



Analysts:

Sabrina P. Tsai
B.Sc. Environmental Sc.
(416) 875-0195
peggyt@sustainablekapital.com

Shawn Boire, CFA
sboire@sustainablecapitalcorp.com

SEPTEMBER 26, 2011

Carbon Friendly Solutions Inc.

Recommendation: SPECULATIVE BUY
12-Months Target: C\$0.69
(CFQ-CNSX: C\$0.185)

We are initiating coverage on Carbon Friendly Solutions with a SPECULATIVE BUY recommendation and \$0.69 12-month price target.

COMPANY SUMMARY

Carbon Friendly Solutions Inc. provides solutions and products 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.

INVESTMENT THESIS

We believe CFQ represents a compelling investment opportunity for the following reasons:

1. Carbon Friendly Solutions is an excellent way to participate in the greening of the coal fired electrical power plant market. Their MicroCoal clean coal technology is in a leading position to help smaller, older plants meet the increasingly stringent EPA standards due to its innovative and low cost solution to emission control.
2. Carbon Friendly Solutions is at the forefront of carbon credit trading, which we believe is an attractive market for the global movement towards low-carbon economy as well as monetized environmental benefits.
3. Carbon Friendly Solutions' rapidly expanding biomass energy division is a major supplier of low cost fuel feedstock to a large European electrical company. CFQ will be building its second biomass production plant in 2012, operational in the same year. Up to 70% of plant construction costs are available in EU subsidies as an incentive meet renewable energy and GHG emission reduction commitments in Poland.



COMPANY STATISTICS

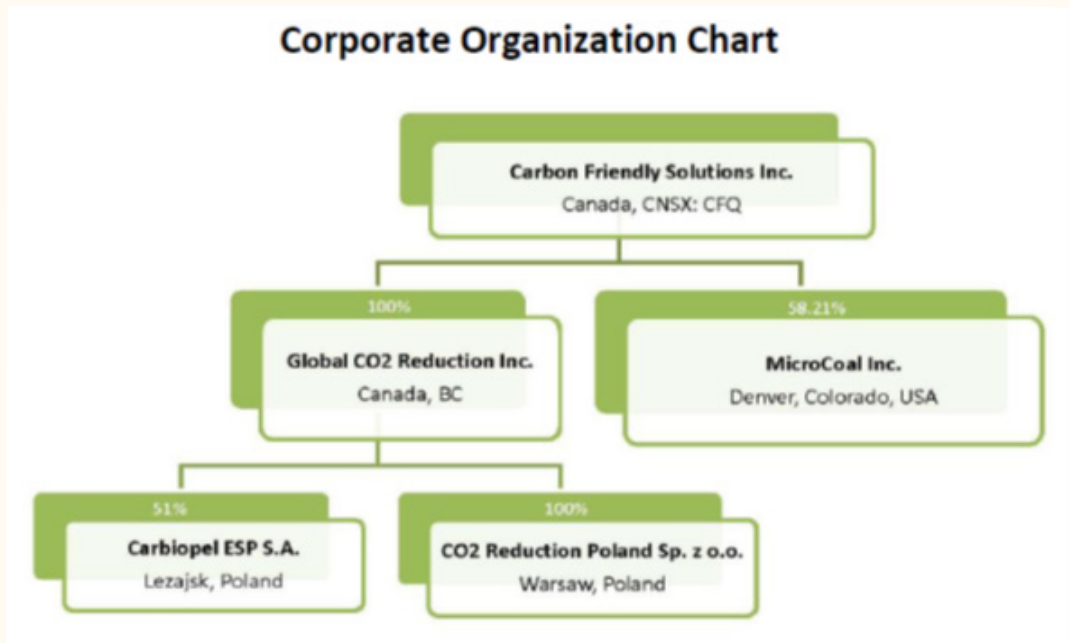
Recent Price as of 9/23/11: C\$0.185
Basic Shares O/S : 43.98MM
Fully Diluted O/S : 88.00 MM
Market Capitalization: \$ 8.80 MM
Closely Held Ownership: 34%
Total Debt: \$5.5 MM
Volumn: 50, 500
52-week Range: \$0.115 - \$0.30



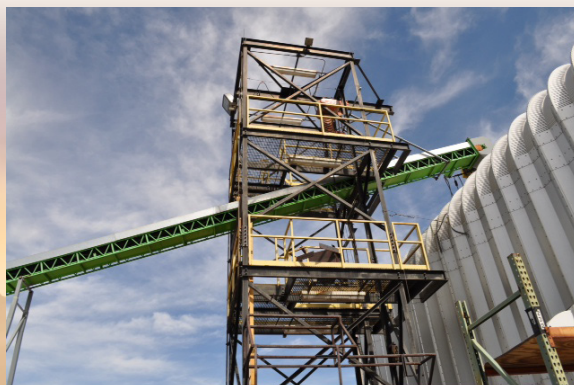
COMPANY OVERVIEW

The company has three lines of business with the unified objective of reducing impact of global warming.

- Commercialization of MicroCoal clean coal technology through its 58.21% owned subsidiary, MicroCoal Inc. in Denver, Colorado, USA.
- Carbon Credits generation and sale from various afforestation projects, through its 100% owned subsidiary, CO2 Reduction Poland Sp. z o.o. in Poland, and Carbon Friendly solutions Inc. in Canada.
- Biomass fuel pellets production through its 51% owned subsidiary, of CARBIOPEL–ECO STREAM S.A, in Poland.



MicroCoal's Pilot Plant in Golden, Colorado.



PROPRIETARY TECHNOLOGY AND PRODUCTS

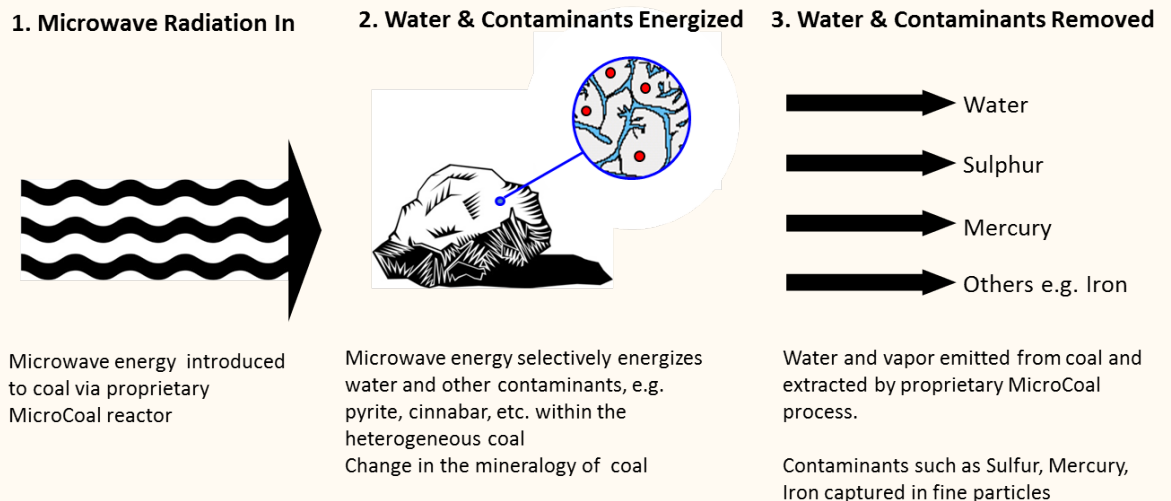
1) Clean Coal Project – MicroCoal

MicroCoal (MCI) clean coal technology upgrades low rank (low heat value in units of British Thermal Unit per pound or Btu/lb, a standard unit for heat contained in the fuel), low contaminant, high moisture coal by microwaving it prior to combustion.

Microwaving coal evaporates moisture and increases its Btu/lb, while at the same time facilitating chemical reactions that reduce contaminant and the impurities found in coal. This allows low rank coal to burn cleaner and more efficiently, reducing the need for expensive Flue-gas desulfurization (FGD) scrubbers that remove pollutants from exhaust fumes released to the atmosphere. Smaller coal power plants (>200 MW) can particularly benefit from this as MCI is an affordable alternative to scrubbers. MCI technology will not only help coal power plants meet the new EPA Clean Air Act regulation, it will also allow power plants to save on fuel cost by switching from high rank coal such as Appalachian Basin coal (>\$70/ton) to low rank Powder River Basin (PRB) coal (\$13/ton).

Each plant is designed to be modular and scalable, with plants of different capacities using the same core MicroCoal reactor.

Figure 1. MicroCoal Beneficiation Process Source: MCI

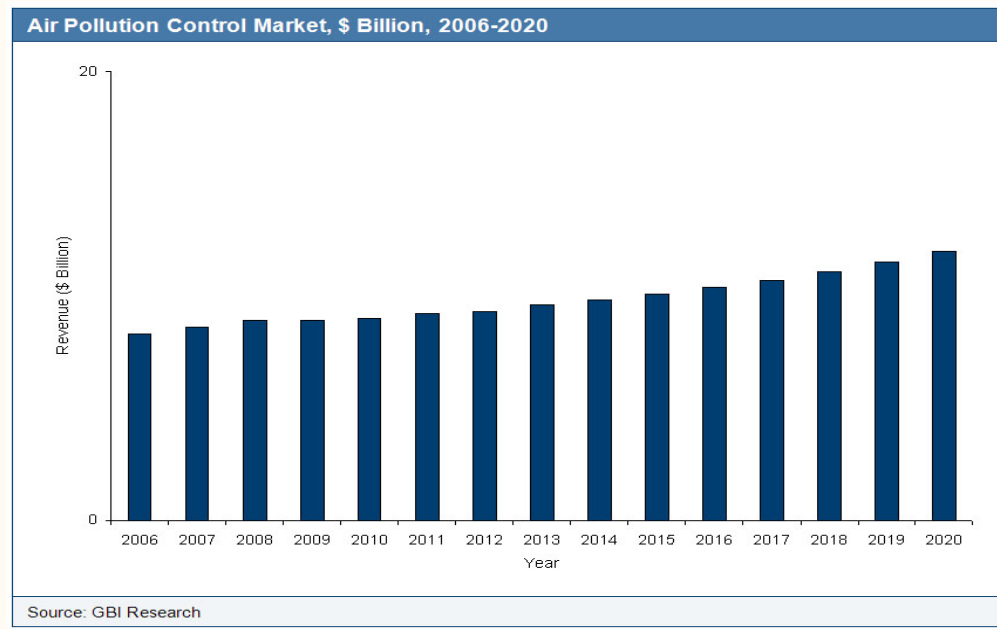


Opportunity in the Coal Market

Looking at the US market alone, there are over 1,500 coal fired power plants of various sizes with a total capacity of over 330,000 MW. The power plants consume coal at over 1 billion tons per year, estimated at \$35 billion in value. In recent years there has been a movement to fuel existing and new power plants with the cheaper and cleaner PRB low rank coal. However utilities that switch fuel from the high rank Eastern coals to PRB low rank coal suffer from derating, which means a loss of generation capacity due to the lower heat value. MCI's technology enables utilities to benefit from the economic and environmental value of this low rank coal while eliminating loss in generation capacity. CFQ has conservatively stated a 5-year plan to treat less than 0.5% of the \$35 billion US coal market.



Figure 2. Air Pollution Control Market. Source: GBI Research



Key Advantages of MicroCoal

- MicroCoal has a patented, tested and proven microwave technology that upgrades less expensive, low rank, low contaminant coal to match the energy level of expensive high rank coals.
- MicroCoal's pilot plant in Golden, Colorado, has been operational for 4 years.
- Reduces fuel input cost.
- Reduces installation/maintenance of expensive FGD scrubbers needed at coal power plants.
- Reduces CO₂, SO_x and NO_x emissions while generating carbon credits.
- Estimated average payback period of < 2 years.
- **Process Patent** - With more wind/solar power connecting to the grid, the additional electricity produced by wind/solar sources has caused excess supply of electricity during off-peak periods (roughly 10 pm to 7 am), resulting in a sharp decrease in prices. In some cases off-peak power is priced at zero. (Figure 3.) MicroCoal makes use of this low off-peak prices and upgrades the low-rank coal during these hours. This process substantially reduces operating costs. This process serves as "energy storage" since off-peak energy is stored in coal as increased Btu/lb. MicroCoal has patented this process.



MicroCoal was co-developed with Orica Limited (ASX. ORI), which is a \$10 billion market cap conglomerate based in Australia. It has invested around \$7.5 million in the development of MicroCoal and its technology from 2006. Since then Orica decided to re-focus on its growth in Asia. CFQ purchased a 58.21% interest from Orica and has agreements in place to acquire the remaining 41.79%.

Figure 3. Wind generates the most power when the demand is low, causing electricity prices to drop. This cheap electricity can be used to upgrade coal. Source: MCI

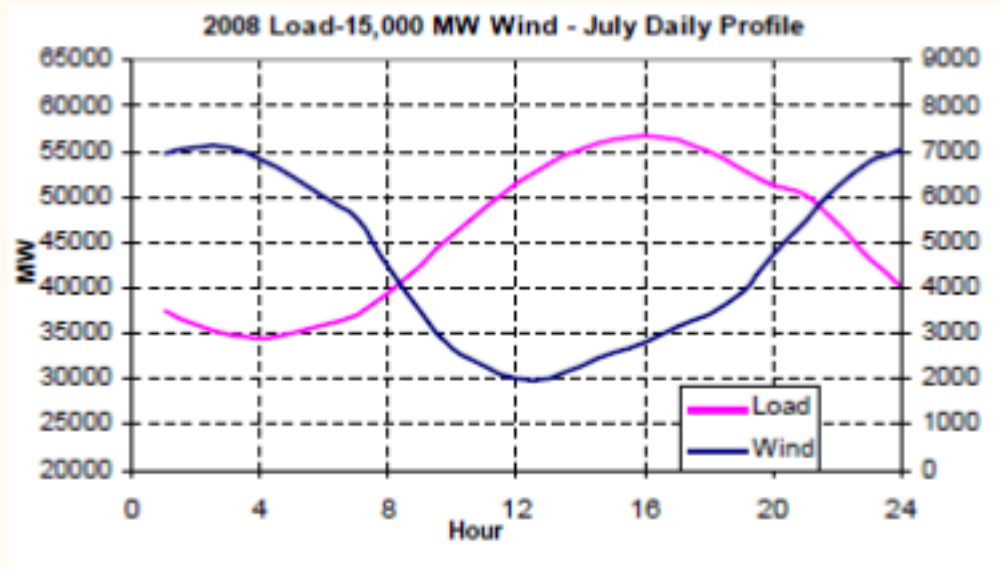
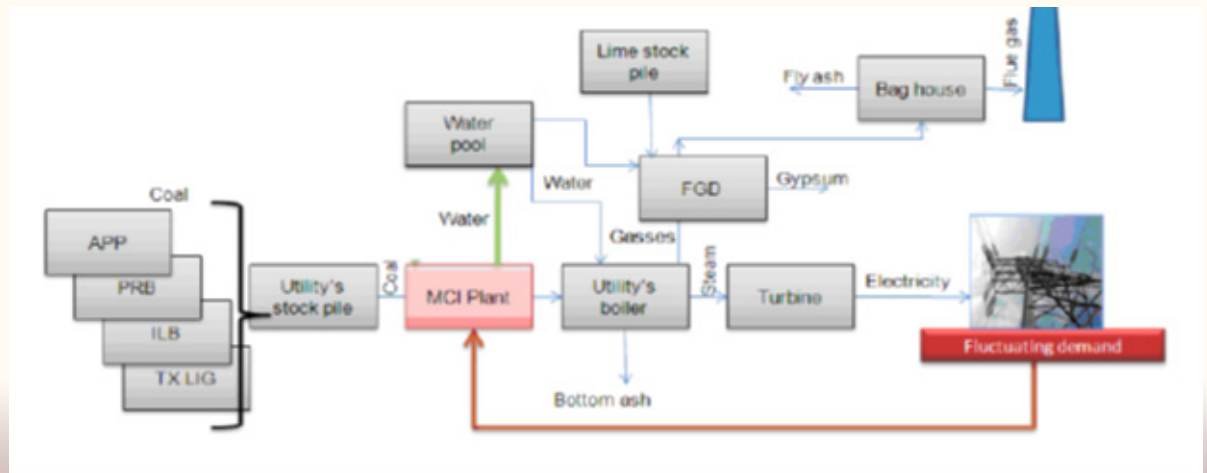


Figure 4. MCI integration with power plant. Source: MCI



Competitive Advantage

Currently there are two types of coal-upgrading process: the thermal process and the microwave process. Under the thermal process, low rank coal is subject to high temperature and pressure to “squeeze” moisture out of the coal matrix, whereas under the microwave process, low rank coal is being radiated with microwave energy for upgrading. The microwave process is a cheaper, simpler and less destructive operation at ambient atmospheric conditions. It allows treated coal to maintain its integrity for easier handling. MicroCoal’s main competitor in the microwave process uses horizontal configuration where coal is transported on a conveyer belt that runs horizontally through a series of microwave ovens. MicroCoal adopts the vertical configuration. Coal flows by gravity through specially designed reactors where it is exposed to microwave energy. The effluent of the process is being collected and the clean water is supplied back to the utility, whereby reducing the amount of clean water make-up. At the same time, the vertical configuration eliminates the need to regularly replace costly damaged conveyer belts. In either case, MicroCoal’s direct competitors have raised in excess of \$100MM each.

Figure 5. Over 50% reduction in ash production in boilers – better boiler efficiency.
Source: MCI



Source: MCI



2) FORESTRY PROJECTS – CARBON CREDITS

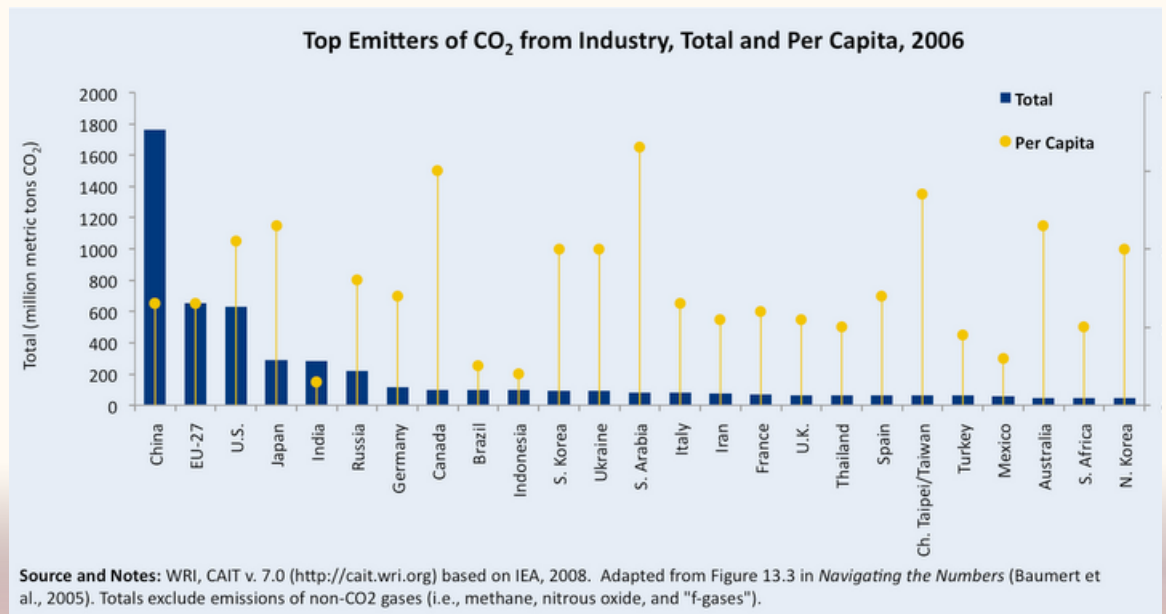
Carbon– Why is it Called The Newest Commodity?

A carbon credit is a permit that allows the holder to emit one ton of carbon dioxide or equivalent. The concept of carbon credits came from the Kyoto Protocol. The Kyoto Protocol was first adopted in 1997 to mitigate global warming due to rapidly increasing greenhouse gas (GHG) emissions. GHGs, such as carbon dioxide, methane, nitrous oxide and sulphur hexafluoride, absorb radiation from the sun and act as a blanket to keep the earth warm. As more GHGs are released from combustion of fossil fuels, the blanket keeps getting thicker and the earth keeps getting warmer. The warming changes weather patterns, resulting in more frequent extreme weather occurrences such as more droughts, more hurricanes/typhoons and rising sea levels. All of which have negative economic, environmental as well as societal impacts. To mitigate global warming as well as to account for the cost of polluting the air, GHG emissions are monetized in units of “carbon credits”, where emissions become a visible cost of doing business on the balance sheet. Conversely, carbon credits can also be a visible asset on the balance sheet, if the company receives or generates carbon credits.

What is the Kyoto Protocol?

The Kyoto Protocol is a protocol to the United Nations Framework Convention on Climate Change (UNFCCC or FCCC). Under the Protocol, Annex I countries (industrialized or transitional stage countries such as the European Union, North America, Japan, Australia, Turkey and the Russian Federation) commit to reduce emission of greenhouse gasses by 5.2% during 2008-2012. However, the United States of America did not ratify the Protocol but has since then created its own initiative to reduce carbon emissions. An example is the The Regional Greenhouse Gas Initiative (RGGI). The RGGI is the first market-based regulatory program in the U.S. to reduce greenhouse gas emissions. Ten Northeastern and Mid-Atlantic states have capped and will reduce CO₂ emissions from the power sector 10 percent by 2018.

Figure 6. Top Emitters of Carbon Dioxide per Capita.



Source and Notes: WRI, CAIT v. 7.0 (<http://cait.wri.org>) based on IE, 2008. Adapted from Figure 13.3 in *Navigating the Numbers* (Baumer et al., 2005).



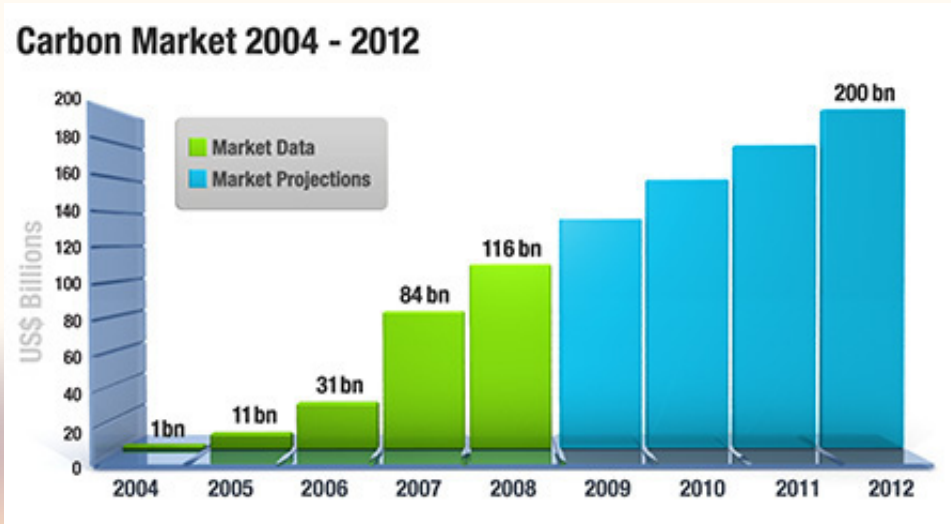
What is the Carbon Market and how does it work ?

There are essentially two types of carbon markets: the compliance/regulatory market and the voluntary market. Compliance markets facilitate carbon credits trading under the mandatory national or international carbon reduction requirements. (ie. the Kyoto Protocol) In this market, businesses and organizations (the operators) trade carbon credits under the 'cap and trade' scheme where a "quota" or "Assigned Amounts Units (AAUs)" of carbon emissions is allocated to each operator. If the operator emits less carbon than assigned, it can sell those carbon credits on the compliance market. Conversely, if the operator emits more credits than assigned, it must purchase carbon credits from other sources or invest in costly alternatives such as scrubbers or other types of clean technology.

Since 2005, the EU has adopted the Kyoto carbon trading mechanism and is the largest compliance market. The voluntary market, which falls outside of the Kyoto Protocol, on the other hand, is world-wide, providing individuals, businesses, governments and organizations a place to purchase credits that offset emissions on a purely voluntary or pre-compliance basis.

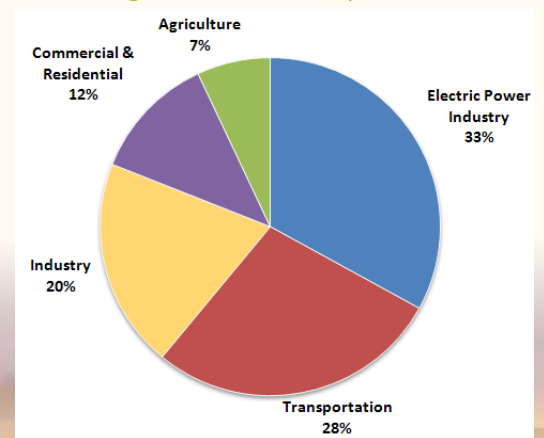
Within the voluntary market, there are different classifications of carbon credits. Carbon Friendly is focused on generating ISO 14064 Voluntary/ Verified Emission Reductions (VERs). VERs can be generated through afforestation and biomass projects or the adoption of renewable energy and energy efficiency projects. Essentially, such projects reduce GHGs and sell them as VERs. In 2010, the international voluntary market transacted US\$2.8 billion (US\$124 billion in the compliance carbon market). The average price per VER is \$6 per tCO₂e. (Source: see Note 1)

Figure 1. Annual Global Carbon Trading. (in Billions US\$)



Source: Carbon Planet (www.carbonplanet.com)

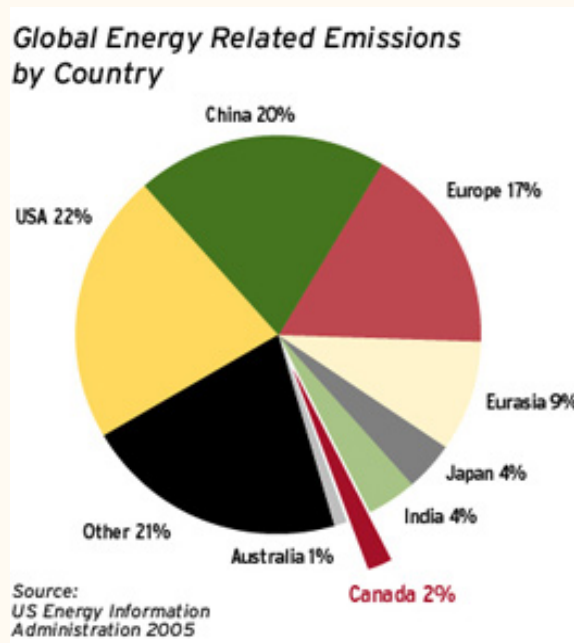
Figure 7. Emission by Sector.



Source: US EPA



Figure 8. Emissions by Country



Forestry Projects – Generating VERs:

Pilot Projects:

Jankowice Afforestation Pilot Project – Poland

- The 50 Ha forestry project has generated approximately 26,500 VER's. The majority has already been sold. The remaining VERs are for sale on CFQ's company website.

Kapuszkasing Afforestation Pilot Project – Ontario, Canada

- The 45 Ha forestry project has generated approximately 12,500 VER's, 10,000 of which has been sold at CAN\$4.50 per VER to Toronto-based company Carbon Zero.

Large Scale Implementation Projects:

Northern Poland Afforestation Offset Project (NPAOP) –Poland

- The 4823 Ha forestry project (4,823 hectares of land, 3,599 hectares are afforested) has recently been validated by Conestoga-Rovers & Associates out of Vancouver, BC, Canada. The project has generated approximately 1,517,000 high-quality VER's, totaling \$9 million at the average over-the-counter price of US\$6 per VER or at US\$7.5 million at a conservative market value of US\$5 per VER. CFQ's management is currently focused on selling these credits.

Southern Poland Afforestation Offset Project (SPAOP) -Poland

- 3000 Ha has already been aggregated. Similar to NPAOP, the SPAOP is expected to generate approximately 1.2 million VER's with a conservative price of market value of US\$5 per VER (for a total of US\$6 million). CFQ plans to register SPAOP for validation before 2012. Certificates of validation are usually issued within 6 months of validation. Carbon Credits are market ready once they have been validated.

Moving forward into the future, between forestry projects in northern and southern Poland, CFQ expects to plant 3000 ha of land in each project area (NPAOP and SPAOP) per year for the next four years. Between 2013 and 2016, the projects are expected to generate 1.5 million VER's per year at a conservative market value of US\$5 per VER (for a total of US\$7.5 million).



Selling VERs in the Voluntary Market

Carbon credits from CFQ's completed projects are listed on the Markit Environmental Registry. Carbon credits registered at Markit receive a unique reference number and are monitored and tracked and eventually retired at the end of their life-cycle. Carbon credits registered with Markit can be traded at various exchanges including the UK-based Carbon Trade Exchange (CTX). CTX is the world's first global electronic spot market for trading VERs. Buyers can search for credits by vintage, credit standard, project type and country of origin on CTX. CFQ's projects will be listed on the CTX. CFQ's VERs can be directly purchased from the company's website. A personal carbon footprint calculator on CFQ's homepage helps individuals calculate their emissions from daily activities, and allow individuals to purchase carbon offsets from CFQ's projects to offset their emissions. For larger transactions of VERs, CFQ is looking to sell VERs to an environmental advisory and investment firm.

Figure 9. Global Carbon Market. Source: Sustainable Capital

GLOBAL CARBON MARKET		
Compliance Markets (CERs)		Voluntary Markets (VERs)
*Kyoto Markets (CDM, JI, ETS)	*Non-Kyoto Markets (ie. RGGI & WCI)	*Transactions can take place anywhere in the world (ie. CTX, Carbon Friendly's website)

Prime Drivers of the Voluntary Carbon Credits Market

- "Greening" of corporate image and marketing. A company may purchase carbon credits to become 'carbon neutral' or 'carbon friendly' to improve its corporate image. Many high profile firms (ie. BP and Honda) have already adopted a green image to showcase their corporate responsibility and commitment to the environment by minimizing their carbon footprint.
- Anticipation of future regulation. As standard of living and environmental awareness rise, movement towards a cleaner and more sustainable economy is a long-term trend. More regulations are expected to be in place to shift current voluntary (pre-compliance) standards into compliance/regulatory standards. Forward-thinking firms that want to plan their business 'pre-emptively' have started to participate in the voluntary carbon market.
- Government organizations that want to demonstrate environmental responsibility have various systems in place (ie. the Pacific Carbon Trust of the BC Government) to purchase carbon offsets to meet their carbon reduction mandates.
- Non-profit organizations that want to be consistent in their mission. Charitable organizations whose mission is to alleviate poverty, human or animal suffering want to do their best to be consistent in their "benevolent" mission by purchasing carbon offsets for air travels and conference travels.
- Individuals, from people who want to purchase carbon offsets for air travel to celebrities who lead by example.



3) BIOMASS PROJECT – STRAW AND SUN-FLOWER HUSKS BIOMASS FUEL PELLETS

Biomass is a source of renewable energy. Biomass generally refers to materials from living or once living things such as wood chips, ethanol from sugarcane and oil palm (for palm oil). Instead of fossil fuel, biomass is burned to generate electricity. The European Union has a target to generate 20-% of its total energy requirements from renewable sources by 2020 and currently over 50% of renewable energy consumption in the EU comes from biomass.

Key Points of CFQ's Biomass Project

CFQ owns 51% of operating biomass producer CARBIOPEL – ECO STREAM ENERGIA S.A., in Lezajsk, Poland. CARBIOPEL produces straw-biomass fuel pellets using agricultural residues as feedstock, at a fraction of what it costs to produce wood biomass pellets.

CARBIOPEL is expected to sell 20,000 tonnes in 2011 (expected revenue of US\$3.4 million) to GDF Suez S.A., a major European electrical producer with biomass-fired 190 MW capacity allocated to biomass power plants in Poland. CARBIOPEL has signed a contractual agreement to be a one of the major supplier of biomass pellets for the GDF Suez plant. The GDF Suez Plant is expected to be operational by December 2012.

CFQ is currently installing new machinery in Poland and moving the original Polish machines to Odessa, Ukraine for the production of pellets from sun-flower husks. A new plant will be added in Poland optimized for straw-biomass pellet production. The total cost to build the new plant will be PLN 9M (CAD\$ 3.2M). Up to 70% of plant construction costs are available in EU subsidies as an incentive for Poland to meet its renewable energy and GHG emission reduction commitments. The plant construction is scheduled to begin in 2012 and be operational before the end of 2012. In total, CARBIOPEL is projected to increase production up to 80,000 tonnes in 2016.

Figure 10. Biomass Pellets



FINANCIAL PROJECTIONS AND VALUATION

Since CFQ has three revenue stream from three lines of business (MicroCoal, carbon credits and biomass), we broke down the business into three separate financial projections and projected their future cashflows from FY2011 to FY 2020.

Revenue Stream One

MicroCoal

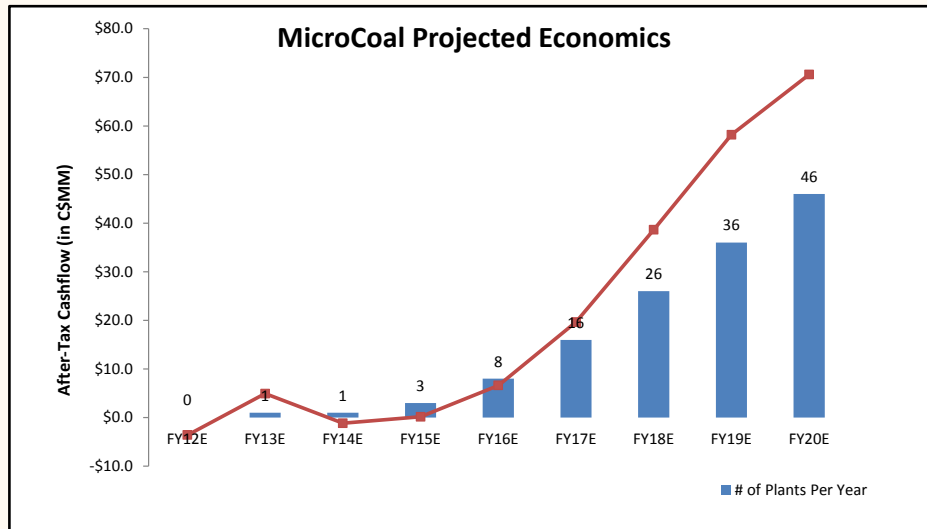
MCI's long term business plan involves the construction and operation of multiple microwave coal enhancement facilities, each taking approximately 8-12 months to construct and commission.

MCI is currently in negotiations with a major US utility for the deployment of its technology at a designated 1,000 MW power plant. The utility has conducted its own due-diligence on the MCI technology. The first commercial plant will be carried out under the build, own, operate (BOO) contract with a strategic contractor. The strategic contractor is responsible for providing financing. CFQ anticipates a 2 year period of generating design information from additional pilot plant runs, adding and upgrading modules. At the end of the 2 year period, a MCI facility that is able to handle the requirements of a 500MW power plant will commence construction. The capital requirement for a 500 MW plant is \$30 MM, funded by the strategic contractor. The initial facility is expected to be commissioned in the US and running by 2013. CFQ will start collecting Project Management Fee equal to 12% of capital expenditure (of \$30MM plus 3% inflation) in FY 2013. CFQ will also start collecting License Fee equal to 8% of capex, payable for 15 years starting with the first year of production. We anticipate MCI to build 2 plants in FY2015, 5 plants in FY2016, 8 plants in FY2017 and assume 10 plants a year from FY2018 to FY2020. We discounted all future cashflows from FY2012-2020 using a discount rate of 20%. The present value of MCI is \$47MM or \$0.52 per share fully diluted (90 million shares).

MCI plans to fill the role as the BOO contractor from the third plant and onwards. MCI plans to contribute 15% of the capital cost and debt finance 85% of the costs over a 15 year repayment period at a 10% interest rate. As a BOO contractor, MCI would take on more financial and operating risk. The returns on capital should be marginally higher but the capital intensity will also increase. We believe that will be a positive move for several reasons. Shortly after the first plant is running, validation by a major utility is expected to relatively quickly result in additional agreements. MCI would benefit from construction experience and has control over operations and technology and third party relationships.



Chart 1. Projected MCI After-Tax Cashflow from Project Maintenance and License Fees



Source: Sustainable Capital

<u>Assumptions:</u>	
Plant Cost (\$MM)	30
Inflation Per Year	3%
License Fee Per Year	8%
Project Management Fee	12%
Capital Requirement	15%
Share Increase Per Year	0.5%
G&A Inflation Per Year	15%
Tax Rate	30%
Discount Rate	20%

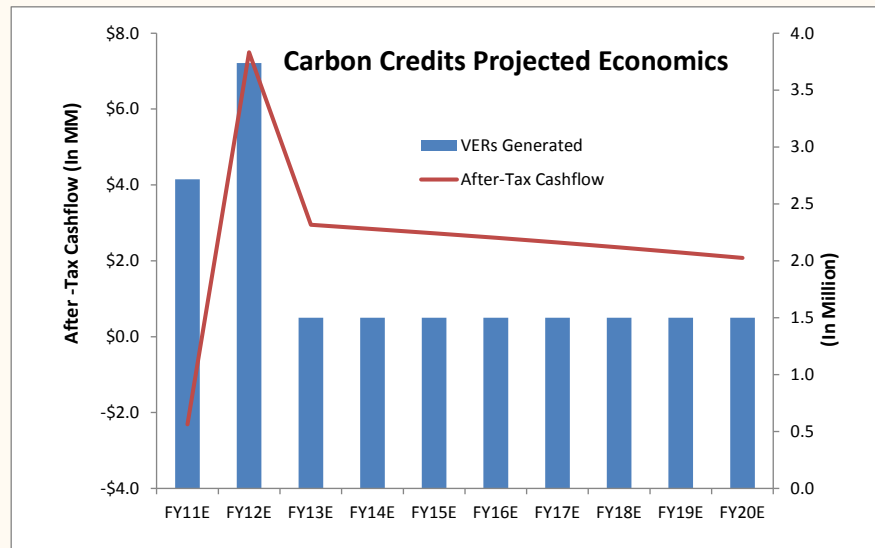
Revenue Stream Two

Carbon Credits

We have estimated revenue from CFQ's Northern Poland Afforestation Offset Project (NPAOP) and the Southern Poland Afforestation Offset Project (SPAOP). We expect the NPAOP to generate 1.517 million VERs in FY 2011, 2.627 million VERs in 2012, 7.5 million VERs per year from FY 2013 to FY 2020. We expect the VERs to fetch a conservative price of \$5 per VER. (The 2010 Over-The-Counter price of VERs is US\$6 per VER according to New Carbon Finance. See Note 1). Using a discount rate of 12.5% and the following assumptions (see below), we discounted projected after-tax cashflow from FY2012-2020 to arrive \$18 MM or \$0.20 per share fully diluted (90 million shares).



Chart 2. Projected Cashflow from Carbon Credits Sales



Source: Sustainable Capital

<u>Assumptions:</u>	
Price per VER	\$5
FY2012 Cogs %	40%
FY2013 Cogs %	37%
COGS Inflation Per Year	5%
SG&A Inflation Per Year	3%
Discount Rate	12.50%

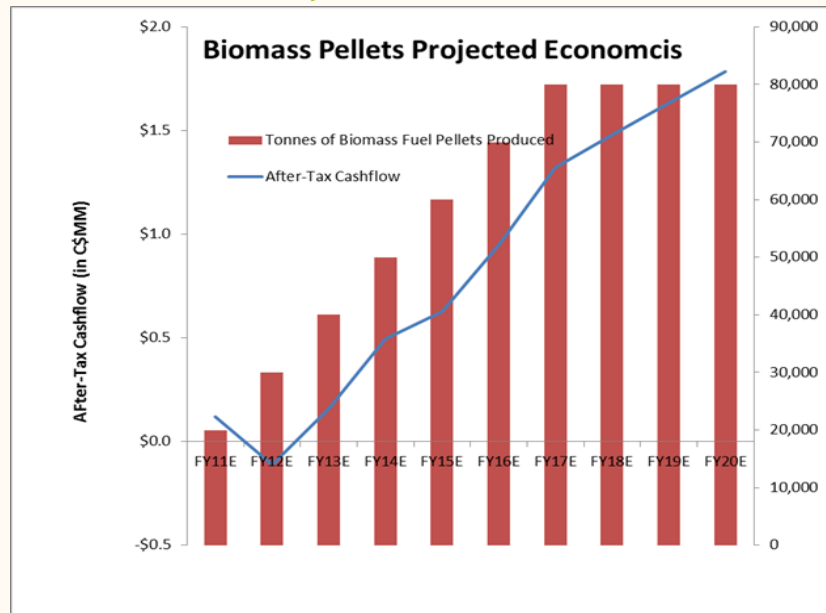
Revenue Stream Three

Biomass

CARBIOPEL currently has sales of 20,000 tonnes of pellets projected for FY2011 and plans to increase production to 40,000 tonnes by FY2012 and to 80,000 tonnes by FY2016. We have used the same assumption where CARBIOPEL will increase production by 10,000 tonnes every year starting in 2011 up to 80,000 tonnes by FY2016 and onwards until FY2020. According to CFQ, each tonne of fuel pellets will be sold at a contracted price of \$170/tonne. Using a discount rate of 12.5%, we discounted future cashflows up to FY2020 to a present value of \$3.85 million. Since CFQ holds 51% of CARBIOPEL, CFQ's present value of its future cashflow from CARBIOPEL is \$1.96 million or \$0.02 per share fully diluted (90 million shares).



Chart 3. Projected Cashflow from Biomass Pellets Sales



Source: Sustainable Capital

<u>Assumptions:</u>	
CFQ's Interest	51%
G&A Inflation Per Year	6%
Discount Rate	12.5%

RISKS

- The carbon market is largely subject to regulation. CFQ has no control of the direction over policy-making on the local scale or the global scale. In particular, with the uncertain future of the Kyoto Protocol after 2012, possible changes in the existing mechanisms and systems in the compliance market could have an impact on the pricing of VERs in the voluntary market.
- The voluntary market is essentially, voluntary. CFQ has no control over how organizations, companies and individuals will voluntarily purchase its VERs.
- MicroCoal's clean coal technology has not yet been commercialized. It is uncertain whether MicroCoal can be successfully commercialized.
- The demand for renewable energy (ie. biomass) is largely dependent on favorable government policies (subsidies, grants). It is uncertain whether governments will or will not continue to support, at adequate level, renewable energy development.



VALUATION

We chose to use the DCF model to discount all cashflow from 3 revenue streams to arrive the Net Asset Value of CFQ. We chose to implement the DCF model as 80% of CFQ's value comes from the MicroCoal project and the bulk of the future cashflow resides between FY2015-2020. We estimate that CFQ has a NAV of \$62 million or \$0.69 per share fully diluted at 90 million shares. To evaluate the valuation metric, we have performed a sensitivity analysis using various discount rates from 16% to 26%.

	*(in MM)	*Fully Dilluted (90 million shares)
Carbon Credits	\$18.0	\$0.20
Biomass (at 51%)	\$2.0	\$0.02
Microcoal	\$47.1	\$0.52
Cash	\$0.4	\$0.00
Debt	-\$5.5	-\$0.06
CFQ's Total Net Asset	\$62.0	\$0.69

Source: Sustainable Capital

SENSITIVITY ANALYSIS

To test the valuation matrix, we performed a sensitivity analysis by changing the discount rate on our MicroCoal assumptions only, assuming no change in values for the other two businesses.

MicroCoal DCF Sensitivity

<u>Discount Rate</u>	<u>NAV (\$MM)</u>	<u>NAV Per Share Fully Diluted</u>
16%	\$76	\$0.84
18%	\$68	\$0.76
20%	\$62	\$0.69
22%	\$56	\$0.63
24%	\$52	\$0.57

Source: Sustainable Capital



RECOMMENDATION

Carbon Friendly Solutions is an excellent way to participate in the greening of the coal fired electrical power plant market. MicroCoal is a leading provider of clean coal technology to help smaller and older plants adapt to the increasingly stringent EPA standards due to its innovative and low cost solution to emission control. The majority of CFQ's long-term value is riding on the success of its MCI project (project management and licensing fees only) from FY2015 and onwards. We believe that given the current regulatory environment, and the major US utility's own due diligence, the success of CFQ's MCI project is likely. The company has a lot of additional opportunities in the future upon commercialization of MicroCoal such as executing its plans as a Build-Own-Operate (BOO) contractor and expanding its technology to new regions. Carbon Friendly Solutions also has two potentially interesting divisions that are at various stages of maturity; its carbon credit trading and biomass divisions. We believe they are both well-positioned to monetized environmental benefits in the global markets.

We recommend Carbon Friendly Solutions as a SPECULATIVE BUY rating with a price target of \$0.69 per share.



APPENDIX 1: MANAGEMENT AND BOARD OF DIRECTORS

Management Team

Slawomir Smulewicz (MBA) – CEO, Carbon Friendly Solutions

In 2006-2009, Slawomir led a successful remedial process completing the acquisition of over 50 million PLN for the company. He was in charge and served on the Board of several European private companies in consulting, IT and construction industries; especially in the start-up phase or in the time of restructuring processes. He was Founder, CEO & Director of BDSG Grupa Finansowa Sp. z o. o., Poland from 2001-2008. He was Co-Founder, CEO & Director of Internetowy Instytut Infomacji 3i Sp. z o.o., Poland from 1998-2001. In 1998, he was the advisor to Vice Marshal of Presidium of The Sejm of The Republic of Poland (Polish Parliament). In 1995, he was a Licensed broker of Warsaw Exchange (WGT S.A.) Poland. Slawomir holds a Master's degree in Agriculture & Business Administration Warsaw University of Life Science (SGGW) Warsaw, Poland.

Benzi Livneh – CEO, MicroCoal Inc.

Benzi was Founder & Director of MicroCoal Inc.. since 2004. He was the Founder, President and CEO of BeST Pty. Ltd, Johannesburg, South Africa from 1998 - 2001. He was the Founder and CEO of Knowledge Based Engineering Pty. Ltd., Johannesburg, South Africa from 1991 to 1998. For 8 years, he was the Senior Engineer at Sasol Synthetic Fuels, Secunda, South Africa from,1980.

Stan Lis – President, Carbon Friendly Solutions

Since 2006, Stan has been the President of Carbon Friendly Solutions Inc.. He was Co-Founder & interim CEO of Carbon Friendly Solutions Inc. from 2006 - Feb 2011. He was the President, CEO & Director of Stream Communications Network & Media Inc., from Jan 2000 - Aug 2005. For 7 years, Stan was President, CEO & Director of Trooper Technologies Inc., 1993 to 2000. In 1988, Mr. Lis founded International UNP Holdings. He has personally raised more than US\$37 million. Stan Studied business administration and securities at Simon Fraser University.

Ping Shen (CGA) – CFO, Carbon Friendly Solutions

Ping has been the CFO of Carbon Friendly Solutions Inc. since 2008. She has 18 years of professional experience in both China and Canada. She was the Senior Staff Accountant for Jones Richards & Company from 1999 - 2001. She operated as an independent consultant providing accounting services for several public companies in the communications, IT, environmental and mining industries since 2001.



Basil Smidt – COO, MicroCoal Inc.

Basil has been the COO of MicroCoal Inc. from June 2009 to August 2010. He has 35 years experience in project management & business development in minerals and metals industries. He was President and General Manager of Bateman Engineering Inc., Member of holding company's Board of Directors Denver, Colorado from 2000-2009. He was CEO of Titaco Projects (Pty) Ltd., Johannesburg, S.A., from 1996 to 2000 (sub. of Bateman Projects Holdings). He was the Founding Partner & Executive Director Titaco 1981 to 1990. He was a Project Manager Barberton Iron and Steel 1980 to 1981 and a Project Engineer promoted to Engineering Manager Samancor from 1976 to 1980. He was CEO of Titaco Consolidated Investments Limited Engineering Contractors. Listed on JSE from 1990 to 1996.

Board of Directors

Slawomir Smulewicz - Director

Benzi Livneh - Director

Stan Lis - Director

William P.C Hudson - Independent Director

Ian Hume - Independent Director

William was a Director of Carbon Friendly Solutions Inc., from 2010 to present. He was the Founder of The Domus Group in 1992, a private holding company. He was Co-owner of WHMB Management LLC, a property management company. He Co-founded International UNP Holdings Ltd. in 1989, a TSX listed company headquartered in Toronto, Canada and Warsaw, Poland where he was instrumental in raising the initial \$20 million of investment capital. He Co-Founded Hudson & Hudson, Partners in 1979, a Texas general partnership that managed real estate, mineral exploration & production and securities investments. William was the Director of First Valley Bank Group Inc., a \$450 million bank where Mr. Hudson was crucial in growing the bank 10-fold, while retaining strong earnings. 1967 – 1997.

Ian Hume - Independent Director

Ian was the Director of Carbon Friendly Solutions Inc. from 2010 to present. He is an independent consultant based in Washington, DC where he has lived since joining the World Bank as an economist in 1969. His career at the World Bank included macroeconomic work, project assignments, and management positions as Division Chief, Assistant Director of Energy Department, Resident Representative in Warsaw and Country Director in Poland. He took early retirement from the World Bank in 1994 and has worked on a range of private energy ventures since then.



APPENDIX 2: FINANCIAL STATEMENTS

Income Statement (in \$MM, except per share amounts)

	FY10	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
MicroCoal	0.00	0.00	0.00	6.18	10.11	27.23	53.09	84.02	113.10	143.04	172.56
Biomass (51%)	0.00	0.13	2.60	3.47	4.34	5.20	6.07	6.94	6.94	6.94	6.94
CFS	0.05	0.02	18.69	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50
Revenues	0.05	0.15	21.29	17.15	21.95	39.94	66.66	98.46	127.53	157.48	187.00
Cogs	0.08	1.17	7.37	9.81	5.83	16.48	32.75	49.92	62.65	64.30	65.99
Gross Margin	-0.03	-1.02	13.91	7.33	16.12	23.46	33.91	48.53	64.88	93.18	121.00
<i>MicroCoal</i>	<i>0.00</i>	<i>-1.05</i>	<i>-3.08</i>	<i>6.18</i>	<i>10.11</i>	<i>17.40</i>	<i>27.77</i>	<i>42.29</i>	<i>59.36</i>	<i>87.70</i>	<i>115.55</i>
<i>Biomass (51%)</i>	<i>0.00</i>	<i>0.01</i>	<i>1.11</i>	<i>1.13</i>	<i>1.28</i>	<i>1.47</i>	<i>1.70</i>	<i>1.96</i>	<i>1.39</i>	<i>1.53</i>	<i>1.66</i>
<i>CFS</i>	<i>0.05</i>	<i>0.02</i>	<i>15.89</i>	<i>0.03</i>	<i>4.73</i>	<i>4.59</i>	<i>4.44</i>	<i>4.29</i>	<i>4.13</i>	<i>3.96</i>	<i>3.78</i>
% Margin											
Microcoal SG&A		0.20	0.50	1.25	1.44	1.65	1.90	2.19	2.51	2.89	3.33
Biomass SG&A		0.01	0.32	0.34	0.36	0.38	0.40	0.42	0.45	0.48	0.50
CFS SG&A		0.50	0.50	0.50	0.52	0.53	0.55	0.56	0.58	0.60	0.61
Corporate		1.02	0.53	0.46	0.49	0.44	0.30	0.14	-0.07	-0.32	-0.62
SG&A	2.06	1.72	1.85	2.55	2.80	3.00	3.15	3.31	3.47	3.65	3.83
% Sales		-168.9%	13.3%	34.8%	17.4%	12.8%	9.3%	6.8%	5.4%	3.9%	3.2%
Microcoal EBITDA		-1.25	-3.58	4.93	-1.16	0.26	9.46	28.10	55.24	83.15	100.83
Biomass EBITDA (51%)		0.00	0.06	-0.06	0.08	0.25	0.46	0.69	0.96	1.08	1.19
CFS EBITDA		-3.55	10.71	4.21	4.06	3.89	3.72	3.55	3.36	3.17	2.96
Corporate		-1.02	4.87	-4.30	10.34	16.06	17.12	12.88	1.84	2.15	12.19
EBITDA	-2.09	-2.75	12.06	4.78	13.32	20.46	30.76	45.23	61.40	89.54	117.17
% Margin		-1880%	57%	28%	61%	51%	46%	46%	48%	57%	63%
Amortization	0.02	0.20	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Stock-based Compen	0.40	0.40	0.50	0.50	0.53	0.55	0.58	0.61	0.64	0.67	0.70
EBIT	-2.52	-3.35	11.06	3.78	12.29	19.41	29.68	44.12	60.27	88.37	115.97
EBT	-2.61	-3.35	10.06	1.78	11.29	19.41	30.18	45.12	61.77	90.37	118.97
Net Earnings	-2.61	-3.35	6.04	1.07	6.78	11.64	18.11	27.07	37.06	54.22	71.38
Shares											
Basic Shares	23.1	29.0	56.5	66.0	69.9	76.8	80.6	84.6	88.9	93.3	98.0
Fully Dilluted	23.1	29.0	90.0	91.8	93.6	95.5	97.4	99.4	101.4	103.4	105.4
Earnings Per Share											
EPS	-\$ 0.11	-\$ 0.12	\$ 0.11	\$ 0.02	\$ 0.10	\$ 0.15	\$ 0.22	\$ 0.32	\$ 0.42	\$ 0.58	\$ 0.73
EPS - Fully Diluted	-\$ 0.11	-\$ 0.12	\$ 0.07	\$ 0.01	\$ 0.07	\$ 0.12	\$ 0.19	\$ 0.27	\$ 0.37	\$ 0.52	\$ 0.68

Source: Sustainable Capital



Balance Sheet (in \$MM, except per share amounts)

	FY10	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
Cash and Cash Equivalents	0.16	0.43	5.83	4.08	11.59	24.03	43.02	71.06	109.20	164.61	237.32
Receivables	0.11	0.11	0.14	0.16	0.20	0.23	0.28	0.34	0.41	0.49	0.58
Inventory	0.01	0.01	0.01	0.01	0.02	0.02	0.02	0.03	0.03	0.04	0.05
Prepaid Expenses	0.02	0.02	0.03	0.03	0.04	0.05	0.05	0.07	0.08	0.09	0.11
Current Assets	0.30	0.57	6.01	4.29	11.84	24.34	43.38	71.50	109.71	165.23	238.06
Deposits	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06
Property and Equipment	0.03	0.03	0.04	0.05	0.05	0.07	0.08	0.09	0.11	0.14	0.16
Intangible Assets	0.00	8.28	10.06	10.06	10.06	10.06	10.06	10.06	10.06	10.06	10.06
Website development Costs	0.03	0.02	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Assets	0.42	8.97	16.17	14.45	22.01	34.52	53.58	81.71	119.95	175.48	248.34
Accounts payable	0.21	0.87	1.05	1.26	1.51	1.81	2.17	2.60	3.13	3.75	4.50
Loans Payable	0.00	5.50	3.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Current Liabilities	0.21	6.37	4.55	1.26	1.51	1.81	2.17	2.60	3.13	3.75	4.50
Long Term Debt	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Liabilities	0.21	6.37	4.55	1.26	1.51	1.81	2.17	2.60	3.13	3.75	4.50
Minority Interest	0.00	2.12	2.12	2.12	2.12	2.12	2.12	2.12	2.12	2.12	2.12
Share Capital	5.32	8.47	11.07	11.37	11.80	12.24	12.71	13.20	13.72	14.26	14.83
Share Subscription	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Contributed Surplus	1.15	1.40	1.80	2.00	2.10	2.21	2.32	2.43	2.55	2.68	2.81
Deficit	-6.26	-9.64	-3.60	-2.53	4.24	15.89	34.00	61.07	98.13	152.35	223.73
Shareholder Equity	0.21	0.23	9.27	10.84	18.14	30.34	49.02	76.70	114.40	169.29	241.37

Source: Sustainable Capital



Statement of Cashflow (in \$MM, except per share amounts)

	FY10	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
Net Earnings	-2.61	-3.35	6.04	1.07	6.78	11.64	18.11	27.07	37.06	54.22	71.38
Amortization	0.02	0.20	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Stock-based Compensation	0.40	0.40	0.50	0.50	0.53	0.55	0.58	0.61	0.64	0.67	0.70
Operating CF	-2.03	-2.75	7.04	2.07	7.80	12.70	19.19	28.18	38.20	55.39	72.58
Change in Wcap	-0.00	2.50	-1.85	-3.33	0.21	0.25	0.30	0.36	0.43	0.52	0.63
Operating CF	-2.03	-0.25	5.18	-1.26	8.01	12.95	19.49	28.54	38.63	55.91	73.21
Proceeds from common shares	1.83	0.04	2.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Proceeds from Share subscription	0.00	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Proceeds from Loans	0.00	0.41	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Financing	1.83	0.50	2.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Assets Acquired on RTO	-0.07	0.00	0.00								
Cash gained on Acq of Microcoal	0.00	0.02	0.00								
Acquired Microcoal	0.00	0.00	-1.08								
Acquired Carbiopel	0.00	0.00	-0.70								
Microcoal Capex	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Purchase of Capital Assets	-0.07	0.00	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
Deferred Costs	0.00	-0.00	0.00								
Investing	-0.14	0.02	-2.28	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
FX Effect	0.00	0.00									
Change in Cash	-0.33	0.27	5.40	-1.76	7.51	12.45	18.99	28.04	38.13	55.41	72.71
Cash at Start	0.49	0.16	0.43	5.83	4.08	11.59	24.03	43.02	71.06	109.20	164.61
Cash at end	0.16	0.43	5.83	4.08	11.59	24.03	43.02	71.06	109.20	164.61	237.32

Source: Sustainable Capital



Notes:

Note 1: "Back to the Future State of the Voluntary Carbon Markets 2011" Ecosystem Marketplace, New Carbon Finance.

DISCLAIMERS AND DISCLOSURE

The opinions expressed in this report are the true opinions of the analyst about this company and industry. Any "forward looking statements" are our best estimates and opinions based upon information that is publicly available and that we believe to be correct, but we have not independently verified with respect to truth or correctness. There is no guarantee that our forecasts will materialize. Actual results will likely vary. One of the principals of Sustainable Capital Corp. (SCC) has a consulting relationship with Carbon Friendly Solutions Inc. (CFQ). Fees of less than \$30,000 have been paid by CFQ to SCC. SCC holds less than 500,000 shares, options and warrants of CFQ. SCC takes steps to ensure independence and utilizing analysts who must abide by CFA Institute Code of Ethics and Standards of Professional Conduct. Additionally, analysts may not trade in any security under coverage. Our full editorial control of all research, timing of release of the reports, and release of liability for negative reports are protected contractually.

This report contains "forward looking" statements. Forward-looking statements regarding the Company and/or stock's performance inherently involve risks and uncertainties that could cause actual results to differ from such forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, continued acceptance of the Company's products/services in the marketplace; acceptance in the marketplace of the Company's new product lines/services; competitive factors; new product/service introductions by others; technological changes; dependence on suppliers; systematic market risks and other risks discussed in the Company's periodic report filings, including interim reports, annual reports, and annual information forms filed with the various securities regulators. By making these forward looking statements, Sustainable Capital Corporation and the analyst/author of this report undertakes no obligation to update these statements for revisions or changes after the date of this report.

SUSTAINABLE CAPITAL CORPORATION DOES NOT MAKE ANY WARRANTIES, EXPRESSED OR IMPLIED, AS TO RESULTS TO BE OBTAINED FROM USING THIS INFORMATION AND MAKES NO EXPRESS OR IMPLIED WARRANTIES OR FITNESS FOR A PARTICULAR USE. ANYONE USING THIS REPORT ASSUMES FULL RESPONSIBILITY FOR WHATEVER RESULTS THEY OBTAIN FROM WHATEVER USE THE INFORMATION WAS PUT TO. ALWAYS TALK TO YOUR FINANCIAL ADVISOR BEFORE YOU INVEST. WHETHER A STOCK SHOULD BE INCLUDED IN A PORTFOLIO DEPENDS ON ONE'S RISK TOLERANCE, OBJECTIVES, SITUATION, RETURN ON OTHER ASSETS, ETC. ONLY YOUR INVESTMENT ADVISOR WHO KNOWS YOUR UNIQUE CIRCUMSTANCES CAN MAKE A PROPER RECOMMENDATION AS TO THE MERIT OF ANY PARTICULAR SECURITY FOR INCLUSION IN YOUR PORTFOLIO.

This REPORT is solely for informative purposes and is not a solicitation or an offer to buy or sell any security. It is not intended as being a complete description of the company, industry, securities or developments referred to in the material. Any forecasts contained in this report were independently prepared unless otherwise stated, and HAVE NOT BEEN endorsed by the Management of the company which is the subject of this report. THIS REPORT IS COPYRIGHT. Please give proper credit, including citing SCC and/or the analyst, when quoting information from this report.

The information contained in this report is intended to be viewed only in jurisdictions where it may be legally viewed and is not intended for use by any person or entity in any jurisdiction where such use would be contrary to local regulations or which would require any registration requirement within such jurisdiction.

