

TSXV: CST

MANAGEMENT DISCUSSION AND ANALYSIS,
AS AT MARCH 31, 2012

ENZYMATIC POWER FOR CARBON CAPTURE





MANAGEMENT'S DISCUSSION AND ANALYSIS NINE MONTH PERIOD ENDED MARCH 31, 2012

GENERAL

The following is a discussion and analysis of the unaudited consolidated financial condition and results of operations of CO₂ Solutions, Inc. ("**CO₂ Solutions**" or the "**Company**") for the three and nine-month periods ended March 31, 2012 and 2011. The unaudited condensed interim consolidated financial statements referred to herein include the accounts of the Company, its subsidiary companies and other entities, directly or indirectly controlled by the Company. This discussion and analysis should be read in conjunction with the information contained in the unaudited condensed interim consolidated financial statements and related notes for the nine-month period ended March 31, 2012 prepared in accordance with International Financial Reporting Standards and with the Management's Discussion and Analysis for the year ended June 30, 2011, prepared in accordance with Canadian generally accepted accounting principles. The June 30, 2011 Annual Report of CO₂ Solutions and additional information regarding the Company are available on SEDAR at www.sedar.com. Unless otherwise stated, all amounts specified in this report are expressed in Canadian dollars.

The information contained herein is dated as of May 29, 2012, date of the approval by the Board of the MD&A and the unaudited condensed interim consolidated financial statements.

BASIS OF PREPARATION AND ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company is reporting on this basis in these unaudited condensed interim consolidated financial statements. In the financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 "Interim Financial Reporting" and IFRS 1 "First-time Adoption of International Financial Reporting Standards". Subject to certain transition elections disclosed in Note 18, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at July 1, 2010 and throughout all periods presented, as if these policies had always been in effect. As disclosed in Note 18, there is no impact of transition to IFRS on the company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the company's consolidated financial statements for the year ended June 30, 2011.

The policies applied in these unaudited condensed interim consolidated financial statements are based on IFRS effective for the year ending June 30, 2012, as issued and outstanding as of May 29, 2012, which is the date of approval of the unaudited condensed interim consolidated

financial statements by the Company Board of Directors. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending June 30, 2012 could result in restatement of these condensed interim consolidated financial statements, including transition adjustments recognized on change-over to IFRS.

The unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP annual statements for the year ended June 30, 2011.

FORWARD-LOOKING STATEMENTS

All statements in this Management's Discussion and Analysis that are other than statements of historical facts are forward-looking statements which contain the Company's current expectations about its future results. Forward-looking statements, by their nature, involve risks and uncertainties.

Although the Company believes that the expectations reflected in all of its forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. A number of factors may affect the Company's future results and may cause those results to differ materially from those indicated in any forward-looking statements made by the Company. Other than as required by Canadian securities laws, the Company undertakes no obligation to publicly update or revise any of its forward-looking statements, whether as a result of changed circumstances, new information, future events or for any other reason occurring after the date of this Management's Discussion and Analysis.

COMPANY OVERVIEW

CO₂ Solutions is a leading developer of proprietary technologies for carbon dioxide (CO₂) capture and management. More specifically, the Company is focused on commercializing an enzyme-based enabling technology for efficient CO₂ capture for reuse or sequestration, in the short-term from the processing of various industrial gasses and in the longer-term from fossil fuel-power plants and other large stationary emitters of CO₂.

Since its establishment, the Company has worked on developing its technology platform and assembling a broad patent portfolio. To support this effort, it has raised capital, recruited highly-qualified personnel and established strategic partnerships and alliances.

SECTOR AND POTENTIAL MARKET OVERVIEW

The necessity for the reduction in CO₂ emissions has received global attention in the past few years because of accelerating climate change issues. The consensus among the scientific community, the public and our governments is quite clear; the world is getting warmer due to human activity and global warming is accelerating. 70% of global energy demand is currently met through the burning of carbon-based fuels such as coal and natural gas, and this demand is predicted to double by 2035¹. A central issue to this carbon emissions problem is the fact that large stationary sources of CO₂, such as coal-fired power plants, cement plants, aluminum plants and oil & gas production operations, account for half of all total emissions globally². Globally, there are approximately 8,200 such large industrial sources generating more than 14 billion tons of CO₂ annually, representing half of all worldwide CO₂ emissions from all sources³.

¹U.S. Energy Information Administration

²International Energy Agency (EA) GHG Program

³ibid

This leads to the inescapable fact that, in order to effectively address the climate change challenge, emissions from these large sources must be reduced. While renewables and nuclear energy will gain in prominence, their role will be marginal and fossil fuels will remain the primary energy source for decades to come. Many countries are now attempting to accelerate the development and implementation of technologies that clean carbon dioxide emissions from conventional fossil fuel plants, technologies such as that developed and patented by CO₂ Solutions.

In this respect, our third quarter for the fiscal year ending June 30, 2012 continued this positive trend. In addition to applying our technology to the large scale capture from large industrial sources, we have expanded our field of vision for the application of our technology into potential new market applications which may yield shorter term opportunities for the company to exploit. Examples of these opportunities include the use of our technology for the nearer-term carbon capture and reuse, carbon separation and chemical compound production markets.

RECENT DEVELOPMENTS

Government Regulations

Over the past year, certain governments have taken important leadership roles around the issue of reducing carbon emissions. A number of jurisdictions around the world have now established, or are in the process of developing, GHG cap-and-trade programs. Cap and Trade is a market-based system for managing and reducing industrial greenhouse gas (GHG) emissions.

Canadian provinces (British Columbia, Manitoba, Quebec and Ontario) are working with U.S. states (Arizona, California, New Mexico, Oregon, Washington, Utah and Montana) through the Western Climate Initiative (WCI) to design a cap-and-trade system that will support the transition to a low-carbon economy. WCI is a commitment by its member states and provinces to work together to identify, evaluate and implement policies that tackle climate change at a regional level. This work includes designing a broad-based GHG cap-and-trade system. In fact, late in 2011, the California Environmental Protection Agency Air Resources Board (ARB), confirmed the adoption of the final cap-and-trade regulations scheduled to start in 2013 that place a limit on emissions of heat-trapping gases, like carbon dioxide, in the state. Under the program, the emissions cap will decline over seven years and will require that the 600 power plants, refineries and other industrial facilities that emit 85% of the state's greenhouse-gas emissions cut their emissions. The regulation includes rigorous oversight and enforcement provisions, and is designed so that California may link up with programs in other states or Canadian provinces within the Western Climate Initiative referred to above. This announcement came on the heels of the Province of Quebec, announcement of plans to establish its own cap-and-trade system whereby large industrial plants and other significant sources of carbon dioxide and other GHGs would be required to reduce their emissions on an annual basis beginning January 1, 2013. Bill 89, *An Act to Amend the Environment Quality Act in order to reinforce compliance* was passed in Quebec on October 4, 2011, and confirmed the Province was joining the state of California in this effort and becoming the first Canadian province to start enforcing cap-and-trade regulations for carbon emissions.

Earlier in 2011, the Government of Australia announced a carbon tax to be levied as of July, 2012 for each ton of carbon pollution emitted and on Nov. 8, 2011 Australia passed a bill that would cap emissions and allow companies to trade permits.

Recent Governments steps toward regulation

In March 2012, the US government, through the Environmental Protection Agency (EPA), proposed the first rules to cut carbon dioxide emissions from new U.S. power plants. While the proposal does not dictate which fuels a plant can burn, it requires any new coal plants to use technology to capture and store carbon emissions underground.

The EPA's overall clean-air efforts have divided the power industry between companies that have moved toward cleaner energy and those that generate most of their power from coal.

Under the new standards, coal plants could add equipment to capture and bury underground for permanent storage their carbon emissions. The rules give utilities time to get those systems running, by requiring they average the emissions cuts over 30 years. The EPA believes that CCS technology will be ready soon, sighting that this technology is under development and will become commercially available certainly within the next 10 years".

In early May 2012, South Korea also approved a cap-and-trade system as that country seeks support for new restrictions on factories and power plants in the fastest-growing emitter among industrialized democracies. South Korean emissions' trading is scheduled to start in 2015.

Other regions that have such programs in place, or legislation pending, include Japan, New Zealand, Switzerland, the European Union, 20 U.S. states and one other Canadian province.

These government initiatives continue to demonstrate that, despite the current world economic climate, regulation of carbon dioxide pollution is gaining momentum and is now moving from speculation to fact. With CO₂ Solutions patented technology the Company looks forward to supporting worldwide efforts by industry and governments to efficiently meet regulatory requirements for emissions reductions.

Intellectual Property

CO₂ Solutions continues to hold the broadest portfolio of patents in the field of enzyme enhanced carbon capture. As at March 31, 2012 the Company had, 24 patents issued and 46 pending covering not only the use of carbonic anhydrase with various capture solvents, but also the use of the enzyme in different reactor configurations and in key industrial sectors such as power generation and cement. On May 2 2012, the Company announced that it had received the Notice of Allowance from the U.S. Patent and Trademark Office for the issuance of US20100203619, "CO₂ ABSORPTION SOLUTION". The patent will cover the use of carbonic anhydrase (CA) in any form for carbon capture from a gas stream and with any secondary or tertiary amine solvents. This Notice demonstrates the unique nature of the Company's technology, which uses low-energy amine solvents accelerated by CA to cost-effectively capture CO₂ for reuse or sequestration. CO₂ Solutions leading patent position in the use of carbonic anhydrase for efficient carbon capture protects the Company's game-changing technology's position on a worldwide basis. With CO₂ Solutions portfolio of patents, the Company stands to uniquely benefit from the significant potential of this growing global market.

CO₂ Solutions Enzyme Development Partner Announces Important Technical Progress

In August 2011, Codexis, Inc., CO₂ Solutions enzyme development partner reported important technical progress in its carbon capture program at the CO₂ Capture Technology Meeting sponsored by the U.S. Department of Energy/National Energy Technology Laboratory. Codexis, supported by a grant from the DoE's ARPA-E Recovery Act program, is using its

patented CodeEvolver™ directed evolution technology to develop processes to reduce carbon dioxide emissions from coal-fired power plants. The research program is based on development of customized carbonic anhydrase (CA) enzymes that could catalyze carbon capture under industrial conditions. Data showed CA performance has been improved by about two million fold over natural forms of the enzyme. Evolved CA enzymes are functional and stable in relatively inexpensive, energy efficient solvents for 24 hours at temperatures greater than 90°C. Use of carbon capture solvents with fully developed enzymes is expected to substantially reduce the costs and energy requirements to capture CO₂ produced by coal-fired power plants. Codexis is continuing its joint development of this technology with CO₂ Solutions, Inc. Of particular note was the mention of Codexis' work at the February 2012 ARPA-E Energy Innovation Summit in the keynote presentation discussing ARPA-E's role in meeting 21st century energy needs with American innovation.

Update on Carbon Capture Program with Alcoa

On the process development and engineering front, with respect to the pilot program undertaken jointly with Alcoa, scientists and engineers from the Alcoa Technical Center in Pittsburgh are leading the three-year project, which had an investigation phase that ran through December, 2011. Alcoa received a DOE grant for this project as part of an initiative to find ways of converting captured carbon dioxide emissions from industrial sources into useful products. The continuation of the collaboration agreement with Alcoa has been suspended pending Alcoa's and CO₂ Solutions scientists and engineers completing their techno-economic review of the results of the first phase of the project with a view to determining a work plan for the next phases, and Alcoa's confirming additional DOE funding for the project, including the feasibility of moving to a pilot demonstration phase at an Alcoa manufacturing facility. Working closely with our partner, Procede Group, process modeling and optimization should provide a solid techno-economic basis to pursue this scale-up effort towards this larger scale field testing and ultimate commercial deployment.

OPERATING RESULTS

Comparison between the Three-Month and Nine-Month Periods Ended March 31, 2012 and 2011

Revenues

The Company recorded no revenues for research and development collaborations or product sales for the three-month period ended March 31, 2012 (\$718,224 for the same period in 2011). These revenues previously came from the Collaboration Agreements with Alcoa and the Global Leader, such agreements having been successfully completed in the prior fiscal quarter. As noted above, the Company is currently pursuing new collaboration agreements. The gain from the receipt of the government non-interest bearing loan, reported as Government Aid was \$13,480 for the three-month period ended March 31, 2012 (\$14,000 for the same period in 2011). Revenues for research and development collaborations and product sales were \$1,010,860 for the nine-month period ended March 31, 2012 (\$1,052,511 for the same period in 2011).

Technology platform development

Research and development expenditures, net of investment tax credits and government assistance, decreased by \$267,513 totalling \$80,092 for the three-month period ended March 31, 2012, compared with \$347,605 for the same period in 2011. For the nine-month period ended March 31, 2012, research and development expenditures, net of investment tax credits and government assistance, increased by \$180,390 totalling \$730,104 compared with \$549,714 for the same period in 2011. Decrease or increase in the three-month and nine-month periods

respectively reflect work done internally and by consultants relative to enzyme performance characterization under various industrially relevant operating conditions as well as to explore new avenues for enzyme immobilization and support the Company's commitments under its current or pending collaboration agreements. These expenses will vary based upon on-going collaboration agreements.

During the previous fiscal year the Company received notification of an approved maximum refundable contribution of \$250,000, subject to the Company satisfying certain conditions relative to R&D spending, from the Economic Development Agency of Canada towards the Company's research into the treatment of greenhouse gas emissions, of which \$111,820 was received by the Company on March 31st, 2011 and an additional \$138,180 being received on February 7th 2012. The loan was accrued at the time of initial recognition using an estimated capitalization rate of 5%. Balance sheet carrying amounts relate to the required accounting treatment of this loan and the amortization of the recorded benefit.

Business development expenses

Business development expenses amounted to \$157,786 for the three-month period ended March 31, 2012, compared with \$233,256 for the same period in 2011, representing a decrease of \$75,470. For the nine-month period ended March 31, 2012 business development expenses were \$423,180 compared to \$630,077 for the same period in 2011, a decrease of \$206,897. The decreases are primarily attributable to lower business development salaries in the current fiscal year and less professional fees paid in 2012 associated with the negotiation of collaboration agreements.

General and administrative expenses

General and administrative expenses totalled \$389,487 for the three-month period ended March 31, 2012, compared with \$356,083 for the same period in 2011, representing a net increase of \$33,404. For the nine-month period ended March 31, 2012 general and administrative expenses increased \$85,722 to \$1,106,298 (\$1,020,576 in 2011). These increases are related to increases in salary and benefits (primarily non-cash stock-based compensation) for the period offset by a decrease in professional fees and a \$20,000 decrease in government aid.

Financial expenses and interest income

Net financial expense (bank fees, interest and foreign exchange) for the three-month period ended March 31, 2012, was a gain of \$2,528 compared with gain of \$2,807 for the same period in 2011, resulting in a small decrease for the three-month period of \$279. For the nine-month period ended March 31, 2012 net financial expense was a gain of \$41,429 (\$3,414 in 2011). This favorable gain includes \$22,671 from foreign exchange transactions plus interest of \$19,430 from the higher cash balances at the end of the current fiscal quarter.

Loss for the period

The Company recorded a loss of \$611,357, or \$0.01 per share, for the three-month period ended March 31, 2012, compared with a loss of \$201,913, or \$0.0 per share, for the same period in 2011. For the nine-month period ended March 31, 2012 the Company recorded a loss of \$1,193,813, or \$0.02 per share, compared with a loss of \$1,159,143 (\$0.02 per share) for the same period in 2011. No significant factor, other than those described above, contributed to the change in the loss for the quarter or the nine-month period.

SELECTED UNAUDITED QUARTERLY FINANCIAL INFORMATION

The following tables provide a summary of certain elements of financial data regarding the Company for each of the last eight quarters:

	Quarters ended			
	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011
Revenues	\$13,480	\$148,576	\$862,284	\$847,607
Net loss	\$611,357	\$551,863	\$30,593	\$108,410
Net loss per share	\$0.01	\$0.01	\$0.00	\$0.00

	Quarters ended			
	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010 ⁽¹⁾
Revenues	\$732,224	\$243,075	\$91,212	\$0
Net loss	\$201,913	\$467,466	\$489,764	\$598,171
Net loss per share	\$0.01	\$0.01	\$0.01	\$0.01

(1): data have not been adjusted to reflect the new standards IFRS. Only fiscal 2011 and 2012 data were adjusted.

CASH FLOWS

Cash and term deposits totalled \$3,499,242 as at March 31, 2012, compared with \$876,831 as at March 31, 2011. This increase in cash is a result of the proceeds received from the private placement financing completed in August 2011.

Cash flow related to operating activities

For the three-month period ended March 31, 2012, cash flow required for operating activities amounted to \$508,021 compared with cash flow required of \$972,372 for the same period in 2011. This \$464,351 decrease is attributable primarily to the higher loss for the period offset by changes in the non-cash working capital items. For the nine-month period ended March 31, 2012 the required cash flow was \$558,783 compared to \$1,486,581 for the same period in 2011. This decrease of \$927,798 is mainly due to the slight improvement in revenue and changes in the non-cash working capital items.

Cash flow related to investment activities

For the three-month period ended March 31, 2012, cash flow required by investment activities amounted to \$129,451 compared with cash flow generated of \$469,925 for the same period in 2011, a difference of \$599,376. This difference is mainly attributable to a decrease in fiscal 2012 in the level of term deposits (prior to private placement financing) and increased investments in patents. For the nine-month period ended March 31, 2012 cash flow required amounted to \$63,488 compared to \$1,475,462 generated for the same period in 2011. The decrease of \$1,538,950 is attributable primarily to the decrease in term deposits from \$1,595,494 in 2011 to \$187,628 in 2012.

Cash flow related to financing activities

The cash flow generated by financing activities for the three-month period ended March 31, 2012, amounted to \$127,048 compared with \$98,356 for the same period in 2011. For the nine-month period ended March 31, 2012 cash flow generated from financing activities amounted to \$3,988,400 compared to \$101,239 for the same period in 2011. This increase in cash flow is primarily attributable to the net proceeds from the private placement completed in August 2011 and the receipt of \$127,084 loan from Economic Development Canada.

LIQUIDITY AND SOLVENCY

To date, the Company has financed its operations mainly through cash flow obtained from technology development collaborations, the issuance of capital stock and government assistance.

At March 31, 2012, the Company has \$3,499,242 in cash and \$63,635 in receivables for a total of \$3,562,877 (\$1,327,065 as at March 31, 2011).

On August 31, 2011, CO₂ Solutions announced the close of a brokered private placement offering with net cash proceeds of \$4,043,074. With the receipt of the proceeds from this offering and the close monitoring of operating expenses Management believes the Company has sufficient funds to meet its cash requirements for at least the next 6 quarters.

The Company's access to sufficient long-term capital depends on the ability to generate a profit in the future. This will depend in part on its ability to effectively commercialize its technology, the results of research and development activities, favourable market conditions, and to overall economic conditions. Investments in commercialization activities are used to generate income; however, it is difficult to predict exactly when this income will materialize.

As at March 31, 2012 the Company benefited from credit facilities in the form of an operating line of credit of \$150,000 bearing interest at prime plus 2% and is secured by a universal charge on the company's assets to a maximum of \$225,000. As at March 31, 2012, this operating line of credit was unused.

COMMITMENTS & CONTINGENCIES

As disclosed in Note 19 to the June 30, 2011 audited Consolidated Financial Statements, in July 2011, Revenue Quebec notified Fiducie Financière CO₂ Solution of their intention to modify the tax treatment, and issue an assessment related thereto, relative to certain capital transactions between CO₂ Solutions Inc. and some of its consolidated variable interest entities, namely CO₂ Solution Technologies Inc. and Fiducie Financière CO₂ Solution, which occurred during the December 31, 2008 taxation year of Fiducie Financière CO₂ Solution. On December 29, 2011, that assessment was received by Fiducie Financière CO₂ Solution. The Company's position with respect to this Revenue Quebec assessment remains unchanged, that being Fiducie Financière CO₂ Solution's intent to object to any assessment (such objection having been formally filed on March 29, 2012 with Revenue Quebec) and the opinion of Fiducie Financière CO₂ Solution's that its tax filing position will ultimately prevail, has not changed from that which was disclosed in Note 19 to the June 30, 2011 audited Consolidated Financial Statements. There has been no change in the commitments or contingencies of the Company from those described in the Company's June 30, 2011 audited Consolidated Financial Statements.

INFORMATION REGARDING CAPITAL STOCK

As at May 29, 2012, the number of outstanding common shares, warrants and stock options is respectively 79,187,836, 11,773,968, and 5,464,530.

RELATED PARTY TRANSACTIONS AND OFF-BALANCE SHEET AGREEMENTS

As at March 31, 2012, the Company has recorded a \$475,000 advance from a shareholder with significant influence, bearing no interest and payable under certain conditions (\$475,000 for the same period in 2011). Pursuant to the extension of the agreement with that shareholder in

January 2011, repayment of this advance has now effectively been deferred indefinitely or until certain subsequent agreements may be negotiated between the parties. The amount outstanding is classified as a long-term debt. As at March 31, 2012, there were no other related party transactions nor were there any off-balance sheet agreements.

OUTLOOK 2011-2012

Liquidity and operational effectiveness

As noted earlier, at March 31, 2012, the Company has over \$3.5 million in cash and receivables. In addition, with the collaboration revenue pipeline the Company is currently pursuing, favorable tax credits and its rigorous oversight of expenses, the Company should be able to continue its current projects and pursue new scale-up projects.

Scale-up partnership with Alcoa

The Company continues work on the previously announced pilot program, in collaboration with Alcoa and Codexis, Inc. focused on carbon capture technology designed to sequester industrial carbon emissions from the aluminum manufacturing process and neutralizing the manufacturing by-product material, bauxite residue, to create a commercially viable product.

The \$16.5 million project is the latest innovation from the world's leading aluminum producer and is being funded by Alcoa along with approximately \$13.5 million in funding from the U.S. Department of Energy (DOE) received from an award with the National Energy Technology Laboratory (NETL).

The pilot program, part of Alcoa's ongoing commitment to enhance its operational sustainability, will use an innovative and proprietary induct scrubber technology to capture emissions. The collaboration is intended to devise solutions that treat and utilize a primary byproduct of the aluminum manufacturing process known as alkaline clay, or bauxite residue, as well as other alkaline industrial residuals. This pilot project will test a scrubbing process that combines treated flue gas, enzymes and alkaline clay to create a mineral-rich neutralized product that could be used for environmental reclamation projects. The project is emblematic of how Alcoa is leveraging its extensive R&D capabilities and utilizing game-changing technologies from companies like CO₂ Solutions and Codexis to advance sustainable solutions that can have an impact beyond Alcoa's operations.

Scientists and engineers from Alcoa Technical Center in Pittsburgh are leading the three-year project, which had an investigation phase that ran through December, 2011. The DOE grant was received as part of an initiative to find ways of converting captured carbon dioxide emissions from industrial sources into useful products. Alcoa and CO₂ Solutions scientists and engineers are currently performing a techno-economic review of the results of the first phase of the project with a view to determining a work plan for the next phases of the project, including continued DOE funding for the project and the feasibility of moving to the pilot demonstration phase at a manufacturing facility to be determined by Alcoa.

Additional scale-up opportunities

The production and refining of oil and purification of natural gas represent important market opportunities for CO₂ Solutions' enzymatic technology. There are presently nearly 800 such operations worldwide, generating in excess of 800 million tons of CO₂ emissions annually.⁴

⁴IEA GHG Program

Of particular interest is the opportunity in the Alberta oil sands. Unconventional hydrocarbon production from the oil sands is the subject of concern by some groups due to its higher overall carbon footprint vis-à-vis conventional oil production. This results largely from the combustion of natural gas to produce steam which is injected underground to produce this oil in-situ. As such, both industry and government are focused on ways to reduce emissions from the oil sands, with Carbon Capture and Sequestration being a mitigation option of major interest. However, the cost of this technology is prohibitive to its wide commercial deployment. CO₂ Solutions' enzymatic technology is well positioned to solve this challenge. For carbon capture from in-situ operations, as well as from heavy oil upgrading operations, enzyme-accelerated, low-energy solvents such as MDEA can be employed to provide a lower-cost solution than conventional solvent approaches. CO₂ Solutions is presently in discussions with major oil producers in Alberta towards the scale-up, demonstration and deployment of its technology in the oil sands. Additionally, international opportunities are being explored in the oil and gas sector, including for the removal of CO₂ from natural gas streams such as is produced from shale gas fields.

The Company is continuing its discussions with potential partners from the cement industry who have shown interest in CO₂ Solutions' technology as a potential solution to manage their carbon footprints. We also continue to explore opportunities in the iron and steel industries. Concurrently, the Company has begun to focus on nearer-term market opportunities where the use of CO₂ and the application of our enzymatic technology could start to generate revenue sooner, opportunities that are not dependent upon regulatory changes but for which the economic drivers for capturing carbon are already there. These potential nearer-term markets include carbon capture and reuse, such as what is being explored with Alcoa; carbon separation, e.g. natural gas sweetening (removal of contaminants from native gas streams) and chemical compound production.

Given the positive nature of a number of these discussions, management is confident that at least one additional scale-up partnership will be secured during the balance of 2012.

In addition to the above, CO₂ Solutions' management team will continue to pursue a multi-pronged strategy aimed at advancing its technology development and deployment. The prime focus in the short term will be as follows:

Advancing the industrial readiness of the technology

Leveraging its internal R&D focus and efforts, CO₂ Solutions intends to continue to fully exploit its relationships with Codexis and Procede Group, to bring the best resources to bear in advancing its technology towards commercial readiness. On the enzyme evolution and supply front, Codexis has, and is expected to continue to make significant progress in increasing the industrial stability and longevity of the enzyme catalyst. This will assist in positioning CO₂ Solutions' technology for pilot and larger scale demonstrations under real-world conditions where significant quantities of robust enzymes are required.

In the area of enzyme delivery and management in the carbon capture process, the Company will continue work on parallel technology paths with internal development efforts which leverage the Company's significant expertise in the area of enzyme immobilization. This work is expected to enhance industrial readiness by incorporating leading-edge processes in which the enzyme is delivered to the carbon capture system as micro-sized particles possessing improved tolerance to high-process temperatures. In addition, these particles can be confined to the front-end CO₂ absorption stage (where the enzyme provides the maximum beneficial impact), without being exposed to the harsher, back-end desorption process, leading to improved system economics.

Leveraging government funding for development and scale-up

To further support its technology validation and scale-up efforts, CO₂ Solutions has confidence that it can continue to tap into beneficial government funding programs in Canada, the U.S. and abroad, and with strategic partners. In Canada, the Company remains hopeful that the Federal Government will see the significant economic and environmental value that exists in supporting home grown, exportable carbon capture technologies such as CO₂ Solutions' that have the potential to significantly reduce the current high cost of carbon capture in Canada and internationally. In western Canada the Alberta GHG reduction process has opened up new opportunities for joint projects to manage CO₂ emissions in the oil sands sector. CO₂ Solutions is actively working on partnerships to advance our technology for use in this sector. In the U.S., in addition to the ARPA-E project with Codexis, and the U.S. Department of Energy support of the Alcoa project, CO₂ Solutions will continue to pursue funding opportunities where possible for its technology, with the possibility of exploiting cross-border clean technology initiatives. The announcements made by the State of California Air Resources Board, Australia and the Canadian provinces of Alberta and Quebec, along with the Western Climate Initiative continue to reflect the trend of governments around the world viewing the GHG issue as critical. This trend supports our beliefs that additional regulation will be forthcoming.

Continued expansion of intellectual property dominance

As the world searches for innovative solutions to lower the current cost barrier to CO₂ capture, continuing along the trend started in past years, and the continued growth in industry interest in the potential of enzyme-enabled carbon capture, largely pioneered by CO₂ Solutions, has emerged as a focal point in its own right. This is particularly the case south of the border, where the United States' government has recently invested millions of dollars in enzyme-related projects. It is fortunate that the Company has a broad international patent position in the field which will both allow it to commercialize its technology and block potential competitors from entering the market. In this regard, CO₂ Solutions will continue to expand its intellectual property dominance with the filing of new patents. As noted previously, On May 2 2012, the Company announced that it had received the Notice of Allowance from the U.S. Patent and Trademark Office for the issuance of US20100203619, "CO₂ ABSORPTION SOLUTION". The patent will cover the use of carbonic anhydrase (CA) in any form for carbon capture from a gas stream and with any secondary or tertiary amine solvents. This Notice demonstrates the unique nature of the Company's technology, which uses low-energy amine solvents accelerated by CA to cost-effectively capture CO₂ for reuse or sequestration. Near-term commercial applications exist for the technology, such as the processing of various industrial gasses, as well as potential long-term markets, such as flue gas treatment in the power generation and oil industry.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our unaudited condensed interim consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, IAS 34, "Interim Financial Reporting". These are the Company's third quarter consolidated financial statements prepared in accordance with IFRS; in consequence the Company explains its choices related to IFRS 1, "First-time Adoption of International Financial Reporting Standards", in Note 18 of the financial statements.

The Company has consistently applied the same accounting policies in its opening IFRS consolidated statement of financial position at July 1, 2010 and throughout all periods presented, as if these accounting policies had always been in effect. Note 18 of the financial statements for the quarter ended March 31, 2012 discloses the impact of the transition to IFRS on the Company's reported consolidated equity, consolidated statement of comprehensive loss, including the nature and effect of significant changes in accounting policies from those used in

the Company's consolidated financial statements for the year ended June 30, 2011. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending June 30, 2012 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on changeover to IFRS.

The full description of accounting policies and estimates are presented in the relevant section of the Company's financial statements for the quarter ended March 31, 2012.

Estimates, assumptions and judgements are continually evaluated by the Company and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates, assumptions and judgments concerning the future. The estimates, assumptions and judgments that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below. Actual results could differ from these estimates.

FUTURE ACCOUNTING CHANGES

The IASB issued the following standards which are relevant but have not yet been adopted by the Company: IFRS 9, Financial Instruments, IFRS 10, Consolidated Financial Statement, IFRS 13, Fair Value Measurement and amended IAS 1, Presentation of Financial Statements. Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted except for the amendment to IAS 1 which is effective for annual periods beginning on or after July 1, 2012 and IFRS 9 which is effective for annual periods beginning on or after January 1, 2015. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

The following is a brief summary of the new standards and amendment:

IFRS 9 – Financial instruments

IFRS 9 was issued in November 2009. It addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39, Financial Instruments – Recognition and Measurement, for debt instruments with a new mixed measurement model with only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

IFRS 10 – Consolidation

IFRS 10 was issued in May 2011. It requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the

ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

IFRS 13 – Fair Value Measurement

IFRS 13 was issued in May 2011. It is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

IAS 1 – Presentation of Financial Statements

Amendment to IAS 1 – Presentation of Items of other comprehensive Income: IAS 1 has been amended to change the disclosure of items presented in Other Comprehensive Income ("OCI"), including a requirement to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss in the future.

RISK FACTORS AND UNCERTAINTIES

The Company's activities are subject to some risk factors that generally affect biotechnology companies. The profitability of the Company will depend on its ability to successfully develop its technologies, to preserve its intellectual property rights, to maintain its highly qualified personnel, to conclude strategic alliances, research and development partnerships, and strategic out-licensing agreements. These activities require important financial investments. Therefore, the Company's ability to obtain necessary liquidities to finance its activities is essential to ensure future success and is as such an additional risk factor. The reader is referred to the applicable general risk and uncertainties described in CO₂ Solutions most recent Annual Report under the heading "Risk Factors and Uncertainties".

INTERNAL CONTROL OVER FINANCIAL REPORTING

Internal control over financial reporting ("ICFR") is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its compliance with IFRS in its financial statements. The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining disclosure controls over financial reporting to the issuers. They established the internal control over financial reporting or had it established under their supervision in order to obtain reasonable assurance about the reliability of the financial reporting and to make sure that the financial statements were being prepared accordingly with IFRS.

The Chief Executive Officer and the Chief Financial Officer have evaluated whether there were changes to its ICFR during the quarter ended March 31, 2012 that have materially affected, or that are reasonably likely to materially affect its ICFR. No such changes were identified through their evaluation.

AUDITORS

This Management's Discussion and Analysis and the condensed interim consolidated financial statements for the three and nine month periods ended March 31, 2012 and 2011 have not been audited nor reviewed by the external auditors

ADDITIONAL AND CONTINUOUS DISCLOSURE

This analysis was prepared on May 29, 2012. Additional disclosure is provided on the SEDAR Web site at: www.sedar.com.

On behalf of management,



Thom Skinner, CA
Senior Vice President, Finance
and Chief Financial Officer



Glenn R. Kelly
President and Chief Executive Officer

May 29, 2012