This Management Discussion and Analysis ("MD&A") of Carbon Friendly Solutions Inc. ("Carbon Friendly" or the "Company") has been prepared by management as of May 29, 2013 and should be read in conjunction with the unaudited consolidated condensed interim financial statements and related notes thereto of the Company for the nine months ended March 31, 2013.

The Company has adopted International Financial Reporting Standards ("IFRS") effective July 1, 2011, with a transition date of July 1, 2010. All amounts are expressed in Canadian dollars unless otherwise indicated.

FORWARD LOOKING INFORMATION

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".

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.

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.

On January 31, 2011 the Company announced it had finalized the acquisition of 58.21% of the outstanding share capital of MicroCoal Inc. ("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 Orica US Services Inc. ("Orica"), 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 $6 million (the "Financing") and from such proceeds, the Company is to pay (i) US$1 million cash to Orica in consideration for the forgiveness of certain outstanding debt owed to such creditor by MicroCoal and for the re-purchase of such creditor's 1,013 MicroCoal shares for cancellation; and (ii) up to US$85,000 cash to certain other creditors of MicroCoal to settle other outstanding indebtedness owed by MicroCoal. Upon completion of the entire transaction, the Company will own 100% of MicroCoal.

On January 7, 2013 the Company announced it concluded its agreement with Orica and acquired the balance of shares in MicroCoal to have 100% ownership of MicroCoal. Orica transferred all remaining shares to the Company, and all Orica directors and management resigned from the MicroCoal Board of Directors. Pursuant to agreements signed on December 5, 2012, May 17, 2012, December 22, 2011, January 10, 2011 and October 15, 2010 (the "Agreements"), the Company agreed to pay the sum of $1 million (USD) to Orica of which $225,000 has been paid, leaving a balance of $775,000 bearing interest at a rate of 5% per annum. The Company has consigned 400,000 ISO 14064-2 Validated Voluntary Emission Reductions generated from the Northern Poland Afforestation Offset Project ("VERS") to Orica as security, the sale of which can reduce the debt.

With the acquisition of MicroCoal being concluded, various debts and loans originally in the books of MicroCoal are forgiven as per the Agreements resulting in a recovery of $2.8 million. This amount was reported as income in the 3rd quarter financial statements.

MicroCoal Technology

The MicroCoal technology is a clean energy technology where the Company is focused 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. The 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 the technology offers utilities significant economic, environmental as well as operational benefits.

The 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.

On February 19, 2013 the Company announced that its wholly owned subsidiary, MicroCoal Inc., has been granted a trademark registration (the "Registration") on MicroCoal™ by the US Patent and Trade Mark Office.

The Service Mark 'MICROCOAL', is a broad registration, which covers an extensive range of services, including coal purification, coal treatment, and coal cleaning using microwave energy and related process technologies to transform coal and other minerals into higher quality and higher value industrial materials. The Registration is valid for a ten (10) year term and can be renewed for an additional term, at the Company's discretion. Further, the Registration may be expanded to include European countries and Asia.

On April 10, 2013 the Company announced that Mr. Robert Randall Johnson had agreed to join MicroCoal as Senior Project Manager. Mr. Johnson brings over 30 years of engineering and project management expertise in the coal industry. He joined Massey Energy in 1999, eventually becoming Vice President of Operations and Chief Engineer in 2008 at Massey Energy's Martin County Coal Corporation. He was responsible for numerous key projects along with their budgets, permits, and operations. Prior to that position, he was a Vice President at Coal Handling Solutions, LLC, a joint venture between Massey Energy and Penn Virginia, where he was involved in major US and international projects, from start to completion, some of which had 15 year terms and ran 24 hours a day. He was responsible for construction and design of projects in Canada, Texas, Florida, Wisconsin, North Dakota, Kentucky, Tennessee, Virginia, and Brazil. After Alpha Natural Resources, America's third largest coal company by revenue, acquired Massey in June 2011, he worked at Alpha as a Business Unit Project Manager. He was responsible for preliminary design and layout of proposed surface and underground operations, oversaw construction designs, managed construction from start of project to finish, managed budgets, and day-to-day operation for major projects and environmental issues. In 2000-2003, he was Chief Engineer with Martin County Coal Corporation. He was responsible for managing the engineering department, its budget, permits and Department of Natural Resource inspections. In that role, he coordinated and managed environmental clean-up and mitigation activities for the October 11, 2000 Slurry Spill at Martin County Coal.

On February 7, 2013 the Company announced the appointment of Dr. Isaac Yaniv, a world renowned scientist, to the Company's Board of Advisors. Dr. Yaniv brings over 35 years of experience as a material scientist to Carbon Friendly. He obtained a PhD in 1978 in Mineral Processing and Materials from the Technological Institute (Technion) in Haifa, and a Business Management degree from Tel Aviv University in 1987. He is responsible for more than 20 patents related to materials and mineral processing, including key patents on separation of contaminants from coal. He was R&D manager for Israel Chemicals Ltd. (ICL) until 1994. After leaving ICL, he helped found five firms, including MicroCoal Inc. He currently is CEO of ORIS Advanced Materials Ltd., which undertakes international technology transfers.

On January 31, 2013 the Company announced that MicroCoal had extended its existing base of patents on its MicroCoal™ technology and submitted a US patent application (the "Application") based on a provisional patent application filed in 2012. The Application is related to the apparatus and methods of treating a solid material by exposing the solid material to electromagnetic radiation, which includes microwave and radiofrequency radiation. Further, the Application broadly applies the apparatus and methods to coal, other fossil fuels and cellular biomass.

On July 11, 2012 the Company announced that Mr. Steve Sears and Mr. Larry Palmer had joined Carbon Friendly's Advisory Board and would hold senior executive positions in its wholly owned subsidiary, MicroCoal International Inc. ("MCII"). Mr. Steve Sears became CEO of MCII and Mr. Larry Palmer was appointed as the Financial Director, with a mandate to sell and deploy the MicroCoal Technology in America, China, and other countries.

Mr. Sears brings with him 31 years of knowledge and experience in the coal industry. He joined Massey Coal in 1981, eventually becoming Vice President Sales and Marketing of Massey Energy Company in 2008. He concurrently held senior level positions in several Massey subsidiaries. Mr. Sears has been an innovator throughout his tenure at Massey, responsible for significantly increasing revenues during his 25 year tenure. He also was a founder of Massey Industrial Sales Company and Coal Handling Solutions Inc., which eventually accounted for revenue in excess of $250 MM/year. He also founded, and was President of Coalsolve LLC, which had technology to remove sulfur, mercury, and CO2 from flue gas. He holds an MBA from Averett University and a B.S. in Business Administration from Virginia Commonwealth University.

Mr. Palmer has been in the coal industry since 1980, focused on financial, legal and tax aspects of coal transactions. He was Vice President of Taxation and Assistant Secretary of Massey Energy Company until 2011. In that role he was also responsible for major transactions in excess of $100 MM. Massey was America's fourth largest producer of coal in the US until May of 2011, when it was acquired by Apha Natural Resources. He served in a transitional position at Alpha until March of this year, assisting in the successful integration of Alpha with Massey. He is a Certified Management Accountant (CMA), and has an MBA from Indiana University of Pennsylvania.

On December 15, 2011 the Company and its subsidiary MicroCoal announced that Ameren has signed a Letter of Interest ("LOI") that reflects the intention of Ameren Corporation (NYSE:AEE) ("Ameren") and MicroCoal to negotiate a term sheet and enter into a proposed license agreement relating to the deployment of MicroCoal technology at one of Ameren's coal-fired power plants (the "Nominated Plant") in two main phases.

The first phase was proposed to commence in January, 2012 and consisted of re-configuring MicroCoal's four year old pilot plant in Colorado to determine the design for Ameren's plant in upgrading Powder River Basin (PRB) coal to higher energetic value (BTU rating).
MicroCoal has successfully conducted detailed tests on its new continuous reactor design at its pilot facilities during early May 2012. During Phase I some 15 tons of PRB coal were treated and analyzed. The tests yielded better than expected results, with a significant contribution to our overall know-how.
The objectives of Phase I tests were as follows:

- Examine the deployment of microwave energy on continuous coal flow in a vertical configuration;

- Produce an optimum facility design in which coal flows by gravity alone while being radiated by microwave energy;
- Examine the rate of moisture loss in coal and the collection of coal bound inherent moisture in a continuous process;
- Examine the process behavior under varying energy levels;
- Understand the materials of construction and design for optimum commercial deployment. The design of Phase I pilot was such that any necessary change could be deployed at a minimum cost and maximum speed. This design proved to be working very well and was most beneficial. These tests proved that the removal of coal bound inherent moisture can be achieved at a high efficiency and with the added benefits of liberating coal impurities.

The second phase involves the construction and operation of a fully integrated commercial plant, which will be able to treat 250,000 tons of PRB coal per month. This first commercial coal upgrading plant will be located at Ameren's Nominated Plant, located in the State of Missouri. It is a 1,000 Megawatt coal-fired plant and burns approximately 3 million tons of coal annually. The Nominated Plant is one of the largest among the 11 coal-fired plants owned by Ameren. Using the internationally patented MicroCoal process, an MicroCoal plant located on-site of the coal power generation station uses the station's off-peak slack electricity capacity to remove large amount of water from coal, and increase the BTU rating of the coal. The technology also has the ability to remove contaminants, in addition to allowing utilities to use PRB coal without suffering a loss in generation capacity (derate). PRB coal contains lower contaminant levels (such as sulfur) than the higher BTU Eastern coals, such as Illinois Basin (ILB) coal. When compared to raw coal from Montana and Wyoming's Powder River Basin, MicroCoal treated coal at the Nominated Plant will have approximately 15 percent more energetic value in addition to reductions in carbon dioxide, mercury, sulfur dioxide, and nitrous oxides. Results will vary based on the type and source of the coal.

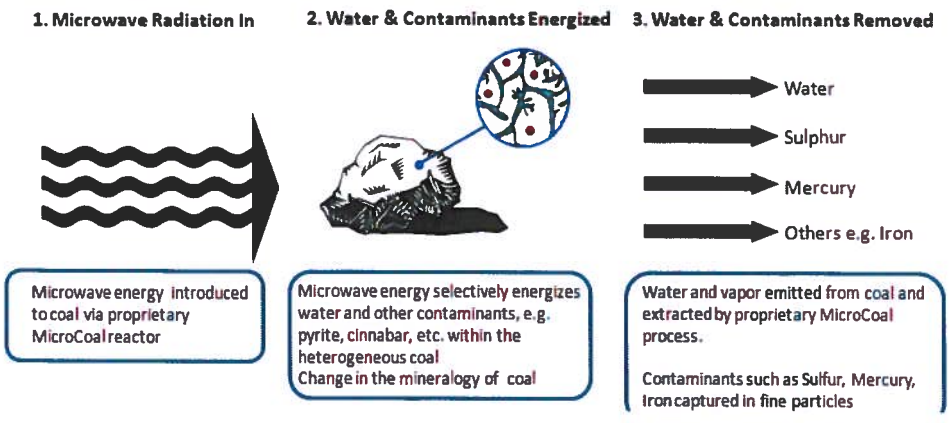
Coal is classified by quality, based on its heat value (BTU rating), into two main categories and four different types as follows:

- 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, MicroCoal 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.

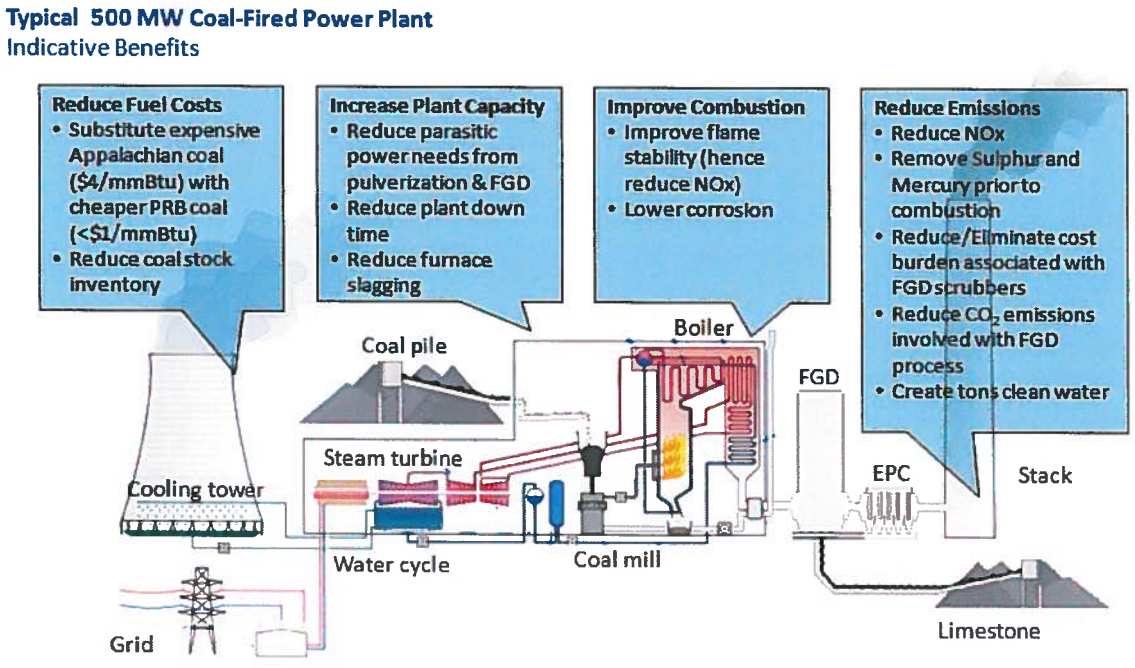


Figure 2: Indicative Benefits

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.

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, to 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.

It is interesting to note that in spite of strategic planning into the 200 MW or less market the Company has received interest from projects such as Ameren in the 1,000 MW arena.

International Market

[1] World Coal Institute

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.

On December 17, 2012 the Company announced that MCII had entered into a binding letter of intent ("LOI") with Carbon 2 Power Ventures Inc., of Vancouver, BC ("C2P"), and PT Wijaya Tri Utama, of Kalimantan, Indonesia ("PAK"), whereby a small scale commercial MCI plant ("SSCP") will be constructed at the 15MW power plant, Banjarmasin Power Plant ("TTP") owned and operated by PAK. Pursuant to the terms of the LOI: 1) MCI and PAK will provide project financing for the SSCP; 2) the parties shall work together to improve: a) the cost economics of the input coal that has been targeted by the parties and b) to reduce the operating costs by way of an investment with a payback of three years; 3) PAK will engage MCI as the sole provider of upgrades and maintenance for all technology installed at TTP; and 4) the installation will be in two phases, and the parties have agreed that it shall take between six to twelve months. In April 2013 the Company successfully tested two shipments of coal from PT Kalimantan Powerindo Power Plant Industries in Indonesia at the MCI pilot facility outside Denver, Colorado. This testing is part of the LOI. MCI has tested the Indonesian Coal to determine the optimal processing and design of the MicroCoal™ facility to be constructed this year.

On March 27, 2013 the Company announced it has been considering various avenues to expand the market for its MicroCoal technology. Its wholly-owned subsidiary, MicroCoal Europe Sp. z o.o. ("MicroCoal Europe"), has submitted its funding application under GEKON—Generator of Ecological Concepts Project, a government financed project to build a European MicroCoal™ test facility located in Poland. It is estimated that the cost of setting up the Facility and operating it for a two year period is $3.5 MM (10,922,930 Polish Zloty). Two million three hundred and fifty-thousand dollars ($2.35 MM; 7,383,098 Polish Zloty) of the cost shall be funded through the Application. Further, MicroCoal Europe has entered into a consortium with the Institute of Power Engineering, a Polish Government Institute, to accomplish the following:

i. Develop a methodology to optimize the energetic efficiency of power plants using MicroCoal technology; and

ii. Run various tests to develop a methodology for energetic optimization.

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. Carbon Friendly has established ongoing relationships with many different emission brokers and traders and has regular dialogue to ensure all parties are aware of projects Carbon Friendly is developing and timing of obtaining validation for sale of offsets.

The Company is plans to offer the Company's VER's utilizing the CSA Cleanproject. The GHG CleanProjects™ Registry provides a portal to report and showcase your project's greenhouse gas (GHG) emission reductions or removals. It offers a web-based public location that is accessible world-wide. The GHG CleanProjects™ Registry's focused mandate relates to the listing and delisting of greenhouse gas projects and resulting verified emission reductions and removals. Through its serialization engine, the

GHG CleanProjects™ Registry's tags each tonne of verified emission reductions/removal with a unique serial number. Information displayed in the GHG CleanProjects™ Registry may be useful for corporate risk management, voluntary initiatives, GHG markets and regulatory reporting/compliance.

The GHG CleanProjects™ Registry's is based on ISO 14064 standards for greenhouse gas inventory and reporting, which were adopted in March 2006 by the international community:

— ISO 14064–2 specifies principles, requirements and provides guidance at the project level for quantifying and reporting activities intended to cause GHG emission reductions or removal enhancements.

— ISO 14064–3 specifies principles and requirements and provides guidance for those conducting or managing the validation and or verification of a project's GHG emission reductions/removals.

The GHG CleanProjects™ Registry's is expected to benefit organizations, governments, project proponents and stakeholders worldwide by providing a consistent reporting, accounting, and registry service for GHG inventories, projects and resulting emission reductions and removals which are determined to be consistent with ISO 14064.

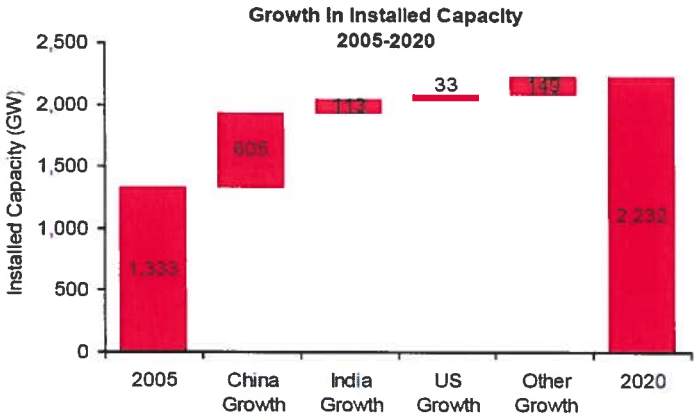


Figure 3: Global growth of coal-fired power generation in GW[2]

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

[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

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, Carbon Friendly 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.

Carbon Reduction Using Biomass

Through its wholly owned subsidiaries, Global CO2 Reduction Inc., Carbiopel S.A. ("Carbiopel") and CO2 Reduction Poland Sp. z o.o. ("CO2 Reduction Poland"), Carbon Friendly 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.

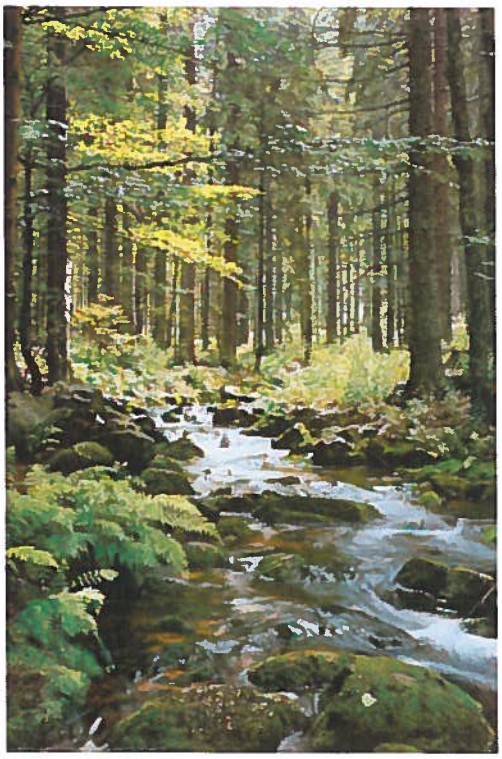
At a shareholders meeting held on March 26, 2012, the shareholders of CO2 Reduction Poland passed a resolution to liquidate the company. The purpose of the liquidation is to lower costs stemming from the Company's European subsidiaries. CO2 Reduction Poland mainly acted as an aggregator and cultivator of lands, thus collecting together areas that are fragmented among many small owners and coordinating the planting of trees to complete forestation programs. It has been working on completion of Phase II reforestation activities in Poland and has received validation of the Phase II PDD. The Company has now successfully completed the validation of its Northern Poland Afforestation Offset Project Design Documents, which the Company submitted CO2 Reduction Poland.

After consummation of the liquidation of CO2 Reduction Poland, Global CO2 Reduction Inc. will continue to manage the afforestation projects in Poland.

Carbiopel is a biomass pellet producer based out of Lezajsk, Poland. The company focuses on aggregating biomass, particularly from agricultural residue, to use as feedstock from its pellet producing machinery. By removing moisture and increasing density through a pellet producing process, biomass pellets are produced and distributed for heating and electricity generating purposes. The advantages of pellets include ease of transportation, higher energy content, and higher storage efficiency. Carbiopel has recently established a pellet producing facility in the Ukraine, focused on using sunflower-husk biomass to produce pellets. Sunflower seeds are a main industrial crop in the Ukraine, allowing for abundant sunflower-husk feedstock.

Forestry

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. Carbon Friendly™ finances, supports and maintains global afforestation and reforestation projects.



byTÜV Rheinland

Afforestation/reforestation is simply the creation of new forests. Trees sequester 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(tm) 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 TÜV Rheinland or Conestoga-Rovers & Associates.

Poland Afforestation Project

The initial project area, consisting of 932.51 hectares of private lands in Northern Poland, has been expanded to a total 4,823.51 hectares (ha) of private property with 3,599.01 ha of afforested land. . 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. The title of the project activity is the Northern Poland Afforestation Offset Project (the "Project"). The Company intends to wind down CO2 Reduction and transfer the option rights to the forest benefits to Global CO2. This will reduce overhead costs leaving one subsidiary in Poland.

The Project Design Document ("PDD") has been written for validation and verification under the ISO 14064-2 specifications. The PDD establishes and maintains criteria and procedures for obtaining, recording, compiling and analyzing data and information important for quantifying and reporting greenhouse gas ("GHG") emissions and/or removals relevant to the Northern Poland Afforestation Offset Project and the baseline scenario. The Project methodology has been designed and written in accordance to the International Organization for Standardization ("ISO") 14064-2 standard. The methodologies used in the PDD comply with the requirements for quantifying, monitoring and reporting emission reductions and removal enhancements from GHG mitigation projects. Procedures and tools from the United Nations Framework Convention on Climate Change ("UNFCCC") Clean Development Mechanism ("CDM") for Land Use, Land Use Change & Forestry ("LULUCF") methodology have been referenced, providing transparent guidelines for the project activity. Formulas and values from the Intergovernmental Panel on Climate Change ("IPCC") Guidelines for National Greenhouse Gas Inventories 2006 for LULUCF and IPCC Good Practice Guidance ("GPG") for LULUCF have also been employed to quantify reductions and reduce uncertainty. These documents and guidelines have been used strictly as "good practice" measures to reduce uncertainty and promote transparency. The NPAOP ISO 14064-2 PDD is program-neutral and therefore not written for compliance to any GHG program.

The Project was submitted on April 5th, 2011 to Conestoga-Rovers & Associates ("CRA") for the validation of the PDD, its Appendices and all Verified Emission Reductions ("VERs") expected to be generated by the project activity.

CRA's overall aim of the validation activities is to offer confidence to CFS and all offset buyers that rely upon the project's GHG assertions to offset their emissions, as stated in the Project Design Document. The Project is validated according to the specifications stated in the ISO 14604-2 standard.

CRA has performed the validation in compliance with the ISO 14064-3 standard. The ISO 14604-3 provides guidance for those conducting or managing the validation and/or verification of GHG assertions, specifies requirements for selecting GHG validators/verifiers, establishing the level of assurance, objectives, criteria and scope, determining the validation/verification approach, assessing GHG data, information, information systems and controls, evaluating GHG assertions and preparing validation/verification statements.

The Project was submitted on August 2012 to Det Norske Veritas Business Assurance Poland Sp. z o.o. ("DNV") for the verification as GHG project. Verification was carried out on 1 September through 12 November, 2012.

The verification of the Project was successfully completed and the verification statement has been given with a reasonable level of assurance.

The Project is designed to generate 1,517,025 tCO2e ,high-quality validated VERs, which will have a conservative market value of US$ 4.0 per VER, equaling US$ 6 million in revenue.

SELECTED ANNUAL INFORMATION

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

June 30,	2012[1]	2011[1]	2010[2]
Revenues	$96,037	$7,980	$45,194
Gross profit (loss)	31,628	(1,587)	(33,822)
Operating expense	4,535,526	3,006,714	2,482,956
Other income (expense)	234,402	(2,246)	(93,651)
Net loss for the period	(4,738,390)	(3,008,960)	(2,610,429)
Net loss per share	(0.07)	(0.08)	(0.11)
Total assets	5,889,512	6,774,460	420,568
Total long-term liabilities	Nil	Nil	Nil
Cash dividends declared	Nil	Nil	Nil

[1] Financial statements prepared accordance to International Financial Reporting Standards.
[2] Financial statements prepared accordance to Canadian Generally Accepted Accounting Principles.

RESULTS OF OPERATIONS

During the three months ended March 31, 2013, the Company had an increase in expenses compared to the previous comparable quarter. Notably in the 3rd quarter the Company issued 1,600,000 shares to management and 177,777 shares to a consultant at a price of $0.25 per share as recompensement for efforts made as approved by the board of directors and the CNSX Exchange.

There are three business models, (1) development of the coal technology, (2) continuation of the process to have carbon credits consisting of forests certified as valid and tradable carbon credits, where various forested properties have been verified as to the type and number of trees, etc. followed with the next process consisting of a certification process, and (3) the manufacture and sale of various recycled goods to be used in the production of power. Models 2 and 3 have operating divisions in Poland. The coal technology is focused on installations in USA, Indonesia, Asia and Europe.

The certification process to enable the Company to trade and sell verified and certified carbon credits ("VERS") was completed in November 2012. Costs attributed to the VERS process is approximately $50,000 in the current year. This process was started some 2.5 years ago. The obtaining of certified VERS is a very important step in the Company's development of selling carbon credits.

In March 2012 the Company purchased a business in Poland to produce and sell recycled bio-waste. The Polish company has the necessary equipment, knowledge and a supply contract to further develop this business. The cost of these operations for the nine months ended March 31, 2013 was $147,223.

Professional fees of $317,989 consisted of accounting for $136,615, legal for $169,238, and engineering for $12,136. The Company received the final audit bill for $103,500 for 2012 which was in excess of the budgeted amount of $50,000.

With the completion of the acquisition of 100% ownership in MicroCoal, Inc.being concluded, various debts and loans originally in the books of MicroCoal are forgiven as per the final agreements resulting in a recovery of $2.8 million.

SUMMARY OF QUARTERLY RESULTS

Quarter ended	Total Assets	Revenues	Net profit (loss)	Profit (loss) per share
March 31, 2013[1]	$ 4,741,336	$ -	$ 1,499,085	$ 0.02
December 31, 2012[1]	5,540,854	-	(1,544,472)	(0.03)
September 30, 2012[1]	5,341,651	-	(657,252)	(0.01)
June 30, 2012[1]	5,889,512	83,325	(572,530)	(0.01)
March 31, 2012[1]	6,500,254	12,712	(1,098,455)	(0.02)
December 31, 2011[1]	5,962,564	-	(1,112,575)	(0.02)
September 30, 2011[1]	6,528,599	-	(1,269,366)	(0.03)
June 30, 2011[1]	6,774,460	212	(1,806,719)	(0.04)

[1] Financial statements prepared accordance to International Financial Reporting Standards.
[2] Financial statements prepared accordance to Canadian Generally Accepted Accounting Principles.

LIQUIDITY AND CAPITAL RESOURCES

The Company had cash on hand of $145,442 at March 31, 2013 and a working capital deficiency of $1,797,036.

On May 3, 2013 the Company announced it had retained Sustainable Capital Corporation ("Sustainable Capital"), a Canadian-based firm, to render an independent research report by the beginning of June, 2013 with a target price.

The Company will continue to remain focused on seeking a listing on a US Exchange; however, in order to maximize the Company's value in advance of a listing in the US, the Company will be focused on securing additional MicroCoal™ sales and opportunities. In addition to its current agreements, the Company will follow-through with other utilities and prospects that have expressed keen interest in the MicroCoal technology and its benefits.

On January 7, 2013 the Company announced it had entered into an engagement agreement with Expansion Funding Partners, LLC, to provide proprietary consulting, valuation and capital sourcing services to public and private companies. The Company has concluded its relationship with Expansion Funding, LLC.

Nine months ended March 31, 2013

On December 28, 2012 the Company closed non-brokered private placement of 8,673,750 units at a price of $0.20 per Unit, for gross proceeds of $1,734,750. Each unit is comprised of one common share

of the Company and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share of the Company at an exercise price of $0.35 per common share until December 28, 2014. Finders' fees of $138,025 were paid and 1,244,250 finder's warrants were issued on the same terms as the Unit warrants. The fair value of the broker's warrants of $115,829 was estimated using the Black-Scholes option pricing model using a risk free interest rate of 1.11%, an expected dividend yield of $nil, a volatility of 118% and an expected life of warrants of 2 years.

Year ended June 30, 2012

On February 13, 2012 a private placement was completed consisting of 6,395,766 units at $0.30 per unit, each unit consisting of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of $0.45 per common share for a period of two years from the closing date of the private placement. The Company paid share issuance costs of $118,587 related to legal and professional fees and issued 297,909 broker warrants. The fair value of the broker's warrants of $35,990 was estimated using the Black-Scholes option pricing model using a risk free interest rate of 1.11%, an expected dividend yield of $Nil, a volatility of 88% and an expected life of warrants of 2 years. The broker warrants have the same exercise price and terms as for the private placement units.

On October 19, 2011 a private placement was completed consisting of 5,495,000 units at $0.20 per unit, each unit consisting of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of $0.35 per share for a period of two years. The Company paid share issuance costs of $29,900 related to legal and professional fees and issued 509,313 broker warrants. The fair value of the broker's warrants of $47,410 was estimated using the Black-Scholes option pricing model using a risk free interest rate of 0.91%, an expected dividend yield of $Nil, a volatility of 118% and an expected life of warrants of 2 years. The broker warrants have the same exercise price and terms as for the private placement units.

Loans payable

Pursuant to several loan agreements, a total of $385,000 was advanced to the Company on an unsecured basis. A 20% loan bonus was charged with the loan amount calculated at $462,000 to be repaid. 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, 2012 the Company repaid $160,000 (2011 - $202,000). The remaining balance of $100,000 was due in January 2012. The Company is negotiating with the lender to extend the loan and the amount has been classified as current liability.	$ 100,000
Pursuant to a loan agreement, a total of $48,000 was advanced to the Company on an unsecured basis. A 20% loan bonus was charged with the loan amount calculated at $60,000 to be repaid. The interest rate is 10% per annum and the principal was due at the earlier of September 12, 2012 or if a financing was achieved by the Company. The Company is negotiating with the lender to extend the terms of the loan and the amount has been classified as current liability.	1,500

Pursuant to a loan agreement a total of $125,000 was advanced to the Company. The interest rate is at 10% per annum. The loan was payable on or before March 23, 2012. The Company is negotiating with the lender to extend the terms of the loan and the amount has been classified as current liability.	115,000
Pursuant to a loan agreement a total of 30,000 zloty was advanced to the Company. The interest rate is at 20% per annum. The loan is payable upon demand. This amount has been classified as current liability.	9,785
On January 7, 2013 the Company concluded an agreement with Orica US Services Inc. ("Orica") and acquired 100% ownership of MCI (note 6). Orica transferred all remaining shares to MCI. Pursuant to agreements signed on December 5, 2012, May 17, 2012, December 22, 2011, January 10, 2011 and October 15, 2010 (the "Agreements"), the Company agreed to pay the sum of $1 million (USD) to Orica of which $225,000 has been paid, leaving a balance of $775,000 bearing interest at a rate of 5% per annum. The Company has consigned 200,000 ISO 14064-2 Validated Voluntary Emission Reductions generated from the Northern Poland Afforestation Offset Project ("VERS") to Orica as security, the sale of which can reduce the debt.	789,834
	$ 1,016,119

The Company is hopeful of completing additional equity financing in 2013.

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.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not utilize off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

Key management includes the Chief Executive Officer, the president and the Chief Financial Officer. Compensation paid or payable to key management for services provided during the periods March 31, 2013 and 2012 was as follows:

Key management personnel remuneration	Nine months ended March 31, 2013	Nine months ended March 31, 2012
Management and professional fees	$ 506,286	$ 666,214
Bonus shares issued to management	400,000	-

Automobile allowance (travel and promotion)	**21,600**	33,361
Stock-based compensation	**106,594**	85,836
Total key management personnel remuneration	**$ 1,036,480**	$ 785,411

The Company incurred the following transactions with companies that are controlled by directors and/or officers of the Company. The transactions were measured at the exchange amount which approximates fair value, being the amount established and agreed to by the parties.

Management and directors' fees	**$ 815,703**	$ 567,514
Consulting	**136,000**	12,800
Automobile allowance (travel and promotion)	**21,600**	33,361
Professional fees	**76,000**	98,700
Total related party amounts	**$ 1,051,303**	$ 712,375

As at March 31, 2013 accounts payable and accrued liabilities included $165,111 (June 30, 2012 - $354,817) owing to officers and directors. The amounts due are unsecured, non-interest bearing and have no fixed terms of repayment.

COMMITMENTS

The Company has a management agreement for a period of 3 years commencing July 1, 2011 and will pay management fees of $183,795 per year. There is an annual increase of 5% per annum. In an event of a change in control, and the officer is terminated within 12 months of such change of control, then the officer will receive a lump sum payment equal to the greater of (1) the compensation remaining for the rest of the period under the terms of engagement and (2) one year's compensation.

During the year ended June 30, 2012, the Company entered into a management agreement for a period of 3 years commencing July 1, 2011 and will pay management fees of $84,000 per year. There is an annual increase of 5% per annum. In an event of a change in control, and the officer is terminated within 18 months of such change of control, then the officer will receive a lump sum payment equal to the greater of (1) the compensation remaining for the rest of the period under the terms of engagement and (2) two year's compensation.

During the year ended June 30, 2012, the Company entered into a management agreement for a period of 3 years commencing April 1, 2012 and will pay management fees of $66,000 per year. There is an annual increase of 5% per annum. In an event of a change in control, and the officer is terminated within 12 months of such change of control, then the officer will receive a lump sum payment equal to the greater of (1) the compensation remaining for the rest of the period under the terms of engagement and (2) one year's compensation.

The Company entered into a consulting agreement for a period of 3 years commencing February 1, 2011 and will pay consulting fees of $168,000 per year. There is an annual increase of 5% per annum. In an event of a change in control, and the consultant is terminated within 12 months of such change of control,

then the consultant will receive a lump sum payment equal to the greater of (1) the compensation remaining for the rest of the period under the terms of engagement and (2) one year's compensation.

The Company entered into an agreement to lease additional office space as follows:

2013	$23,733
2014	94,923
2015	96,266
2016	98,057
2017	24,626
	$337,605

In prior years, the Company has acquired the rights to over 100 properties wherein it has the exclusive sale contract rights to sell carbon credits generated from the bedding and trees growing in various plots of lands in Poland until 2040. The Company paid a total of $104,695 for these exclusive sales contract rights and has right to sell carbon credits into the market place. If sales are found through a carbon credit certification process, further amounts would be paid to the vendors of up to 8,222,251 PLN (approximately $2.4 million) within 30 days subject to obtaining carbon credit certification or sale of a carbon credit unit from the lands.

The Company is in dispute with an investor relations company who claims that the Company agreed, pursuant to an agreement, to pay a finder's fee in connection with the acquisition of MicroCoal. A formal lawsuit has been filed by the investor relations company and the fees claimed are $450,000. The Company has denied the claim and is confident that it will prevail in the dispute. No amounts have been provided for in the financial statements. If any amounts are subsequently determined to be payable they will be recognized in the period in which the dispute is resolved.

EVENTS OCCURRING AFTER REPORTING DATE

On May 17, 2013, the Company announced it has extended the expiry date of 5,272,750 outstanding common share purchase warrants from June 30, 2013 to June 30, 2015, 5,495,000 outstanding common share purchase warrants from October 19, 2013 to October 19, 2015 and 851,250 agent's warrants from October 19, 2014 to October 19, 2015, which warrants were issued as part of a private placement of units at a price of $0.20 per unit, issued in June and October of 2011. Each share purchase warrant entitles the holder thereof to purchase one additional common share at an exercise price of $0.35 per share, which exercise price has now been amended to $0.26 per share, being the average closing price of the Company's shares for the 20 most recent trading days. The Company has also amended the exercise price of 2,072,500 outstanding common share purchase warrants issued as part of a private placement in August 2008 from $0.75 per share to $0.26 per share, each warrant entitling the holder thereof to purchase one additional common share. None of the above warrants have been exercised to date and the above amendments to the warrants are conditional upon the CNSX not objecting to such amendments.

The Company also announces that an aggregate of 282,000 units have been issued to two consultants at a price of $0.20 per unit, with each unit consisting of one common share and one share purchase warrant to purchase one additional common share at a price of $0.26 per share, exercisable for a period of two years from the date of issuance.

The Company received $19,688 pursuant to the exercise of 56,250 warrants from the December 2012 private placement.

Pursuant to a British Columbia Supreme Court decision 1,500,000 previously issued founders' shares were cancelled.

FINANCIAL INSTRUMENTS

As at March 31, 2013, the Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, due to related parties and loans payable. The carrying values of these financial instruments approximate their fair 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 and 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 has no variable interest debt. The Company's ability to raise capital to fund activities is subject to risks associated with fluctuations in the market. Management closely monitors individual equity movements and the stock market 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 and the going concern assumption. The Company manages liquidity risk through the management of its capital structure and financial leverage.

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 and amounts owing being non-interest bearing or bearing fixed rates of interest.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is mainly exposed to credit risk from credit sales and deposit cash with major financial institutions. It is the Company's policy, implemented locally, to assess the credit risk of new customers before entering contracts. Such credit ratings are taken into account by local business practices.

Currency Risk

The Company is exposed to foreign currency risk on fluctuations related to cash, receivables and accounts payable and accrued liabilities that are denominated Polish Zloty (PLN) and the United States

dollar (USD). 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 REQUIREMENTS

Summary of Outstanding Share Data as at May 29, 2013

Authorized – unlimited shares without par value

Shares Issued	
March 31, 2013	69,790,748
Founders' shares cancelled	(1,500,000)
Warrants exercised	56,250
Total at May 29, 2013	68,346,998

Stock options	
March 31, 2013	6,715,000
Options granted	-
Options exercised	-
Total at May 29, 2013	6,715,000

Warrants	
March 31, 2013	30,323,175
Exercised	(56,250)
Total at May 29, 2013	30,266,925

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.