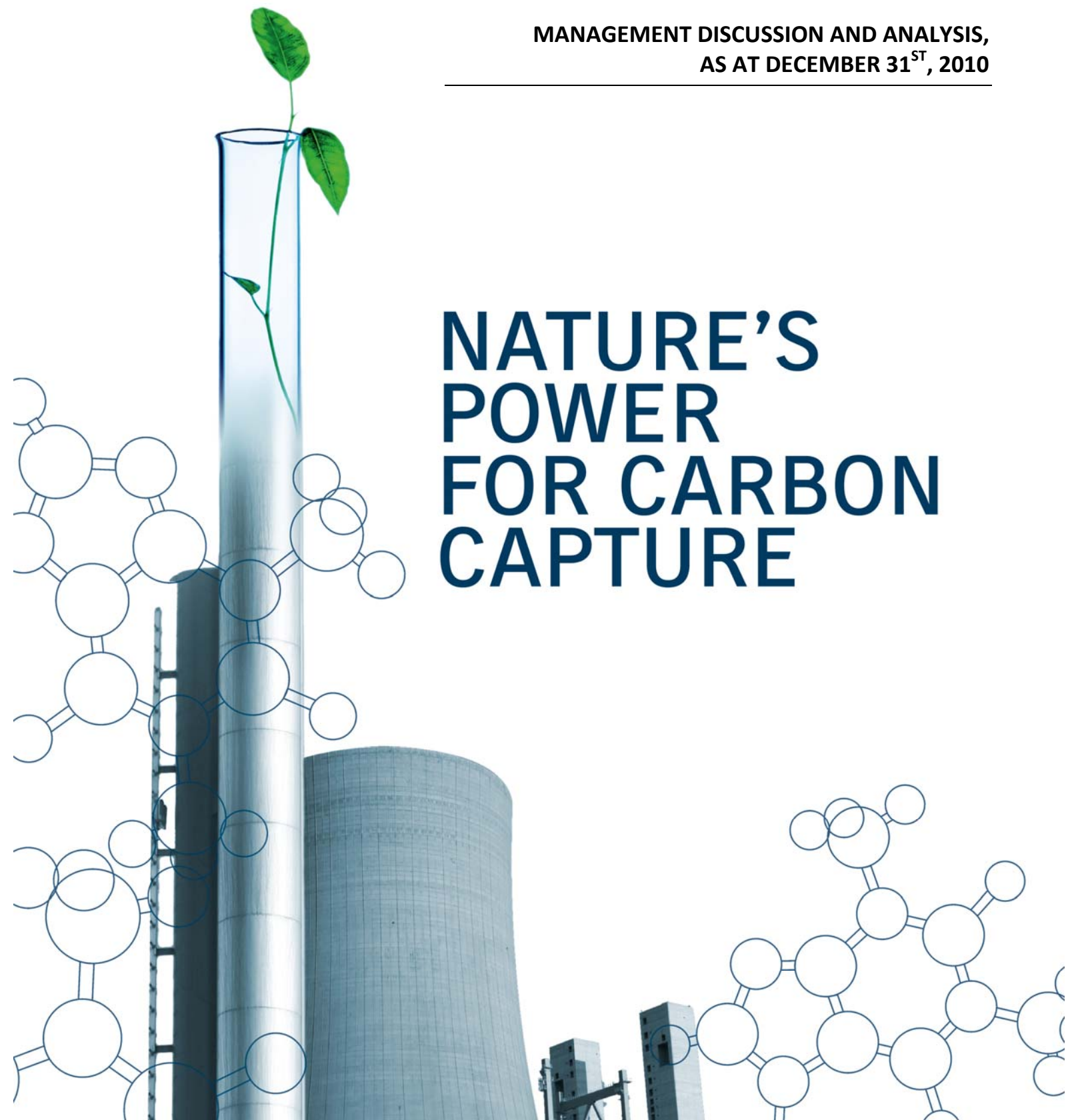


TRADING SYMBOL: CST



MANAGEMENT DISCUSSION AND ANALYSIS,
AS AT DECEMBER 31ST, 2010

NATURE'S POWER FOR CARBON CAPTURE





MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SECOND QUARTER ENDED DECEMBER 31ST, 2010

GENERAL

This management analysis of the operating results and the consolidated financial condition of CO₂ Solution, Inc. (“CO₂ Solution” or the “Company”) is for the three and six-month periods ended December 31st, 2010 and 2009. These consolidated interim financial statements include the accounts of the Company, its subsidiary companies and other entities, directly or indirectly controlled by the Company. This analysis must be read in conjunction with the financial statements for the second quarter of fiscal 2011, ended on December 31st, 2010, and with the Management’s Discussion and Analysis for the year ended June 30th, 2010, prepared in accordance with Canadian generally accepted accounting principles. Unless otherwise specified, all numbers are expressed in Canadian dollars.

FORWARD-LOOKING STATEMENTS

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

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

COMPANY OVERVIEW

CO₂ Solution is a leading developer of proprietary technologies for carbon dioxide (CO₂) capture and management. More specifically, the Company is currently focused on commercializing an enzyme-based enabling technology for efficient CO₂ capture from fossil fuel-power plants and other large stationary emitters of CO₂.

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

SECTOR AND POTENTIAL MARKET OVERVIEW

Climate change is already resulting in negative environmental and human consequences including the melting of the polar icecaps, rising sea levels, increasingly violent and destructive storms and persistent droughts, such as those seen in India and Russia over the last year. Our collective failure to deal with CO₂ emissions has already had important economic and social impacts and could cost the world economy more than U.S. \$20 Trillion by the end of the century (*Tufts University's Global Development and the Environment Institute*)¹.

The consensus among the scientific community, the public and our governments is clear; the world is getting warmer due to human activity. This warming is accelerating and it is urgent that we act now to slow and eventually reverse this trend by reducing our greenhouse gas (GHG) emissions. While 2010 did not result in any substantial legislative progress in this regard, the period was marked by announcements of more than US \$500 million in new governmental funding for the research and development of carbon capture technologies, namely in the United States and France, a recognition that the development of lower cost technologies, such as the Company's, will be critical to exploiting the full GHG reduction potential of carbon capture and storage (CCS).

RECENT DEVELOPMENTS

CO₂ Solution Signs Carbon Capture Collaboration with Global Leader in Energy Infrastructure

On December 3rd, 2010, CO₂ Solution entered into an exclusive Collaboration Agreement (the "Agreement") covering the development and pilot scale testing of its carbon capture technology to reduce carbon dioxide pollution from coal-fired power plants, one of the world's largest sources of greenhouse gas emissions.

The parties to the Agreement include a global leader in energy and infrastructure projects with over 5 billion dollars in annual sales (the "Company"), and Codexis, Inc., CO₂ Solution's exclusive enzyme development and production partner.

Under the terms of the Agreement, CO₂ Solution, Codexis and the Company will collaborate over a period of up to 16 months on a pilot phase program to develop and test customized carbon capture enzymes and related processes for use in power plants to reduce greenhouse gas emissions. The Company will fund research activities under the collaboration, which may be expanded to a long-term development and commercialization agreement if milestones are met and subject to negotiation of such an agreement between the parties.

The Agreement is a result of a laboratory scale validation effort undertaken with the Company in the first half of 2010 which demonstrated that the enzyme technology has the potential to significantly increase the efficiency of certain carbon capture technologies for application to power plants.

¹ http://www.ase.tufts.edu/qdae/policy_research/CostsofInaction.html

CO₂ Solution will receive up to US \$3.4 million for its activities under the Collaboration Agreement. During the term of this collaboration, CO₂ Solution and Codexis will provide the Company with exclusive access to their respective technologies for use with specific systems in power generation and industrial applications. Correspondingly, the Company will work exclusively with CO₂ Solution and Codexis related to carbonic anhydrase (CA) enzymes in these applications.

CO₂ Solution and Codexis extend their Carbon Capture Joint Development Agreement

Under the Joint Development Agreement, signed in December of 2009, Codexis and CO₂ Solution have collaborated on the development of customized carbonic anhydrase (“CA”) biocatalysts and related processes to enable the efficient capture of carbon dioxide from power plants and other large stationary emissions sources.

Program results to date have shown that the combined CO₂ Solution and Codexis proprietary technologies have the potential to significantly lower the capital and operating cost barriers associated with conventional technologies to capture CO₂ from power plant effluent gases.

This progress led to CO₂ Solution and Codexis entering into an exclusive Collaboration Agreement with a global leader in energy and infrastructure projects with over 5 billion dollars in annual sales, as announced on December 3rd, 2010, covering the development and pilot scale testing of the technology for coal-fired power plants, one of the largest global sources of harmful greenhouse gas emissions.

CO₂ Solution’s proprietary enzymatic method for the efficient capture of carbon dioxide from coal-fired power plants and other large sources of emissions will continue to be combined, on an exclusive basis, with Codexis’ directed enzyme evolution technology. The JDA will be extended until the later of June 30, 2012, or six months after the expiry of any third-party collaborations.

CO₂ Solution’s Scientific Advisory Board member, Dr. Roger Sheldon, honoured for Lifetime Achievements in Green Chemistry and Biocatalysis

Dr. Sheldon received two prestigious awards in the fields of Green Chemistry and Biocatalysis. He is founder and Chief Executive Officer of CLEA Technologies B.V., a strategic collaborator of CO₂ Solution for carbon capture enzyme immobilization.

Dr. Sheldon was awarded the 2010 Green Chemistry Award from the Royal Society of Chemistry (RSC). The Green Chemistry Award is presented each year by the RSC, Europe’s largest organization for the advancement of chemical sciences, for the design, development or implementation of novel chemical products or processes which have the potential to reduce or eliminate the use and generation of hazardous substances. Dr. Sheldon received the 2010 award in recognition of the role that he has played as one of the founding fathers of green chemistry and in particular for his work on the development of clean, catalytic technologies for waste minimization and elimination of toxic/hazardous materials in chemicals manufacture.

He was also recently bestowed the honor of receiving the International Congress on Biocatalysis (Biocat) Award for Lifetime Achievement. Since 2002, Biocat has been a leading conference series bringing together international research leaders for knowledge sharing in the rapidly growing fields of biocatalysis and industrial biotechnology. The Biocat Award for Lifetime Achievement honours individuals who have made outstanding contributions over their careers to the field of biocatalysis, and advancing biocatalytic research to enable greener and more efficient industrial processes. Dr. Sheldon received the 2010 award for his lifelong commitment to advancing biocatalysis and his exemplary achievements in both academia and private.

OPERATING RESULTS

Comparison between the three-month periods ended December 31st, 2010 and 2009

Revenues

The Company recorded revenues for a research and development collaboration totalling \$242,496 for the three-month period ended December 31st, 2010 (nil for the same period in 2009). These revenues come from the Collaboration Agreement between CO₂ Solution, Codexis and a global leader in energy and infrastructure projects.

Technology platform development

Research and development expenditures, net of investment tax credits and government assistance, increased by \$73,224, totalling \$123,938 for the three-month period ended December 31st, 2010, compared with \$50,714 for the same period in 2009. This increase is mainly attributable to work done by consultants relative to enzyme performance characterization under various industrially relevant operating conditions as well as to explore new avenues for enzyme immobilization. These expenses have been reduced by an increase in government assistance in December 2009, for which the Company received a certification of eligibility within the framework of a precompetitive research project. In addition, the Company received a grant from the National Research Council of Canada (NRCC) for a maximum contribution of up to \$348,000.

Business development expenses

Business development expenses amounted to \$236,137 for the three-month period ended December 31st, 2010, compared with \$94,925 for the same period in 2009, representing an increase of \$141,212. This increase is mainly attributable to expenses incurred for the negotiations of various collaboration agreements with partners abroad.

General and administrative expenses

General and administrative expenses totalled \$350,104 for the three-month period ended December 31st, 2010, compared with \$294,056 for the same period in 2009, representing an increase of \$56,048. The main factors that contributed to this increase are:

- The hiring of additional administrative personnel in May 2009
- Professional fees related to the recruitment of scientific personnel

Financial expenses and interest income

Net financial expenses for the three-month period ended December 31st, 2010, totalled \$362 compared with revenues of \$218 for the same period in 2009, representing an increase in net financial expenses of \$580.

Loss for the period

The Company recorded a loss of \$467,466, or \$0.01 per share, for the three-month period ended December 31st, 2010, compared with a loss of \$439,477, or \$0.01 per share, for the same period in 2009, an increase of \$27,989. No significant factor, other than those described above, contributed to increasing the loss.

Comparison between the six-month periods ended December 31st, 2010 and 2009

Revenues

For the six-month period ended December 31st, 2010, the Company recorded revenues of \$242,496 coming from its research and development collaboration as well \$91,791 for product sales (nil for the same period in 2009). As described previously, the R&D revenues come from a collaboration agreement with a global leader in energy infrastructure for carbon capture. The product sales come from the sale of enzymes and the supply of engineering services to other partners.

Cost of products sold

The Company incurred direct costs related to the sale of enzymes of \$544 for salaries in R&D activities, \$25,701 for professional fees and \$2,456 for laboratory supplies (nil for the same period in 2009).

Technology platform development - R&D Expenses

Research and development expenditures, net of investment tax credits and government support, increased by \$57,095, totalling \$202,109 for the six-month period ended December 31st, 2010, compared with \$145,014 for the same period in 2009. This increase is mainly attributable to work done by consultants relative to enzyme performance characterization under various industrially relevant operating conditions as well as to explore new avenues for enzyme immobilization. These expenses have been reduced following an increase in government assistance in December 2009, for which the Company received a certification of eligibility within the framework of a precompetitive research project, in addition to receiving a grant from the National Research Council of Canada (NRCC) for a maximum contribution of up to \$348,000.

Business development expenses

Business development costs totalled \$396,821 for the six-month period ended December 31st, 2010, compared with \$208,426 for the same period in 2009, representing an increase of \$188,395. This increase is mainly due to expenses incurred for negotiations of various collaboration agreements with partners abroad.

General and administrative expenses

General and administrative expenses totalled \$664,493 for the six-month period ended December 31st, 2010, compared with \$585,264 for the same period in 2009, representing an increase of \$79,229. The main factors attributable to this increase are:

- The hiring of additional administrative personnel in May 2009
- Professional fees for the recruitment and hiring of scientific personnel
- Consultant fees for the interim replacement of the Vice President Finance and Administration until the end of September 2010.

Financial expenses and interest income

Net financial expenses for the six-month period ended December 31st, 2010, resulted in a revenue of \$607, compared with a revenue of \$6,676 for the same period in 2009, representing an increase in net financial expenses of \$6,069. This increase is primarily due to a decrease in interest income of \$5,422, compared with the same period in 2009, resulting from the variation in temporary investments during the respective periods.

Loss for the period

The Company recorded a loss of \$957,230, or \$0.02 per share, for the six-month period ended December 31st, 2010, compared with a loss of \$932,028, or \$0.02 per share, for the same period in 2009, representing an increase of \$25,202. No significant factor, other than those described above, contributed to increasing the loss.

UNAUDITED QUARTERLY FINANCIAL INFORMATION

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

	Quarters ended			
	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010
Revenues	\$10,118	\$0	\$91,212	\$243,075
Net loss	\$540,245	\$598,171	\$489,764	\$467,466
Net loss per share	\$0.01	\$0.01	\$0.01	\$0.01

	Quarters ended			
	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009
Revenues	\$0	\$0	\$0	\$0
Net loss	\$479,228	\$319,953	\$492,551	\$439,477
Net loss per share	\$0.01	\$0.01	\$0.01	\$0.01

LIQUID ASSETS AND CASH FLOWS

Cash totalled \$866,391, as at December 31st, 2010, compared with \$664,089, as at December 31st, 2009.

Cash flow related to operating activities

For the six-month period ended December 31st, 2010, cash flow required for operating activities amounted to \$514,209, compared with \$963,443 for the same period in 2009. This \$449,234 decrease is attributable primarily to the revenues resulting from the collaboration agreement executed in December 2010.

Cash flow related to investment activities

For the six-month period ended December 31st, 2010, cash flow generated by investment activities amounted to \$1,005,537, compared with cash flow consumption of \$1,095,643 for the same period in 2009, a difference of \$2,101,180. This difference is mainly attributable to the following factors:

- \$1,059,199, of the \$2,000,000 received following the private placement with Codexis in December 2009, were used to increase temporary investments.

Cash flow related to financing activities

The cash flow generated by financing activities for the six-month period ended December 31st, 2010, amounted to \$2,883, compared with \$2,394,659 for the same period in 2009, a difference of \$2,391,776. This difference is mainly attributable to Codexis' private placement of December 2009, as described previously. Fees of \$80,341 were incurred for this transaction.

Furthermore, a \$475,000 commitment fee was received from Codexis, Inc. upon signature of the Joint Development Agreement in 2009. This commitment fee does not bear interest and is refundable within 10 business days from the date of commencement of a subsequent development and commercialization agreement with a third party.

LIQUIDITY AND SOLVENCY

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

As at December 31st, 2010, the Company has \$866,391 in cash and \$913,792 in temporary investments for a total of \$1,780,183 (\$3,267,982 as at December 31st, 2009). The Company currently has sufficient funds to meet its needs for at least the next five (5) quarters.

Although the Company currently has the necessary funds for the next five (5) quarters, it will have to raise additional funds in the near future. The current economic climate could affect the availability of such funding and thus have an adverse impact on the Company's future activities.

The Company's access to sufficient long-term capital depends on its ability to generate a profit in the future. This will depend in part on its ability to efficiently commercialize its technology, the results of its 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.

The Company benefits from credit facilities in the form of an operating line of credit for an authorized amount of \$100,000, bearing interest at prime plus 2.25% and guaranteed by a \$60,000 certificate of deposit. As at December 31st, 2010, this operating line of credit was unused.

CONTRACTUAL OBLIGATIONS

The Company is committed, under a lease agreement expiring in February 2015, to paying a total amount of \$623,193. The payments scheduled for the next five years are of \$78,022 in 2011, \$153,258 in 2012, \$152,209 in 2013, \$151,392 in 2014 and \$88,312 in 2015.

The Company is also committed, under a lease agreement expiring in September 2011, to paying a total amount of \$13,500 for the rental of automotive equipment. Minimum lease payments amount to \$9,000 in 2011 and \$4,500 in 2012.

INFORMATION REGARDING CAPITAL STOCK

As at February 17th, 2010, the number of outstanding common shares, warrants and stock options is respectively 60,261,136, 1,000,000, and 4,400,440.

RELATED PARTY TRANSACTIONS

As at December 31st, 2010, the Company recorded a \$475,000 advance from a shareholder with significant influence, bearing no interest and payable in January 2011 (nil for the same period in 2009).

MAJOR ACCOUNTING POLICIES AND ESTIMATES

The Company's interim consolidated financial statements for the period ended December 31st, 2010, are in accordance with the accounting policies and application methods described in the audited consolidated financial statements for the year ended June 30, 2010.

CHANGES IN ACCOUNTING STANDARDS

Future Accounting Standards

International Financial Reporting Standards (IFRSs)

In 2009, the Canadian Accounting Standards Board confirmed that the Canadian GAAP, for publicly accountable enterprises, will be replaced by the IFRSs and take effect during the year 2011. IFRSs use a conceptual framework similar to that of the Canadian GAAP, but composed of important differences on the subjects of posting, evaluation, presentation and information to be supplied. During the period preceding the changeover, the International Accounting Standards Board (IASB) will continue to publish new accounting standards and, consequently, the final incidence of IFRSs on the consolidated financial statements of the Company will not be evaluated until all applicable IFRSs at the changeover date are known. That said, according to the report issued in December 2009 by the IASB: “the International Accounting Standards Board (IASB) has recently revised its program of action and has readjusted the schedule of several projects for IFRS changes. Following these adjustments, it now seems clear that no other significant changes to IFRSs will become obligatory for the periods that coincide with calendar year 2011.”

For the Company, the conversion to IFRSs will be required for the financial statements for the periods starting on July 1, 2011. The comparative data will need to be reprocessed in order to respect IFRSs. Consequently, the Company has elaborated a conversion plan to IFRSs for its financial statements which focuses on the principle elements concerned, including financial information, Company operations, systems and process, internal controls, as well as communications and training. This plan consists of four phases: Phase 1 – Preliminary diagnosis, planning and definition of the scope, Phase 2 – Detailed evaluation, Phase 3 – Definition of the required modifications, and Phase 4 – Implementation.

Phase 1 has been completed and few impacts are expected with the exception of the initial and subsequent evaluation of an amount to be paid to a shareholder with significant influence as well as the reporting of the share-based remuneration. The Company does not expect that any changes regarding information technology and internal controls will be required.

The Company is currently completing Phases 2 and 3 of its conversion plan, namely the detailed evaluation and the definition of the required modifications. In early January 2011, the Company validated part of the results of its work with the external auditors, namely the main impacts with regards to postings as well as the required choices during the transition to IFRSs 1. The Company will continue the work related to Phases 2 and 3 throughout the first months of 2011, in view of validating the results with the external auditors.

Phase 4, comprising the preparation of the financial statements in compliance with IFRSs, will start at the beginning of 2011. The Company estimates that it will have completed the major part of its conversion plan before the end of the third quarter of fiscal 2011.

OUTLOOK

Scale-Up Partnership with Global Leader in Power Generation

2010 was a banner year for CO₂ Solution. In addition to executing exclusive technology development agreements with Procede Group B.V., CLEA Technologies B.V., and Codexis, Inc., CO₂ Solution secured its first scale-up partnership with a global leader in energy infrastructure and carbon capture technology with over 5 billion dollars in annual sales (the Global Leader). The Collaboration Agreement with this Global Leader covers the development and pilot scale testing of CO₂ Solution's technology for coal-fired power plants, one of the largest global sources of harmful greenhouse gas emissions. Under the terms of the Agreement, CO₂ Solution, Codexis and the Global Leader will collaborate over a period of up to 16 months on a pilot phase program to develop and test customized carbon capture enzymes and related processes for use in power plants to reduce 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 CO₂ Solution's technology.

Additional Scale-up Opportunities

Encouraging discussions have also been held with large end-use customers in the cement, aluminum and oil and gas sectors who are interested in CO₂ 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 CO₂ 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 or more additional scale-up partnerships will be secured in 2011.

In addition to the above, CO₂ 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, CO₂ Solution intends to continue to fully exploit its relationships with Codexis, Procede Group and CLEA Technologies, to bring the best resources to bear in advancing its technology towards commercial readiness. On the enzyme evolution and supply front, Codexis has, and is expected to continue to make significant progress in increasing the industrial stability and longevity of the enzyme catalyst. This will assist in positioning CO₂ 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, both with Cross Linked Enzyme Aggregates (CLEAs), and with internal development efforts which leverage the Company's significant expertise in the area of enzyme immobilization. This work is expected to enhance industrial readiness by incorporating leading-edge processes in which the enzyme is delivered to the carbon capture system as micro-sized particles possessing improved tolerance to high-process temperatures. In addition, these particles can be confined to the front-end CO₂ absorption stage (where the enzyme provides the maximum beneficial impact), without being exposed to the harsher, back-end desorption process, leading to improved system economics.

Lastly, on the process development and engineering front, the Company expects to begin small pilot-scale testing at the Global Leader's facility, by the end of 2011. 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, CO₂ 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 CO₂ Solution's that have the potential to significantly reduce the current high cost of carbon capture in Canada and internationally. In the U.S., in addition to the ARPA-E project with Codexis, CO₂ Solution will continue to pursue funding opportunities where possible for its technology, with the possibility of exploiting cross-border clean technology initiatives.

Continued Expansion of Intellectual Property Dominance

Continuing along the trend started in 2008, the growth in industry interest in the potential of enzyme-enabled carbon capture was even more pronounced in 2009 and 2010. As the world searches for innovative solutions to lower the current cost barrier to CO₂ capture, enzymatic capture, largely pioneered by CO₂ 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 patent position in the field which will both allow it to commercialize its technology and block potential competitors from entering the market. In this regard, CO₂ Solution will continue to expand its intellectual property dominance with the filing of new patents.

RISK FACTORS AND UNCERTAINTIES

CO₂ Solution's activities are subject to a number of risks and uncertainties which, as stated in its 2010 Annual Report, have not significantly changed.

INTERNAL CONTROLS REGARDING FINANCIAL INFORMATION

There are no amendments to internal controls with regards to the financial information that could have, or that are likely to have, important incidences on these controls during the six-month period ended on December 31st, 2010.

AUDITORS

This Management's Discussion and Analysis and the interim financial statements for the three and six-month periods ended December 31st, 2010, and 2009, have not been verified by the external auditors.

ADDITIONAL AND CONTINUOUS DISCLOSURE

This analysis was prepared on February 17th, 2011. Additional disclosure is provided on the SEDAR Web site at: www.sedar.com.