

CARBON FRIENDLY SOLUTIONS INC.

MANAGEMENT DISCUSSION AND ANALYSIS

DECEMBER 31, 2010

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 February 28, 2011 and should be read in conjunction with the unaudited consolidated financial statements and related notes thereto of the Company for the six months ended December 31, 2010, 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 "OFS-FRA" ("zero FS-FRA").

CFS is a project proponent that provides products and 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.

Through its subsidiaries Global CO2 Reduction Inc., CO2 Reduction Poland Sp. z o.o. (CRP) and Pacific Briquetters Inc. (PBI), 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.

Summary of Activity to Date

Through its wholly owned subsidiaries Global CO2 and CRP the Company has been focusing on accumulating and aggregating land in Poland and North America for the purpose of developing carbon sequestration projects through forestation activities.

To date, CFS and CRP have completed reforestation projects in Warmian-Masurian (Phase I), located in the Northern Poland and its first North American reforestation pilot project in Northern Ontario.

Warmian-Masurian (Phase I)

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CFS has aggregated a total of 932.51 hectares of private lands in Northern Poland, of which 4,084,972 trees were planted on 671.12 hectares to initiate the first phase of its Warmian-Masurian, Poland Afforestation Offset Project.

The Project is located in the province of Warmian-Masurian, Northern Poland. The Project land was aggregated and afforested in cooperation with CO2 Reduction Poland Sp. z o.o and eight different private land owners for a 30 year project period.

The Company submitted its Warmian-Masurian Phase I Project Design Document (PDD) for VCS Validation with TUV SUD, Germany in February 2010. The PDD has gone through two reviews with TUV SUD. All Corrective Action Responses (CARs) have been submitted to TUV SUD and management anticipates receiving validation before end of 2010. CFS anticipates once the PDD has been approved for Validation it will have approximately 285,000 Emission Reduction Units (ERUs) in its inventory and available for sale in the Voluntary Marketplace.

Kapuskasing, Northern Ontario

Through its wholly owned subsidiary, Global CO2, the Company signed its first North American land based carbon sequestration project agreement with Trees for Clean Air Inc. on November 3, 2008.

In 2009 the Company planted 92,000 Jack pine seedlings on 40 hectares of land during stage one and fast growing Willows on the remaining 5 hectares during stage two of its first North American reforestation pilot project in Northern Ontario.

In accordance to the terms of the agreement, the trees will continue to sequester carbon dioxide from the atmosphere in the Project area for a minimum of 100 years. The Company received Validation for the Project on June 11, 2010 (Validation Registration Code: RA-VAL-CCB-012980) from Rainforest Alliance, an organization accredited to conduct audits and verifications based on the Climate, Community, and Biodiversity Alliance (CCBA) design standards.

On May 14, 2010 the Company signed an Emission Reduction Purchase Agreement with Toronto based company Carbonzero, and as per the terms of the agreement, CFS followed through with the immediate sale and delivery of 10,000 high quality Emission Reductions Units to Carbonzero from its Northern Ontario Forestry Project shortly after providing Carbonzero with receipt and confirmation of the CCB Validation Statement.

CFS is continuing to implement its long term strategy by identifying and securing suitable land for reforestation projects in both North America and Europe.

Microcoal

See subsequent events.

Operations

Global CO2 Reduction Inc.

Global CO2 is currently working on identifying potential reforestation projects in B.C. for the creation of emission offsets validated to North American Voluntary and Compliance standards. These offsets will be allocated for sale in the North American voluntary and compliance markets and to the Pacific Carbon

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Trust, a Crown Corporation established to purchase greenhouse gas offsets for the government of British Columbia.

CO2 Reduction Poland Sp z o.o.

CRP is working on completion of Phase II reforestation activities and anticipates completion and submission of the Phase II PDD for VCS validation by early 2011. CRP currently employs three permanent staff in Poland for land aggregation, project development, project implementation and office administration. CRP hires independent contractors to assist with land preparation, planting of seedlings and ongoing maintenance.

Pacific Briquetters Inc.

On February 4, 2010 the Company announced it had formed and incorporated Pacific Briquetters Inc., a non-reporting British Columbia company, for the purpose of owning, financing, developing, constructing and operating a briquette and biomass energy manufacturing and distribution facility and business to be operated on certain lands and premises located in Mission, BC (the "Premises"), which are owned and operated by an affiliate of 0733403 B.C. Ltd. ("TCG"). TCG is a 25% shareholder and CFS is a 75% shareholder in PBI going forward (collectively, the "Venture"). TCG was a third generation, family owned group of building product companies with operations in British Columbia, Washington and Oregon.

Under the terms of the Shareholders' Agreement TCG was required to obtain and maintain the Permit as is required for PBI's business and Venture on a strategic site location owned by TCG and leased to PBI under the Indenture (at present the Premises). Through its relationship with TCG and the utilization of the Permit, PBI was expected to accept a variety of residual fiber and wood waste types to produce renewable, carbon neutral, engineered biomass energy products including briquettes, pellets and mixed blend products.

On October 6, 2010 the Company announced it had terminated the agreement with 0733403 BC Ltd.

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.

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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, | 2010 | 2009 | 2008 ⁽¹⁾ |
|---|-------------|-------------|---------------------|
| Revenues | \$45,194 | \$35,072 | \$Nil |
| Gross profit (loss) | (33,822) | 8,796 | Nil |
| Operating expense | 2,452,092 | 1,636,226 | 1,477,916 |
| Other income (expense) | (124,515) | 17,659 | (30,336) |
| Net loss for the period | (2,610,429) | (1,609,771) | (1,508,252) |
| Net loss per share | (0.11) | (0.09) | (0.21) |
| Total assets | 420,568 | 802,016 | 197,479 |
| Total long-term liabilities | Nil | Nil | Nil |
| Cash dividends declared per share for each class of share | Nil | Nil | Nil |

(1) Comparative figures are of Global CO2's year-end financial statements prior to the RTO.

1.4 Results of Operations

During the 2nd quarter ended December 31, 2010, the Company incurred a loss of \$847,766 or \$0.03 per share compared to a loss of \$1,170,333 or \$0.04 per share for the comparable period in the previous year, an increase loss of \$322,657.

The major expense items include the following:

Consulting fees were largely incurred in regards to operations in Poland for some \$30,000, hiring of a firm providing capital growth advice for \$40,000, hiring a firm providing financing and analytical expertise for \$60,000 and payments made to an officer for \$26,000 all in connection to the Company's reforestation, biomass energy and renewable energy technology projects. Professional fees can be broken down into accounting and audit expense for \$74,689 and legal expense for \$68,680. In the current period there is no stock-based compensation expense as compared to the previous comparable period for \$352,081.

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 |

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| | | |
|--------------------|--------|--------|
| September 30, 2010 | 2.8774 | 2.8392 |
| December 31, 2010 | 3.0014 | 2.9653 |

The change in rates has caused an income gain of \$29,715 for the six months ended December 31, 2010 and \$10,296 for the three months ended December 31, 2010.

1.5 Summary of Quarterly Results

| Quarter ended | Revenues | Other items | Net loss | Loss per share |
|--------------------|----------|-------------|-------------|----------------|
| 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 | (174,162) | (781,289) | (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) |
| June 30, 2009 | 1,009 | 21,331 | (388,925) | (0.03) |
| March 31, 2009 | 34,063 | (8,552) | (334,555) | (0.02) |

1.6/1.7 Liquidity and Capital Resources

The Company had cash on hand of \$38,124 at December 31, 2010 and a working capital deficiency of \$707,891. Working capital was \$86,923 at June 30, 2010.

During the six months ended December 31, 2010, the Company issued 195,000 shares on exercise of stock options for proceeds of \$44,850.

The Company arranged loans of \$260,000 from four lenders at a rate of 8% interest per annum with a 20% bonus in cash. Repayment is the earlier of the completion of a financing or one year.

The Company is hopeful of completing an equity financing in early 2011.

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

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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 six months ended December 31, 2010 | For the six months ended December 31, 2009 |
|---|---|---|
| Management and directors' fees | \$ 119,700 | \$ 88,800 |
| Consulting | 26,000 | 30,000 |
| Automobile allowance (Travel and Promotion) | 19,200 | - |
| Rent | 200 | 3,200 |
| Professional fees | 32,552 | - |
| Office and miscellaneous | - | 7,500 |
| Total | \$ 197,452 | \$ 129,500 |

As at December 31, 2010 accounts payable and accrued liabilities included \$53,407 (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 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, 20, 21, 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 stock at a price of \$0.27 per share, which equals a total of US\$3 million (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. Furthermore, upon

completion of the entire transaction, a consultant and shareholder of the Company will receive an introduction fee of CAD\$450,000.

About MicroCoal Inc.

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

About MicroCoal

MicroCoal, currently headquartered in Denver, CO with its pilot plant located in Golden, CO, is focused on reducing CO₂ 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 CO₂ 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.

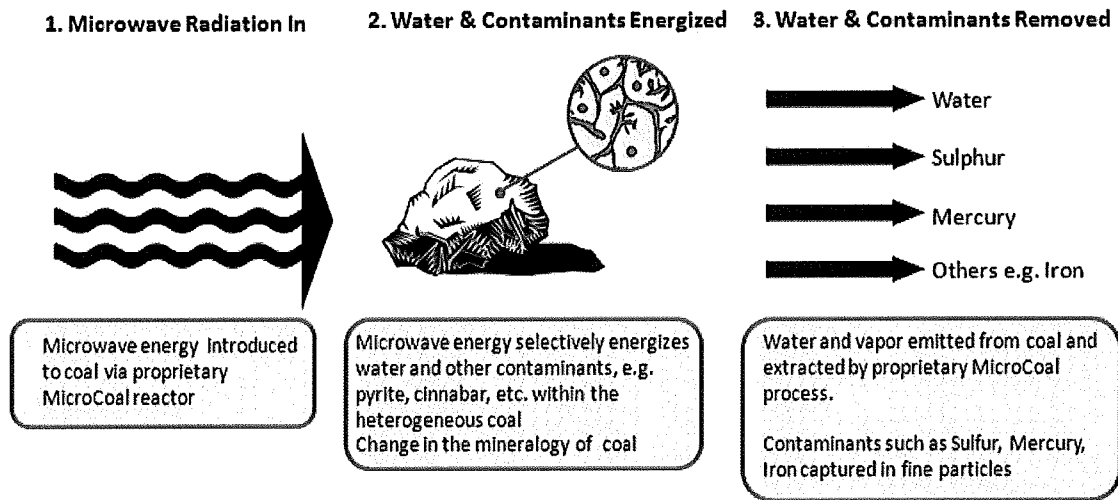
MicroCoal Technology

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 CO₂, and produce an efficient power plant fuel from available raw coal.



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 CO₂ 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 CO₂ 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.

Typical 500 MW Coal-Fired Power Plant
Indicative Benefits

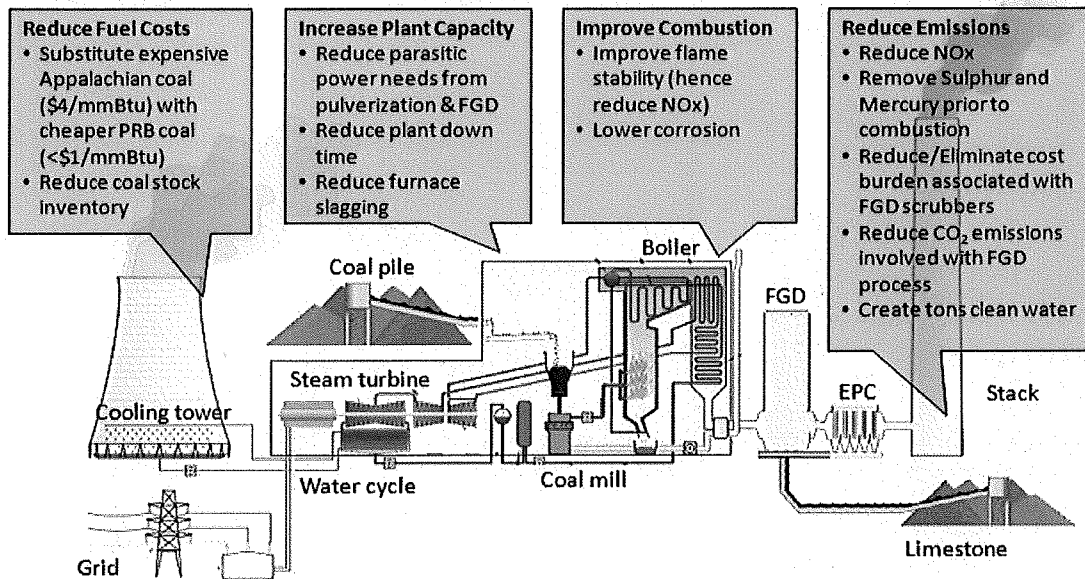


Figure 2: Indicative Benefits

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 Mt¹ 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, 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.

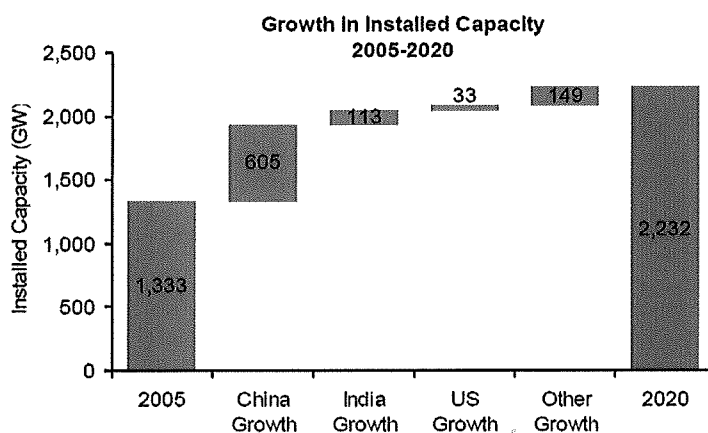


Figure 3: Global growth of coal-fired power generation in GW²

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

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Financial Plan and Milestones

Carbon Friendly intends to acquire 100% of the common stock of MicroCoal for \$3 million USD by way of share purchase and will raise a minimum of \$6 up to a maximum of \$8 million CAD by way of a Private Placement to fund ongoing business requirements associated with MicroCoal's business model over the next 18 months, retire the indebtedness of MicroCoal, and ongoing working capital requirements for Carbon Friendly's existing business.

Said indebtedness to MicroCoal consists of US\$1,000,000 to Orica US Services Inc. in forgiveness of all loans and the cancellation of all of its common stock of MicroCoal and waiver of its interest in all of MicroCoal's assets. Additional outstanding shareholder and other indebtedness will be settled in the amount of a maximum of US\$85,000.

Carbon Friendly's financial plan for MicroCoal addresses the following two of four development phases shown on page 7, which mark the milestones deemed critical to successfully commercialize MicroCoal's proprietary technologies. During the next 18 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.

The Company granted 2,321,620 stock options to its directors, officers and consultants.

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,

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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, 2010 to June 30, 2011 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 December 31, 2010, 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

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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 February 28, 2011

Authorized – 100,000,000 shares without par value

| | |
|-----------------------------|------------|
| Issued | |
| December 31, 2010 | 27,753,427 |
| Issued to acquire MicroCoal | 10,957,778 |
| Total at February 28, 2011 | 38,711,205 |

| | |
|------------------------------|-----------|
| Stock options | |
| Balance at December 31, 2010 | 2,135,000 |
| Options granted | 2,321,620 |
| Balance at February 28, 2011 | 4,456,620 |

| | |
|------------------------------|-----------|
| Warrants | |
| Balance at December 31, 2010 | 9,747,700 |
| Change | nil |
| Balance at February 28, 2011 | 9,747,700 |

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.