

A copy of this preliminary prospectus has been filed with the securities regulatory authorities in the provinces of Alberta, British Columbia, Ontario and Quebec but has not become final for the purpose of the sale of securities. Information contained in this preliminary prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the prospectus has been obtained from the securities regulatory authorities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. Securities described in this prospectus are only offered for sale in jurisdictions where they may be lawfully offered for sale and therein by persons duly registered to sell such securities.

Preliminary Prospectus

Public Offering

November 4, 2005



Price: \$ • per Unit

MINIMUM SUBSCRIPTION:
• Units (\$ •)

CO₂ Solution Inc.

\$ 7,000,000, • units (maximum offering)

\$ 3,000,000, • units (minimum offering)

Through the services of Desjardins Securities Inc. (“VMD” or the “Agent”) CO₂ Solution Inc. (“CO₂ Solution” or the “Company”) offers to sell to purchasers resident in the provinces of British Columbia, Alberta, Ontario and Quebec a maximum of • units (the “Units”) for total gross proceeds of \$ 7,000,000 and a minimum of • units for total gross proceeds of \$ 3,000,000 to the public at a price of \$ • per Unit (the “Offering”). Each Unit is comprised of one common share (a “Common Share”) and a half-warrant. Each complete warrant (“Warrant”) will permit its holder to subscribe at any time prior to 18 months from the closing date of the Offering, to one Common Share of the Company at an exercise price of \$ • per share.

The offering price of the Units was established by way of negotiation between the Company and the Agent (see “Details of the Offering”).

The Common Shares of the Company are currently listed and posted for trade on the TSX Venture Exchange Inc. (“TSX-V”) under the symbol “CST”. On •, 2005, the last day when the Common Shares were traded on the TSX-V, the closing price of the common shares was \$•.

It is of the opinion of the legal advisors of CO₂ Solution that the Units offered herein shall, at the date that they are issued, be admissible as investments by virtue of certain laws (see “Eligibility for Investment”). CO₂ Solution shall file with Quebec Minister of Revenue an application for an advanced ruling concerning the eligibility of the Common Shares within the Units under the Quebec SME Growth Stock Plan (see Quebec change this throughout the document “Quebec SME Growth Stock Plan”).

See “Risk Factors” for a discussion of certain considerations relevant to an investment in the Units offered in this Offering. Prospective investors are invited to carefully review and evaluate the risk factors inherent to the purchase of Common Shares of CO₂ Solution.

	Price of the Offering	Agent's remuneration ⁽¹⁾	Proceeds to the Company ⁽²⁾
Per Unit	\$ •	\$ •	\$ •
Maximum offering	\$ 7,000,000	\$ 700,000	\$ 6,300,000
Minimum offering	\$ 3,000,000	\$ 300,00	\$ 2,700,000

⁽¹⁾ The Agent shall receive a remuneration equal to 10 % of the gross proceeds of the Offering, to be paid by the Company at the Closing. In the event of a minimum subscription no less than \$ 500,000 and greater from an institutional or corporate investor (other than a brokerage firm) referred to the Agent by the Company, the Agent's commission shall be reduced to 5.5 %, however the additional remuneration of 8 % in the form of options shall be maintained. However, in order to benefit from the reduced commission, the subscription must be received exclusively through the Agent.

As additional remuneration for the services rendered in relation to this Offering, the Company has granted to the Agent options ("Broker's Warrants") which will permit the Agent to subscribe, in whole or in part within the 18 months following the Closing of this Offering to a number of Units equal to 8 % of the total number of Units purchased by virtue of this Offering at a price equal to \$ • per Unit. This prospectus also qualifies all the Common Shares which may be issued as a result of the exercise of the options granted to the Agent as additional remuneration.

⁽²⁾ Before deduction of the expenses of this Offering, evaluated at \$ 700,000 in the event of the maximum offering and at \$ 300,000 in the event of a minimum offering, which will be paid from the proceeds of this Offering.

Subscription for Units offered will be received subject to the rejection or allotment, in whole or in part, and the right of the Company to close the subscription books at any time and without notice. It is expected that the closing of this Offering will take place on • or on such other date as may be agreed upon, but no later than •. The proceed of the subscription received shall be remitted to Computershare Trust Company of Canada (the "Trustee"), who shall keep such subscription proceeds until such a time as the proceeds from the Offering until such a time as the closing conditions have been fulfilled or that the Offering has been abandoned in compliance with the terms and conditions of the depository agreement concluded between the Trustee and the Company (see "Details of the Offering"). Certificates representing the Common Shares and the Warrants shall be available for delivery at the final closing of the Offering.

The Agent on a best efforts basis conditionally offers the Units, subject to the usual reserves concerning their subscription, their sale and their delivery by the Company and their acceptance by the Agent according to the terms and conditions contained in the agency agreement which is discussed in the "Details of the Offering", and subject to the approval of certain legal matters by Langlois Kronström Desjardins L.L.P. Barristers and Solicitors, on behalf of the Company and by Desjardins Ducharme L.L.P. on behalf of the Agent.

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ELIGIBILITY FOR INVESTMENT

In the opinion of Langlois Kronström Desjardins L.L.P., legal advisors to CO₂ Solution, that the Common Shares and the Warrants, shall constitute admissible investments under the *Income Tax Act* (Canada) and the *Loi sur les impôt* (Quebec) and their related regulations, for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans provided that in the case of the Warrants that the plan holder, beneficiary, employer or subscribers by virtue of the plan governing the trust and CO₂ Solution are not related.

QUEBEC SME GROWTH STOCK PLAN

CO₂ Solution shall request an advanced ruling by the Quebec Ministry of Revenue confirming that the • Common Shares (• in the event of a minimum Offering) part of the Unit shall constitute upon their issuance as an eligible investment in order to be qualified under the Quebec SME Growth Stock Plan in compliance with the information provided in the Additional Information on the Budgetary Measures for the 2005-2006 Budget filed on April 21 2005 (“**Additional Information**”) and the provisions of the *Loi sur les impôts* (Québec) (“**QIT**”) and subject to certain conditions provided therein. The qualification of the Common Shares in the Quebec SME Growth Stock Plan shall permit an individual (other than a trust) who is resident of the Province of Quebec on December 31, 2005, to deduct in its calculation of its taxable revenue for income tax purposes in the province of Quebec, 100 % of the acquisition cost (established without taking into account the value of the Warrants, the cost of borrowing, brokerage fees, safe keeping fees and other similar fees) of the Common Shares which were acquired, as first purchaser from CO₂ Solutions, by virtue of this offering and which are included in the Quebec SME Growth Stock Plan no later than January 31, 2006 subject to certain conditions provided in the Additional Information and in the QIT. **In this regard, individuals must conclude an agreement with a dealer, as defined in the QIT, and indicate their intention to include the Common Shares in the Quebec SME Growth Stock Plan for which they are a beneficiary.**

For the 2005 tax year, an individual may not claim a deduction under the Quebec SME Growth Stock Plan which exceeds 10% of its total revenue (as the term is defined in the QIT). **The amount of this deduction shall be included in the calculation of an individual’s adjusted taxable income for Quebec’s alternative minimum tax.**

The individual who includes a Common Share of CO₂ Solution in the Quebec SME Growth Stock Option Plan and who withdraws such shares from the Plan, as an example by selling such shares, before the end of the third fiscal year following the year of purchase, may be held to include a sum equal to 100% of the acquisition cost (established as provided above) in calculating their revenues for the purpose of income tax in the Province of Quebec for the tax year when the withdrawal in question occurred.

The price paid for each unit must be attributed on a reasonable basis between the Common Shares and the half warrant making up the Unit in order to calculate their respective acquisition cost for the first purchaser. This attribution of the price must be the same for CO₂ Solution and the purchaser. For this purpose, CO₂ Solution has attributed \$ • to the Common Shares and \$ • for the half warrant making up the Unit. Although CO₂ Solution believes that this attribution is reasonable, it in no way binds the Quebec Minister of Revenue.

No Warrant and no common share of CO₂ Solution which may be issued upon the exercise of one of these Warrants by its holder will be qualified for the Quebec SME Growth Stock Plan and no province of Quebec tax advantage shall be obtained in that regard.

This text is but a summary and does not pretend to and should not be interpreted as a legal or tax opinion addressed to the attention of any investor. As a consequence, investors should consult their own legal or tax consultants in regard to any questions concerning the Quebec SME Growth Stock Plan, including the maximum deduction permitted by virtue of the Quebec SME Growth Stock Plan. This resume is based on the current provisions of the QIT and its regulations, the Additional Information, the particular proposals seeking to modify the QIT and its regulations publicly announced by the Quebec Minister of Finance up to the date of this prospectus and on the CO₂ Solution’s understanding of the existing administrative practices of the Quebec Ministry of Revenue. This summary does not take into account any modifications brought to any law be it by legislative, governmental or judicial measures.

GLOSSARY

Anthropic:	Produced by man.
Aluminium Association of Canada:	Association whose members include aluminium companies such as Alcan Inc., Alcoa Canada Primary Metal Inc. and Aluminerie Alouette Inc.
Aquifer:	Underground zone of permious rock filled with water under pressure.
Catalyser:	Compound promoting a chemical reaction.
CDM	Clean development mechanisms. A mechanism allowing industrialized countries (or Appendix 1 of the Kyoto Protocol) to fund activities for the implementation of emission reduction projects in developing countries. In return, the reductions will be credited to industrialized countries to help them achieve their goals.
Climatic Change:	Qualitative modifications of the average normal parameters of the Earth's climate.
CO ₂ :	Carbon dioxide gas present in the Earth's atmosphere, resulting in part from the combustion of fossil products.
CO ₂ Solution technology or CO ₂ reduction technology	Terminology used in order to define the type of technology initially developed by the Company.
Desorption:	Release of a gas from a liquid in which it has been absorbed.
Enzyme:	A protein the effect of which accelerates a chemical reaction.
Enzyme Immobilisation:	Chemical bonding of an enzyme on a material.
Emissions Rights:	Right issued to its holder to emit in the atmosphere a prescribed quantity of CO ₂ .
Forintek Canada Corp.:	Institute for the research concerning wood products in Canada.
GHG:	Gas creating a greenhouse effect.
Greenhouse effect:	Natural phenomenon resulting from the retention of heat in the atmosphere by the gas making up the atmosphere.
Ion:	Positively charged (cation) or negatively charged (anion) particle.
IPCC:	Intergovernmental Panel on Climate Change is organised by the World Metrological Organisation and the United Nations Program for the Environment, and has been given the mandate to evaluate scientific, technical and socio-economical information available on a world scale as it relates to the climate. This international organisation is composed of 2000 of the world's top climate specialists.
Kyoto Protocol:	International agreement concluded in 1997, between industrialised nations by which such industrialised nations have agreed to reduce global greenhouse gas emissions by 5.2% in relation to the 1990 level, before the year 2008-2012. The Kyoto Protocol came into force internationally on February 16, 2005.
Medicago Inc.:	Private business having fine tuned a process and equipment enabling it to produce proteins found in lucerne.
Packed Column:	Vertical column, filled with a packing having a large surface area that permits continuous contact of a gas and a liquid.
Particulate Panel:	Panel of wood fibers generally used in the central panel of melamine and stratified wood.
Photobioreactor:	Biological reactor for the growth of an algae biomass using a controlled luminous source.

Precipitation:	Formation and settling of a solid powder within the bulk of a liquid.
Proprietary technology	Technology developed by the business and for which it holds all the rights to commercialize.
QBIC	Quebec Business Investment Company. A Québec government program that provides a tax incentive to help individuals invest in duly approved businesses.
Reactor	In this document, a reactor refers to an enzymatic reactor which consists of an apparatus in which a chemical reaction is catalyzed by an enzyme which may be in a solution or be static.
Scale up:	Adapting to a industrial setting of a process developed in the laboratory.
Sequestration of carbon:	A series of means permitting the sequestration of carbon at its source or in the atmosphere and to stock such carbon under various stable forms which will not return into the atmosphere.
SiliCycle inc.	SiliCycle is a private company which develops, manufactures and markets high-quality innovative silica-based products to meet the needs of a world-scale clientele.
Technological Platform:	Adaptation of the process and equipment to a specific industrial setting.
UNEP:	United Nations Environment Programme

PROSPECTUS SUMMARY

Please read the following summary of the principal features of the Offering which should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus.

Unless expressly indicated to the contrary, the specialized terminology, the names and abbreviations used to define scientific procedures and methods, have the meanings suggested in the glossary contained herein.

THE COMPANY

CO₂ Solution Inc. (“CO₂ Solution” or the “Company”) was legally incorporated on November 19th, 1997. Its corporate mission consists in becoming a leader in the design, development, production and marketing of the products and services in the management and the elimination of CO₂ in the context of climate change (see “The Company”).

The general context: CO₂, emitted in large part by the combustion of fossil fuels, is the most abundant gas creating a greenhouse effect (“GHG”). With global anthropic emissions reaching 24.1 billion tons of CO₂ in 2003 (*Key World Energy Statistics - 2005*, International Energy Agency, p. 44, www.iea.org), alarm signals have been heard around the world. It is no longer a question whether the climate is changing but, at which speed it will change. The Kyoto Protocol, being internationally in force, constitutes an important step in an international mobilization seeking to reduce these emissions. In addition, in order to significantly slow down the progress of climatic change currently underway, it is 30 times the Kyoto Protocol that needs to be put in place (MAHLMAN, Dixit Jerry, Science no 278, 1997)(see “Climatic Change”).

Activities of the Company: CO₂ Solution intends to position itself as a leader in the processing, elimination and management of GHGs in a context of climate change. To that effect, the company has been developing an enzyme-based technology platform to help meet the reduction requirements of CO₂ emitter industries. The innovative technology platform developed by CO₂ Solution operates by transforming CO₂ into an environmentally safe matter by a biological process which exploits an enzyme’s ability to catalyse CO₂ transformation in an aqueous medium (see “Technological Development”).

Intellectual property: The Company gives high priority to the protection of its intellectual property. This is why it files patent applications on a continuous basis in countries requiring protection. To date, CO₂ Solution owns 2 patents granted to Canada, 6 in the United States, and 3 in Europe, and 16 patents applications pending in various countries (see “Intellectual Property”).

The markets: CO₂ being currently the most abundant GHG produced around the world, the market related to its reduction is becoming increasingly significant. It must be noted that globally, UNEP has estimated, in a recent study, that the economic losses related to natural phenomena will increase over the next decade to some \$150 billion annually and that the cost will double every ten years. From this same study, UNEP estimated that the market for clean technologies or technologies related to the reduction of GHGs may attain \$1,900 billion by 2020 (*Climate Change and the Financial Sector Industry*, United Nations Environment Programme Finance Initiatives, Paris, 2002, p.1). It is within this context that CO₂ Solution positions in technology that targets closed buildings and applications for the industries which are the main producers of CO₂: energy industries (power plants), primarily metals, petroleum (refineries) and petrochemical industries, pulp and paper industries and several others including steel, aluminium and cement factories. This is the context in which the technology developed by CO₂ Solution finds its applications, targeting the three following lines of activity on a priority: power generation industries, metal processing industries and the biogas industry. We should point out that, for CO₂ Solution, the coal-fired steam plant market, in the United States alone, represents an income opportunity of \$31M USD in the form of royalties (see “Potential Markets”).

Business model: The business model proposed by CO₂ Solution consists in establishing co-development agreements (joint development or joint venture) which will initially lead to the finalization of the scaled versions of the technology for commercial purposes in various industrial sectors. Subsequently, user licences could be granted based on industry sector or geographical region. In this context, a royalty system would be implemented to compensate CO₂ Solution for its development contribution to date. Moreover, with this strategy, CO₂ Solution remains the official supplier of the enzyme refills needed for the reactor’s operation. This way of doing allows for recurring sales, which will increase with the number of equipments installed (see “Development Strategy”).

THE OFFERING

Offering:	• Units (maximum offering) • Units (minimum offering)
Price:	\$ • per Unit
Units:	Each Unit is composed of one Common Share and a half- warrant. Each Warrant will permit its holder to subscribe at any time, prior to 18 months following the closing of the Offering to one Common Share of the Company at an exercise price of \$ • per share (see "Details of the Offering").
Proceeds from the Offering:	\$7,000,000 (maximum offering) \$3,000,000 (minimum offering)

Outstanding Common Shares:

Immediately after the closing of the Offering, • Common Shares in the event of a maximum offering (• Common Shares in the event of a minimum offering) in total, shall be outstanding (see “ Capital Structure ”).

Use of Net Proceeds:

The net proceeds of the Offering are evaluated at \$ • for a maximum offering (\$ • in the event of a minimum offering) after deducting the fees payable to the Agent and the expenses of this issuance. The net proceeds of the Offering shall be used to finance the following activities (see “Use of Net Proceeds of the Offering”):

- a) continue the pre-commercialization (strategic alliance agreements and/or licences to use the technology;
- b) proceed to certain steps in the industrial scale up and continue the development work of CO₂ Solution’s technology; and
- c) finance administrative activities (finance and administration management communication et relations with investors, etc.)

	Maximum Offering	Minimum Offering
Pre-commercialization and strategic agreement	\$ 900,000	\$ 800,000
Technological development	\$ 3,300,000	\$ 600,000
Working capital and administration	\$ 1,400,000	\$ 1,000,000
TOTAL	\$ 5,600,000	\$ 2,400,000

Quebec SME Growth Stock Plan:

In the event that CO₂ Solution obtains an advance ruling from the Quebec Minister of Revenue, the Common Shares included in the Units shall constitute upon their issuance, as an eligible investment in order to be included in the Quebec SME Growth Stock Plan in compliance with the announcement contained in the Additional Information on the budgetary measures for the 2005-2006 budget filled on April 21, 2005 and the provisions of the QIT subject to certain conditions which are contained therein. (See: “Quebec SME Growth Stock Plan”).

Risk Factors:

An investment in the Units described herein involves certain risks that a subscriber should examine carefully. Among these risks, one finds notably the early stage of product development, the technological risk, the biotechnological environmental context, the need for additional funds, the historic losses, uncertain commercial success, the limited manufacturing, marketing and sales capacities, the transition from a prototype to commercial production, the competition, the uncertainty concerning the intellectual property, uncertainty concerning tax credits, conflicts of interest, recruitment and retention of key personnel, environmental legislation and the fluctuation of the value of the security and the loss of the ownership of the assets (see “ Risk Factors ”).

PRINCIPAL CONDENSED FINANCIAL INFORMATION

The table which follows presents the principal condensed financial information of CO₂ Solution. This information comes from audited financial statements of the Company in this prospectus. This table must be read with the financial statements of the Company, the notes related thereto and the information contained in section “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

BALANCE SHEETS

	As at June 30,	
	2005	2004
	\$	\$
	(audited)	(audited)
Assets		
Current assets	3,506,397	4,929,703
Government assistance	65,000	97,500
Property, plant and equipment	513,882	388,000
Deferred financing expenses	-	4,584
Patents, at cost	306,594	252,591
Technology platform development costs	1,754,591	1,393,740
	6,146,464	7,066,118
Liabilities and Shareholders’ Equity		
Current liabilities	289,420	277,497
Obligations under capital leases	1,730	13,440
Convertible debentures	-	96,191
Deferred credits	89,026	109,886
	380,176	497,014
Shareholders’ Equity		
Capital stock	10,659,858	10,549,834
Conversion options and subscription rights related to the convertible debentures	-	10,024
Stock options	321,106	190,445
Warrants	894,830	894,330
Contributed surplus	222,992	219,609
Deficit	(6,332,498)	(5,295,638)
	5,766,288	6,569,104
	6,146,464	7,066,118

STATEMENTS OF EARNINGS

	Years Ended June 30,		
	2005	2004	2003
	\$	\$	\$
	(audited)	(audited)	(audited)
Revenue	259,916	44,000	141,000
Cost of goods sold	144,255	26,899	91,817
Gross profit	115,661	17,101	49,183
General and administrative expenses	1,189,275	666,614	744,487
Net financial expenses	(36,754)	190,987	213,642
Net loss	1,036,860	840,500	908,946
Basic and diluted loss per share	0.04	0.04	0.06

CLIMATIC CHANGE

Global context of climatic change

For more than twenty years, the scientific community has accumulated proof of an ever accelerated increase in the concentration of a greenhouse gases (the “ GHG ”) in the atmosphere. Although GHGs are necessary for life on Earth, the balance between these gases has been destabilized by human activities, in particular because of the increased use of fossil fuels, of urbanization, of deforestation and large scale agriculture.

As stated by Claude Villeneuve and François Richard: [Translation] “ It is no longer a question to know if climate is changing, but at which speed it is changing ” (VILLENEUVE, C. et RICHARD, F., *Vivre les changements climatiques – l’effet de serre expliqué*, Sainte-Foy, Éditions Multimondes, 2001, p.6). The latest studies coordinated by the Intergovernmental Panel on Climate Change (“ IPCC ”), which is composed of some 2,000 experts, shows that the situation is worse than anticipated and that the temperatures could rise between 1.4 and 5.8° C by 2100 (*Climate Change 2001, The Scientific Basis – Summary for Policymakers*, Part of the Working Group I, Contribution to the Third Assessment Report of the Intergovernmental Panel on Climate Change, Cambridge University Press, Cambridge, UK, 2001, p.13). This indicates a profound and rapid change. Even if the minimum forecast was finally realized, this would exceed any other 100-year trend during the last 10,000 years. This increase anticipates important climatic changes on a global scale, such as an increase in the frequency of extreme climatic events, the disturbance in the balance of precipitations and a rise in sea level. In the northern latitudes, global warming means that the health and well-being of the population could be compromised by the risk of expansion of tropical diseases such as malaria, an increase in atmospheric pollution, and a greater vulnerability to agricultural pests and diseases. This data leads us to believe that the measures provided in the Kyoto Protocol will be largely insufficient. In fact, we estimate that in order to stabilize the emissions of GHGs, 30 times the measures provided in the Kyoto Protocol will be required (MAHLMAN, Dixit Jerry, Science no 278, 1997). With or without legislation, the problem is real and solutions need to be found.

Substantial sums will be required to finance a wide variety of CO₂ collection and sequestering projects throughout the world. To this end, more than 29 financing funds specific to climatic change and totalling almost US\$ 3 billion were created in various countries (Carbon Expo, Press Information – *Cologne event boosts global emissions trading market*, www.carbonexpo.com).

Canada and the Kyoto Protocol

In December 2002, Canada ratified the Kyoto Protocol, and by doing so, it made climatic changes a national priority. Its objective is to reduce GHGs by an average of 6% below the 1990 level, for the period 2008-2012. Considering the evolution of economic activities since 1990, the real reduction in GHGs which will be necessary to fulfill Canadian objectives is between 25% and 30% higher in relation to the forecast (Climate Change Plan for Canada Government of Canada, 2002, p.5). In order to achieve these objectives, Canada must reduce its GHG emissions by 270 million tons per year.

In order to be able to meet its objectives, Canada will need to avail itself of the Clean Development Mechanism (CDM) of the Kyoto Protocol to purchase abroad, from developing countries, the CO₂ emission credits it lacks to meet its objectives in 2008-2012. Mexico is one of those countries in which Canada is committed to identify business opportunities related to climatic change for the benefit of Canadian businesses (*Advantages and Opportunities* Canada’s Clean Development Mechanism and Joint Implementation Office, Department of Foreign Affairs and International Trade, www.dfait-maeci.gc-ca/adm-ji). CO₂ Solution hopes to benefit from these efforts.

The position of the United States

Although the United States has signed the Kyoto Protocol, it has not ratified it. However, this fact does not prevent the United States from being extremely present and to participate in discussions attended annually by the signatory countries and to influence their decisions considerably, since all of them are very much aware that the non-participation of the United States to this worldwide effort has a very detrimental effect. The European Union countries thus put in much effort so that the United States and Australia may be stakeholders in the decisions relating to what should be properly called the post-Kyoto (period extending beyond 2012). It should be pointed out that this past July 28, the United States, Australia, China, India, South Korea and Japan disclosed the existence of an alliance

also known as the “Carbon Pact”. This project, an alternative to the Kyoto Protocol, also had as a terminal objective, the reduction of GHG emissions for the purpose of mitigating the ongoing climate change. The means put forward bank on clean advanced technologies, thus making the platform developed by CO₂ Solution attractive for these markets.

There is no shortage of American initiatives for the production of cleaner energy at the federal level, and many States have implemented programs to reduce GHGs (for example, www.rggi.org which groups together the New England states). Moreover, several brokers have structured themselves in order to offer emission rights exchange services. The main ones are Natsource (www.natsource.com) and CO₂e.com (www.co2e.com). We should mention that a CO₂ emission rights exchange operating in the United States, namely the Chicago Climate Exchange (www.chicagoclimatex.com)

The position of Europe

The European Union did not wait for the Kyoto Protocol to come into force internationally to implement binding instructions (EU ETS or European Union Greenhouse Gas Emission Trading Scheme). In fact, it was in March 2004 that Europe chose to implement GHG reduction mechanisms in order to bind businesses beginning as early as 2005.

Since January 1, 2005, almost 12,000 plants are subject to a CO₂ emissions quota that they cannot exceed (Climate Corporation, *Questions & Answers on Emissions Trading and National Allocation Plans*, www.climatecorp.com). These plants must prove by April 31, 2006 that they have met their emission ceiling. Penalties of 40 Euros (100 Euros from 2008) per excess ton will be applied to offenders (Climate Corporation, *The EU ETS: Facts and Figures*, www.climatecorp.com). In order to help dissenting firms, 3 emission credit exchanges were established, while 4 more are in the works. This means close to 2 billion tons of gas which are coveted by these 7 exchanges (Ducourtieux, C. “*Powernext veut sa part du marché européen des droits à polluer*”, *Le Monde*, June 22, 2005, p. 17).

European countries are also actively involved in implementing CDM projects with developing countries, to enable them to buy the CO₂ emission credits that they lack to achieve their objectives.

THE COMPANY

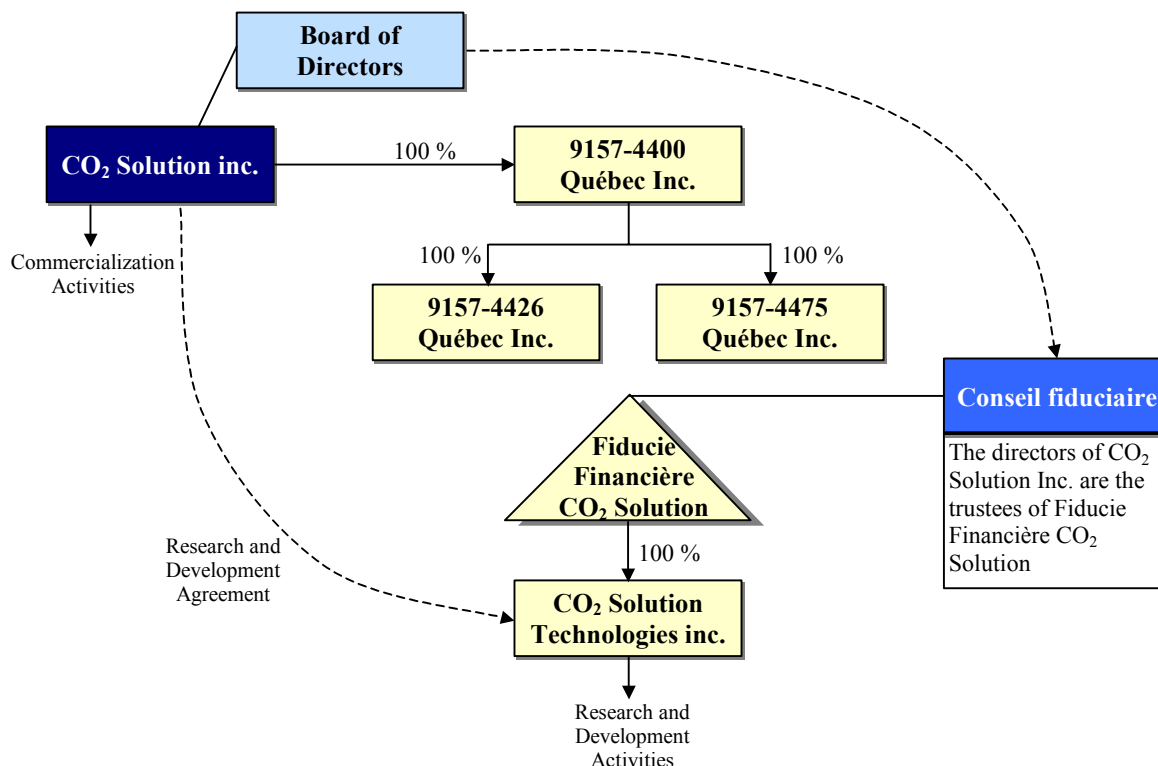
Incorporation

CO₂ Solution was incorporated on November 19th, 1997 by virtue of part IA of the *Companies Act* (Quebec) as numbered company 9057-2843 Quebec Inc. On April 9th and June 5th, 1998, it filed articles of amendment in order to replace its registration number by the corporate name Systèmes EnviroBio Inc. and to add an English equivalent thereof as EnviroBio System Inc. By articles of amendment dated October 29th, 1999, the Company modified the characteristics of the shares of its authorized share capital to create a new class of shares. On December 14th, 2000, CO₂ Solution filed articles of amendment in order to replace the corporate names Systèmes EnviroBio Inc. / EnviroBio Systems Inc. by the names presently used. On August 31st, 2001, the Company filed articles of amendment in order to eliminate from its articles the restrictions maintaining it as a closed company. On January 8th, 2002, the Company filed articles of amendment in order to render its Class B, C and D shares convertible, at its discretion, into Class A shares according to a conversion ratio of 1 to 1 in the event of any public offering or prior to the registration of its shares for trade on an exchange.

On March 18, 2004, CO₂ Solution, 9081-5044 Quebec Inc. (“QBIC I”), 9118-2402 Quebec Inc. (“QBIC II”), 9067-3427 Quebec Inc. and 9079-6707 Quebec Inc. amalgamated according to the provisions of sections 123.115 to 123.128 of the *Companies Act* (Quebec) continuing their existence in one and the same company under the corporate name of CO₂ Solution Inc. Its head office is located at 23001, Jean-Perrin Street, Québec (Québec) G2C 1T9.

Inter-corporate Relations

The following table indicates the inter-corporate relation between CO₂ Solution and the entities mentioned hereunder as of the date of this prospectus.



As indicated in the table above, the Company preceded, on July 4, 2005 in a reorganization of its corporate structure in order to divide its pre-commercialization activities from its commercialization and its research and development activities, for its sole and whole benefit. Under said reorganization the Company outsourced to a member of its group its research and development activities in favour of CO₂ Solution Technologies Inc., a private corporation incorporated by virtue of the *Companies Act* (Quebec) Part 1A, whose issued and outstanding shares are all held by Fiducie Financière CO₂ Solution. This outsourcing was completed by the conclusion of an asset transfer agreement and a research and development agreement between CO₂ Solution Inc. and CO₂ Solution Technologies Inc. on July 4, 2005.

Fiducie Financière CO₂ Solution is a private used trust constituted by virtue of the *Quebec Civil Code*. It is a discretionary trust of which the beneficiaries of the capital are, at the discretion of the trustees, 9157-4400 Quebec Inc., 9157-4426 Quebec Inc., 9157-4475 Quebec Inc. or any other wholly held corporation of these beneficiaries and the beneficiaries of the revenue are, at the discretion of the trustee, 9157-4426 Quebec Inc., 9157-4475 Quebec Inc., CO₂ Solution Technologies Inc. or any other wholly own corporation of these beneficiaries.

9157-4400 Quebec Inc. is a company incorporated by virtue of the *Companies Act* (Quebec) Part 1A and is a wholly owned subsidiary of the Company. It acted as the settler of Fiducie Financière CO₂ Solution.

9157-4426 Quebec Inc. and 9157-4475 Quebec Inc. are two (2) companies incorporated by virtue of the *Companies Act* (Quebec) Part 1A. Their issued and outstanding shares (except those shares with a discretionary dividend on capital issued by 9157-4426 Quebec are held by Fiducie Financière CO₂ Solution) are the property of 9157-4400 Quebec Inc. CO₂ Solution Technologies Inc. has an option to acquire all shares held by 9157-4400 Quebec Inc. in the share capital of 9157-4426 Quebec Inc. or of 9157-4475 Quebec Inc.

All the members of the Board of Directors of CO₂ Solution also act as the directors of 9157-4400 Quebec Inc., 9157-4426 Quebec Inc., 9157-4475 Quebec Inc. and of CO₂ Solution Technologies Inc. as well as being the trustees of Fiducie Financière CO₂ Solution.

For the purpose of the prospectus, and unless otherwise indicated or where the context requires another meeting, all references to CO₂ Solution refers also and indiscriminately to CO₂ Solution, its subsidiaries and sub-subsidiaries and Fiducie Financière CO₂ Solution and CO₂ Solution Technologies Inc. and vice-versa.

History

In 1995, Mr. Réjean Blais, at that time president of the engineering firm Groupe Conseil Gesco Inc., an engineer consulting business also active in the environmental field, decided to invest in an innovative research project concerning the reduction of GHGs. With the co-operation of the Centre de recherche industrielle du Québec (“CRIQ”), the Institut national de la recherche scientifique (“INRS”) and other scientific partners, the business validated the proposed technology, verified its patentability and identified several avenues to commercialize the technology. On the basis of the answers obtained, CO₂ Solution was constituted in November 1997.

In September 2000, the Company advanced its development by demonstrating the proof of its technological concept for the reduction of CO₂. This decisive step marked the commencement of the technological application work that was followed by the development of a series of prototypes.

Notable Historical Events

See also “Previous Offerings” and “Technology of Development Status” and “Intellectual Property”.

- 1997 Incorporation of the Company.
- 1998 Filing of first patent application for the basic principles of the technology.
- 1999 Hiring of a President and General Manager, Mr. Ghislain Thériault, and implementation of an organized business structure.
- 2000 Proof of the scientific concept (laboratory size model).
- 2002 Trials of the laboratory prototype in an industrial environment at Alcoa’s aluminium smelting plant.
- 2003 Long-term and continuous trial campaign (24 hours a day, 7 days a week) of the laboratory prototype.
- 2003-2004 Construction of a complete first generation of industrial type prototype.
- 2004 Filing on the TSX-V.
- 2005 Non-stop test campaign for the first generation of industrial prototype at the Quebec City incinerator.

Mission

In order to achieve its objectives and position itself strategically in a competitive environment, the business has given itself the mission of becoming a leader in the design, development, production and marketing of products and of services related to the management and the elimination of CO₂ in the context of climatic changes.

Thanks to its enzyme-based technology, CO₂ Solution stands out as a biotechnology business whose most promising markets are environmental applications.

Vision

Through significant efforts in applied research and as well as in experimental development, CO₂ Solution intends to set itself apart through its technological advance, and its growth will be based on a alliance strategy with businesses who wish to reduce their emissions of GHGs. The Company expects to position itself as a world class business in the field of the global management of CO₂ offering the following products and services:

- an expertise in CO₂ management;
- broad based expertise to adapt industrial applications related to its technology;
- a variety of de-pollution equipment that it will either manufacture or have manufactured under licence.

Values

The management principles under which CO₂ Solution operates are based on respect, quality and creativity. These three basic values find daily application within the company and is why so much importance is given to the team, its training, its motivation and its responsibility.

The Company's code of ethics integrates principles of sustainable development. With the support of its staff, technology and organization, CO₂ Solution not only aspires to financial, but also to social profitability, which can be measured according to the maintenance and improvement of the quality of life.

The code of ethics integrates the fundamental principles of sustainable development, being:

1. ecological, by improving air quality and by contributing solutions to the problem of climatic change via a method of CO₂ sequestration and recycling whose principle is environmentally risk-free;
2. economic, by creating quality jobs and significant positive economic impacts through the creation of a world-class company whose head office is located in Quebec City;
3. social, by participating in its community in terms of sensitizing and educating the public concerning the issues surrounding climatic change, by creating a large-scale business open to various cultures, and by creating notoriety for its talent on the international scene;
4. ethical, by basing its entire approach on notions of respect, creativity and quality, the cornerstones of the business's management philosophy;
5. international equity, by promoting the dynamic of emission rights services, thus providing developing countries with access to the proceeds from the sale of emission rights; and
6. intergenerational equity, by facilitating the potential to adapt to climatic change by future generations.

Distinctions and Acknowledgements

As of the date of this prospectus, CO₂ Solution has been awarded numerous awards, distinctions and acknowledgements. The most recent being:

The 2005 Titans Award: Awarded by the Montréal Science Centre, this award rewards the most useful innovation to our society or to the planet according to the youths;

The 2005 Phénix de l'environnement (research & development category): This prize is jointly awarded by the Ministère du Développement durable, de l'Environnement et des Parcs, the Ministère du Développement économique, de l'Innovation et de l'Exportation, Collecte Sélective Québec, RECYC-QUÉBEC and by the Fondation québécoise en environnement. It pays a tribute to those who contribute to the protection of the Environment in a sustainable development perspective.

The 2005 Special "Innovation for the Planet" Award: awarded by the French agency EDEN and Truffle Venture (a French organization) during an international conference on the implementation of sustainable development principles in the context of energy production and use.

Finalist for the 2005 Technology Innovation Award: awarded by the Wall Street Journal, CO₂ Solution was ranked runner up in the environmental category among 750 candidates from 24 countries. In the general category, CO₂ Solution was the only Canadian corporation among all the finalists.

Human Resources

CO₂ Solution currently employs 24 full-time employees, 16 of which are working primarily in R&D projects. These employees, hold collectively 3 PhDs, 5 Master's Degrees, 3 Bachelor's Degrees and 5 technical diplomas. All of CO₂ Solution's employees are subject to confidentiality and non-competition agreements.

TECHNOLOGICAL DEVELOPMENT

Basis of the Technological Platform

The technological platform developed by CO₂ Solution uses a biological process to convert CO₂ into an environmentally safe substance, namely bicarbonate (HCO₃⁻). This process leverages the capacity of an enzyme to catalyze the transformation of CO₂ in an aqueous environment.

The patented process (see diagram below) of CO₂ Solution takes place three-steps. CO₂ is initially dissolved in the aqueous solution, then, in the presence of the enzyme, converts it into a bicarbonate ion. The solution extracted from the reactor can be used in a number of ways either by injecting it deep into the earth's crust, by reconstituting pure CO₂ or by producing a solid carbonate compound. The aqueous solution, having recovered its purity, is then reused in a closed loop. This process is classified in the mineral sequestration category.



Reactor Operation
Mode



Laboratory Prototype



First Generation
Industrial Prototype

In addition to being unique and harmless for the environment, this technology is based on four natural phenomena, well proven and documented and which cannot be questioned, namely:

1. the dissolution of CO₂ into water;
2. the conversion of CO₂ into bicarbonate;
3. the acceleration of the transformation reaction under the effect of the enzyme ; and
4. the formation of a highly stable carbonate (rocks and minerals).

Implementation of the Technological Platform

The technology developed by CO₂ Solution is versatile and enables the development of generic equipment likely to be installed wherever CO₂ emissions are located. As an indication, here are some examples of sites or industries where CO₂ Solution's equipments might be very useful:

- Power stations using fossil fuels to generate electricity.
- Industrial processes of the metallurgical sector, such as aluminium, steel and ferroalloy production and transformation.
- Other industrial processes such as cement and lime production.

- Biogas sector (methane purification).
- Fuel cells.
- Waste disposal and incinerators.

In addition to being useful for the reduction of CO₂ emissions, this technological platform can also be used in treating industrial wastes. A number of companies are not only confronted with meeting CO₂ reduction requirements, but are also faced with the problem of industrial wastes for which they must also assume the costs of safe disposal and storage. Examples of such industrial waste are electrolytic salts and sludge, as well as the alkaline hydroxides found in such industries as magnesium processing, pulp and paper manufacturing, aluminium smelting, cement manufacturing and steel manufacturing. The bicarbonate ions stemming from the CO₂ conversion can be combined with industrial wastes to produce new compounds useful to the industrial sector.

Technology Development Status

In September 2000, research conducted by the Company succeeded in proving the technical feasibility of the concept behind the technology. Based on these findings, research and development work has passed the following milestones:

- December 2000 Completion of the first CO₂ Solution absorption column (packed column).
- November 2001 Completion by CO₂ Solution's molecular biology team by way of genetic engineering (cloning) of the first gram of enzyme.
- March 2002 Fine tuning of the enzyme immobilization techniques and use of bioreactor.
- June 2002 Proof of concept obtained for the absorption module (scale factor = 1000) on an experimental bench installed at Levis Lauzon CEGEP. This prototype adapted to closed building environments enables data compilation and analysis in a real environment.
- December 2002 Construction of the first closed circuit integrated prototype (which integrates all the functions of the equipment: absorption column, ions concentration system, and carbonate precipitation).
- April 2003 Substantial reduction in the production cost of the enzyme.
- June 2003 Long-term industrial type uninterrupted testing (24 hours per day / 7 days per week).
- November 2003 Construction of a first industrial prototype of the absorption module.
- September 2004 Design of a prototype and digital simulation calculation of secondary bicarbonate extraction and precipitation modules and gas cooling module. This prototype will be used mainly to conduct tests in industrial environments.
- March 2005 Non-stop test campaign for the industrial prototype at the Quebec City incinerator.

The trials conducted this past March with the industrial prototype at the Quebec City incinerator were a success. The CO₂ Solution development program is now focused on improving the robustness and automation of the process in order to meet the needs of the industry.

Pending and Future Projects

Process for Treating CO₂

Since September 2003, CO₂ Solution has been busy designing, building and testing a first generation of industrial reactors. In March 2005, a first version of this first generation was tested non-stop (round the clock, 7 days a week) in an industrial environment, the Quebec City incinerator.

In the coming year, CO₂ Solution will be working on increasing the CO₂ absorption effectiveness and capture capacity, increasing the hardiness of processes and the lifespan of the equipment and ensure remote control.

In the longer term, CO₂ Solution is already considering designing a new generation of reactors with increased processing capacities with smaller equipments. This new generation will use more productive modified enzymes.

Enzyme

Until now, thanks to its molecular biology team, CO₂ Solution has successfully managed to obtain through cloning techniques a stable, economical and efficient source of pure enzyme. Commercially, this enzyme sells for approximately \$ 20,000 per gram (price varies according to quantities Sigma-Aldrich Catalogue 2004). Up to now, CO₂ Solution successfully reduced the cost of production in a significant manner and new research could further reduce the price.

With the increased sales of reactors, the demand for greater quantities of enzymes should follow, and so the need to pursue the objectives of reducing the cost of scale-up and of reducing the production and immobilization costs for the enzyme, in order to offer a product at a lower cost, with improved profit margins.

Industrial Scale-Up

In order to continue the steps to market its technology, CO₂ Solution and its strategic partners (see: “Development Strategy”) must proceed to industrial scale-up. The next scale-up could cost between \$ 10 million and \$ 15 million and must be completed during the next 36 to 60 months, according to the following schedule:

- Signature of an agreement with one or more strategic partners (winter 2006);
- Technical feasibility study (summer 2006);
- Digital simulation (spring 2007);
- Equipment design (winter 2008);
- Manufacture of equipment and construction of infrastructure (fall 2009); and
- Start-up, tests and adjustments (fall 2010).

INTELLECTUAL PROPERTY

As of the date of this prospectus, CO₂ Solution, with the assistance of patent agent Robic, has been granted 6 patents in the United States, 2 in Canada and 3 in Europe; and it also has filed 16 patents applications which pending in various countries. These patents are in relation to different fields of innovation. The following chart summarizes the status of the intellectual property elements owned by the Company

Description	Status
1 Column reactor: This patent describes the base process which sets forth the use of a biological molecule which has the property of catalyzing, in a reversible manner, hydration of CO ₂ and, consequently, the production of hydrogen and bicarbonate ions. The invention also includes equipment, and more specifically a column reactor in which the process occurs.	Granted in the United States ⁽¹⁾ , in Canada ⁽¹⁾ , in France ⁽¹⁾ , England ⁽¹⁾ and Germany ⁽¹⁾ Pending in Japan ⁽²⁾
2 Fluids treatment: This patent covers a device used for treating gas effluents, including a treatment chamber and a retention unit. This patent also provides for a reactor which can be operated continuously allowing for the removal of enzyme support once activity is reduced and the replacement thereof by new enzymes without interrupting operations.	Granted in the United States ⁽¹⁾ Pending in Canada ⁽²⁾
3 Triphasic reactor: This patent covers a device used for treating CO ₂ which favours the use of a biological catalysts which is captured rather than immobilized on a support.	Pending in the United States ⁽²⁾ , Canada ⁽²⁾ and Europe ⁽²⁾
4 Photobioreactor: This patent covers a photobioreactor with artificial lighting allowing for growth of micro-organisms in a continuous mode. This device allows for direct and indirect sequestration of the CO ₂ and production of an algal biomass.	Granted in the United States ⁽¹⁾ Pending in Canada ⁽²⁾

Description	Status
5 Portland Cement: This patent covers the process and the equipment used to manufacture Portland cement. This process converts CO₂ emissions which are generated and uses bicarbonate ions which are produced in order to generate calcium which can be reintroduced in the manufacturing process of cement as a raw material.	Granted in the United States⁽¹⁾ Pending in Canada⁽²⁾ and Europe⁽²⁾
6 Closed Buildings: This patent covers a process and a device which reduces emissions of CO₂ in closed buildings. Closed buildings are those which use mechanical ventilation systems in order to supply fresh air to their occupants.	Granted in the United States⁽¹⁾ and in Canada⁽¹⁾
7 Coupling of Hydrogen Fuel Cells: First, this patent covers the transformation of CO₂ generated by the combustion of methanol used to produce hydrogen with which hydrogen cells are supplied. Secondly, it covers the recovery of the cells' reaction water for use in supplying the bioreaction of the CO₂ Solution process. This process constitutes a system for producing electrical energy that is emission free but nevertheless based on the use of hydrocarbons.	Granted in the United States⁽¹⁾ Pending in Canada⁽²⁾
8 Gas Energy: This patent covers the application of a method which uses an enzyme and related equipment in order to separate one or more gas compounds from a mixture of such gaseous compounds.	Pending in the United States⁽²⁾ and in Canada⁽²⁾
9 Thermal Power Plant: This patent covers the process and the equipment used for the production of energy in a thermal power plant which uses fossil fuels. The process provides for sequestration of carbon gases in a reusable carbonated product.	Pending in the United States⁽²⁾ and in Canada⁽²⁾
10 Free Enzyme Bioreactor: This patent covers a device which treats CO₂ and which uses a biological catalyst in free form. CO₂ is therefore retained with filters when the solution is circulated.	Pending in Canada⁽²⁾
11 Precipitated Calcium Carbonate: This patent covers a manufacturing process for precipitated calcium carbonate from an enzyme based bioreactor. The precipitated calcium carbonate is used extensively in the manufacturing of paper.	Pending in the United States⁽²⁾ and in Canada⁽²⁾
⁽¹⁾ As at the date hereof, authorities have confirmed the grant. ⁽²⁾ As at the date hereof, authorities have confirmed formal filing. However this must not be interpreted as being an implicit guarantee that the patent shall be formally granted as a result of the evaluation process for each application	

Given the fact that CO₂ Solution is highly protective of its technological development, in addition to the patent applications listed in the preceding table, 7 more applications are either in preparation or in the form of provisional patent applications.

POTENTIAL MARKETS

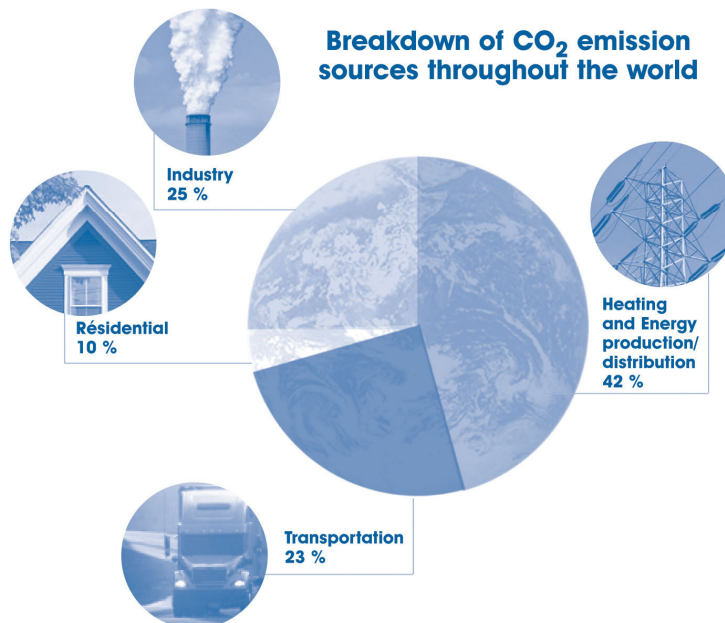
Context

CO₂ is currently one of the most produced substances throughout the world. With worldwide emissions produced by humans reached roughly 24.98 billion tons (“gigatonnes ” or “Gt ”) in 2003 (*Key World Energy statistics – 2005*, international Energy Agency, p.44, www.iea.org) alarm bells are ringing throughout the world. It is even estimated that in 2012, said annual emissions should exceed 29 Gt (Lester R. BROWN and al, *Vital Signs 2000 – The Environmental Trends that are Shaping our Future*, Worldwatch Institute, 2000). Given this situation, alarm bells are ringing throughout the world. There is an immediate need to reduce these emissions in order to prevent harmful consequences resulting from climatic changes. In a recent study, the UNEP estimated that economic losses resulting from natural weather events should reach \$150 billion annually during the next decade, and that these costs will double every ten years (*Climate Change and the Financial Sector Industry*, United Nations Environment Programme Finance Initiatives, Paris, 2002, p.1). UNEP has also estimated that the global market for clean technologies or that related to GHG reduction could reach \$US 1,900 billion by 2020. Knowing that CO₂ is currently the most produced GHG worldwide, the market for reducing its production is therefore extremely important.

Global market

Use of fossil fuels, such as petroleum and coal, constitutes the principal cause of GHG increase in the atmosphere. It is estimated that CO₂ represents 80% of the volume of GHGs (E. MATTEWS, *Tracking Carbon Dioxide Emissions from Fossil Fuel Burning*, NASA Goddard Institute for Space Studies).

The main activities generating anthropic CO₂ emissions are industry related: this includes the energy production and transportation industries, as well as the residential and commercial sectors. The following diagram illustrates emission distribution for each of these sectors of activity as calculated in 1999 (World Resources 2002-2004, part II, World Resources Institute, Washington, 2003, p. 258):



Businesses have many different methods to help reduce or totally eliminate their emissions. The following chart sums up the various methods and their impact on potential GHG emission reduction rate:

Methods	Reduction Impacts
Reduction of production	Potential reduction of emissions, but shows little long-term promise.
Modification and/or improvement of the technologies used in processes	Potential reduction of emissions and possibly total elimination in certain sectors of activity. However, in all sectors or processes requiring combustion (i.e. all activity sectors requiring transformation of metals), improvement of processes can only lead to some GHG reduction.
Changes in energy sources	Changes in favour of cleaner energy sources (i.e. petroleum to natural gas) may result in a potential reduction of emissions. In some sectors of activity, the use of a totally non-polluting energy sources (i.e. solar energy) could lead to the complete elimination of GHGs. However, unless the entire planet uses non-polluting energy sources the energy production sector will remain an important generator of GHGs.
Use of technologies to capture and confine GHGs	Potential reduction can achieve zero emissions depending on the technology which is used.

It is also important to note that any business that lowers its emissions has emission rights (see “Emission rights” section), which can be converted into cash on an organized market, therefore resulting in additional and recurring income for the business.

Industrial Applications Market

As mentioned previously, CO₂ Solution’s technology can be used in various industrial settings. Here is a brief summary of some markets which are particularly interesting for the business given the volume of their emissions. It should be noted that this section contains forward looking statements which imply a level of uncertainty in relation to the probability that it occurs as described.

Please note that this section includes forward looking statements which include a level of uncertainty in relation to the accomplishment of the described method.

Energy production

Our energy needs increase from year to year and in 2003 (*Key World Energy Statistics - 2005*, International Energy Agency, p. 6, www.iea.org), 80% of them were met by fossil fuels, while the remainder, that is, 20% of energy needs, were met through renewable energy and other replacement sources (hydroenergy, biomass, wind, nuclear. With an expected 160% increase in energy demand by 2030, corresponding to required investments of 16,000 billion dollars (W.RAMSAY, *Energy Security: Some Issues*, International Energy Agency, Paris, 2005), the use of fossil fuel energy is not about to diminish.

In 2003, 66.4 % of world-wide electricity was produced by coal burning power plants (*Key World Energy Statistics - 2005*, International Energy Agency, p. 24, www.iea.org). It is important to note that the market is currently expanding, due in part to the industrialisation of countries such as China and India. In China, one new coal burning power plant is built every week. In the United States, in 2000, thermal power plants generated roughly 2.6 billion tons of CO₂ (eGR1D2002, Environmental Protection Agency, 2002).

Considering that the first markets contemplated by CO₂ Solution will probably be those of North America, we will analyse the coal burning power plant market in the United States.

In 2003 (*Electric Power Annual 2003*, Department of Energy, Washington, 2004), the United States had the capacity to produce 948,000,000 kilowatts (kW), which generate emissions of 2.4 billion tons of CO₂. We will consider only the energy produced by coal burning power plants, that is, 33% of the overall energy produced. Currently, the estimated capital costs involved in the capture of CO₂ are in the order of \$400 USD/kW (*Global Overview of CO₂ Capture & Storage Technologies and critical needs*, Harry Audus, IEA Greenhouse Gas R&D programme, UK). Assuming that the costs are reduced by half in the next 5 years, that is to say, \$200 USD. Let’s also assume that CO₂ Solution and its business partner only manage to take 1% of this market. Knowing that the royalties from this type of technology could reach 10% (C. Pascaud, J-L. Piotraut et R. Pascaud, *Découvrez la propriété intellectuelle avec*

Progexpi, www.progexpi.com), and assuming that CO₂ Solution receives only 5% of the sales royalties, the coal burning power plant market could annually yield for CO₂ Solution some **\$31 million USD** ($948,000,000 \times 33\% \times \$200 \times 1\% \times 5\% = \$31,284,000$ USD).

Industrial market in canada

To meet the goals defined in the Kyoto Protocol, Canada must reduce its GHG emissions annually, for the 2008-2012 period, by 270 million tons per year of CO₂. In view of the fact that the United States Energy Department considers (Carbon capture research, US Department of Energy, 2005) that current costs for CO₂ capture amount to \$150 USD/ton, we can therefore conclude that the Canadian market will represent \$40.5 billion USD in equipment sales. If the assumptions we make are similar to those for coal burning power plants in the United States (that is, 1% of the market and 5% in royalties), the Canadian market could provide annual earnings for CO₂ Solution of approximately **\$20 million USD**.

Emission rights

Emission rights authorize their holders to produce a certain quantity of CO₂ emissions based on the performance objectives of participating countries, as listed in Schedule 1 (developed countries) of the Kyoto Protocol. If holders reduce their emissions below levels provided in their permits, the participants to an exchange program can then sell their excess emissions levels to businesses which do not perform as well. The exchange system can be set up on a regional, national or even international basis. Pressure to reduce GHGs is the result of the combined effect of increased industrial production and the reduction of the quotas available in order to meet national and international objectives. The exchange market works through brokers, like any other goods exchange market.

Already throughout the world, 4 organised markets to trade CO₂ emission rights(3 in Europe and 1 in the United States), while the other 6 should be operational in the short term (4 in Europe, 1 in the United States and 1 in Canada). The emission rights that will be exchanged are meant to be highly significant economically for the medium and long-term in the context of CO₂ reduction. During the summer of 2005, a ton of CO₂ was already traded for 29.5 Euros on the European markets (Novosznad, M and Winzer A., *Carbon Market News: EU Emissions Trading*, Climate Corporation, July 2005). Pressure for the development of technologies is high and will determine the rules of the game for new markets. In future it will not be possible to stop generating GHGs completely. Therefore, international pressure and the resulting market value will continue to increase as developing countries generate more and more GHGs. It is estimated that by the year 2012, the market for the exchange of emission rights will reach roughly \$2,000 billion USD (*Climate Change and the Financial Sector Industry*, United Nations Environment Programme Finance Initiatives, Paris, 2002, p. 1).

COMPETITIVE TECHNOLOGY

Disposal technologies

There are various emergent technologies in the field of CO₂ emission disposal. However, the use of most of these technologies raises many questions as to their technical feasibility and economic viability. However, it should be noted that it is currently possible to use the CO₂ Solution absorption process module with many of the technologies described hereinafter, because they are complementary.

Here is a brief summary of the various existing techniques.

Sequestration in oceans

Oceans naturally capture part of the CO₂ present in the atmosphere. More specifically, roughly 2 billion tons of CO₂ are captured annually through this natural process. The proposed method consists of pumping carbonic gas that must be disposed of to depths of 1,000 meters below sea level. This technique is based on the fact that CO₂ dissolves in water. Given that water in greater depths contains fewer quantities of this gas, it is estimated that concentration can be increased. At a certain depth, liquid CO₂ becomes denser than seawater. It is therefore estimated that this liquid will sink to the bottom of the ocean and form pockets of liquid carbon gases. The environmental impact of this technology remains unknown.

Exhausted petroleum and natural gas wells

Exhausted petroleum and natural gas wells are used as terrestrial storage sites because of their ability to sustain huge pressure without leaking. In the petroleum industry, the injection of CO₂ into wells is a common technique used to enhance oil recovery.

However, this method can only be used as temporary storage, given that, in the medium term, movements in the earth's crust can lead to the release of the CO₂. Furthermore, the total capacity of all exhausted wells is limited and specific geological formations have to be sealed after use. It must also be noted that the application of this technology requires that the exhausted well be located close to the source of CO₂ emissions.

Aquifer

Deep water tables are distributed throughout the world. They generally contain salt water and are separated from the surface water tables which constitute reserves of fresh water. The water contained in these natural reservoirs can dissolve pressurized CO₂ and even disperse it in geological formations. However, the application of this technology depends on the proximity of aquifers to CO₂ emission sources.

Transformation by algae

Another technique that has been proposed consists of using the photosynthesis properties of algae. Gases generated by thermal power plants would be introduced directly into basins located near the source of CO₂. The algae chosen for this purpose would therefore be subjected to harsh environments. The algae thus produced would then be dried and used as fuel supply for the power plant. However, it appears that the use of this technology is dependent on suitable climates. It would be difficult to apply this technology in northern regions where climate is a problem. Furthermore, the size of basins and the handling that would be required could affect the physical and economical feasibility of this technology.

Competitive Advantage

CO₂ Solution considers that its technology has many benefits when compared to other technologies.

CO₂ Solution's technology is characterized as follows:

- Safe for humans
- Environment friendly
- Possibility of recycling CO₂
- Independent of proximity from the storage site
- Possible use in confined environment
- Process uses low energy

The enormous challenge of capturing CO₂ to stabilize concentration levels in the atmosphere to avoid the catastrophic impact on planetary climates requires that all of these existing solutions and those being developed be examined. No single technology can claim to be a remedy for all ills, since the control of all CO₂ emissions can only be achieved by adopting various measures, among which the enzyme reactor developed by CO₂ Solution will likely be the most versatile and safest for the environment.

Technology for capturing CO₂

Before being sequestered, CO₂ must first be captured. Although there are many techniques for capturing and separating CO₂ including cryogenic separation, chemical and physical absorption or adsorption, these methods are not readily viable economically in the context of large scale CO₂ confinement.

In the short term, CO₂ Solution will offer products for the capture of CO₂, although its ultimate objective is to sell the complete sequestration process.

DEVELOPMENT STRATEGY

Strategy

CO₂ Solution is an environment biotechnology firm specializing in climatic change. Its main strengths rest in technological innovation (knowledge and know-how) which has allowed it to develop its CO₂ captation and transformation technology since 1997.

The business model proposed by CO₂ Solution consists in putting in place co-development agreements (joint development) that will allow, as a first step, to finalize the commercial scaled-up versions of the technology for various industrial sectors. These agreements will be negotiated based on the contribution of each partner according to the affected markets.

Subsequently, user permits by industrial sector or by geographic region may be attributed. These permits will be concluded with engineering firms offering all-inclusive solutions, or with parts manufacturers trying to complete the air processing equipment they distribute to major emitters. We should point out that, in certain cases, a new company (“joint venture”) could be created for the purpose of developing and marketing specific equipment for a given industrial sector. In this context, a royalty system would be established to remunerate the development contributed by CO₂ Solution to date.

We should mention that in the context of this strategy, CO₂ Solution remains the recognized supplier of the enzyme refill required for the operation of the reactor. This method therefore allows for recurring sales that will increase with the number of equipments installed. The prototypes and enzymes used in manufacturing reactors will remain CO₂ Solution property.

As of the date of this prospectus, several internationally renowned businesses have communicated with CO₂ Solution and negotiations are underway to establish co-development agreements or licensing agreements for the use of the technology. Such agreements will permit the Company to undertake the work to scale-up the technology (see: “Technological Development”).

The following illustrations show the income sources generated by the partnership structure that is sought.



The strategy that led to the current development of the technology

Until now, the development of the CO₂ Solution technology was made possible through co-operation agreements (an agreement in which each organization contributes its knowledge, and shares with the other in order to advance the research-development of each organization). These agreements have allowed for significant improvements in the overall transformation process. Here is a list of the main co-operation agreements that took place within the firm:

Laval University: Since 1998, CO₂ Solution has concluded several research contracts which permitted, among other things, to obtain the services of professors and their teams specialized in molecular biology, and to have access to a wealth of specialized scientific knowledge. Currently, no such contract is in force. In addition, CO₂ Solution concluded agreements with the Université Laval management for the use of certain specialized equipment located at the university. The contract currently in force shall terminate on February 25, 2006.

Medicago Inc.: On December 13th, 2001, a strategic alliance agreement was signed with Medicago Inc., a firm dedicated to the production of bioactive molecules with lucerne. This agreement concerns the completion of research and development activities necessary to develop and produce enzymes for industrial uses, to allow CO₂ Solution to use an alternative method of enzyme production, in addition to production using the traditional cloning method. As of the date hereof, the project has been suspended because promising results were obtained too quickly in view of the current development of the reactor equipment. The project could be reactivated when forecasts indicate a significant need for enzymes in the short term. At this time, a new development agreement is being negotiated with Medicago Inc. for the work to be continued.

Forintek Canada Corp.: On November 29th, 2002, CO₂ Solution concluded a joint development agreement with the Canadian wood product research institute, Forintek Canada Corp. The objective of the project is to develop equipment for processing emissions resulting from the production of particulate boards, which would also be emission free. This project was completed according to schedule. The results are very positive and negotiations are under way with Forintek Canada Corp. to proceed to the next step, being an industrial scale-up.

SiliCycle Inc.: On December 15, 2004, CO₂ Solution and SiliCycle Inc. joined forces for the development of an enzyme attachment industrial technique on a silica support. The specific objective of the project is to reduce development costs and accelerate the technological advancement of CO₂ Solution. This project is scheduled to end on or no later than December 31, 2006.

Alliances

In parallel with the implementation of a co-development agreement, CO₂ Solution continues to develop its technology by selling to end-users these on-site test campaigns. These projects allow, among other things, for the study of the industrial development for treatment, then the assessment of the cost of the necessary equipment to treat the volumes the customer wants. Up until now, this type of analysis was carried with the following partners:

Aluminium Association of Canada: On November 7th, 2002, CO₂ Solution signed an agreement with this association, whose members include: Alcan Inc., Alcoa Canada Primary Metal Inc. and Aluminerie Alouette Inc. The agreement deals with the completion of a feasibility study on the application of CO₂ Solution's technology in the aluminium manufacturing industry. The contract, signed with the Aluminium Association of Canada, was completed according to the following milestones:

- ⇒ Signature of the contract (November 2002)
- ⇒ Study of the technical context of the aluminium smelter environment (December 2002)
- ⇒ Technical and economical study (February 2003)
- ⇒ Numerical model (April 2003)
- ⇒ Testing of reactor (July 2003)
- ⇒ Result analysis (September 2003)
- ⇒ Testing of reactor on site (December 2003)
- ⇒ Final report (February 2004)

The conclusions of the final report are as follows:

[TRANSLATION] “The objective of this study was to assess the potential application of the enzyme technology developed by CO₂ Solution to capture greenhouse gases, being the CO₂ present in gas emissions released by aluminium smelters. The overall work performed in the context of this study showed that the CO₂ Solution technology should be considered as viable, robust and efficient technology for aluminium smelters.”

Quebec City: On September 14, 2004, CO₂ Solution signed a service agreement with Quebec City concerning a project for the development of a CO₂ recycling enzyme reactor in an incinerator. The contract, valued at \$298,968, was financed jointly by the Federation of Canadian Municipalities, the ministère de l’Environnement du Québec and Quebec City itself.

The work began in September 2004 and ended in May 2005, as planned. This study project, which includes non-stop tests (round the clock, 7 days a week) campaign lasting approximately one month. The analyses made following the pilot tests show that the priorities were met, including the transformation of a significant quantity of the CO₂ released by one of the chimneys into calcium carbonate, an environmentally safe product. This project therefore allows us to conclude that the CO₂ Solution technology is functional on a semi-industrial scale.

At the end of this study, CO₂ Solution was able to make recommendations for the installation of an assessment unit on a larger scale. This contract is the first phase for what will ultimately allow Quebec City to establish a pilot unit within a period of two to three years if the city so wishes.

OFFICERS AND DIRECTORS

The following chart provides the names, municipalities of residence, office and principal occupation of CO₂ Solution’s Directors and Officers:

Name (municipality of residence)	Office	Principal occupation	Director or officer since	Member of the following committees of the Board of Directors
Ghislain Thériage (Val-Bélair)	President, Chief Executive Officer, Secretary and Director	President and Chief Executive Officer of CO ₂ Solution	1999	
René Crescent (Sainte-Foy)	Vice-President, Research and Development	Vice-President, Research and Development of CO ₂ Solution	2003	•Scientific
Jo Lanoë (L’Île-d’Orléans)	Vice-President, Business Development	Vice-President, Business Development of CO ₂ Solution.	2004	
Linda Parent (Quebec City)	Vice-President, Finance and Administration	Vice-President Finance and Administration of CO ₂ Solution	2003	
Réjean Blais (Lévis)	Chairman of the Board and Director	Business Development Director - buildings – Genivar Inc.	1997	
Yvon Giasson (Saint-Michel de Bellechasse)	Director	Consultant	1999	• Auditing and Remuneration •Governance (ad hoc)
Kimberley Okell (Quebec City)	Director	Director of legal services and corporate secretary, Cossette Communication Group Inc.	2001	• Auditing and Remuneration •Governance (ad hoc)
Martin P. Pelletier (Sillery)	Director	Senior Advisor, Cascades Group Inc.	2002	
Bernard Verreault (Sainte-Foy)	Director	Vice-President exploitation – Eastern Quebec at TELUS Solutions (Quebec) Inc.	2001	• Auditing and Remuneration •Governance (ad hoc)
Claude Villeneuve (Laterrière)	Director	Biologist, professor at the Université du Québec in Chicoutimi	1999	•Scientific

All officers and directors are subject to a confidentiality and non-competition agreement.

During the last five years, the Officers and Directors of CO₂ Solution have held the following positions:

Ghislain Th  berge

Mr. Ghislain Th  berge, who was born in 1942, is President, Chief Executive Officer, Secretary and Director of CO₂ Solution and occupies this office full time since August 1999.

Prior to that, he was President and General Manager of RECYC-QU  BEC from 1997 to 1999 and he acted as a management consultant from 1994 to 1997. He is also the founding President of Pr  citech Inc., a private company doing business in the powder metallurgy sector, a position that he held from 1990 to 1994. From 1986 to 1989, Mr. Th  berge was Vice-President, Development of Venmar Inc., a private company specialized in ventilation systems.

Mr. Th  berge also held important offices in the Quebec public sector from 1977 to 1985, where he acted as Assistant Deputy Minister for the Quebec Department of Industry and Trade and the Quebec Department of Environment. Furthermore, in the federal public sector, he held different offices from 1967 to 1976, including that of Director of Lands at Environment Canada and Regional Staff Manager at Fisheries and Oceans Canada.

In addition to his professional life, Mr. Th  berge is also actively involved in several socio-economic organizations, in particular as President of the Greater Quebec City Economic Promotion Corporation, as President of the Mirabel Airport Commercial and Industrial Park Corporation and as a member of the Board of Directors of the Industrial Development Corporation. Furthermore, he acted as a member of the Board of Directors of the Quebec Association of Business Leaders, and as Executive Secretary for the Advisory Board on Quebec Scientific Industrial Research Policy. Mr. Th  berge also acted as a member of the Board of Directors of the Entrepreneurship Foundation and as Advisor for the Department of Industry of the Republic of Centrafica.

Ren   Crescent

Mr. Crescent holds a Master's degree in metal engineering and a PhD in metal engineering. He has successively held the positions of teaching researcher at the University of Tohoku, Japan, from 1974 to 1978, research associate at the Montreal Polytechnic School from 1978 to 1984, and of research agent at the Centre de recherche industrielle du Qu  bec ("CRIQ") from 1984 to 1988. Subsequently, from 1988 to 1990, he acted as Director of Research and Customer Services with Aciers Slater Inc., and from 1990 to 2000, pursued his career as Technical Director and Director of Quality Assurance with Alcan Inc. Prior to joining CO₂ Solution's team in March 2003 as Vice-President for Research and Development, Mr. Crescent held, from 2000 to 2003, the office of Vice-President Research and Development with Technologies Intermag Inc. Mr. Crescent, was born in 1949, works full time for CO₂ Solution since he was hired.

Jo Lano  

Mr. Lano   is the holder of a Doctorate in Biology with a specialty in endocrinology from the University of Rennes, in France and has more than 20 years experience in the sales of products and services for high tech businesses in Canada, the United States and in Europe. Mr. Lano   has, at different stages of his carrier, filled the position of director of major accounts at Domosys Corporation from 1999 to 2000, senior adviser at   mergence Entrepreneur from 2000 to 2001, then assistant director for the CHUL Research Centre (CHUQ) in Quebec City, from 2001 to 2004. Since April 2004, Mr. Lano   has joined the CO₂ Solution team and fills full time position of Vice-President, Business Development. Mr. Lano   was born in 1948.

Linda Parent

Mrs. Linda Parent holds a DEC in administration science and held the position of Controller, Finance and Administration Manager and internal controller with the Groupe   quiconcept Inc. from 1992 to 2001. Thereafter, Mrs. Parent joined CO₂ Solution as Finance and Administration Manager. Since December 2003, she holds the full time position of Vice-President Finance and Administration. Mrs. Parent was born in 1959.

Réjean Blais

Mr. Réjean Blais, a civil engineer and holds a Master's degree in applied sciences in civil engineering (structure option), is, since 2000, Director Business Development, Buildings for GENIVAR Inc. an engineering consulting firm with more than 1400 employees. Mr Blais founded in 1981, Groupe Conseil Gesco Inc., an engineering consulting firm which he presided until its amalgamation with Genivar Inc. in July 2000. Mr. Blais is also the main shareholder of CO₂ Solution. Furthermore, he served as Chairman of the Board of the Greater Quebec Economic Development Corporation from 1998 to 2000 and, from 1998 to 2001, he acted as Vice-President of the Quebec Metro High Tech Park. Mr. Blais is still a member of several board of directors notably of Boite à Science, Hôtel Dieu Hospital of Lévis, and of Société V.I.A. Inc. in Lévis. Mr. Réjean Blais, who was born in 1946, is director of CO₂ Solution since its incorporation in November 1997.

Yvon Giasson

Mr. Yvon Giasson is a business management consultant since 1996. Previously, from 1993 to 1996, Mr. Giasson was President of Groupe Equiconcept Inc. and President and General Manager of Orthofab Inc from 1988 to 1996. In addition, Mr. Giasson also sits on the board of private companies and non-profit organisations. Mr. Yvon Giasson, who was born in 1944, is a director of CO₂ Solution since 1999.

Kimberley Okell

Mrs. Kimberley Okell is Director of Legal Services and Corporate secretary at Cossette Communication Group Inc., a communications firm, since 2004. Prior to that, from 2000 to 2004, she was the Legal Advisor and Corporate Secretary of EXFO Electro-Optical Engineering Inc. From 1999 to 2000, Mrs. Okell was formerly Vice-President of Legal Affairs and Secretary with Groupe Équiconcept Inc. and from 1997 to 1999, in charge of legal affairs as well as corporate secretary for the company and its subsidiaries with Groupe Informission Inc. Prior to that, Mrs. Okell was a member of McCarthy Tétrault law firm from 1994 to 1997. She is a member of the Quebec Bar since 1993. Mrs. Okell holds a Bachelor's degree of Civil Law of Laval University, a Bachelor's degree in Common Law from the University of Western Ontario, Canada, as well as a Bachelor of Arts degree from York University, Canada. Mrs. Okell, who was born in 1960, is a director of CO₂ Solution since 2001.

Martin P. Pelletier

Mr. Pelletier, chemical engineer, has been professor at Laval University from 1966 to 1976. In 1976, he joined Cascades Inc. where he held various positions. He still is a member of the Board of Directors of Cascades Inc. Since 2002, he is a senior advisor for Cascade Group Inc. a pulp and paper firm. From 2000 to 2002, he was the President and Chief Executive Officer of Rolland Inc. From 1998 to 2000, he was Vice-President and Chief Operating Officer at Norampac Inc. and from 1996 to 1998, Vice-President and Chief of Operations of the boxboard group of Cascades Inc. Mr. Martin P. Pelletier, who was born in 1942, is a director at CO₂ Solution since 2002.

Bernard Verreault

Mr. Bernard Verreault is Vice-President exploitation – Eastern Quebec Region of TELUS Solutions (Quebec) Inc., a telecommunications firm since 2003, position he assumed after having been the General Manager of the same business since 2001. Previously, he acted as President of Gespro Technologies Inc. from 1992 to 2001. Holder of a degree in Business Administration from Laval University, he also possesses a sound expertise in organisational planning and sits on several Boards of Directors. Mr. Bernard Verreault, who was born in 1959, is a director of CO₂ Solution since 2001.

Claude Villeneuve

Mr. Claude Villeneuve is a biologist and professor with the Université du Québec in Chicoutimi ("UQUAC") since 2001. He is director of the "Éco-conseil" chair at the UQUAC since November 2003. Prior to that, he acted as a professor at the CEGEP de Saint-Félicien since 1976. He is the author of several books discussing environmental issues and more specifically climatic changes and is an accredited consultant with United Nations Education, Science and Cultural Organisation (UNESCO) and the United Nations Program for Development (UNDP). Since October 2003, he is the Chairman of the Committee on climatic change of the Science and Technology Advisory Board of Environment Canada. Since 1981, he also presides Ekolac G.P., consultants specialized in environmental matters.

From 2000 to 2004, he was the President of the Sectorial commission for natural, social and human sciences of the Canadian commission for UNESCO. Mr. Claude Villeneuve, who was born in 1954, is a director at CO₂ Solution since 1999.

Corporate Cease Trade Orders or Bankruptcy

No director or senior executive or a shareholder holding a sufficient number of securities to the issuer to affect materially the control of CO₂ Solution has also been, a director or senior executive of any other issuer that, while that person was acting in that capacity either was the subject of a cease trade or similar order, or an order that denied the other issuer access to any exemptions under securities legislation, for a period of more than 30 consecutive days, or became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, was subject to proceedings instituted by its creditors or instituted proceedings against its creditors, made an arrangement or compromise with its creditors or took steps to make an arrangement or compromise with its creditors, or had a receiver, receiver manager or trustee appointed to hold its assets.

Penalties or Sanctions

No director, senior executive or a shareholder holding a sufficient securities of CO₂ Solution to affect materially the control of CO₂ Solution has either been subject to any penalties or sanctions imposed by a court relating to Canadian Securities Legislation or by a Canadian Securities Regulatory Authority or has entered into a settlement agreement with a Canadian Securities Regulatory Authority, or has been subject to any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor making an investment decision.

Personal Bankruptcies

No director, senior executive or shareholder holding sufficient securities of CO₂ Solution to affect materially the control of CO₂ Solution or a personal holding company of any such person has become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, being subject to proceedings instituted by his or her creditors, or instituted proceedings against his or her creditors, made an arrangement or compromise with his or her creditors or taken steps to make such an arrangement or compromise, or had a receiver, receiver manager or trustee appointed to hold his or her assets.

Auditing and Remuneration Committee

The board of directors of CO₂ Solution has constituted an auditing and remuneration committee, comprised of Mr. Bernard Verreault who acts as chairman, Mrs. Kimberley Okell and Mr. Yvon Giasson, who are all external directors. The members of the auditing committee oversee the preparation of financial reports as well as internal control measures and advises management and the Company's independent auditors on questions related to annual auditing, internal controls, financial statements, accounting principles and auditing procedures used by the Company. The committee is also responsible of ensuring the independence of auditors in relation to the Company's management and to present the board of directors its recommendations as to their appointment.

The members of the remuneration committee administer, amongst other things, the share option plan put in place by the Company. It also advises, in a general manner, the board of directors and makes recommendations concerning the remuneration of the Company's senior management.

Corporate Governance Committee

The board of directors recognises its responsibility concerning the Company's corporate governance. As such, an ad hoc committee has been formed to periodically review CO₂ Solution's corporate governance practices as proposed by National Instrument 58-201. The member of the ad hoc committee as Mr. Bernard Verreault who acts as its chairman, Mrs. Kimberley Okell and Mr. Yvon Giasson

Scientific Advisory Committee

Since July 2000, a Scientific Advisory Committee advises the Company on its strategic and scientific orientations and is composed of researchers and industry people acting in the biotechnology and related fields. These advisors do not have commercial rights on CO₂ Solution's technology and are subject to confidentiality and non-competition agreements. The make-up of the committee is as follows:

Name	Qualifications	Main occupation
René Crescent	PhD in Metal Engineering	Vice-President R&D at CO ₂ Solution and coordinating member of the scientific committee
Faïçal Larachi	PhD in Chemical Engineering	Professor with tenure with the Department of Chemical Engineering at the Laval University
Michel Lepage	Master's degree in Mechanical Engineering	Director of laboratories and environment ALCOA, - Deschambault Aluminium Smelter
Claude Villeneuve	Bachelor of Sciences	Biologist, professor at the University du Québec at Chicoutimi
Normand Voyer	PhD in Organic chemistry	Director of Research centre on the function, the structure and the engineering of proteins (CRFSIP) – Laval University

Compensation of Officers

Compensation of directors

The directors of CO₂ Solution including the Chairman of the Board, excluding Ghislain Thériège each receives directors' fees of \$ 500 and of \$ 1000 for each meeting of the board of directors they attend. The members of the board of directors who sit on committees receive \$ 300 for each committee meeting they attend and the chair of each said committee \$ 400 for each meeting. Furthermore, the directors are entitled to the reimbursement of their transportation costs to attend meetings of the board of directors and its committees and may be indemnified in accordance with the provisions of sections 123.67 and following, of the *Companies Act* (Quebec). In addition, Mr. Réjean Blais has the right to receive royalties (see "Officers and Other Persons Having an Interest in Significant Operations").

Senior management's compensation

The following chart discloses the remuneration paid over the past 3 fiscal years to the chief executive officer and the vice president finance and administration of the Company and the managers of the Company who receive a remuneration greater than \$ 150,000. No employee of CO₂ Solution qualifies under the last category.

Name and principal position of the members of senior management	Fiscal Year	Annual Remuneration			Long Term Remuneration			Other Remuneration
		Salary	Bonus	Other annual remuneration	Grants		Payments	
					Number of options granted	Number of securities outstanding	Payments made under the LTIP ⁽¹⁾	
Ghislain Thériège President and Chief Executive Officer and Secretary	2004-2005	\$ 130,000	-	-	10,000	-	-	-
	2003-2004	\$ 120,000	-	-	380,000	-	-	-
	2002-2003	\$ 120,000	-	-	-	-	-	-
Linda Parent Vice president Finance and Administrator	2004-2005	\$ 80,000	-	-	10,000	-	-	-
	2003-2004	\$ 70,000	-	-	280,000	-	-	-
	2002-2003	\$ 70,000	-	-	-	-	-	-

(1) No long term incentive plan is currently in force

Other Benefits

The aggregate value of the compensation received by CO₂ Solution's senior management, other than in cash or in accordance with any applicable plan, does not exceed 10% of the total cash remuneration.

Loans to Directors, Senior Management and Employees

As of the date hereof, the Company has not granted any loans to its directors, senior management members and employees of the Company.

STOCK OPTION PLAN

On September 12th, 2002, at the Annual General Meeting of the Shareholders of CO₂ Solution, a modified version of the Share Option Plan for the employees, management and directors of CO₂ Solution, put in place on February 22nd, 2001, was approved by the shareholders of CO₂ Solution, after having been approved by the *Quebec Securities Commissions* (the “QSC”) (the “Stock Option Plan”).

On December 10, 2004, the TSX-V accepted the proposed changes to the Stock Option Plan to harmonize the later with the provisions of the 4.4 policy and to include the grant of options to consultants.

The maximum number of Common Shares that CO₂ Solution may issue under the Stock Option Plan is currently limited to 2,653,078, as this was approved by the shareholders at their meeting held on October 27, 2005 and no one person may hold options permitting them to acquire more than 5 % of the number of outstanding shares in CO₂ Solution at any given time.

The options cannot be granted for a period greater than 5 years, they may only be acquired by the beneficiary 4 months after the grant, they are not assignable and normally expire no later than thirty (30) days after the voluntary departure from the Company of a beneficiary, 180 days after his death, 90 days after the termination of employment 30 days after a director ceases to act in such a capacity.

The management of the Stock Option Plan is under the responsibility of the remuneration committee who sets the exercise price of the options at the time of their grant, which in no case can be greater than the discounted price. The following table provides the details of the options granted to this day:

	Number of Options ⁽¹⁾ ⁽²⁾	Date of Grant	Date of Expiration	Exercise Price
Employees	55,200	March 19 th , 2004	5 th anniversary of the grant	\$0.70
	38,600	April 6 th , 2005		\$0.82
Senior Management	1,170,000	March 19 th , 2004	5 th anniversary of the grant	\$0.70
	175,000	May 3 rd , 2004		\$0.62
	49,167	April 6 th , 2005		\$0.82
Directors	72,000	March 19 th , 2004	5 th anniversary of the grant	\$0.70
	59,666	April 6 th , 2005		\$0.82
Consultants	75,000	April 6 th , 2005	5 th anniversary of the grant	\$0.82

⁽¹⁾ Each option grants to the holder the right to purchase 1 Common Share of the Company according to the Stock Option Plan.
⁽²⁾ Takes into account the options to purchase shares which have been cancelled since the date they were granted.

PREVIOUS OFFERINGS

The following chart is a summary of the offerings completed by CO₂ Solution since October 1999:

Issuance Date	Name of Subscriber	Number and Class of Shares Issued	Price per Share	Consideration
October 29, 1999	9081-5044 Quebec Inc. (“QBIC I”) ⁽¹⁾	750,000 Class B shares	\$ 0.40	\$ 300,000
November 25, 1999	QBIC I ⁽¹⁾	500,000 Class B shares	\$ 0.40	\$ 200,000
April 28, 2000	Centre québécois de valorisation des biotechnologies (“CQVB”)	562,500 Class C shares	\$ 0.40	\$ 225,000
May 23, 2000	9003-9801 Quebec Inc. ⁽²⁾	40,000 Class A shares	\$ 0.50	\$ 20,000

Issuance Date	Name of Subscriber	Number and Class of Shares Issued	Price per Share	Consideration
June 21, 2000	QBIC I ⁽¹⁾	566,000 Class B shares	\$ 0.50	\$ 283,000
November 2, 2000	QBIC I ⁽¹⁾	697,986 Class B shares	\$ 0.60	\$ 418,792
March 27, 2001	Fonderie Industrielle Laforo Inc. ⁽³⁾	214,286 Class A shares	\$ 0.70	\$ 150,000
April 30, 2001	CDP Accès Capital Inc.	Debenture		\$ 500,000
April 30, 2001	Fonds d'Investissement Desjardins de Québec ("FIDQ")	Debenture		\$ 300,000
May 10, 2001	QBIC I ⁽¹⁾	139,199 Class B shares	\$ 0.90	\$ 125,279
August 31, 2001	QBIC I ⁽¹⁾	1,079,474 Class B shares	\$ 1.10	\$ 1,187,421
December 21, 2001	QBIC I ⁽¹⁾	476,004 Class B shares	\$ 1.30	\$ 618,805
September 18, 2002	CDP Accès Capital inc	Debenture		\$ 100,000
September 18, 2002	FIDQ	Debenture		\$ 20,000
September 18, 2002	Capital régional Coopératif Desjardins ("CRCD")	Debenture		\$ 80,000
September 18, 2002	Fonds Bio-Innovation, Limited Partnership ("Bio Innovation")	Debenture		\$ 250,000
November 7, 2002	9118-2402 Quebec Inc. ("QBIC II") ⁽⁴⁾	453,612 Class B shares	\$ 1.35	\$ 612,376
December 20, 2002	QBIC II ⁽⁴⁾	138,248 Class B shares	\$ 1.35	\$ 186,635
February 14, 2003	QBIC II ⁽⁴⁾	14,000 Class B shares	\$ 1.35	\$ 18,900
September 30, 2003	Ghislain Théberge	500,000 Class A shares (exercise of options)	\$ 0.01	\$ 5,000
March 19, 2004	Public offering on TSX-V	8,000,000 units ⁽⁵⁾	\$ 0.70	\$ 5,600,000
March 19, 2004	Fonds d'investissement en développement durable (FIDD), Limited Partnership ("FIDD")	793,651 Common Shares and 595,238 warrants ⁽⁶⁾	\$ 0.63	\$ 500,000
March 19, 2004	FIDQ and CRCD	735,615 units ⁽⁵⁾	\$ 0.57	Debenture conversion
March 19, 2004	Bio-Innovation,	306,122 Common Shares and 510,203 warrants ⁽⁷⁾	\$ 0.49	Debenture conversion
April 28, 2005	Bio-Innovation	204,082 Common Shares	\$ 0.49	Debenture conversion

⁽¹⁾. On March 18th, 2004, QBIC I amalgamated with CO₂ Solution.

⁽²⁾ The shares of CO₂ Solution held by 9003-9801 Quebec Inc. a company controlled by Mrs. Huguette Gilbert, were transferred to Mrs. Huguette Gilbert personally.

⁽³⁾ Fonderie Industrielle Laforo Inc. is controlled indirectly by Mr Yvon Fortier, who is an arm's length shareholder.

⁽⁴⁾ On March 18th, 2004, QBIC II amalgamated with CO₂ Solution.

⁽⁵⁾ Each unit is comprised of 1 Common Share and 1 warrant. The warrant will allow its holder to subscribe to 1 Common Share at an exercise price of \$ 1.00 before March 20, 2006.

⁽⁶⁾ Each warrant will allow its holder to subscribe to 1 Common Share at an exercise price of \$ 1.00 before March 20, 2006.

⁽⁷⁾ Each warrant will allow its holder to subscribe to 1 Common Share at an exercise price of \$ 0.85 before March 20, 2006.

PRICE OF SHARES

The common shares of CO₂ Solution are posted and listed for trade on the TSX-V under stock symbol CST. The following table indicates the price range and the volume traded for the following periods:

Period	Price Range		Volume
	High	Low	
March 19 ⁽¹⁾ to March 31, 2004	\$ 0.71	\$ 0.62	935,143
April 1 to June 30, 2004	\$ 0.69	\$ 0.465	929,322
July 1 to September 30, 2004	\$ 0.55	\$ 0.33	337,184
October 1 to December 31, 2004	\$ 0.56	\$ 0.36	661,933
January 1 to March 31, 2005	\$ 0.93	\$ 0.41	3,300,506
April 1 to June 30, 2005	\$ 0.82	\$ 0.51	676,940
July 1 to July 30, 2005	\$ 0.64	\$ 0.50	133,620
August 1 to August 31, 2005	\$ 0.60	\$ 0.51	157,343
September 1 to September 30, 2005	\$ 0.55	\$ 0.47	151,925
October 1 to October 31, 2005	\$ 0.70	\$ 0.46	519,217
November 1 to November 3, 2005	\$ 0.64	\$ 0.60	199,300
(1) The common shares of CO ₂ Solution have been posted and listed for trade on the TSX-V on March 19, 2004.			

PRINCIPAL SHAREHOLDERS

As of this date, the only persons who hold, directly or indirectly, more than 10% of the outstanding Common Shares in CO₂ Solution, were the following:

Name	Number of Common Shares held	Percentage of Common Shares held (before the Offering) ⁽¹⁾	Percentage of Common Shares (after the Offering) ⁽¹⁾		Percentage of Common Shares (after the Offering, on a fully diluted basis)	
			Maximum Offering	Minimum Offering	Minimum Offering	Minimum Offering
Gestion R.B.I. Inc. ⁽²⁾⁽³⁾	4,597,562	17.3 %	• %	• %	• %	• %
Réjean Blais ⁽²⁾⁽⁴⁾	446,539	1.7 %	• %	• %	• %	• %
⁽¹⁾ On a non diluted basis. ⁽²⁾ Does not take into account Common Shares which may be acquired in this Distribution. ⁽³⁾ Controlled, directly or indirectly by Mr. Réjean Blais who is a principal shareholder. ⁽⁴⁾ Takes into account the 387,239 Common Shares held by persons related to Réjean Blais.						

Senior management and directors holding securities

In addition to Mr Réjean Blais, the following officers and directors hold in the share capital of CO₂ Solution, the securities hereinafter indicated in the relation to their respective names:

Name	Number of Common Shares held	Percentage of Common Shares (before the Offering) ⁽¹⁾	Percentage of common shares (after the Offering) ⁽¹⁾⁽²⁾		Percentage of Common Shares (after the Offering, on a fully diluted basis)	
			Minimum Offering	Maximum Offering	Minimum Offering	Maximum Offering
Yvon Giasson	184,680	0.7 %	• %	• %	• %	• %
Jo Lanoë	16,400	0.1 %	• %	• %	• %	• %
Kimberley Okell	4,200	0.02 %	• %	• %	• %	• %
Linda Parent	48,906	0.2 %	• %	• %	• %	• %
Martin P. Pelletier	5,000	0.02 %	• %	• %	• %	• %
Bernard Verreault	2,400	0.01 %	• %	• %	• %	• %
Ghislain Thérberge	1,893,592	7.1 %	• %	• %	• %	• %
Claude Villeneuve	115,444	0.4 %	• %	• %	• %	• %

The officers and directors of CO₂ Solution as a group, hold directly or indirectly, or exercised a control over a total of 7,314,723 Common Shares being 27.6 % of the Company's Common Shares issued and outstanding at the date of this prospectus, without taking into account the Offering.

PROMOTER

Mr. Réjean Blais took the initiative to incorporate and organize CO₂ Solution and, from this fact, he is considered as the promoter of the business. Mr. Réjean Blais hold directly or indirectly, or exercised a direct or indirect control over a total of 5,044,101 Common Shares (see: "Principal Holders of Securities") and holds as a participant, 24,000 options to purchase shares. The promoter has not received and shall not receive any remuneration in this capacity. Mr. Réjean Blais, both personally and through a corporation that he controls, has concluded certain transactions with the Company (see "Officers and Other Persons having an Interest in Significant Operations").

CAPITAL STRUCTURE

The following chart presents the capital structure of CO₂ Solution at the dates indicated hereinafter according to the actual information contained in the pro forma and after the amalgamation and the final closing of the Offering.

	As at June 30, 2005	After the Offering ^{(1) (2)} (unaudited)	
		<u>Maximum Offering</u>	<u>Minimum Offering</u>
LIABILITIES			
Current liabilities	\$ 289,420	\$ ●	\$ ●
Obligations under capital leases	\$ 1,730	\$ ●	\$ ●
Deferred credits	<u>\$ 89,026</u>	\$ ●	\$ ●
	<u>\$ 380,176</u>	\$ ●	\$ ●
SHAREHOLDERS' EQUITY			
	Authorized		
Capital Stock	unlimited		
	\$ 10,659,858 (26,530,779 shares)	\$ ● (● shares)	\$ ● (● shares)
Stock options	\$ 321,106	\$ ●	\$ ●
Warrants	\$ 894,830	\$ ●	\$ ●
Contributed surplus	<u>\$ 222,992</u>	<u>\$ ●</u>	<u>\$ ●</u>
Deficit	<u>(\$ 6,332,498)</u>	<u>\$ ●</u>	<u>\$ ●</u>
TOTAL OF SHAREHOLDERS' EQUITY	<u>\$ 5,766,288</u>	<u>\$ ●</u>	<u>\$ ●</u>
TOTAL OF LIABILITIES AND SHAREHOLDERS' EQUITY			
	<u>\$ 6,146,464</u>	<u>\$ ●</u>	<u>\$ ●</u>

DIVIDEND POLICY

Since its incorporation, CO₂ Solution has not declared any dividends to its shareholders and does not intend to do so for the time being. The present policy of CO₂ Solution consists in keeping its profits in order to finance its operations. This policy will be reviewed periodically by the board of directors. Any decision to pay a dividend on the Company's Common Shares shall be made by the board of directors based on certain factors such as the gross margin, the profits and the financial situation of CO₂ Solution.

OFFICERS AND OTHER PERSONS HAVING AN INTEREST IN SIGNIFICANT OPERATIONS

Certain of CO₂ Solution's laboratories were located in buildings leased from 2860-1516 Quebec Inc., a company controlled by Réjean Blais, by virtue of a lease which terminated July 31st, 2004. The rent was \$ 4792 per month for a surface area of 5000 square feet.

When the CO₂ reduction technology was purchased on May 21, 1998 at a cost of \$ 100,000, CO₂ Solution undertook in favour of Mr. Réjean Blais chairman of the board, director and principal shareholder, to pay to him a 5% royalty calculated on the cumulative gross margin concluded by CO₂ Solution. The amount of the royalty to be paid to Mr. Réjean Blais shall be subject to the following terms:

- a) maximum limit of the royalty is capped at \$ 1,000,000.00 for the period ending January 1st, 2021;
- b) payable only when the cumulative gross margin has reached \$ 5,000,000.00 and as long as it does not effect CO₂ Solution's financial capacity to respect its financial obligations.

LITIGATION

As of this date, CO₂ Solution is not party to any litigation.

ESCROWED SECURITIES

In conformity with the escrow agreement concluded March 15, 2004 between CO₂ Solution, certain shareholders and Computershare Trust Company of Canada (“Computershare”) acting as a depositary (the “Depositary”), 12,301,817 Common Shares, 1,105,441 warrants to subscribe to 1,105,441 Common Shares of the Company (the “Escrowed Shares”) were remitted to the Depositary at the closing of the public offering concluded March 19, 2004 in order that they be released by the Depositary according to the following schedule:

Date	Percentage of total escrowed securities which may be released
i) March 19, 2004.	10 %
ii) September 20, 2004.	15 %
iii) March 20, 2005.	15 %
iv) September 19, 2005.	15 %
v) March 21, 2006.	15 %
vi) September 19, 2006.	15 %
vii) March 19, 2007.	15 %

As of April 29th, 2005 the securities still under the escrow agreement are the following:

Type of securities	Number of Escrowed Securities ⁽¹⁾	Percentage in relation to the Class of securities ⁽²⁾
Common shares	5,535,828 ⁽¹⁾	20.87 % ⁽²⁾
Warrants	497,448 ⁽³⁾	5.05 %
⁽¹⁾ These securities constitute the majority of the Company's shares held by its managers and the shares issued by the Company for less than \$ 0.06 per share. ⁽²⁾ without taking into account the Stock Option Plan nor the warrants. ⁽³⁾ The warrant distributed with Bio-Innovation and FIDD (see: “ Previous Offerings ”)		

IMPORTANT CONTRACTS

Important contracts concluded by CO₂ Solution currently in force as of the date of this prospectus or to be concluded no later than at the closing of the Offering and which are outside the normal course of business are the following, being:

- i) a letter agreement with the Agent dated October 20, 2005 accepted by CO₂ Solution on October 27, 2005;
- ii) a warrant agreement concluded between CO₂ Solution and Computershare no later than the date of the closing of the Offering as mentioned under the heading “ Details of the Offering ”;
- iii) the agreement to act as agent for the sale of securities concluded • 2005 between CO₂ Solution and the Agent as mentioned under the heading “ Details of the Offering ”;
- iv) a statutory escrow agreement concluded March 15, 2004 between CO₂ Solution, certain shareholders and Computershare as is mentioned under the heading “ Blocked Security ”;
- v) a transfer agent and agency agreement in relation to the corporate registers concluded March 5, 2004 between CO₂ Solution and Computershare;
- vi) a warrant agreement between CO₂ Solution and Computershare on March 15, 2004 ;
- vii) an agreement to register the Common Shares of this Offering for trade on the TSX-V concluded between TSX-V and CO₂ Solutions on March 16, 2004;
- viii) a depositary agreement concluded • 2005 between CO₂ Solution and Computershare as mentioned under the heading “ Details of the Offering ”;
- ix) the investor relations service contract concluded April 6, 2005 between CO₂ Solution and TheStreetIR Inc.
- x) a subscription agreement of 793,651 units of CO₂ Solution concluded between FIDD and CO₂ Solution on March 17, 2004.

Copies of these contracts may be consulted during normal business hours at the head office of CO₂ Solution during the term of this Offering.

DETAILS OF THE OFFERING

Offering

This Offering consists in the issuance of a maximum of • Units (\$ 7,000,000) and a minimum of • Units (\$ 3,000,000).

Each Unit, offered at a price of \$ •, is composed of one Common Share and a Half-warrant. Each Warrant shall permit its holder to subscribe at any time prior to 18 months from the closing date of the Offering, to one Common Share of the Company at an exercise price of \$ • per share. The Common shares and the Warrants have the following attributes and characteristics:

Common shares

The Common Shares of the Company grants to their holders the right to:

- i) vote based on one vote per Common Share held each time a shareholder vote is held;
- ii) receive any dividends declared by the Company, on a *pro rata* basis of the number of Common Shares held; and
- iii) share, on a *pro rata* basis of the number of Common Shares held, in the residual assets of CO₂ Solution in the event of its winding-up, liquidation or dissolution.

As of this date, 26,530,779 Common Shares were issued and outstanding.

Warrants

The Warrants part of the Units under this Offering are created, issued and governed by the warrant agreement to be concluded between CO₂ Solution and Computershare acting as trustee on • (the “ Warrant Agreement ”).

Each Warrant may be exercised at any time prior to 18 months from the closing date of the Offering. After that expiry date, all the Warrants which have not otherwise been exercised shall become automatically cancelled.

The Warrants do not confer any right to the Common Shares which may thereby be acquired.

When the Warrants are exercised, the trustee shall remit to CO₂ Solution the subscription price received from the holder and shall deliver to the holder one Common Share of CO₂ Solution.

No application will be made to register the Warrants for trade of the TSX Venture Exchange.

This prospectus also applies to all the Common Shares which may be issued upon the exercise of the Warrants.

The offering price was established by negotiation between the Company and the Agent.

Method of the Offering

By virtue of the agent agreement concluded between CO₂ Solution and the Agent on • 2005, the Agent has agreed to deploy its best efforts to sell the Units, without being required to purchase the Units in the related Canadian provinces being British Columbia, Alberta, Ontario and Quebec and subject to the fulfillment of the terms and conditions contained in that agreement.

If the minimum subscription and the closing conditions are satisfied, an initial closing shall take place within 90 days from the date that the prospectus receives its final receipt. Subsequent closings shall take place until such time as the subscription reaches the maximum Offering but no closing shall take place more than 6 months after the date that the prospectus receives its final receipt. If the minimum offering is not subscribed to in the 90 days following the date of the final receipt of the prospectus, this Offering shall be abandoned and the proceeds from those subscriptions received shall immediately be returned to the subscribers without interest nor deductions (see “ Closing Conditions ”).

The proceeds of this subscription shall be kept in trust by Computershare until such a time as the closing conditions are fulfilled or if the Offering is abandoned according to the terms and conditions of the Depositary Agreement concluded between Computershare and the Company for the purpose of this Offering.

The subscriptions received may be rejected or allotted in whole or in part by CO₂ Solution who reserves the right to close the subscription books at any moment without notice. The subscribers whose subscriptions are accepted shall be promptly advised thereof and the share certificates representing the Common Shares and the Warrants shall be available for delivery on the day of the closing of the Offering.

The Agent shall receive a remuneration equal to 10 % of the gross proceeds of the Offering, to be paid by CO₂ Solution at the closing of the Offering. In the event of a minimum subscription no less than \$ 500,000 and greater from an institutional or corporate investor (other than a brokerage firm) referred to the Agent by CO₂ Solution, the Agent's commission shall be reduced to 5.5 %, however the additional remuneration of 8 % in the form of options shall be maintained. However, in order to benefit from the reduced commission, the subscription must be received exclusively through the Agent.

As additional remuneration for the services rendered in relation to this Offering, CO₂ Solution has granted to the Agent options ("Broker's Warrants") which will permit the Agent to subscribe, in whole or in part within the 18 months following the Closing of this Offering to a number of Common Shares of equal to 8 % of the total Units purchased by virtue of this Offering at a price equal to \$ • per share. This prospectus also qualifies all the Common Shares which may be issued as a result of the exercise of the Broker's Warrant granted to the Agent as additional remuneration.

The Units offered by this prospectus may be subscribed to by the officers of CO₂ Solution and persons with whom they are related.

Registered for Trade

CO₂ Solution shall file an application that the additional Common Shares qualified under the Offering be registered and posted for trade on the TSX-V.

Closing conditions

CO₂ Solution is prohibited from using the proceeds of the Offering before the closing, which must be held subject to the prior fulfillment of the following conditions no later than 90 days after the date on which the final prospectus is received, being:

- i) the acceptance by CO₂ Solution of the subscription of Units for a minimal sum of \$ 3,000,000;
- ii) the signature of the important contracts listed under the heading " Important Contracts "; and
- iii) the conditional registration of the Common Shares under this Offering for trade on the TSX Venture Exchange.

In the event where the above-mentioned closing conditions are not completed within the above-mentioned delay, this Offering shall be abandoned and the proceeds from this subscription received returned to the subscribers, without interest nor deductions unless such subscribers and the securities regulatory authorities have agreed to prolong the applicable delay.

USE OF THE NET PROCEEDS OF THE OFFERING

The net proceeds of the Offering are estimated at \$ 5,600,000 (\$ 2,400,000 in the case of the minimum offering), after deduction of the Agent's remuneration and the expenses of the Offering.

In the event of the maximum offering, CO₂ Solution shall use said sum for the following purposes:

- a) Continue the pre-commercialization to allow for the conclusion of strategic alliance agreements and or
 - ⇒ Optimize the current technology processes towards the industrial scale-up license the use of the technology
 - ⇒ Technical feasibility study
 - ⇒ Numeric simulation
 - ⇒ Design of equipment
- b) Continue the technology development work;
- c) Finance the administrative activities (financial and administrative management, communications and investor relations, etc.)

The following table presents a summary of the use of the net proceeds of the Offering by CO₂ Solution:

	<u>Maximum Offering</u>	<u>Minimum Offering</u>
Pre-commercialized and strategic alliance ⁽¹⁾	\$ 900,000	\$ 800,000
Technological development ⁽²⁾	\$ 3,300,000	\$ 600,000
Working capital and administration	\$ 1,400,000	\$ 1,000,000
TOTAL ⁽³⁾⁽⁴⁾	\$ 5,600,000	\$ 2,400,000
⁽¹⁾ CO ₂ Solution expects that the strategic partner retained to scale up the technology contributes financially in a proportion and sums which has yet to be determined. ⁽²⁾ To finance its technological development work, CO ₂ Solution Inc. shall advance the required sums, in consideration of share capital, of its wholly own subsidiary 9157-4400 Quebec Inc. which will then be transferred to 9157-4426 Quebec Inc. and to Fiducie Financière CO ₂ Solution and to CO ₂ Solution Technologies Inc. ⁽³⁾ The exact amount of these expenses and the periods during which they will be made depend on several factors which are not within CO ₂ Solution's control. ⁽⁴⁾ CO ₂ Solution intends to spend the funds made available to it in the manner indicated under this heading. However, certain circumstances could justify, for commercially valid reasons, to deploy the funds in another manner.		

On • 2005 the Company's working capital was \$ •.

CO₂ Solution intends to spend the funds made available to it in the above-mentioned manner. However, certain circumstances could justify, for valid commercial reasons, to spend the funds to other ends.

RISK FACTORS

Given the speculative nature of the Offering, an investment in the Units implies a high level of risk and is only addressed to investors who are capable of making a long-term investment and who are prepared to accept the inherent risks associated with such an investment. All investors must pay special attention to the risks exposed under this heading and consult their independent professional advisors before subscribing to the Units.

The risks and uncertainties described hereunder are not the only ones which CO₂ Solution will face, while the risks and uncertainties are still unknown, unforeseen or presently immaterial, they could become important factors likely to adversely affect CO₂ Solution.

Premature development stage of the products

Although CO₂ Solution began operations in 1997, its products are still in the development stage. From this fact, the potential products the Company develops need to be the object of research, development and additional tryouts prior to any mass commercialization. The accounting of proceeds from the operations resulting from the sale of products

or royalties, if any, shall take a number of years. Nothing guarantees that the technology developed by CO₂ Solution shall lead to the development of commercially viable products nor that the Company shall be capable of interesting strategic partners in the production and marketing of these products.

Technological risks

CO₂ Solution considers that its technology relies on scientific principles which are difficult to contest, notably due to the different studies and scientific publications which have already demonstrated the efficiency of the enzyme in the transformation of CO₂ Solution.

It is important to note that in March and April 2002, an evaluation of the potential of commercialization of the technology developed by CO₂ Solution, was conducted by an external expert as ordered by the institutional investors. Although CO₂ Solution never had access to the conclusions of the said report, it was brought to the attention of CO₂ Solution's management that the report raised certain questions notably with regard to the perspective of short-term industrial application of this technology. In any event, the institutional investors decided nonetheless to pursue their investment strategy in CO₂ Solution.

Context of Environmental biotechnology

The operation of a business in the field of environmental biotechnology includes risks which even a meticulous evaluation combined with experience and know-how, may not avoid. The shareholders must rely on the judgement, integrity and the good faith of the directors of CO₂ Solution as well as on expertise of the scientific team. The investors who believe otherwise should not subscribe to the Units.

As the market to control and reduce CO₂ emissions is important, the competition to secure a portion of the said market is strong and international. The business model of CO₂ Solution in addition to its development strategy may be inadequate to allow it to secure a substantial part of the market which is in constant evolution.

Need for additional capital

Since its creation, the Company has experienced negative cash flows resulting from its operations and does not foresee generating sufficient proceeds to finance its operations over the next several years. CO₂ Solution has engaged, and intends to continue to engage considerable funds to sustain its efforts in research, development and commercialization. Although the Company actually considers that its existing liquidities, available financing and the proceeds resulting from the Offering (for the maximum Offering) shall be sufficient to satisfy its needs in capital and operating funds for the next 3 years, nothing guarantees that these funds shall be sufficient to respond to the needs of future activities of the Company in research, development and commercialization. Nothing guarantees that the Company will not require additional capital earlier than actually anticipated in order to respond to its future needs. The development of equipment to reduce CO₂ emissions by the Company shall necessitate the commitment of considerable resources in order to commercialize its products on the market.

If the Company requires additional capital, it may attempt to do so through arrangements and collaboration or granting of licences or public or private sale of its securities notably its participating securities. Nothing however guarantees that such additional capital shall be available upon reasonable terms and conditions, and may in fact not be available. In addition, all additional financing by way of the issuance of participatory shares shall dilute the then shareholders of CO₂ Solution and the characteristics of such participatory security may in fact be considerably more favourable than the Common Shares under this Offering. In addition, according to the terms of collaborative arrangements or the granting of licences, the Company may be required to assign certain important rights to third parties. If an additional financing may not be obtained as required or according to acceptable terms and conditions, CO₂ Solution may be forced to delay, reduce or eliminate certain of its programs in research and development or grant licences to third parties in order that they commercialize these products or technologies which the Company would otherwise develop. The Company could also be forced to delay the expansion, improvement or investment at an opportune time in its programs of research, development and commercialization or even renounce thereto.

The forward looking statements of this prospectus concern the Company's expectations in relation to its need for additional capital and are subject to risks and uncertainties. The treasury needs of CO₂ Solution may vary considerably than those actually planned, depending on the results from existing activities, the terms and conditions of future collaboration, the result of research and development, the progress of the competition and other technologies, regulatory requirements.

A limited capitalization or the failure of a later financing would seriously compromise the development of CO₂ Solution.

Historical losses from operations

Since its incorporation and until June 30, 2005, CO₂ Solution has accumulated a total deficit of \$ 6,332,498. These losses of the Company result principally from the expenses undertaken in research and development and from general and administrative expenses related to the operations of the business. The management expects that these losses will continue to increase in the foreseeable future, as a result of the Company increasing its research, development, manufacturing and commercialization of products. The sum and the calendar of such losses shall depend on various factors, notably the state of activities of research and development, the pursuit for the protection of patents and exclusive rights, changes in existing collaborators and other factors, several of which are outside de Company's control. As a consequence, the Company is of the opinion that the comparisons from one period to the other of financial results in the future are not significant and the results of operations from previous periods are not indicative of future results. It is important to note that until now the Company has not yet received significant proceeds from operation from the sale of its products.

Uncertain commercial success

The commercial success of the products and services developed by CO₂ Solution shall depend on a number of factors, notably, as the case may be, the success of the industrial trials, the response by industry in relation to the performance achieved by the equipment developed, the capacity of the Company to have available sales personnel to commercialize the products and services, the capacity of the Company to respond to the demand of the market, the degree of third party payers to pay in relation to the products and services, in addition to the number and relative efficiency of competitive products which may be subsequently launched onto the market. Nothing guarantees that the Company or its collaborators may develop and successfully put in place a commercialization strategy in regards to its products and services.

The success of the Company shall depend in part on the acceptance by the scientific and industrial community of the CO₂ reduction and elimination equipment which may be developed using the enzyme system of CO₂ Solution. Nothing guarantees that the enzyme system shall be accepted by the market targeted by the Company. The non-acceptance by the market of the products which may be developed by CO₂ Solution could have an adverse effect on the activities of the Company, its financial situation and its results from operations.

Limited manufacturing, commercialization and sales capacity

CO₂ Solution disposes of a limited capacity in regards to manufacturing, commercialization and sales. Nothing guarantees that it will be able to develop or bring these capacities at the desired level to produce and sell actual or future products in commercial quantities. The development of these resources will require considerable capital expenses. In addition, nothing guarantees that the problems related to the manufacturing or the quality control will not arise in the production of the products by the Company or by subcontractors. Any dependence by the Company on third parties in relation to the production, the commercialization or sale of products could have a material adverse effect on the profit margins of the Company and on its capacity to develop and commercialize promising products in a opportune time and in a competitive manner.

Scale up of the prototype to commercial production

Even though, beginning in September 2003, CO₂ Solution has been working on designing, building and testing an industrial type reactor nothing guarantees that the transition to a production phase will not encounter difficulties. Such a phase could force CO₂ Solution to make additional expenditures and delay having a material adverse affect on CO₂ Solution.

Competition

The evolution of general scientific knowledge being more and more rapid, it is possible that important technological changes occur. CO₂ Solution must, to remain competitive, continually pursue the research and development activities of its technological platform in order to multiply the applications and to improve the performance. Even though it intends to act in this manner, nothing guarantees that its technology will not, one day, be outclassed or become obsolete by an innovation currently on the market or that will shortly be on the market. This competitiveness could

affect the operating income of CO₂ Solution and compromise the chances of having access to sources of constant and important financing.

Uncertainty concerning the Intellectual property

CO₂ Solution counts on its commercial secrets, its continued technological innovation and its patents in order to protect its technology. In part, these legal rights are protected by contracts concluded with its employees, its consultants and commercial partners. Nothing guarantees that such commercial secrets owned by CO₂ Solution shall be kept and that the non-disclosure obligations shall be fulfilled or that other parties will not develop on their own similar or superior technology. Nothing guarantees that the patents filed by CO₂ Solution shall be granted by the legislative authorities or that the patents issued to CO₂ Solution shall be valid. There is no law or policy which clearly delineates the extent of the permitted claims in these cases and the level of protection granted by these patents.

Despite all the precautions which are to be taken by CO₂ Solution to comply with the provisions of the patent laws in force in all the countries where they could do business, legal proceedings for infringement could be taken against CO₂ Solution. Regardless of whether these claims are judged admissible or not, CO₂ Solution will incur costs and commit important resources to defend itself against these allegations, which could have adverse consequences on its business, its financial well-being and its operating results.

Uncertainty concerning tax credits

CO₂ Solution Inc. and the entities found under the heading “Inter-corporate Relations” rely on scientific research and experimental development tax credits from both levels of government in order to complete their financing. Such claims could be the object of an examination and eventually an adjustment by the competent tax authorities. No assurance may be made that the tax credit for scientific research and experimental development will be obtained.

Conflict of interests

Mr. Réjean Blais is associated with CO₂ Solution on several levels, be it as its initial promoter and supplier of goods and services or currently as its director and principal shareholder which places him in a potential situation of conflict of interest.

Recruitment and retention of key personnel

The ability of the CO₂ Solution to develop and commercialize its technological platform depends largely on its ability to attract and to maintain a highly qualified personnel and experienced management. The success of CO₂ Solution depends largely on its officers, its experienced personnel and its collaborators. The loss of one or several of these key persons could compromise the success of CO₂ Solution. Although the Company has been able in the past to attract and retain experienced and competent personnel, nothing guarantees that the Company will be able to do so in the future.

Environmental legislation

Given that the development of related markets to climatic changes is closely linked to the evolution of environmental laws seeking to reduce the GHGs, the growth of CO₂ Solution may be adversely affected in the absence of concerted legislative efforts in the principal industrialized countries.

Fluctuations in the price of security

The price of the securities of CO₂ Solution could be volatile and be the object of significant fluctuations as a result of various factors notably the following:

- the difference between the projected results and the real results;
- the analysis of the market by a third party;
- announcements of technological innovation or new products made by CO₂ Solution or by one of its competitors;
- the evolution of the climatic change industry;
- the fluctuation in the production of fossil fuels; or
 - the intensity of the national and international efforts concerning climatic change.

In addition, the financial markets have known important price and value fluctuations which particularly affected the price of securities of several corporations and which sometimes had nothing to do with the financial results of such corporations. These large market fluctuations and the general economic conditions of the climatic change industry could have a adverse effect on the price of the securities. There is no assurance that an active market can be established or maintained for CO₂ Solution's securities.

Loss of ownership of the assets

The occurrence of one of the risk factors identified herein, the simultaneously conjugation of some or many of them, in addition to their reoccurrence could place CO₂ Solution in default of respecting its obligations towards its creditors. The assets of CO₂ Solution could then be seized, be the object of a court sale or a taking in payment by its creditors, thus reducing the value of the Offering and as a consequence, the Units.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following text constitutes management's analysis of the company's financial standing and operating results for the periods indicated, as well as on certain factors which, in management's opinion, may impact the company's financial standing, cash flows and operating results. This review must be read in the light of the financial statements and accompanying notes, submitted elsewhere in this prospectus, in accordance with Canadian generally accepted accounting principles. Unless otherwise specified, all numbers are expressed in Canadian dollars.

Certain headings of this management analysis contain prospective statements reflecting the Company's current expectations regarding future activities. These prospective statements by no means guarantee the Company's future performance and involve risks and uncertainties, and hypotheses with regard to the firm. Management is under no obligation to update or review these prospective statements based on new information or future activities. Given these risks, uncertainties and hypotheses, it is possible that the activities targeted by the prospective statements featured in this management analysis may not occur.

OVERVIEW

CO₂ Solution is a high tech firm involved in recycling carbon dioxide (CO₂), the most abundant greenhouse gas. CO₂ Solution's vision is part of a sustainable development perspective, and it's management philosophy is based on respect, creativity and quality. The technology it has developed allows to biologically transform the CO₂ into environmentally safe matter. More specifically, it carries out research agreements and designs, develops and markets goods and services related to CO₂ management and removal by means of an enzyme conversion-based technology.

Since it was first established, the Company has been involved in developing the technological platform, raising capital, recruiting highly qualified personnel, acquiring a portfolio of important patents, establishing partnerships and alliances and developing administrative activities. The Company has invested approximately 6.7 million dollars (before investment tax credits and government assistance totalling 4.8 million dollars) towards the development of its patented technology. Development costs are charged to the results as soon as they are incurred, except when they meet the criteria for deferral required under generally accepted accounting principles, which are capitalized and amortized.

CO₂ Solution has now evolved from a firm essentially based on the research and development of a technology platform to a premarketing-oriented firm. The results obtained by the technology platform in an industrial setting open a very important potential market. Moreover, since the Kyoto Protocol now applies, the obligation to reduce CO₂ emissions becomes a major concern for industrialists. The firm's technology can therefore be considered as an interesting possible solution. To date, several major international firms have contacted the company and negotiations are underway for the establishment of partnerships which will open significant markets in various sectors, the main ones being thermal power plants, biogas, aluminium plants and metallurgy.

SELECTED ANNUAL INFORMATION

	As at June 30		
	2005	2004	2003
Total sales	\$259,916	\$44,000	\$141,000
Net loss	\$1,036,860	\$840,500	\$908,946
Net loss per share	\$0.04	\$0.04	\$0.06
Total assets	\$6,146,464	\$7,066,118	\$4,044,925
Long-term liabilities	\$90,756	\$219,517	\$1,181,421

The decrease in total assets as at June 30, 2005 primarily results from the use of liquid assets. The increase as at June 30, 2004 primarily results from the \$5,226,906 financing obtained following a share issue, after deducting the share issue expenses.

As for long-term liabilities, the main variation originates from the issuance of the convertible debentures for the period ended June 30, 2004, the early redemption and conversion of some of these debentures for a total of \$1,000,000.

OPERATING RESULTS

Comparison between fiscal years ended June 30, 2005 and June 30, 2004

Products

During the fiscal year ended June 30, 2005, the Company recorded earnings of \$259,916 as a result of research activities performed in the framework of the contract with the City of Québec. For the same period in 2004, earnings of \$44,000 were recorded for research activities conducted in the framework of a contract with the Aluminium Association of Canada.

Cost of sales

To perform the aforementioned research contracts, the Company had to bear direct and indirect costs totalling \$144,255 for the fiscal year ended June 30, 2005 and \$26,899 for the same period in 2004, thus yielding a gross margin of 44.5% and 38.87% respectively.

General and administrative expenses

General and administrative expenses amounted to \$1,189,275 for the fiscal year ended June 30, 2005, compared with \$666,614 for the same period in 2004, which corresponds to an increase of \$522,661. The major factors that contributed to this increase are:

- The hiring, in May 2004, of Mr. Jo Lanoë for the position of Vice-President – Business Development.
- The granting of stock option plans, during the fiscal year ended June 30, 2005 and 2004, resulting in a non-monetary charge of \$134,044 for the fiscal year ended June 30, 2005 compared with \$95,725 for the same period in 2004. The amounts were charged against the results to reflect the fair value of the stock-based compensation. This charge was recorded under the elements “Salaries and fringe benefits” and “Professional fees”.
- Mr. Jo Lanoë’s participation in numerous conventions and events during the fiscal year ended June 30, 2005. These participations were a means to meet with potential Mexican partners as well as international funding agencies already actively involved in the field of climate change and in clean development mechanisms; to look into possible partnerships with member countries of the European Union; and thus enter into an agreement-in-principle with Bio 3D Applications, but also to increase the Company’s visibility internationally through articles published in the print media and broadcast on the radio and through presentations of the firm’s technology to various major stakeholders involved in the field of climate change.
- Three contracts involving corporate communications and investor relations. These contracts especially help the Company develop a market positioning strategy, develop and maintain media and investor relations and bear the expenses of transfer agents.

- The grouping of the various facilities and the layout in a new single location in February 2005.

Net financial expenses

Net financial expenses for the fiscal year ended June 30, 2005 total a gain of \$36,754 compared with a cost of \$190,987 for the same period in 2004, a \$227,741 decrease. This decrease is primarily due to the two following factors:

The early redemption of debentures, as well as the debentures converted on March 19, 2004 explain the \$70,276 interest reduction, the \$54,228 rise in the value of the convertible debentures and the amortization and write-off of \$29,388 in deferred financing costs.

The short-term investment of the available cash assets originating from the March 19, 2004 public offering explains the \$41,437 increase in interest income.

Loss for the period

The Company recorded a loss of \$1,036,860, that is, \$0.04 per share, for the fiscal year ended June 30, 2005, compared with a loss of \$840,500, corresponding to \$0.04 per share, for the same period in 2004.

Comparison between the fiscal years ended June 30, 2004 and June 30, 2003

Products

During the fiscal year ended June 30, 2004, the Company recorded earnings of \$44,000 for the completion of the last milestone of a research agreement signed in 2003; this research agreement had provided earnings of \$141,000 during the fiscal year ended June 30, 2003.

Cost of sales

For the purpose of completing the above-mentioned research agreement, the Company assumed direct and indirect costs totalling \$26,899 for the fiscal year ended June 30, 2004 and \$91,817 for the same period in 2003, thus yielding a gross margin of 38.87% and 34.88% respectively.

General and administrative expenses

General and administrative expenses amounted to \$666,614 for the fiscal year ended June 30, 2004, compared with \$744,487 for the same period in 2003, corresponding to a decrease of \$77,873. The three factors that primarily contributed to this decrease are:

- The departure, at the beginning of the target period, of the Vice-President - Strategic Partnerships, who was appointed President of the Commission de la capitale nationale. This departure resulted in a decrease in payroll expenditures. This position was filled in May 2004 following Jo Lanoë's arrival.
- Following the granting of stock option plans during the fiscal year ended June 30, 2004, a non-monetary expense of \$95,725 (nil as at June 30, 2003) was assessed against the results to reflect the fair value of the stock-based compensation. These expenses were entered under the element "Salaries and fringe benefits".
- The increased government assistance following the agreement signed in March 2003 with Sustainable Development Technology Canada (SDTC) for an amount of \$176,969, compared with \$95,929 for the same period in 2003.

Net financial expenses

Net financial expenses for the fiscal year ended June 30, 2004 total \$190,987 compared with \$213,642 for the same period in 2003, corresponding to a \$22,655 decrease. This decrease is primarily due to the three following factors:

- The early redemption of certain debentures on March 19, 2004, thereby explaining the \$14,252 increase in amortization and write-off of deferred financing expenses, but a \$16,483 decrease of the interest on convertible debentures.
- Tax credits were financed through a \$600,000 bank loan contracted at the end of the fiscal year ended June 30, 2003 and bearing interest at prime plus 1.5%.
- An increase in the interest earned for a total of \$25,210 comes from a short-term investment following available cash assets as at June 30, 2004 resulting from the public offering.

Loss for the period

The Company recorded a loss of \$840,500, that is \$0.04 per share, for the fiscal year ended June 30, 2004, compared with a loss of \$908,946, that is \$0.06 per share for the fiscal year ended June 30, 2003.

UNAUDITED QUARTERLY FINANCIAL INFORMATION

The following table provides a summary of certain elements of financial data regarding the Company for each of the last eight quarters:

	Quarters ended							
	2004-2005				2004-2003			
	September 30, 2004	December 31, 2004	March 31, 2005	June 30, 2005	September 30, 2003	December 31, 2003	March 31, 2004	June 30, 2004
Total sales	\$ 0	\$ 0	\$ 173,177	\$ 86,639	\$ 0	\$ 0	\$ 44,000	\$ 0
Net loss	\$ 228,466	\$ 289,718	\$ 228,152	\$ 290,524	\$ 216,419	\$ 183,689	\$ 220,410	\$ 219,982
Net loss per share	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01

FOURTH QUARTER OF 2005

During the last quarter of 2005, the Company completed a feasibility study and an on-site test campaign with assessment unit for the City of Québec. The Company recorded a net loss of \$290,524, or \$0.01 per share, compared with a loss of \$219,982 or \$0.01 per share for the same period in 2004.

Administrative expenses increased In the last quarter of 2005, rising from \$206,384 in 2004 to \$351,640 this year, a \$145,256 increase. This is mainly due to the recording of a financial contribution of \$130,000 under the Immigrant Investor Program for business assistance. The net financial expenses of this last quarter of 2005 remained stable with respect to the same period last year, that is, \$13,872 in 2005, compared with \$13,598 in 2004.

CASH ASSETS AND FINANCIAL RESOURCES FOR THE FISCAL YEARS ENDED JUNE 30, 2005, 2004 AND 2003

The Company aims for the best possible conditions in the respect of the criteria related to diligence, administrative effectiveness, the Company's ethical values and development of Québec.

As at June 30, 2005, 2004 and 2003, cash flows amounted to \$201,874, \$363,105 and \$1,029,012 respectively. Investments in research and development, the debt service and the general working capital are at the origin of the Company's major cash requirements.

Management believes that its available cash flows and the addition of the net product derived from this investment will allow it to satisfy its requirements.

Operating activities

The negative cash flows assigned to operating activities totalled \$787,442, \$668,750 and \$765,573 in 2005, 2004 and 2003 respectively and essentially results from the difference between the losses for each of the fiscal years.

Investment activities

For the fiscal year ended June 30, 2005, the cash flows generated by investment activities totalled \$716,418, compared with cash flows from investment activities of \$3,884,481 and \$540,193 in 2004 and 2003 respectively.

- Short-term investments

The short-term investments stem from the liquid assets obtained following a public offering completed in March 2004. The short-term investments are composed of term deposits and marketable bonds.

- Intangible assets

For the fiscal year ended June 30, 2005, the \$896,702 investment was used for the design and calculation of processes by digital simulation, and for the development and physical installation of the secondary precipitation and powder extraction modules and gas cooling module. The funds were also used to simulate and develop the process chain for continuous operation, from compression of gaseous effluents to the re-circulation of an adjusted composition amine solution. This project required the design and development of a global instrumentation and control system for every module. These new modules were connected to the main CO₂ absorption module designed and developed during the previous fiscal year. This new industrial prototype, which can process 150 times more gas than the laboratory prototype, is used as an on-site assessment unit, thus allowing for the validation of technology in an industrial environment. For the fiscal year ended June 30, 2004, the \$1,174,684 investment was mainly used for trial and analysis using a closed circuit and integrated laboratory prototype, and for the design of the main CO₂ absorption module with a volume approximately 150 times greater than the laboratory prototype.

For the fiscal year ended June 30, 2003, the \$1,414,240 investment was used for the construction of a first closed circuit and integrated laboratory prototype (which combines the three functions: absorption column, ion concentration system and carbonate precipitation) and for the substantial reduction of the enzyme product costs.

- Property, plant and equipment

For the fiscal year ended June 30, 2005, a \$235,707 investment was needed, including \$112,629 to relocate the Company's facilities and \$123,078 to complete the design and installation of the secondary gas cooling, precipitation and powder extraction modules of the industrial prototype. During the same period in 2004, the Company purchased the mass immobilizer required to produce more enzymes to meet the needs of the industrial bioreactor.

Financing activities

The cash flows from financing activities for the fiscal year ended June 30, 2005 totalled \$90,207, which corresponds to the repayment of the long-term debt and to the capital lease obligations, as compared with cash flows of \$3,887,324 and \$1,896,398 for the same period in 2004 and 2003 respectively. During the target 2004 period, the Company totally repaid the \$600,000 loan guaranteed by La Financière du Québec, which had been used to finance the refundable tax credits as at June 30, 2003. \$520,000 of convertible debentures were redeemed early. The Company also issued shares totalling \$6,255,000 (\$5,226,906 after deducting share issue expenses). This cash inflow is mainly explained by the following elements:

- Stock options to a manager, exercised in consideration of \$5,000 in cash.
- On February 16, 2004, one of the convertible debenture holders invested an additional nominal \$150,000 amount, which was converted into common shares on March 19, 2004.
- On March 19, 2004, a private offering was carried out as a subscription for 793,651 units.
- On March 19, 2004, the Company received \$5,600,000 in consideration of a public offering of 8,000,000 units.

Finally, in 2003, the Company issued \$300,000 of convertible debentures and 605,860 shares totalling \$817,911.

During the fiscal year ended June 30, 2004, the Company incurred share issue expenses of \$1,134,114, including \$94,720 which corresponds to the fair value of the options provided as the agent's additional compensation, \$11,300 to write-off the deferred financing expenses and the \$1,028,094 balance paid in cash.

The financing needs may vary depending on several factors, including those described in the "Risk Factors" section.

INFORMATION REGARDING CAPITAL STOCK

As at November 3rd, 2005, the number of outstanding common shares, stock purchase warrants and stock options is respectively 26,530,779, 9,841,056 and 1,694,633.

RELATED PARTY TRANSACTIONS

During the year ended June 30, 2005, the Company paid \$4,792 (\$57,500 as at June 30, 2004 and 2003) to a company controlled by a director following a space rental agreement. During the year ended June 30, 2004, the Company also paid \$31,190 to a company employing a director for the purchase of a mass immobilizer. Finally, consulting fees are occasionally paid, including amounts of \$478 and \$1,598 as at June 30, 2004 and 2003 respectively.

These operations were measured based on the exchange value and took place in the normal course of business.

LEASE AGREEMENTS

During the year ended June 30, 2005, the Company entered into a lease agreement expiring in February 2015 which calls for lease payments of \$1,643,307 for the rental of premises. Minimum payments for the next five years are \$168,444 from 2006 to 2009 and \$170,864 in 2010.

NEW ACCOUNTING PRINCIPLES

Stock-based compensation

Effective July 1, 2003, the Company prospectively adopted the changes incurred in Section 3870 of the CICA Handbook, "Stock-Based Compensation and Other Stock-Based Payments" in September 2003. According to the changes implemented, a compensation expense is to be recorded in the financial statements for all types of stock-based compensation granted to directors, officers, employees and consultants, including stock options, using a fair value based method. In this connection, for fiscal year ended Jun 30, 2005, the Company recorded a \$134,044 (\$95,715 as at June 30, 2004) compensation expense equal to the fair value of the options granted to Company directors, officers, employees and consultants.

Generally Accepted Accounting Principles

In July 2003, the CICA published Section 1100 of its Handbook, entitled "Generally Accepted Accounting Principles" (GAAP), which applies to the fiscal periods beginning on October 1st, 2003. This new section defines the GAAP, clarifies the level of relative authority of the various statements of the Accounting Standards Board, spells out what should be done when a particular situation is not dealt with in the handbook and specifies the role of "sectional practice" by setting the GAAP. The Company adopted this new section on January 1st, 2004, this without affecting financial statements.

General Standards of Financial Statement Presentation

In July 2003, the CICA published the new Section 1400 of its Handbook, entitled "General Standards of Financial Statement Presentation", which applies to the fiscal periods beginning on October 1st, 2003. This new section confirms that financial statements must provide a fair presentation of an entity, in accordance with Canadian Generally Accepted Accounting Principles. The Company adopted this new section on January 1st, 2004, this without affecting financial statements.

Impairment of long-lived assets

On January 1st, 2003, the new CICA recommendations concerning Section 3063 “Impairment of Long-Lived Assets” of the CICA Handbook were adopted. According to this section, the impairment is recognised when the book value of an asset held and used exceeds the sum of the undiscounted cash flows before tax expected from its use. Impairment loss is measured as the amount by which the book value of the asset exceeds its fair value. Prior to July 1st, 2003, any recognised impairment loss was measured as the amount by which the book value of the assets exceeded net recovery value. The adoption of this new standard did not affect the results, the financial situation nor the Company’s cash flows.

ADDITIONAL AND CONTINUOUS DISCLOSURE

This analysis was prepared on November 3rd, 2005. Additional disclosure is provided on the SEDAR Web site at: www.sedar.com.

OTHER IMPORTANT FACTS

On February 5, 2004, the shareholders of the Company authorized its directors to introduce a shareholders appreciation of the shareholders’ rights whenever they consider it necessary, in order to protect the Company against the hostile takeovers, subject to the approval of the securities regulatory authorities concerned and the TSX-V. To this day, no such plan has been deemed necessary.

AUDITORS, TRANSFER AGENT AND AGENT RESPONSIBLE FOR MAINTAINING THE CORPORATE REGISTER

The auditors of CO₂ Solution are Raymond, Chabot, Grant, Thornton, chartered accountants, 140, Grande-Allée East, suite 200, Quebec City, Province of Quebec, G1R 5P7.

The Transfer Agent and the agent responsible for maintaining the corporate registers of CO₂ Solution is Investor Services Computershare Inc., whose principal place of business is located in Montreal,.

LEGAL ADVISORS

The Legal Advisors of the Company are Langlois Kronström Desjardins, L.L.P., Barristers and Solicitors at their offices located at 801, chemin Saint-Louis, suite 300, Quebec, Province of Quebec, G1S 1C1.

PURCHASERS' STATUTORY RIGHTS (RIGHT OF RESCISSION AND CIVIL PENALTIES)

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. The securities legislation further provides a purchaser the remedies for rescission, price revision, or, in some jurisdiction, damages, where the prospectus contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of the rights or consult with a legal adviser.

Auditors' Report

To the Directors of
CO₂ Solution inc.

We have audited the balance sheet of CO2 Solution inc. as at June 30, 2005 and the statements of earnings, contributed surplus, deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures for the years ended June 30, 2004 and 2003 are based upon financial statements which were reported on by other auditors who expressed an opinion without reservation on these financial statements in their reports dated July 26, 2004 and July 24, 2003.

Chartered Accountants

Québec
July 26, 2005

Suite 200
140 Grande-Allée East
Québec, Québec G1R 5P7
Telephone: (418) 647-3151
Fax: (418) 647-5939

Suite 103
5790 Étienne-Dallaire Blvd.
Lévis, Québec G6V 8V6
Telephone: (418) 835-3965
Fax: (418) 835-3975
www.rcgt.com

Auditors' Report

To the Directors of CO₂ Solution inc.

We have audited the balance sheet of **CO₂ Solution inc.** as at June 30, 2004 and the statement of earnings, deficit and cash flows for the years ended June 30, 2004 and 2003. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at June 30, 2004 and the results of its operations and its cash flows for the years ended June 30, 2004 and 2003 in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Quebec, Quebec, Canada
July 26, 2004

CO₂ Solution inc.

Earnings

Year ended June 30

	2005	2004	2003
	\$	\$	\$
Revenue	<u>259,916</u>	<u>44,000</u>	<u>141,000</u>
Cost of goods sold			
Direct research and development expenses	66,045	15,682	24,486
Amortization of technological platform development costs	<u>78,210</u>	<u>11,217</u>	<u>67,331</u>
	<u>144,255</u>	<u>26,899</u>	<u>91,817</u>
Gross profit	<u>115,661</u>	<u>17,101</u>	<u>49,183</u>
General and administrative expenses			
Salaries and employee benefits	688,019	506,088	469,898
Rent, electricity, taxes and insurance	124,821	131,896	118,259
Office and management expenses	78,725	73,501	44,810
Travel, entertainment and advertising	116,843	38,061	36,014
Tax on capital	51,831	17,627	25,485
Directors' fees	33,229	27,476	22,259
Professional fees	221,030	98,305	70,740
Combination of installations	47,079		
Amortization of property, plant and equipment	103,316	101,993	101,740
Amortization of deferred credits	(22,835)	(24,126)	(22,149)
Loss on disposal of property, plant and equipment	4,482		
Government assistance	<u>(257,265)</u>	<u>(304,207)</u>	<u>(122,569)</u>
	<u>1,189,275</u>	<u>666,614</u>	<u>744,487</u>
Net financial expenses			
Interest on bank loan	3,117	18,101	8,131
Interest on long-term debt	1,410	11,074	12,127
Interest on obligations under capital leases	2,460	1,900	570
Interest on convertible debentures	12,360	82,636	99,119
Accretion on convertible debentures	3,809	58,037	64,700
Amortization and write-off of deferred financing expenses	4,584	33,972	19,720
Financing professional fees	11,968	13,213	19,090
Interest income	(76,462)	(35,025)	(9,815)
Writedown of investments		14,460	
Profit on redemption of convertible debentures		<u>(7,381)</u>	
	<u>(36,754)</u>	<u>190,987</u>	<u>213,642</u>
	<u>1,152,521</u>	<u>857,601</u>	<u>958,129</u>
Net loss	<u>1,036,860</u>	<u>840,500</u>	<u>908,946</u>
Basic and diluted loss per share (Note 17)	<u>0.04</u>	<u>0.04</u>	<u>0.06</u>

The accompanying notes are an integral part of the financial statements.

CO₂ Solution inc.
Contributed Surplus
Deficit

Year ended June 30

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	\$	\$	\$
CONTRIBUTED SURPLUS			
Balance, beginning of year	219,609		
Advance redemption of debentures (Note 11)		219,609	
Cancellation of stock options (Note 14)	<u>3,383</u>		
Balance, end of year	<u>222,992</u>	<u>219,609</u>	
	<u>2005</u>	<u>2004</u>	<u>2003</u>
	\$	\$	\$
DEFICIT			
Balance, beginning of year	5,295,638	3,321,024	2,412,078
Net loss	1,036,860	840,500	908,946
Share issue expenses (Notes 13a and 14a)		<u>1,134,114</u>	
Balance, end of year	<u>6,332,498</u>	<u>5,295,638</u>	<u>3,321,024</u>

The accompanying notes are an integral part of the financial statements.

CO₂ Solution inc.

Cash Flows

Year ended June 30

	2005	2004	2003
	\$	\$	\$
OPERATING ACTIVITIES			
Net loss	(1,036,860)	(840,500)	(908,946)
Items and impact on cash and cash equivalents			
Amortization	163,275	123,056	166,642
Loss on disposal of property, plant and equipment	4,482		
Gain on redemption of convertible debentures		(7,381)	
Accretion of convertible debentures	3,809	58,037	64,700
Stock-based compensation	134,044	95,725	
	(731,250)	(571,063)	(677,604)
Change in non-cash working capital items			
Accounts receivable	(124,120)	19,065	(132,306)
Prepaid expenses	(8,101)	(24,421)	(20,190)
Accounts payable and accrued liabilities	76,029	(92,331)	64,527
	(56,192)	(97,687)	(87,969)
	(787,442)	(668,750)	(765,573)
INVESTING ACTIVITIES			
Temporary investments	1,103,946	(3,775,149)	
Amounts capitalized to intangible assets	(896,702)	(1,174,684)	(1,414,240)
Tax credits received	621,433	1,055,967	793,102
Government assistance received	121,421	93,261	97,219
Additions to property, plant and equipment	(235,707)	(83,876)	(16,274)
Disposal of property, plant and equipment	2,027		
	716,418	(3,884,481)	(540,193)
FINANCING ACTIVITIES			
Change in bank loan		(600,000)	600,000
Long-term debt			300,000
Instalments on long-term debt	(77,167)	(226,000)	(103,083)
Deferred financing expenses			(41,769)
Repayment of obligations under capital leases	(13,040)	(9,582)	(3,061)
Issuance (redemption) of convertible debentures		(520,000)	300,000
Deferred credits		16,000	26,400
Issuances of shares, net of issue expenses		5,226,906	817,911
	(90,207)	3,887,324	1,896,398
Net increase (decrease) in cash	(161,231)	(665,907)	590,632
Cash, beginning of year	363,105	1,029,012	438,380
Cash, end of year	201,874	363,105	1,029,012
Supplementary information			
Items and impact on cash and cash equivalents related to investing activities			
Intangible assets payable	97,502	83,111	134,123
Property, plant and equipment acquired under capital leases			39,125
Government assistance receivable	77,054	59,208	44,528
Other			
Interest paid	16,229	116,822	109,594
Interest received	42,495	27,795	6,250

The accompanying notes are an integral part of the financial statements.

CO₂ Solution inc.

Balance Sheet

June 30

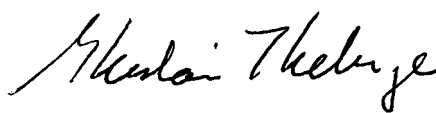
	2005	2004
	\$	\$
ASSETS		
Current assets		
Cash	201,874	363,105
Temporary investments (Note 3)	2,671,203	3,775,149
Accounts receivable (Note 4)	299,072	125,299
Tax credits receivable	281,536	621,539
Prepaid expenses	52,712	44,611
	3,506,397	4,929,703
Government assistance (Note 5)	65,000	97,500
Property, plant and equipment (Notes 6 and 10)	513,882	388,000
Deferred financing expenses		4,584
Patents, at cost	306,594	252,591
Technology platform development costs (Note 7)	1,754,591	1,393,740
	6,146,464	7,066,118
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	277,708	187,288
Instalments on long-term debt		77,167
Instalments on obligations under capital leases	11,712	13,042
	289,420	277,497
Obligations under capital leases (Note 10)	1,730	13,440
Convertible debentures (Note 11)		96,191
Deferred credits (Note 12)	89,026	109,886
	380,176	497,014
SHAREHOLDERS' EQUITY		
Capital stock (Note 13)	10,659,858	10,549,834
Conversion options and share rights related to convertible debentures (Note 11)		10,024
Stock options (Note 14)	321,106	190,445
Warrants (Note 13)	894,830	894,830
Contributed surplus	222,992	219,609
Deficit	(6,332,498)	(5,295,638)
	5,766,288	6,569,104
	6,146,464	7,066,118
Commitments (Note 20)		

The accompanying notes are an integral part of the financial statements.

On behalf of the Board,



Director



Director

CO₂ Solution inc.
Notes to Financial Statements
June 30, 2005 and 2004

1 - GOVERNING STATUTES AND NATURE OF OPERATIONS

On March 18, 2004, the Company amalgamated with 9081-5044 Québec inc. (SPEQ CO2 Solution), 9118-2402 Québec inc. (SPEQ CO2 Solution II), 9067-3427 Québec inc. and 9079-6707 Québec inc. All of the amalgamated companies' issued and outstanding shares of capital stock were converted into common shares of the capital stock of the amalgamated company, except for the shares of the amalgamated companies held by either one of them, which were cancelled without distribution of the corresponding capital. The only asset of these companies was the interest they held in CO2 Solution inc.

The amalgamated company, incorporated under Part 1A of the Companies Act (Québec), has retained the corporate name of CO2 Solution inc. This Company is a high technology enterprise involved in recycling carbon dioxide (CO2). More specifically, it carries out research agreements and designs, develops and markets goods and services related to CO2 management and removal through an enzyme conversion-based technology.

2 - ACCOUNTING POLICIES

Accounting estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates that affect the amounts of assets and liabilities reported in the financial statements. Those estimates also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the year. Significant estimates include refundable tax credits, the useful lives and recoverable value of property, plant and equipment and intangible assets and certain accrued liabilities. Actual results could differ from those estimates.

Cash, cash equivalents and temporary investments

The Company's policy is to present cash, cash equivalents and temporary investments having a term of three months or less from the acquisition date with cash and cash equivalents. During the year ended June 30, 2005, the Company also retroactively reclassified its term deposits and negotiable bonds maturing in more than three months from cash and cash equivalents to temporary investments. The cash flows statement has been revised to reflect retroactively the changes in temporary investments in investing activities.

Amortization

Property, plant and equipment are recorded at cost. Amortization is based on the estimated useful lives of property, plant and equipment and is calculated using the following methods and rates:

	<u>Methods</u>	<u>Rate and term</u>
Laboratory equipment and layout	Diminishing balance	20%
Computer equipment	Diminishing balance	30%
Office equipment	Diminishing balance	20%
Leasehold improvements	Straight-line	10 years

Deferred financing expenses

Deferred financing expenses are amortized using the straight-line method over the term of the related financing.

Intangible assets

Technological platform development costs are recorded at cost less related tax credits and government assistance. These costs are amortized using a sales-based method with respect to total estimated sales resulting from the technological platform.

Patents, obtained or pending, are recorded at cost and will be amortized over the estimated economic life from the marketing date of the process.

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Notes to Financial Statements
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2 - ACCOUNTING POLICIES (Continued)

Impairment of long-lived assets

Long-lived assets are reviewed for impairment when events or circumstances indicate that costs may not be recoverable. Under Section 3063, Impairment of Long-lived Assets, of the Canadian Institute of Chartered Accountants ("CICA") Handbook, since July 1, 2003, impairment exists when the carrying value of an asset group is greater than the pre-tax undiscounted future cash flows expected to be provided by the asset group. The amount of impairment loss, if any, is the excess of the carrying value over the fair value. Before July 1, 2003, an impairment was recognized when the carrying value of an asset group was greater than the net recoverable amount, with the amount of any impairment corresponding to that excess.

Research and development expenses

Expenses related to research activities are expensed as incurred. Expenses related to development activities are expensed as incurred except for those which meet generally accepted criteria for deferral, which are capitalized and amortized using the aforementioned method.

Tax credits and government assistance

Tax credits and government assistance are accounted for in the year during which the related expenses are incurred, provided the Company has reasonable assurance that these amounts will be recovered. Tax credits and government assistance related to technological platform development costs are applied against the carrying value of intangible assets. Those relating to property, plant and equipment are recorded as deferred credits in the balance sheet and are amortized on the same basis as the related assets. The tax credits must be reviewed and approved by the tax authorities, accordingly, the amounts granted may differ from the amounts recorded.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined according to deductible or taxable temporary differences between the carrying amounts and tax bases of assets and liabilities. They are measured by applying enacted or substantively enacted tax rates and laws at the date of the financial statements for the years in which the temporary differences are expected to reverse.

The Company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all the future income tax assets will not be realized.

Future employee benefits

During the year ended October 31, 2001, the Company set up a simplified pension plan. Under this plan, the Company pays a contribution equal to the employee contribution up to 2% of gross earnings.

Revenue recognition

The Company's revenue is derived from research contracts, design, development and marketing of goods and services related to the management and elimination of CO₂.

The Company recognizes revenue from research contracts when the research activities under the contract are carried through, the contract amount is fixed and collection is reasonably assured.

These agreements usually provide for one-time payments (upfront payments) and payments for research services in the form of cost reimbursements and milestone payments.

Milestone payments are recognized when appropriate research results are achieved in accordance with the terms of the agreements.

CO₂ Solution inc.
Notes to Financial Statements
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2 - ACCOUNTING POLICIES (Continued)

Share issue expenses

Share issue expenses are accounted for in the statement of deficit.

Earnings per share

Basic earnings per common share are calculated by dividing net earnings available for common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated taking into account the potential dilution that would result if the convertible debentures were converted into common shares and if the common share stock options and warrants were exercised or converted into common shares at the later of the beginning of the period or their issue date. The dilution effect is determined using the if-converted method for the convertible debentures and the treasury stock method for the stock options and the warrants.

Stock-based compensation

The Company maintains a stock-based compensation plan which is described in note 14. The Company recognizes a compensation expense in the financial statements for all types of stock-based compensation granted to directors, executives, employees of the Company and a consultant, including stock options, using the fair-value based method.

New accounting policies in 2004

The Company maintains a stock-based compensation plan which is described in note 14. Effective July 1, 2003, the Company prospectively adopted the amendments brought in September 2003 to Section 3870 Compensation and Other Stock-Based Payments of the CICA Handbook. These amendments require that compensation costs arising from all types of stock-based payments granted to directors, executives, employees and consultants, including stock options, be accounted for in the financial statements using the fair value-based method. For the year ended June 30, 2005, the Company recorded a compensation expense of \$134,044 (\$95,725 as at June 30, 2004), which represents a \$0.005 impact on the basic and diluted loss per share (\$0.005 as at June 30, 2004).

In July 2003, the CICA issued Sections 1100 and 1400 Generally Accepted Accounting Principles and General Standards of Financial Statement Presentation. These new sections define generally accepted accounting principles ("GAAP"), establish the relative authority of various types of CICA Accounting Standards Board pronouncements and clarify the role of industry practice in setting GAAP. The adoption of these new standards effective on January 1, 2004 had no impact on the Company's financial statements.

On July 1, 2003, the Company adopted the new recommendations of CICA Handbook Section 3063, Impairment of Long-lived Assets. Under this section, an impairment is recognized when the carrying amount of an asset that is held and used is greater than the undiscounted pre-tax future cash flows from the asset group. The amount of impairment loss, if any, is the excess of the carrying value over the fair value. Before July 1, 2003, an impairment was recognized when the carrying value of an asset group was greater than the net recoverable amount, the amount of any impairment corresponding to that excess. Adoption of these new recommendations did not have any impact on the Company's financial statements.

3 - TEMPORARY INVESTMENTS

	2005	2004
	\$	\$
Term deposits, 2.35% and 2.40% maturing in 2006 (1.9% and 2.05% in 2004, maturing in July 2004)	703,859	1,827,644
Negotiable bonds, 2.39% and 2.13% (1.9% and 2.05% in 2004), maturing in 2006, at cost equivalent to market value	1,967,344	1,947,505
	<u>2,671,203</u>	<u>3,775,149</u>

CO₂ Solution inc.
Notes to Financial Statements
June 30, 2005 and 2004

4 - ACCOUNTS RECEIVABLE

	2005	2004
	\$	\$
Trade accounts	99,656	5,000
Government assistance	185,768	97,247
Commodity taxes	12,450	23,052
Other	1,198	
	<u>299,072</u>	<u>125,299</u>

5 - GOVERNMENT ASSISTANCE

	2005	2004
	\$	\$
Grant from Investissement Québec, non-refundable pursuant to the Immigrant Investors Program for Business Assistance, receivable in annual equal and consecutive payments of \$32,500 (Note 15)	97,500	130,000
Less current portion	<u>32,500</u>	<u>32,500</u>
	<u>65,000</u>	<u>97,500</u>

6 - PROPERTY, PLANT AND EQUIPMENT

	2005		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Laboratory equipment and layout	585,391	253,746	331,645
Computer equipment	156,637	118,340	38,297
Office equipment	120,470	30,889	89,581
Leasehold improvements	31,674	792	30,882
Laboratory equipment under capital leases	36,135	13,940	22,195
Computer equipment under capital lease	<u>2,990</u>	<u>1,708</u>	<u>1,282</u>
	<u>933,297</u>	<u>419,415</u>	<u>513,882</u>

	2004		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Laboratory equipment and layout	466,515	186,209	280,306
Computer equipment	155,312	102,184	53,128
Office equipment	50,445	25,455	24,990
Laboratory equipment under capital leases	36,135	8,390	27,745
Computer equipment under capital lease	<u>2,990</u>	<u>1,159</u>	<u>1,831</u>
	<u>711,397</u>	<u>323,397</u>	<u>388,000</u>

CO₂ Solution inc.
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June 30, 2005 and 2004

7 - TECHNOLOGICAL PLATFORM DEVELOPMENT COSTS

The following tables summarize the activity related to technological platform development costs for the years ended June 30, 2005 and 2004:

	Balance as at June 30, 2004	Changes in the year	Balance as at June 30, 2005
	\$	\$	\$
Technological platform development			
Cost of technologies	110,000		110,000
Salaries and fees	4,274,806	727,345	5,002,151
Service contracts	758,426		758,426
Project management	96,886		96,886
Laboratory supplies and other	604,388	129,745	734,133
	<u>5,844,506</u>	<u>857,090</u>	<u>6,701,596</u>
Tax credits	(3,254,256)	(279,455)	(3,533,711)
Government assistance	(1,117,962)	(138,574)	(1,256,536)
Amounts capitalized to intangible assets, at cost	1,472,288	439,061	1,911,349
Less: Accumulated amortization	78,548	78,210	156,758
	<u>1,393,740</u>	<u>360,851</u>	<u>1,754,591</u>
	Balance as at June 30, 2003	Changes in the year	Balance as at June 30, 2004
	\$	\$	\$
Technological platform development			
Cost of technologies	110,000		110,000
Salaries and fees	3,295,099	979,707	4,274,806
Service contracts	758,426		758,426
Project management	96,886		96,886
Laboratory supplies and other	507,873	96,515	604,388
	<u>4,768,284</u>	<u>1,076,222</u>	<u>5,844,506</u>
Tax credits	(2,662,477)	(591,779)	(3,254,256)
Government assistance	(983,621)	(134,341)	(1,117,962)
Amounts capitalized to intangible assets, at cost	1,122,186	350,102	1,472,288
Less: Accumulated amortization	67,331	11,217	78,548
	<u>1,054,855</u>	<u>338,885</u>	<u>1,393,740</u>

8 - BANK LOANS

As at June 30, 2005, the Company has an available unused authorized line of credit of \$100,000, bearing interest at the prime rate plus 2.25% (6.50%; 6% as at June 30, 2004), for which a deposit certificate of \$60,000 has been given as security.

Under this line of credit, the Company must maintain a minimum working capital ratio of 1.5:1 and a total debt/equity ratio not exceeding 3:1. As at June 30, 2005, the Company is in compliance with these ratios.

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9 - LONG-TERM DEBT

	2005	2004
	\$	\$
Bank loan, prime rate plus 3% (6.75% as at June 30, 2004), payable in monthly principal instalments of \$4,250 plus interest, repaid during the year		4,250
Bank loan, prime rate plus 1.75% (5.5% as at June 30, 2004), payable in monthly principal instalments of \$10,417 plus interest, repaid during the year		72,917
		77,167
Instalments due within one year		77,167
	—	—

During the year ended June 30 2005, the Company negotiated a term loan to purchase equipment for an authorized but unused amount as at June 30, 2005 of \$250,000, bearing interest at the prime rate plus 1.75% (6%), secured by a first movable hypothec on the equipment and a deposit certificate of \$150,000.

10 - OBLIGATIONS UNDER CAPITAL LEASES

	2005	2004
	\$	\$
Obligations on equipment, secured by equipment having an amortized value of \$23,477, rates ranging between 10.1% and 20.1%, payable in monthly instalments of \$287 and \$1,005 including principal and interest, maturing in December 2005 and May 2006, respectively	13,442	26,482
Less current portion	11,712	13,042
	1,730	13,440

Estimated future payments under these capital leases for the year 2006 are as follows:

	\$
2006	13,780
2007	2,009
Total minimum lease payments	15,789
Interest expense included in minimum lease payments	2,347
	13,442

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Notes to Financial Statements
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11 - CONVERTIBLE DEBENTURES

The following table shows the changes since July 1, 2002:

	Liability component	Equity component
	\$	\$
Balance as at July 1, 2002	585,349	335,340
Debenture issue	269,928	30,072
Accretion on convertible debentures	64,700	
Balance as at June 30, 2003	919,977	365,412
Issuance of a debenture converted into common shares (a)		150,000
Accretion on convertible debentures	58,037	
Advance redemption of debentures (b)	(527,381)	(219,609)
Conversion of debentures into common shares (c)	(354,442)	(285,779)
Balance as at June 30, 2004	96,191	10,024
Accretion on convertible debentures	3,809	
Conversion of convertible debenture into common shares (d)	(100,000)	(10,024)
	<u> </u>	<u> </u>

- a) On February 16, 2004, an additional debenture for a nominal value of \$150,000. On March 19, 2004, this amount was converted into common shares at a unit price of \$0.49 for a total of 306,122 common shares plus the issuance of 510,203 warrants.
- b) On March 19, 2004, the Company redeemed \$520,000 of convertible debentures with a nominal value of \$600,000 from the proceeds of the public offering. The holders of these convertible debentures waived the right to invest the additional \$150,000 provided in the initial agreement.
- c) On March 19, 2004, the Company converted the convertible debentures and their capitalized interest into common shares at a unit price of \$0.57 for a total of 735,615 common shares plus an equivalent number of warrants. The nominal value of these convertible debentures was \$400,000. The holders of these convertible debentures waived the right to invest the additional \$150,000 provided in the initial agreement.
- d) On April 28, 2005, the Company converted the convertible debentures and their capitalized interest into common shares at a unit price of \$0.49 for a total of 204,082 common shares. The nominal value of these convertible debentures was \$100,000.

The participation rights on the debentures were abandoned or converted by their holders.

12- DEFERRED CREDITS

	2005	2004
	\$	\$
Government assistance and tax credits on laboratory equipment and layout, at amortized cost		
Government assistance	18,320	23,144
Tax credits	70,706	86,742
	<u>89,026</u>	<u>109,886</u>

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13 - CAPITAL STOCK

After filing the articles of amalgamation on March 17, 2004, the Company's authorized capital stock, which consisted of an unlimited number of Class A, B, C, D, E, F and G shares, now consists of an unlimited number of common shares, without par value, voting and participating.

Issued and fully paid

The following table shows the changes in the Company's capital stock during the years ended June 30, 2005 and 2004:

		2005		2004
	Number	\$	Number	\$
Issued and fully paid				
Class A shares				
Balance, beginning of year			10,614,286	523,234
Issued following the exercise of stock options by an officer (Note 14c)			500,000	5,000
Conversion into common shares at the amalgamation date			(11,114,286)	(528,234)
Balance, end of year	—	—	—	—
Class B shares				
Balance, beginning of year			4,814,523	3,951,209
Conversion into common shares at the amalgamation date			(4,814,523)	(3,951,209)
Balance, end of year	—	—	—	—
Class C shares				
Balance, beginning of year			562,500	225,000
Conversion into common shares at the amalgamation date			(562,500)	(225,000)
Balance, end of year	—	—	—	—
Common shares				
Balance, beginning of year	26,326,697	10,549,834		
Conversion of class A, B and C shares on the amalgamation date			16,491,309	4,704,443
Issued following conversion of convertible debentures (Note 11)	204,082	110,024	1,041,737	486,248
Issued for cash following a private placement (a)			793,651	407,143
Issued following the public offering (b)			8,000,000	4,952,000
Balance, end of year	26,530,779	10,659,858	26,326,697	10,549,834

CO₂ Solution inc.
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13 - CAPITAL STOCK (Continued)

- (a) Private placement, in the form of a subscription for 793,651 units, at a unit price of \$0.63, each unit consisting of one common share and 0.75 warrant; an amount of \$92,857 was attributed to the warrants.
- (b) Pursuant to a public offering, the Company issued 8,000,000 units for gross proceeds of \$5,600,000; an amount of \$648,000 was attributed to the warrants. The agent's fee and the share issue expenses totalled \$1,108,814 and have been included in the statement of deficit. Each unit consists of one common share and one warrant.

The following table shows the changes in the Company's warrants during the years ended June 30, 2005 and 2004:

	June 30, 2005		June 30, 2004	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding, beginning of year	9,841,056	\$0.99		
Granted			9,841,056	\$0.99

The following table summarizes the expiry date of the outstanding warrants and their fair value according to the Black-Scholes option pricing model:

	Fair value at time of grant
	\$
8,735,615 \$1.00 warrants, expiring in March 2006	707,585
510,203 \$0.85 warrants, expiring in March 2006	94,388
595,238 \$1.00 warrants, expiring in February 2006	92,857
	<u>894,830</u>

The Board of Directors, with the approval of the Canadian Securities Administrators, accepted that these warrants, expiring initially in February and March 2005, could be exercised until March 2006.

14 - STOCK OPTIONS

- a) In connection with the public offering, as additional compensation, the agent was granted options entitling him to purchase 640,000 common shares corresponding to 8% of the total number of units distributed in connection with this offering at a price of \$0.70 each. This additional compensation was included in the share issue expenses of the statement of deficit. These options are recorded at their fair value of \$94,720 determined according to the Black-Scholes option pricing model.

CO₂ Solution inc.
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14 - STOCK OPTIONS (Continued)

- b) The Company has a stock option plan for directors, officers, employees and consultants. All the options granted under the terms of the plan may be exercised within a maximum five-year period commencing on the date of grant. The Board of Directors will designate the optionees and determine the number of common shares involved in each of these options, the vesting date, the exercise price and the expiry date of these options. The stock acquisition price must not be less than the closing price on the day prior to the date of grant of these shares.

The maximum number of common shares issued under the terms of the plan was established at 2,632,670 which corresponds to 10% of the issued and outstanding shares of capital stock. The maximum number that may be granted to a director, officer and employee of the Company or a consultant shall not exceed 2.5% of all the outstanding stock options.

The following table summarizes information about outstanding and exercisable stock options as at June 30, 2005:

	2005		2004	
	Number	Weighted average exercise price	Number	Weighted average exercise price
		\$		\$
Outstanding, beginning of year	1,505,500	0.69		
Granted during year	222,433	0.82	1,505,500	0.69
Cancelled	(33,300)	0.70		
Outstanding, end of year	1,694,633	0.71	1,505,500	0.69
Exercisable, end of year	693,367	0.71	–	–

As at June 30, 2005, the following stock options had been granted:

Exercise price \$	Outstanding options			Exercisable options	
	Number	Weighted average exercise price \$	Weighted average remaining contractual life (years)	Number	Weighted average exercise price \$
0.70	1,297,200	0.70	3.70	518,880	0.70
0.62	175,000	0.62	3.80	70,000	0.62
0.82	147,433	0.82	4.90	29,487	0.82
0.82	75,000	0.82	4.30	75,000	0.82
	1,694,633	0.71	3.84	693,367	0.71

CO₂ Solution inc.
Notes to Financial Statements
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14 - STOCK OPTIONS (Continued)

The fair value of the options was determined according to the Black-Scholes option pricing model based on the following hypotheses:

		2005	2004
	Consultant	Employees, executives and directors	Employees, executives and directors
Risk-free interest rate	3.14%	3.57%	3.11%
Expected volatility	97%	97%	60%
Dividend yield	Nil	Nil	Nil
Expected life of each option granted	6 months	36 months	36 months
Fair value of each option granted	\$0.22	\$0.51	\$0.24

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because these stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide an accurate measure of the fair value of stock options granted.

- c) Before establishing the plan, the Company granted an officer and an employee stock options for 500,000 shares at \$0.01 per share and 500,000 shares at \$0.60 per share, which are exercisable until July 31, 2004 and July 30, 2006, respectively. The stock options for 500,000 shares at \$0.01 per share were exercised during the year ended June 30, 2004 whereas the 500,000 options at \$0.60 per share were cancelled following the employee's departure.
- d) For the year ended June 30, 2005, the Company recorded a \$134,044 compensation expense (\$95,725 expense as at June 30, 2004, nil in 2003), which represents a \$0.005 impact on the basic and diluted loss per share (\$0.005 in 2004).

15 - GOVERNMENT ASSISTANCE AND FINANCIAL CONTRIBUTION

On March 12, 2003, the Company entered into a grant agreement with Sustainable Development Technology Canada (SDTC) in order to carry out the project to adapt the technological platform to industrial use. Under this agreement, the contribution from SDTC may reach \$1,000,000. During the year ended June 30, 2005, an amount of \$270,000 (\$360,000 in 2004, nil as at June 30, 2003) was received.

For the years ended June 30, 2005, 2004 and 2003, the Company recognized amounts of \$369,826, \$262,691 and \$140,457 respectively related to this agreement which are included as "Technological platform development" and "General and administrative expenses" for amounts of \$122,561, \$247,265 and \$44,528 and \$85,722, \$176,969 and \$95,929 respectively.

CO₂ Solution inc.

Notes to Financial Statements

June 30, 2005 and 2004

15 - GOVERNMENT ASSISTANCE AND FINANCIAL CONTRIBUTION (Continued)

To benefit from this assistance, the Company must demonstrate the advancement of its technology. SDTC reserves the right to cancel the assistance if the following events occur which are cause for cancellation of the contract:

- a) The Company goes into bankruptcy or becomes insolvent or is placed in receivership;
- b) The Company is dissolved or wound up;
- c) The Company provides false information or makes false representations to SDTC regarding the contract;
- d) The Company is in breach of contract regarding this contract and such breach could not be remedied within 60 days of SDTC being officially notified of such breach.

Furthermore, the Company entered into an agreement to benefit from a financial contribution for a total amount of \$130,000 under the Immigrant Investor Program for Business Assistance. The project was completed during the period ended June 30, 2004. The Company recognized amounts of \$100,000, \$14,000 and \$16,000 which are included as "General and administrative expenses", "Patents" and "Deferred credits" respectively.

16 - INCOME TAXES

The income tax provision is detailed as follows:

	2005		2004	
	\$	%	\$	%
Income taxes at statutory rates	(321,634)	31.02	(260,723)	31.02
Non-deductible stock-based compensation	(41,580)	4.01	(29,694)	3.53
Expired non-capital losses	27,992	(2.69)		
Valuation allowance	313,408	(30.22)	346,008	(41.16)
Other	21,814	(2.12)	(55,591)	6.61
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Future income tax assets and liabilities arise from variances between the carrying amounts and tax bases of the following amounts:

	2005	2004
	\$	\$
Future income tax assets resulting from the following:		
Property, plant and equipment	24,315	15,200
Development expenses	(639,379)	(496,109)
Share issue expenses	260,693	338,358
Research and development expenses	674,185	452,504
Tax losses	1,547,835	1,216,296
Net future income tax assets	<u>1,867,649</u>	<u>1,526,249</u>
Valuation allowance	<u>(1,867,649)</u>	<u>(1,526,249)</u>
Net future income tax assets recorded	<u>-</u>	<u>-</u>

As at June 30, 2005, for federal and provincial income tax purposes, the Company has accumulated non-capital losses of approximately \$5,078,000 and \$4,767,000, respectively. These losses can be carried forward against future years' taxable income and will expire no later than 2015.

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16 - INCOME TAXES (Continued)

As at June 30, 2005, non-capital losses are detailed as follows:

	Federal	Provincial
	\$	\$
2006	513,000	513,000
2007	851,000	816,000
2008	961,000	925,000
2009	820,000	740,000
2010	567,000	518,000
2011	120,000	93,000
2015	1,246,000	1,162,000
	<u>5,078,000</u>	<u>4,767,000</u>

Some research and development costs incurred by the Company can be carried forward against future years' taxable income. These unclaimed deductions, which can be carried forward indefinitely, amount to approximately \$1,510,000 for federal purposes and \$3,821,000 for provincial purposes.

As at June 30, 2005, federal investment tax credits are detailed as follows:

Expiration date:	\$
2007	1,400
2009	3,300
2010	59,300
2011	25,900
2012	11,100
2013	15,200
2014	65,200
2015	161,600
	<u>343,000</u>

Loss carryforwards and research and development expenses could be subject to a review and possible adjustment by the tax authorities.

17 - EARNINGS PER SHARE

The following table summarizes the basic and diluted weighted average number of shares outstanding used in the basic and diluted loss per share calculations:

	2005	2004	2003
	\$	\$	\$
Basic and diluted weighted average number of shares outstanding	<u>26,361,922</u>	<u>19,142,117</u>	<u>15,755,349</u>

For the years ended June 30, 2005, 2004 and 2003, the diluted weighted average number of shares outstanding was the same as the basic weighted average number of shares since the effect of stock options, warrants and convertible debentures would have been anti-dilutive. Accordingly, the diluted loss per share for these years was calculated using the basic weighted average number of shares outstanding.

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18 - RELATED PARTY TRANSACTIONS

In the normal course of operations, the Company occasionally pays consulting or advisory fees as well as other fees to related businesses. These transactions are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

These transactions are recorded in the financial statements under the following items:

	2005	2004	2003
	\$	\$	\$
Capital transactions			
Property, plant and equipment (a)		31,190	
Intangible assets (a) et (c)			1,591
Earnings			
Rent (c)	4,792	57,500	57,500
Professional fees (a) and (b)		478	1,598

- (a) paid to a company employing a director
- (b) paid to a director
- (c) paid to a company controlled by a director

19 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value

The carrying amount of cash and cash equivalents, accounts receivable, tax credits receivable, accounts payable and accrued liabilities as well as obligations under capital leases approximates the fair value given the short period to maturity. The fair value of government assistance, long-term debt and convertible debentures has been established by discounting the future receipt or disbursements at an interest rate equal to that which the Company would currently be able to obtain for investment or loans with similar terms and maturity dates.

	Fair value	2005 Carrying amount	Fair value	2004 Carrying amount
	\$	\$	\$	\$
Government assistance	77,664	97,500	118,285	130,000
Long-term debt	-	-	77,167	77,167
Convertible debentures	-	-	96,853	96,191

Credit risk

The Company considers that the credit risk is minimal and that there is no particular concentration of credit risk.

20 - COMMITMENTS

Royalties

Further to the sale of technology agreement dated May 21, 1998, and amended March 3, 2004, the Company reached agreement with an officer having a controlling interest in the Company to pay him a royalty corresponding to 5% cumulative gross earnings exceeding \$5,000,000, calculations based on the Company's audited annual financial statements. The maximum limit of royalties has been set at \$1,000,000 for the period ending January 1, 2020.

Lease agreements

During the year ended June 30, 2005, the Company entered into a lease agreement expiring in February 2015 which calls for lease payments of \$1,643,307 for the rental of premises. Minimum payments for the next five years are \$168,444 from 2006 to 2009 and \$170,864 in 2010.

CO₂ Solution inc.

Notes to Financial Statements

June 30, 2005 and 2004

21 - SEGMENT DISCLOSURE

The Company has examined its activities and determined that it operates in a single reportable segment. This single reportable segment derives its income from the sale of procedures relating to the management and elimination of CO₂ using an enzyme conversion-based technology.

The Company earns its income and uses its assets in Canada.

22 - COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

CERTIFICATES

Certificate of CO₂ Solution Inc.

November 4, 2005

The preceding text is a full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation as required by Part 9 of the *Securities Act* (British Columbia), Part 9 of the *Securities Act* (Alberta), Part XV of the *Securities Act* (Ontario) and the related regulations. For the purposes of the securities legislation in the Province of Quebec this prospectus contains no misrepresentation which could affect the value or the market price of the securities to be distributed under this Offering.

CO₂ Solution Inc.

(s) Ghislain Th��berge	(s) Linda Parent
President and Chief Executive Officer, Secretary and Director	Vice-President Finance and Administration

On behalf of the directors

(s) R��jean Blais	(s) Kimberley Okell
Director	Director

Certificate of the Promoter

November 4, 2005

The preceding text is a full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation as required by Part 9 of the *Securities Act* (British Columbia), Part 9 of the *Securities Act* (Alberta), Part XV of the *Securities Act* (Ontario) and the related regulations. For the purposes of the securities legislation in the Province of Quebec, this prospectus contains no misrepresentation which could affect the value or the market price of the securities to be distributed under this Offering.

The Promoter

(s) R  jean Blais
Promoter

Certificate of the Agent

November 4, 2005

To the best of our knowledge the preceding text is a full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation as required by Part 9 of the *Securities Act* (British Columbia), Part 9 of the *Securities Act* (Alberta), Part XV of the *Securities Act* (Ontario) and the related regulations. For the purposes of the securities legislation in the Province of Quebec, this prospectus contains no misrepresentation which could affect the value or the market price of the securities to be distributed under the Offering.

Valeurs mobilières Desjardins Inc.

(s) Pierre Colas
Senior Vice-President, Strategic Capital