

CBp CARBON INDUSTRIES, INC.

Consolidated Financial Statements

December 31, 2009

(Prepared by Management)

CBp CARBON INDUSTRIES, INC.
(A Development Stage Company)
Consolidated Balance Sheet
As at December 31, 2009
(expressed in U.S. dollars)

	December 31,	(Restated)
	2009	June 30,
		2009
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,511,408	\$ 3,799,594
Held for Trading Investments	578,121	1,025,882
Accounts receivable	430,706	311,134
Prepaid expenses and deposit	193	65,858
Due from related parties	927,189	770,775
Disposal group assets available for sale – Note 5	<u>157,990</u>	<u>157,990</u>
Total Current Assets	3,605,607	6,131,233
Available-for-sale Investments – Note 7	1,668,206	1,668,206
Property, plant and equipment - Note 6	11,710,173	10,965,856
License rights - Note 8	7,000,000	7,000,000
Trademark	<u>203,966</u>	<u>104,780</u>
Total Assets	\$ 24,187,952	\$ 25,870,075

Prepared by Management
See accompanying notes to the financial statements

CBp CARBON INDUSTRIES, INC.
(A Development Stage Company)
Consolidated Balance Sheet
As at December 31, 2009
(expressed in U.S. dollars)

	December 31, 2009	(Restated) June 30, 2009
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,502,441	\$ 947,284
Commitments - Note 11		
Stockholders' Equity –Note 9		
Preferred Stock	10,003	10,003
Common Stock	174,092	173,722
Additional Paid-in Capital	75,844,947	75,550,445
Shares to be Issued	850,000	100,000
Accumulated Deficit During Development Stage	<u>(54,193,531)</u>	<u>(50,911,379)</u>
	<u>22,685,511</u>	<u>24,922,791</u>
Total Liabilities and Stockholders' Equity	<u>\$ 24,187,952</u>	<u>\$ 25,870,075</u>

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CBp CARBON INDUSTRIES, INC.
(A Development Stage Company)
Consolidated Statement of Operations
For the Period Ended December 31, 2009
(expressed in U.S. dollars)

	Period Ended December 31, 2009	(Restated) Year Ended June 30, 2009
Expenses		
Business development	\$ 202,479	\$ 376,398
Consulting and management fees	1,506,032	3,095,164
Depreciation	-	18,268
Financing	55,000	234,659
Foreign exchange	(123,240)	8,209,894
General and administrative	865,567	2,101,422
Gain/loss on investment – realized	130,724	465,109
Gain/loss on investment – unrealized	(106,533)	411,667
Impairment loss	-	318,372
Legal and accounting	289,228	774,997
Marketing and promotion	415,000	-
Pyrolysis expense	18,164	-
Transfer agent fees	7,269	8,396
Stock-based compensation	92,872	831,488
Wages and benefits	355,868	370,214
Total expenses	3,708,430	17,216,048
Interest income	1,860	680,231
Other income	70,128	12,423
Loss before income taxes	3,636,442	16,535,394
Provision for income tax	-	-
Net loss for the year	\$ 3,636,442	\$ 16,523,394
Net loss per share - basic diluted	\$ 0.02	\$ 0.09
Weighted average number of shares outstanding - basic and diluted	174,396,237	173,192,520

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CBp CARBON INDUSTRIES, INC.
(A Development Stage Company)
Consolidated Statement of Stockholder's Equity
For the Period from Incorporation on September 24, 2004 to December 31, 2009
(expressed in U.S. dollars)

	Common Stock		Preferred Stock		Additional Paid –In Capital	Deficit Accumulated Other Comprehensive Income	Accumulated During the Development Stage	Total
	Issued and allotted		Series A Issued and allotted					
	#	\$	#	\$				
Shares from predecessor company	446,988	447	22,550	3	-	-	-	450
Shares issued on incorporation	1	(a)	-	-	-	-	-	-
Balance, June 30, 2005	446,989	447	22,550	3	(447)	-	(168,000)	(167,550)
Shares allotted for subscription received	31,805,334	31,805	-	-	6,137,196	-	-	6,169,001
Adjustment for reverse acquisition – Note 1 and 3 - reduction of share capital to that of Environmental Solutions, s.r.o. (“SRO”)	-	-	-	-	(6,015,401)	-	-	(6,015,401)
- shares issued to shareholder of SRO to effect reverse acquisition	10,000,000	10,000	10,000,000	10,000	3,965,825	-	-	3,985,825
Shares issued for license agreement – Note 3	20,000,000	20,000	-	-	1,980,000	-	-	2,000,000
Share subscriptions after reverse acquisition	61,034,997	61,035	-	-	8,219,962	-	-	8,280,997
Shares issued for consulting fees	50,000	50	-	-	4,950	-	-	5,000
Shares issued for acquisition of subsidiary – Note 8	400,000	400	-	-	399,600	-	-	400,000
Net loss for the year	-	-	-	-	-	-	(1,303,606)	(1,303,606)
Balance, June 30, 2006	123,737,320	123,737	10,022,550	10,003	14,691,685	-	(1,471,606)	13,353,819
Share subscriptions	24,867,425	24,867	-	-	29,119,883	-	-	29,144,750
Shares issued for consulting fees	50,000	50	-	-	49,950	-	-	50,000
Stock compensation	-	-	-	-	7,555,557	-	-	7,555,557
Net loss for the year	-	-	-	-	-	-	(18,233,610)	(18,233,610)
Balance, June 30, 2007	148,654,745	148,654	10,022,550	10,003	51,417,075	-	(19,705,216)	31,870,516
Share subscriptions	24,317,090	24,318	-	-	21,175,683	-	-	21,200,000
Stock compensation	-	-	-	-	1,576,949	-	-	15,769,949
Total issued	172,971,835	172,972	10,022,550	10,003	74,169,707	-	(19,705,216)	54,647,466
Shares to be issued	-	-	-	-	-	-	-	500,000
Net loss for the year	-	-	-	-	-	-	(14,228,703)	(14,228,703)
Balance, June 30, 2008	172,971,835	172,972	10,022,550	10,003	74,169,707	-	(33,933,919)	40,918,763
(a) Issued at \$0.001								

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CBp CARBON INDUSTRIES, INC.
(A Development Stage Company)
Consolidated Statement of Stockholder's Equity
For the Period from Incorporation on September 24, 2004 to December 31, 2009
(expressed in U.S. dollars)

	Common Stock		Preferred Stock		Additional Paid –In Capital	Deficit Accumulated Other Comprehensive Income	During the Development Stage	Total
	Issued and allotted		Series A Issued and allotted					
	#	\$	#	\$				
Balance, June 30, 2008	172,971,835	172,972	10,022,550	10,003	74,169,707	-	(33,933,919)	40,918,763
Repurchase of shares issued for acquisition of subsidiary	(400,000)	(400)	-	-	(399,600)	-	(100,000)	(500,000)
Share subscriptions	1,150,000	1,150	-	-	948,850	-	-	950,000
Stock compensation	-	-	-	-	831,488	-	-	831,488
Total issued	173,721,835	173,722	10,022,550	10,003	75,550,445	-	(34,033,919)	42,200,251
Shares to be issued	-	-	-	-	-	-	-	(500,000)
Shares to be issued – Note 16	-	-	-	-	-	-	-	100,000
Net loss for the year – (restated)	-	-	-	-	-	-	(16,523,394)	(16,523,394)
Movement due to foreign currency translations	-	-	-	-	-	-	(354,070)	(354,070)
Balance, June 30, 2009	173,721,835	173,722	10,022,550	10,003	75,550,445	-	(50,911,379)	24,922,791
Share subscriptions	370,000	370	-	-	201,630	-	-	202,000
Stock compensation	-	-	-	-	92,872	-	-	92,872
Total issued	174,091,835	174,092	10,022,550	10,003	75,844,947	-	(50,911,379)	25,217,663
Shares to be issued	-	-	-	-	-	-	-	(100,000)
Shares to be issued	-	-	-	-	-	-	-	850,000
Net loss for the period	-	-	-	-	-	-	(3,636,442)	(3,636,442)
Movement due to foreign currency translations	-	-	-	-	-	-	354,290	354,290
Balance, December 31, 2009	174,091,835	174,092	10,022,550	10,003	75,844,947	-	(54,193,531)	22,685,511

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See accompanying notes to the financial statement

CBp CARBON INDUSTRIES, INC.
(A Development Stage Company)
Consolidated Statement of Cash Flows
For the Period Ended December 31, 2009
(expressed in U.S. dollars)

	Period Ended December 31, 2009	(Restated) Year Ended June 30, 2009
Operating activities		
Net loss from continuing operations	\$ (3,636,442)	\$ (16,523,394)
Adjustments to reconcile net income to net cash flows used in operating activities:		
Depreciation	-	18,268
Stock based compensation	92,872	831,488
Unrealized losses on investment	(106,533)	411,667
	<hr/>	<hr/>
Net loss from continuing operations before working capital changes	(3,650,103)	(15,261,971)
Increase in accounts receivable	(119,572)	(311,134)
Increase in trade advances	-	2,567,338
Increase in prepaid expenses and deposit	65,665	237,780
Increase in accounts payable and accrued liabilities	555,157	(365,163)
	<hr/>	<hr/>
Cash flows used in operating activities - continuing operations	(3,148,853)	(13,133,150)
Investing activities		
Repurchase of common shares	-	(500,000)
Held-for-trading investments	554,294	2,191,850
Acquisition of property, plant and equipment	(744,317)	(5,586,688)
Advances to related parties	(156,414)	(309,574)
Acquisition of trademark	(99,186)	(103,966)
	<hr/>	<hr/>
Cash flows used in investing activities	(445,623)	(4,308,378)
Financing activities		
Bank loan	-	(17,335,338)
Share subscription received after reverse acquisition	952,000	550,000
Movement due to foreign currency translations	354,290	(354,070)
	<hr/>	<hr/>
Cash flows from financial activities	1,306,290	(17,139,408)
Net Increase (Decrease) in Cash and Cash Equivalents	(2,288,186)	(34,580,936)
Cash and cash equivalents of continuing operations at beginning of period	<hr/>	<hr/>
	3,799,594	38,380,530
Cash and cash equivalents of continuing operations at end of period	<u>\$ 1,511,408</u>	<u>\$ 3,799,594</u>

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CBp CARBON INDUSTRIES, INC.
(A Development Stage Company)
Notes to the Consolidated Financial Statement
December 31, 2009
(expressed in U.S. dollars)

1. Nature Of Business And Basis Of Presentation

Nature of Business

CBp Carbon Industries, Inc. was incorporated in the State of Nevada on November 7, 2005. The Company was incorporated in the British Virgin Island under the SVI Business Companies Act, 2004 by way of continuation. 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 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 period ended December 31, 2009.

Basis of Preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, which comprise standards issued or adopted by the International Accounting Standards Board and interpretations issued by its Standing Interpretations Committee. They have been prepared under the historical cost convention and are expressed in United States of America dollars.

Going Concern

The Company's financial statements are prepared using accounting principles generally accepted in the United States of America applicable to a going concern which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has an accumulated deficit of \$54,193,531 since its inception on September 24, 2004 through the period ending December 31, 2009 and, as of December 31, 2009, was still in the development stage. Production at the tire recycling plant in Cyprus has commenced subsequent to this period. The accompanying financial statements do not include any adjustments that may be necessary if the Company is unable to continue as a going concern.

Principles of Consolidation

The consolidated financial statements comprise the financial statement of CBp Carbon Industries, Inc. and its subsidiaries as at June 30 each year.

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.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognized in goodwill.

2. Significant Accounting Policies - cont'd

Principles of Consolidation – cont'd

For investments in entities in which CBp Carbon Industries, Inc. has significant influence over operating and financial decisions, generally defined as owning a voting or economic interest of 20% to 50%, CBp Carbon Industries, Inc. applies the equity method of accounting. In instances where CBb Carbon Industries, Inc.'s investment is less than 20% and significant influence does not exist, investments are carried at cost.

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 the 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 income as discontinued operations.

Use of Estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

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 December 31, 2009, cash and cash equivalents consists of cash and cash in trust.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. For significant self-constructed assets, cost includes direct labor and interest. Expenditures for major improvements are capitalized; expenditures for maintenance, repairs and minor improvements are charged to expense as incurred. Assets are depreciated over their estimated useful lives commencing when the assets are put into use, using the straight-line over the following years:

Buildings	20 years
Manufacturing equipment	6 years
Office equipment	4 years
Vehicles	4 years
Computer software	4 years

2. Significant Accounting Policies - cont'd

License Rights

The license rights enable the Company, through its subsidiary, Greenwood, to use the trademarks and technology related to a patent for enabling the conversion of the by-products of tyre-pyrolysis (heating of scrap automotive tires in the absence of oxygen or other reactants) into a usable substitute for commercial carbon black which is a critical component for the rubber and plastics industries. The license rights are being amortized over the 25 year life of the license agreement.

Intangible Assets

Intangible assets consist primarily of identifiable assets obtained in connection with acquisitions. Identifiable Intangible assets with a determinable life are amortized on a straight-line basis over the life of the asset.

Valuation of Long-Lived Assets

The carrying value of long-lived assets, including any intangible assets and goodwill, is evaluated to determine whether adjustments to these amounts or to the useful lives are required based on current events and circumstances. The carrying value of a long-lived asset is considered impaired when the anticipated cumulative undiscounted cash flow from that asset is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. There were no material impairment losses recorded for long-lived asset in any of the periods presented.

Revenue Recognition

The Company will recognize revenue in accordance with SEC Staff Accounting Bulletin No 104 ("SAB 104") wherein revenue will be recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed and collectibility is reasonably assured.

Foreign Currency Translation

The financial position and results of operations of the Company's foreign subsidiaries are measured using U.S. dollars as the functional currency. Revenue, expenses and non-monetary balance sheet items are translated into U.S. dollars at the rate of exchange prevailing on the transaction dates. Monetary balance sheet items are translated into U.S. dollars at the rate prevailing at the balance sheet date. Any resulting exchange gain or loss is charged to operations.

Investments

Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115") requires that certain investments be classified into available-for-sale or trading securities stated at fair market values. Any unrealized holding gains or losses are to be reported as a separate component of shareholder's equity until realized for available-for sale securities and included in earnings for trading securities. Under FAS 115, at December 31, 2009, the Company's investments in long-term investment securities carried at cost the amount of \$1,668,206 would be classified as available-for-sale securities.

2. Significant Accounting Policies - cont'd

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, held-for-trading investments, accounts receivable, amounts due from related parties, prepaid and deposits, investments, and accounts payable and accrued liabilities. The Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of cash, cash in trust, amounts due from related parties, accounts payable and accrued liabilities, approximates their carrying values due to the immediate or short term maturity of these financial instruments. The fair market value of long term loan cannot be determined due to lack of comparability of similar market instrument.

Stock-Based Compensation

Expenses for share-based compensation are recognized based on the fair value of the awards granted. The fair value of stock options is estimated at the date of grant using the Black-Scholes option valuation model which was developed for use in estimating the fair value of traded options that have no vesting restrictions and that are fully transferable. Option valuation methods require the input of highly subjective assumptions, including the expected stock price volatility. Measure compensation cost is recognized over the vesting period of the related share-based compensation award.

Advertising Expenses

Advertising expenses are expensed as incurred.

Earnings (Loss) Per Share

The Company computes net income (loss) per share in accordance with IAS 33, "Earnings per Share". Basic earnings (loss) per share is computed using the weighted average number of shares outstanding during the period. Diluted earnings (loss) per share gives effect to all dilutive potential common shares outstanding during the period.

Income Taxes

The current income tax charge 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 Company 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.

2. Significant Accounting Policies - cont'd

Accounting for Derivative Instruments and Hedging Activities

Derivative contracts are recognized as either assets or liabilities in the balance sheet and are measured at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge, the objective of which is to match the timing of gain or loss recognition on the hedging derivative with the recognition of (i) the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk or (ii) the earnings effect of the hedged forecasted transaction. For a derivative not designated as a hedging instrument, the gain or loss is recognized in income in the period of change.

The Company has not entered into derivative contracts either to hedge existing risks or for speculative purposes.

3. Subsidiaries

The following subsidiaries of CBp Carbon Industries, Inc. have been included in the consolidated financial statements for the period ended December 31, 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.	BVI	100%
Environmental Solutions SRO	Slovakia	100%
CBp Cyprus Limited	Cyprus	100%
Conlane Enterprisses Limited	Cyprus	100%

As explained in note 5, a decision was made during the year ended June 30, 2007 to dispose of CBp Carbon Hungary Kft and Energum Waste Recycling Kft with effect on June 30, 2008.

4. Business Combination

Acquisition Of Conlane Enterprises Limited (“Conlane”)

On March 21, 2008 (“date of acquisition”), CBp Cyprus Ltd., a subsidiary of CBp Carbon Industries, Inc. entered into an agreement with the soled shareholder of Conlane Enterprises Limited whereby CBp Cyprus Limited would acquire all of the outstanding shares of Conlane in exchange for cash consideration of €2,802,106, which was paid during the year ended June 30, 2008. During the period from the date of acquisition to June 30, 2008, Conlane incurred a net operating loss of €11,489.

CBp CARBON INDUSTRIES, INC.
(A Development Stage Company)
Notes to the Consolidated Financial Statement
December 31, 2009
(expressed in U.S. dollars) – Page 6

4. Business Combination – cont’d

The fair value of the net assets and liabilities acquired were as follows:

	2008
Non-current assets	2,300,000
Current assets	83,442
<u>Liabilities</u>	<u>-</u>
Total	<u>2,383,442</u>
<u>Cost of business combination</u>	<u>2,802,106</u>
<u>Goodwill</u>	<u>€ 418,664</u>

The goodwill realized on the acquisition on Conlane Enterprises Limited was subsequently written off during the period ended June 30, 2008.

5. Disposal Group Held for Sale

During the year ended June 30, 2007, the Directors of the Greenwood Commerce Ltd. (“Greenwood”), a wholly-owned subsidiary commenced actions to dispose of the its equity interest in its wholly-owned subsidiary , CBp Hungary, which includes Energum and Zolzsden Kft, both wholly-owned by CBp Hungary (collectively referred to as the “disposed group of companies”). On June 30, 2008, Greenwood signed an agreement (the “Agreement”) with Padma Marketing Ltd., a related party by virtue of common ownership to sell its right, title and interest in and to all (100%) of legal and beneficial title to the equity interests of the disposed group of companies in consideration of €100,000, payable on or before October 30, 2008 (equivalent to U.S. \$157,990 as at September 30, 2008). As at December 31, 2009, the amount had not been paid.

The book value of the disposal group as at June 30, 2008 is as follows:

Assets	
Cash	\$ 172,570
Property, plant and equipment	1,413,315
License rights and intangible assets	1,990
Other assets	<u>8,205,198</u>
Total assets	<u>9,793,073</u>
Liabilities	
Accounts payable and accruals	2,020,577
Due to related parties	<u>10,550,047</u>
Total liabilities	<u>12,570,624</u>
Net assets of disposal group	<u>\$ (2,777,551)</u>

CBp CARBON INDUSTRIES, INC.
(A Development Stage Company)
Notes to the Consolidated Financial Statement
December 31, 2009
(expressed in U.S. dollars) – Page 7

5. Disposal Group Held for Sale – cont'd

Balances due to related party related to advances received by CBp Hungary and Energum from other Group companies. These advances were forgiven as part of the sale.

During the year ended June 30, 2008, the disposal of the group of companies resulted in an impairment loss of \$1,940,074 recognized in the statement of operations.

6. Property, Plant and Equipment

	<u>Dec 2009</u>	<u>June 2009</u>	<u>June 2008</u>
Opening balance, July 1	\$ 10,965,856	\$ 5,397,436	\$ -
Addition/(Transfer)		(587,300)	
Land	-	-	1,633,661
Building	-	-	347,658
Leasehold improvement	-	1,168,600	417,416
Manufacturing & office equipment	890,984	4,920,526	2,951,637
Office equipment	-	15,741	894
Vehicles	-	80,424	56,957
Computer and software	1,004	-	1,468
		<hr/>	
Balance before depreciation	11,857,844	10,995,427	5,409,691
Accumulated depreciation	(29,571)	(29,571)	(12,255)
		<hr/>	
	<u>\$ 11,828,273</u>	<u>\$ 10,965,856</u>	<u>\$ 5,397,436</u>

No depreciation has been charged against manufacturing equipment as it is not currently operational and is considered work in progress.

7. Available-For-Sale Investments

As of December 31, 2009, the Group invested in Terragon Environmental Technologies Inc. (“Terragon”) for a total of \$1,668,206. The overall Group holding represents an 11.89 % interest in Terragon. Terragon develops, manufactures and sell pyrolysis solutions for waste and resource processing to governments, militaries and private industries.

8. 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.

8. License Rights – Cont'd

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 parents, copyright and trademarks for the following consideration:

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

9. Issued Capital and Reserves

- a) Authorized share capital

	<u>2009</u>	<u>2008</u>
10,000,000 Series A preferred shares of par value U.S. \$0.001 each	10,000	10,000
90,000,000 Series B preferred shares of par value U.S. \$0.001 each	90,000	90,000
900,000,000 ordinary shares of par value U.S. \$0.001 each	<u>900,000</u>	<u>900,000</u>
	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>

Series A Preferred shares have 100 votes per outstanding share and are not entitled to dividends or 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 2000,000 ordinary shares for each aggregate U.S. \$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 December 31, 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.

10. Share-Based Payment Transactions

The expense recognized for employees services received during the period is shown in the following table:

	December 31, 2009	June 30, 2008
Expense arising from equity-settled share-based payment Transactions	<u>\$ 92,872</u>	<u>\$ 831,488</u>

Executive Stock Option Plan

Under the Executive Stock Option Plan, stock options are granted to senior executives of the Company. Of the stock options granted during the year ended June 30, 2007 5,500,000 are vested immediately on grant date and 2,500,000 vest over a period of 60 months commencing from the 30th day after the grant date. The fair value of the options is estimated at the grant date using the Black-Scholes option pricing mode, 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 alternative. 2,500,000 stock options have been cancelled due to resignation of an executive.

Stock options outstanding as at December 31, 2009 5,750,000

Stock options outstanding at December 31, 2009 have the following expiry dates and exercise prices:

Expiry date	Number	Exercise Price
January 8, 2012	3,000,000	\$ 1.00
January 8, 2012	2,500,000	0.50
March 15, 2013	<u>250,000</u>	2.0
	<u>5,750,000</u>	

The weighted average fair market value of options granted during the year ended June 30, 2008 is U.S. \$1.66 per option. The following table shows the inputs to the model used to determine the fair value of options granted for the year ended June 30, 2008.

Risk-free interest rate (%)	4.07
Expected life of options (years)	5
Dividends yield (5)	-
Expected volatility	36.42
Model used	Black-Scholes

No options were granted during the year ended June 30, 2009.

11. Commitments

- a) Under various management and consulting agreements, the Company has committed to pay certain amounts as follows:

Year ended June 30,	
2010	\$ 1,436,460
2011	1,447,911
Thereafter	<u>4,256,541</u>
	<u>\$ 7,140,912</u>

- b) In additions, a bonus account of 5,000,000 common shares has been established to be released to the President of the Company, or his designee, as to one share for each U.S. \$6 of grants received by the Company up to January 8, 2010.
- c) The Company has signed an agreement with biw AG – Bank M 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.
- d) A subsidiary company, Greenwood Commerce Ltd. (“Greenwood”) entered into various management and consulting agreements in July and August 2009 requiring agreeing to pay aggregate monthly fees totaling \$130,036 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 as they become available, with an initial granting of 5,150,000 shares of Greenwood.
- e) In August 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 an additional 18,000,000 shares of the Company at \$0.60 per share to raise up to \$30,000,000. In exchange for their services, EFG is to receive a commission of 10% of subscription funds received.
- f) A subsidiary company, Greenwood, has entered into a sponsorship agreement for the years 2010 to 2012. For its sponsorship, Greenwood is to pay €2,000,000 in 2010 and €2,000,000 increased by 1% plus any increase in the consumer price index in England for the 2011 and 2012 years. The annual payments may be made in either Euros or carbon credit equivalents.

12. Supplemental Disclosure of Non-Cash Investing and Financing Activities

	<u>2009</u>	<u>2008</u>
Shares issued for consulting fees	-	50,000

13. Related Party Disclosures

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

- a) A management consulting agreement has been entered into by Environmental Solutions SRO 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 Euro 20,000 per month plus and benefits, commencing on November 1, 2004. Per the agreement, the fee shall be reviewed annually and during the year ended June 30, 2009, the fee was increased to Euro 50,000 per month.
- 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.
- c) A subsidiary of CBp Carbon Industries entered into a management agreement with an officer on March 14, 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.
- d) Management agreement has been entered into with a director of the Company for provision of services at a base rate of U.S. \$10,000 per month each plus a cost allowance of U.S. \$3,500 per month until November 1, 2010.
- e) Consulting and legal fees paid to directors totaled \$1,221,225 and management contract was paid \$162,017 during the period.

14. Financial Risk Management

The Group is exposed to a range of financial risks through its financial assets and financial liabilities. Financial assets of the Group include cash at bank, cash in trust, due from related parties and prepaid expenses and deposits. Financial liabilities include accounts payable and accrued liabilities and loans payable.

i) Credit Risk

Credit risk represents the accounting loss that would be recognized at the balance sheet date if a counter party to a financial instrument fails to perform as contracted.

Financial assets that potentially expose the Group to credit risk consist of cash at bank, cash in trust, due from related parties and prepaid expenses and deposits.

The extent of the Company's exposure to credit risk in respect of these financial assets approximates their carrying values as recorded in the Group's balance sheet.

14. Financial Risk Management – Cont'd

ii) Liquidity Risk

Liquidity risk, also referred to as funding risk, is the risk that the Company 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.

iii) Market Risk

Market risk represents the potential loss that can be caused by a change in the market value of the Group's financial instruments. The Group's exposure to market risk is determined by a number of factors, including interest rates and market volatility.

Foreign Currency Risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. As at the balance sheet date, the Company does not have any financial assets or liabilities which expose it to significant foreign currency risk.

Interest Rate Risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Floating rate instruments expose the Group to cash flow interest rate risk whereas fixed rate instruments expose to the Group to fair value interest rate risk. At balance sheet date the Group does not have financial instruments which expose it to significant interest rate risk.

15. Subsequent Events

Issuance of Shares

In September 2009, the Company received \$550,000 for subscriptions to 916,668 common shares at \$0.60 per share; shares are issued in the subsequent period 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. These shares were issued in the subsequent period.

Sale of Assets

On November 25, 2009, the Company entered into an agreement whereby it transferred the 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 and one share purchase warrant for each four outstanding purchase warrants of the Company.

On December 2, 2009, the Company entered into an agreement whereby it transferred its assets (including its patents) to Greenwood in exchange for all of Greenwood's equity in, and loans to, its subsidiary companies, CBp Carbon Hungary and Environmental Solutions SRO plus the issuance of 10,000 shares by Greenwood to the Company. This agreement was signed on January 15, 2010.