MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis (MD&A) of the audited consolidated financial position and results of operations of CO_2 Solutions, Inc. ("**CO_2 Solutions**" or the "**Company**" or "the **Corporation**") for the years ended June 30, 2012 and 2011. The audited consolidated financial statements referred to herein include the accounts of the Company and those of CO_2 Solution Technologies Inc., 9157-4400 Québec Inc., 9157-4426 Québec Inc., 9157-4475 Québec Inc. and Fiducie Financière CO_2 Solution, directly or indirectly controlled by the Company. This discussion and analysis should be read in conjunction with the information contained in the audited consolidated financial statements and related notes for the year ending June 30, 2012 prepared in accordance with International Financial Reporting Standards. Unless otherwise stated, all amounts specified in this MD&A are expressed in Canadian dollars.

The information contained herein is dated as of October 18, 2012.

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 Part I of the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in the consolidated financial statements. In the financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

The consolidated financial statements have been prepared in accordance with IFRS, including IFRS 1 "First time Adoption of International Financial Reporting Standards". The Company has consistently applied the same accounting policies in its opening IFRS statement of financial position as 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 financial statements for the year ended June 30, 2011**.**

FORWARD-LOOKING STATEMENTS

All statements in this MD&A that are other than statements of historical facts are considered as 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 MD&A.

COMPANY OVERVIEW

CO_2 Solutions is a leading developer of proprietary technologies for carbon dioxide (CO_2) capture and management. More specifically, the Company is focused on commercializing an enzyme-based enabling technology for efficient CO_2 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 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 necessity for the reduction in CO_2 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 2035[1]. A central issue to this carbon emissions problem is the fact that large stationary sources of CO_2, such as coal-fired power plants, cement plants, aluminum plants and oil & gas production operations, account for half of all total emissions globally[2]. Globally, there are approximately 8,200 such large industrial sources generating more than 14 billion tons of CO_2 annually, representing half of all worldwide CO_2 emissions from all sources[3]. According to recent studies published by the US National Oceanic and Atmospheric Administration (NOAA), global warming is undeniable with current (2012) emissions already surpassing levels not originally anticipated until the year 2020.[4]

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 those developed and patented by CO_2 Solutions.

In this respect, the year ended June 30, 2012 continued this positive trend. In addition to applying the Company's technology to the large scale capture from large industrial sources, CO_2 Solutions has expanded the field of applications of its technology into potential new markets which may yield shorter term opportunities for the Company to exploit. Examples of these opportunities include the use of this technology for the nearer-term carbon capture and reuse, carbon separation and chemical compound production markets.

[1] U.S. Energy Information Administration
[2] International Energy Agency (EA) GHG Program
[3] Ibid
[4] NOAA (http://researchmatters.noaa.gov/news/Pages/arcticCO_2.aspx)

DEVELOPMENTS OVER THE PAST YEAR

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 which will take effect 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. Since the Intercontinental Exchange first launched California carbon contracts in August 2011, nearly 12 million California carbon allowances (CCAs) forwards and options have cleared on the exchange. Just as many CCAs have changed hands in over-the-counter markets over that same time period. Currently, about $10 million to $20 million worth of California credits are changing hands weekly, which experts believe could grow into a $40 billion a year market by 2020.[5]

This California announcement came on the heels of new legislation in the Province of Quebec where on October 4, 2011, the Province passed into law Bill 89, *An Act to Amend the Environment Quality Act in order to reinforce compliance.* This new law established a Quebec cap-and-trade system whereby large industrial plants and other significant sources of carbon dioxide and other GHG's will be required to reduce their emissions on an annual basis beginning January 1, 2013, Quebec thus becoming the first Canadian Province to start enforcing cap-and-trade regulations for carbon emissions. At the same time Quebec confirmed that the Province was joining the state of California (see above) and linking the two cap-and-trade systems.

Earlier in 2011, the Government of Australia announced a carbon tax which came into effect 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. This announcement was followed by an announcement in August 2012 whereby Australia and the European Union, announced that Australia and Europe will be linking their emissions trading systems, pointing out that linking the Australian and European Union systems reaffirms that carbon markets are the prime vehicle for tackling climate change and the most efficient means of achieving emissions reductions.

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

[5] Reuters, September 6, 2012

dictate which fuels a plant can burn, it requires any new coal plants to use technology to capture and store carbon emissions underground.

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 China, one of the largest world users of coal for power generation who is currently tightening greenhouse gas regulations, 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. Government initiatives in turn are being reinforced by private industry leaders with senior oil executives urging Canadian federal and provincial governments to put a significant price on carbon dioxide to encourage the industry to reduce emissions even as it increases production and accesses new and growing markets. In a September 10, 2012 interview with the Toronto Globe & Mail, Royal Dutch Shell PLC's Canadian president, Lorraine Mitchelmore, said the country needs to address what often appear to be the competing goals of improved environmental performance and greater output of oil and gas, and "carbon management" must be part of that approach.[6]

With CO_2 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

CO_2 Solutions continues to hold the broadest portfolio of patents in the field of enzyme enhanced carbon capture. As at June 30, 2012 the Company had, 25 patents issued and 53 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 October 3, 2012, the Company announced that it was granted U.S. Patent 8,277,769, "Process For Treating Carbon Dioxide Containing Gas". The patent broadly covers the use of the enzyme carbonic anhydrase (CA), or an analogue thereof, for the efficient capture of carbon pollution from various gas streams with any aqueous solvent or solution. Significant industry applications of the patent for carbon management include power generation, oil refining, metals production, cement making, amongst others.

The issuance of this patent represents one of the strongest validations to date of CO_2 Solutions' dominant intellectual property position in the field. In addition, the patent further raises the barrier to entry for any potential competitor to CO_2 Solutions in the field of enzymatic carbon capture, which has seen heightened interest recently from prospective North American commercial partners. The issuance of this patent follows the previously announced allowance of U.S. Patent 8,192,531, "CO_2 Absorption Solution". U.S. Patent 8,192,531 covers the use of CA for carbon capture with any secondary or tertiary amine solvent with significant near-term application in the treating of various industrial gasses, including natural gas processing. Combined, these two patents increase the Company's reach into the growing opportunity for the management and beneficial reuse of carbon dioxide in the United States. This is particularly the case in large jurisdictions such as California, which are implementing cap and trade

[6] The Globe and Mail, September 18, 2012

systems that impose penalties on carbon emissions and can provide economic opportunities for the capture of these emissions.

PRIVATE PLACEMENT

In July 2011 CO_2 Solutions announced its intention to complete a brokered private placement. The Offering was made on a best-efforts basis by a syndicate of investment dealers composed of National Bank Financial Inc. and Mackie Research Capital Corporation.

On August 31, 2011, the Company closed this brokered private placement issuing 18,901,700 units of the Corporation at a price of $0.23 per Unit for aggregate gross proceeds of $4,347,391. Each Unit was comprised of one common share of the Corporation and one-half common share purchase warrant. Each whole warrant entitled 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. (Montreal Time) on August 31, 2013. Proceeds from this brokered private placement are being used by the Company to strengthen its financial base and provide additional working capital for continued development operations and the pursuit of market opportunities.

CO_2 SOLUTIONS COMPLETES INVESTIGATORY PHASE OF COLLABORATION WITH ALCOA

On July 9, 2012 the Company announced the completion of the initial investigatory phase of its carbon capture pilot program with Alcoa, Inc. The project, started in April, 2011, was designed to capture and sequester industrial carbon emissions in alumina production waste, neutralize these materials and then create a commercially viable product.

The program, part of Alcoa's ongoing commitment to enhance its operational sustainability, proposed to use Alcoa's induct scrubber technology to capture carbon dioxide emissions. After capturing the emissions, the technology treats and then uses a primary by-product of the aluminum manufacturing process known as alkaline clay, or bauxite residue, as well as other alkaline industrial residuals.

The initial stage of the project tested Alcoa's gas scrubbing process using enzymatic technology from CO_2 Solutions and Codexis, Inc. Alcoa funded the project, which also received financial contributions from the U.S. Department of Energy (DOE), made available by the American Recovery and Reinvestment Act (ARRA).

The results of the initial phase of the project were reviewed by CO_2 Solutions, Codexis and Alcoa scientists and engineers. The project yielded positive results at bench scale, which confirmed the potential of the enzymatic technology for efficient CO_2 capture from industrial effluent gases.

The following important, positive technical results were noted:

- The use of CO_2 Solutions technology provided for marked increases in CO_2 capture efficiency and the ability to reduce equipment sizing;
- Enzyme stability was noted in the carbonate solvent employed;
- The potential to utilize enzymes to enhance CO_2 capture with a carbonate solvent was confirmed and provides the opportunity to apply this technology approach to other industrial applications.

Unfortunately, the project timeline could not meet the DOE project completion schedule, which called for full commercial deployment by 2014 and consequently it was decided that future contemplated phases of the project would not move ahead. However, while the project is not proceeding as originally

planned, the technical results validate CO_2 Solutions' belief that enzyme-enabled carbon capture technology will become commercially viable for both carbon dioxide capture and sequestration, and the positive results from this program have already led to evaluations of this technology being undertaken with other industrial partners.

CO_2 SOLUTIONS ENZYME DEVELOPMENT PARTNER ANNOUNCES IMPORTANT TECHNICAL PROGRESS

As previously reported, in May 2010, Codexis, CO_2 Solutions' enzyme development partner, received $4.7 million from the U.S. Department of Energy's Advanced Research Projects Agency - Energy (ARPA-E) to develop the enzyme carbonic anhydrase, which catalyzes the transfer of carbon dioxide in nature.

In the research funded by ARPA-E, Codexis saw a two-million-fold improvement in the thermal stability of carbonic anhydrase, at temperatures between 140 and 180 degrees Fahrenheit. In addition, preliminary analysis indicated that enzyme-based carbon capture technology could substantially reduce parasitic energy loss compared to the current state-of-the-art MEA technology.

In July 2012, CO_2 Solutions announced the results of Codexis' enzyme-enabled carbon capture pilot scale technology demonstration.

The pilot-scale demonstration was conducted at the National Carbon Capture Center (NCCC) in Wilsonville, Alabama, and was conducted under a license granted by CO_2 Solutions. The results of the field test, which used flue gas emitted from a Southern Company's power plant, showed that enzymes have tremendous promise to facilitate CO_2 capture at coal-fired power plants. This was the largest scale enzyme-based carbon capture technology demonstration to date, with the equivalent capture rate of 1,800 average sized trees per day.

This achievement was a significant milestone for CO_2 Solutions and Codexis in that the demonstration confirmed the potential of CO_2 Solutions patented enzyme-based carbon capture technology for use in large-scale industrial applications. CO_2 Solutions expects that these results will raise its technology's profile and advance the development of enzyme-enabled carbon capture for power plant emissions.

UPDATE ON CARBON CAPTURE PROGRAM WITH GLOBAL LEADER IN ENERGY INFRASTRUCTURE

On December 5, 2011, CO_2 Solutions 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 Solutions' carbon capture 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 had elected to cease work on the original solvent system and at that time provided CO_2 Solutions with the requisite notice to redirect the work to another solvent system and of its intent to negotiate a separate definitive collaboration agreement for these certain other solvent systems.

Negotiations on the separate definitive collaboration agreement were well advanced, however, in early December 2011 CO_2 Solutions received notice that the Global Leader had decided to stop the negotiations for an unlimited period of time. The Global Leader specifically indicated that their decision was not based upon a judgment of the business potential of the technology.

Based on past internal evaluations and supplemented by the technical findings from the program, CO_2 Solutions always believed the intended transition to the other solvent systems referred to above would have been a positive move representing significant economic potential. Unfortunately, with the world economy in slowdown, many companies took a second look at their investments in development programs and decided to cut back. This is one example of this sort of cutback. This decision by the Global Leader did not reflect on the strength of CO_2 Solutions' technology but rather on the state of the world economic affairs at a time of high uncertainty in the European and North American markets. Given the positive technical results which were achieved, the Company believes it remains well positioned to seek out new partners in the power generation sector, while at the same time continuing to scale-up the technology internally in order to capitalize on better global economic conditions moving forward.

APPLICATION OF CO_2 SOLUTIONS CARBON CAPTURE PROGRAM IN THE ENVIRONMENTAL MANAGEMENT OF THE ALBERTA OIL SANDS

In addition to applying its technology to the large scale capture from large industrial sources, CO_2 Solutions has expanded the field of the application of its technology into potential new markets which may yield shorter term opportunities for the company to exploit. The potential application of this enzymatic carbon capture technology in the Alberta oil sands is one such example.

The path to market for oil from the Alberta oil sands has long been a topic of interest to producers, government organizations, and environmentalists. Reducing the environmental footprint of the oil sands will improve market access. CO_2 Solutions has undertaken a number of discussions with major Alberta oil producers as well as provincial and federal government agencies interested in CO_2 Solutions' carbon dioxide capture technology program and its potential application towards the environmental management of the oil sands. These discussions have been very productive and the Company expects positive developments to be forthcoming in this potential market in the coming months.

SELECTED ANNUAL INFORMATION

	As at June 30		
	2012	**2011**	**2010**
Total revenues	$1,050,216	$1,900,118	$10,118
Loss and comprehensive loss	$1,655,823	$1,267,553	$2,070,444
Loss per share	$0.02	$0.02	$0.04
Total assets	$5,716,563	$2,912,437	$3,765,813
Non-current liabilities	$743,932	$609,422	$37,973

Revenues for 2012 totaled $1,050,216, ($1,900,118 for 2011) and were primarily generated from research and development collaborations between CO_2 Solutions, Codexis, Alcoa and the Global Leader. A decrease in revenue between the periods was the result of the completion of the two above noted projects in mid fiscal 2012.

As at June 30, 2012, the increase in total assets is mainly the result of an increase in cash from the August 2011 brokered private placement and an increase in the Company's patent investments.

Regarding non-current liabilities, this amount is comprised essentially of two items. First, a $475,000 advance which was received from Codexis, Inc. upon signature of the Joint Development Agreement in 2009. This commitment fee does not bear interest and is refundable only if a "subsequent agreement", as defined in the JDA, is executed with Codexis. As at June 30, 2012, there has been no "subsequent agreement" entered into with Codexis, hence the fee is not considered as refundable. Since there can be no determined refund date for this fee and given that Codexis and CO_2 Solutions continue to collaborate on various projects, this fee was reclassified in 2011 as a non-current liability with no known repayment date. The second amount included as a non-current liability is a refundable contribution obtained from Economic Development of Canada of $250,000 which was received in installments over fiscal 2011 and 2012. This contribution is refundable starting July 2013 with annual payments representing 4% of the Company's total income. The loan was accrued at initial recognition at fair value, using an estimated capitalization rate of 5%. The difference of $13,480 ($14,000 for 2011) between the initial fair value and the principal amount of the loan is accounted for as a gain on refundable contribution and is reported in Financial income net in the Consolidated Statement of Comprehensive Loss. Interest expense is recorded in the Consolidated Statements of Comprehensive Loss for $7,724 in 2012 and $1,235 in 2011. The refundable contribution amounted to $231,479 at June 30, 2012 ($99,055 at June 30, 2011).

ADDITIONAL INFORMATION REGARDING RESULTS

	For the years ended June 30,	
	2012	2011
	$	$
Revenues		
Products and Collaborative research and development	**1,050,216**	1,900,118
Costs and operating expenses		
Research and development expenses, net		
Salaries and employee benefits	**782,342**	747,184
Stock-based compensation costs	**31,003**	55,166
Professional fees	**578,346**	846,881
Laboratory and other supplies	**114,301**	128,562
	1,505,992	1,777,793
Tax credits	**(767,365)**	(504,078)
Government assistance	**(1,018)**	(272,162)
	737,609	1,001,553
Business development expenses		
Salaries and employee benefits	**351,955**	406,296
Stock-based compensation costs	**66,379**	43,088
Professional fees	**54,397**	222,869
Travel, entertainment and advertising	**82,432**	96,417
Office expenses	**1,526**	853
	556,689	769,523
General and administrative expenses		
Salaries, employee benefits and other compensation	**472,877**	481,326
Stock-based compensation costs	**111,910**	57,369
Rent, electricity, taxes and insurance	**183,740**	189,907
Office expenses	**71,906**	80,195
Travel, entertainment and advertising	**79,056**	87,476
Tax on capital	**7,273**	3,499
Directors' fees	**86,868**	64,096
Professional fees	**384,812**	386,272
Depreciation of property, plant and equipment	**52,858**	54,967
Amortization of patents	**37,037**	41,612
Amortization of deferred credits	**(10,902)**	(9,456)
Government assistance	**–**	(20,000)
	1,477,435	1,417,263
Financial income, net		
Gain on refundable contribution	**(13,480)**	(14,000)
Other financial expenses	**12,841**	6,940
Interest income	**(33,491)**	(5,643)
Foreign exchange income	**(31,564)**	(7,965)
	(65,694)	(20,668)
	2,706,039	3,167,671
Loss and comprehensive loss for the year	**1,655,823**	1,267,553

OPERATING RESULTS

Comparison between financial years ended June 30, 2012 and June 30, 2011

Revenues

The Company recorded revenues totalling $1,050,216 for the year ending June 30, 2012 ($1,900,118 in 2011). The revenues were generated from research and development collaborations. These collaboration revenues came from the Collaboration Agreements with Alcoa and the Global Leader, such agreements having been successfully completed during the year.

Research and development expenses

Research and development expenses, net of investment tax credits and government assistance, decreased by $263,944 totalling $737,609 for the year ended June 30, 2012, compared with $1,001,553 for the same period in 2011. This decrease between the periods reflects 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.

Business development expenses

Business development expenses amounted to $556,689 for the year ended June 30, 2012, compared with $769,523 for the same period in 2011, representing a decrease of $212,834. The decrease is primarily attributable to less professional fees paid in 2012 associated with the negotiation of collaboration agreements.

General and administrative expenses

General and administrative expenses totalled $1,477,435 for the year ended June 30, 2012, compared with $1,417,263 for the same period in 2011, representing a small increase of $60,172. This net increase is related to increases in Directors' fees (Directors' fees having been increased in January 2012 pursuant to a peer review of current fee scales) and stock-based compensation costs, offset by a decrease in travel, entertainment and advertising expenses.

Financial income, net

Financial income, net for the fiscal year ended June 30, 2012, was an income of $65,694 compared with an income of $20,668 for the same period in 2011, resulting in an increased income year over year of $45,026. Most of this favorable income is related to an increase of $23,599 in foreign exchange income plus an increase of $27,848 in interest income from the higher cash balances in place during the year as a result of the August 2011 brokered private placement.

Loss and comprehensive loss for the year

The Company recorded a loss of $1,655,823, or $0.02 per share, for the year ended June 30, 2012, compared with a loss of $1,267,553, or $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 year.

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			
	June 30, 2012	**March 31, 2012**	**December 31, 2011**	**September 30, 2011[(1)]**
Revenues	$39,356	$0.00	$148,576	$862,284
Loss	$462,010	$611,357	$551,863	$30,593
Loss per share	$0.01	$0.01	$0.01	$0.00

	Quarters ended			
	June 30, 2011	**March 31, 2011**	**December 31, 2010**	**September 30, 2010[(1)]**
Revenues	$847,607	$718,224	$243,075	$91,212
Loss	$108,410	$201,913	$467,466	$489,764
Loss per share	$0.00	$0.01	$0.01	$0.01

(1): fiscal 2011 and 2012 data adjusted to reflect the new standards IFRS.

4TH QUARTER OF 2012

During the last quarter of 2012, the Company recorded a loss of $462,010 or $0.01 per share, compared with $108,410, or $0.00 per share, for the same period in 2011, a $353,600 increase in the year over year quarterly loss. This increased loss is mainly attributed to lower revenues offset by a decrease in research and development expenses.

CASH FLOWS

Cash totalled $2,887,270 as at June 30, 2012, compared with $133,113 as at June 30, 2011. This increase in cash is a result of the proceeds received from the private placement financing completed in August 2011.

For the year ended June 30, 2012, cash flow required for operating activities amounted to ($1,027,535), compared with ($2,000,911) for 2011, representing a decrease of $973,376 in cash used in the operating activities, primarily due to the higher loss in 2012 and to an inflow of $304,527 in 2012 in non-cash working capital items compared to an outflow of $1,004,571 in 2011.

For the year ended June 30, 2012, cash flow required for investing activities totalled ($212,125), compared with $1,645,024 generated for the same period in 2011, a difference of $1,857,149. This difference is mainly attributable to the following factors:

- Terms deposits
  Following a private placement concluded with Codexis, in December 2009, the Company issued 10,000,000 shares for gross proceeds of $2,000,000. This amount was used to increase term deposits in 2010. In 2011 the balance of these terms deposits were used for the Company's day-to-day activities.

- Capital expenditures
  For the year ended June 30, 2012, the Company capitalized $392,829 in patents compared to $150,871 in 2011.

The cash flow generated by financing activities for the year ended June 30, 2012, amounted to $3,993,817, compared with $116,820 for the same period in 2011. This $3,876,997 increase in cash flow is primarily attributable to the net proceeds from the brokered private placement completed in August 2011 and the receipt in 2012 of the $138,180 loan from Economic Development Canada compared to $111,820 in 2011.

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 June 30, 2012, the Company has $2,887,270 in cash, $108,863 in accounts receivable and $755,504 in provincial tax credits receivable or total liquid assets of $3,751,637 ($1,493,289 as at June 30, 2011).

On August 31, 2011, CO_2 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 continue to obtain government assistance to support continuing research & development of the Company's technology, continue, if required, to have access to capital markets and in the longer term to generate a profit. This will depend in part on the Company's ability to effectively commercialize its technology, the results of research and development activities, favorable market conditions, and to overall economic conditions. Investments in commercialization activities are used to generate future income; however, it is difficult to predict exactly when this income will materialize.

As at June 30, 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% secured by a universal charge on the Company's assets to a maximum of $225,000. As at June 30, 2012, this operating line of credit was unused.

COMMITMENTS

Royalties
Following the sale of the technology agreement dated May 21, 1998, and amended March 3, 2004, the Company reached an agreement with a former director having at that time a controlling interest in the Company to pay him a royalty corresponding to 5% of cumulative gross earnings on sales of products (excluding revenues from Collaborative Agreements) exceeding $5,000,000. The maximum amount of royalties has been set at $1,000,000 for the period ending January 1, 2021. Under the terms of the agreement, no payments have become due up to June 30, 2012.

Lease Agreement
The Company has entered into a lease agreement expiring in February 2015 which calls for lease payments of $391,913 for the rental of premises. Minimum payments for the next years are $152,209 in 2013, $151,392 in 2014 and $88,312 in 2015.

CONTINGENCIES

In July 2010, a draft notice of assessment from the Canada Revenue Agency was received by CO_2 Solution Technologies Inc. questioning its status as a Canadian-controlled private corporation (CCPC). CO_2 Solution Technologies Inc. is a consolidated variable interest entity. The draft assessment focused on the fiscal year ended June 30, 2009 and, as a consequence, research and development tax credits claimed by CO_2 Solution Technologies Inc. for that year and included in the Company's consolidated balance sheet as at June 30, 2009 and 2010 were refused, and credits to be claimed for the year ended June 30, 2011 and 2012 could be refused. In the opinion of CO_2 Solution Technologies Inc. and the Company's management, these credits are receivable according to the CCPC status of CO_2 Solution Technologies Inc., but their receipt depends on the successful resolution of this matter. CO_2 Solution Technologies Inc. intends to firmly defend its position since it judges that the draft notice of assessment is unfounded and that CO_2 Solution Technologies Inc.'s position will ultimately prevail. Under the circumstances, no provision for this item has been made in the accounts of CO_2 Solution Technologies Inc. or in the consolidated statements of the Company.

TAX TREATMENT ON CAPITAL TRANSACTIONS

In July 2011, Revenue Quebec notified Fiducie Financière CO_2 Solution of their intention to modify the tax treatment, and issue an assessment related thereto, relative to certain capital transactions between CO_2 Solutions Inc. and some of its consolidated entities, namely CO_2 Solution Technologies Inc. and Fiducie Financière CO_2 Solution, which occurred during the December 31, 2008 taxation year of Fiducie Financière CO_2 Solution. On December 29, 2011, that assessment was received by Fiducie Financière CO_2 Solution. The Company’s position with respect to this Revenue Quebec assessment always remained unchanged, that being Fiducie Financière CO_2 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 CO_2 Solution’s that its tax filing position will ultimately prevail. The Company is pleased now to report that subsequent to the June 30, 2012 year end, Fiducie Financière CO_2 Solution was informed by Revenue Quebec that upon their further review the assessment has been rescinded. This file is now closed.

INFORMATION REGARDING CAPITAL STOCK

As at October 18, 2012, the number of outstanding common shares, warrants and stock options is respectively 79,187,836, 11,773,968, and 5,011,530.

RELATED PARTY TRANSACTIONS AND OFF-BALANCE SHEET AGREEMENTS

As at June 30, 2012, the Company has recorded a $475,000 advance from a shareholder with significant influence, bearing no interest and payable under certain conditions and uncertain duration. Pursuant to the extension of the agreement with that shareholder in January 2011, repayment of this advance has now effectively been deferred at least in excess of twelve months or until certain subsequent agreements may be negotiated between the parties. The amount outstanding is classified under the heading of non-current liabilities. As at June 30, 2012, there were no other related party transactions nor were there any off-balance sheet agreements.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The Company's audited consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") including IFRS 1 "First-time Adoption of IFRS ", which require management to make estimates and assumptions that affect the amounts of the assets and liabilities, the information provided regarding contingent assets and liabilities as of the date of the consolidated financial statements, as well as revenue and expense amounts for the years in question.

The estimates and assumptions that have a significant risk of causing a material adjustment to the Company's consolidated financial statements are listed below.

Significant estimates are generally made in connection with the calculation of revenues, stock-based compensation costs, government assistance and tax credits as well as in determining impairment of property, plant and equipment and intangible assets. Estimates are based on historical experience, where relevant, and on various other assumptions that management believe to be reasonable under the circumstances. Actual results could differ from those estimates.

The full description of significant accounting policies and estimates are presented respectively in notes 3 and 5 of the Company's consolidated financial statements for the year ended June 30, 2012.

TRANSITION TO IFRS

The consolidated financial statements have been 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 and the years ended June 30, 2012 and 2011, 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 the Transition date.	Management has used this IFRS election. There is no financial impact at the Transition date due to this choice.
Stock option costs	IFRS 1 provides alternatives that permit an entity to apply IFRS 2 ''Share-based Payment'' 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.

FUTURE ACCOUNTING CHANGES

The IASB issued the following standards which are currently relevant but have not yet been adopted by the Company: IFRS 9, "Financial instruments", IFRS 10, "Consolidated Financial Statements", and IFRS 13, "Fair Value Measurement". Unless otherwise noted, each of the new standards is effective for

annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated financial statements or whether to early adopt any of the requirements.

The following is a brief summary of the new standards:

IFRS 9 – Financial instruments – classification and measurement
IFRS 9, ''Financial Instruments'', 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 recognized at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, being 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. 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 or loss would generally be recorded in other comprehensive income.

The application of IFRS 9 is required for accounting periods beginning on or after January 1, 2015, with earlier adoption permitted.

IFRS 10 – Consolidated financial statements
IFRS 10 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 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.

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 following is a list of risk factors and uncertainties, some having significant impact ("Significant Factors") and some having less significant impact ("General Factors") on the Company. This list may not be exhaustive, as the Company operates in a rapidly changing business environment, and new risk factors emerge from time to time. The Company cannot predict such risk factors, nor can the Company assess the impact, if any, of such risk factors or uncertainties on its business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those reported in the financial statements.

Significant factors

Uncertainty Concerning Revenues and a History of Previous Losses

Founded in 1997, CO_2 Solutions has yet to generate significant revenues from the sale of its technology. Investments in research and development in the field of enzyme-enabled carbon capture are necessary to develop the technology required to generate future revenues. While the Company is confident in its technology, it cannot know with complete certainty if or when any of CO_2 Solutions technologies will be commercialized. It is not certain whether commercial applications of its enzyme-enabled carbon capture technology or services can be produced or delivered at a reasonable cost and be successfully marketed, nor is it known whether investments in any such technology will be recovered through future licensing agreements or royalties. Some of the technology or processes currently being developed may not be commercially available for some years to come or may be discontinued altogether. Even if CO_2 Solutions were to use all means at its disposal to ensure the commercialization of its technologies, revenues would depend on one or more factors such as CO_2 Solutions or its collaborative partners capability to promote this technology, on the performance of its collaborative partners, on the competition, on the acceptance of the technology by the industrial community, and on the impact of the intervention of regulatory authorities.

At the moment, CO_2 Solutions revenues are generated from its current relationships with collaborative partners. CO_2 Solutions also earns interest income on its invested surplus funds. There can be no assurance that any of the Company's current collaborative agreements will continue to support CO_2 Solutions technology research and development on current levels or at all and CO_2 Solutions might develop new relationships and enter into new agreements with additional collaborative partners or clients.

Dependence on Collaborative Partners

CO_2 Solutions strategy is to enter into various arrangements with corporate collaborators, for the continued development and commercialization of the Company's enzyme-enabled carbon capture technology. To date, CO_2 Solutions has entered into different types of collaborations for research and development and technology scale up. The Company also expects to enter into further collaborations for the potential further development and commercialization of its technology with other firms, pursuant to which the Company may receive additional funding, including milestone payments. There can be no assurance, however, that the Company will be able to establish such additional collaborations on favorable terms, if at all, or that current or future collaborative arrangements will be successful. Should any collaborative partner fail to develop or commercialize successfully any technology to which CO_2 Solutions has rights, or any of the partners' technology to which the Company has rights, CO_2 Solutions business may be adversely affected. Additionally, failure of a collaborative partner to continue funding any particular program could delay or halt the development or commercialization of the company's technology. In addition, there can be no assurance that the collaborative partners will not

pursue alternative technologies or develop alternative carbon capture products either on their own or in collaboration with others, including the Company's competitors.

Government regulation in the field of carbon capture

Considering that market development in the field of carbon capture is closely linked to changes in environmental legislation and regulation for the reduction of greenhouse gas emissions, CO_2 Solution's growth could be adversely impacted by a lack of concerted legislative efforts on the part of major industrialized countries.

Unproven Market

Much of the Company's strategy is based on the belief that the application of its enzyme-enabled carbon capture technology to develop products for the markets it is addressing will result in the creation of new, commercially viable products or technical applications. Notwithstanding the Company's estimated market potential for the licensing of its technology or products, no assurance can be given that these beliefs will prove to be correct owing to, in particular, competition from existing or new carbon capture technology and the yet to be established commercial viability of the Company's technology or products.

Market Acceptance

Even if the Company develops safe and effective enzyme-enabled carbon capture technology and secures the necessary collaboration, the enzyme-enabled carbon capture technology development process could take a few more years to perfect and commercialize, and by the time this occurs, because of the competitive and dynamic nature of the carbon capture industry, there is a risk that at such time, any such technology:

- will not be economical to market or marketable at prices that will allow the Company to achieve profitability;
- will not be successfully marketed by, CO_2 Solutions or its collaborative partners so as to achieve market acceptance;
- will not be preferable to existing or newly developed carbon capture technology marketed by third parties.

The degree of market acceptance of technology developed by CO_2 Solutions or its collaborative partners, if any, will depend on a number of factors, including the establishment and demonstration in the carbon capture and environmental community of the efficacy of the Company's enzyme-enabled carbon capture technology and its potential advantage over alternative carbon capture technology. There is no assurance that third parties in the carbon capture community in general will accept and utilize any technology that may be developed by the Company. In addition, by the time the Company's products, if any, are ready to be commercialized, what the Company believes to be the market for these products may have changed. Any estimates referenced in CO_2 Solutions' statements, presentations or Company literature regarding the number of potential customers for the Company's enzyme-enabled carbon capture technology who have expressed interest in or might have been candidates to use its specific technology may not accurately reflect the true market or market prices for such technology. The Company's or its collaborative partners failure to successfully introduce and market CO_2 Solutions enzyme-enabled carbon capture technology that is under development would have a material adverse effect on the company's business, financial condition and results of operations.

Intellectual Property and Technologies

CO_2 Solutions success will depend, in part, on the Company's ability to obtain patents or rights thereto, to protect trade secrets and operate without violating the exclusive rights of third parties. Although the Company already owns certain enzyme-enabled carbon capture pending applications or issued patents

or has, through licensing agreements, secured rights to certain carbon capture technologies belonging to others, there is no guarantee that the pending applications will be allowed or that the Company will develop other patentable technologies in the future. Moreover, there can be no assurance that a patent granted to the Company or in respect of which the Company holds a license will make the related carbon capture technology more competitive, that third parties will not contest the protection granted by the patents, or that the patents of third parties will not be detrimental to the Company's commercial activities.

In order to protect or enforce the intellectual property rights owned or used by the Company, CO_2 Solutions may have to initiate legal proceedings against third parties. The Company may also have to defend claims brought against it or any purchaser or user of its products asserting that such product or process infringes intellectual property rights of third parties. Legal proceedings relating to intellectual property typically are expensive, take significant time and divert Management's attention from other business matters. The cost of this litigation could adversely affect the business of the Company. Further, if the Company does not prevail in an infringement lawsuit brought against it, the Company might have to pay substantial damages and could be required to stop the infringing activity or obtain a license to use the patented technology. Such royalty or licensing agreements, if required, may not be available on acceptable terms, if at all. In the event a claim is successful against the Company and the Company cannot obtain a license to the relevant technology on acceptable terms, license a substitute technology or redesign potential products to avoid infringement, the business, financial condition and operating results of the Company could be materially adversely affected. Loss of patent protection could lead to new competition for the Company's current and future technology, which could materially and adversely affect the financial prospects for the Company. There is no guarantee that other companies will not independently develop similar products to those of CO_2 Solutions, that they will not imitate CO_2 Solutions technology or that the Company's competitors will not develop technology designed to circumvent CO_2 Solutions exclusive proprietary rights. The Company may also need to obtain rights for other technologies belonging to third parties, but there is no guarantee that such technologies will be offered to CO_2 Solutions on acceptable terms.

General Factors

Global Political and Economic Conditions

Challenging global market and economic conditions in most major economies continues while concerns about the systemic impact of potential long-term and wide-spread recession, energy costs, geopolitical issues, the availability and cost of credit have contributed to increased market volatility and diminished expectations for western and emerging economies. Notwithstanding various actions by the U.S., Canadian and foreign governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. In addition, general economic indicators have deteriorated, including declining consumer sentiment, increased unemployment and declining economic growth and uncertainty about corporate earnings. These unprecedented disruptions in the overall financial markets have had a significant material adverse impact on a number of businesses and financial institutions and have limited access to capital and credit for many companies. These disruptions could, among other things, make it more difficult for the Company or its collaboration partners to obtain, or increase their cost of obtaining, capital and financing for their operations. These factors can lead to a decrease in spending by businesses and consumers alike, and a corresponding decrease in global infrastructure spending. Operational scale backs or reassessment of development programs and spending either by the Company or its collaborative partners may result. The Company's access to additional capital may not be available on terms acceptable to it or at all. These factors could negatively affect the Company's future results of operation

in those national markets, the ability to attract collaboration partners and the ability to successfully commercialize its enzyme-enabled carbon capture technology.

Exchange Rates

A significant portion of the Company's cash inflow is in U.S. dollars while the Company's operating expenses are paid in Canadian dollars and Euro's. Fluctuation in the exchange rate between the U.S. dollar, the Euro and the Canadian dollar may have a material effect on CO_2 Solutions results of operations. The Company does not currently use derivative instruments to hedge its foreign currency risk however it may consider doing so in the future.

Recruitment and Retention of Key Personnel

CO_2 Solutions success is largely dependent upon the members of the Company's Management team and the Company's capacity to attract and retain highly competent scientific and business development personnel. The inability to attract or the potential loss of such persons already within the Company, could compromise the pace and success of the Company's enzyme-enabled carbon capture technology research and development and commercialization programs.

Volatility of Share Price

Market prices for securities in general, and that of biotech and cleantech companies in particular, tend to fluctuate. Factors such as the announcement (to the public or at scientific conferences) of technological innovations, new commercial products, patents, the obtaining of exclusive rights by the Company or other companies, a change in regulations, publications, quarterly financial results, public regulation on environmental issues, future sales of Common Shares by the Company or current shareholders, and many other factors could have considerable repercussions on the price of CO_2 Solutions Common Shares. In addition, the financial markets may experience significant price and value fluctuations that affect the market prices of equity securities of companies that sometimes are unrelated to the operating performance of these companies. Broad market fluctuations, as well as economic conditions generally, and in the cleantech sector specifically, may adversely affect the market price of the Common Shares.

Future sales of Common Shares

The market price of the Common Shares could decline as a result of issuances by the Company or sales by its existing shareholders of Common Shares in the market or the perception that these sales could occur. Sales by shareholders might also make it more difficult for the Company to sell securities at a time and price that it deems appropriate.

Dividends

The Company has paid no cash dividends on any of its Common Shares to date and currently intends to retain its cash on hand and future earnings, if any, to fund the development growth of its businesses. In addition, the terms of any future debt or credit facility may preclude the Company from paying dividends.

Dilution

The Company may consider issuing convertible debt or equity securities or preferred shares, which may rank prior to the Common Shares, in the future to fund potential acquisitions or investments, or for general corporate purposes. The articles of the Company provide that CO_2 Solutions has an unlimited number of authorized Common Shares that may be issued. Under applicable law, shareholders' approval is not required for the Company to issue shares. If the Company issues convertible debt or equity securities or preferred shares to raise additional funds, its existing shareholders may experience dilution, and the new convertible debt or equity securities or preferred shares may have advantageous

rights, preferences and privileges when compared to those of the Company's existing shareholders. The Company is unable to predict the future amount of such issuances or dilution. If the Company incurs debt, it may increase its leverage relative to its earnings or to its equity capitalization, requiring the Company to pay interest expenses.

Tax credits

The Company has determined that its related entity, CO_2 Solution Technologies Inc., is eligible for investment tax credits on expenditures incurred on scientific research and experimental development related to the field of enzyme-enabled carbon capture. There is a risk that a federal or provincial governmental agency could conclude that: (i) some or all of the expenditures were not incurred on scientific research and experimental development activities, (ii) the rate applicable to such credit is different from the rate claimed by the Company, and, (iii) the related entity does not meet specified criteria for refundable tax credits, and therefore the governmental agency could reduce or disallow claims for such credits, including refundable credits previously funded.

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 year ended June 30, 2012 that have materially affected, or that are reasonably likely to materially affect its ICFR. No such changes were identified through their evaluation.

OUTLOOK 2012-2013

Liquidity and operational effectiveness

As noted earlier, at June 30, 2012, the Company has $3.8 million in cash and receivables considered as liquid assets. 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.

Additional scale-up opportunities

The production and refining of oil and purification of natural gas represent important market opportunities for CO_2 Solutions' enzymatic technology. There are presently nearly 800 such operations worldwide, generating in excess of 800 million tons of CO_2 emissions annually.[7]

As noted earlier, 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. CO_2 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. CO_2 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 CO_2 from natural gas streams such as is produced from shale gas fields.

The Company also continues 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 CO_2 and the application of its 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 was being explored with Alcoa; carbon separation, e.g. natural gas sweetening (removal of contaminants from native gas streams), mineral carbonation 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 over the coming year.

In addition to the above, CO_2 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:

<u>Advancing the industrial readiness of the technology</u>
Leveraging its internal R&D focus and efforts, CO_2 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, as noted earlier, Codexis has made significant progress in increasing the industrial stability and longevity of the enzyme catalyst. This will assist in positioning CO_2 Solutions' technology for pilot and larger scale demonstrations under real-world industrial 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.

<u>Leveraging government funding for development and scale-up</u>
To further support its technology validation and scale-up efforts, CO_2 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 CO_2 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 CO_2 emissions in the oil sands sector. CO_2 Solutions is actively working on partnerships to advance its 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 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 the Company's 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, continued growth in industry interest in the potential of enzyme-enabled carbon capture, largely pioneered by CO_2 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, CO_2 Solutions continues 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 a patent that covers the use of carbonic anhydrase (CA) in any form for carbon capture from a gas stream and with any secondary or tertiary amine solvents. CO_2 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 CO_2 Solutions portfolio of patents, the Company stands to uniquely benefit from the significant potential of this growing global market. 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.

CONTROLS AND PROCEDURES

The Company complies with the requirements of the Canadian Securities Administrator's Multilateral Instrument 52-109.

ADDITIONAL AND CONTINUOUS DISCLOSURE

This analysis was prepared on October 18, 2012. Additional disclosure is provided on the SEDAR Web site at: www.sedar.com.

On behalf of management,

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

Glenn R. Kelly
President and Chief Executive Officer

October 18, 2012