

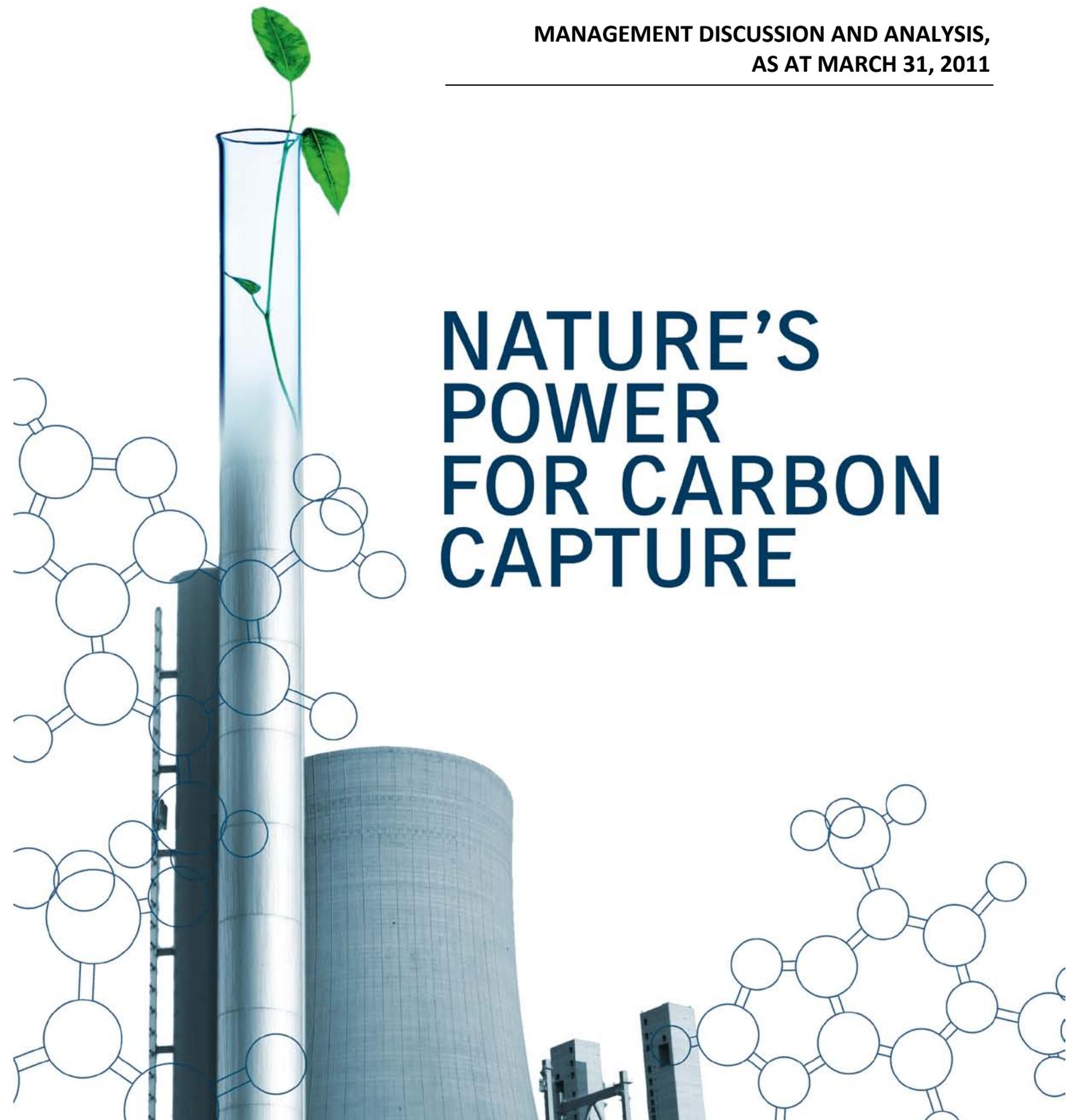
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MANAGEMENT DISCUSSION AND ANALYSIS,  
AS AT MARCH 31, 2011

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# NATURE'S POWER FOR CARBON CAPTURE





## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THIRD QUARTER ENDED MARCH 31, 2011

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### GENERAL

This management analysis of the unaudited operating results and the consolidated financial condition of CO<sub>2</sub> Solution, Inc. ("**CO<sub>2</sub> Solution**" or the "**Company**") is for the three and nine-month periods ended March 31, 2011 and 2010. 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 should be read in conjunction with the financial statements for the third quarter of fiscal 2011, ended on March 31, 2011, and with the Management's Discussion and Analysis for the year ended June 30, 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

CO<sub>2</sub> Solution is a leading developer of proprietary technologies for carbon dioxide (CO<sub>2</sub>) capture and management. More specifically, the Company is currently focused on commercializing an enzyme-based enabling technology for efficient CO<sub>2</sub> capture from fossil fuel-power plants and other large stationary emitters of CO<sub>2</sub>.

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

Global warming comes with a big price tag for every country in the world. The reductions in emissions needed to stop climate change may not come cheaply, but the cost of failing to act will be much greater. New research shows that if present trends continue, the total cost of global warming will be as high as 3.6 percent of gross domestic product (GDP). Four global warming impacts alone -- hurricane damage, real estate losses, energy costs, and water costs -- will come with a price tag of almost \$1.9 trillion annually (in today's dollars) by the year 2100. We know how to avert most of these damages through strong action to reduce the emissions that cause global warming. But the longer we wait, the more painful -- and expensive -- the consequences will be. (*Natural Resources Defense Council, The Cost of Climate Change*)<sup>1</sup>.

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 during the past year there was no substantial legislative progress in this regard, past periods have been 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). Further, the unfortunate Japan tsunami disaster of this past March 2011, and its devastating effect on a major Japanese nuclear power generating facility, has thrown a question mark over nuclear energy use worldwide, with many countries now trying to accelerate the development of technology that cleans carbon dioxide emissions from conventional fuel plants<sup>2</sup>.

## RECENT DEVELOPMENTS

### CO<sub>2</sub> Solution and Codexis extend their Carbon Capture Joint Development Agreement

In January 2011, the Company announced that it had extended the carbon capture Joint Development Agreement ("JDA") with Codexis, Inc., originally announced December 15, 2009. Under the JDA, CO<sub>2</sub> Solution and Codexis 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 CO<sub>2</sub> Solution / Codexis proprietary technologies have the potential to significantly lower the capital and operating cost barriers associated with conventional technologies to capture CO<sub>2</sub> from power plant effluent gases. The JDA has been extended until the later of June 30, 2012, or six months after the expiry of any third-party collaborations.

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<sup>1</sup> <http://www.nrdc.org/globalwarming>

<sup>2</sup> Bloomberg, Business Week, March 31, 2011

## **Carbon Capture Collaboration with Global Leader in Energy Infrastructure**

The extension of the JDA with Codexis was a precursor to the December 2010 announcement of CO<sub>2</sub> Solution and Codexis entering into an exclusive Collaboration Agreement with a global leader in energy and infrastructure projects with over \$5 billion in annual sales, covering the development and pilot scale testing of the CO<sub>2</sub> Solution technology for coal-fired power plants, one of the largest global sources of harmful greenhouse gas emissions. Under the terms of the Agreement, CO<sub>2</sub> Solution, Codexis and this global leader in energy and infrastructure projects 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 in energy and infrastructure projects 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.

## **CO<sub>2</sub> Solution appoints a new Chief Financial Officer**

On March 16, 2011, the Company announced that it had appointed Mr. Thom Skinner, CA as Senior Vice President Finance & Chief Financial Officer. A recognized business leader and career financial executive, Mr. Skinner's professional experience spans more than thirty years and includes senior financial executive roles in the financial services, manufacturing, pharmaceutical, life sciences and biotech sectors including extensive mergers and acquisition and capital raising work. Mr. Skinner will be responsible for financial, accounting and information technology operations as well as the Company's investor relations activities.

## **Alcoa, CO<sub>2</sub> Solution and Codexis Unveil Partnership for Carbon Capture Technology Pilot Test that Turns Emissions into Beneficial Commercial Products**

After the close of the quarter, on April 7, 2011, the Company unveiled a partnership and collaboration with aluminum producer Alcoa and CO<sub>2</sub> Solution's exclusive enzyme development and production partner Codexis, Inc., for a carbon capture technology pilot test that turns CO<sub>2</sub> emissions into beneficial commercial products.

The \$16.5 million project is the latest innovation from the world's leading aluminum producer and will be 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). This funding was made available by the American Recovery and Reinvestment Act (ARRA).

The collaboration is intended to devise solutions that treat and utilize a primary by-product 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. Over 120 million tonnes of bauxite residue is produced annually

by the aluminum industry worldwide<sup>3</sup>. The project is emblematic of how Alcoa is leveraging its extensive R&D capabilities and utilizing game-changing technologies from companies like CO<sub>2</sub> Solution and Codexis to advance sustainable solutions that can have an impact beyond Alcoa's operations.

## **OPERATING RESULTS**

### **Comparison between the three-month periods ended March 31, 2011 and 2010**

#### Revenues

The Company recorded revenues for a research and development collaboration totalling \$718,224 for the three-month period ended March 31, 2011 (nil for the same period in 2010). These revenues come from the Collaboration Agreement between CO<sub>2</sub> Solution, Codexis and a global leader in energy and infrastructure projects.

During the quarter the Company received notification of a refundable contribution of \$250,000 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 31, 2011. The loan was accrued to a present value of \$97,820, using an estimated capitalization rate of 5%. The difference between the present value and the principal amount of the loan (\$14,000) is shown in the statement of earnings as Government assistance.

#### Technology platform development

Research and development expenditures, net of investment tax credits and government assistance, increased by \$244,544, totalling \$347,605 for the three-month period ended March 31, 2011, compared with \$103,061 for the same period in 2010. 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 and the hiring of two R&D employees to support the Company's commitments under recently concluded collaboration agreements. 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 \$233,256 for the three-month period ended March 31, 2011, compared with \$162,433 for the same period in 2010, representing an increase of \$70,823. This increase is mainly attributable to variable (performance based) management remuneration payments of \$69,460 relative to the prior year paid during the quarter.

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<sup>3</sup> CSIRO, 2009

#### General and administrative expenses

General and administrative expenses totalled \$356,083 for the three-month period ended March 31, 2011, compared with \$290,684 for the same period in 2010, representing an increase of \$65,399. The main factors that contributed to this increase are:

- The hiring of additional administrative personnel in May 2010.
- Professional fees related to the recruitment of personnel.
- Variable (performance based) management remuneration payments of \$60,260 relative to the prior year paid during the quarter.

#### Financial expenses and interest income

Net financial expenses for the three-month period ended March 31, 2011, reflecting lower interest income from lower cash deposits, were a gain of \$2,807 compared with a gain of \$6,200 for the same period in 2010, resulting in a net increase in financial expenses of \$3,393.

#### Loss for the period

The Company recorded a loss of \$201,913, or \$0.00 per share, for the three-month period ended March 31, 2011, compared with a loss of \$540,245, or \$0.01 per share, for the same period in 2010, a decrease in the loss of \$338,332. No significant factor, other than those described above, contributed to the decrease in the loss for the quarter.

### **Comparison between the nine-month periods ended March 31, 2011 and 2010**

#### Revenues

For the nine-month period ended March 31, 2011, the Company recorded revenues of \$960,720 coming from its research and development collaborations (\$nil for the same period in 2010). As described previously, the R&D revenues came principally from the 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. Revenue for the nine-month period ended March 31, 2011, for these product sales were \$91,791, compared to \$10,118 for the same period in fiscal 2010. Also included in revenues, as noted above, is the difference between the present value and the principal amount of the Government assistance loan (\$14,000).

#### 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 2010).

#### Technology platform development - R&D Expenses

Research and development expenditures, net of investment tax credits and government support, increased by \$301,639, totalling \$549,714 for the nine-month period ended March 31, 2011, compared with \$248,075 for the same period in 2010. 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 and the

hiring of additional employees to support the Company's commitments under recently concluded collaboration agreements. 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 \$630,077 for the nine-month period ended March 31, 2011, compared with \$370,859 for the same period in 2010, representing an increase of \$259,218. This increase is mainly due to expenses incurred for negotiations of various collaboration agreements with partners abroad and to variable (performance based) management remuneration payments of \$69,460 relative to the prior year paid during the quarter.

#### General and administrative expenses

General and administrative expenses totalled \$1,020,576 for the nine-month period ended March 31, 2011, compared with \$875,948 for the same period in 2010, representing an increase of \$144, 628. The main factors attributable to this increase are:

- The hiring of additional administrative personnel in May 2010
- Professional fees for the recruitment and hiring of personnel
- Consultant fees for the interim replacement of the Vice President Finance and Administration until the end of September 2010.
- Variable (performance based) management remuneration payments of \$60,260 relative to the prior year paid during the quarter.

#### Financial expenses and interest income

Net financial expenses for the nine-month period ended March 31, 2011, resulted in a gain of \$3,414, compared with a gain of \$12,876 for the same period in 2010, representing an increase in net financial expenses of \$9,462. This increase is primarily due to a decrease in interest income of \$8,459, compared with the same period in 2010, resulting from the variation in temporary investments during the respective periods.

#### Loss for the period

The Company recorded a loss of \$1,159,143, or \$0.02 per share, for the nine-month period ended March 31, 2011, compared with a loss of \$1,472,273, or \$0.03 per share, for the same period in 2010, representing an decrease in the loss of \$313,130. No significant factor, other than those described above, contributed to the decrease in 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			
	June 30, 2010	September 30, 2010	December 31, 2010	March 31, 2011
Revenues	\$0	\$91,212	\$243,075	\$732,224
Net loss	\$598,171	\$489,764	\$467,466	\$201,913
Net loss per share	\$0.01	\$0.01	\$0.01	\$0.00

	Quarters ended			
	June 30, 2009	September 30, 2009	December 31, 2009	March 31, 2010
Revenues	\$0	\$0	\$0	\$10,118
Net loss	\$319,953	\$492,551	\$439,477	\$540,245
Net loss per share	\$0.01	\$0.01	\$0.01	\$0.01

## LIQUID ASSETS AND CASH FLOWS

Cash totalled \$462,300 as at March 31, 2011, compared with \$533,658 as at March 31, 2010.

### Cash flow related to operating activities

For the nine-month period ended March 31, 2011, cash flow required for operating activities amounted to \$1,486,581 compared with \$1,347,211 for the same period in 2010. This \$139,370 increase is attributable primarily to the variation in accounts receivable relative to the collaboration agreement executed in December 2010.

### Cash flow related to investment activities

For the nine-month period ended March 31, 2011, cash flow generated by investment activities amounted to \$1,475,462 compared with cash flow consumption of \$839,798 for the same period in 2010, a difference of \$2,315,260. This difference is mainly attributable to the following factors:

- \$1,050,199, 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 nine-month period ended March 31, 2011, amounted to \$101,239 compared with \$2,392,151 for the same period in 2010, a difference of \$2,290,912. This difference is mainly attributable to Codexis' private placement of December 2009, as described previously. Fees of \$84,312 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**

Until recently, the Company has financed its operations mainly through cash flow obtained from the issuance of capital stock, tax credits and government assistance. In the last two quarters the Company is also starting to generate a cash flow from revenue from the various joint development and collaboration agreements.

As at March 31, 2011, the Company has \$462,300 in cash and \$414,531 in temporary investments for a total of \$876,831 (\$2,840,819 as at March 31, 2010). The Company currently has sufficient expected cash flow and funds to meet its needs for at least the next six (6) quarters.

Although the Company currently has sufficient expected cash flow and funds for the next six (6) quarters, it will have to raise additional funds in the 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 March 31, 2011, 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 \$583,550. The payments scheduled for the next five years are of \$38,379 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 \$9,000 for the rental of automotive equipment. Minimum lease payments amount to \$4,500 in 2011 and \$4,500 in 2012.

## **INFORMATION REGARDING CAPITAL STOCK**

As at May 19, 2011, the number of outstanding common shares, warrants and stock options is respectively 60,261,136, 1,000,000, and 4,850,440.

## **RELATED PARTY TRANSACTIONS**

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

## **MAJOR ACCOUNTING POLICIES AND ESTIMATES**

The Company's interim consolidated financial statements for the period ended March 31, 2011, 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 presently completing Phases 2 and 3 of its conversion plan, namely the detailed evaluation and definition of the required modifications. The Company validated part of the results with its auditors in early January 2011, notably the main impacts with regards to posting and the required choices during the transition to IFRS 1. Phases 2 and 3 will soon be finalized and regular validation of the results with the Company's auditors is planned.

Phase 4, which includes preparation of the financial statements in compliance with the IFRS, has begun and will continue until the end of the fiscal year 2011. The Company believes that it is on the right track and its conversion plan will be completed as expected and in compliance with the implementation schedule fixed by authorities.

## **OUTLOOK**

### Scale-Up Partnership with Global Leader in Power Generation

2010 was a banner year for CO<sub>2</sub> Solution and this past quarter, ended March 31, 2011, continues to build on our previous success. In addition to executing exclusive technology development agreements with Procede Group B.V., CLEA Technologies B.V., and Codexis, Inc., CO<sub>2</sub> Solution started 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<sub>2</sub> 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, CO<sub>2</sub> 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 CO<sub>2</sub> Solution's technology.

### Scale-Up Partnership with Alcoa

On April 7th, CO<sub>2</sub> Solution announced a new 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 will be 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). This funding was made available by the American Recovery and Reinvestment Act (ARRA).

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<sub>2</sub> 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 will lead the three-year project, which has an investigation phase that runs through December. 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 also been held with large end-use customers in the cement, and oil and gas sectors who are interested in CO<sub>2</sub> 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<sub>2</sub> 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 partnerships will be secured during the balance of 2011.

In addition to the above, CO<sub>2</sub> 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<sub>2</sub> 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 CO<sub>2</sub> 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 CO<sub>2</sub> 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, CO<sub>2</sub> 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<sub>2</sub> 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, and the U.S. Department of Energy support of the Alcoa project, CO<sub>2</sub> 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 CO<sub>2</sub> capture, enzymatic capture, largely pioneered by CO<sub>2</sub> 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, CO<sub>2</sub> Solution will continue to expand its intellectual property dominance with the filing of new patents.

### **RISK FACTORS AND UNCERTAINTIES**

CO<sub>2</sub> 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 nine-month period ended on March 31, 2011.

### **AUDITORS**

This Management's Discussion and Analysis and the interim financial statements for the three and nine-month periods ended March 31, 2011, and 2010, have not been verified by the external auditors.

## **ADDITIONAL AND CONTINUOUS DISCLOSURE**

This analysis was prepared on May 19, 2011. Additional disclosure is provided on the SEDAR Web site at: [www.sedar.com](http://www.sedar.com).