TSXV: CST

CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS,
AS AT SEPTEMBER 30, 2011

ENZYMATIC POWER FOR CARBON CAPTURE

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°C. 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

Revenues

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.

<u>Cash flow related to operating activities</u>
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.

<u>Cash flow related to investment activities</u>
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).

<u>Cash flow related to financing activities</u>
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.

Additional Scale-up Opportunities

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:

Advancing the Industrial Readiness of the Technology

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

CO2 Solution Inc.

Condensed Interim Consolidated Financial Statements
September 30, 2011 and 2010
(unaudited)

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CO_2 Solution inc.

Condensed Interim Consolidated Statement of Financial Position

(unaudited)

(expressed in canadian dollars)

	As at September 30 2011	As at June 30 2011	As at July 1 2010
	$	**$**	$
ASSETS			
Current assets			
Cash	**4 631 304**	133 113	372 180
Term deposits		187 628	2 010 025
Accounts receivable	**456 945**	665 515	86 333
Tax credits receivable	**1 203 484**	1 220 797	709 866
Prepaid expenses	**26 495**	52 685	22 354
	6 318 228	2 259 738	3 200 758
Non-current assets			
Property, plant and equipement (Note 8)	**226 165**	234 289	247 113
Patents (Note 9)	**452 901**	418 410	317 942
	6 997 294	2 912 437	3 765 813
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	**674 838**	459 573	343 700
Advance from a shareholder with significant influence			475 000
	674 838	459 573	818 700
Non-current liabilities			
Refundable contribution (note 11)	**100 291**	99 055	-
Advance from a shareholder with significant influence (note 13)	**475 000**	475 000	-
Deferred credits (note 12)	**35 735**	35 367	37 973
	1 285 864	1 068 995	856 673
SHAREHOLDERS' EQUITY			
Capital stock (Note 14)	**18 773 062**	15 684 667	15 675 834
Stock options (Note 15)	**580 991**	608 713	460 844
Warrants (Note 14)	**858 239**	79 028	37 796
Contributed surplus	**2 776 992**	2 718 295	2 714 374
Deficit	**(17 277 854)**	(17 247 261)	(15 979 708)
	5 711 430	1 843 442	2 909 140
	6 997 294	2 912 437	3 765 813

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

On behalf of the board,

Director

Director

CO_2 Solution inc.

Condensed Interim Consolidated Statement of Changes in Equity

(unaudited)

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

(expressed in Canadian dollar)

	Share capital	Stock options	Warrants	Contributed surplus	Deficit	Total
	$	$	$	$	$	$
Balance at July 1, 2011	**15 684 667**	**608 713**	**79 028**	**2 718 295**	**(17 247 261)**	**1 843 442**
Stock-based compensation	-	30 975	-	-	-	30 975
Stock options cancelled	-	(58 697)	-	58 697	-	-
Consultant fees in consideration for warrants	-	-	10 308	-	-	10 308
Share Capital issuance	4 347 391	-	-	-	-	4 347 391
Brokers fees in consideration for warrants (Private Placement)	(120 007)	-	120 007	-	-	-
Share issue expenses	(490 093)	-	-	-	-	(490 093)
Warrants granted with issuance of shares (Private Placement)	(648 896)	-	648 896	-	-	-
Loss for the period	-	-	-	-	(30 593)	(30 593)
Balance at September 30, 2011	**18 773 062**	**580 991**	**858 239**	**2 776 992**	**(17 277 854)**	**5 711 430**

CO_2 Solution inc.

Condensed Interim Consolidated Statement of Changes in Equity (continued)

(unaudited)

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

(expressed in Canadian dollar)

	Share capital	Stock option plan	Warrants	Contributed surplus	Deficit	Total
	$	$	$	$	$	$
Balance at July 1, 2010	15 675 834	460 844	37 796	2 714 374	(15 979 708)	2 909 140
Stock based compensation	-	26 043	-	-	-	26 043
Consultant fees in consideration for warrants	-	-	10 308	-	-	10 308
Loss for the period	-	-	-	-	(489 764)	(489 764)
Balance at September 30, 2010	15 675 834	486 887	48 104	2 714 374	(16 469 472)	2 455 727

The accompanying notes are an integral part of the condensed interim condensed interim consolidated financial statements.

CO_2 Solution inc.

Condensed Interim Consolidated Statement of Loss and Comprehensive Loss

(Unaudited)

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

(expressed in Canadian dollars)

	2011	2010
	$	$
Revenues	**862 284**	91 212
Cost of revenues	**-**	28 701
Gross profit	**862 284**	62 511
Costs and operating expenses		
Research and development expenses, net	**493 666**	78 171
Business development expenses	**138 668**	160 684
General and administrative expenses	**295 004**	314 389
Financial expenses and interest income	**(34 461)**	(969)
	892 877	552 275
Loss and comprehensive Loss for the period	**(30 593)**	(489 764)
Basic and diluted loss per share (note 16)	**0,00**	0,01

The accompanying notes are an integral part of the condensed interim consolidated financial statements and Note 19 provides other information on earnings.

CO_2 Solution inc.
Condensed Interim Consolidated Statement of Cash Flows
(unaudited)

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

(expressed in canadian dollars)

	2011	2010
	$	$
OPERATING ACTIVITIES		
Net loss for the period	**(30 593)**	(489 764)
Adjustments		
Amortization	**18 351**	16 568
Consultant fees in consideration for warrants	**10 308**	10 308
Stock-based compensation	**30 975**	26 043
	29 041	(436 845)
Change in non-cash working capital items		
Accounts receivable	**208 570**	(104 825)
Tax credits receivable	**17 313**	(70 432)
Prepaid expenses	**26 190**	3 872
Accounts payable and accrued liabilities	**215 265**	(60 527)
	467 338	(231 912)
Cash flows from operating activities	**496 379**	(668 757)
INVESTING ACTIVITIES		
Term deposits	**187 628**	297 650
Amounts capitalized to patents	**(41 917)**	(45 308)
Additions to property, plant and equipment	**(4 772)**	(2 128)
Cash flows from investing activities	**140 939**	250 214
FINANCING ACTIVITIES		
Deferred credits	**2 339**	-
Deferred financing - refundable contribution	**1 236**	-
Shares issued	**4 347 391**	-
Issuance fee - Shares	**(490 093)**	-
Cash flows from financing activities	**3 860 873**	-
Net increase (decrease) in cash and cash equivalents	**4 498 191**	(418 543)
Cash, beginning of period	**133 113**	372 180
Cash (bank loan), end of period	**4 631 304**	(46 363)
Interest income received	**5 045**	2 360
Income taxes paid	**-**	-

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

CO_2 Solution inc.
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)
For the three-month periods ended September 30, 2011

1- GOVERNING STATUTE AND NATURE OF OPERATIONS

CO_2 Solution Inc. (The “Company”), incorporated under Part 1A of the Companies Act (Quebec) and now governed by the Business Corporations Act (Québec), is a high technology enterprise involved in the capture and management of carbon dioxide (CO_2). 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 emitters of CO_2. The company intends to continue its research and development and commercialization efforts. he Company's operations are subject to all the inherent risks related to running an emerging high technology company, such as successfully completing its research and development activities, negotiating collaborative working agreements and commercialization of its enzyme technology and obtaining the required financing.

The Company is listed on the TSX Venture Exchange (V:CST) and is incorporated and domiciled in Canada.

The Company's registered head office is located at 2300 Rue Jean-Perrin, Québec, Quebec, Canada, G2C 1T9.

2- BASIS OF PRESENTATION AND ADOPTION OF IFRS

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.

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.

3- SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These condensed interim consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments that are recognized at fair value.

Basis of consolidation

The condensed interim consolidated financial statements include the accounts of CO_2 Solution Inc. 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. All intercompany accounts and transactions have been eliminated.

Segment reporting

The Company manages its business on the basis of one reportable segment. This single reportable segment derives its income from the sale of procedures and services relating to the management and elimination of CO_2 using an enzyme conversion-based technology.

The Company earns its income essentially from clients based in the United States and its non-current assets are located in Canada.

Financial assets

Classification under IAS 39

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provision of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss (fair value option), loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition:

a) Loans and receivables

   Loans and receivables would include any non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which there is no intention of trading. They are included in current assets, except for maturities greater than 12 months after

the balance sheet date which would be classified as non-current assets. Loans and receivables comprise cash, term deposits, accounts receivable and, tax credits receivable.

b) Available-for-sale

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. Available-for-sale financial assets are comprised of cash equivalents and short-term investments in the form of actively traded securities.

Recognition and measurement under IAS 39

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income.

Regular purchases and sales of financial assets are recognized on the trade date – the date on which the Company commits to purchase or sell the asset.

Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the statement of earnings as part of interest income. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of earnings and included in other gains and losses.

Financial liabilities

Financial liabilities at amortized cost include and advance from a shareholder with significant influence which is initially recognized at fair value, net of transaction costs incurred, and is subsequently carried at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of earnings over the period of the debt using the effective interest method.

Financial liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liabilities for at least 12 months after the balance sheet date.

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

a) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

b) Available-for-sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of earnings. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to net loss.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed. As at September 30, 2011, there were no assets that were deemed to be impaired.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks and as well as all highly liquid short-term investments having a term of less than three months at the acquisition date.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the statement of earnings during the period in which they are incurred.

The major categories of property, plant and equipment are depreciated over their estimated useful lives as follows:

	Methods	Rates and period
Laboratory equipment and layout and office equipment	Diminishing balance	20%
Computer equipment	Diminishing balance	30%
Leasehold improvements	Straight-line	10 years

Patents

Patents, obtained or pending, are recorded at cost and amortized on a straight-line basis over 20 years.

Impairment of non-financial assets

Property, plant and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units – "CGUs"). The recoverable amount is the higher of an asset's fair value less costs to sell and values in use (being the present value of the expected future cash flows of the relevant assets of the CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The Company evaluates impairment losses for potential reversals when events or circumstances require such consideration.

Research and development expenses

Expenses related to research and development are expensed as incurred, except for development expenses which meet generally accepted capitalization criteria are deferred and amortized. As at September 30, 2011, June 30, 2011 and July 1, 2010, no development costs have been deferred.

Share issue expenses

Share issue expenses are applied against share capital.

Research and development tax credits and receivables

The Company is entitled to scientific research and experimental development ("SR&ED") tax credits granted by the Canadian federal government and the government of the Province of Quebec.

SR&ED tax credits and grants are accounted for using the cost reduction method. Accordingly, tax credits and grants are recorded as a reduction of the related expenses or capital expenditures in the year in which those expenses are incurred, provided there is reasonable assurance that the credits and grants will be realized. The tax credits must be reviewed and approved by the tax authorities, accordingly, the amounts granted may differ from the amounts recorded.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency.

The financial statements of entities that would have a functional currency different from that of the Company (“foreign operations”) are translated into Canadian dollars as follows: assets and liabilities – at the closing rate at the date of the statement of financial position, and income and expenses – at the average rate of the period (as this is considered a reasonable approximation to actual rates). All resulting changes are recognized in other comprehensive income as cumulative translation adjustments.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation’s functional currency are recognized in the statement of income.

Employee future benefits

The Company has set up a simplified defined contribution pension plan. The Company's contribution is limited to the amount provided under the plan, which is equal to the employee's contribution up to 2% of gross earnings. Pension expense is recognized in earnings for the year during which the amounts are due.

Revenue recognition

The Company's revenue is derived from research contracts, design, development and marketing of goods and services related to the management and elimination of CO_2.

The Company recognizes revenue from research contracts when the research activities under the contract are carried out, the contract amount is fixed and collection is reasonably assured.

These contracts usually provide for one-time payments (upfront payments) and payments for research services in the form of cost reimbursements and milestone payments.

The Company entered into certain research and development agreements comprising several components. Such arrangements are divided into separate units of accounting provided that the delivered item has stand-alone value and there is objective and reliable evidence of the fair value of the undelivered items. When the arrangements cannot be divided into separate units of accounting, the arrangements are considered arrangements with a single deliverable.

If reliable and objective evidence of fair value for each deliverable is available, the total arrangement consideration is allocated to the units of accounting based on their relative fair value. However, if evidence of fair value is only available for undelivered items, the arrangement consideration is allocated first to the undelivered items based on their fair value, with the remainder being allocated to the delivered items, using the residual method.

Revenue for each unit of accounting or arrangement with a single deliverable is recognized according to the Company's revenue recognition policies as previously disclosed. When recognition criteria are not respected, deferred revenue is recognized for the amounts received.

Investment income is recognized using the accrual method. Interest income is recognized according to the number of days the investment is held during the year.

Earnings per share

Basic earnings per common share are calculated by dividing net earnings available for common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated taking into account the potential dilution that would result if the common share stock options and warrants were exercised or converted into common shares at the later of the beginning of the period or their issue date. The dilution effect is determined using the treasury stock method for the stock options and the warrants.

Share-based payments

The Company has a stock option plan for directors, executives, employees and consultants which is described in Note 15. All the options granted under the terms of the plan may be exercised within a maximum five-year period commencing on the date of grant. The Board of Directors designates the optionees and determines the number of common shares involved in each of these options, the vesting date, the exercise price, the expiry date, the terms of acquisition and any restrictions on the exercise of the options. The share acquisition price must not be less than the closing price on the day prior to the date of grant of these shares. Options issued after November 2009 vest gradually at the rate of 25,000 options every 6 months, up to a maximum period of 3 years. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period based on the number of awards expected to vest, by increasing contributed surplus. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

The impact of any service condition is excluded from the fair value calculation. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest. It recognizes the impact of the revision to original estimates, if any, in the statement of income, with a corresponding adjustment to equity.

The cash subscribed for the shares issued when the options are exercised is credited, together with the related compensation costs, to share capital (nominal value), net of any directly attributable transaction costs.

4- ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

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

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

IFRS 9 – Financial instruments

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

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

IFRS 10 – Consolidation

IFRS 10 was issued in May 2011. It requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

IFRS 13 – Fair Value Measurement

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

IAS 1 – Presentation of Financial Statements

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

5- SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

Significant estimates are generally made in connection with the calculation of revenues, research and development expenses, stock-based compensation expense, as well as in determining future income tax assets and liabilities, impairment of property, plant and equipment and intangible assets. Estimates are based on historical experience, where relevant, and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ from those estimates.

Revenue recognition

The nature of the Company's business is such that many revenue transactions do not have a simple structure. Revenue agreements may consist of multiple components occurring at different times. The Company is also party to agreements which can involve upfront and milestone payments that may occur over several periods. These agreements may also involve certain future obligations. Revenue is only recognized when, in management's judgment, the significant risks and rewards of ownership have been transferred or when the obligation has been fulfilled. For some transactions this can result in cash receipts being initially recognized as deferred income and then released to income over subsequent periods on the basis of the performance of the conditions specified in the agreement.

Research and development expenses

Research and development expenditures consist of direct and indirect expenses. All expenses related to development activities which do not meet generally accepted criteria for deferral, and research activities are expensed as incurred. Development expenses which meet generally accepted criteria for deferral are capitalized and amortized against earnings over the estimated period of benefit. As at September 30, 2011, June 30, 2011 and July 1, 2010, no development costs have been deferred.

Stock-based compensation and other stock-based payments

The Company has a stock option plan which is described in note 15 to the condensed interim consolidated financial statements. As regards stock options granted, the Company uses the fair value based method of accounting. The fair value of stock options is determined using the Black-Scholes option pricing model, which requires the use of certain assumptions, including future stock price volatility and expected life of the instruments.

The expected life is estimated using the contractual life of the instrument. The expected volatility is estimated using the historical volatility of the Company's stock over the same period as the contractual life. The number of options that are expected to vest is determined using historical data and expectations.

Income taxes, government assistance and tax credits

Income taxes are accounted for using the asset and liability method. Future income tax assets and liabilities are recognized in the balance sheet to account for the future tax consequences attributable to temporary differences between the respective accounting and taxable value of balance sheet assets and liabilities. Future income tax assets and income tax liabilities are measured using the income tax rates that are most likely to apply when the asset is realized or the liability is settled. The effect of changes in income tax rates is recognized in the year during which these rates change. As appropriate, a valuation allowance is recognized to decrease the value of tax assets to an amount that is more likely than not to be realized. In estimating the realization of future income tax assets, management considers whether a portion or all future tax assets are more likely than not to be realized. Realization is subject to future taxable income.

In the event the Company determines that it can realize its tax assets, it will readjust them for the amount and adjust the income in the period for which such determination is made.

Moreover, the Company is entitled to government assistance in the form of research tax credits and grants. These are applied against related expenses and the cost of the asset acquired. Tax credits are available based on eligible research and development expenses consisting of direct and indirect expenditures and including a reasonable allocation of overhead expenses. Grants are subject to compliance with terms and conditions of the related agreements. Government assistance is recognized when there is reasonable assurance that the Company has met the requirements of the approved grant program or, with regard to tax credits, when there is reasonable assurance that they will be realized.

Impairment of assets with definite useful lives

Assets are reviewed for an indication of impairment at each statement of financial position date. If indication of impairment exists, the asset's recoverable amount is estimated. Factors such as changes in the planned use of production unit, laboratory equipment, or the presence or absence of technical obsolescence could result in shortened useful lives or impairment. An impairment loss is recognized, if any, for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use.

As of July 1, 2010, June 30, 2011, and September 30, 2011, management determined that there was no need for impairment.

Government grants

Grants are accounted for using the cost reduction method. Accordingly, grants are recorded as a reduction of the related expenses or capital expenditures in the period in which those expenses are incurred, provided there is reasonable assurance that the grants will be realized.

If a grant is received and expenses related to this grant are not yet incurred, the grant is recorded as a deferred grant until expenses are incurred

The cash flows related to grants received are classified as operating activities unless they are related to capital expenditures in which case they are classified as investing activities.

6- *TERM DEPOSITS*

	September 30 2011	June 30 2011
	$	$
Term deposits, 0,50% maturing August 28th 2011 for 61 282$ and 0.12% maturing June 1st 2012 for 126 346$		187 628
	-	187 628

7- *ACCOUNTS RECEIVABLE*

	September 30 2011	June 30 2011
	$	$
Trade accounts	**356 353**	619 716
Commodity taxes	**100 592**	45 799
	456 945	665 515

8- PROPERTY PLANT AND EQUIPMENT

	Laboratory equipment and lay out	Office equipment	Computer equipment	Leasehold Improvements	Total
	$	$	$	$	$
Cost					
Balance as at July 1st 2010	711 016	131 458	49 490	31 674	923 638
Acquisitions	24 963		17 180		42 143
Disposals					-
Balance as at June 30 2011	735 979	131 458	66 670	31 674	965 781
Acquisitons	4 772				4 772
Disposals					-
Balance as at					-
September 30 2011	740 751	131 458	66 670	31 674	970 553
Amortization					
Balance as at July 1st 2010	(540 864)	(95 274)	(24 891)	(15 496)	(676 525)
Amortization expense	(35 176)	(7 237)	(9 387)	(3 167)	(54 967)
Disposals					-
Balance as at June 30 2011	(576 040)	(102 511)	(34 278)	(18 663)	(731 492)
Amortization expense	(8 226)	(1 448)	(2 429)	(793)	(12 896)
Disposals					-
Balance as at					-
September 30 2011	(584 266)	(103 959)	(36 707)	(19 456)	(744 388)
Book value					
July 1st 2010	170 152	36 184	24 599	16 178	247 113
June 30 2011	159 939	28 947	32 392	13 011	234 289
September 30 2011	156 485	27 499	29 963	12 218	226 165

9- PATENTS

	Patents
	$
Cost	
Balance as at July 1st 2010	576 588
Acquisitions	142 080
Disposals	-
Balance as at June 30 2011	718 668
Acquisitions	41 917
Disposals	-
Balance as at September 30 2011	760 585
Amortization:	
Balance as at July 1st 2010	(258 646)
Amortization expense	(41 612)
Disposals	-
Balance as at June 30 2011	(300 258)
Amortization expense	(7 426)
Disposals	-
Balance as at September 30 2011	(307 684)
Book value:	
July 1st 2010	317 942
June 30 2011	418 410
September 2011	452 901

10- BANK LOAN

As of September 30, 2011, the Company has an available unused authorized line of credit of $150,000, bearing interest at the prime rate plus 2% and secured by a universal charge on the Company's assets to a maximum of $225,000. The Company must comply with certain financial ratios and the agreement is renewable annually. The company complies with these ratios as at September 30, 2011.

11- REFUNDABLE CONTRIBUTION

The Company obtained from Economic Development of Canada a refundable contribution of up to $250,000 of which as at September 30, 2011, $111,820 was received. This contribution is refundable starting January 2014 with annual payments representing 4% of the Company’s total income. The

loan was accrued to a present value of $97,820 as at March 31 2011, ($100 291 as at September 30, 2011), using an estimated capitalization rate of 5%. The difference between the present value and the principal amount of the loan was included with revenues shown in the consolidated statement of loss for fiscal 2011.

12- DEFERRED CREDITS

Government assistance and tax credits on property, plant and equipment

	Government Assistance	Tax Credits	Total
	$	$	$
Cost			
Balance as at July 1st 2010	33 485	164 211	197 696
Acquisitions	-	6 851	6 851
Disposals	-	-	-
Balance as at June 30 2011	33 485	171 062	(169 180)
Acquisitons	-	2 338	2 338
Disposals	-	-	-
Balance as at September 30 2011	33 485	173 400	(166 842)
Amortization			
Balance as at July 1st 2010	(27 972)	(131 751)	(159 723)
Amortization expense	(1 103)	(8 354)	(9 457)
Disposals	-	-	-
Balance as at June 30 2011	(29 075)	(140 105)	(169 180)
Amortization expense	(220)	(1 750)	(1 970)
Disposals	-	-	-
Balance as at September 30 2011	(29 295)	(141 855)	(171 150)
Book value			
July 1st 2010	5 513	32 460	37 973
June 30 2011	4 410	30 957	35 367
September 30 2011	4 190	31 545	35 735

13- ADVANCE FROM A SHAREHOLDER WITH SIGNIFICANT INFLUENCE

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.

14- CAPITAL STOCK

Authorized

Unlimited number of common shares, without par value, voting and participating

Issued and fully paid

The following table shows the changes in the Company's capital stock during the three months ended September 30, 2011 and the year ended June 30, 2011

	September 30 2011		June 30 2011	
	number	**$**	number	$
Beginning balance	60,286,136	15,684,667	60,261,136	15,675,834
Share issue from Private Placement	18,901,700	3,088,395	25,000	8,833
Ending balance	79,187,836	18,773,062	60,286,136	15,684,667

The following table shows the changes in the Company's warrants during the three months ended September 30, 2011 and the year ended June 30, 2011.

	September 30 2011		June 30 2011	
	number	**$ Average Strike price**	number	$ Average Strike price
Outstanding at beginning	1,000,000	0.24	1,000,000	0.24
Granted	10,773,968	0.28	-	-
Outstanding at end	11,773,968	0.28	1,000,000	0.24

The outstanding warrants as at June 30, 2011 are those issued in connection with an agreement concluded in December 2009 with a Consultant. They have a fair value of $123 700, give the right to acquire one common share for $0.24 and expire in August 2013. Related expense is amortized over 36 months as research and development fees. On August 31, 2011, the Company closed a brokered private placement of 18,901,700 units at a price of $0.23 per unit. Each unit was comprised of one common share of the Company and one-half share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share of the Company at a price of $0.28 per common share until August 31, 2013. Expenses related to the issue of these warrants, including 1,323,118 non-transferable broker compensation warrants, issued under the same terms, were accounted for as a reduction to the net proceeds of the private placement.

15- STOCK OPTIONS

The Company has a stock option plan for directors, executives, employees and consultants. All the options granted under the terms of the plan may be exercised within a maximum five-year period

commencing on the date of grant. The Board of Directors designates the optionees and determines the number of common shares involved in each of these options, the vesting date, the exercise price, the expiry date, the terms of acquisition and any restrictions on the exercise of the options. The share acquisition price must not be less than the closing price on the day prior to the date of grant of these shares.

Under the terms of the plan, the maximum number of common shares available to be issued under the plan cannot exceed 10% of the issued and outstanding shares of capital stock. As at September 30, 2011, this amount is currently established at 7,918,784. The maximum number that may be granted to a director, executive or employee of the Company or to a consultant cannot exceed 5% of all the outstanding common shares.

The following table summarizes information about outstanding and exercisable stock options for the periods ended September 30, 2011 and June 30, 2011:

	September 30 2011		June 30 2011	
	number	**$ Weighted average exercise price**	number	$ Weighted average exercise price
Outstanding, beginning of year	4 830 840	0,22	3 955 440	0,22
Granted	25 000	0,18	920 000	0,19
Expired	-	-	(17 900)	0,35
Exercised	-	-	(25 000)	0,20
Forfeited	(320 000)	0,32	(1 700)	0,20
Outstanding, end of year	4 535 840	0,21	4 830 840	0,22

As at September 30, 2011, the following outstanding stock options had been granted:

Outstanding options			Exercisable options	
number	**Weighted average exercise price**	**Weighted average remaining contractual life (years)**	number	Weighted average exercise price
	$	**$**		$
611 000	0,17	1,60	488 800	0,17
10 000	0,30	1,90	10 000	0,30
1 769 140	0,18	1,90	1 769 140	0,18
10 000	0,19	2,00	10 000	0,19
439 800	0,52	0,70	439 800	0,52
302 600	0,16	3,10	277 600	0,16
450 000	0,17	4,40	225 000	0,17
350 000	0,18	3,40	174 999	0,18
150 000	0,20	3,60	150 000	0,20
25 000	0,31	4,70	-	-
25 000	0,24	4,80	-	-
393 300	0,20	4,20	295 000	0,20
4 535 840	0,21	2,47	3 840 339	0,22

Options issued prior to November 2009 vest as follow: 20% upon signature and the remaining 80% is gradually acquired at the rate of 20% per year, over 4 years, except for the President whose vesting period is 100% upon signature, as well as for consultants for which the expenses are recognized when services are rendered.

Options issued after November 2009 vest gradually at the rate of 25,000 options every 6 months, up to a maximum period of 3 years, except for the President and CEO and Senior Vice-President Finance and Chief Financial Officer whose vesting period is respectively 58,333 and 112,500 options every 6 months from the date of the grant up to a maximum period of 3 years.

The fair value of the options is determined according to the Black-Scholes option pricing model based on the following weighted average assumptions:

	Employees Directors and Executives
Risk-free interest rate	2,23%
Expected volatility	99,85%
Annual dividend yield	Nil
Expected life of each option granted	5 years
Fair value of each option granted	0,1800 $

The following table presents changes in stock options at the end of the three-month period ended September 30, 2011 and for the twelve-month period ended June 30 2011:

	September 30 2011	June 30 2010
	$	$
Balance, beginning of period	**608 713**	460 844
Stock-based compensation	**30 975**	155 623
Stock options exercised	**-**	(3 833)
Stock options forfeited	**(58 697)**	(260)
Stock options expired	**-**	(3 661)
Balance, end of period	**580 991**	608 713

16- EARNINGS PER SHARE

The following table summarizes the basic and fully diluted weighted average number of shares outstanding used in the basic and diluted loss per share calculations:

	Three-month periods ended September 30	
	2011	2010
Basic and fully diluted weighted average number of shares outstanding	**66 655 187**	60 261 136

For the periods ended September 30, 2011 and 2010, the basic weighted average number of shares outstanding was the same as the diluted weighted average number of shares since the effect of stock options and warrants described in Notes 15 and 14 would have been anti-dilutive because the Company has incurred a loss. Accordingly, the fully diluted loss per share for these three-month periods was calculated using the basic weighted average number of shares outstanding.

17- TRANSACTIONS WITH DIRECTORS AND EXECUTIVE OFFICERS

The following table sets out the remuneration paid for the period to Directors and Executive Officers of the Company that are considered as key personnel:

	Three-month periods ended September 30	
	2011	2010
	$	$
Base remuneration	**185 717**	142 853
Directors fees and payments for attendance at Board meetings	**17 473**	11 250
Stock based compensation	**28 212**	21 019
Pension plan contributions	**2 022**	2 031
Benefit from use of Company automobile	**480**	467
	233 904	177 620

18- *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

19- LOSS

	Three-month periods ended September 30	
	2011	2010
	$	$
Revenues	**862 284**	91 212
Cost of revenues		
Direct research and development expenses	**-**	28 701
Gross Profit	**862 284**	62 511
Costs and operating expenses		
Research and development expenses, net		
Salaries and employee benefits	**624 256**	210 959
Laboratory and other supplies	**56 295**	27 478
	680 551	238 437
Tax credit	**(186 885)**	(70 431)
Government assistance	**-**	(89 835)
	493 666	78 171
Business development expenses		
Salaries and employee benefits	**97 344**	94 830
Professional fees	**15 436**	34 793
Travel, entertainment and advertising	**25 879**	30 208
Office expenses	**9**	853
	138 668	160 684
General and administrative expenses		
Salaries and employee benefits	**89 771**	69 968
Rent, electricity, taxes and insurance	**45 745**	45 790
Office expenses	**15 666**	15 489
Travel, entertainment and advertising	**20 948**	18 548
Tax on capital (recovered)	**1 129**	1 331
Directors' fees	**17 473**	11 250
Professional fees	**85 921**	135 445
Amortization of property, plant and equipment	**12 896**	13 103
Amortization of patents	**7 426**	5 403
Amortization of deferred credits	**(1 971)**	(1 938)
	295 004	314 389
Financial expenses and interest income		
Other financial expenses	**2 911**	1 391
Interest and other income	**(37 372)**	(2 360)
	(34 461)	(969)
	892 877	552 275
Loss and comprehensive Loss for the period	**30 593**	489 764