CARBON FRIENDLY SOLUTIONS INC.

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2011

1.1 Forward Looking Information

This Management Discussion and Analysis ("MD&A") of Carbon Friendly Solutions Inc. ("CFS" or the "Company") has been prepared by management as of October 28, 2011 and should be read in conjunction with the audited consolidated financial statements and related notes thereto of the Company for the year months ended June 30, 2011, which were prepared in accordance with Canadian generally accepted accounting principles.

The following discussion contains, in addition to historical information, forward-looking statements that involve risks and uncertainties. These forward-looking statements may include, among other things, statements concerning plans, objectives and future economic prospect, expectations, beliefs, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements and industry result, to be materially different from what is said or implied with such forward-looking statements.

Some of the factors that could cause results or events to differ from current expectations include, but are not limited to, the factors described under "Risk Factors". The financial statements of CFS are presented in Canadian dollars and in accordance with generally accepted accounting principles in Canada.

1.2 Over-all Performance

Company Overview

The Company was incorporated on April 6, 1990 under the laws of British Columbia. On August 18, 2000 the Company changed its name from Anthian Resources Corp. to Sudamet Ventures Inc. On May 4, 2005, the Company changed its name again from Sudamet Ventures Inc. to Avigo Resources Corp.

On September 2, 2008, the Company completed a share exchange with Global CO2 Reduction Inc. (Global CO2) and changed its name to Carbon Friendly Solutions Inc. The Company is listed on the TSX Venture Exchange under the symbol "CFQ" and the Frankfurt Stock Exchange under the symbol "0FS-FRA" ("zero FS-FRA").

On December 31, 2010, the common shares of the Company became listed for trading on the Canadian National Stock Exchange ("CNSX') under the symbol of "CFQ". The Company applied to the TSX Venture Exchange ("TSX-V") to delist its shares from the TSX-V, and received confirmation that effective at the close of business on December 31, 2010 the Company's share will be delisted from the TSX-V.

The Company was founded as a project proponent that provides solutions for companies, organizations and individuals looking to reduce or offset their global warming impact caused by greenhouse gas emissions while including the generation of carbon credits for sale in the global Voluntary and Compliance markets and finding economic solutions for the reduction of carbon footprints in power generation.

Global CO2 Reduction Inc. and CO2 Reduction Poland Sp. z o.o.

Through its wholly owned subsidiaries, Global CO2 Reduction Inc. and CO2 Reduction Poland Sp. z o.o., CFS is focusing on removing and offsetting carbon dioxide emissions from the completion of reforestation, biomass energy and renewable energy technology projects that are independently validated and verified to globally recognized standards and methodologies.

CO2 Reduction Poland mainly acts as an aggregator and cultivator of lands, thus collecting together areas that are fragmented among many small owners and coordinating the planting of trees to complete forestation programs.

CFS is focusing on reducing carbon emissions through carbon sequestration projects in Europe and surrounding areas, by planting trees called afforestation or reforestation. Poland and neighbouring countries hold vast potential for land-use, land-use change and forestry (LULUCF) projects that qualify under Kyoto and post-Kyoto mechanisms as well as non-Kyoto schemes. As a result, inactive or converted vacant land, including pasture or post-agricultural land is leased to CFS from land owners, usually for a period of 20 to 30 years.

Typically these areas are forested with an accepted and approved assortment of fast growing tree species to maximize carbon absorption in that region. The carbon sequestration occurs naturally through photosynthesis, which is the process of using energy in sunlight to convert water and carbon dioxide into carbohydrates and oxygen.

MicroCoal, Inc. ("MicroCoal")

MicroCoal is a materials technology company focused on commercializing the use of microwave energy and related process technologies to transform coal and other minerals into higher quality and higher value industrial materials. Our initial target market is the coal-fired segment of the North American electrical utility industry. Coal-fired power plants currently produce nearly 50% of the electricity in the U.S.A. MicroCoal's proprietary on-site process cleans up coal at the power plant prior to combustion by reducing contaminates like sulfur and mercury and also improving fuel efficiency by removing water. This is helping to accelerate the existing trend of fuel switching to low-rank Powder River Basin (western) coals. We are building on our extensive portfolio of patents pending and proprietary know-how and see significant growth potential into new geographies and new industrial markets.

Summary of Activity to Date

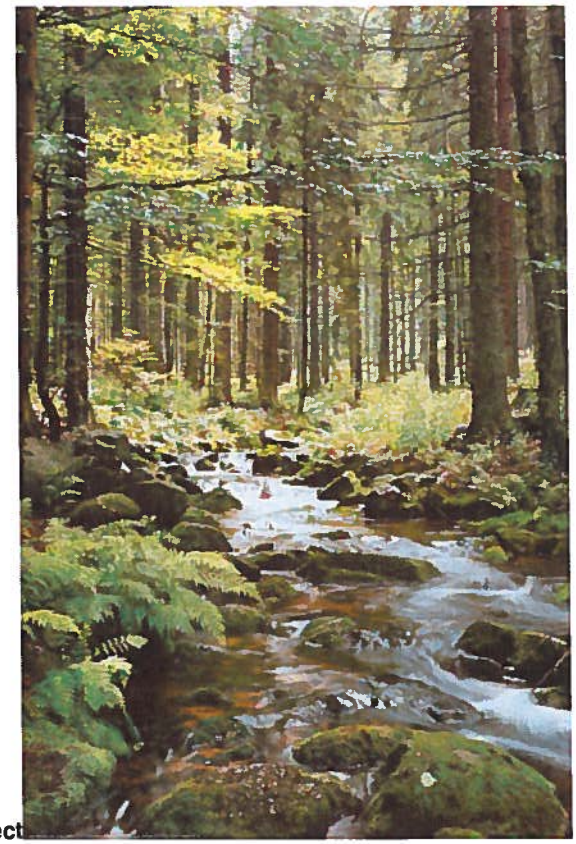
Forestry

Carbon Friendly™ finances, supports and maintains global afforestation and reforestation projects. Afforestation/reforestation is simply the creation of new forests. Trees sequestor carbon dioxide (the removal of carbon dioxide from the atmosphere) and store it in the wood and in the soil. Like a sponge is to water, a tree is to carbon dioxide. Forests actually remove existing carbon dioxide from the atmosphere, helping to clean up the existing global warming mess.

In addition to sequestering carbon, trees provide us with the clean air that we breathe. The leaves of trees act as a natural filter, absorbing other air pollutants such as carbon monoxide and sulfur dioxide. They also act a natural air conditioner, moderating our climate. Trees conserve water, protecting us from storm runoff and the possibility of flooding. Trees also harbor wildlife, attracting birds and other woodland animals.

Carbon Friendly™ ensures that all of its forestation projects are verified to meet the highest level of industry standards. Our methodologies, calculations and processes have been validated by reputable 3rd parties such as Kashue, Poland, the "National Administration of the Emission Trading Scheme" and byTÜV Rheinland.

List of Carbon Friendly™ Forestation Projects



Poland Afforestation Project

Phase I – Pilot Project

In 2007 Carbon Friendly and its wholly-owned subsidiary CO2 Reduction Poland Sp z.o.o had aggregated a total 50.74 hectares of private lands.

The project has been validated by TUV Rheinland - to the International Standard Organization's ISO 14064-2 Specification for quantification, monitoring and reporting of greenhouse gas emission reductions or removal enhancements.

Phase II – Large Scale Implementation

The initial Phase II project area, consisting of 932.51 hectares of private lands in Northern Poland, has been expanded to approximately 4000 hectares, of which 2500 hectares are ready for verification. The land was aggregated and afforested over a 5-year project period, through cooperative action between CO2 Reduction Poland Sp. z o.o. and several private land owners. CFS is currently completing the Project Design

Document ("PDD") using Good Practice Guidance for Land Use, Land-Use Change and Forestry (GPG-LULUCF, 2003) Guidelines, which define universally accepted methods for estimating, measuring, monitoring and reporting on carbon stock changes and greenhouse gas emissions. The VERs will be validated and verified to the ISO 14064-2 Specification and if applicable, to the Community, Climate and Biodiversity Alliance's CCBA standard.

The Project is designed to generate nearly 1,243,000 high-quality validated VERs, which will have a conservative market value of US$ 5 per VER, equaling US$ 6,215,000 in revenue.

MicroCoal

On January 31, 2011 the Company announced it had finalized the acquisition of 58.21% of the outstanding share capital of MicroCoal Inc. ("MCI" or "MicroCoal"), as announced on January 12, 2011 and October 26, 2010. In accordance with the share purchase agreement and its amendment, all MicroCoal shareholders, except for one, exchanged their shares of MicroCoal on a pro rata basis for 10,957,778 common shares of Company (the "Share Exchange"). In addition to the Share Exchange and in accordance with the share purchase agreement, the Company is to complete a private placement financing of up to CAD$6 million (the "Financing") and from such proceeds, the Company is to pay (i) US$1 million cash to a certain creditor/shareholder of MCI in consideration for the forgiveness of certain outstanding debt owed to such creditor by MCI and for the re-purchase of such creditor's 1,013 MCI shares for cancellation; and (ii) up to US$85,000 cash to certain other creditors of MCI to settle other outstanding indebtedness owed by MCI. Upon completion of the entire transaction, the Company will own 100% of MicroCoal.

MicroCoal Inc. is a clean energy company focusing on commercializing the use of its patented technologies to decontaminate and upgrade low-rank coals to match the energy levels of high-rank coals for use by power utilities. MicroCoal Inc.'s proprietary on-site process not only cleans up coal at the power plant prior to combustion by significantly reducing contaminants, but it also reduces GHG emissions and improves fuel efficiency. The reduction in emissions allows for the generation of substantial carbon credits in an industry that is one of the world's largest producers of emissions. The deployment of MCI's technology offers utilities significant economic, environmental as well as operational benefits. MicroCoal's website address: www.microcoal.com

MicroCoal, currently headquartered in Denver, CO with its pilot plant located in Golden, CO, is focused on reducing CO_2 emissions in coal-fired plants by commercializing the use of microwave energy and its related patented technologies to upgrade low-rank, i.e. sub-bituminous and lignite coals to match the energy levels of high-rank, i.e. bituminous coals, for use by power utilities. MicroCoal's proprietary on-site process not only cleans up coal at the power plant prior to combustion by reducing contaminants like sulfur and mercury, but it also reduces CO_2 emissions and improves fuel efficiency by removing water.

MicroCoal's proprietary clean coal technology has significant growth potential into multiple geographies and various industrial markets. Its business model is based on licensing the technology with a once-off *technology fee* and an annual maintenance fee derived of the initial project costs.

MicroCoal Technology

Coal is classified by quality, based on its heat value (BTU rating), into two main categories and four different types as follows:

- High-rank, including anthracite and bituminous
- Low-rank, including sub-bituminous and lignite

Thermal coal used by utilities includes bituminous, sub-bituminous and lignite coals. The heat value of coal is directly dependent on its moisture content: the lower the moisture – the higher the coal's heat value. Generally speaking, low-rank coals are younger and cleaner than high-rank coals, and a lot cheaper.

MicroCoal's patented technology suite revolves around the use of microwave energy to dewater and upgrade low-rank coals. In addition to microwave, MCI has developed supplementary processes to further remove contaminants and CO_2, and produce an efficient power plant fuel from available raw coal.

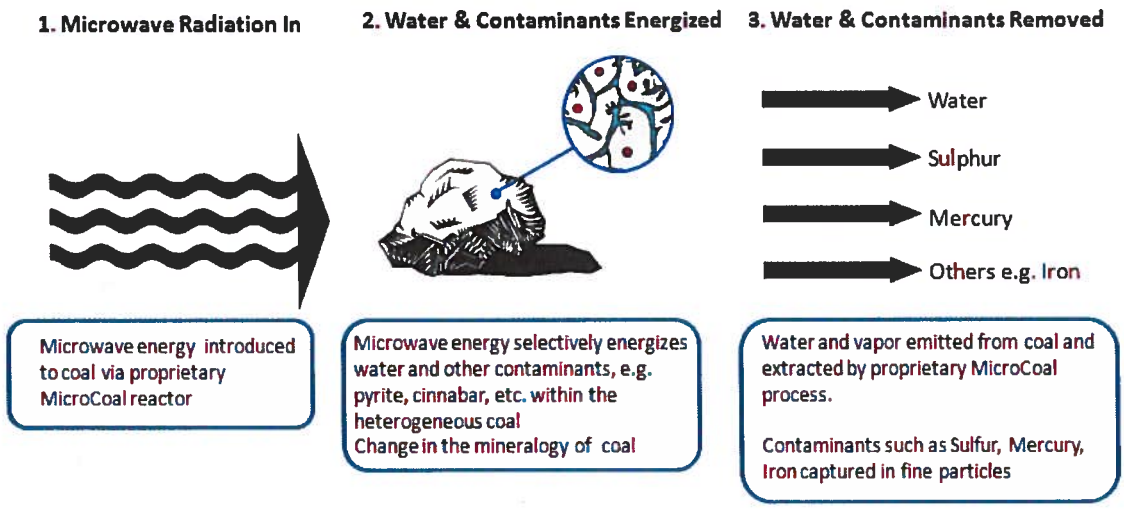


Figure 1: How it works

The Benefits of MicroCoal's Process

According to the World Coal Institute, up to 5% of the carbon footprint of utilities can be eliminated by drying the coal prior to combustion. A further 22% of CO_2 emission can be reduced, improving generation efficiency. The direct result of this is a worldwide interest in clean coal and coal drying technologies, which is the focus of the MicroCoal's business initiative.

The deployment of MicroCoal Inc.'s technology will give the utility three main benefits:

- ✓ **Environmental benefits**, due to a significant reduction of coal contaminants and CO_2 emission;
- ✓ **Economic benefits**, due to fuel switch from expensive high-rank coal to cheaper low-rank coal and with increased heat value of the latter, as well as additional revenue from generating carbon offsets;
- ✓ **Operational benefits**, due to marked change of slagging and ash build-up.

The combined benefits of the MicroCoal's technology suite has been discussed with utilities, experts in the field, industry consultants and coal analysts, all of whom have indicated support for the approach. Indications are that, once funding has been secured, various utilities will be prepared to sign collaboration agreements with a view to applying the technology once its development is complete.

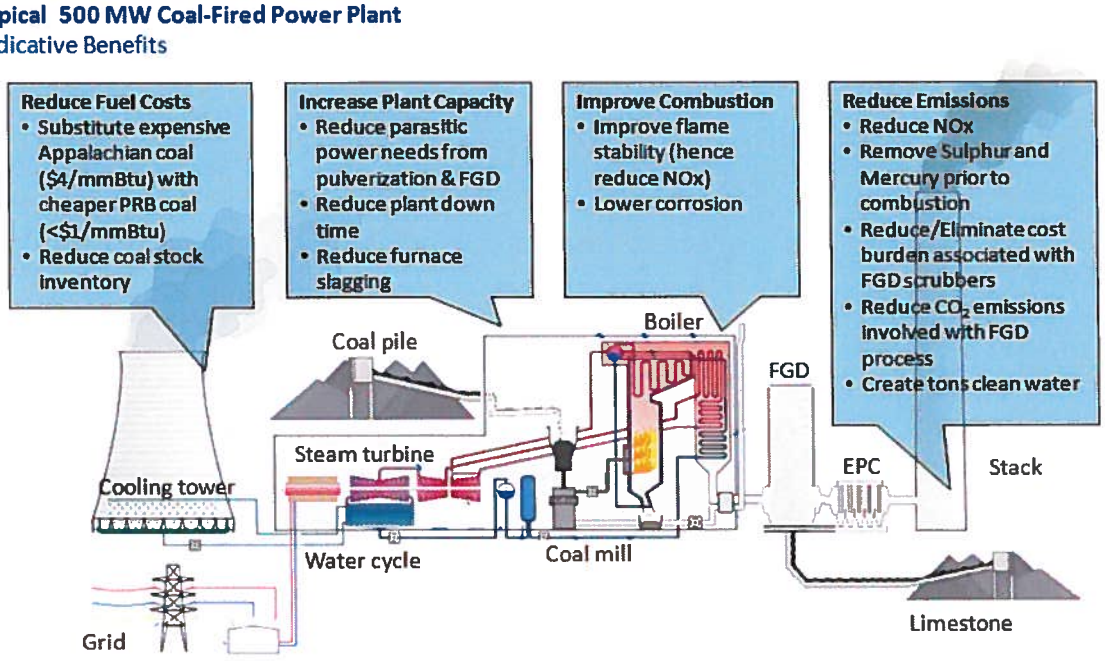


Figure 2: Indicative Benefits

MicroCoal Market Opportunity

Coal is, and will continue to be, an indispensable part of the global energy mix. However, coal requires innovation to enhance its long term appeal by improving its emissions profile and improving the efficiency of coal as a source of fuel. Over 4030 Mt[1] of coal is currently produced globally and is expected to reach 7 billion tonnes in 2030 – with China accounting for around half the increase over this period. The top five producers are China, the USA, India, Australia and South Africa. Coal currently fuels 39% of the world's electricity and this proportion is expected to remain at similar levels over the next 30 years. The biggest market for coal is Asia, which currently accounts for 54% of global coal consumption – although China is responsible for a significant proportion of this.

The U.S. Market

Approximately 1,100 million tons of coal is consumed in the U.S. every year to generate 50% of the electricity in the country. The introduction of the Clean Air Act of 1990, and the Clean Air Act Amendment ("CAAA") in 2000 forced utilities to control their emissions to meet with US Environmental Protection Agency ("EPA") standards. Utilities are faced with two options for controlling emissions:

- Change fuel to low sulfur coal such as PRB coal, which is the cheaper option;
- Deploy high capacity post combustion control systems such as flue-gas desulfurization ("FGD"), mostly scrubbers, which is a very expensive option.

[1] World Coal Institute

A combination of the above two options could also be applied. Approximately 40% of generation units have deployed FGD, while many have switched to PRB coal, as is evident in its spectacular growth. The other alternative for a plant is to deploy MicroCoal's technology, which will upgrade PRB coal to the heat value equivalent to high-ranking coal, thereby allowing utilities to benefit from the significant lower input costs, while at the same time enjoying the environmental benefits of reduced CO2, SO2 and mercury emissions. In 2007 the fleet of U.S. coal-fired power generation consisted of over 1,400 units in various sizes. Of these units, 950 are designed to burn bituminous coal. These are the potential candidates for MicroCoal's technology. The immediate market segment for MicroCoal has been identified as those generation units with the capacity of 200MW and less, which totals over 600 units. The reasons for selecting this initial target market are:

- Smaller units are under pressure to come in-line with more stringent environmental standards, and are more threatened with closure than larger units.
- These units are typically older, and generally do not have space available to deploy traditional environmental control facilities such as FGD, which require large areas.

The second market segment, which will be addressed by MicroCoal are those units with a capacity of 500MW and higher, and emerging markets such as China and India will be the third market.

International Market

The worldwide installed base of coal-fired power generation is expected to grow by 67% by 2020. 80% of the growth will come from China and India. China alone accounts for over two-thirds of this growth. The price spread and quality difference between low-rank and high-rank coals in the rest of the world is similar to that of the U.S. MicroCoal has tested Indonesian coal in its facilities, and showed that its technology is as applicable to international coals as it is to U.S. coals.

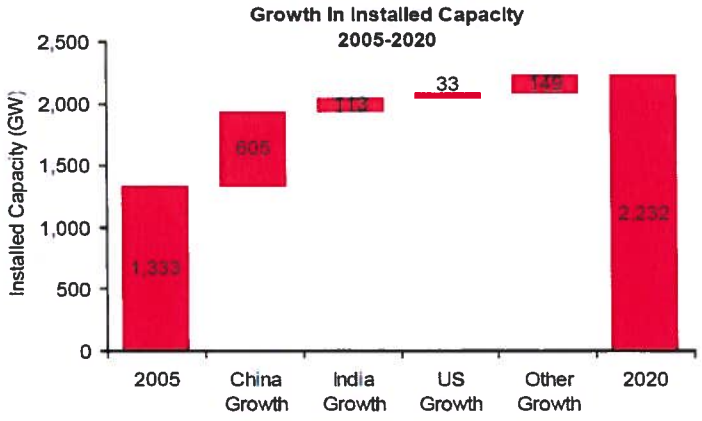


Figure 3: Global growth of coal-fired power generation in GW[2]

Financial Plan and Milestones

Carbon Friendly's financial plan for MicroCoal addresses the following two of four development phases, which mark the milestones deemed critical to successfully commercialize MicroCoal's proprietary

[2] Characteristics of the Worldwide Coal Fleet: Implications for CCS Retrofit RD&D The NorthBridge Group MIT Symposium on CCS Retrofit Technology Cambridge, MA March 23, 2009

technologies. During the next 12 months Carbon Friendly will focus on the completion of MicroCoal's Phase I and Phase II development stages.

The Company is confident it can raise the required future funding for completion of the commercialization Phases III and IV stages through public equity, available government grants and licensing arrangements with existing coal fired facilities interested in utilizing the MicroCoal technology.

Marketing and Sales

Emission Reduction Offsets

Typically emission offsets are sold utilizing the services of emission brokers who take orders or requests from clients looking for particular emission offsets. CFS has established ongoing relationships with many different emission brokers and traders and has regular dialogue to ensure all parties are aware of projects CFS is developing and timing of obtaining validation for sale of offsets.

With the recent successful launch of the Markit Environmental Registry (http://www.tz1market.com/) CFS can now register all land based sequestration projects to obtain greater public exposure and facilitate timely sales of project offsets. In addition projects listed on the Markit Registry provide full project transparency and because all offset purchases are recorded and retired, it gives assurance of no double counting to all potential buyers.

The CFS company website includes its proprietary carbon footprint calculator and option to purchase CFS carbon credits directly from the website. The Company is selling carbon credits on the website to individuals and small businesses for $12.50 USD per carbon credit. CFS intends to increase its branding and awareness on the Internet through key word pay-per-click advertising on Google and linking to other environmental sites.

With respect to carbon accounting, voluntary reforestation project proponents typically use ex-ante accounting for forestry activities, meaning that the carbon dioxide removals in the future are sold before they actually occur. This practice is accepted by buyers and defended on the basis that most of the costs are incurred in the early years of a forestry project; therefore, "ex-post" accounting (selling the reductions after they have occurred over the life of the project) is simply not economically viable.

In the unlikely scenario of an unexpected event causing damage to the project, CFS establishes a buffer or reserve inventory to ensure and guarantee the delivery of offsets. This varies depending on the risk analysis of the project site location but typically the Company creates a minimum 10% buffer or offset reserve that remains in an inventory reserve account for the life of the project.

1.3 Selected Annual Information

Selected annual information from the consolidated audited financial statements for the three years ended is summarized as follows:

June 30,	2011	2010	2009
Revenues	$7,980	$45,194	$35,072
Gross profit (loss)	(1,587)	(33,822)	8,796
Operating expense	3,468,794	2,482,956	1,636,226
Other income (expense)	464,227	(93,651)	17,659
Net loss for the period	(3,006,154)	(2,610,429)	(1,609,771)
Net loss per share	(0.09)	(0.11)	(0.09)
Total assets	8,489,395	420,568	802,016

Total long-term liabilities	3,025,474	Nil	Nil
Cash dividends declared	Nil	Nil	Nil

1.4 Results of Operations

During the year ended June 30, 2011, the Company incurred a loss of $3,006,154 or $0.09 per share compared to a loss of $2,610,429 or $0.11 per share for the comparable year, an increase of $395,725.

The major expense items include the amortization, consulting,management fees,professional fees, and stock-based compensation,

Consulting fees were incurred in regards to operations in Poland for $192,189 locating carbon credit afforestation/reforestation land and obtaining verification credits, hiring of a firm providing capital growth advice for $77,800, hiring a firm providing financing and analytical expertise for $138,500 and payments made to officers and directors for $48,147 all in connection to the Company's reforestation, biomass energy and energy technology projects. Stock based compensation has been issued for $606,303, and a foreign exchange loss of $105,473. In addition consulting fees were paid in connection with the acquisition of Microcoal for some $95,000.

Professional fees can be broken down into accounting and audit expense for $185,036 and legal expense for $120,210.

Management fees include an amount of $44,100 paid to a former officer and director, directors fees of $18,000, management fees incurred in Poland of $54,099, management fees incurred in the United States of $95,958 with the balance attributable to the management of the parent company.

Amortization of the coal pilot plant on a 20% straight line basis added $742,648 to amortization expense.

The foreign exchange rates of the Canadian dollar compared to the Polish zloty was:

Date	End of period	Average
June 30, 2010	3.2514	2.79988
September 30, 2010	2.8774	2.8392
December 31, 2010	3.0014	2.9653
March 31, 2011	2.9141	2.9268
June 30, 2011	2.8254	2.9058

The foreign exchange rates of the Canadian dollar compared to the United States dollar:

Date	End of period	Average
June 30, 2011	0.9792	1.0013

The change in rates has caused a foreign exchange gain of $105,473.

1.5 Summary of Quarterly Results

Quarter ended	Revenues	Other items	Net loss	Loss per share
June 30, 2011	212	126,095	(1,608,654)	(0.04)
March 31, 2011	7,102	4,808	(549,734)	(0.02)
December 31, 2010	8	10,296	(403,167)	(0.01)
September 30, 2010	658	(37,972)	(444,599)	(0.02)
June 30, 2010	45,194	(44,004)	(819,551)	(0.03)
March 31, 2010	-	15,736	(620,545)	(0.03)
December 31, 2009	-	(307)	(851,301)	(0.03)
September 30, 2009	-	34,218	(319,032)	(0.02)

1.6/1.7 Liquidity and Capital Resources

The Company had cash on hand of $3,031 at June 30, 2011 and a working capital deficiency of $4,599,926. Working capital was $86,923 at June 30, 2010.

During the year, a private placement was completed consisting of 5,272,750 units at $0.20 per unit, each unit consisting of one common share and one share purchase warrant to purchase one common share at $0.35 per share for a period of two years. Issue costs of $1,720 were incurred. As at June 30, 2011 $352,000 remained as share subscriptions receivable; which has been collected subsequent to year-end.

During the year ended June 30, 2011, the Company issued 395,000 shares on exercise of stock options for proceeds of $84,850.

Pursuant to several loan agreements a total of $425,000 was advanced to the Company. In regards to advances of $385,000, a 20% loan bonus was charged with the loan amount calculated at $462,000 to be repaid. Two additional loans for a total of $40,000 had no bonus arrangements at 2% interest per month. In all other cases the interest rate is 8% per annum and the term is one year or shorter if a financing was achieved by the Company. During the year ended June 30, 2011 the Company repaid $202,000 with the principal balance owing at June 30, 2011 being $300,000.

The Company is hopeful of completing additional equity financing in 2011-2012. Additional equity financing has been completed subsequent to year-end, see item 1.10, subsequent events.

For the year ended June 30, 2010

During the year, a private placement was completed consisting of 7,347,000 units at $0.27 per unit, each unit consisting of one common share and one share purchase warrant to purchase one common share at $0.35 per share for a period of two years. The private placement was completed in three tranches consisting of 1,882,000, 1,400,000 and 4,065,000 respectively from November 20, 2009 to December 11, 2009. In connection with the private placement 328,200 share purchase warrants were issued as finder fees' ("agent warrants") exercisable at a price of $0.35 per share for a period of two years. The fair value of the agent warrants was $65,191 using the Black Scholes Option Pricing Model assuming no dividends are to be paid, with a weighted average expected life of 2 years, a weighted average volatility of 110% and an average annual risk free interest rate of 0.5%. The Company paid share issuance costs of $226,626 related to legal fees, transfer fees and finders' fees.

During the year, the Company issued 297,500 shares on exercise of stock options for proceeds of $74,175.

The Company may continue to have capital requirements in excess of its currently available resources. In

the event the Company's plans change, its assumptions change or prove inaccurate, or its capital resources in addition to projected cash flow, if any, prove to be insufficient to fund operations, the Company may be required to seek additional financing. Although the Company has been successful in raising the funds, there can be no assurance that the Company will have sufficient financing to meet its future capital requirements or that additional financing will be available on terms acceptable to the Company in the future.

1.8 Off-Balance Sheet Arrangements

The Company does not utilize off-balance sheet arrangements.

1.9 Transactions with Related Parties

The following expenses were incurred with directors and officers of the Company

	For the year ended June 30, 2011	For the year ended June 30, 2010
Management and directors' fees	$ 488,615	$ 449,824
Consulting	44,417	131,200
Automobile allowance (Travel and Promotion)	28,808	43,200
Rent	-	78,342
Professional fees	69,500	29,900
Office and miscellaneous	1,882	7,500
Total	$ 633,222	$ 739,966

As at June 30, 2011 accounts payable and accrued liabilities included $440,646 (June 30, 2010 - $8,630) owing to officers and directors for management and accounting fees. The amounts due are unsecured, non-interest bearing and have no fixed terms of repayment.

The amounts charged to the Company for the services provided have been determined by negotiation among the parties and in certain cases, by signed agreements. These transactions were in the normal course of operations and were measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

1.10 Subsequent events

On October 19, 2011 the Company announced it had closed its non-brokered private placement ("Offering") announced on June 21, 2011. The total financing from the Offering was comprised of $2,153,550 in gross proceeds from the subscription of 10,767,750 Units. Each Unit consists of one common share and one common share purchase warrant (the "Warrant"). Each Warrant entitles the holder thereof to purchase one common share of the Company (one "Common Share") at an exercise price of $0.35 per Common Share for a period of two years from the closing date of the Offering.

The Company also announced the issuance of 400,000 Common Shares to the directors of Carbiopel Eco Stream Power S.A. ("Carbiopel" or "CESP"), Andrzej Murdzia and Krzysztof Duma. The issuance is gives the Company a 1% interest in Carbiopel. The Company has an option to purchase an additional 50% of Carbiopel for the sum of two million zloty.

CarbioPel is a biomass pellet producer based out of Lezajsk, Poland. CESP focuses on the production of biomass pellets using agricultural residues as feedstock. CESP has developed extensive connections

and good standing relationships with large biomass utilities in Poland, which demand large quantities of biomass for electricity and heat generation.

1.11 Adoption of New Accounting Standards

Business Combinations, Non-controlling Interest and Consolidated Financial Statements

In January 2009, the CICA issued Handbook Sections 1582 "Business Combinations", 1601 "Consolidated Financial Statements" and 1602 "Non-controlling Interests" which replace CICA Handbook Sections 1581 "Business Combinations" and 1600 "Consolidated Financial Statements". Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for the Company's business combinations with acquisition dates on or after March 1, 2011. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning July 1, 2011. Early adoption of these Sections is permitted and all three Sections must be adopted concurrently. Management does not expect that the adoption of this standard will have a material impact on the Company's consolidated financial statements.

International financial reporting standards

In addition to the above new accounting standards, the Accounting Standards Board ("AcSB"), in 2006, published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of July 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

The Company is currently assessing the impact of the initiative on its financial statements. Company personnel have been attending IFRS seminars and a responsible person has been designated to study the situation. It is planned that during the period from July 1, 2011 to June 30, 2012 the Company must prepare and file Canadian GAAP annual and quarterly financial statements, and include quantitative disclosure of the IFRS conversion plan and anticipated impact of the conversion in all 2011 quarterly MD&A. In addition the Company will prepare IFRS compliant comparative annual and quarterly financial statements and prepare parallel accounting under IFRS and GAAP for differences identified. From July 1, 2011 and onwards the Company will prepare and file IFRS quarterly and annual financial statements fully compliant with detailed IFRS disclosures and reconciliations.

1.12 Financial Instruments and Risks

As at June 30, 2011, the Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities and loans payable. The fair values of these financial instruments approximate their carrying values because of their current nature or adjustments to fair value made at each period end.

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, investment fluctuations, and commodity and equity prices. Market conditions will cause fluctuations in the fair values of financial assets classified as held-for-trading, available-for-sale and cause fluctuations in the fair value of future cash flows for assets or liabilities classified as held-to-maturity, loans or receivables

and other financial liabilities. The Company is not exposed to significant market risk. The Company is not exposed to significant interest rate risk as the Company's has no interest bearing debt. The Company's ability to raise capital to fund projects is subject to risks associated with fluctuations in involuntary carbon offset markets. Management closely monitors such markets to determine the appropriate course of action to be taken by the Company.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined in Note 14 of the consolidated financial statements.

All of the Company's financial liabilities have contractual maturities of 30 days or are due on demand and are subject to normal trade terms.

Interest rate risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and liabilities.

Credit risk

The Company is not exposed to significant credit risk on its financial assets due to cash being placed with major financial institutions and input tax recoverable are due from government agencies.

Currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash, receivables, accounts payable and accrued liabilities that are denominated in United States Dollars and Polish Zloty. Management does not hedge its exposure to foreign exchange risk and does not believe the Company's net exposure to foreign currency risk is significant.

Other price and market risk

The Company's financial instruments are all short term and exposed to other price and market risks should the fair value of future cash flows from financial instruments fluctuate.

Management does not feel that the Company is exposed to significant risk as its financial instruments are not expected to significantly fluctuate over the short term.

1.13 Other Requirements

Summary of Outstanding Share Data as at October 28, 2011

Authorized – 100,000,000 shares without par value

Issued	
June 30, 2011	44,183,955
Shares issued for 1% interest in Carbiopel	400,000
Private placement	10,767,750
Total at October 28 , 2011	55,351,705

Stock options	
June 30, 2011	3,831,620
Options granted	790,000

Total at October 28 , 2011	4,621,620

Warrants	
June 30, 2011	15,020,450
Change	10,767,750
Total at October 28 , 2011	25,788,200

Additional disclosures pertaining to the Company's management information circulars, material change reports, press releases and other information are available on the SEDAR website at www.sedar.com.