TSXV: CST

MANAGEMENT DISCUSSION AND ANALYSIS,
AS AT SEPTEMBER 30, 2011

ENZYMATIC POWER FOR CARBON CAPTURE

CO2 SOLUTIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FIRST QUARTER ENDED SEPTEMBER 30, 2011

GENERAL

This management analysis of the unaudited operating results and the consolidated financial condition of CO_2 Solution, Inc. ("**CO_2 Solution**", the "**Company**", or the "**Corporation**") is for the first quarters ended September 30, 2011 and 2010. These condensed interim consolidated financial statements 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 three-month period ended September 30, 2011 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. Unless otherwise specified, all numbers are expressed in Canadian dollars.

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 has started reporting on this basis in these condensed interim consolidated financial statements. In the financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These 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 of these interim financial statements, 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 form those used in the company's financial statements for the year ended June 30, 2011.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of November 23, 2011, which is the date of approval of the condensed interim consolidated financial statements by the Company Board of Directors, and effective as of June 30, 2012. 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

These 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.

The condensed interim consolidated financial statements of CO_2 Solution Inc. for the first quarter ended September 30, 2011 as well as the corresponding comparative data have not been subject to review by the Company's independent auditors.

TRANSITION TO IFRS

The company's condensed interim consolidated financial statements have been prepared in accordance with IAS 34. These are the company's first financial statements prepared under IAS 34 and IFRS 1, First-time Adoption of IFRS, has been applied. The company's transition date is July 1, 2010, (''transition date''). The Company prepared its opening IFRS statement of financial position at that date.

As at July 1, 2010, September 30, 2010 and June 30, 2011 and for the three-month period ended September 30, 2010 and the years ended June 30, 2011 and 2010, there is no effect on equity or on the statement of loss and comprehensive loss and on cash flows arising from the transition to IFRS.

The company has applied the following transition exceptions and exemptions to full retrospective application:

Topic	***International standards***	***Management's election***
Business combinations	*IFRS 1 permits entities to elect not to restate business combinations which occurred prior to Transition date.*	*Management has taken this IFRS election. There is no financial impact at transition date due to this choice*
Stock option costs	*IFRS 1 provides alternatives that permit an entity to apply IFRS 2 share-based payments in a prospective manner*	*Management has elected to apply IFRS 2 prospectively on July 1, 2003. There is no financial impact at transition date due to this choice*

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

CO_2 Solution is a leading developer of proprietary technologies for carbon dioxide (CO_2) capture and management. More specifically, the Company is currently focused on commercializing an enzyme-based enabling technology for efficient CO_2 capture from fossil fuel-power plants and other large stationary emitters of CO_2.

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 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. The main contributor to this acceleration is carbon dioxide emitted from the use of fossil fuels to meet our ever increasing energy appetite; an appetite which is forecast to double by 2035. 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. In addition, the unfortunate Japan tsunami disaster of this past March, and its devastating effect on a major Japanese nuclear power-generating facility, has thrown a question mark over nuclear energy use worldwide. Many countries are now trying 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 CO_2 Solution.

In this respect, our first quarter for the fiscal year ending June 30, 2012 continued this positive trend. It was, once again, a record setting quarter in terms of commercial and technical progress that built upon the very significant achievements of fiscal 2011. Additional milestones were set, and met, moving us further down the path towards commercial deployment of our unique, game-changing and patented carbon capture technology.

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, Ontario) are working with U.S. states (Arizona, California, New Mexico, Oregon, Washington, Utah, 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.

Recent Governments steps toward regulation-
In July 2011, the Province of Quebec, announced 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. Also in July of 2011, the Government of Australia established a carbon tax to be levied as of July, 2012 for each ton of carbon pollution emitted. The Australian carbon price mechanism will then transition in July, 2015 to an emissions trading scheme where the price will be determined by the market. Finally, just recently, in an announcement made on October 20, 2011 by the state of California Environmental Protection Agency Air Resources Board (ARB), the California 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.

These recent government initiatives show that regulation of carbon dioxide pollution is gaining momentum and is now moving from speculation to fact. With our patented technology the Company looks forward to supporting worldwide efforts by industry and governments to efficiently meet regulatory requirements for emissions reductions.

Intellectual Property

CO_2 Solution continues to hold the broadest portfolio of patents in the field of enzyme enhanced carbon capture. As at September 30, 2011 the Company had, 23 patents issued and 31 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. CO_2 Solution's 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 CO_2

Solution's portfolio of patents, the Company stands to uniquely benefit from the significant potential of this growing global market.

CO_2 Solution's enzyme development partner announces important technical progress

In August, Codexis, Inc., CO_2 Solution's enzyme development partner reported important technical progress in its carbon capture program at the CO_2 Capture Technology Meeting being 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^oC. Use of carbon capture solvents with fully developed enzymes is expected to substantially reduce the costs and energy requirements to capture CO_2 produced by coal-fired power plants. Codexis is jointly developing the technology with CO_2 Solution, Inc.

UPDATE ON CARBON CAPTURE PROGRAM WITH GLOBAL LEADER IN ENERGY INFRASTRUCTURE

On August 25, 2011, the Company updated the status of its exclusive collaboration with a global leader in energy infrastructure projects with over $5 billion in annual sales (the "Global Leader") covering the development and pilot scale testing of CO_2 Solution's carbon capture technology (the "Technology") to reduce carbon dioxide pollution from coal and other fossil fired power plants, one of the world's largest sources of greenhouse gas emissions.

The Collaboration Agreement and related Memorandum of Understanding, originally announced December 3, 2010, included an option for the Global Leader to transition the carbon capture program to certain other solvent systems it is developing based on its assessment of the relative potential of the Technology for these systems and upon mutual agreement between the parties. As such, the Global Leader elected to cease work on the original solvent system and provided CO_2 Solution and its enzyme collaborator, Codexis, Inc., with the requisite notice to redirect the work to the other solvent systems and of its intent to negotiate a separate definitive collaboration agreement for these certain other solvent systems.

CO_2 Solution and Codexis have collaborated on the development of customized carbonic anhydrase biocatalysts and processes that could significantly decrease the energy and capital costs associated with the capture of CO_2 from power plant flue gases. Program results to date have shown that combined CO_2 Solution / Codexis proprietary technologies can be used to create and deploy CA biocatalysts with substantially improved stability and performance under harsh industrial conditions.

According to the International Energy Agency's Greenhouse Gas Program, power plants and other large stationary industrial sources worldwide generated aggregate annual carbon dioxide emissions of more than 14 billion tons, representing half of all global emissions of carbon pollution from all sources. CO_2 Solution and Codexis' patented carbon capture technology provides a cost effective answer for the capture and treatment of these harmful emissions. Based on our past internal evaluations and supplemented by the recent technical findings from the program, we believe the intended transition by the Global Leader to the other solvent systems is a positive move which represents greater technical and economic potential.

UPDATE ON CARBON CAPTURE PROGRAM WITH ALCOA

On the process development and engineering front, with respect to our pilot program undertaken jointly with Alcoa, in collaboration with Codexis, Inc., which has focused on carbon capture technology designed to sequester industrial carbon emissions and neutralizing the material to create a commercially viable product, the Company is on track to begin pilot-scale testing at Alcoa's facilities in fiscal 2012. Working closely with our partner, Procede Group, process modeling and optimization of the enzyme with various capture solvents will provide a solid techno-economic basis to pursue this scale-up effort beyond the pilot scale and towards larger scale field testing and commercial demonstrations.

Private Placement

On August 31, 2011 CO_2 Solution announced the closing of a brokered private placement of 18,901,700 units of the Corporation (the "Units") at a price of $0.23 per Unit for aggregate gross proceeds of $4,347,391 (the "Offering"). The Offering was completed on a best-efforts basis by a syndicate of investment dealers composed of National Bank Financial Inc. and Mackie Research Capital Corporation.

Each Unit was comprised of one common share of the Corporation and one-half common share purchase warrant. Each whole warrant entitles its holder to acquire one additional common share of the Corporation at a price of $0.28 per common share until 5:00 p.m. on August 31, 2013. Proceeds of the Offering will be used by the Corporation to strengthen its financial base and provide additional working capital for continued development operations and the pursuit of other market opportunities.

The Corporation received an advance ruling from the Ministère du Revenu du Québec confirming that the Corporation is a qualified issuing corporation for the purposes of the Québec Stock Savings Plan II ("QSSP II") and that the common shares forming part of the Units are qualified shares for a QSSP II qualified mutual fund.

OPERATING RESULTS

Comparison between the three-month periods ended September 30, 2011 and 2010

<u>Revenues</u>
The Company recorded revenues for a research and development collaboration totalling $862,284 for the three-month period ended September 30, 2011 ($91,212 for the same period in 2010). These revenues come from the Collaboration Agreements with Alcoa and a Global Leader in energy infrastructure projects.

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. The loan was accrued to a present value of $97,820 at March 31, 2011, ($100,291 at September 30, 2011), using an estimated capitalization rate of 5%.

Technology platform development

Research and development expenditures, net of investment tax credits and government assistance, increased by $415,495 totalling $493,666 for the three-month period ended September 30, 2011, compared with $78,171 for the same period in 2010. This increase is mainly attributable to 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 collaboration agreements.

Business development expenses

Business development expenses amounted to $138,668 for the three-month period ended September 30, 2011, compared with $160,684 for the same period in 2010, representing a decrease of $22,016, primarily attributable to a decrease in professional fees.

General and administrative expenses

General and administrative expenses totalled $295,004 for the three-month period ended September 30, 2011, compared with $314,389 for the same period in 2010, representing a net decrease of $19,385. This decrease is primarily related to the net of an increase in salary and benefits for the period offset by a decrease in professional fees.

Financial expenses and interest income

Net financial expenses for the three-month period ended September 30, 2011, was a gain of $34,461 compared with a gain of $969 for the same period in 2010, resulting in a net increase in of $ 33,492. This favorable gain includes $35,012 from foreign exchange transactions plus additional interest income from the higher cash balances at the end of the quarter.

Loss for the period

The Company recorded a loss of $30,593, or $0.00 per share, for the three-month period ended September 30, 2011, compared with a loss of $489,764, or $0.01 per share, for the same period in 2010, a decrease in the loss of $459,171 . No significant factor, other than those described above, contributed to the decrease in the loss for the quarter.

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			
	September 30, 2011	**June 30, 2011**	**March 31 2011**	**December 31, 2010**
Revenues	$862,284	$847,607	$732,224	$243,075
Net loss	$30,593	$108,410	$201,913	$467,466
Net loss per share	$0.00	$0.00	$0.00	$0.01

	Quarters ended			
	September 30, 2010	**June 30, 2010(1)**	**March 31, 2010(1)**	**December 31, 2009(1)**
Revenues	$91,212	$0	$10,118	$0
Net loss	$489,764	$598,171	$540,245	$439,477
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.

LIQUID ASSETS AND CASH FLOWS

Cash and temporary investments totalled $4,631,304 as at September 30, 2011, compared with $1,712,375 as at September 30, 2010. This increase in cash is a result of the proceeds received from the private placement financing noted above.

Cash flow related to operating activities

For the three-month period ended September 30, 2011, cash flow generated from operating activities amounted to $29,041 compared with cash flow required of $436,845 for the same period in 2010. This $465,886 increase is attributable primarily to the significant improvement in revenue and the resulting lower loss from operations.

Cash flow related to investment activities

For the three-month period ended September 30, 2011, cash flow generated by investment activities amounted to $140,939 compared with cash flow generated of $250,214 for the same period in 2010, a difference of $109,275. This difference is mainly attributable to a decrease in fiscal 2011 in the level of temporary investments (prior to private placement financing).

Cash flow related to financing activities

The cash flow generated by financing activities for the three-month period ended September 30, 2011, amounted to $3,860,874 compared with nil for the same period in 2010. This increase in cash flow is primarily attributable to the net proceeds from the private placement of August 2011, as described previously. Fees of $490,093 were incurred for this transaction.

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 September 30, 2011, the Company has $4,631,304 in cash, and $356,356 in outstanding trade accounts receivable for a total of $4,987,660 ($1,809,078 as at September 30, 2010).

As noted under recent developments, on August 31, 2011, CO_2 Solution 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 Company's near breakeven operating results for the quarter, management believes the Company has sufficient funds to meet its cash requirements for the foreseeable future.

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 September 30, 2011 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 September 30, 2011, this operating line of credit was unused.

COMMITMENTS

There has been no significant change in the contingencies of the Company from those described in the Company's June 30, 2011 audited financial statements.

INFORMATION REGARDING CAPITAL STOCK

As at November 23, 2011, the number of outstanding common shares, warrants and stock options is respectively 79,187,836, 11,773,968, and 4,535,840.

RELATED PARTY TRANSACTIONS AND OFF-BALANCE SHEET AGREEMENTS

As at September 30, 2011, 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 2010). 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 September 30, 2011, there were on other related party transactions nor any off-balance sheet agreements.

OUTLOOK 2011-2012

Liquidity and operational effectiveness

As noted earlier, at September 30, 2011, the Company has over $4.9 million in liquid assets. In addition, with the collaboration revenues the Company is currently generating, and its rigorous management and oversight of expenses, the Company was close to a breakeven position in its first quarter of fiscal 2012. This bodes well for the Company's ability to continue its current projects and pursue new scale-up projects.

Scale-Up Partnership with Global Leader in Power Generation

The quarter ended September 30, 2011 was a positive one in terms of continued growth and of significant milestones met for CO_2 Solution as the company continued to build on its previous success. Building on the previously executed exclusive technology development agreements with Procede Group B.V., CLEA Technologies B.V., and Codexis, Inc., CO_2 Solution continued work on the first scale-up partnership with a global leader in energy infrastructure and carbon capture technology with over $5 billion in annual sales (the Global Leader). The Collaboration Agreement with this Global Leader covers the development and pilot scale testing of CO_2 Solution's technology for coal-fired power plants, one of the largest global sources of harmful greenhouse gas emissions. The Global Leader has a large existing base of customers to which to deploy these improved capture processes, representing a clear path to market for CO_2 Solution's technology.

On August 24, 2011, CO_2 Solution updated the status of its exclusive collaboration with this Global Leader covering the development and pilot scale testing of CO_2 Solution's carbon capture technology (the "Technology") to reduce carbon dioxide pollution from coal and other fossil fired power plants, one of the world's largest sources of greenhouse gas emissions.

The Collaboration Agreement and related Memorandum of Understanding, originally announced December 3, 2010, included an option for the Global Leader to transition the carbon capture program to certain other solvent systems it is developing based on its assessment of the relative potential of the Technology for these systems and upon mutual agreement between the parties. As such, it was announced that the Global Leader elected to cease work on the original solvent system and provided CO_2 Solution and its enzyme collaborator, Codexis, Inc. with the requisite notice to redirect the work to the other solvent systems and of its intent to negotiate a separate definitive collaboration agreement for these certain other solvent systems.

Based on past internal evaluations and supplemented by the recent technical findings from the program, CO_2 Solution believes the intended transition to the other solvent systems is a positive move which represents greater technical and economic potential.

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 material 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 CO_2 Solution 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 has an investigation phase that runs 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 such as fuels, plastics, cement and fertilizers.

<u>Additional Scale-up Opportunities</u>

Encouraging discussions have are also ongoing with large end-use customers in the cement and oil and gas sectors who are interested in CO_2 Solution's technology as a potential solution to manage their carbon footprints. In some cases, these customers may also have developed, or are developing; proprietary carbon capture processes suited to their specific emission sources which can be significantly enhanced by CO_2 Solution's enzymatic technology. These opportunities represent the potential to work through tailored scale-up and validation programs, both in the lab and in the field, toward eventual commercial scale deployment in their operations and/or licensing to others in their respective industries.

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

In addition to the above, CO_2 Solution's 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:

<u>Advancing the Industrial Readiness of the Technology</u>

Leveraging its internal R&D focus and efforts, CO_2 Solution 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 CO_2 Solution's 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 CO_2 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.

Lastly, on the process development and engineering front, the Company is on track to begin small pilot-scale testing at the Global Leader's facility, in 2012. Working closely with Procede Group, system optimization and modeling of the enzyme with various capture solvents should provide a solid techno-economic basis to pursue this scale-up effort towards larger scale field testing and commercial demonstrations.

Leveraging Government Funding for Development and Scale-Up

To further support its technology validation and scale-up efforts, CO_2 Solution 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 CO_2 Solution's 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 CO_2 emissions in the oil sands sector. CO_2 Solution is actively seeking 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, CO_2 Solution will continue to pursue funding opportunities where possible for its technology, with the possibility of exploiting cross-border clean technology initiatives. The recent 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 CO_2 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 CO_2 Solution, 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, CO_2 Solution will continue to expand its intellectual property dominance with the filing of new patents.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our 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 first interim consolidated financial statements prepared in accordance with IFRS; as a 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 September 30, 2011 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, 2011 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 September 30, 2011.

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

In November 2009, IASB issued IFRS 9 "Financial Instruments: classification and evaluation", a new standard for the classification and measurement of financial assets that will replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 has two categories of evaluation: the amortized cost and fair value. All equity instruments are measured at fair value. Debt instruments are valued at amortized cost amortised only if the entity has the objective to collect the contractual cash flows and cash flow is the principal and interest. Otherwise, they are measured at fair value through net income.

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.

In May 2011, the IASB issued a group of five new standards that address the scope of the reporting entity: IFRS 10, Consolidated financial statements, IFRS 11, Joint arrangements, IFRS 12, Disclosure of interests in other entities, IAS 27, Separate financial statements and IAS 28, Investments in associates.

IFRS 10 replaces all of the guidance on control and consolidation in IAS 27, Consolidated and separate financial statements and SIC-12, Consolidation – special purpose entities. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control focusing on the need to have both power and variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. The renamed IAS 27 continues to be a standard dealing solely with separate financial statements and its guidance is unchanged.

IFRS 11 has changed the definitions of joint arrangements reducing the types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. Entities that participate in joint operations will follow accounting much like that for joint assets or joint operations today.

IFRS 12 sets out the required disclosures for entities reporting under IFRS 10 and IFRS 11 replacing the disclosure requirements currently found in IAS 28. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

These new standards are required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of these standards or determined whether it will adopt the standards early.

RISK FACTORS AND UNCERTAINTIES

CO_2 Solution's activities are subject to a number of risks and uncertainties. These risks and uncertainties have not significantly changed from those stated in the June 30, 2011 Annual Report.

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 September 30, 2011 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 month periods ended September 30, 2011, and 2010, have not been audited nor reviewed by the external auditors.

ADDITIONAL AND CONTINUOUS DISCLOSURE

This analysis was prepared on November 23, 2011. 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

November 23, 2011