Consolidated Financial Statements (audited)

as at
June 30, 2016

Important Progress Towards Commercialization

NATURE'S
POWER
FOR CARBON
CAPTURE MC

CO2 SOLUTIONS

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1.0 INTRODUCTION

The following is Management's Discussion and Analysis ("**MD&A**") of the audited consolidated financial position and results of operations of CO_2 Solutions Inc. ("**CO_2 Solutions**" or "the **Corporation**") for the financial years ended June 30, 2016 and 2015. The audited consolidated financial statements referred to herein include the accounts of the Corporation, its subsidiary companies and other linked entities, directly or indirectly controlled by the Corporation. This MD&A should be read in conjunction with the information contained in the audited consolidated financial statements and related notes for the financial year ended June 30, 2016 prepared using accounting policies consistent with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board. Unless otherwise noted, all amounts expressed herein are in Canadian dollars. Management is responsible for establishing appropriate information systems, procedures and controls to ensure that all financial information disclosed externally, including this MD&A, and used internally by the Corporation, is complete and reliable. The MD&A and audited consolidated financial statements were reviewed by the Corporation's Audit Committee and approved by the Corporation's Board of Directors (the "**Board**").

The information contained herein is dated as at October 13, 2016, the date of the approval by the Board of the MD&A and the audited consolidated financial statements for the financial year ended June 30, 2016.

Caution Regarding Forward-Looking Statements

The following management's discussion and analysis of the financial conditions and results of operations contains forward-looking statements concerning anticipated developments in the Corporation's operations in future months, the adequacy of the Corporation's financial resources and other events or conditions that may occur in the future. Forward-looking statements are frequently, but not always, identified by words such as "expects", "anticipates", "believes", "intends", "estimates", "predicts", "potential", "targeted", "plans", "possible" and similar expressions, or statements that events, conditions or results "will", "may", "could" or "should" occur or be achieved. These forward-looking statements include, without limitation, statements about the Corporation's market opportunities, strategies, competition, expected activities and expenditures as the Corporation pursues its business plan, the adequacy of the Corporation's available cash resources and other statements about future events or results. Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of the Corporation or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, such as business and economic risks and uncertainties. The Corporation's forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made. Consequently, all forward-looking statements made in this MD&A of the financial conditions and results of operations or the documents incorporated by reference are qualified by this cautionary statement and there can be no assurance that actual results or developments anticipated by the Corporation will be achieved. Some of these risks, uncertainties and other factors are described herein under the heading, "Risk Factors and Uncertainties". For the reasons set forth above, investors should not place undue reliance on forward-looking statements.

All statements in this MD&A, other than statements of historical facts, are considered as forward-looking statements which contain the Corporation's current expectations about its future results. Forward-looking statements, by their nature, involve risks and uncertainties.

Although the Corporation believes that the expectations reflected in all of its forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. A number of factors *may affect the Corporation's future results and may cause those results to differ materially from those indicated in any forward-looking statements made by the Corporation. Other than as required by Canadian securities laws, the Corporation undertakes no obligation to publicly update or revise any of its forward-looking statements, whether as a result of changed circumstances, new information, future events or for any other reason occurring after the date of this MD&A.*

2.0 CORPORATION OVERVIEW

CO_2 Solutions is a leading developer of proprietary technologies for carbon dioxide (CO_2) capture. More specifically, the Corporation is focused on commercializing an enzyme-based technology for efficient CO_2 capture from various industrial flue gasses for reuse or sequestration.

Since its establishment, CO_2 Solutions is focused on developing its technology platform, testing, de-risking and enhancing that technology platform and assembling a broad patent portfolio. To support this effort, it has raised capital, recruited highly qualified personnel and established strategic partnerships and alliances. Following the successful completion of a major pre-commercial CO_2 capture pilot unit operated in Salaberry-de-Valleyfield, Quebec for 2500 hours from May until October 2015, the Corporation is now moving into the monetizing its technology. The Corporation intends to commercially roll out its enzyme-based CO_2 capture technology in North America and elsewhere.

To complement its current packed tower capture technology offering, the Corporation started in mid-2015 to explore alternative capital equipment, that being high-intensity gas-liquid rotating packed bed (RPB) mass transfer technology for use in the capture process. The RPB technology is based on the principle of increasing the effective surface area of a liquid to facilitate gas absorption and maximize the amount of a gas to be absorbed by the liquid phase. This commercially proven technology has an excellent track record in other gas-liquid mass transfer applications, such as deaeration of liquids in the beverage industry, and in large-scale chemical production. This lower cost and environmentally friendly technology has the potential to further strengthen the key value propositions of CO_2 Solutions' carbon capture technology. In the coming months, CO_2 Solutions will collaborate with RPB technology suppliers to test and, if deemed cost effective, bring to market an advanced carbon capture solution, combining CO_2 Solutions' nontoxic enzyme-enabled capture process and RPB technology. If proven effective at scaled-up sizes, this RPB equipment approach has the potential to reduce capital costs, as well as increase the applicability of CO_2 capture at many emitter locations where space and footprint considerations are as important as cost, such as power plants and refineries. The Corporation believes this RPB technology, coupled with CO_2 Solutions' nontoxic enzyme-enabled capture process could offer significant increases in the Corporation's market reach, driven both by compelling economics and installation considerations. The new solution will complement the Corporation's existing packed-column based technology while bringing greater flexibility to pursue further commercial opportunities. Scaled-up versions of the new RPB equipment are scheduled to be tested at a third-party test facility in North Dakota in September and October 2016.

3.0 HIGHLIGHTS OF DEVELOPMENTS DURING AND SUBSEQUENT TO THE FINANCIAL YEAR ENDED JUNE 30, 2016

Demonstration Project located at Salaberry-de-Valleyfield, Quebec

Successful Completion of Carbon Capture Demonstration Project

In November 2015, the Corporation announced that the demonstration in Valleyfield was completed following a total of over 2,500 operational hours logged by the unit since CO_2 capture commenced on June 19, 2015, using the Corporation's proprietary enzyme, 1T1. The demonstration unit performed in line with previously communicated claims and expectations, confirming the strong potential of the Corporation's technology for low-cost and environmentally friendly capture of CO_2 from major emitters. The data and results from the project will form a critical input into the engineering and costing of CO_2 capture units for commercial use.

Among the highlights noted:

- The Corporation's proprietary enzyme, 1T1, performed in a stable manner;
- No toxic waste products were generated;
- Solvent consumption was negligible;
- The demonstration unit was in large part operated autonomously (i.e. did not require a dedicated operator);
- The technology produced CO_2 suitable for food, beverages and other reuse applications;
- Solvent regeneration using low-grade, low temperature, nil value heat was validated, demonstrating this innovative approach that significantly lowers operating costs.

The Corporation contracted with a leading international engineering firm for an independent review of the project data related to the mass and energy balances. This review allowed the Corporation to confirm core process capture costs for a 1,250 tonne- CO_2/day (tpd) scale CO_2 capture unit of $28/tonne, in line with earlier published estimates. In this regard, to the knowledge of the Corporation, its technology has achieved the lowest demonstrated cost in the industry for a post-combustion carbon capture application and done so by a significant margin.

Announcement of First Commercial Agreement for Carbon Capture Unit

On August 11, 2016, the Corporation announced the execution of a definitive agreement with Fibrek General Partnership, a subsidiary of Resolute Forest Products Inc., and Serres Toundra Inc. for the deployment of a carbon capture unit at a pulp mill near Saint-Félicien, in the Lac-St-Jean region of Quebec (Canada) and the commercial reuse of the CO_2 in an adjacent greenhouse (the "Project").

The Project, budgeted at $7.4 million, involves the capture of up to 30 tonnes- CO_2/day (tpd) from Resolute's softwood kraft Saint-Félicien pulp mill and its piping to Serres Toundra's neighbouring state-of-the-art vegetable greenhouse. The reuse of the captured CO_2 will provide tangible benefits to both Resolute and Serres Toundra by improving the performance of the greenhouse, while at the same time reducing the pulp mill's carbon emissions.

The Project is specifically designed to deploy capture equipment that will minimize the footprint and capital cost of the carbon capture unit. The innovative design of the equipment further reduces the already low cost of the CO_2 Solutions technology and will be applicable to subsequent projects. Following a six-month demonstration period, Serres Toundra has agreed to purchase the captured CO_2 for a period of ten (10) years thereafter. Based on the terms of the Agreement, CO_2 Solutions expects to realize revenues of at least $400,000 annually from the sale of captured CO_2 and associated carbon credits.

As announced on March 4, 2016, and subject to obtaining total project funding commitments, Sustainable Development Technology Canada will provide $2.4 million towards the Project in the form of a non-refundable grant. Additionally, CO_2 Solutions has applied for a further $3.0 million grant through the Government of Quebec's Technoclimat program. Resolute and Serres Toundra will make in-kind contributions valued at $0.3 million and $0.1 million, respectively. The remaining project costs of $1.6 million will be funded by CO_2 Solutions or from other private sources.

CO_2 Solutions is very proud to achieve the significant milestone of a first commercial agreement for the use of its technology alongside first-class partners. This project will enable the Corporation to demonstrate the breakthrough combination of its enzymatic carbon capture process in low cost, small footprint equipment. The project is not only expected to provide the Corporation with a long-term revenue stream, but also to provide a reference installation, which will be leveraged towards further scale-up of its technology and its commercial deployment. CO_2 Solutions expects to complete the commissioning of the CO_2 capture unit by the end of 2017 and realize first revenues relative to the agreement in calendar 2018.

CO_2 Solutions Awarded $15 Million CCEMC Grant

In February 2016, the Corporation announced that it has been selected to receive $15 million in the form of a non-refundable grant from the Alberta-based Climate Change and Emissions Management Corporation (CCEMC). The Grant is expected to be used towards the commercial deployment of CO_2 Solutions' technology in Alberta at approximately the 300 tonne-CO_2/day scale (the "Project"). It is anticipated that the Project will comprise the capture of CO_2 from a major Alberta industrial company, with beneficial reuse of the captured carbon. The reuse of the captured CO_2 will improve project economics, while at the same time achieving a considerable greenhouse gas reduction. The total cost of the Project is budgeted at approximately $30 million. The Company is currently pursuing non-dilutive financing to fund the balance of the project not covered by the CCEMC Grant. Receipt of the Grant is subject to entering into a Contribution Agreement with the CCEMC and confirmation that all other funding sources have been secured. The Corporation is currently in active negotiations with potential industrial partners to establish the project.

CO_2 Solutions Awarded $2.4 Million SDTC Grant

As noted above, in March 2016 the Corporation announced that it has been selected by Sustainable Development Technology Canada (SDTC) to receive $2.4 million in the form of a non-refundable grant. The Grant is expected to be used towards the deployment of CO_2 Solutions' technology in Quebec at a scale of up to 30 tonnes CO_2 /day, incorporating the rotating packed bed (RPB) equipment. The intention is for the Corporation to install a unit capturing carbon from a Quebec pulp mill with the CO_2 being reused in a neighbouring commercial greenhouse operation. The reuse of the captured CO_2 will improve project economics, while at the same time achieving a net greenhouse gas reduction. The project is budgeted at approximately $7.4 million, and the Corporation is currently pursuing non-dilutive financing to fund the balance of the project not covered by the Grant, including an application having been submitted for a $3 million grant from the Province of Quebec's Technoclimat program. Receipt of the Grant is subject to entering into a Contribution Agreement with SDTC, confirmation that all other funding sources are in place, and definitive agreements with the project partners.

Quebec Government to Invest $15 Million to Support CO_2 Capture and Reuse Project Led by CO_2 Solutions

In March 2016, the Corporation announced that its technology has been selected by the government of Quebec in the framework of its *Stratégie gouvernementale de développement durable 2015–2020* (2015–2020 Government Strategy for Sustainable Development). In its 2016–2017 Budget, on March 17, 2016, the provincial government announced that it has allocated a budget of $15 million over the next three years to support the creation of a consortium to promote the adoption of CO_2 Solutions' patented enzyme-enabled carbon capture technology. The consortium "*Valorisation carbone Québec*" will be composed of CO_2 Solutions, Laval University and other organizations from the private and public sectors. Its mandate will be to develop and implement concrete solutions that will make a positive contribution to the Quebec economy through the creation of a new value-added carbon life cycle. This life cycle is envisaged to include the capture of CO_2 and its subsequent conversion into value-added goods, such as biofuels and/or animal feed. Quebec recently established a goal to reduce its GHG emissions by 20% below 1990 levels by 2020, and 37.5% below this same level by 2030. The government sees its contribution to the new consortium as a strategic contribution towards helping industry reduce GHG emissions without damaging its ability to compete on economic terms.

Additional Funding From the Government of Canada

In November 2015, the Corporation announced it had received additional funding of $350,000 from Natural Resources Canada's ecoENERGY Innovation Initiative for CO_2 Solutions' current carbon capture demonstration project. The funding is intended for testing of the Corporation's carbon capture technology utilizing a rotating packed bed ("RPB") technology configuration, with the potential of achieving a further significant reduction of operating and capital costs. Subsequently, in April 2016, an additional $225,000 funding was provided to the Corporation from the ecoENERGY Innovation Initiative.

Shares Issued in Payment of an Account Payable

On July 28, 2015, the Corporation announced the completion of the exploratory phase of its Chinese market initiative which had been undertaken with the assistance of Ercel Baker Inc. As partial payment for the services rendered by Ercel Baker Inc. to CO_2 Solutions for market development in the People's Republic of China, the Corporation issued to Ercel Baker Inc., following TSX-V approval, 400,000 Common Shares at a deemed issue price of $0.25 per Common Share, for a total consideration of $100,000.

Bank Line of Credit and Term Loans

In order to maintain the level of liquidity required to meet current obligations, in November 2015 the Corporation undertook an evaluation of its short-term borrowing facilities and capabilities. Pursuant to that review, the Corporation cancelled its $150,000 line of credit with a commercial bank and has since negotiated a new line of credit with another financial institution, to be secured by a first charge on the Corporation's federal and provincial receivables (provincial R&D tax credits and federal subsidy holdback amounts).

Pursuant to that new short-term borrowing facility, on November 6, 2015, the Corporation negotiated a term loan agreement with a financial institution for a principal amount of $240,400. The term loan is to finance provincial tax credits receivable for scientific research and experimental development (R&D tax credits) accrued for its fiscal year ended June 30, 2015. The term loan is subject to fluctuations in the Corporation's R&D tax credits receivable and the proceeds received from future R&D tax credits funds will be paid directly to the financial institution to decrease the amount of outstanding related borrowing.

On November 20, 2015, the Corporation negotiated a second term loan agreement for a principal amount of $378,700 with the same financial institution. This second term loan is to finance the federal subsidy holdback receivable.

On March 22, 2016, the Corporation negotiated a third term loan agreement for a principal amount of $285,500. This third term loan is to finance provincial tax credits receivable for scientific research and experimental development (R&D tax credits) accrued for its current fiscal year ending on June 30, 2016. The term loan is subject to fluctuations in the Corporation's R&D tax credits receivable and the proceeds received from future R&D tax credit funds will be paid directly to the financial institution to decrease the amount of outstanding related borrowing. The initial drawdown of this new term loan of $124,800 was deposited on April 29, 2016.

The term loans are secured by a first charge on the Corporation's provincial and federal receivables. The term loans bear interest at a rate of 1.6% per month on the outstanding principal, which is paid in advance. The term of these term loans is a maximum of twelve months.

Update on Danish Intellectual Property Items

In November 2015, the Corporation announced it has received a notice of allowance for Danish Utility Model (intellectual property rights) No. BA202400177 - SYSTEM FOR CO_2 CAPTURE USING PACKED REACTOR AND ABSORPTION MIXTURE WITH MICROPARTICLES INCLUDING BIOCATALYSTS - from the Danish Patent Office. The utility model will add even more depth to CO_2 Solutions' extensive intellectual property portfolio, providing broad coverage for enzyme-accelerated processes for carbon capture. CO_2 Solutions believed this utility model could have significant value relative to one or more CO_2 capture projects currently underway in Denmark that the Corporation believed might be infringing on the CO_2

Solutions proprietary technology, including operations covered by this utility model (see below). The positive decision by the Danish Patent Office is all the more notable given that a leading European biotech company filed numerous documents and arguments against the pending CO_2 Solutions application. Obtaining the allowance despite significant opposition further illustrates the strength and value of CO_2 Solutions' intellectual property surrounding its innovative technologies. In addition, CO_2 Solutions has numerous other patents/utility model pending in Denmark and Europe.

On August 11, 2016, the Corporation further announced that its intellectual property (IP) rights in Denmark have again been upheld by the Danish Patent Office. In fact, all 87 claims of the utility model were maintained in unamended form. The decision came pursuant to a challenge filed by Akermin Inc., a U.S. company that had intended to utilize similar CO_2 capture technology for a biogas-related project in Denmark. CO_2 Solutions had notified Akermin's Danish partners of their impending infringement of the Corporation's IP, subsequent to which Akermin filed its challenge. This decision is the third in Denmark upholding all of the Corporation's intellectual property claims in the face of vigorous opposition by Akermin and other Danish partners. While CO_2 Solutions offered the Danish partners a single commercial licence for use of the Corporation's IP in their project, it appears that, pursuant to this decision, Akermin has permanently ceased operations and the Danish project has been cancelled. CO_2 Solutions welcomes initiatives to implement carbon capture technology, but shall defend the Corporation's IP wherever it observes actual or imminent infringement on its rights, as it has done successfully in Denmark.

December 2015 Public Offering

In December 2015, the Corporation announced its intention to undertake an overnight marketed offering (the "**Offering**") of units of the Corporation (the "**Units**") at a price of $1,000 per Unit, to be led by Euro Pacific Canada Inc., as sole agent ("**Euro Pacific**"). Each Unit consisted of a 12% convertible secured debenture in the principal amount of $1,000 (the "**Debenture**") and 4,348 share purchase warrants (each single share purchase warrant, a "**Warrant**") of the Corporation. The Debentures will mature on December 31, 2017 (the "**Maturity Date**") and will bear interest at a rate of 12% per annum payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year (the "**Interest**"). Each Debenture will be convertible, at the option of the holder at any time prior to the close of business on the tenth business day immediately preceding the Maturity Date, into such number of Common Shares computed on the basis of (i) the principal amount of the Debentures that is an integral multiple of $1,000 principal amount divided by the conversion price of $0.23 per Common Share, which is subject to adjustments in certain events (the "**Conversion Price**") and (ii) a make-whole payment equal to the interest amount that such holder would have received if such holder had held the Debentures until the Maturity Date divided by the greater of the Conversion Price and the Discounted Market Price (as defined under the policies of the TSX Venture Exchange). Holders who convert their Debentures will receive accrued and unpaid interest for the period from the date of the latest Interest payment date to the date of conversion. The Corporation shall pay the Interest in cash or Common Shares, at its option. Any such Interest amount paid in Common Shares shall be computed on the basis of the Interest amount divided by the Discounted Market Price. No holder is entitled to convert Debentures or Warrants for an amount which would result in the issuance of Common Shares providing the holder with more than 9.9% of the issued and outstanding Common Shares of the Corporation. Any holder that before acquiring Units already held Common Shares representing more than 9.9% of the issued and outstanding Common Shares was exempt from this restriction. However, such holder will not be entitled to convert Debentures or Warrants for an amount which would result in the issuance of Common Shares providing the holder with more than 19.9% of the issued and outstanding Common Shares unless disinterested shareholder approval is obtained by the Corporation in accordance with the policies of the TSX Venture Exchange. Each full Warrant entitles the holder thereof to purchase one Common Share at the price of $0.24 until December 31, 2017. The Offering was made in the provinces of British Columbia, Alberta, Ontario and Quebec by way of a prospectus supplement to the Corporation's base shelf prospectus dated November 23, 2015, which was filed in December 2015. Net proceeds of the Offering are being used (i) to proceed to certain steps in the industrial scale-up and continue the development work of the Corporation's technology; (ii) to support initial commercial efforts; and (iii) for general working capital.

Grant of Restrictive Share Units (RSU's)

On May 26, 2016, in accordance with the terms of the RSU plan that was approved in November 2015, the Corporation's Board of Directors granted 819,168 RSU's to certain officers and employees of the Corporation. In accordance with the terms of the plan these RSU's were valued at $0.17 per share, that being the last closing price of the Common Shares on the TSXV immediately prior to the date as at which market value of the units is determined, which was May 25, 2016. The RSUs granted vested immediately. Further, in accordance with the terms of the RSU plan, if the date on which the Corporation shall issue or deliver Common Shares to the Participant in accordance with the plan occurs during a Blackout Period applicable to the Participant, the Corporation shall issue or deliver such Common Shares to the Participant on or as soon as practicable following the end of the Blackout Period. In the case of the above-mentioned RSU grants, due to potential pending news, the Corporation was in a blackout period when the RSU-related shares were to be issued to the participants. That blackout period was subsequently lifted and the 819,168 shares relative to the May 2016 RSU grant were issued to the qualified participants on August 12, 2016 (see subsequent events below).

4.0 SECTOR AND POTENTIAL MARKET OVERVIEW

4.1 General Overview

The necessity for the reduction in CO_2 emissions has received global attention in the past few years because of accelerating climate change issues and its related impacts. Seventy percent of global energy demand is currently met through the burning of carbon-based fuels such as coal and natural gas, and this demand is predicted to double by 2035.[1] The world faces a growing challenge: reducing climate change causing CO_2 emissions while not damaging a global economy that is sustained by these abundant fossil fuels.

In 2015, the dominant greenhouse gases released into Earth's atmosphere—carbon dioxide, methane, and nitrous oxide—all continued to reach new high levels. At Mauna Loa, Hawaii, the annual CO_2 concentration increased by a record 3.1 ppm, exceeding 400 ppm for the first time on record. The 2015 global CO_2 average neared this threshold at 399.4 ppm. Additionally, one of the strongest El Niño events since at least 1950 developed in spring 2015 and continued to evolve through the year. The phenomenon was far-reaching, impacting many regions across the globe and affecting most aspects of the climate system.[2]

Because anthropogenic emissions of CO_2 result primarily from the combustion of fossil fuels, energy consumption remains at the centre of the climate change debate. In the *International Energy Outlook 2016* (IEO2016) Reference case, world energy-related CO_2 emissions will increase from 32.3 billion metric tons in 2012 to 35.6 billion metric tons in 2020 and to 43.2 billion metric tons in 2040. The Reference case

[1] U.S. Energy Information Administration, *Annual Energy Outlook 2014.*

[2] Blunden, J. and D. S. Arndt, Eds., 2016: State of the Climate in 2015. *Bull. Amer. Meteor. Soc.*, 97 (8), S1–S275.

estimates do not include effects of the recently finalized Clean Power Plan (CPP) regulations in the United States, which reduce projected U.S. emissions in 2040 by 0.5 billion metric tons. Much of the growth in emissions is attributed to developing nations outside the Organization for Economic Co-operation and Development (OECD), many of which continue to rely heavily on fossil fuels to meet the fast-paced growth of energy demand. In the IEO2016 Reference case, non-OECD emissions in 2040 total 29.4 billion metric tons, or about 51% higher than the 2012 level. In comparison, OECD emissions total 13.8 billion metric tons in 2040, or about 8% higher than the 2012 level.[3]

In conjunction with the 21st Conference of Parties in Paris (COP21, November 30 through December 12, 2015), many countries have submitted emissions reduction goals, or Intended Nationally Determined Contributions (INDCs), under the United Nations Framework Convention on Climate Change (UNFCC). These predictions have tried to incorporate some of the specific details, such as renewable energy goals, in the forecasts; however, a great deal of uncertainty remains with regard to the implementation of policies to meet stated goals. EIA's projections for CO_2 emissions may change significantly as laws and policies aimed at reducing GHG emissions are implemented and enforced, or if existing laws are enhanced.[4]

This leads to the fact that, in order to effectively address the climate change challenge, emissions from large stationary emitters, such as power plants, must be reduced. Though renewables and nuclear energy will gain in prominence, their role will be marginal and fossil fuels will remain the primary energy source for decades to come. Many countries are now attempting to accelerate the development and implementation of technologies that reduce CO_2 emissions from conventional fossil fuel plants, technologies such as that developed and patented by CO_2 Solutions.

From a Canadian perspective, predictions for energy-related carbon dioxide emission growth calls for a 14% increase in Canadian emissions between 2012 and 2040.[5] Further, specific attention in 2013–2015 has been directed towards Western Canada and the level of CO_2 being emitted in oil sands mining and its consequences for the overall level of Canadian greenhouse gas ("**GHG**") emissions. Alberta's plan to develop its large oil sands reserves (as much as 170 billion barrels) is viewed as an issue by those concerned with the environment. According to the Alberta Department of Energy, the total reported GHG emissions in 2010 from 165 Alberta facilities covering 5 industrial sectors equalled 122.5 megatonnes of carbon dioxide equivalent ("**CO_2-e**"). In that same year, oil sands mining, in-situ extraction, upgrading and associated co-generation facilities in the oil and gas sector reported the largest share of greenhouse gas emissions in Alberta at 38.2%. The oil sands also accounted for approximately 6.8% of total greenhouse gases in Canada.[6] While oil sands production has dropped temporarily due to the decrease in the world per barrel price of oil, the majority of forecasts predict that oil sands production is going to sharply increase once there is a price recovery, with the sector's GHGs going up as well, unless the industry can find ways to decrease those emissions.

The issue of oil sands GHG emissions is also impacting the Canadian provinces' ability to sell and distribute Western Canadian oil, particularly south, to the United States. Opponents to the proposed Keystone XL pipeline cite the potential significant increase in greenhouse gas emissions if oil sands production increases as a result of greater access to markets through a new pipeline. Pipeline opponents are calling for a

[3] U.S. Energy Information Administration, *International Energy Outlook 2016*.
[4] Ibid.
[5] Ibid.
[6] Alberta Oil Magazine, "Carbon capture investment is critical to Alberta's export relationships", July 15, 2013.

concrete plan from the Canadian side of the border that will address their concerns regarding increased CO_2 emissions from oil sands crude production. Desire for the new pipeline could lead Canada, Alberta and the oil companies to increase the efforts to capture the CO_2 generated from the oil sands mining operations.[7]

In this respect, CO_2 Solutions has continued to focus on the opportunity of reducing greenhouse gas emissions from the Western Canadian oil sands and other sources. Additionally, the Corporation believes that opportunities exist for the utilization of CO_2 in a broad range of industrial applications from enhanced oil recovery to beverage carbonation, pulp and paper production, greenhouses, and chemical production, some of which also provide a carbon sequestration opportunity. Its patented technology allows for the low-cost capture of CO_2 from stationary emitters such as oil production operations, power and steam plants and metals production facilities, while leveraging existing solvent-based gas scrubbing approaches already known to industry. In turn, the Corporation is positioning CO_2 capture and sequestration as a viable climate change mitigation tool as well as enabling industrial customers requiring CO_2 to lower their acquisition costs for existing and new applications.

4.2 Opportunities and Applications

Carbon Capture and Utilization

Due to its physical characteristics, many applications for using CO_2 industrially have been developed over the years. Some uses go back centuries when fermentation of food (malt, wheat, grapes, etc.) led to the production of alcohol, wines, or beers in which CO_2 was partly re-used in the process, particularly to exclude air. Other applications for CO_2 are more recent, partly as a result of the trend or swing to use more environmentally friendly products - such as CO_2's use as a solvent as opposed to chemical solvents. CO_2 Solutions' enzyme-accelerated technology provides an elegant solution for the capture of CO_2 from effluent gases and the production of pure CO_2 therein for utilization.

Enhanced Oil Recovery

CO_2-based enhanced oil recovery is the practice of injecting pure CO_2 into an aging oil well to re-pressurize the well and temporarily increase its production. This practice has been used for decades, originating in the Permian basin of West Texas. In the process, CO_2 mixes with crude oil (miscible phase). This phase has lower viscosity than crude oil which, combined with the increased pressure, flows to production wells, similar to the concept of a CO_2 and soda mixture released from a shaken pop bottle. This "fizzy" mixture of CO_2 and crude is separated and the CO_2 is recycled and reinjected along with further "fresh" CO_2. As a general rule, using conventional EOR techniques, for each tonne of CO_2 injected, approximately two barrels of additional oil are produced. In addition, approximately 30% of the injected CO_2 remains permanently sequestered.[8]

Given declining natural CO_2 sources combined with increasing demand, oil producers are increasingly looking at anthropogenic sources, where cost-effective carbon capture technology can provide a continuing opportunity for EOR. As such, the Corporation believes that its technology is well positioned to serve this market.[9]

While, given the current world price of oil, the Western Canadian Oil Sands' effectiveness and price competitiveness may currently be in question, thus impacting short-term expansion and decision-making

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[7] Ibid.
[8] Alberta Innovates, *Barriers to CO_2 Enhanced Oil Recovery in Alberta*, October, 2013 (http://www.ptac.org/attachments/1183/download).
[9] Advanced Resources International, Inc., *The CO_2-EOR Oil Recovery and CO_2 Utiliza*tion *"Prize"*, April, 2014.

regarding the adoption of new technology in the oil sands (carbon capture in general and its application to EOR), the Corporation is confident that over time this potential market will emerge from its current depression.

Beverage Carbonation

Soft drink bottlers and canners are significant users of external CO_2 for carbonation, which is typically costly to obtain, and in many locations can present challenging logistics. In this context, the opportunity exists for soft drink producers to utilize CO_2 Solutions' technology to replace their external CO_2 with a more economical and secure source of CO_2 obtained from the exhaust gases of their on-site boiler operations. At the same time, this CO_2 recycling would provide a means of improving their environmental footprint.

Greenhouses

Plants absorb CO_2 during daylight hours as part of their growth cycle. Greenhouses, which by definition are controlled environments, typically supplement CO_2 concentrations in the ambient air up to 1,000 ppm (from the normal level of 400 ppm) resulting in plant yields being increased by approximately 50%[10].

CO_2 for greenhouses is often obtained by burning fossil fuels such as natural gas in specialized CO_2 generators where, after complete combustion, the flue gases are introduced directly into the greenhouse. The downsides of using natural gas are that moisture is produced during combustion, which may be disadvantageous for growing certain plants, and if combustion is incomplete, contaminants may be present in the flue gases and then the greenhouse. Alternatively, pure CO_2 may be used. This has can been supplied to greenhouses by truck in liquid form and has become popular among growers because of the elimination of crop damage potential, lack of moisture production, more precise control over CO_2 levels and more flexibility to introduce the CO_2 when needed. A drawback of this approach, however, is that liquid CO_2 is typically more expensive than CO_2 generated from natural gas combustion[11]. The Corporation believes that its technology could solve these challenges by allowing CO_2 to be captured and concentrated at a lower cost from both natural gas combustion gases on-site as well as from nearby sources of flue gas. As noted above, the Corporation's first commercial agreement for a carbon capture unit will be applied to this market sector.

Pulp & Paper

The utilization of CO_2 in the pulp and paper industries is widespread and includes the following main uses:

Regulating and stabilizing pH

Over the last few years, more and more pulp and paper mills have started to use CO_2 to regulate and stabilize pH while reducing their use of problematic mineral acids.

Reducing $CaCO_3$ Dissolution

Calcium carbonate ($CaCO_3$) is present in most papermaking systems. CO_2 can be added to the process to reduce its dissolution and eliminate mineral deposits.

CO_2 Pulp-washing

CO_2 pulp-washing technology is widely used in fibre lines, providing better operability, lower steam consumption, reduced wash water volumes, lower volume use of foam inhibitors and pitch dispersants, and lower maintenance costs.

[10] Advanced Resources International, Inc., The CO_2-EOR Oil Recovery and CO_2 Utilization "Prize", April, 2014.
[11] Ibid.

CO_2 for Soap Acidulation
Sulphuric acid consumption for soap acidulation in the production of crude tall oil (CTO) can be reduced by 30% to 50% by using CO_2. This also allows the pulp mill to have better control of its sulphur/sodium balance.

Most pulp and paper producers currently obtain CO_2 at a significant cost from external bulk gas suppliers. For these producers, CO_2 Solutions' process could be implemented to capture CO_2 from black liquor boiler operations, where nil-value process heat can provide the energy for the CO_2 recovery process. The result is lower CO_2 acquisition costs, reduced dependence on external supply sources, and a lower carbon footprint of the pulp operation.

Emerging Uses of CO_2
In addition to established uses of CO_2, many novel uses are under development or early demonstration. These include algae production for making products ranging from nutraceuticals to biodiesel, the production of bioplastics, the carbonation and reuse of mineral wastes, and the combination of CO_2 with hydrogen to produce liquid fuels, among other applications. The Corporation believes that its technology is positioned as an ideal front-end solution to provide the lowest possible cost CO_2 feedstock required by these new processes.

Carbon Capture and Storage
With 70% of global energy demand currently met through the burning of carbon-based fuels, and demand predicted to double by 2035,[12] the world faces a growing challenge: How to reduce CO_2 emissions which cause climate change while not damaging a global economy dependent on fossil fuels. A central issue to this carbon emissions problem is the fact that approximately 8,200 large stationary sources of CO_2 worldwide, such as coal and natural gas-fired power plants, oil and gas production facilities and other large industrial plants generate 14.7 billion tonnes of annual emissions, or half of all total global anthropogenic CO_2 emissions.[13] As such, to deal effectively with the issue of climate change, these existing large sources of emissions must be addressed.

Management of the Corporation is discussing additional scale-up partnerships and is continuing to pursue a multi-pronged strategy aimed at advancing its technology development and deployment. The prime focus in the short term will be to leverage the Corporation's internal R&D focus and efforts in view of advancing the Corporation's technology towards commercial readiness.

4.3 Government Regulations

While the overall move towards regulation of greenhouse gases has been slow, CO_2 Solutions has seen individual governments take important leadership roles on the issue of reduction of carbon emissions. The number of jurisdictions around the world that have established, or are in the process of developing, GHG cap-and-trade programs, or that are implementing a carbon tax continues to rise. Cap and trade is a market-based system for managing and pricing industrial GHG emissions with an objective of reducing them over time.

The 2013–2014 period saw a steady progression towards the increased regulation of carbon emissions from the Alberta oil sands. In April 2013, the Government of Alberta announced that it was considering

[12] U.S. Energy Information Administration, *Annual Energy Outlook 2014.*
[13] International Energy Agency (IEA) GHG Program; large source defined as >100,000 tonnes-CO_2 emissions annually.

introducing regulations which would replace the current Specified Gas Emitters Regulation ("**SGER**") which has been in place since 2007 and is set to expire on December 31, 2017. The SGER has levied a $15/tonne CO_2-equivalent ("**CO_2e**") fee on large emitters (>100,000 tonnes CO_2e emissions per annum) in the province who have failed to meet a mandatory 12% emission intensity reduction target.[14] However, the SGER levy is widely regarded as being below the level required to induce major emitters, including oil sands producers, to adopt new emissions reduction technologies such as carbon capture and storage. Aimed at solving this issue, the potential new regulations, dubbed the "40/40 plan" would see the imposition of a 40% intensity reduction in oil sands industry emissions combined with a $40/tonne levy for non-compliance. This increased regulation could drive greater demand for efficient CO_2 capture technologies such as that being developed by the Corporation. In June 2015, Alberta Environment Minister Shannon Phillips announced that the existing $15 per tonne levy on carbon will increase to $20 per tonne in 2016 and $30 per tonne in 2017. Under the updated rules, any facility that emits 100,000 tonnes or more of greenhouse gases a year must reduce their emissions intensity. Current legislation, introduced by the previous government, requires emissions to be reduced by 12%. Effective as of January 1, 2016, the new Alberta government will raise the reduction targets to 15% with an additional increase to 20% as of January 1, 2017.

In March 2015, the United States submitted its Intended Nationally Determined Contribution (INDC) for GHG emissions reduction to the United Nations Framework Convention on Climate Change (UNFCCC). The U.S. INDC pledges an emissions reduction of 26% to 28% below 2005 levels by 2025. The U.S. Environmental Protection Agency (EPA) published the final version of the U.S. Clean Power Plan rule (CPP) in August 2015.[15]

As noted above, in conjunction with the 21st Conference of Parties in Paris (COP21, November 30 through December 12, 2015), many countries have submitted emissions reduction goals, or Intended Nationally Determined Contributions (INDCs), under the United Nations Framework Convention on Climate Change (UNFCC). These predictions have tried to incorporate some of the specific details, such as renewable energy goals, in the forecasts; however, a great deal of uncertainty remains with regard to the implementation of policies to meet stated goals. EIA's projections for CO_2 emissions may change significantly as laws and policies aimed at reducing GHG emissions are implemented and enforced, or if existing laws are enhanced.[16]

Finally, in September 2016, Canadian Federal Environment Minister, Catherine McKenna, announced the federal government's intention to impose a national carbon price on the provinces. Ottawa will require provinces to adopt either a carbon tax or cap-and-trade approach and to meet a federally established minimum price. The federal government will impose its own system on provinces that fail to meet that minimum threshold, the Minister said.[17] Further, on October 3, 2016, The Prime Minister of Canada announced that the minimum threshold would be $10/tonne of CO_2 in 2018 and rising by $10 per year, reaching $50 by 2022.[18]

CO_2 Solutions believes that it is very well positioned to capitalize on the convergence between the carbon tax associated with emitting and the cost of carbon capture. The Corporation is of the opinion that the new Canadian regulation on carbon pricing will create momentum towards the adoption of technologies

[14] *The Globe and Mail*, Report on Business; "Alberta NDP to Introduce New Climate Change Rules"; June 2, 2015.
[15] U.S. Energy Information Administration, *International Energy Outlook 2016*.
[16] U.S. Energy Information Administration, *International Energy Outlook 2016.*
[17] The Globe & Mail; Ottawa to impose a national carbon price on the provinces; September 18, 2016
[18] CBC News, Justin Trudeau gives provinces until 2018 to adopt carbon price plan; October 3, 2016

by industry to help them reduce both the financial impact and the reputation damage related to being carbon emitters and that carbon capture has an important role to play in this. The Corporation believes that if the cost to capture CO_2 can be reduced to a reasonable level, then governments and regulators will be more favourably disposed to enacting further stringent carbon reduction legislation.

5.0 INTELLECTUAL PROPERTY HIGHLIGHTS

Continued Expansion of Intellectual Property

As the world looks for innovative solutions to lower the current cost barrier to CO_2 capture, continued growth in industry interest in the potential of enzyme-enabled carbon capture has emerged as a focal point in its own right. This is particularly the case south of the border, where the United States government has recently invested millions of dollars in enzyme-related projects.

CO_2 Solutions holds a broad portfolio of patents in the field of enzyme-enhanced carbon capture. As at June 30, 2016, the Corporation had 48 patents issued and 28 patents pending covering not only the use of carbonic anhydrase with various capture solvents, but also the use of the enzyme in different reactor configurations and in key industrial sectors such as power generation and cement. Management believes that with its intellectual property portfolio, the Corporation is well positioned to commercialize carbonic anhydrase enzyme-based systems for the capture of CO_2.

During the fiscal year ended June 30, 2016, certain of the Corporation's existing patents in the United States and pending, applied for patents in Europe, have been under challenge from competitive forces wanting to remove CO_2 Solutions from its dominant position in the enzymatic carbon capture market. Relative to specific challenges in Denmark, the Corporation has successfully defended its patent position in that country. (See Update on Danish Intellectual Property Items, above and Subsequent Events - Danish Intellectual Property, below.) Certain other patents pending in Europe are still under challenge and the Corporation is vigorously defending its position. The outcome of those challenges cannot be determined at this time.

In North America, the Corporation continued to defend its position relative to the Inter Partes Review (IPR) Petition that was filed by a competitor with respect to CO_2 Solutions' U.S. patent No. 8,329,458, challenging some, but not all, of the claims in this patent. A Preliminary Response to this claim was filed by CO_2 Solutions, expert witness testimonies have been filed and depositions from both parties have been taken. Oral arguments of the parties in front of the USPTO Patent Trial and Appeal Board took place in June 2016. On August 29, 2016, the Corporation received notice that a decision of the Patent Trial and Appeal Board had been received. The outcome of this decision was generally favourable to CO_2 Solutions. (See subsequent events below.)

On March 3, 2016, CO_2 Solutions served a notice of action in the State of Delaware against this same competitor alleging infringement by that competitor of certain CO_2 Solutions patents in the United States. This suit, after having been transferred to the State of Missouri (the home state of the defendant in the suit), was subsequently terminated by agreement of both parties due to a technicality related to alleging patent infringement when said patented process is only being used in conjunction with a research and development project being partially funded by the US government, as was the case in this instance. The suit was dismissed without prejudice and should the competitor infringe on CO_2 Solutions' patent for the purpose of a commercial contract, the Corporation will have the ability to reinitiate the suit if so desired.

It should be noted that in the Danish cases, the European cases, the U.S. IPR issue and the filed alleged infringement action, none of these actions or potential actions affect CO_2 Solutions' freedom to operate in any jurisdiction. CO_2 Solutions will continue to file additional patents around its proprietary technology and, when challenged, will defend its intellectual property vigorously whenever and wherever necessary.

6.0 FINANCIAL REVIEW

6.1 Selected Annual Information

	As at June 30		
	2016	**2015**	**2014**
Total revenues	-	-	$388,863
Net loss	$4,964,529	$5,297,187	$1,719,666
Net loss per share	$0.04	$0.05	$0.02
Total assets	$3,380,162	$5,180,536	$2,549,326
Non-current liabilities	$1,448,032	$376,413	$908,037
Total liabilities	$3,384,236	$2,170,796	$1,899,091

There was no revenue for the financial years ended June 30, 2016 or 2015. The net loss for the financial year ended June 30, 2016, decreased by $332,658, or $0.04 per share reflecting a net decrease in research and development expenditures during the year primarily related to the completion of the demonstration project during the financial year ended June 30, 2016, offset by increases in Business Development and General and Administrative Expenses (see below).

As at June 30, 2016, total assets were $3,380,162 compared to $5,180,536 as at June 30, 2015. Specific balance changes are a result of the following:

- A $1,552,124 decrease in cash as at June 30, 2016, generally reflecting cash used during the financial year to support the completion of the demonstration project and working capital requirements.
- An overall decrease in accounts receivable as at June 30, 2016 of $136,632 from the balance as at June 30, 2015, reflecting a net decrease of $192,161 in the commodity tax refund receivable, offset by a $59,712 increase in the government assistance receivable.
- An increase of $24,266 as at June 30, 2016 in tax credits receivable reflecting Quebec scientific research and experimental development tax credits.
- A decrease in inventory of $133,693, as at June 30, 2016, reflecting the usage of enzyme inventory required for the operation of the demonstration project.
- An increase of $88,931 in prepaid expenses relating to the interest paid in advance on the new term loans.
- A decrease of $12,165 in property, plant and equipment for the financial year ended June 30, 2016 reflecting the net of the acquisition of additional laboratory and computer equipment of $29,546, net of amortization charges of $41,711.
- A decrease of $78,957 reflecting the net of additional investment in intangible assets of $189,092, specifically patents, offset by the amortization charge of $268,049. In accordance with the application of IAS 38, "Intangible Assets", CO_2 Solutions considers that an intangible asset worthy of capitalization is established only once it has reached a stage where it is ready to start the process of being patented, and generally only the professional and filing fees paid to secure the patents

are capitalized. The Corporation does not include any internally generated expenses in the valuation of the patent since the work, completed by its internal research and development staff, would be completed prior to applying for the patent. Further, the Corporation does not include expenses incurred during the development phase.

As at June 30, 2016, the net increase of $1,213,440 in total liabilities compared to June 30, 2015, is the result of the following items:

- A $141,821 net increase in current liabilities reflecting a decrease of $602,079 in the trade accounts payable balance as at June 30, 2016 offset by $743,900 in additional term loans. The trade accounts payables were substantially paid down in January 2016 following the receipt of funds from the December 2015 public offering and from the proceeds of the term loans.
- A $1,071,619 increase in non-current liabilities primarily a result of the debenture issue in December 2015 and an increase of $72,247 in the refundable contributions.

6.2 Operating Results

Comparison between Financial Years Ended June 30, 2016 and June 30, 2015

Revenues
As noted above, the Corporation recorded no revenue for the financial years ended June 30, 2016 or 2015.

Research and Development Expenses
Research and development expenditures, before tax credits and government assistance, decreased by $2,781,338 totalling $2,772,618 for the financial year ended June 30, 2016, compared with $5,553,956 for the financial year ended June 30, 2015. The decrease between financial years reflects the decreased expenses associated primarily with the demonstration project. Project expenses will vary based upon on-going contribution agreements, project phases, the timing thereof and the level of grant payments received relative to the project.

Research and development tax credits accrued during the financial year ended June 30, 2016 decreased by $11,170. This decrease reflects the level of government assistance during the financial year and its effect on expenses that are eligible for research and development tax credits. Government assistance for the financial year ended June 30, 2016 was $612,931 ($2,784,815 in 2015), a decrease from the prior financial year of $2,171,884. This government assistance comes in the form of subsidies granted to the Corporation by Natural Resources Canada through the ecoENERGY Innovation Initiative in support of the Corporation's carbon capture program (demonstration project and further testing) and the accounting for these subsidies is done by way of offsetting subsidy payments receivable against overall research and development expenses.

Business Development Expenses
Business development expenses were $1,014,504 for the financial year ended June 30, 2016, compared with $707,964 for 2015, representing an increase of $306,540. The increase is primarily attributable to the following items:

- $532,376 of fees paid to professionals in Canada, the U.S. and Europe relative to patent infringement issues (see references to Intellectual Property Highlights and Danish Intellectual Property above and in Subsequent Events section below):

- $8,693 decrease in cash-based salaries, employee benefits and other compensation, including variable remuneration paid during the past financial year offset by an increase of $54,106 in stock-based compensation costs;
- $12,220 non-cash, accounting value for the warrants issued to GasTran pursuant to the terms of the GTS Collaboration Agreement signed in June 2015;
- $33,478 in other professional fees related primarily to miscellaneous legal and patent matters;
- $35,263 decrease in travel, entertainment, advertising and office expenses.

General and Administrative Expenses

General and administrative expenses totalled $2,038,636 for the financial year ended June 30, 2016, compared with $1,765,201 for the financial year ended June 30, 2015, representing an increase of $273,435. This net increase is primarily related to the following:

- $197,471 increase in professional fees relating to legal, audit and tax consulting;
- $104,745 increase in stock-based compensation costs (options and RSU's);
- $43,843 decrease in travel expenses, reflecting less travel by senior executives;
- $17,504 decrease in director's fees;
- $14,973 increase in cash-based salaries, employee benefits and other compensation, including variable remuneration paid during the past financial year;
- $18,942 net increase in office expenses and rent, electricity, taxes and insurance.

Financial Expenses

Financial expenses for the financial year ended June 30, 2016 had a net decrease of $232,409. This net expense decrease is related to the following:

- Increase of $203,120 in the non-cash accounting gain relative to the change in fair value of derivatives associated with the conversion and make-whole provisions attached to the December 2015 debenture issue;
- Decrease of $78,291 in accretion expense related to convertible debentures;
- Increase in other financial expenses and interest on Convertible Debentures of $109,211 primarily related to interest on the convertible debentures and the term loans;
- Increase of $66,323 related to the non-cash accounting gain on refundable contributions derived from the benefit of non-interest-bearing notes related to the refundable contributions received from Canada Economic Development;
- Increase in loss on foreign exchange transactions of $2,747;
- Decrease in interest income of $3,367 due to lower cash balances during the financial year.

Loss and Comprehensive Loss for the Financial Year

As noted above, the Corporation recorded a loss of $4,964,529, or $0.04 per share, for the financial year ended June 30, 2016, compared with a loss of $5,297,187, or $0.05 per share, for the financial year ended June 30, 2015, a decreased loss of $332,658. The largest single factor in the decreased loss between financial years was related to the decrease in major spending (professional fees and subcontractors and pilot construction - $3,851,879) on the demonstration project made in 2015, not incurred in 2016 and the accounting adjustments relative to the change in the fair value of derivatives, offset by increases in legal and professional fees associated with patent infringement issues and non-cash stock-based compensation costs, and certain non-cash expenses for professional fees made in the form of warrants and shares for debt transactions. No other significant factor, other than those described above, contributed to the change in the loss for the period.

6.3 Selected Unaudited Quarterly Information

The following tables provide a summary of certain elements of financial data regarding the Corporation for each of the last eight quarters:

	Quarters ended			
	June 30, 2016	**March 31, 2016**	**December 31, 2015**	**September 30, 2015**
Revenues	-	-	-	-
Loss	$1,327,463	$655,522	$1,391,050	$1,590,494
Loss per share	$0.01	-	$0.01	$0.01

	Quarters ended			
	June 30, 2015	**March 31, 2015**	**December 31, 2014**	**September 30, 2014**
Revenues	-	-	-	-
Loss	$2,335,111	$1,423,650	$804,081	$734,345
Loss per share	$0.02	$0.01	$0.01	$0.01

Over the past eight quarters highlighted above, there were no revenues recorded (see Comparison between Financial Years Ended June 30, 2016 and June 30, 2015—Revenues, above).

FOURTH QUARTER OF 2016

During the last quarter of 2016, the Corporation recorded a loss of $1,327,463 or $0.01 per share, compared with a loss of $2,335,111 or $0.02 per share for the same period in 2015, a decreased loss of $1,007,648 in the financial years over quarterly results. This decreased loss is mainly attributed to lower research and development costs incurred during the quarter ended June 30, 2016 relative to the demonstration project. Operating activities also required a lower cash flow (see Cash Flows below). There were no other general trends that affected the 4^{th} quarter financial results. The Corporation is not subject to any seasonality of its business.

6.4 Cash Flows

Cash totalled $874,309 as at June 30, 2016, compared with $2,426,433 as at June 30, 2015. Generally, this decrease in cash is a result of spending during the financial year on the demonstration project and general working capital requirements. More specifically:

Cash flow required for operating activities for the financial year ended June 30, 2016 amounted to $4,840,942, compared with $4,225,035 for the financial year ended June 30, 2015, representing an increase of $615,907 primarily due to the changes in non-cash working capital items, mainly Accounts payable and accrued liabilities.

Cash flow required for investing activities for the financial year ended June 30, 2016 totalled $218,638, compared with $337,064 required for the financial year ended June 30, 2015, a difference of $118,426. This difference is mainly attributable to the following factors:

- Property, Plant and Equipment
  Purchases of property, plant or equipment, consisting primarily of lab and computer equipment, in 2016 of $29,546, a decrease of $26,294 from 2015.

- Amounts Capitalized to Patents
  For the financial year ended June 30, 2016, the Corporation capitalized $189,092 in patent-related costs compared to $281,224 in 2015, a decrease of $92,132 in 2016.

The cash flow generated from financing activities for the financial year ended June 30, 2016 amounted to $3,507,456, compared with $6,562,386 generated in the financial year ended June 30, 2015. This $3,054,930 decrease in cash flow is primarily attributable to the net proceeds from the December 2015 public offering (the Debenture) of $2,195,000 being lower than the $4,593,815 in funds raised in the financial year ended June 30, 2015 through private placements.

6.5 Liquidity and Operational Effectiveness

To date, the Corporation has financed its operations mainly through cash flow obtained from technology development collaborations, the issuance of common shares or convertible securities and government assistance.

As at June 30, 2016, the Corporation had $874,309 in cash remaining from the December 2015 public offering, $595,690 in receivables (predominately from the Government of Canada) and $624,090 in provincial tax credits receivable in the short term for total liquid assets of $2,094,089 ($3,758,579 as at June 30, 2015). With the receipt of the proceeds to come from the new $500,000 term loan arranged in August 2016 (see Subsequent Events below), the announced additional government assistance, the potential for additional loans secured by provincial R&D tax credits (see Bank Line of Credit and Term Loans*,* above), and the close monitoring of operating expenses, management believes the Corporation should have sufficient funds to meet its working capital requirements for at least the next 12 months.
The Corporation's access to sufficient long-term capital depends on the ability to continue to obtain government assistance to support continuing research and development of the Corporation's technology, to continue, if required, to have access to capital markets and in the longer term to generate a profit. This will depend in part on the Corporation's ability to effectively commercialize its technology, the results of research and development activities, favourable market conditions, and to overall economic conditions. Investments in commercialization activities are used to generate future income; however, it is difficult to predict exactly when this income will materialize.

6.6 Issued Capital

As at October 13, 2016, the number of outstanding common shares, warrants, broker units and options are as follows:

- Common shares: 139,652,354;
- Share purchase warrants: 49,649,940;
- Broker units attached to 2015 Private Placement: 633,500;
- Board, Officer, Consultant and Employee stock options: 5,006,700.

7.0 OFF-BALANCE SHEET ARRANGEMENTS

As at June 30, 2016, the Corporation did not have any off-balance sheet arrangements.

8.0 RELATED PARTY TRANSACTIONS

As at June 30, 2016, there were no related party transactions other than those disclosed above relative to the participation of certain insiders in the 2015 Public Offering described above

9.0 COMMITMENTS

9.1 Royalties

Following a sales technology agreement dated May 21, 1998, and amended March 3, 2004, the Corporation reached an agreement with a former director having at that time a controlling interest in the Corporation to pay him a royalty corresponding to 5% of cumulative gross earnings exceeding $5,000,000 on sales of products (excluding revenues from collaborative agreements). The maximum amount of royalties has been set at $1,000,000 for the period ending January 1, 2021. Under the terms of the agreement, no payments have become due up to June 30, 2016.

9.2 Lease Agreements

The Corporation has entered into lease agreements for its office premises and other miscellaneous equipment expiring in 2020 which call for lease payments totalling $530,094. Minimum payments for the next five years are, $147,678 in 2017, $150,459 in 2018, $153,321 in 2019, $78,636 in 2020 and nil for 2021.

9.3 Contractual Commitment

In connection with the GTS Collaboration Agreement signed in June 2015, the Corporation issued 200,000 GTS Warrants. Each GTS Warrant entitles its holder to acquire one common share of the Corporation at a price of $0.271 per common share until June 22, 2018 or until the GTS Collaboration Agreement is terminated in certain circumstances. In addition, the Corporation agreed to issue to GTS up to an aggregate of 800,000 additional common share purchase warrants of the Corporation in four equal tranches of 200,000 upon each of the first four anniversary dates of the GTS Collaboration Agreement. Pursuant to this agreement the Corporation issued an additional 200,000 GTS Warrants in June 2016. Each June 2016 GTS Warrant entitles its holder to acquire one common share of the Corporation at a price of $0.20 per common share until June 22, 2019 or until the GTS Collaboration Agreement is terminated in certain circumstances. Each future common share purchase warrant will, if issued, entitle the holder thereof to acquire one common share of the Corporation at a price per Common Share equal to the higher of (i) the 30-day volume-weighted average trading price in Canadian dollars of the Common Shares calculated on the day preceding the grant of the tranche; (ii) the closing trading price of the Common Shares on the day preceding the grant of the specific tranche, or (iii) $0.20.

10.0 CRITICAL ACCOUNTING POLICIES AND ESTIMATES

10.1 Significant Management Judgments and Estimates

The Corporation's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("**IFRS**"). The full description of accounting policies and estimates are presented in the relevant section of the Corporation's audited consolidated financial statements for the financial year ended June 30, 2016.

Estimates, assumptions and judgments are continually evaluated by the Corporation and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Corporation makes estimates, assumptions and judgments concerning the future. The estimates, assumptions and judgments that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below. Actual results could differ from these estimates.

10.2 Additional Information with Respect to Accounting for Intellectual Property

The determination and reflection of the value in the accounts of a biotech company and the accounting for patents related to new technological products or services generally calls for an understanding of the specific underlying science and technology and the benefits that can be derived from the application of the technology, often in very specialized markets. These determinations are normally based on judgments made by the Corporation's management who will use their knowledge of how the ownership rights of a new technology restricts competitors from duplicating or stealing the developing Corporation's ideas and proprietary property. The proof of the technology's intrinsic value is often evidenced by the registration of a patent or patents. In the end, these proprietary rights are what will create value for the Corporation. IAS 38, "Intangible Assets", states that an intangible asset (patents) arising from the development phase of an internal project are recognized if, and only if, they meet certain criteria. If all these criteria are met, development costs are capitalized. Based on the Corporation's current operations, patents worthy of capitalization are established only when the underlying development has reached a stage where it is ready to start the process of being patented, and generally only the professional and filing fees paid to secure the patents are capitalized. Internally generated expenses or expenses in the development phase are not included in the valuation of a patent since the work, completed by internal research and development staff, would have been completed prior to applying for the patent (i.e. do not meet criteria). Items to be considered in the review of intangible assets for capitalization would include:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- The intention to complete the intangible asset and use or sell it.
- The ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits. Among other things, demonstration of the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- The availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset.

- The ability to measure reliably the expenditures attributable to the intangible asset during its development.

It is the Corporation's interpretation that in consideration of the amounts capitalized and reported on CO_2 Solutions' consolidated statements of financial position, all these criteria have been met and the Corporation has correctly capitalized these development costs and has reflected their intrinsic value towards the potential contribution to future revenues for CO_2 Solutions. CO_2 Solutions believes that it holds a broad portfolio of patents in the field of enzyme-enhanced CO_2 capture. As at June 30, 2016, the Corporation had 48 patents issued and 28 pending covering not only the use of the carbonic anhydrase enzyme with various capture solvents, but also its use in different reactor configurations, in key industrial sectors, such as power generation and cement, and in many countries. Patents, obtained or pending, are recorded at cost and amortized on a straight-line basis over 20 years, which is the validity period of regular patents, and over 10 years for utility models. The periods of 20 and 10 years start at the date the patent is originally filed. The Corporation's patent portfolio is regularly reviewed for potential impairment and patents that are no longer deemed of value are written off. During the financial year ended June 30, 2016, fourteen patents were deemed to be without value resulting in write-downs included in general and administrative expenses in the amount of $197,378.

10.3 Additional Information with Respect to Accounting for the December 2015 Issue of Debentures

On December 30, 2015, the Corporation announced the closing of a public offering. In connection with the closing of the offering and the partial exercise of the agent's options, the Corporation issued 2,093 units at a price of $1,000 per unit, representing aggregate gross proceeds of $2,093,000. On January 29, 2016, the Corporation further announced in connection with the agent's option, that the Corporation had issued an additional 102 option units as of the date thereof, bringing the aggregate gross proceeds of the offering, including the exercise of the agent's option, to $2,195,000. Each unit consisted of a 12% convertible secured debenture in the principal amount of $1,000 and 4,348 share purchase warrants of the Corporation. Euro Pacific Canada Inc. acted as sole agent for the offering pursuant to an agency agreement entered into between Euro Pacific and the Corporation. In connection with this offering, the Agent was paid a cash commission of $103,080 on December 30, 2015 and was granted 546,000 common share purchase warrants. On January 29, 2016, the Agent was paid a cash commission of $6,120 and was granted 26,609 common share purchase warrants.

The debentures will mature on December 31, 2017 and will bear interest at a rate of 12% per annum payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year such payments having commenced in March 31, 2016. The Corporation shall pay the interest in cash or common shares, at its option. Each debenture will be convertible, at the option of the holder at any time prior to the close of business on the tenth business day immediately preceding the maturity date, into such number of common shares computed on the basis of (i) the principal amount of the debentures that is an integral multiple of the $1,000 principal amount divided by the conversion price of $0.23 per common share, which is subject to adjustments in certain events and (ii) a make-whole payment equal to the interest amount that such holder would have received if such holder had held the debentures until the maturity date divided by the greater of the conversion price and the discounted market price (as defined under the policies of the TSX Venture Exchange). Holders who convert their debentures will receive accrued and unpaid interest for the period from the date of the latest interest payment date to the date of conversion. The Corporation shall pay this interest in cash or common shares, at its option. Any such interest amount paid in common shares shall be computed on the basis of the interest amount divided by the discounted market price. No holder will be entitled to convert debentures or warrants for an amount which would result in the issuance of common shares providing the holder with more than 9.9% of the issued and outstanding common shares of the Corporation. Any holder that before acquiring units already held common shares representing more than 9.9% of the issued and outstanding common shares is exempt from this restriction; however, such holder will not be entitled to convert debentures or warrants for an amount which would result in the issuance of common shares providing the holder with more than 19.9% of the issued and outstanding common shares unless disinterested shareholder approval is obtained by the Corporation in accordance with the policies of the TSX Venture Exchange. Each full warrant entitles the holder thereof to purchase one common share at the price of $0.24 until December 31, 2017. The offering was made in the provinces of British Columbia, Alberta, Ontario and Quebec by way of a prospectus supplement to the Corporation's base shelf prospectus dated November 23, 2015. In connection with the offering, the Corporation entered into an agency agreement with Euro Pacific concurrently with the filing of the prospectus supplement. Net proceeds of the offering are being used (i) to proceed to certain steps in the industrial scale up and continue the development work of the Corporation's technology; (ii) to support initial commercial efforts; and (iii) for general working capital.

11.0 NEW ACCOUNTING STANDARDS

The IASB issued the following standards which are currently relevant but have not yet been adopted by the Corporation: IFRS 2, "Share-based Payments''; IFRS 7, "Financial Instruments: Disclosures"; IFRS 9, "Financial Instruments"; IFRS 15, "Revenue from Contracts with Customers"; IFRS 16, "Leases''; and IAS 7, "Statement of Cash Flows''. The Corporation is currently assessing the impact that these new and amended standards will have on its consolidated financial statements.

New accounting standards issued but not yet in effect:

In December 2014, the IASB issued amendments to clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments form a part of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments are effective for annual periods beginning on or after January 1, 2016. The transition provisions state that the disclosures in paragraphs 28-30 of IAS 8, that is, those regarding adoption of a new standard/policy, are not required. Early application is permitted.

IFRS 2 – Share-based Payments
In June 2016, the IASB issued an amendment to address certain issues related to the accounting for cash settled awards, and the accounting for equity settled awards that include a "net settlement'' feature in respect of employee withholding taxes. The mandatory effective date of the amendment to IFRS 2 is for annual periods beginning on or after January 1, 2018.

IFRS 7 – Financial Instruments: Disclosures
IFRS 7 has been amended to enhance disclosure requirements related to offsetting of financial assets and liabilities. Originally, the amendments were applicable retrospectively for annual periods beginning on or after January 1, 2013. However, IFRS 7 has since been amended to require additional disclosures on transition from IAS 39, "Financial Instruments: Recognition and Measurement" to IFRS 9 (see below), effective on adoption of IFRS 9, which is effective for annual periods beginning on or after January 1, 2018.

IFRS 9 – Financial Instruments
IFRS 9, "Financial Instruments", was issued by the IASB in October 2010 and will replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a

financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. Requirements relating to hedge accounting representing a new hedge accounting model have also been added to IFRS 9. The mandatory effective date for IFRS 9, which is to be applied retrospectively, would be annual periods beginning on or after January 1, 2018.

IFRS 15 – Revenue from Contracts with Customers

The objective of the IFRS 15 revenue standard is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. The revenue standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The revenue standard is effective for entities that report under IFRS for annual periods beginning on or after January 1, 2018. Early adoption is permitted for IFRS reporters.

IFRS 16 – Leases

In January 2016, the IASB released IFRS 16, "Leases", which supersedes IAS 17, "Leases", and the related interpretations on leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for companies that also apply IFRS 15, "Revenue from Contracts with Customers".

IAS 7 – Statement of Cash Flows

In January 2016, the IASB published amendments to IAS 7, "Statement of Cash Flows". The amendments are intended to clarify IAS 7 to improve information provided to users of financing statements about an entity's financing activities. They are effective for annual periods beginning on or after January 1, 2017, with earlier application being permitted.

12.0 RISK FACTORS AND UNCERTAINTIES

The following is a list of risk factors and uncertainties susceptible of affecting the Corporation and its business. This list may not be exhaustive, as the Corporation operates in a rapidly changing business environment, and new risk factors emerge from time to time. The Corporation cannot predict such risk factors, nor can the Corporation assess the impact, if any, of such risk factors or uncertainties on its business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those reported in the financial statements or projected in any forward-looking statements. Accordingly, the Corporation does not, and nor should shareholders of the Corporation or purchasers of securities of the Corporation, rely on forward-looking statements as a prediction of actual results. If any of these risks actually occur, the Corporation's business, results of operations and financial position could be adversely affected. In any such case, the market price of the Common Shares could decline, and investors might lose all or part of their investment.

Uncertainty Concerning Revenues and a History of Previous Losses

Founded in 1997, CO_2 Solutions has yet to generate significant revenues from the sale of its technology. Investments in research and development in the field of enzyme-enabled carbon capture are necessary to develop the technology required to generate future revenues. While the Corporation is confident in its technology, it cannot know with complete certainty if or when any of CO_2 Solutions' technologies will be commercialized. It is not certain whether commercial applications of its enzyme-enabled carbon capture technology or services can be produced or delivered at a reasonable cost and be successfully marketed, nor is it known whether investments in any such technology will be recovered through future licensing agreements or royalties. Some of the technology or processes currently being developed may not be commercially available for some years to come or may be discontinued altogether. Even if CO_2 Solutions were to use all means at its disposal to ensure the commercialization of its technologies, revenues would depend on one or more factors such as CO_2 Solutions' or its collaborative partners' capability to promote this technology, on the performance of its collaborative partners, on the competition, on the acceptance of the technology by the industrial community, and on the impact of environmental legislation and regulation for the reduction of greenhouse gas emissions.

At the moment, CO_2 Solutions' revenues are generated from its current relationships with collaborative partners. CO_2 Solutions also earns interest income on its invested surplus funds. There can be no assurance that any of the Corporation's current collaborative agreements will continue to support CO_2 Solutions' technology research and development on current levels or at all and CO_2 Solutions might develop new relationships and enter into new agreements with additional collaborative partners or clients.

Dependence on Collaborative Partners

CO_2 Solutions' strategy is to enter into various arrangements with corporate collaborators, for the continued development and commercialization of the Corporation's enzyme-enabled carbon capture technology. To date, CO_2 Solutions has entered into different types of collaborations for research and development and technology scale-up. The Corporation also expects to enter into further collaborations for the potential further development and commercialization of its technology with other firms, pursuant to which the Corporation may receive additional funding, including milestone payments. There can be no assurance, however, that the Corporation will be able to establish such additional collaborations on favourable terms, if at all, or that current or future collaborative arrangements will be successful. Should any collaborative partner fail to develop or commercialize successfully any technology to which CO_2 Solutions has rights, or any of the partners' technology to which the Corporation has rights, CO_2 Solutions' business may be adversely affected. Additionally, failure of a collaborative partner to continue funding any particular program could delay or halt the development or commercialization of the Corporation's technology. In addition, there can be no assurance that the collaborative partners will not pursue alternative technologies or develop alternative carbon capture products either on their own or in collaboration with others, including the Corporation's competitors.

Government Regulation in the Field of Carbon Capture

Considering that market development in the field of carbon capture is closely linked to changes in environmental legislation and regulation for the reduction of greenhouse gas emissions, CO_2 Solutions' growth could be adversely impacted by a lack of concerted legislative efforts on the part of major industrialized countries.

Unproven Market

Much of the Corporation's strategy is based on the belief that the application of its enzyme-enabled carbon capture technology to develop products for the markets it is addressing will result in the creation of new, commercially viable products or technical applications. Notwithstanding the Corporation's estimated market potential for the sale or licensing of its technology or products, no assurance can be given that these beliefs will prove to be correct owing to, in particular, competition from existing or new carbon capture technology and the yet to be established commercial viability of the Corporation's technology or products.

Market Acceptance

The enzyme-enabled carbon capture technology development process of the Corporation could take a few more years to perfect and commercialize, and by the time this occurs, because of the competitive and dynamic nature of the carbon capture industry, there is a risk that at such time, any such technology:

- will not be economical to market or marketable at prices that will allow the Corporation to achieve profitability;
- will not be successfully marketed by CO_2 Solutions or its collaborative partners so as to achieve market acceptance;
- will not be preferable to existing or newly developed carbon capture technology marketed by third parties.

The degree of market acceptance of technology developed by CO_2 Solutions or its collaborative partners, if any, will depend on a number of factors, including the establishment and demonstration in the carbon capture and environmental community of the efficacy of the Corporation's enzyme-enabled carbon capture technology and its potential advantage over alternative carbon capture technology. There is no assurance that third parties in the carbon capture community in general will accept and utilize any technology that may be developed by the Corporation. In addition, by the time the Corporation's products, if any, are ready to be commercialized, what the Corporation believes to be the market for these products may have changed. Any estimates referenced in the statement, presentations or Corporation literature regarding the number of potential customers for the Corporation's enzyme-enabled carbon capture technology who have expressed interest in or might have been candidates to use its specific technology may not accurately reflect the true market or market acceptability for such technology. The Corporation's or its collaborative partners' failure to successfully introduce and market CO_2 Solutions' enzyme-enabled carbon capture technology that is under development would have a material adverse effect on the Corporation's business, financial condition and results of operations.

Intellectual Property and Technologies

CO_2 Solutions' success will depend, in part, on the Corporation's ability to obtain patents or rights thereto, to protect trade secrets and operate without violating the exclusive rights of third parties. Although the Corporation already owns certain enzyme-enabled carbon capture pending applications or issued patents or has, through licensing agreements, secured rights to certain carbon capture technologies belonging to others, there is no guarantee that the pending applications will be allowed or that the Corporation will develop other patentable technologies in the future. Moreover, there can be no assurance that a patent granted to the Corporation or in respect of which the Corporation holds a licence will make the related carbon capture technology more competitive, that third parties will not contest the protection granted by the patents, or that the patents of third parties will not be detrimental to the Corporation's commercial activities.

In order to protect or enforce the intellectual property rights owned or used by the Corporation, CO_2 Solutions may have to initiate legal proceedings against third parties. The Corporation may also have to defend claims brought against it or any purchaser or user of its products asserting that such product or process infringes intellectual property rights of third parties. Legal proceedings relating to intellectual property typically are expensive, take significant time and divert management's attention from other business matters. The cost of any litigation could adversely affect the business of the Corporation. Further, if the Corporation does not prevail in an infringement lawsuit brought against it, the Corporation might have to pay substantial damages and could be required to stop the infringing activity or obtain a licence to use the patented technology. Such royalty or licensing agreements, if required, may not be available on acceptable terms, if at all. In the event a claim is successful against the Corporation and the Corporation cannot obtain a licence to the relevant technology on acceptable terms, license a substitute technology or redesign potential products to avoid infringement, the business, financial condition and operating results of the Corporation could be materially adversely affected. Loss of patent protection could lead to new competition for the Corporation's current and future technology, which could materially and adversely affect the financial prospects for the Corporation. There is no guarantee that other companies will not independently develop similar products to those of CO_2 Solutions, that they will not imitate CO_2 Solutions' technology or that the Corporation's competitors will not develop technology designed to circumvent CO_2 Solutions' exclusive proprietary rights. The Corporation may also need to obtain rights for other technologies belonging to third parties, but there is no guarantee that such technologies will be offered to CO_2 Solutions on acceptable terms or at all.

Recruitment and Retention of Key Personnel

CO_2 Solutions' success is largely dependent upon the members of the Corporation's management team and the Corporation's capacity to attract and retain highly competent scientific and business development personnel. The inability to attract such personnel or the potential loss of such persons already within the Corporation, could compromise the pace and success of the Corporation's enzyme-enabled carbon capture technology research and development and commercialization programs.

Volatility of Share Price

Market prices for securities in general tend to fluctuate. The volatility may affect the ability of shareholders to sell the Common Shares at an advantageous price. Factors such as the announcement of scientific or technological innovations, new products or patents, the obtaining of exclusive rights by the Corporation or other companies, a change in regulations, publications, quarterly financial results, public concerns, future sales of Common Shares by the Corporation or current shareholders, the realization of any of the risks described herein and many other factors could have considerable repercussions on the price of the Common Shares. In addition, the market price for securities in the stock markets, including the TSX Venture Exchange, may experience significant price and trading fluctuations. These fluctuations may result in volatility in the market prices of securities that are unrelated or disproportionate to changes in operating performance. These broad market fluctuations may adversely affect the market price of the Common Shares.

Future Sales of Common Shares

The market price of the Common Shares could decline as a result of issuances by the Corporation or sales by its existing shareholders of Common Shares in the market or the perception that these sales could occur. Sales by shareholders might also make it more difficult for the Corporation to sell securities at a time and price that it deems appropriate.

Competition

There is no guarantee that other persons will not independently develop similar products with the potential for costs approaching the Corporation's technology, or that other competitors will not develop technology designed to circumvent the Corporation's issued and pending patents. In the future, the Corporation may also need to obtain rights for other technologies belonging to third parties, but there is no guarantee that such technologies will be offered to the Corporation on acceptable terms or at all. Finally, loss of patent protection could lead to new competition for the Corporation's current and future technology offerings. Any of these events could in turn materially and adversely affect the Corporation's financial prospects.

Global Political and Economic Conditions

Challenging global market and economic conditions in most major economies continue while concerns about the systemic impact of potential long-term and wide-spread recession, energy costs, geopolitical issues, the availability and cost of credit have contributed to increased market volatility and diminished expectations for Western and emerging economies. Notwithstanding various actions by the U.S., Canadian and foreign governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. In addition, general economic indicators have deteriorated, including declining consumer sentiment, increased unemployment and declining economic growth and uncertainty about corporate earnings. These unprecedented disruptions in the overall financial markets have had a significant material adverse impact on a number of businesses and financial institutions and have limited access to capital and credit for many companies. These disruptions could, among other things, make it more difficult for the Corporation or its collaboration partners to obtain, or increase their cost of obtaining capital and financing for their operations. These factors can lead to a decrease in spending by businesses and consumers alike, and a corresponding decrease in global infrastructure spending. Operational scale-backs or reassessment of development programs and spending either by the Corporation or its collaborative partners may result. The Corporation's access to additional capital may not be available on terms acceptable to it or at all. These factors could negatively affect the Corporation's future results of operation in those national markets, the ability to attract collaboration partners and the ability to successfully commercialize its enzyme-enabled carbon capture technology.

Exchange Rates

From time to time a portion, depending on the source of contracts and agreements, of the Corporation's cash inflow is in U.S. dollars or Euros and the Corporation's operating expenses are generally in Canadian dollars, U.S. dollars and Euros. Fluctuation in the exchange rate between the U.S. dollar, the Euro and the Canadian dollar may have a material effect on CO_2 Solutions' results of operations. The Corporation does not currently use derivative instruments to hedge its foreign currency risk; however, it may consider doing so in the future.

Dividends

The Corporation has paid no cash dividends on any of its Common Shares to date and currently intends to retain its cash on hand and future earnings, if any, to fund the development growth of its businesses. In addition, the terms of any future debt or credit facility may preclude the Corporation from paying dividends.

Dilution

The Corporation may consider issuing convertible debt or equity securities, which may rank prior to the Common Shares, in the future to fund potential acquisitions or investments, or for general corporate purposes. The articles of the Corporation provide that CO_2 Solutions has an unlimited number of authorized Common Shares that may be issued. Under applicable law, shareholders' approval is not required for the Corporation to issue shares. If the Corporation issues convertible debt or equity securities to raise additional funds, its existing shareholders may experience dilution, and the new convertible debt or equity securities may have more advantageous rights, preferences and privileges when compared to those of the Corporation's existing shareholders. The Corporation is unable to predict the future amount of such issuances or dilution. If the Corporation incurs debt, it may increase its leverage relative to its earnings or to its equity capitalization, requiring the Corporation to pay interest expenses.

Tax Credits

The Corporation is eligible for research and development tax credits on expenditures incurred on scientific research and experimental development related to the field of enzyme-enabled carbon capture. There is a risk that a federal or provincial governmental agency could conclude that: (i) some or all of the expenditures were not incurred on scientific research and experimental development activities (ii) the rate applicable to such credit is different from the rate claimed by the Corporation, and, (iii) the related entity does not meet specified criteria for refundable tax credits, and therefore the governmental agency could reduce or disallow claims for such credits, including refundable credits previously funded.

13.0 SUBSEQUENT EVENTS

Issue of Shares Associated with May 2016 Restrictive Share Units (RSU's) Grant

As noted above, on May 26, 2016, the Corporation's Board of Directors granted 819,168 RSU's to certain officers and employees of the Corporation. The RSU's granted vested immediately. In the case of the above-mentioned RSU grants, the Corporation was in a blackout period when the RSU grant was awarded to the participants. That blackout period was subsequently lifted and the 819,168 shares relative to the May 2016 RSU grant were issued to the qualified participants on August, 12, 2016.

Danish Intellectual Property

As noted above under the section Update on Danish Intellectual Property Items*,* on July 15, 2016, relative to a post-grant "re-examination" request initiated by a CO_2 Solutions competitor, the Corporation was informed that the Danish Patent Office decided to maintain the registered CO_2 Solutions' utility model in its unamended form. This means that the arguments the Corporation submitted were preferred over the competitor's request for re-examination. Subsequent to the release of that decision from the Danish Patent Office, the competitor who had requested the re-examination, having lost the petition, has closed the related Danish CO_2 capture project that was allegedly infringing on CO_2 Solutions' patent and has itself ceased operations.

Announcement of First Commercial Agreement for Carbon Capture Unit

As noted above, on August 11, 2016, the Corporation announced the execution of a definitive agreement with Fibrek General Partnership, a subsidiary of Resolute Forest Products Inc., and Serres Toundra Inc. for the deployment of a carbon capture unit at a pulp mill in the Saint-Félicien region of Quebec (Canada) and the commercial reuse of the CO_2 in an adjacent greenhouse.

Decision of U.S. Patent and Trademark Office Relating to Competitor's Challenge of Corporation's U.S. Patent No. 8,329,458

On August 29, 2016, the Corporation received notice that the U.S. Patent and Trademark Office (USPTO) upheld the validity of numerous commercially significant claims related to U.S. Patent No. 8,329,458, CARBONIC ANHYDRASE BIOREACTOR AND PROCESS FOR CO_2-CONTAINING GAS EFFLUENT TREATMENT that had been challenged by a competitor. The decision came in the context of an *Inter Partes* Review (IPR) proceeding, which was instituted by the Patent Trial and Appeal Board (PTAB) pursuant to a petition filed by U.S.-based Akermin Inc. Having reviewed CO_2 Solutions' patent, the PTAB ruled in favour of the Corporation on four of the five grounds of reviews, upholding the Corporation's commercially significant claims of the patent that had been challenged and therefore such patent claims will remain in force. The PTAB's decision to cancel several claims of the patent has no effect on the Corporation's freedom to operate, and this part of the PTAB's decision may be appealed should the Corporation so decide in due course.

Claims that survive the heightened scrutiny of IPR proceedings are typically strengthened against subsequent challenges. Patent claims that are challenged in IPR proceedings are usually those that are infringed or commercially significant to a competitor. In this particular case, a number of CO_2 Solutions' claims related to CO_2 capture using certain enzymatic particle materials as well as bioreactor and process configurations were challenged but have been upheld. This USPTO decision comes on the heels of another decision relative to a post-grant re-examination request in Denmark, issued on July 15, 2016 (see above), and also initiated by Akermin Inc. In this decision, the Danish Patent Office maintained all of CO_2 Solutions' claims contained in the registered Danish Utility Model, meaning that all of the claims were upheld.

Subsequent to the release of the Danish decision, Akermin Inc., the petitioner in both the Danish re-examination proceeding and the U.S. IPR proceeding, has itself ceased operations and is currently in liquidation. These recent patent office decisions and the developments concerning the Corporation's sole competitor in the field of enzyme-enabled carbon capture further illustrate the strength of the Corporation's patent portfolio and the competitive advantage CO_2 Solutions continues to hold in this field.

Term Loan

On August 12, 2016, the Corporation announced that it has accepted a loan proposal by Dundurn Capital Partners ("DCP"), an affiliate of Robert Manherz, a director of the Corporation, for a term loan in the amount of up to $500,000 providing for a first draw down of $200,000 and the potential for subsequent draw downs up to the maximum of $500,000. DCP will have the right, before execution of the loan agreement governing the terms and conditions of the loan, to identify other lenders that will enter into the loan agreement to share its obligations under the loan (collectively with DCP, the "Lenders"). The term loan will be repayable in full upon the earlier of the second anniversary of the initial draw down or the completion of the next financing of the Corporation. In addition, CO_2 Solutions may prepay all or a portion of the loan in advance at any time without penalty. The term loan bears interest at an annual rate of 12% accruing from the date of advance, and included standby fees of 3% per annum on any undrawn available balance of the loan as long as any amount is due by CO_2 Solutions to the lenders under the loan or if CO_2 Solutions and the lenders agree to maintain the loan available to CO_2 Solutions after repayment as well as draw down fees of 2% for each advance under the loan and a commitment fee of 3% paid out of the first draw down under the loan. CO_2 Solutions' obligations with respect to the term loan will be secured by a movable hypothec granted by CO_2 Solutions over the universality of its movable property including but not limited to its patent portfolio. The hypothec will be ranked after currently outstanding hypothecs over CO_2 Solutions' assets.

In connection with the loan, CO_2 Solutions has agreed to issue 2,941,176 non-transferable common shares purchase warrants of the Corporation to the lenders, to be allocated proportionally to the lenders on the basis of their committed amounts under the loan. Each warrant will entitle its holder to acquire one common share of CO_2 Solutions Inc. at a price of $0.17 per common share until the second anniversary of the first draw down provided that, if the loan is repaid within the first year following the initial draw down, the term of the warrants will be reduced to the later of one year from their issuance and 30 days from the repayment of the loan. The warrants, and underlying common shares, will be subject to a four-month hold period from the date of issuance of the warrants. The proceeds of the loan will be used for working capital and general corporate purposes.

As Mr. Manherz is considered a "related party" of the Corporation under *Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions* (*Regulation 61-101 respecting Protection of Minority Security Holders in Special Transactions* in Quebec) ("MI 61-101") as a director and holder of more than 10% of the common shares, his participation in the loan constituted a "related party transaction" as defined under MI 61-101. The loan is exempt from the formal valuation and minority shareholder approval requirements of MI 61-101 as neither the fair market value of securities to be issued to the related party nor the consideration being paid by related party exceed 25% of the Corporation's market capitalization. The loan and its terms were reviewed and unanimously approved by the disinterested directors of the Corporation.

14.0 DISCLOSURE AND INTERNAL CONTROLS

As at June 30, 2016, an evaluation of the design and operating effectiveness of the Corporation's disclosure controls and procedures, as defined in the rules of Canadian Securities Administrators, was carried out. Based on that evaluation, the President and Chief Executive Officer and the Senior Vice President, Finance and Chief Financial Officer of the Corporation concluded that the design and operating effectiveness of those disclosure controls and procedures were effective.

Also, as at June 30, 2016, an evaluation of the design and operating effectiveness of internal controls over financial reporting, as defined in the rules of the Canadian Securities Administrators, was carried out to provide reasonable assurance regarding the reliability of financial reporting and financial statement compliance with IFRS. Based on that evaluation, the President and Chief Executive Officer and the Senior Vice President, Finance and Chief Financial Officer of the Corporation concluded that the design and operating effectiveness of internal controls over financial reporting were effective. These evaluations were based on the framework established in *Internal Control over Financial Reporting—Guidance for Smaller Public Companies* issued by the Committee of Sponsoring Organizations of the Treadway Commission, a recognized control model, and the requirements of *Regulation 52–109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings*. All control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention or overriding of the controls or procedures. As a result, there is no certainty that the Corporation's disclosure controls and procedures or internal control over financial reporting will prevent all errors or all fraud. There were no changes in the internal controls over financial reporting that occurred during the financial year ended June

30, 2015 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

15.0 AUDITOR

The Corporation's external auditor, PricewaterhouseCoopers LLP, s.r.l./s.e.n.c.r.l. has audited the consolidated financial statements for the financial year ended June 30, 2016, and has expressed an opinion thereon.

16.0 ADDITIONAL AND CONTINUOUS DISCLOSURE

This MD&A was prepared on October 13, 2016. Additional information relating to the Corporation, including the Corporation's Annual Information Form for the financial year ended June 30, 2016, is available on SEDAR at: www.sedar.com .

On behalf of management,

[signed] Thom Skinner

Thom Skinner, CPA, CA
Senior Vice President, Finance
and Chief Financial Officer

[signed] Evan Price

Evan Price
President and Chief Executive Officer

CO_2 Solutions Inc.

Consolidated Financial Statements
June 30, 2016 and 2015
(expressed in Canadian dollars)

October 13, 2016

Independent Auditor's Report

To the Shareholders of
CO_2 Solutions Inc.

We have audited the accompanying consolidated financial statements of CO_2 Solutions Inc., which comprise the consolidated statement of financial position as at June 30, 2016 and 2015 and the consolidated statements of changes in equity, comprehensive loss and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards.
Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.
Place de la Cité, Tour Cominar, 2640 Laurier Boulevard, Suite 1700, Québec, Quebec, Canada G1V 5C2
T: +1 418 522 7001, F: +1 418 522 5663

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of CO_2 Solutions Inc. as at June 30, 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP[1]

[1] CPA auditor, CA, public accountancy permit No. A121191

CO_2 Solutions Inc.

Consolidated Statements of Financial Position

(expressed in Canadian dollars)

	As at June 30, 2016	As at June 30, 2015
	$	$
ASSETS		
Current assets		
Cash	**874,309**	2,426,433
Accounts receivable (note 6)	**595,690**	732,322
Tax credits receivable	**624,090**	599,824
Inventory	**164,599**	298,292
Prepaid expenses	**107,445**	18,514
	2,366,133	4,075,385
Non-current assets		
Property, plant and equipment (note 7)	**147,162**	159,327
Patents (note 8)	**866,867**	945,824
	3,380,162	5,180,536
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**1,192,304**	1,794,383
Term loans (note 10)	**743,900**	-
	1,936,204	1,794,383
Non-current liabilities		
Refundable contributions (note 11)	**429,701**	357,454
Deferred credits (note 12)	**14,872**	18,959
Convertible debentures (note 13)	**1,003,459**	-
	3,384,236	2,170,796
EQUITY		
Capital stock (note 14)	**26,526,879**	24,600,812
Stock options (note 15)	**417,661**	393,750
Restricted Share Units (note 16)	**139,259**	-
Broker units (note 14)	**108,962**	108,962
Warrants (note 14)	**2,049,245**	2,206,036
Contributed surplus	**4,181,719**	4,163,450
Deficit	**(33,427,799)**	(28,463,270)
	(4,074)	3,009,740
	3,380,162	5,180,536

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board of Directors

[signed] Evan Price — [signed] Glenn Kelly

Evan Price
Director

Glenn Kelly
Director

CO_2 Solutions Inc.

Consolidated Statements of Changes in Equity

For the years ended June 30, 2016 and 2015

(expressed in Canadian dollars)

	Capital stock $	Stock options $	Conversion options $	Restricted Share Units $	Broker units	Warrants $	Contributed surplus $	Deficit $	Total $
Balance as at July 1, 2015	24,600,812	393,750	-	-	108,962	2,206,036	4,163,450	(28,463,270)	3,009,740
Stock-based compensation costs	-	146,029	-	-	-	-	-	-	146,029
Stock options expired (note 15)	-	(8,893)	-	-	-	-	8,893	-	-
Restricted Share Units granted (note 16)	-	-	-	139,259	-	-	-	-	139,259
Share issues from warrants exercised (note 14)	825,816	-	-	-	-	(137,636)	-	-	688,180
Share issues from debt settlements of July 2015 and January 2016 (note 14)	119,000	-	-	-	-	-	-	-	119,000
Warrants issued to broker upon closing of the December 2015 and January 2016 Public Financing (notes 13 and 14)	-	-	-	-	-	47,809	-	-	47,809
Share issues of March 2016 in payment of interest on convertible debentures (notes 13 and 14)	39,450	-	-	-	-	-	-	-	39,450
Share issues from convertible debentures converted (notes 13 and 14)	699,478	-	-	-	-	-	-	-	699,478
Share issues from exercise of stock options (notes 14 and 15)	261,605	(113,225)	-	-	-	-	-	-	148,380
Warrants issue relating to a collaboration agreement (note 14)	-	-	-	-	-	12,220	-	-	12,220
Warrants expired (note 14)	-	-	-	-	-	(9,376)	9,376	-	-
Issuance fees on various share and warrant issues	(19,282)	-	-	-	-	(69,808)	-	-	(89,090)
Loss and comprehensive loss for the year	-	-	-	-	-	-	-	(4,964,529)	(4,964,529)
Balance as at June 30, 2016	**26,526,879**	**417,661**	**-**	**139,259**	**108,962**	**2,049,245**	**4,181,719**	**(33,427,799)**	**(4,074)**

The accompanying notes are an integral part of these consolidated financial statements.

CO_2 Solutions Inc.

Consolidated Statements of Changes in Equity (continued)

For the years ended June 30, 2016 and 2015

(expressed in Canadian dollars)

	Capital stock $	Stock options $	Conversion options $	Restricted Share Units $	Broker units	Warrants $	Contributed surplus $	Deficit $	Total $
Balance as at July 1, 2014	18,868,074	389,862	304,109	-	-	140,370	4,113,903	(23,166,083)	650,235
Stock-based compensation costs	-	69,105	-	-	-	-	-	-	69,105
Stock options expired	-	(48,938)	-	-	-	-	48,938	-	-
Stock options forfeited	-	(609)	-	-	-	-	609	-	-
Share issues and attached warrants and broker units from private placements of July 2014 and June 2015	4,593,815	-	-	-	174,219	2,245,635	-	-	7,013,669
Share issues of August 2014 and June 2015 in payment of interest on convertible debentures	221,875	-	-	-	-	-	-	-	221,875
Share issue from convertible debentures converted	1,284,038	-	(386,049)	-	-	-	-	-	897,989
Share issue from warrants exercised	17,531	-	-	-	-	(2,530)	-	-	15,001
Share and warrants issue from exercise of broker units	121,186	-	-	-	(65,257)	55,305	-	-	111,234
Share issue from exercise of stock options	39,970	(15,670)	-	-	-	-	-	-	24,300
Warrants issue relating to a collaboration agreement	-	-	-	-	-	27,160	-	-	27,160
Issuance fees on various share and warrant issues	(545,677)	-	-	-	-	(259,904)	-	-	(805,581)
Deferred tax effect from early conversion of convertible debentures	-	-	81,940	-	-	-	-	-	81,940
Loss and comprehensive loss for the year	-	-	-	-	-	-	-	(5,297,187)	(5,297,187)
Balance as at June 30, 2015	**24,600,812**	**393,750**	**-**	**-**	**108,962**	**2,206,036**	**4,163,450**	**(28,463,270)**	**3,009,740**

The accompanying notes are an integral part of these consolidated financial statements.

CO_2 Solutions Inc.

Consolidated Statements of Comprehensive Loss

For the years ended June 30, 2016 and 2015

(expressed in Canadian dollars)

	2016	2015
	$	$
Costs and operating expenses		
Research and development expenses, net (note 19 a))	**1,889,850**	2,488,134
Business development expenses (note 19 b))	**1,014,504**	707,964
General and administrative expenses (note 19 c))	**2,038,636**	1,765,201
Financial expenses, net (note 19 d))	**21,539**	253,948
	4,964,529	5,215,247
Loss before income taxes	**4,964,529**	5,215,247
Deferred income taxes (note 20)	**-**	81,940
Loss and comprehensive loss for the year (note 19)	**4,964,529**	5,297,187
Basic and diluted loss per share (note 17)	**0.04**	**0.05**

The accompanying notes are an integral part of these consolidated financial statements and note 19 provides additional information on loss and comprehensive loss.

CO_2 Solutions Inc.

Consolidated Statements of Cash Flows

For the years ended June 30, 2016 and 2015

(expressed in Canadian dollars)

	2016	2015
	$	$
OPERATING ACTIVITIES		
Loss and comprehensive loss for the year	**(4,964,529)**	(5,297,187)
Adjustments		
Depreciation and amortization	**305,673**	307,110
Warrants issue relating to a collaboration agreement (note 14)	**12,220**	27,160
Interest expense on refundable contributions (note 11)	**14,829**	3,626
Interest expense on convertible debentures (note 13)	**206,653**	321,944
Change in fair value of derivatives (note 13)	**(203,120)**	-
Stock-based compensation costs	**285,288**	69,105
Gain on refundable contribution (note 11)	**(123,263)**	(56,940)
Deferred income taxes (note 20)	**-**	81,940
	(4,466,249)	(4,543,242)
Changes in non-cash working capital items		
Accounts receivable	**136,632**	(121,294)
Tax credits receivable	**(24,266)**	(281,007)
Inventory	**133,693**	(287,512)
Prepaid expenses	**(88,931)**	(6,568)
Deferred charges	**-**	90,144
Accounts payable and accrued liabilities	**(531,821)**	924,444
	(374,693)	318,207
Cash flows used for operating activities	**(4,840,942)**	(4,225,035)
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment (note 7)	**(29,546)**	(55,840)
Amounts capitalized to patents (note 8)	**(189,092)**	(281,224)
Cash flows used for investing activities	**(218,638)**	(337,064)
FINANCING ACTIVITIES		
Term loans (note 10)	**743,900**	-
Proceeds from the issuance of convertible debentures (note 13)	**2,195,000**	-
Issuance fees on convertible debentures of December 2015 and January 2016 (note 13)	**(359,596)**	-
Refundable contribution received (note 11)	**180,682**	203,763
Share issue and warrants attached from private placements	**-**	6,839,450
Share issue from warrants exercised (note 14)	**688,180**	15,001
Share and warrant issues from exercise of broker units	**-**	111,234
Share issue from exercise of stock options (notes 14 and 15)	**148,380**	24,300
Issuance fees on various share and warrant issues	**(89,090)**	(631,362)
Cash flows from financing activities	**3,507,456**	6,562,386
Net increase in cash	**(1,552,124)**	2,000,287
Cash - Beginning of year	**2,426,433**	426,146
Cash - End of year	**874,309**	2,426,433
Interest income received	**13,450**	16,817
Accounts payable and accrued liabilities including interest paid by issuance of shares (notes 13 and 14)	**158,450**	221,875
Broker warrants relating to Public Offering of December 2015 and January 2016 (note 13)	**47,809**	-
Convertible debentures converted and paid by issuance of shares (notes 13 and 14)	**699,478**	897,989

The accompanying notes are an integral part of these consolidated financial statements.

(expressed in Canadian dollars)

1- GOVERNING STATUTE AND NATURE OF OPERATIONS

CO_2 Solutions Inc. (the "Corporation"), incorporated under Part 1A of the *Companies Act* (Quebec) and now governed by the *Business Corporations Act* (Quebec), is a high technology enterprise involved in the capture and management of carbon dioxide (CO_2). More specifically, the Corporation is currently focused on commercializing an enzyme-based enabling technology for efficient CO_2 capture from fossil fuel-power plants, pulp and paper mills and other large emitters of CO_2. The Corporation intends to continue its research and development and commercialization efforts. The Corporation's operations are subject to all the inherent risks related to running an emerging high technology corporation, such as successfully completing its research and development activities, negotiating collaborative working agreements, securing adequate financing and government support and commercialization of its enzyme technology. The Corporation is listed on the TSX Venture Exchange (TSXV: CST) and is incorporated and domiciled in Canada.

The Corporation's registered head office is located at 2300 Jean-Perrin Street, Quebec City, Quebec, Canada G2C 1T9.

2- BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Corporation's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

These consolidated financial statements were approved by the Corporation's Board of Directors on October 13, 2016.

3- SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation
These consolidated financial statements have been prepared under the historical cost convention.

Basis of consolidation
These consolidated financial statements include the accounts of the Corporation and those of CO_2 Solution Technologies Inc., 9157-4400 Québec Inc., 9157-4426 Québec Inc., 9157-4475 Québec Inc. and Fiducie Financière CO_2 Solution. All intercorporate accounts and transactions have been eliminated.

Segment reporting
The Corporation manages its business on the basis of one reportable segment. This single reportable segment derives its income from the sale of data, procedures and services relating to the management and elimination of CO_2 using an enzyme conversion-based technology.

To date, the Corporation has earned its income essentially from clients based in Canada, the United States and Europe. The Corporation's tangible and intangible assets are located in Canada.

Financial instruments
The standards require that financial assets and financial liabilities, including derivative financial instruments, be initially measured at fair value. Subsequent to initial recognition, financial assets and financial liabilities are measured based on their classification: at fair value through profit or loss, available-for-sale, loans and receivables or financial liabilities at amortized cost.

The Corporation has no available-for-sale financial instruments.

Loans and receivables – Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables are recognized initially at the amount expected to be received less, when material, a discount to reclassify the loans and receivables to fair value. Subsequently, they are measured at amortized cost using the effective interest method less a provision for impairment. The Corporation's loans and receivables include cash and accounts receivable.

Financial liabilities at amortized cost – Financial liabilities include accounts payable and accrued liabilities, refundable contributions and convertible debentures and are initially recognized at the amount required to be paid, less, when material, a discount to initially reduce the liability to fair value, net of any transaction costs incurred. The financial liabilities are subsequently recorded at amortized cost using the effective interest method. These financial liabilities are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities. Transaction costs are deferred if incurred in the fiscal year preceding the issuance of the financial liabilities.

Financial liabilities at fair value through profit and loss - This category includes the Conversion option and Make-Whole Amount related to the convertible debentures (see note 13), which is initially recognized at fair value and carried subsequently at fair value with gains or losses recognized in the Consolidated Statements of Comprehensive Loss.

Impairment of financial assets
At each reporting date, the Corporation assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Corporation recognizes an impairment loss, as follows:

Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Cash
Cash consists of cash on hand and balances with banks.

Inventory
Inventory, consisting substantially of enzyme, is stated at the lower of cost or net realizable value. Cost is determined using the first in, first out method. The cost of inventory comprises all costs related to the purchase such as the cost to subcontract enzyme manufacturing, purchase price, transport and handling costs and other costs directly attributable to the acquisition of the supplies. Trade discounts, rebates and other similar items are deducted from the purchase cost whenever applicable.

Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the Consolidated Statements of Comprehensive Loss during the period in which they are incurred.

The major categories of property, plant and equipment are depreciated over their estimated useful lives as follows:

	Methods	Rates or period
Laboratory equipment and layout	Diminishing balance	20%
Office equipment	Diminishing balance	20%
Computer equipment	Diminishing balance	30%
Leasehold improvements	Straight-line	10 years

Patents
Patents arising from the development phase of an internal project are recognized if, and only if, they meet certain criteria. If all these criteria are met, development costs are capitalized. Based on the Corporation's current operations, patents worthy of capitalization are established only when the underlying development has reached a stage where it is ready to start the process of being patented, and generally only the professional and filing fees paid to secure the patents are what is capitalized. Internally generated expenses or expenses in the development phase are not included in the valuation of a patent since the research work, completed by internal research and development staff, would have been completed prior to applying for the patent (i.e. do not meet criteria stated above).

Items to be considered in the review of an intangible asset for capitalization would include:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- The intention to complete the intangible asset and use or sell it.
- The ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits. Among other things, demonstration of the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- The availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset.
- The ability to measure reliably the expenditures attributable to the intangible asset during its development.

Patents, obtained or pending, are recorded at cost and amortized on a straight-line basis over 20 years, which is the validity period of the regular patents and over 10 years for Utility Model patents. The periods of 20 and 10 years start at the date the patent is originally filed.

Impairment of non-financial assets
Property, plant and equipment and non-financial intangible assets (patents) are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units – CGUs). The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use (being the present value of the expected future cash flows of the relevant assets of the CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The Corporation evaluates impairment losses for potential reversals when events or circumstances require such consideration.

Research and development expenses
Expenses related to research are expensed as incurred. Development expenses are expensed as incurred unless they meet generally accepted capitalization criteria in which case they are deferred and amortized. As at June 30, 2016 and 2015, no development costs had been deferred or capitalized, except as otherwise stated for the patents as described above.

Capital stock, warrants, conversion options and broker units
Capital stock, warrants, conversion options and broker units are classified as equity unless they meet the criteria of a financial liability. The Corporation allocates the proceeds from an equity financing between common shares warrants, conversion options and broker units based on the relative fair value of each instrument using the Black-Scholes pricing model and the binomial distribution method.

Share issue expenses
Share issue expenses are applied against capital stock.

Research and development tax credits
The Corporation is entitled to scientific research and experimental development ("SR&ED") tax credits granted by the Canadian federal government and the government of the Province of Quebec.

SR&ED tax credits are accounted for using the cost reduction method. Accordingly, tax credits are recorded as a reduction of the related expenses or capital expenditures in the year in which those expenses are incurred, provided that there is reasonable assurance that the credit will be recovered.

The cash flows related to SR&ED tax credits received or receivable are classified as operating activities unless they are related to capital expenditures, in which case they are classified as investing activities.

Government assistance
The Corporation received a significant amount of funds through the Canadian federal government by way of specific grants assigned to specific approved projects. These grants are accounted for using the cost reduction method. Accordingly, grants are recorded as a reduction of the related expenses or capital expenditures in the year in which those expenses are incurred, provided there is reasonable assurance that the grant will be realized.

In certain cases, grant funds can be received before the related expenses are incurred. In these cases where grant funds are received and the related expenses are not yet incurred, the grant is recorded as a deferred grant until the related expenses are incurred.

The cash flows related to grants received are classified as operating activities unless they are related to capital expenditures, in which case they are classified as investing activities.

Income taxes
The income tax expense includes current and deferred income taxes. Income taxes are recognized in net income, except to the extent that they relate to items recognized directly in other comprehensive income or directly in equity, in which case the income taxes are also recognized directly in other comprehensive income or equity, respectively.

a) Current income taxes

The current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities. The income tax rates used to calculate the amount are those that are enacted or substantively enacted at the Consolidated Statements of Financial Position date in the tax jurisdiction where the Corporation and its subsidiaries generate taxable income/loss.

b) Deferred income taxes

The Corporation provides for deferred income taxes using the liability method. Under this method, deferred tax assets and liabilities are determined based on deductible or taxable temporary differences between carrying values and tax values of assets and liabilities as well as the carryforward of unused tax losses and deductions, using enacted or substantively enacted income tax rates expected to be in effect for the years in which the assets are expected to be realized or the liabilities to be settled.

Deferred tax assets are recognized only to the extent that it is probable that they will be recovered.

Deferred tax liabilities are generally recognized for all taxable temporary differences and for taxable temporary differences arising on investments in subsidiaries, except where the reversal of the temporary differences can be controlled and it is probable that the differences will not reverse in the foreseeable future. However, deferred tax is not recognized if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, does not affect either the accounting profit or loss nor the taxable profit or loss.

Deferred tax assets and liabilities are presented as non-current in the Consolidated Statements of Financial Position.

Foreign currency translation

Functional and presentation currency
Items included in the financial statements of each of the Corporation's entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the Corporation and all its subsidiaries.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the Consolidated Statements of Comprehensive Loss.

Employee future benefits
The Corporation has established a simplified defined contribution pension plan. The Corporation's contribution is limited to the amount provided under the plan, which is equal to the employee's contribution of up to 2% of gross earnings. Pension expense is recognized in the Consolidated Statements of Comprehensive Loss for the year during which the amounts are due.

Revenue recognition
The Corporation's revenues are derived from research contracts, design, development and marketing of services and data related to the management and elimination of CO_2.

The nature of the Corporation's business is such that many revenue transactions do not have a simple structure. Revenue agreements may consist of multiple components occurring at different times. The Corporation is also party to agreements which can involve upfront and milestone payments that may occur over several periods. These agreements may also involve certain future obligations. Revenues are only recognized when, in management's judgment, the significant risks and rewards of ownership have been transferred or when the obligation has been fulfilled. For some transactions, this can result in cash receipts being initially recognized as deferred income and then released to income over subsequent periods on the basis of the performance of the conditions specified in the agreement.

The Corporation recognizes revenue from research contracts when the research activities under the contract are carried out, the contract amount is fixed and collection is reasonably assured. The Corporation has entered into certain research and development agreements comprising several components. Such arrangements are divided into separate units of accounting provided that the delivered item has standalone value and there is objective and reliable evidence of the fair value of the undelivered items. When the arrangements cannot be divided into separate units of accounting, the arrangements are considered arrangements with a single deliverable. Revenue for each unit of accounting or arrangement with a single deliverable is recognized according to the Corporation's revenue recognition policies as previously disclosed. When recognition criteria are not respected, deferred revenue is recognized for the amounts received.

Investment income is recognized using the accrual method. Interest income is recognized according to the number of days the investment is held during the year.

Loss per share
Basic loss per common share is calculated by dividing loss by the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated taking into account the potential dilution that would result if the common shares, stock options, restricted share units, conversion options, broker units and warrants were exercised or converted into common shares at the later of the beginning of the year or their issue date. The dilution effect is determined using the treasury stock method for stock options, restricted share units, conversion options, broker units and warrants.

Share-based payments
The Corporation grants stock options and restricted share units to certain employees, officers and directors. Each award is considered as separate with its own vesting period and grant date fair value. Fair value of each award is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the award's vesting period based on the number of options expected to vest, by increasing stock options within equity. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

The impact of any service condition is excluded from the fair value calculation. The cash subscribed for the shares issued when the options are exercised is credited, together with the related compensation costs, to capital stock (nominal value), net of any directly attributable transaction costs.

4- NEW ACCOUNTING STANDARDS

The IASB issued the following standards which are currently relevant but have not yet been adopted by the Corporation: IFRS 2, "Share-based Payments''; IFRS 7, "Financial Instruments: Disclosures"; IFRS 9, "Financial Instruments"; IFRS 15, "Revenue from Contracts with Customers"; IFRS 16, "Leases''; and IAS 7, "Statement of Cash Flows''. The Corporation is currently assessing the impact that these new and amended standards will have on its consolidated financial statements.

New accounting standards issued but not yet in effect:

In December 2014, the IASB issued amendments to clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments form a part of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments are effective for annual periods beginning on or after January 1, 2016. The transition provisions state that the disclosures in paragraphs 28-30 of IAS 8, that is, those regarding adoption of a new standard/policy, are not required. Early application is permitted.

IFRS 2 – Share-based Payments
In June 2016, the IASB issued an amendment to address certain issues related to the accounting for cash settled awards, and the accounting for equity settled awards that include a "net settlement'' feature in respect of employee withholding taxes. The mandatory effective date of the amendment to IFRS 2 is for annual periods beginning on or after January 1, 2018.

IFRS 7 – Financial Instruments: Disclosures
IFRS 7 has been amended to enhance disclosure requirements related to offsetting of financial assets and liabilities. Originally, the amendments were applicable retrospectively for annual periods beginning on or after January 1, 2013. However, IFRS 7 has since been amended to require additional disclosures on transition from IAS 39, "Financial Instruments: Recognition and Measurement" to IFRS 9 (see below), effective on adoption of IFRS 9, which is effective for annual periods beginning on or after January 1, 2018.

IFRS 9 – Financial Instruments
IFRS 9, "Financial Instruments" was issued by the IASB in October 2010 and will replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were

carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. Requirements relating to hedge accounting representing a new hedge accounting model have also been added to IFRS 9. The mandatory effective date for IFRS 9, which is to be applied retrospectively, would be annual periods beginning on or after January 1, 2018.

IFRS 15 – Revenue from Contracts with Customers
The objective of the IFRS 15 revenue standard is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. The revenue standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The revenue standard is effective for entities that report under IFRS for annual periods beginning on or after January 1, 2018. Early adoption is permitted for IFRS reporters.

IFRS 16 – Leases
In January 2016, the IASB released IFRS 16, "Leases", which supersedes IAS 17, "Leases", and the related interpretations on leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for companies that also apply IFRS 15, "Revenue from Contracts with Customers".

IAS 7 – Statement of Cash Flows
In January 2016, the IASB published amendments to IAS 7, "Statement of Cash Flows". The amendments are intended to clarify IAS 7 to improve information provided to users of financing statements about an entity's financing activities. They are effective for annual periods beginning on or after January 1, 2017, with earlier application being permitted.

5- SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The judgments that have a significant risk of causing material adjustments to the Corporation's consolidated financial statements are listed below.

Significant judgments are generally made in connection with the calculation of revenues, government assistance and tax credits as well as in determining impairment of property, plant and equipment and intangible assets (predominantly patents). Judgments are based on historical experience, where relevant, and on various other assumptions that management believes to be reasonable under the circumstances. Actual results could differ from those judgments.

Revenue recognition
The nature of the Corporation's business is such that many revenue transactions do not have a simple structure. Revenue agreements, when incurred, may consist of multiple components occurring at different times. The Corporation is also party to agreements which can involve upfront and milestone payments that may occur over several periods. These agreements may also involve certain future obligations. Revenues are only recognized when, in management's judgment, the significant risks and rewards of ownership have been transferred or when the obligation has been fulfilled. For some transactions, this can result in cash receipts being initially recognized as deferred income and then released to income over subsequent periods on the basis of the performance of the conditions specified in the agreement. Management's judgment for revenue recognition is mainly based on contractual clauses in regard to amounts and obligations. For the years ended June 30, 2016 and 2015, there was no deferred income recognized nor future obligations related to recognized revenues. Contract agreements also provide that payments are not refundable. Invoiced

amounts, when incurred, are determined relative to contract agreements in regard to the required obligations and revenue is recognized accordingly.

Government assistance and tax credits
The Corporation is entitled to government assistance in the form of scientific research and experimental development ("SR&ED") tax credits and government grants. These are applied against related expenses and/or the cost of the asset acquired. Tax credits are based on eligible research and development expenses consisting of direct and indirect expenditures and including a reasonable allocation of overhead expenses. Grants are subject to compliance with terms and conditions of the related agreements. Government assistance is recognized when, in the judgment of management, there is reasonable assurance that the Corporation has met the requirements of the approved grant program or, with regard to tax credits, when there is reasonable assurance that they will be realized.

Impairment of assets with definite useful lives
All assets, including intangible assets (predominantly patents as described in note 3) are reviewed for an indication of impairment at each statement of financial position date. If, in the judgment of management, an indication of impairment exists, the asset's recoverable amount is estimated. Factors such as changes in the planned use of a production unit, laboratory equipment, or the presence or absence of technical obsolescence could result in shortened useful lives or impairment. An impairment loss, if any, is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. As at June 30, 2016 and June 30, 2015, management determined that there were no impaired assets.

6- ACCOUNTS RECEIVABLE

	As at June 30, 2016	As at June 30, 2015
	$	$
Trade accounts receivable and others	**532**	4,715
Government assistance receivable	**534,156**	474,444
Commodity taxes receivable	**61,002**	253,163
	595,690	732,322

7- PROPERTY, PLANT AND EQUIPMENT

	Laboratory equipment and layout	Office equipment	Computer equipment	Leasehold improvements	Total
	$	$	$	$	$
Cost					
Balance as at July 1, 2014	761,248	131,458	82,771	35,539	1,011,016
Acquisitions	36,468	-	19,372	-	55,840
Balance as at June 30, 2015	797,716	131,458	102,143	35,539	1,066,856
Acquisitions	24,982	-	4,564	-	29,546
Balance as at June 30, 2016	822,698	131,458	106,707	35,539	1,096,402
Accumulated depreciation					
Balance as at July 1, 2014	(662,814)	(116,637)	(62,734)	(29,132)	(871,317)
Depreciation expense	(21,123)	(2,964)	(8,571)	(3,554)	(36,212)
Balance as at June 30, 2015	(683,937)	(119,601)	(71,305)	(32,686)	(907,529)
Depreciation expense	(26,296)	(2,372)	(10,190)	(2,853)	(41,711)
Balance as at June 30, 2016	(710,233)	(121,973)	(81,495)	(35,539)	(949,240)
Net carrying amount					
June 30, 2015	113,779	11,857	30,838	2,853	159,327
June 30, 2016	112,465	9,485	25,212	-	147,162

8- PATENTS

	$
Cost	
Balance as at July 1, 2014	1,252,632
Costs incurred	281,224
Abandoned	(279,224)
Balance as at June 30, 2015	1,254,632
Costs incurred	189,092
Abandoned	(255,065)
Balance as at June 30, 2016	1,188,659
Accumulated amortization	
Balance as at July 1, 2014	(311,866)
Amortization expense	(276,166)
Abandoned	279,224
Balance as at June 30, 2015	(308,808)
Amortization expense	(268,049)
Abandoned	255,065
Balance as at June 30, 2016	(321,792)
Net carrying amount	
June 30, 2015	945,824
June 30, 2016	866,867

9- BANK LOAN

In order to maintain the level of liquidly required to meet current obligations, in November 2015, the Corporation undertook an evaluation of its short-term borrowing facilities and capabilities. Pursuant to that review, the Corporation cancelled its $150,000 line of credit with a commercial bank and has since negotiated a new line of credit with another financial institution (see note 10), to be secured by a first charge on the Corporation's federal and provincial receivables (provincial SR&ED tax credits and federal subsidy holdback amounts).

10- TERM LOANS

On November 6, 2015, the Corporation negotiated a Term Loan Agreement with a financial institution for a principal amount of $240,400. The term loan is to finance provincial tax credits receivable for scientific research and experimental development (SR&ED tax credits) accrued for its fiscal year ended June 30, 2015. The term loan is subject to fluctuations in the Corporation's R&D tax credits receivable, and the proceeds received from future R&D tax credits funds will be paid directly to the financial institution to decrease the amount of outstanding related borrowing.

On November 20, 2015, the Corporation negotiated a second term loan Agreement for a principal amount of $378,700. This second term loan is to finance a federal subsidy holdback receivable.

On March 22, 2016, the Corporation negotiated a third term loan Agreement for a principal amount of $285,500. This third term loan is to finance provincial tax credits receivable for scientific research and experimental development (R&D tax credits) accrued for its current fiscal year ended on June 30, 2016. The term loan is subject to fluctuations in the Corporation's R&D tax credits receivable, and the proceeds received from future R&D tax credits funds will be paid directly to the financial institution to decrease the amount of outstanding related borrowing. The initial draw down on this new term loan of $124,800 was deposited on April 29, 2016.

The term loans are secured by a first charge on the Corporation's provincial and federal receivables. The term loans bear interest at a rate of 1.6% per month on the outstanding principal, and paid in advance. The term of these term loans is a maximum of 12 months and can be extended upon agreement of the parties.

11- REFUNDABLE CONTRIBUTIONS

The Corporation obtained from Economic Development of Canada two separate refundable contributions (loans), one for $250,000, granted in January 2011, and one for up to $400,000, granted in February 2015. The first contribution of $250,000, which was totally drawn down, was refundable starting in July 2013 with annual payments representing 4% of the Corporation's total annual revenues up to the total of the refundable contribution received. The last payment is due and payable when 10 full years have passed since the date of the first payment. As at June 30, 2016 and 2015, since the Corporation had no income, there was no short-term portion payable related to this refundable contribution.

The second refundable contribution (loan) of up to $400,000 is refundable starting 36 months after March 31, 2016, the end date of the research and development project to which the contribution was attached. The contribution will be reimbursed by way of 59 equal and consecutive instalments of $6,667 and one final payment of $6,647. As at June 30, 2016, the Corporation had received, a second draw for $54,817 on November 17, 2015, a third draw of $85,865 on March 17, 2016 and a fourth and final draw of $40,000 on April 1, 2016, totalling the $400,000 contribution available. The total estimated gain of $123,263 is recorded in the Consolidated Statements of Comprehensive Loss in 2016 ($56,940 in 2015). As at June 30, 2016 and 2015, there is no short-term portion payable related to this refundable contribution.

The loans totalling $650,000 were accrued at initial recognition at fair value, using an estimated weighted average capitalization rate of 10%. Interest expense of $14,829, for both loans, is recorded in the Consolidated Statements of Comprehensive Loss in 2016 ($3,626 in 2015).

12- DEFERRED CREDITS

	Government assistance	Tax credits	Total
	$	$	$
Cost			
Balance as at July 1, 2014	33,485	186,472	219,957
Increase	-	-	-
Balance as at June 30, 2015	33,485	186,472	219,957
Increase	-	-	-
Balance as at June 30, 2016	33,485	186,472	219,957
Accumulated amortization			
Balance as at July 1, 2014	(31,228)	(164,502)	(195,730)
Amortization	(452)	(4,816)	(5,268)
Balance as at June 30, 2015	(31,680)	(169,318)	(200,998)
Amortization	(361)	(3,726)	(4,087)
Balance as at June 30, 2016	(32,041)	(173,044)	(205,085)
Net carrying amount			
June 30, 2015	1,805	17,154	18,959
June 30, 2016	1,444	13,428	14,872

13- CONVERTIBLE DEBENTURES

On December 30, 2015, the Corporation announced the closing of a marketed offering (the “Offering”) of 2,093 units of the Corporation (the “Units”) at a price of $1,000 per Unit. Each Unit consisted of $1,000 principal amount of 12% convertible secured debentures (the “Debentures”) and 4,348 share purchase warrants (each single share purchase warrant, a “Warrant”) of the Corporation.

On January 29, 2016 the Corporation announced that Euro Pacific Canada Inc. (“Euro Pacific”), the sole agent for its December 2015 public offering (the “Offering”) of units (the “Units”), had exercised its option (the “Agent's Option”) with regard to the sale of additional Units (the “Option Units”) at a price of $1,000 per Option Unit in connection with the Offering. The Agent's Option had been granted to Euro Pacific pursuant to an agency agreement entered into between Euro Pacific and the Corporation as of December 23, 2015 (the “Agency Agreement”).

In connection with the Agent's Option, on January 29, 2016, the Corporation issued an additional 102 Option Units, bringing the aggregate gross proceeds of the Offering, including the exercise of the Agent's Option, to $2,195,000.

The Debentures will mature on December 31, 2017 (the “Maturity Date”) and bear interest at a rate of 12% per annum payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year commencing on March 31, 2016 (the “Interest”). Each Debenture is convertible, at the option of the holder at any time prior to the close of business on the tenth business day immediately preceding the Maturity Date, into such number of common shares computed on the basis of (i) the principal amount of the Debentures that is an integral multiple of the $1,000 principal amount divided by the conversion price of $0.23 per Common Share (the “Conversion Price”) and (ii) a make-whole payment equal to the interest amount that such holder would have received if such holder had held the Debentures until the Maturity Date (the “Make-Whole Amount”) divided by the greater of the Conversion Price or the Discounted Market Price (as defined under the policies of the TSX Venture Exchange). Holders who convert their Debentures will receive accrued and unpaid interest for the period from the date of the latest Interest payment date to the date of conversion.

In connection with this Offering, the Agent was paid a cash commission of $103,080 on December 30, 2015 and was granted 546,000 common share purchase warrants. On January 29, 2016, the Agent was paid a cash commission of $6,120 and was granted 26,609 common shares purchase warrants.

The Corporation shall pay the interest in cash or common shares, at its option. Any such Interest amount paid in common shares shall be computed on the basis of the Interest amount divided by the Discounted Market Price.

Interest accrued and due on March 31, 2016 for $39,457 was paid by issuance on March 31, 2016 of 197,250 common shares at a deemed price of $0.20 for each common share and a cash payment of $7. Interest accrued and due on June 30, 2016 for $39,240 was settled by a cash payment on that date.

Each full Warrant entitles the holder thereof to purchase one Common Share at the price of $0.24 (the “Exercise Price”) until December 31, 2017. Each Broker warrant entitles the holder thereof to purchase one Common Share at the price of $0.24 (the “Exercise Price’’) until June 30, 2017.

The Debentures are secured by a moveable hypothec, subject to prior encumbrances, granted by the Corporation in which the Corporation hypothecates in favour of Computershare Trust Company of Canada, as representative (fondé de pouvoir) for the debenture holders, the universality of the Corporation’s movable property, present and future, corporeal and incorporeal, of whatever nature and wherever situated.

Net proceeds of the offering are being used (i) to proceed to certain steps in the industrial scale-up and continue the development work of the Corporation’s technology; (ii) to support initial commercial efforts; and (iii) for general working capital.

In accordance with IAS 32, “Financial Instruments: Presentation*”*, the issuer of a non-derivative financial instrument shall evaluate the terms of the financial instrument to determine whether it contains both a liability and an equity component. In application of this standard, the issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument.

Relative to the Debentures referred to above and the application of IAS 32, the Corporation has determined that the conversion option together with the Make-Whole Amount feature (collectively the “Conversion Option”) constitute an embedded derivative financial instrument.

For the December 30, 2015 and the January 29, 2016 issues, the fair value attributed to the conversion option component was initially estimated at $221,010 and $3,637, respectively, using the

Black-Scholes option pricing model based on the following weighted average assumptions (expected life was estimated by the Corporation based on its expectation of conversion dates as at the relevant issue dates).

	Initial fair value December 30, 2015	**Initial fair value January 29, 2016**
Share price	$0.23	$0.17
Risk-free interest rate	0.48%	0.42%
Expected volatility	48.00%	59.82%
Annual dividend yield	Nil	Nil
Expected life	0.31 year	0.42 year
Weighted average fair value of conversion option per underlying share	$0.0243	$0.0082

The fair value of the Conversion Option has been valued using an implicit rate of 20% taking into consideration an estimate of conversion dates. The initial estimate of the fair value of the Conversion Option totalled $626,197 and $20,637. Consequently the residual amounts of $1,466,803 and $81,363 were allocated to the financial liability at amortized cost represented by the principal amount and interest of the debentures. An amount of $nil was allocated to the warrants.

Issuance fees are treated as financing expenses. These fees have been allocated entirely to the financial liability component and are amortized, together with the discount arising from the amount initially attributed to the embedded derivative, with an overall effective interest rate of 52% for the December issue and 57% for the January issue. Upon a conversion, the carrying amount of the host debt instrument recorded at amortized cost and the fair value of the related embedded derivative is transferred to Equity.

As at June 30, 2016, the Corporation reviewed the initial fair value of the conversion option of the embedded derivatives and adjusted the initial fair value at $4,839 using the Black-Scholes option pricing model based on the following weighted average assumptions (expected life was estimated by the Corporation based on its expectation of conversion date as at June 30, 2016):

	Adjusted fair value June 30, 2016
Share price	$0.15
Risk-free interest rate	0.52%
Expected volatility	50.00%
Annual dividend yield	Nil
Expected life	0.29 year
Weighted fair value of conversion option per underlying share	$0.0009

For the financial year ended June 30, 2016 the change in fair value of derivatives resulted in a gain of $203,120 ($nil for 2015) and was recorded in the Consolidated Statements of Comprehensive Loss.

The following summarizes the face value and carrying values of the liability and equity components of the Debentures as at June 30, 2016:

	Liability components			Equity component
		Principal and interest[1]	Conversion Option [2]	Warrants
	Face value $	Carrying value $	Carrying value $	Carrying value $
Balance as at June 30, 2015	-	-	-	-
Issuance as at December 30, 2015	2,093,000	1,466,803	626,197	-
Issuance as at January 29, 2016	102,000	81,363	20,637	-
Issuance fees incurred	-	(407,405)	-	-
Converted	(887,000)	(495,585)	(203,892)	-
Change in fair value of derivatives	-	-	(203,120)	-
Accretion expense	-	118,461	-	-
Balance as at June 30, 2016	1,308,000	763,637	239,822	-

(1) Classified as another financial liability and measured at amortized cost.
(2) Classified as a derivative financial instrument and measured at fair value through profit and loss.

14- CAPITAL STOCK

Authorized

Unlimited number of common shares, without par value, voting and participating.

Issued and fully paid

The following table shows the changes in the Corporation's capital stock during the years ended June 30, 2016 and 2015.

	Year ended June 30, 2016		Year ended June 30, 2015	
	Number	**$**	Number	$
Beginning balance	**127,211,353**	**24,600,812**	79,687,836	18,868,074
Share issues from:				
Private placements	**-**	**-**	35,450,733	4,064,136
Payment of interest on convertible debentures	**197,250**	**30,425**	988,221	219,847
Convertible debentures converted	**4,743,004**	**699,478**	9,999,993	1,272,582
Warrants exercised	**4,587,867**	**756,008**	100,008	17,284
Broker units exercised	**-**	**-**	741,562	119,481
Stock options exercised	**840,400**	**259,420**	243,000	39,408
Debt settlements	**500,000**	**110,928**	-	-
Ending balance	**138,079,874**	**26,457,071**	127,211,353	24,600,812

The following table shows the changes in the Corporation's warrants during the years ended June 30, 2016 and 2015:

	Year ended June 30, 2016		Year ended June 30, 2015	
		Average strike price		Average strike price
	Number	**$**	Number	$
Outstanding – Beginning of period	**41,292,687**	**0.27**	5,000,400	0.15
Issued	**10,316,469**	**0.24**	36,392,295	0.29
Exercised	**(4,587,867)**	**0.15**	(100,008)	0.15
Expired	**(312,525)**	**0.15**	-	-
Outstanding – End of period	**46,708,764**	**0.28**	41,292,687	0.27

On August 9, 2013, the Corporation issued 1,200 units of the Corporation at a price of $1,000 per Unit for aggregate gross proceeds of $1,200,000. Each Unit is composed of (i) a $1,000 principal amount of convertible subordinated redeemable debentures and (ii) 4,167 common share purchase warrants. Each warrant entitles its holder to acquire one common share of the Corporation at a price of $0.15 per common share until June 30, 2016. During fiscal 2015, 100,008 warrants were exercised and 4,587,867 during fiscal 2016. The remaining 312,525 warrants expired on June 30, 2016.

On June 5, 2015, the Corporation announced the closing of a private placement (the “2015 Private Placement’’). In connection with the closing of the 2015 Private Placement, the Corporation issued 15,218,400 units (the “2015 Units’’). Each 2015 Unit was comprised of one Common Share and one common share purchase warrant (a “2015 Warrant”). Each 2015 Warrant entitles its holder to acquire one additional Common Share at a price of $0.35 per Common Share until June 5, 2018. In connection with the June 5, 2015 Private Placement, the Corporation paid an agent a cash commission and issued 633,500 non-transferable broker units, entitling the agent to purchase 633,500 2015 Units at a price of $0.25 per 2015 Unit until June 5, 2018. Each 2015 Unit is composed of one Common Share and one 2015 Warrant. Each 2015 Warrant entitles its holder to acquire one additional Common Share of the Corporation at a price of $0.35 per Common Share until June 5, 2018.

On December 30, 2015, the Corporation announced the closing of a marketed offering (the “Offering”) of 2,093 units of the Corporation (the “Units”) at a price of $1,000 per Unit. Each Unit consisted of a $1,000 principal amount of 12% convertible secured debentures (the “Debentures”) and 4,348 share purchase warrants (each single share purchase warrant, a “Warrant”) of the Corporation.

On January 29, 2016 the Corporation announced that Euro Pacific Canada Inc. (“Euro Pacific”), the sole agent for its December 2015 public offering (the “Offering”) of units (the “Units”), had exercised its option (the “Agent's Option”) with regard to the sale of additional Units (the “Option Units”) at a price of $1,000 per Option Unit in connection with the Offering. Each Unit consisted of a $1,000 principal amount of 12% convertible secured debentures (the “Debentures”) and 4,348 share purchase warrants (each single share purchase warrant, a “Warrant”) of the Corporation.

In connection with this Offering, the Agent was paid a cash commission of $103,080 on December 30, 2015 and was granted 546,000 common share purchase warrants. On January 29, 2016, he was paid a cash commission of $6,120 and was granted 26,609 common shares purchase warrants. Each warrant entitles its holder to acquire one additional common share of the Corporation at a price of $0.24 per common share until June 30, 2017.

On June 22, 2015, the Corporation announced that it had entered into an exclusive Collaboration Agreement (The GTS Collaboration Agreement) with Cleveland, Ohio-based Cleveland Gas Systems, LLC, dba GasTran Systems (“GTS’’), a provider of high-intensity gas-liquid rotating packed bed (RPB) mass transfer technology. In connection with the execution of the GTS Collaboration Agreement, the Corporation issued 200,000 common share purchase warrants to GTS at that same date. The Corporation has also agreed to issue to GTS up to an aggregate of 800,000 additional common share purchase warrants of the Corporation in four equal tranches of 200,000 upon each of the first four anniversary dates of the GTS Collaboration Agreement. Each common share purchase warrant will, if issued, entitle the holder thereof to acquire one common share of the Corporation at a price per common share equal to the higher of (i) the 30-day volume weighted average trading price in Canadian dollars of the common shares calculated on the day preceding the grant of the tranche, (ii) the closing trading price of the common shares on the day preceding the grant of the specific tranche, or (iii) $0.20.

On June 30, 2016, in connection with the execution of the GTS Collaboration Agreement, the Corporation issued 200,000 common share purchase warrants to GTS. Each warrant entitles its holder to acquire one common share of the Corporation at a price of $0.20 per common share until June 30, 2019 or until the GTS Collaboration Agreement is terminated in certain circumstances. The warrants, or any underlying shares if they are issued, are subject to a 4-month statutory hold period until October 30, 2016.

The following table shows the changes in the Corporation's broker units during the years ended June 30, 2016 and 2015:

		Year ended June 30, 2016		Year ended June 30, 2015
	Number	**Average strike price $**	Number	Average strike price $
Outstanding – Beginning of period	**633,500**	**0.25**	-	-
Issued	**-**	**-**	1,375,062	0.20
Exercised	**-**	**-**	(741,562)	0.15
Outstanding – End of period	**633,500**	**0.25**	633,500	0.25

15- STOCK OPTIONS

The Corporation has a stock option plan for directors, executives, 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 designates those individuals eligible to receive options and determines the number of common shares involved in each of these options, the vesting date, the exercise price, the expiry date, the terms of acquisition and any restrictions on the exercise of the options. The share acquisition price must not be less than the closing price on the day prior to the date of grant of these shares.

Under the terms of the plan, the maximum number of common shares available to be issued under the plan cannot exceed 10% of the issued and outstanding shares of capital stock. As at June 30, 2016, this amount is currently established at 12,633,523, representing less than 10% of the current number of issued and outstanding common shares. The maximum number that may be granted to a director, executive or employee of the Corporation or to a consultant cannot exceed 5% of all the outstanding common shares.

The following table summarizes information about outstanding and exercisable stock options for the years ended June 30, 2016 and 2015:

	For the year ended June 30, 2016		For the year ended June 30, 2015	
	Number	**Weighted average exercise price $**	Number	Weighted average exercise price $
Outstanding – Beginning of year	**4,705,100**	**0.13**	4,367,300	0.13
Granted	**1,217,000**	**0.23**	1,037,500	0.10
Expired	**(47,500)**	**0.26**	(426,700)	0.16
Forfeited	**-**	**-**	(30,000)	0.10
Exercised	**(840,400)**	**0.18**	(243,000)	0.10
Outstanding – End of year	**5,034,200**	**0.14**	4,705,100	0.13
Exercisable – End of year	**3,881,117**	**0.13**	3,642,600	0.14

As at June 30, 2016, the following outstanding stock options had been granted:

Outstanding options			Exercisable options	
Number	Exercise price $	Weighted average remaining contractual life (years)	Number	Exercise price $
25,000	0.24	0.08	25,000	0.24
381,700	0.21	0.42	381,700	0.21
461,000	0.10	1.42	461,000	0.10
200,000	0.10	1.50	200,000	0.10
750,000	0.12	1.92	750,000	0.12
892,000	0.10	2.42	783,500	0.10
100,000	0.10	2.63	100,000	0.10
1,007,500	0.10	3.42	746,500	0.10
1,217,000	0.23	4.42	433,417	0.23
5,034,200	0.14*	2.74	3,881,117	0.13*

*weighted average exercise price

Options issued after November 2009 generally vest at the rate of 25,000 options every six months, up to a maximum period of three years. However, at the discretion of the Board of Directors, the vesting period may be accelerated from the issuance date to three years.

The fair value of the options is determined according to the Black-Scholes option pricing model based on the following weighted average assumptions:

	Employees, directors and executives	
	For the year ended June 30, 2016	For the year ended June 30, 2015
Share price	**$0.23**	$0.10
Risk-free interest rate	**0.91%**	1.46%
Expected volatility	**91%**	85%
Annual dividend yield	**Nil**	Nil
Expected life	**5 years**	5 years
Average fair value of each option granted	**$0.1605**	$0.063

16- DEFERRED SHARE UNITS AND RESTRICTED SHARE UNITS

On November 26, 2015, the Corporation shareholders approved the implementation of a Deferred Share Unit Plan ("DSU Plan'') and a Restricted Share Unit Plan ("RSU Plan''). The DSU and RSU Plans provide that deferred and restricted share unit awards may be granted by the Board or the Corporate Governance & Human Resources committee (the "Committee"), which administers the Plans, to full-time employees, officers and eligible contractors of the Corporation in a calendar year as compensation for services rendered to the Corporation or as incentive to meet certain future objectives. The Plan shall remain in effect until it is terminated by the Corporation.

Each deferred or restricted share unit award entitles the holder, subject to the terms of the DSU or RSU Plan, to receive a payment in fully-paid common shares issued from the treasury of the Corporation or a cash equivalent at the discretion of the Committee. The maximum aggregate number of common shares that may be issued under the Plan (or any other stock-based compensation plans, including the Corporation's amended stock option plan) shall not exceed 12,633,523 common shares.

Concurrent with the determination to grant DSU's or RSU's to a Participant, the Committee shall determine the vesting period and the term applicable to such Deferred or Restricted Share Units. Unless the Committee, at its discretion, has set a shorter period of time, the DSU's and RSU's will expire 10 years from the Grant Date.

On May 26, 2016, in accordance with the terms of the RSU Plan as outlined above, the Corporation's Board of Directors granted 819,168 RSU's to certain officers and employees of the Corporation. In accordance with the terms of the Plan these RSU's were valued at $0.17 per share, that being the last closing price of the common shares on the TSXV immediately prior to the date as at which market value of the units is determined, which was May 25, 2016. The RSU's granted were declared fully vested on that same day.

In accordance with Section 3.5 of the Plan, if the date on which the Corporation shall issue or deliver common shares to the Participant occurs during a Blackout Period applicable to the Participant, the Corporation shall issue or deliver such common shares to the Participant on or as soon as practicable after the end of the Blackout Period. A Blackout Period was ongoing on May 26, 2016 and ended August 12, 2016; and the common shares were issued on that date.

The following table summarizes information about outstanding RSU's for the years ended June 30, 2016 and 2015:

	For the year ended June 30, 2016		For the year ended June 30, 2015	
	Number	**Fair value $**	Number	Fair value $
Outstanding – Beginning of year	**-**	**-**	-	-
Granted, May 26, 2016	**819,168**	**0.17**	-	-
Outstanding – End of year	**819,168**	**0.17**	-	-

17- LOSS PER SHARE

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

	For the year ended June 30, 2016	For the year ended June 30, 2015
Basic weighted average number of shares outstanding	**130,205,111**	101,563,301

For the years ended June 30, 2016 and 2015, the diluted loss per share was the same as the basic net loss per share since the dilutive effect of stock options (note 15) and restricted share units (note 16), conversion options (note 13), broker units and warrants (note 14) was not included in the calculation; otherwise the effect would have been anti-dilutive. Accordingly, the diluted loss per share for those years was calculated using the basic weighted average number of shares outstanding.

18- TRANSACTIONS WITH DIRECTORS AND EXECUTIVE OFFICERS

The following table sets out the remuneration paid for the years 2016 and 2015 to directors and executive officers of the Corporation who are considered key personnel:

	For the years ended June 30,	
	2016 $	2015 $
Short-term employee benefits	**829,491**	902,822
Directors fees and payments for attendance at Board meetings	**112,068**	129,572
Stock-based compensation	**245,737**	54,466
Defined contribution pension plan	**16,038**	17,556
	1,203,335	1,104,416

19- COST AND OPERATING EXPENSES

	For the years ended June 30, **2016**	2015
a) Research and development expenses, net		
Salaries, employee benefits and other compensation	**1,166,887**	1,161,077
Stock-based compensation costs	**81,661**	24,329
Professional fees and Subcontractors	**670,979**	1,735,185
Pilot Unit construction expenses	**22,362**	2,116,694
Laboratory and other supplies	**830,729**	516,671
	2,772,618	5,553,956
Tax credits	**(269,837)**	(281,007)
Government assistance	**(612,931)**	(2,784,815)
	1,889,850	2,488,134
b) Business development expenses		
Salaries, employee benefits and other compensation	**297,747**	306,440
Stock-based compensation costs	**67,552**	13,446
Professional fees	**578,074**	281,684
Travel, entertainment, advertising and office expenses	**71,131**	106,394
	1,014,504	707,964
c) General and administrative expenses		
Salaries, employee benefits and other compensation	**568,062**	553,089
Stock-based compensation costs	**136,075**	31,330
Rent, electricity, taxes and insurance	**226,355**	201,088
Office expenses	**65,114**	71,351
Travel, entertainment and advertising	**63,497**	107,340
Directors' fees	**112,068**	129,572
Professional fees	**561,792**	364,321
Depreciation of property, plant and equipment	**41,711**	36,212
Amortization of patents	**268,049**	276,166
Amortization of deferred credits	**(4,087)**	(5,268)
	2,038,636	1,765,201
d) Financial expenses, net		
Accretion expense	**118,461**	196,752
Change in fair value of derivatives	**(203,120)**	-
Interest on Convertible Debentures	**88,192**	116,315
Other financial expenses	**146,914**	9,580
Interest income	**(13,450)**	(16,817)
Gain on refundable contribution	**(123,263)**	(56,940)
Foreign exchange expense	**7,805**	5,058
	21,539	253,948

20- INCOME TAXES

Current tax expense:

The reconciliation of the combined Canadian federal and Quebec provincial income tax rate to the income tax provision is as follows:

	2016	2015
	$	$
Income tax expenses at the combined statutory tax rate of 26,9 % (26.9 % in 2015)	**(1,335,459)**	(1,402,835)
Difference between statutory and future tax rates	**-**	-
Expired loss in CO_2 Solutions inc.	**-**	321,029
Non-deductible expenses	**82,762**	29,581
Non-taxable items	**-**	-
Change in unrecognized deferred tax assets	**1,306,871**	1,295,791
Items not affecting earnings	**(61,870)**	(193,680)
Other	**7,696**	32,054
	-	81,940

The components of the deferred tax assets and liabilities are as follows:

Deferred income taxes:

Recognized deferred tax assets and liabilities:

	2016	2015
	$	$
Deferred tax assets		
Non-capital losses	**282,819**	194,796
Deferred tax liabilities		
Intangible asset	**(153,940)**	(177,008)
Convertible debentures	**(81,921)**	-
Interest expense on refundable contribution	**(46,958)**	(17,788)
	(282,819)	(194,796)
Deferred tax, net	-	-

Unrecognized deferred tax assets:

	2016	2015
	$	$
Property, plant and equipment	**226,698**	218,093
Research and development expenses	**2,577,267**	2,181,033
Non-capital losses	**4,633,715**	3,780,147
Financing expense	**224,451**	183,413
Unrecognized deferred tax assets	**7,662,131**	6,362,686

As at June 30, 2016, the amounts and expiry dates of tax attributes for which no deferred tax assets are recognized are as follows:

	2016	
	Canada	
	Federal $	Provincial $
Research and development expenses, without limitation	6,831,408	12,786,628
Losses carried forward:		
2026	719,598	353,344
2027	569,474	470,530
2028	1,065,210	1,058,636
2029	1,501,075	962,743
2030	1,924,377	1,913,390
2031	1,404,942	1,404,003
2032	1,835,278	1,818,028
2033	1,743,416	1,418,212
2034	1,457,150	1,260,821
2035	3,245,412	3,101,158
2036	3,599,200	3,495,095
Loss recognized to offset the deferred tax liability	(1,051,372)	(1,051,372)
	18,013,760	16,204,588

The Corporation is entitled to a non-refundable federal tax credit of approximately $1,724,886. This credit can be applied against future years' taxable income and will expire at the latest in 2036.

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2016	2015
	$	$
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months	**282,819**	194,796
Deferred tax assets to be recovered within 12 months	**-**	-
	282,819	194,796
Deferred tax liabilities:		
Deferred tax liability to be recovered after more than 12 months	**(282,819)**	(194,796)
Deferred tax liability to be recovered within 12 months	**-**	-
	(282,819)	(194,796)
Deferred tax assets (liabilities) net	**-**	-

21- FINANCIAL INSTRUMENTS

The Corporation has exposure to various financial risks, such as credit risk, liquidity risk and market risk from its use of financial instruments.

Credit risk
Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk is managed on a consolidated basis. The maximum exposure to credit risk corresponds to the amount recognized in the Consolidated Statements of Financial Position for cash and trade receivables.

The Corporation attempts to minimize its credit risk on cash by entering into agreements only with high-credit quality financial institutions. Generally, the Corporation does not require collateral or other security from Collaborative Partners for trade accounts receivable and government assistance receivable, since Collaborative Partners are generally government agencies or large financially sound international corporations. As at June 30, 2016 and 2015, no trade accounts receivable were past due or impaired.

Liquidity risk
Liquidity risk is the risk that the Corporation may be unable to fulfill its financial obligations related to financial liabilities. The Corporation's approach to managing liquidity risk is to ensure that it will have sufficient liquidities to meet liabilities when due. As at June 30, 2016, the Corporation had cash and receivables for a total amount of $2,094,089 ($3,758,579 in 2015) to settle current liabilities of $1,936,204 ($1,794,383 in 2015).

Market risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes interest rate risk and currency risk.

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes to market interest rates.

As at June 30, 2016 and June 30, 2015, the Corporation's exposure to interest rate risk is summarized as follows:

Cash	Variable interest rate
Accounts receivable	Non-interest bearing
Accounts payable and accrued liabilities	Non-interest bearing
Refundable contributions	Non-interest bearing
Term loans	Fixed interest rate (note 10)
Convertible debentures	As described in note 13

The sensitivity to a ± 1% change in interest rates as at June 30, 2016 would have no material effect on the Consolidated Statements of Comprehensive Loss.

Currency risk
Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Because the Corporation does business internationally, it is exposed to currency risks as a result of potential exchange rate fluctuations related to non-intragroup transactions. Fluctuations in the Canadian dollar, US dollar and Euro exchange rates could have an impact on the Corporation's results of operations.

Foreign exchange risk arises on recognized assets and liabilities, principally cash, trade receivables and trade payables.

Foreign exchange risk arises when future recognized assets or liabilities are denominated in a currency that is not the entity's functional currency. The Corporation does not currently use derivative instruments to hedge its foreign currency risk; however it may consider doing so in the future. The sensitivity to a ± 5% change to the US dollar or the Euro exchange rates as at June 30, 2016 would have no material effect on the Consolidated Statements of Comprehensive Loss.

22- CAPITAL MANAGEMENT

The Corporation views capital as the sum of its long-term debt (comprising non-current liabilities and their related short-term portions) and equity.

The Corporation manages its capital with the intent of maintaining a flexible capital structure that optimizes the cost of capital at an acceptable risk.

To maintain or adjust the capital structure, the Corporation may attempt to issue new shares, issue new debt, and acquire or dispose assets, all of which are subject to market conditions and the terms of the underlying third party agreements. The Corporation monitors its capital by watching its monthly cash consumption and short-term commitments related to its financial liabilities.

The Corporation is not subject to any capital requirements imposed by a regulator.

The total capital as at June 30, 2016 and 2015 is calculated as follows:

	2016	2015
	$	$
Long-term debt	**1,524,030**	376,413
Shareholders' Equity	**(4,074)**	3,009,740
Total Capital	**1,519,956**	3,386,153

23- COMMITMENTS

Royalties

Following a sales technology agreement dated May 21, 1998, and amended March 3, 2004, the Corporation reached an agreement with a former director having at that time a controlling interest in the Corporation to pay him a royalty corresponding to 5% of cumulative gross earnings exceeding $5,000,000 on sales of products (excluding revenues from Collaborative Agreements). The maximum amount of royalties was set at $1,000,000 for the period ending January 1, 2021. Under the terms of the agreement, no payments have become due up to June 30, 2016.

Lease agreements

The Corporation has entered into lease agreements for its office premises and other miscellaneous equipment expiring in 2020, which call for lease payments totalling $530,094. Minimum payments for the next five years are $147,678 in 2017, $150,459 in 2018, $153,321 in 2019, $78,636 in 2020 and $nil in 2021.

Contractual commitment

In connection with the execution of the GTS Collaboration Agreement, the Corporation is committed to issue to GTS up to an aggregate of 600,000 additional common share purchase warrants of the Corporation in three equal tranches of 200,000 upon each of the next three anniversary dates of the GTS Collaboration Agreement.

24- SUBSEQUENT EVENTS

Issue of Shares Associated with May 2016 Restrictive Share Units (RSU's) Grant
On August 12, 2016, the Corporation issued the 819,168 shares relative to the May 2016 RSU grant.

Term Loan
On August 12, 2016, the Corporation accepted a loan proposal by Dundurn Capital Partners ("DCP"), an affiliate of Robert Manherz, a director of the Corporation, for a term loan in the amount of up to $500,000 providing for a first draw down of $200,000 and potential for subsequent draw downs up to the maximum of $500,000. DCP will have the right, before execution of the loan agreement governing the terms and conditions of the loan, to identify other lenders that will enter into the loan agreement to share its obligations under the loan (collectively with DCP, the "Lenders"). The term loan will be repayable in full upon the earlier of the second anniversary of the initial draw down or the completion of the next financing of the Corporation. In addition, CO_2 Solutions may prepay all or a portion of the loan in advance at any time without penalty. The term loan bears interest at an annual rate of 12% accruing from the date of advance, and included standby fees of 3% per annum on any undrawn available balance of the loan as long as any amount is due by CO_2 Solutions to the lenders under the loan or if CO_2 Solutions and the lenders agree to maintain the loan available to CO_2 Solutions after repayment as well as draw down fees of 2% for each advance under the loan and a commitment fee of 3% paid out of the first draw down under the loan. CO_2 Solutions' obligations with respect to the term loan will be secured by a movable hypothec granted by CO_2 Solutions over the universality of its movable property including but not limited to its patent portfolio. The hypothec will be ranked after currently outstanding hypothecs over CO_2 Solutions' assets.

In connection with the loan, CO_2 Solutions has agreed to issue 2,941,176 non-transferable common shares purchase warrants of the Corporation to the lenders, to be allocated proportionally to the lenders on the basis of their committed amounts under the loan. Each warrant will entitle its holder to acquire one common share of CO_2 Solutions Inc. at a price of $0.17 per common share until the second anniversary of the first draw down provided that, if the loan is repaid within the first year following the initial draw down, the term of the warrants will be reduced to the later of one year from their issuance and 30 days from the repayment of the Loan. The warrants, and underlying common shares, will be subject to a four-month hold period from the date of issuance of the warrants. The proceeds of the loan will be used for working capital and general corporate purposes.