,613)
Effect due to movement in foreign exchange rates	(588,258)
	<u>\$ 10,965,856</u>

All property, plant and equipment is held in Cyprus. Construction in progress consists of manufacturing for a Pyrolysis Plant which is due to be completed during the 2010 fiscal year. As at June 30, 2009, no depreciation has been charged against this equipment as it is not currently operational and is considered work in progress.

6. Available-For-Sale Investments

During the year ended June 30, 2007, the Group purchased 1,514 shares in Terragon Environmental Technologies Inc. ("Terragon") for proceeds of \$50,000. Terragon develops, manufactures and sells pyrolysis solutions for waste and resource processing to governments, militaries and private industries.

During the year ended June 30, 2008, an additional 10,000 common shares were purchased in Terragon for proceeds of \$998,206 under an Investment Agreement (the "Agreement") dated April 15, 2008. Under the Agreement, the Group was also given the option at any time up to April 15, 2009 to purchase an additional 10,000 common shares at a cost of \$1,000,000. The option to purchase further shares in Terragon was not exercised during the year ended June 30, 2009.

On June 30, 2008, a further 6,200 common shares of Terragon were purchased from Thunderlight International Ltd, a related party by virtue of common directorship, for a total consideration of \$620,000. As at June 30, 2009, the overall Group holding represents an 11.89% interest in Terragon.

A valuation, performed by an independent valuer and based on information provided by the directors of Terragon, valued the Group's 11.89% holding in Terragon at \$6,420,000 as at March 31, 2009. Due to the limited review performed, the valuation presented in the valuation report did not represent, in the opinion of the directors, an opinion on the fair market value of the shares and hence the investment was not revalued.

CBp CARBON INDUSTRIES, INC.

Notes to the Consolidated Financial Statements
For the year ended June 30, 2009
(Expressed in U.S. Dollars)

7. License Rights

By agreement dated November 8, 2005 with a company under common control, Greenwood acquired a 25 year license to use certain trademarks and technology relating to the business of tire pyrolysis and recycling of tire components with the primary production of high quality carbon black.

Effective December 1, 2007, this license agreement was terminated and the Company then entered into a Technology Transfer Agreement with the Licensor of the Technology. The agreement assigns 100% of all legal, beneficial and registered title to the invention, any and all patents, copyright and trademarks for the following consideration:

- a) \$4,000,000 paid on December 1, 2007
- b) \$3,500,000 within 30 days of commencement of commercial operations of the first plant;
- c) \$3,500,000 within 30 days of commencement of commercial operations of the second plant;
- d) 10,000,000 common shares and 10,000,000 five year warrants each exercisable at \$2.00 per share of the purchaser on demand.

The Licensor is a related party to the Group by virtue of common ownership.

As at June 30, 2009, no common share or warrant purchases have been exercised by the related party.

8. Issued Capital and Reserves

(a) *Authorized share capital:*

	2009
10,000,000 Series A preferred shares of par value \$0.001 each	10,000
90,000,000 Series B preferred shares of par value \$0.001 each	90,000
900,000,000 ordinary shares of par value \$0.001 each	900,000
	<hr/> \$ 1,000,000 <hr/>

Series A Preferred shares have 100 votes per outstanding share and are not entitled to dividends or to distribution of assets upon either voluntary or involuntary liquidation of the Company. Holders of Series A Preferred shares have the right to convert an aggregate of 50,000 Series A preferred shares to an aggregate of 200,000 ordinary shares for each aggregate \$1,000,000 net profit after tax of the Company.

Series B Preferred shares have one vote per outstanding share, are entitled to an equal share in any dividend paid by the Company and are entitled to an equal share in the distribution of assets upon voluntary or involuntary liquidation. As at June 30, 2009 there are no Series B Preferred Shares in issue.

Ordinary shares have one vote per outstanding share, are entitled to an equal share in any dividend paid by the Company and are entitled to an equal share in the distribution of assets upon voluntary or involuntary liquidation.

CBp CARBON INDUSTRIES, INC.

Notes to the Consolidated Financial Statements
For the year ended June 30, 2009
(Expressed in U.S. Dollars)

8. Issued Capital and Reserves (continued)

(b) Issued and fully paid share capital:

	2009
10,000,000 Series A preferred shares of par value \$0.001 each	10,000
173,721,835 Ordinary shares of par value \$0.001 each	173,722
	<u>\$ 183,722</u>

(c) Additional paid-in Capital

Additional paid-in capital represents amounts received on share subscriptions in excess of their par value.

(d) Employee Equity Benefits Reserve

The employee equity benefits reserve is used to record the value of equity-settled share based payments provided to key management personnel of the Group. Refer to Note 9 for further details on the share option plan.

(e) Shares to be issued

Shares to be issued comprises of 200,000 shares to be issued at \$0.50 each.

9. Share-based Payment Transactions

The expense recognized for employee services received during the year is shown in the following table:

	2009
Expense arising from equity-settled share-based payment transactions	831,488
	<u>\$ 831,488</u>

Executive Stock Option Plan

Under the Executive Stock Option Plan, stock options are granted to senior executives of the Company. During the year ended June 30, 2009, no stock options were granted. The fair value of the options is estimated at the grant date using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the instruments were granted. The contractual life of each option granted is five years. There are no cash settlement alternatives.

Movements in the number of unvested stock options as at June 30, 2009, related compensation costs not yet recognized and weighted average months remaining (WAMR) are as follows:

	Number	Costs not yet realized	WAMR
Unvested stock options as at June 30, 2008	2,005,209	2,631,218	40.29
Stock options vested during the year	(625,000)	(831,488)	-
Unvested stock options as at June 30, 2009	<u>1,380,209</u>	<u>1,799,736</u>	<u>29.36</u>

CBp CARBON INDUSTRIES, INC.

Notes to the Consolidated Financial Statements
For the year ended June 30, 2009
(Expressed in U.S. Dollars)

9. Share-based Payment Transactions (continued)

Movements in the number of stock options outstanding as at June 30, 2009 and their weighted average exercise price (WAEP) are as follows:

	Number	WAEP
Stock options outstanding as at June 30, 2008	8,750,000	\$0.89
Stock options granted during the year	-	-
Stock options outstanding as at June 30, 2009	8,750,000	\$0.89

Stock options outstanding at June 30, 2009 have the following expiry dates and exercise prices:

Expiry date	Number	Exercise price
January 8, 2012	4,500,000	\$1.00
January 8, 2012	3,500,000	\$0.50
July 1, 2012	500,000	\$2.00
March 15, 2013	250,000	\$2.00
	8,750,000	

10. Commitments

a) The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

Year ended June 30,	
2010	16,140
2011	26,898
2012	26,898
2013	26,898
2014	26,898
After five years	645,540
	\$ 769,272

b) Under various management, consulting, rental and plant purchase agreements, the Group has committed to pay certain amounts as follows:

Year ended June 30,	
2010	1,230,492
2011	1,230,492
2012	1,230,492
2013	1,126,688
2014	1,022,880
After five years	126,200
	\$ 5,967,244

CBp CARBON INDUSTRIES, INC.

Notes to the Consolidated Financial Statements
For the year ended June 30, 2009
(Expressed in U.S. Dollars)

10. Commitments (continued)

- c) The Company has signed an agreement with biw AG - BankM for the placement of new shares of the Company and the inclusion of trading on the Entry Standard of the Frankfurt Stock Exchange. The Company plans to offer new shares with a placement volume of up to EUR 50 million which shall be offered in a private placement in European countries and in a public offering (IPO) in Germany. The Company is to issue such number of common shares as consideration on the basis of a resolution of the board and by negotiation with biw AG - BankM. The placement price is to be determined in a book building process. To date, no placement of shares has occurred under the agreement.

11. Related Party Disclosures

In addition to transactions disclosed elsewhere, the Company was involved in the following transactions with related parties:

- a) On November 1, 2004, a management consulting agreement was entered into by Environmental Solutions s.r.o with an officer of the Company and a company controlled by this officer to provide the services of the individual until November 1, 2014 for a fee of \$20,000 per month plus benefits. Per the agreement, the fee shall be reviewed annually. During the year ended June 30, 2009, the fee was increased to €50,000 per month. During the year to June 30, 2009, the Group incurred management fees of \$775,860. An amount of \$185,156 was owing from the officer at year end.
- b) An office facilities agreement has been entered into by the Company with a company controlled by an officer to provide the Company with office space, office staff and general administrative and technical services for a fee of CAD\$20,000 per month for a five year term commencing January 1, 2008. During the year to June 30, 2009, the Group incurred expenses of \$205,996 for these services.
- c) A subsidiary of CBp Carbon Industries entered into a management agreement with an officer on March 15, 2008. The officer was paid management fees of \$20,000 upon signing of the agreement, and \$10,000 per month thereafter. This was increased to \$15,000 per month from July 1, 2008. The officer was given an option to purchase 250,000 common shares at \$2.00 per share for a five year period. During the year the total expense recognized by the Company for the vesting of the options amounted to \$185,743.
- d) A management agreement has been entered into with another director of the Company for provision of services. He shall receive a base rate of \$10,000 per month plus a cost allowance of \$3,500 per month until November 1, 2010.
- e) On December 18, 2008, a management agreement was terminated by an officer of the Company. This officer, until termination date, was receiving a base rate of \$15,000 per month plus a cost allowance of \$2,000 per month.
- f) During the year, the Group paid consulting fees of \$144,436 to a company controlled by an officer of the Company.
- g) Included in professional fees is \$390,756 paid to a company controlled by a director of the Group for legal fees. Included in consulting and management fees is \$163,275 which was paid to a company controlled by another director, for consulting services.
- h) Environmental Solutions s.r.o incurred rental expenses of \$407,657 during the year ended June 30, 2009. These amounts were paid to a company controlled by an officer of the Company.
- i) As at June 30, 2009, the Group had advances receivable totaling \$770,774 from related parties. These advances receivable were unsecured, non-interest bearing and repayable on demand. There were no amounts due to related parties at year end.

CBp CARBON INDUSTRIES, INC.

Notes to the Consolidated Financial Statements
For the year ended June 30, 2009
(Expressed in U.S. Dollars)

12. Financial Instruments

The Group is exposed to a range of financial risks through its financial assets and financial liabilities. These financial risks comprise of credit risk, liquidity risk and market risk (including currency risk and interest rate risk).

In the normal course of operations, the Group may trade in equities and hedge funds. Market risk is affected by such factors as interest rate levels, the size and diversification of positions held, and market volatility.

Market Risk

Market risk represents the potential loss that can be caused by a change in the market value of the financial instrument.

In the normal course of business, the Group invests in equities and hedge funds. The market risk on these instruments is the risk that fair value of future cash flows of the investment will fluctuate due to changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Credit Risk

Credit risk represents the maximum potential loss that the Group would incur if the counterparties failed to perform pursuant to the terms of their agreements with the Group. The Group regularly transacts business with major European financial institutions. There is a concentration of credit risk arising from financial instruments of the Company held with financial institutions in Switzerland to the amount of \$4,305,753.

The Group is subject to credit risk to the extent that the banks and depositors may be unable to fulfill their obligations either to return the Group's securities or repay amounts owed.

Liquidity Risk

Liquidity risk, also referred to as funding risk, is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at, or close to, its fair value. The Group mitigates liquidity risk by maintaining healthy liquid assets in the form of cash balances.

Interest Rate Risk

Interest rate risk represents the possibility of an adverse change in interest rates, which could result in a diminution in value in an interest-bearing financial instrument. The Group is exposed to interest rate risk on its cash and cash equivalent balances.

Currency Risk

In the normal course of business, the Group enters into time deposit and loan facilities denominated in foreign currencies. Generally, these facilities represent future commitments to receive or pay matured amounts at specified future dates, which expose the Group to market risk if the market value of the foreign currency is higher or lower than that at the date the initial transaction is made. During the year the Group incurred losses of \$8,196,907 from entering into such facilities.

CBp CARBON INDUSTRIES, INC.

Notes to the Consolidated Financial Statements
For the year ended June 30, 2009
(Expressed in U.S. Dollars)

12. Financial Instruments (continued)

The Group may also invest in other foreign currency denominated assets which result in the Group being exposed to currency risk. The Group is exposed to risks that the exchange rate of the US dollar relative to other currencies may change in a manner which has an adverse effect on the Groups reported results.

As at the balance sheet date, the Group had the following balances denominated in foreign currencies:

	2009	
Bank and Cash Balances - Canadian Dollar	CAD 3,009,678	
Bank and Cash Balances - Euro	EUR 218,345	
Exchange rates	2009 Average	2009 Closing
Canadian Dollar (per \$1)	1.1651	1.1560
Euro (per \$1)	0.7276	0.7118

The following table demonstrates the sensitivity of the operating statement to a reasonable possible change in the exchange rates of non-trading financial assets and liabilities as at June 30, 2009 and 2008:

Currency	Increase in Foreign Exchange Rate	Sensitivity to income 2009
CAD	1%	26,035
EUR	1%	1,600
		\$ 27,635

A decrease in the foreign exchange rate by 1% would have an equal, but opposite effect to income.

13. Contingent Liabilities

A bonus of two and a half (2.5%) percent, of the cost of the first commercial plant constructed by the Group, shall be payable, in accordance with terms set out by the Group, to a director of the company, 30 days after commencing commercial operations. The Director may elect to take this bonus in cash or stock or a mix thereof. The estimated costs of the first commercial plant are \$5,443,545.

The Group is currently involved in a legal claim in which the Company's subsidiary, Greenwood Commerce Ltd., is acting as a defendant. The amounts claimed include €555,000 plus interest; €1,000 per day delay from the date of judgment and the buy-out of share options for an undisclosed value. A hearing has been scheduled for January 17, 2011 and the outcome cannot be reasonably determined at the present time. Management are of the opinion that no material contingencies are expected to result from this claim.

CBp CARBON INDUSTRIES, INC.

Notes to the Consolidated Financial Statements For the year ended June 30, 2009 (Expressed in U.S. Dollars)

14. Events after the Balance Sheet Date

Events after the balance sheet date up to March 31, 2010, for the Group were as follows:

- a) On August 21, 2009, the Company entered into an agreement with EFG Bank & Trust (Bahamas) Ltd. ("EFG") whereby EFG is to arrange subscribers for a private placement of additional shares of the Company to raise up to \$30,000,000. In exchange for their services, EFG is to receive a commission of 10% of subscription funds received. The agreed time-frame for the introduction to the Company of the potential investors is within sixty (60) days from the presentation of the Company's private placement initiative.

In accordance with the agreement with EFG, the following shares were issued after year end:

- In August 2009, the Company issued 170,000 common shares at \$0.60 per share and 200,000 common shares at \$0.50 per share;
 - In September 2009, the Company received \$550,000 for subscriptions to 916,668 common shares at \$0.60 per share; and
 - In October 2009, the Company received \$300,000 for subscriptions to 750,000 units at \$0.40 per unit. Each unit is to consist of one common share and one warrant with each warrant permitting the holder to purchase an additional common share at \$0.50 until November 1, 2012.
- b) A subsidiary company, Greenwood Commerce Ltd. ("Greenwood") entered into various management and consulting agreements in July 2009, August 2009, November 2009 and January 2010 agreeing to pay aggregate monthly fees totaling \$129,226 for terms ranging from one to ten years. Under the terms of the agreements, Greenwood has also agreed to pay plant construction bonus totaling \$2,600,000 for each plant construct using the Company's technology and to issue stock options in the Company, as they become available, with an initial granting of 6,075,000 shares.
- c) A subsidiary company, Greenwood, has entered into a sponsorship agreement with Manor Grand Prix Racing Limited and Prime Racing Limited for the years 2010 to 2012. For its sponsorship, Greenwood has agreed to pay Manor Grand Prix Racing Limited €2,000,000 in 2010, increasing in 2011 and 2012 by one percent (1%) plus any increase in the consumer price index in England for the 2011 and 2012 years respectively. The annual payments may be made in either Euros or carbon credit equivalents.
- d) On November 25, 2009, the Company entered into an agreement whereby it agreed to transfer, subject to certain conditions, all of the issued and outstanding shares of its wholly owned subsidiary (Greenwood) to Carbon Green Inc. In consideration, the Company is to receive one common share of Carbon Green Inc. for each four issued shares of the Company for an aggregate of approximately 33,000,000 common shares, and one share purchase warrant for each four outstanding purchase warrants of the Company, for an aggregate of approximately 8,000,000 share purchase warrants. The agreement was made effective on January 15, 2010 when all of the terms and conditions of the agreement were met.
- e) On December 2, 2009, the Company entered into an agreement whereby it transferred its assets (including its patents) to Greenwood Commerce Ltd in exchange for all of Greenwood's non-equity interest in, and loans to Energum KFT and CBp Hungary KFT and the equity in, and loans to, Environmental Solutions s.r.o and the issuance of 10,000 shares by Greenwood to the Company.