Condensed Interim Consolidated Financial Statements (unaudited)

as at
December 31, 2016

Important Progress Towards Commercialization

NATURE'S POWER FOR CARBON CAPTURE [MC]

CO2 SOLUTIONS

1.0 INTRODUCTION

The following Management Discussion and Analysis (MD&A) of CO_2 Solutions, Inc. ("**CO_2 Solutions**" or the "**Corporation**") as of December 31, 2016, should be read in conjunction with the unaudited condensed interim consolidated financial statements for the six-month period ended December 31, 2016 and 2015 and related notes included therein and the June 30, 2016 audited annual financial statements and Management's Discussion and Analysis for the year ended June 30, 2016. The June 30, 2016 audited annual financial statements, and additional information regarding the Corporation, are available on SEDAR at www.sedar.com. These unaudited condensed interim consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. All amounts are expressed 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 unaudited condensed interim consolidated financial statements were reviewed by the Corporation's Audit Committee and approved by the Corporation's Board of Directors.

The information contained herein is dated as of February 27, 2017, the date of the approval by the Corporation's Board of Directors of this MD&A and the unaudited condensed interim consolidated financial statements.

Caution Regarding Forward-Looking Statements

The following 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, statements about the adequacy of the Corporation's available cash resources and 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 discussion and analysis 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 realized. Some of these risks, uncertainties and other factors are described herein under the heading, "Business Risks and Uncertainties". A more complete list of risks and uncertainties are described in the Management's Discussion and Analysis as of June 30, 2016. For the reasons set forth above, investors should not place undue reliance on forward-looking statements.

All statements in this MD&A that are other than statements of historical facts are considered to be 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 and management. More specifically, the Corporation is focused on commercializing an enzyme-based enabling technology for efficient CO_2 capture for reuse or sequestration, in the short-term from the processing of various industrial gases and in the longer term from fossil fuel-power plants and other large stationary emitters of CO_2.

Since its establishment, CO_2 Solutions has focused on developing its technology platform, testing, de-risking and enhancing that technology platform and assembling a broad patent portfolio. To support this effort, the Corporation 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 2,500 hours from May until October 2015, the Corporation is now monetizing its technology. In August 2016, the Corporation announced its first commercial agreement. The Corporation intends to continue the scale up and commercial roll out of its enzyme-based CO_2 capture technology in North America and elsewhere.

3.0 HIGHLIGHTS OF DEVELOPMENTS DURING AND SUBSEQUENT TO THE QUARTER ENDED DECEMBER 31, 2016

Corporation Receives $3 Million Grant from Government of Quebec towards First Commercial Project

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 $7.4 million 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"). On December 14, 2016, the Corporation announced that Quebec's *Ministère de l'Énergie et des Ressources naturelles* (Technoclimat) will provide $3 million towards the Project in the form of a non-refundable grant. This grant complements the March 2016 announcement of a $2.4 million non-refundable grant received from Sustainable Development Technology Canada (SDTC) for the Project, bringing total government support of the Project up to $5.4 million. With the government grant commitments in place, the project officially kicked off in December 2016.

CO_2 Solutions is very proud to achieve the significant milestone of a first commercial agreement for the use of its technology with first-class partners. This Project will enable the Corporation to demonstrate its

breakthrough enzymatic carbon capture process. The Project is expected to provide the Corporation with both a long-term revenue stream and a reference installation, which will be leveraged towards further scale-up and commercial applications. CO_2 Solutions expects to complete the commissioning of the CO_2 capture unit in early 2018 and realize first revenues relative to the commercial agreement in calendar 2018.

Corporation Appoints Lead Engineering Firm for Its Saint-Félicien Project

On January 12, 2017, the Corporation announced that it has hired BBA, an independent Canadian engineering consulting firm, as lead engineers in support of the Corporation's first commercial installation, the Saint-Félicien pulp mill and greenhouse carbon capture project (see above). BBA is a first-class engineering firm, and the Corporation believes BBA is the right partner to provide the support for the construction of CO_2 Solutions' first commercial project, as well as lay the blueprint for future commercial projects. Additionally, this collaboration will enable BBA to present CO_2 Solutions' carbon capture process to the BBA customer base, thus creating an interesting market opportunity for the Corporation's technology.

Danish Intellectual Property

On August 10, 2016, the Corporation announced that, after a further challenge, 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. of St. Louis, Missouri ("Akermin"), 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 its other Danish partners. Pursuant to the Danish Patent Office decision, Akermin has permanently ceased operations. During the past quarter, the Corporation made every effort to offer Akermin's former Danish partners a commercial licence for use of CO_2 Solutions patented technology in their project. This offer was refused and the Danish project was subsequently cancelled. CO_2 Solutions welcomes initiatives to implement carbon capture technology, but shall defend its intellectual property wherever it observes actual or imminent infringement on its rights, as it has done successfully in Denmark.

Acquisition of Intellectual Property of Akermin Inc.

As noted above, Akermin, a CO_2 Solutions competitor in North America and Europe, has permanently ceased operations. On November 8, 2016, CO_2 Solutions announced that it had entered into an asset purchase agreement (the "APA") with Akermin pursuant to which the Corporation purchased certain intellectual property and other assets owned by Akermin for a value of $400,000. Pursuant to the terms of the APA, the Corporation issued, as payment in full of the purchase price for the Akermin assets, 2,000,000 common shares of CO_2 Solutions at a deemed price of $0.20 per common share to Akermin.

The acquisition of these intellectual property assets will further strengthen the Corporation's portfolio surrounding carbon capture using carbonic anhydrase and, combined with the cessation of operations of Akermin, the Corporation believes that this asset acquisition confirms CO_2 Solutions' position as the

leading provider of this demonstrated low-cost and environmentally friendly, enzyme-based technology to capture CO_2.

Additional Testing Program with Rotating Packed Bed (RPB) Equipment at Energy & Environmental Research Center

During the month of October 2016, the Corporation completed a series of tests at the Energy & Environmental Research Center (EERC) relative to the high-intensity gas-liquid rotating packed bed (RPB) technology it has been considering as a complementary technology to the current packed tower offering. On January 5, 2017, the Corporation announced the completion of the performance assessment of this RPB equipment in the context of the further reduction of carbon capture costs utilizing the Corporation's proprietary enzymatic technology. The program, funded in part by a grant from the Natural Resources Canada ecoENERGY Innovation Initiative, consisted of an extended testing session at relevant scale allowing for testing of both the CO_2 absorption and stripping performance of RPB units from two suppliers. The Corporation is pleased with the testing results and can confirm that a significant potential capital cost reduction for carbon capture plants is achievable. This reduction is possible due to a combination of factors that enable CO_2 Solutions' enzyme-accelerated carbonate solvent, including choice of equipment, use of less costly materials, design of the high intensity contacting units, and simpler process configurations. The RPB equipment, while offering similar performance to a packed tower configuration, has the advantage of a reduced size, which enables technological and strategic opportunities in situations where footprint and/or space might be limited. The utilization of high-intensity RPB equipment by the Corporation is made viable because of the performance of its proprietary enzymatic technology. Both the Corporation's packed tower and RPB equipment approaches have now demonstrated stable and efficient capture capabilities meeting industrial requirements.

The power of CO_2 Solutions' proprietary enzymatic technology is that it significantly accelerates carbon capture. CO_2 Solutions now intends to continue testing the RPB equipment at larger scale for use in an industrial environment within the context of the Quebec government funded carbon cycle project (*Valorisation Carbone Québec or VCQ*). As announced in the Quebec budget in March 2016, the objective of the VCQ project is to demonstrate a complete industrial CO_2 cycle, from capture to reuse into value-added products.

Announcement of Collaboration Agreement with Seneca Experts-Conseils Inc.

On November 15, 2016, the Corporation and Seneca Experts-Conseils Inc. ("Seneca"), a consulting and engineering firm specialized in the design and realization of industrial processing plants in Quebec and abroad, together announced that they had entered into an independent collaboration agreement to jointly deploy market opportunities for carbon capture, storage and usage in industrial settings. Under the terms of the agreement, CO_2 Solutions and Seneca will collaborate on bringing to market and building carbon capture solutions, combining CO_2 Solutions' low-cost, environmentally friendly enzyme-enabled technology with Seneca's process engineering expertise. Through this collaboration, CO_2 Solutions believes it will gain more ready access to a number of potential customers in industries such as food processing, biogas processing and carbonation processing in the mineral extraction sector and thus accelerate development of the its business pipeline and facilitate project realization.

The Corporation Announces Senior Management Changes

On January 10, 2017, CO_2 Solutions Inc. announced that it has appointed Richard Surprenant, P. Eng., as Senior Vice President, Process Engineering and Chief Technology Officer of the Corporation. Mr. Surprenant, an experienced technical professional, with more than 25 years of process engineering, engineering development, project management and technology commercialization experience, will be responsible for leading the continued development, application, deployment, relationships with engineering collaborators and commercialization of CO_2 Solutions' carbon capture technology. Mr. Surprenant, holds a Bachelor of Engineering (Chem) degree from McGill University in Montreal, Quebec, and P. Eng. accreditation from the Association of Professional Engineers and Geoscientists of Alberta. Mr. Surprenant's process engineering experience includes 20 years in managerial and process engineering positions with Shell Canada, most recently as Commercial Manager, Heavy Oil (Canada). Prior to Shell, Mr. Surprenant held positions as Process Engineer with Irving Oil and as Senior Field Engineer with Dowell Schlumberger (Algeria).

With the arrival of Mr. Surprenant, Dr. Louis Fradette, the Corporation's former Senior Vice President, Process Engineering and Chief Technology Officer, will move into the new role of Director of the *Valorisation Carbone Québec* Project, where he will direct the Corporation's leadership participation in that major endeavour.

In addition, effective February 28, 2017, Mr. Jonathan Carley, CO_2 Solutions' Vice President, Business Development, will resign from the Corporation.

Corporation Receives Purchase Order for Enzymes

On February 9, 2017, the Corporation announced the receipt of a purchase order from a third party for the sale of carbonic anhydrase enzyme ("CA") for use in CO_2 capture for enhancing the growth of algae for economical, sustainable production of protein and biofuel products. The purchase order is for the sale of US $37,500 of enzyme to be delivered immediately. The name of the company purchasing the enzyme is not disclosed for competitive reasons. This sale of CA to a leading provider of innovative technology is a trial and evaluation to quantify the benefits of using CA to enhance the production of algae. A positive result of this CA trial and the commercialization of this algae-based technology could lead to further sales of CA. Algae cultivation and processing is considered as an environmentally attractive method to produce biofuels and other value-added bio-products. While CO_2 capture and reuse is the current focus of CO_2 Solutions, there are other market applications for robust and low-cost carbonic anhydrase enzyme, such as its use for algae production, which are covered by the Corporation's intellectual property. CO_2 Solutions is well positioned to serve these markets and looks forward to working with this company, and others, in the high potential algae and biofuel production segment.

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 the increasing importance of managing 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,

oil and natural gas, and this demand is predicted to increase by almost 50% by 2040.[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.

The international agreement on climate change adopted in Paris in December 2015 (COP21) represented a historic milestone in multilateral climate diplomacy. Two critical components of the Paris Agreement are: (a) limiting the temperature increase to "well below" 2°C and pursuing "efforts" to limit such increase to 1.5°C, and (b) achieving net-zero emissions in the second half of this century. The Paris Agreement sends an unprecedented signal that governments in developed and developing nations understand the scale of the challenge and the necessary speed of the response. Their corresponding commitments suggest greater political willingness to address the challenge and to support the technologies that can scale up to reduce net emissions to zero.

Impressive technical progress has been made in clean energy technologies such as renewables (especially solar), electric vehicles and energy storage. Progress continues, with ever-deeper reductions in unit capital costs as the market grows and market penetration increases for these solutions. However, these technologies are currently a small proportion of the global energy system and their deployment needs to be massively accelerated if the unanimously agreed goals of the Paris Agreement are to be met.

Even if such a rapid deployment of these technologies is realized, it is very unlikely that this will be sufficient to halt temperature rises to within 2°C. Research at the University of Oxford shows that even the emissions from existing power sector assets, if operated to the end of their normal economic life, will exceed the cumulative emissions budget consistent with halting global average temperature rise to 1.5°C. By the end of 2017, the emissions signature from installed power plants implies a greater than 50 percent probability of exceeding 2°C, unless power plants are either prematurely retired (economically stranded) or carbon capture and storage (CCS) is retrofitted. In short, it is virtually impossible that deploying renewables and nuclear alone can reduce net emissions to zero before the temperature increase reaches 2°C. Additional effort is required to develop techniques to capture and securely store carbon.

Furthermore, the achievement of net-zero emissions across the entire global economy this century appears economically impossible without negative emissions technologies, such as carbon dioxide removal (CDR) technologies. Continued emissions from industrial and agricultural production processes seem very likely for the foreseeable future. To eventually reach a net-zero emissions position, negative emission technologies and processes will be important. Renewable energy technologies alone cannot supply the necessary carbon reductions to balance the residual sources and reach net-zero emissions. The modern economy has been built upon the foundations of a fossil energy system that will remain vital for our prosperity for decades into the future. The continued use of fossil fuels will be dependent on the ability of technologies to capture the corresponding greenhouse gas emissions, along with other technologies to greatly reduce damaging local pollutants. Without these advances, fossil fuels can have no place in the economy of a stabilized climate.

From a Canadian perspective, predictions for energy-related carbon dioxide emission growth calls for a 14% increase in Canadian emissions between 2012 and 2040.[2] Further, specific attention in 2013–2016 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

[1] U.S. Energy Information Administration, *International Energy Outlook 2016.*
[2] Ibid

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.[3] 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. That said, in recent months oil prices have started to move to an improved price range, and oil sands operators are reporting significantly lower operating costs as a result of their cost-reduction programs, with industry costs for capital projects having been reported as decreasing.[4] The Corporation believes that, given the current Trudeau government's strong actions on climate change, including the proposed $50 per tonne carbon pricing by 2022, which the government has confirmed will not change despite the potential impact of the presidential elections in the United States,[5] opportunities will potentially be created for the deployment of cost-effective, non-toxic carbon capture technologies such as that offered by CO_2 Solutions.

The issue of oil sands GHG emissions is also impacting 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 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.[6] That being said, with the recent elections in the U.S. and a Republican President, the U.S. stance on a pipeline appears to be changing as recently evidenced by reduced U.S. government opposition regarding the Keystone XL pipeline. President Trump had suggested he would move quickly on Keystone XL after taking office, and he has, since coming into office, signed his first Executive Order to that effect, whereby it appears President Trump is reversing his predecessor's ban on the Alberta-to-Texas oil pipeline.[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. The Corporation's 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. CO_2 Solutions has announced support in the amount of $15 million from Emissions Reduction Alberta (ERA) (formally the Climate Change and Emissions Management Corporation or CCEMC) and is working with other government agencies and private partners to secure funding for a proposed $30 million Western Canadian carbon capture project.

[3] Alberta Oil Magazine, "Carbon capture investment is critical to Alberta's export relationships", July 15, 2013.
[4] JuneWarren Nickle's Energy Group; Suncor, Cenovus, MEG report reductions in oilsands operating costs; October 27, 2016.
[5] Donald Trump's win doesn't change Canada's carbon pricing plan: Trudeau; Canadian Press; November 10, 2016.
[6] Ibid.
[7] Canadian Press, December 12, 2016.

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 reused 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]

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 can be 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.

[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 Utilization "Prize"*, April, 2014.
[10] Ibid.
[11] Ibid.

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 it 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.

Pulp & Paper

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

- Regulating and stabilizing pH
- Reducing $CaCO_3$ dissolution
- CO_2 pulp-washing
- CO_2 for soap acidulation

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. The objective of the recently announced $15 million Quebec-funded carbon cycle project (*VCQ*) is to exploit this area of emerging uses for CO_2.

Carbon Capture and Storage

With 70% of global energy demand currently met through the burning of carbon-based fuels, and demand predicted to increase by almost 50% by 2040,[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 contemplating additional scale-up partnerships and is continuing to pursue a multi-pronged strategy aimed at advancing its technology development and deployment while at the same time moving the Corporation's technology into the commercialization phase. As exemplified by the recent announcement of the Saint-Félicien pulp mill and greenhouse carbon capture project, and

[12] U.S. Energy Information Administration, *Annual Energy Outlook 2016.*
[13] International Energy Agency (IEA) GHG Program; large source defined as >100,000 tonnes-CO_2 emissions annually.

the launch of the *VCQ* project, prime focus in the short term will be to leverage the Corporation's internal research and development (R&D) focus and efforts in view of advancing its technology towards commercial readiness for CO_2 capture and re-use applications.

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 carbon emissions reductions. 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 2013–2016 period has seen 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 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. 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 September 2016, Canadian Federal Minister of Environment and Climate Change, Catherine McKenna, announced the federal government's intention to impose a minimum national carbon price. Ottawa will require provinces to adopt either a carbon tax or cap-and-trade approach and to meet the federally established minimum price. The Minister said that the federal government will impose its own system on provinces that fail to meet that minimum threshold.[14] 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 rise by $10 per year, to reach $50 per tonne by 2022.[15]

As noted above, in conjunction with the 21st Conference of Parties in Paris (COP21), many countries 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. The

[14] The Globe & Mail; Ottawa to impose a national carbon price on the provinces; September 18, 2016
[15] CBC News, Justin Trudeau gives provinces until 2018 to adopt carbon price plan; October 3, 2016

Energy Information Administration's (EIA) 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] On a positive note, in October 2016 Canada elected to formalize the country's commitment to fighting climate change, not just as a nation, but globally with announcements ratifying its commitments at COP21 and the government's requirement for the provinces to implement a carbon price increasing to $50 per tonne in 2022. What is important is that industry identifies the measures that will allow it to meet new regulations while remaining competitive. CO_2 Solutions looks forward to playing an important role in this respect. The Corporation believes that for behavioural change to occur in industrial CO_2 emissions you need two important elements: 1) a credible carbon pricing mechanism, which we now have with the recent Federal announcement to initiate a minimum price for carbon and previous provincial undertakings; and 2) a cost-effective CO_2 capture solution, such as the proven one provided by CO_2 Solutions that will capture CO_2 emissions at a cost of less than $30 per tonne at large scale, thus keeping industry competitive. These two elements being in place undoubtedly can lead to behaviour change. What is more, there are numerous reuse opportunities for CO_2 that will further decrease the net cost of carbon capture and lead to increased economic opportunities. The Corporation's first commercial project, the Saint-Félicien pulp mill and greenhouse carbon capture project, is a good example of this, as we will be capturing CO_2 from a pulp and paper mill and leading it into a greenhouse for increased plant productivity. This reduces carbon emissions while making a positive contribution to the greenhouse's efficiency and productivity. The work to be associated with the Quebec funded *Valorisation Carbone Québec* project will further advance this effort.

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 by industry to help them reduce both the financial impact and the reputational 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

CO_2 Solutions continues to hold a broad portfolio of patents in the field of enzyme-enhanced carbon capture. As at December 31, 2016, the Corporation had 54 patents issued and 34 patents pending including those patents recently acquired from Akermin Inc. (see above), 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 past year, certain of the Corporation's existing patents in the United States and pending, applied for patents in Europe, were 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 (see above), the Corporation successfully defended its patent position on every

[16] U.S. Energy Information Administration, *International Energy Outlook 2016.*

front. 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 defended 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. On August 29, 2016, the Corporation received notice that a decision of the Patent Trial and Appeal Board had been rendered. The outcome of this decision was that the claims of commercial significance were maintained in favour of CO_2 Solutions.

It should be noted that in all past challenges filed against the Corporation's issued or pending patents, 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 Unaudited Quarterly Information

The Corporation is in the development stage and has yet to earn any significant revenues. Until commercial arrangements and investments are made, and fully functional CO_2 capture plants or technology licences are sold, the Corporation expects to incur losses. Quarterly losses are comprised primarily of R&D and general and administrative expenditures. Changes in quarterly losses are dependent on the level of pre-commercialization and R&D activity that the Corporation has underway at any time and the continued government assistance the Corporation obtains by way of various grants, subsidies and R&D tax credits.

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

	Quarters ended			
	December 31, 2016	**September 30, 2016**	**June 30, 2016**	**March 31, 2016**
Revenues	-	-	-	-
Loss	$1,354,003	$1,394,149	$1,327,463	$655,522
Loss per share	$0.01	$0.01	$0.01	-
	Quarters ended			
	December 31, 2015	**September 30, 2015**	**June 30, 2015**	**March 31, 2015**
Revenues	-	-	-	-
Loss	$1,391,050	$1,590,494	$2,335,111	$1,423,650
Loss per share	$0.01	$0.01	$0.02	$0.01

6.2 Results of Operations

Comparison between the Three-Month and the Six-Month Periods ended December 31, 2016 and 2015

Revenues

The Corporation recorded no revenues for the three-month periods or the six-month periods ended December 31, 2016 and 2015. Funds received from subsidy or grant agreements signed with federal or

provincial government agencies are not treated as revenue. Rather these amounts are accounted for as a deduction from research and development expenses in the period the contribution is claimed and accrued (see *Research and development expenses* below).

Research and Development Expenses

Research and development expenses, before tax credits and government assistance, decreased by $138,930, to $475,021 for the three-month period ended December 31, 2016, compared with $613,951 for the same period in 2015. Decreases in the three-month period from that of the prior year reflect the work associated with the ecoEnergy carbon capture demonstration project which was started in January 2013 and completed by December 31, 2016. These expenses will vary based upon on-going projects undertaken by the Corporation.

For the six-month period ended December 31, 2016, research and development expenditures, before tax credits and government assistance, decreased by $649,775 to $1,076,341. As was the case above relative to the three-month decrease, this decrease reflects the wind down of the research and development activities associated with the ecoEnergy project which was completed by December 2016.

Government assistance in the form of grants received from Quebec's *Ministère de l'Énergie et des Ressources naturelles* (Technoclimat) and Sustainable Development Technology Canada (SDTC) for the Saint-Félicien project amounted to $25,315 for the three-month period ended December 31, 2016. For the same period in 2015, $64,797 was received from the Government of Canada for the ecoEnergy project.

Government assistance in the form of grants received from Technoclimat and SDTC for the Saint-Félicien project, and National Sciences and Engineering Research Council (NSERC) for training totalled $29,534 for the six-month period ended December 31, 2016. For the same six-month period in 2015, grants were received from the Government of Canada for the ecoEnergy project and the NSERC for training totalled $69,072.

Tax credits for the three-month period ended December 31, 2016 were $102,915 ($78,833 in 2015). This increase for the three-month period is a result of the fact that the tax credit calculations are adjusted to reflect the amount in eligible expenses after taking into consideration any government subsidies or grants. Generally, a lower claim to a government funding agency will usually yield a higher amount of expenses eligible for tax credits. For the six-month period ended December 31, 2016, tax credits amounted to $150,524, compared to $192,094 in 2015. This decrease reflects the fact that there were less eligible expenses in 2016 than for 2015.

Business Development Expenses

Business development expenses were $135,822 for the three-month period ended December 31, 2016, compared with $248,837 for the same period in 2015, representing a decrease of $113,015. The net decrease is predominantly related to the following:

- A decrease in professional fees for the period of $143,754 related mostly to a decrease in patent litigation related expenses;
- An increase in compensation related expenses (cash based salaries and benefits and non-cash based stock compensation) of $35,557, and;
- A decrease in travel expenses of $4,818.

Business development expenses for the six-month period ended December 31, 2016 were $400,847 compared to $411,643 for the same six-month period in 2015, a net decrease of $10,796. The net decrease is predominantly related to the following:

- A decrease in professional fees for the period of $193,920 associated with various business development initiatives and a decrease in patent litigation related expenses;
- an increase in advertising expenses associated with the Corporation's 2016 Rio Summer Olympics video representations, approximately $125,000, and;
- an increase in compensation related expenses (cash based salaries and benefits and non-cash based stock compensation) of $52,484;

General and Administrative Expenses

General and administrative expenses totalled $751,036 for the three-month period ended December 31, 2016, compared with $627,976 for the same period in 2015, representing an increase of $123,060. This net increase is predominantly related to:

- An increase in compensation related expenses (cash based salaries and benefits and non-cash based stock compensation) of $115,960;
- a decrease of $80,266 in professional fees primarily related to legal and professional fees associated with public relations, investor relations and communications and general administration, and;
- a non-cash increase in patent amortization expense relative to the write-down in value of certain patents of $89,786.

General and administrative expenses totalled $1,206,560 for the six-month period ended December 31, 2016, compared with $1,055,650 for the same period in 2015. This net increase of $150,910 is predominantly related to:

- A net increase in compensation related expenses (cash based salaries and benefits and non-cash based stock compensation) of $118,531;
- a decrease of $65,159 in professional fees primarily related to legal and professional fees associated with public relations, investor relations and communications and general administration;
- a decrease in travel expenses for the six months of $8,770;
- an increase in general office expenses (rent, electricity and other) of $12,042, and;
- a non-cash increase in patent amortization expense relative to the write-down in value of certain patents of $100,046.

Financial Expenses, Net

Financial expenses, net for the three-month period ended December 31, 2016, was a loss of $120,354 compared with a loss of $43,916 for the same period in 2015. Financial expenses, net for the six-month period ended December 31, 2016, was a loss of $244,462 compared with a loss of $49,301 for the same period in 2015. The increase in the loss of $76,438 for three-months and $195,161 for six-months reflects accretion, interest and other financial expenses relating to the convertible debt and term loans outstanding at December 31, 2016.

Loss and Comprehensive Loss for the Quarter

The Corporation recorded a loss of $1,354,003 or $0.01 per share, for the three-month period ended December 31, 2016, a decrease of $37,047 from the loss of $1,391,050, or $0.01 per share, for the same period in 2015. No significant factors, other than those described above, contributed to the change in the loss for the periods. For the six-month period ended December 31, 2016, the Corporation recorded a loss of $2,748,152 or $0.02 per share, a decrease of $233,392 from the loss of $2,981,544, or $0.02 per share,

for the same period in 2015. No significant factors, other than those described above, contributed to the change in the loss for the three-month or the six-month periods.

6.3 Cash Flows

Cash totalled $1,083,086 as at December 31, 2016, compared with $874,309 as at June 30, 2016.

Variations in cash between the six-month periods ended December 31, 2016 and 2015 are as follows:

Operating Activities
For the six-month period ended December 31, 2016, cash flow used for operating activities amounted to $1,043,494 compared with $2,805,836 required in the same six-month period for 2015, representing a decrease of $1,762,342 in cash used in operating activities that was primarily due to the lower loss and comprehensive loss for the six-month period ended December 31, 2016 offset by a $1,115,882 increase in net changes in non-cash working capital items.

Investing Activities
For the six-month period ended December 31, 2016, cash flow required for investing activities totalled $210,751, compared with $135,966 required for the same period in 2015, an increase of $74,785. This increase in the funds required for investing activities relates primarily to cost incurred for patents.

Financing Activities
For the six-month period ended December 31, 2016, there was $1,463,022 of cash flow generated from financing activities related to the issuance of term loans and the exercise of warrants and options during the period, compared to $2,509,230 cash flow generated from financing activities (primarily issuance of convertible debentures) for the same period in 2015.

6.4 Liquidity and operational effectiveness

As at December 31, 2016, the Corporation had an aggregate balance of cash and short-term investments of $1,083,086 and negative working capital (current assets less current liabilities) of $1,362,049. Management continues to raise the additional necessary capital to meet its long-term funding requirements (see *Liquidity and Solvency section* below).

6.5 Issued Capital

As at February 27, 2017, the number of outstanding common shares, warrants, broker units stock options, restricted share units and deferred share units are as follows:

- Common shares: 147,549,345;
- Share purchase warrants: 50,884,919;
- Broker units: 63,350;
- Board, Officer, Consultant and Employee stock options: 6,441,000 and;
- Deferred share units: 442,308.

7.0 OFF BALANCE SHEET ARRANGEMENTS

As at December 31, 2016, the Corporation did not have any off-balance sheet arrangements.

8.0 RELATED PARTY TRANSACTIONS

As at December 31, 2016, there were no related party transactions other than those previously disclosed relative to the participation of certain insiders in private placements and loans to the Corporation.

9.0 LIQUIDITY AND SOLVENCY

To date, the Corporation has financed its operations mainly through cash flow obtained from research collaboration agreements, the issuance of capital stock, convertible debt, term loans secured by government receivables and government assistance.

The Corporation's access to sufficient long-term capital depends on its ability to continue to obtain funds from collaborative agreements, loans, and government assistance to support continuing research and development of the Corporation's technology, and, 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 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.

As at December 31, 2016, the Corporation had cash and short-term investments of $1,083,086, accounts receivable (predominantly from Canadian government agencies) of $626,193 and tax credits receivable of $399,560 for a total of $2,108,839. The Corporation had short-term financial obligations from accounts payable and accrued liabilities of $2,003,113 and debt in the form of term loans and convertible debentures, due within the next 12 months, of $1,229,916. The liquidity and availability of these assets to secure additional financing, along with anticipated additional cash receipts from the exercising of certain options and warrants and advances from government agencies for future projects are adequate for the settlement of the Corporation's short-term (less than 12 months) financial obligations. In addition, management is confident that it will be able to raise sufficient additional capital to sustain its operations.

In order to maintain the level of liquidity required to meet current obligations, in the prior year the Corporation undertook an evaluation of its short-term borrowing facilities and capabilities. Pursuant to that review, in November 2015, the Corporation cancelled its $150,000 line of credit with a commercial bank and during fiscal year 2016 and 2017 negotiated a new line of credit with another financial institution for a maximum amount of $1,170,316, which is secured by a first charge on the Corporation's federal and provincial receivables (provincial R&D tax credits and federal subsidy holdback amounts). This new facility 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 borrowings. The facility bears interest at an amount of 1.6% per month on the outstanding principle. The term of this facility is a maximum of 12 months.

On November 23, 2015, the Corporation approved a base shelf prospectus allowing for the issuance by the Corporation of up to $20 million in securities, over a period of 25 months. In December 2015, the Corporation issued a convertible debenture, under that base shelf prospectus, in the amount 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. This base shelf prospectus is available to be used in the Corporation's efforts to raise additional capital until December 2017.

10.0 CRITICAL ACCOUNTING POLICIES AND ESTIMATES

10.1 Significant Management Judgments and Estimates

The Corporation's unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS. The full description of the Corporation accounting policies and estimates are presented in the relevant section of its audited financial statements for the 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 company's management who will use their knowledge of how the ownership rights of a new technology restrict competitors from duplicating or stealing the developing company'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 company. International Accounting Standard ("IAS") 38, *Intangible Assets,* states that an intangible asset arising from the development phase of an internal project shall be recognized if, and only if, an entity can demonstrate that it meets certain criteria. Those specific criteria are set out in greater detail in the June 30, 2016 MD&A. It is the Corporation's interpretation that in consideration of the amounts capitalized and reported on CO_2 Solutions' condensed interim consolidated statements of financial position, all these criteria have been met and the Corporation has correctly capitalized these development costs and have reflected their intrinsic value towards the potential contribution to future revenues for CO_2 Solutions. 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 six-month period ended December 31, 2016, seven patents were deemed to be without value resulting in write-downs included in general and administrative expenses in the amount of $185,375 ($90,984 in 2015 for seven patents written-down).

10.3 Additional Information with respect to Accounting for the December 2015 Issuance 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 mature on December 31, 2017 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, such payments having commenced on 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.

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. The embedded derivative component is classified as a Level 3 financial instrument due to the unobservable nature of the expected volatility used in the valuation technique.

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 are transferred to equity.

As at December 31, 2016, the Corporation estimated the fair value of the conversion option of the embedded derivatives and adjusted the initial fair value at $46,034 using the Black-Scholes option pricing model based on the following unobservable data. The expected life was estimated by the Corporation based on its expectation of the conversion date as at December 31, 2016.

	Adjusted fair value December 31, 2016
Expected volatility	59.01%
Expected life	1 year
Weighted fair value of conversion option per underlying share	$0.0167

For the six-month period ended December 31, 2016 the change in fair value of derivatives resulted in a gain of $94,337 (nil for 2015) and was recorded in the Condensed Interim Consolidated Statements of Comprehensive Loss. An increase (decrease) in the expected volatility of 5% would increase (decrease) net loss by approximately $7,994 ($7,994).

The following summarizes the face value and carrying values of the liability and equity components of the Debentures as at December 31, 2016:

	Liability components			Equity component
		Principal and interest [1]	Conversion option [2]	Warrants
	Face value $	Carrying value $	Carrying value $	Carrying value $
Balance as at July 1, 2016	1,308,000	763,637	239,822	-
Converted	(674,000)	(430,090)	(99,451)	-
Change in fair value of derivatives	-	-	(94,337) [3]	-
Accretion expense	-	104,194	-	-
Balance as at December 31, 2016	634,000	437,741	46,034	-

(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.
(3) Of which $60,838 is related to the conversion option still outstanding as at December 31, 2016.

10.4 Additional Information with respect to Accounting for the Term Loan Issued in September 2016

On August 31, 2016, the Corporation entered into a loan agreement and made an initial drawdown, with Dundurn Capital Partners ("DCP") representing two lenders, for a term loan in the amount of up to $500,000. The term loan is repayable in full upon the earlier of the second anniversary of the initial drawdown or the completion of the next public 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 includes 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 drawdown fees of 2% for each advance under the loan and a commitment fee of 3% paid out of the first drawdown under the loan. CO_2 Solutions' obligations with respect to the term loan are 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 is ranked after currently outstanding hypothecs over CO_2 Solutions' assets.

In connection with the loan agreement, CO_2 Solutions has agreed to issue 2,941,176 non-transferable common share 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 drawdown provided that, if the loan is repaid within the first year following the initial drawdown, 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 first draw of $200,000 was deposited on August 31, 2016 and the second and final draw of $300,000 was deposited on September 12, 2016. The proceeds of the loan will be used for working capital and general corporate purposes.

The initial estimate of the fair value of the financial liability has been valued using an implicit rate of 23% taking into consideration an estimated date of reimbursement of August 31, 2018.

The fair value of the financial liability was estimated at $163,874 for the August 31 issue and $246,777 for the September 12 issue. Consequently, the residual amounts of $36,126 and $53,223 were allocated to the warrants.

Issuance fees have been prorated over the financial liability and the equity instrument. The fees allocated to the financial liability together with the initial discount are amortized with an overall effective interest rate of 28% for both issuances.

The following summarizes the face value and carrying values of the financial liability and the equity instrument related to the agreement with DCP as at December 31, 2016:

		Financial liability	Equity
		Term loan	Warrants
	Face Value $	Carrying value $	Carrying value $
Balance as at July 1, 2016	-	-	-
Issuance at August 31, 2016	200,000	163,874	36,126
Issuance at September 12, 2016	300,000	246,777	53,223
Issuance fees incurred	-	(31,960)	(6,954)
Accretion expense	-	11,678	-
Balance as at December 31, 2016	500,000	390,369	82,395

10.5 Additional Term Loan Issued in December 2016

On December 8, 2016, the Corporation entered into a second loan agreement with DCP and made full drawdown for a term loan in the amount of up to $300,000. The term loan is repayable in full on December 8, 2017. 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 includes a commitment fee of 3% paid out of the first drawdown under the loan.

11.0 NEW ACCOUNTING STANDARDS

There has been no change in future accounting changes from those previously described in the Corporation's June 30, 2016 Consolidated Financial Statements and June 30, 2016 MD&A.

12.0 BUSINESS RISKS AND UNCERTAINTIES

The Corporation's activities are subject to some risk factors that generally affect biotechnology companies. The profitability of the Corporation will depend on its ability to successfully develop its technologies, to preserve its intellectual property rights, to maintain its highly qualified personnel, to conclude strategic alliances, enter into research and development collaborations, and strategic out-

licensing agreements. These activities require important financial investments. Therefore, the Corporation's ability to obtain necessary liquidities to finance its activities is essential to ensure future success and is as such an additional risk factor. The reader is referred to the applicable general risk and uncertainties described in CO_2 Solutions' June 30, 2016 annual report and the related MD&A under the heading "Risk Factors and Uncertainties". In addition to those risks and uncertainties disclosed in its most recent annual report, the Corporation expects that it will continue incurring losses and consuming cash for the foreseeable future and therefore continues to require cash for operations. With no revenue from operations, the Corporation will continue to have negative cash flows from its operating activities and will likely need to raise additional capital, the availability of which cannot be assured.

13.0 DISCLOSURE AND INTERNAL CONTROLS

As at December 31, 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 Chief Financial Officer of the Corporation concluded that the design and operating effectiveness of those disclosure controls and procedures were effective.

Also, as at December 31, 2016, an evaluation of the design and operating effectiveness of internal controls over financial reporting, as defined in the rules of the CSA, 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 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 Multilateral Instrument 52-109 of the CSA. 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 six-month period ended December 31, 2016, that have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

14.0 AUDITORS

The Corporation's external auditors, PricewaterhouseCoopers LLP, have audited the consolidated financial statements for the year ended June 30, 2016, and have expressed an opinion thereon. This MD&A and the condensed interim consolidated financial statements for the three-month periods ended December 31, 2016, and 2015, have not been audited nor reviewed by the Corporation's external auditors.

15.0 ADDITIONAL AND CONTINUOUS DISCLOSURE

This analysis was prepared on February 27, 2017. Additional disclosure is provided on the SEDAR website 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

February 27, 2017

CO_2 Solutions Inc.
Condensed Interim Consolidated Financial Statements
(Unaudited)
December 31, 2016 and 2015
(expressed in Canadian dollars)

CO_2 Solutions Inc.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited)

(expressed in Canadian dollars)

	As at December 31, 2016	As at June 30, 2016
	$	$
ASSETS		
Current assets		
Cash and short-term investments	**1,083,086**	874,309
Accounts receivable (note 3)	**626,193**	595,690
Tax credits receivable	**399,560**	624,090
Inventory	**157,140**	164,599
Prepaid expenses	**88,776**	107,445
	2,354,755	2,366,133
Non-current assets		
Property, plant and equipment (note 4)	**147,954**	147,162
Patents (note 5)	**1,231,688**	866,867
	3,734,397	3,380,162
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**2,003,113**	1,192,304
Current portion of term loans (note 6)	**1,229,916**	743,900
Current portion of convertible debentures (note 8)	**483,775**	-
	3,716,804	1,936,204
Non-current liabilities		
Refundable contributions (note 7)	**441,778**	429,701
Deferred credits	**13,282**	14,872
Term loans (note 6)	**390,369**	-
Convertible debentures (note 8)	**-**	1,003,459
	4,562,233	3,384,236
EQUITY		
Capital stock (note 9)	**28,433,099**	26,526,879
Stock options (note 10)	**403,058**	417,661
Deferred and Restricted Share Units (note 11)	**165,564**	139,259
Broker units (note 9)	**10,896**	108,962
Warrants (note 9)	**2,137,040**	2,049,245
Contributed surplus	**4,198,458**	4,181,719
Deficit	**(36,175,951)**	(33,427,799)
	(827,836)	(4,074)
	3,734,397	3,380,162

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

Approved by the Board of Directors

[signed] Evan Price	[signed] Glenn Kelly
Evan Price	Glenn Kelly
Director	Director

CO_2 Solutions Inc.

Condensed Interim Consolidated Statements of Changes in Equity

For the six-month periods ended December 31, 2016 and 2015

(Unaudited)

(expressed in Canadian dollars)

	Capital stock	Stock options	Deferred and Restricted Share Units	Broker units	Warrants	Contributed surplus	Deficit	Total
	$	$	$	$	$	$	$	$
Balance as at July 1, 2016	26,526,879	417,661	139,259	108,962	2,049,245	4,181,719	(33,427,799)	(4,074)
Stock-based compensation costs	-	58,544	165,564	-	-	-	-	224,108
Stock options expired (note 10)	-	(16,739)	-	-	-	16,739	-	-
Share issues from stock options exercised (notes 9 and 10)	135,802	(56,408)	-	-	-	-	-	79,394
Share issue from RSU's granted in May 2016 (notes 9 and 11)	139,259	-	(139,259)	-	-	-	-	-
Share issues from convertible debentures converted (notes 8 and 9)	529,541	-	-	-	-	-	-	529,541
Share issues from warrants exercised (note 9)	425,930	-	-	-	(103,113)	-	-	322,817
Share issues from debt settlements (note 9)	440,387	-	-	-	-	-	-	440,387
Share issue from broker units exercised (note 9)	236,213	-	-	(98,066)	-	-	-	138,147
Warrant issues relating to a loan agreement (notes 6 and 9)	-	-	-	-	89,349	-	-	89,349
Warrant issues relating to debt settlements (note 9)	-	-	-	-	104,123	-	-	104,123
Warrant issue further to broker units exercised (note 9)	-	-	-	-	4,390	-	-	4,390
Issuance fees on various share and warrant issues	(912)	-	-	-	(6,954)	-	-	(7,866)
Loss and comprehensive loss for the period	-	-	-	-	-	-	(2,748,152)	(2,748,152)
Balance as at December 31, 2016	**28,433,099**	**403,058**	**165,564**	**10,896**	**2,137,040**	**4,198,458**	**(36,175,951)**	**(827,836)**

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

CO_2 Solutions Inc.

Condensed Interim Consolidated Statements of Changes in Equity (continued)

For the six-month periods ended December 31, 2016 and 2015

(Unaudited)

(expressed in Canadian dollars)

	Capital stock	Stock options	Deferred and 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	-	36,512	-	-	-	-	-	36,512
Stock options expired	-	(3,060)	-	-	-	3,060	-	-
Share issues from stock options exercised	126,200	(54,321)	-	-	-	-	-	71,879
Share for debt issue from July 2015	100,000	-	-	-	-	-	-	100,000
Issuance fees on share issue from July 2015	(4,476)	-	-	-	-	-	-	(4,476)
Share issue from warrants exercised	5,250	-	-	-	(875)	-	-	4,375
Broker warrants issued upon completion of December 2015 public financing	-	-	-	-	46,574	-	-	46,574
Loss and comprehensive loss for the period	-	-	-	-	-	-	(2,981,544)	(2,981,544)
Balance as at December 31, 2015	**24,827,786**	**372,881**	**-**	**108,962**	**2,251,735**	**4,166,510**	**(31,444,814)**	**283,060**

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

CO_2 Solutions Inc.

Condensed Interim Consolidated Statements of Comprehensive Loss

For the three- and six-month periods ended December 31, 2016 and 2015

(Unaudited)

(expressed in Canadian dollars)

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Costs and operating expenses				
Research and development expenses, net (note 13 a))	**346,791**	470,321	**896,283**	1,464,950
Business development expenses (note 13 b))	**135,822**	248,837	**400,847**	411,643
General and administrative expenses (note 13 c))	**751,036**	627,976	**1,206,560**	1,055,650
Financial expenses, net (note 13 d))	**120,354**	43,916	**244,462**	49,301
	1,354,003	1,391,050	**2,748,152**	2,981,544
Loss and comprehensive loss for the period (note 13)	**1,354,003**	1,391,050	**2,748,152**	2,981,544
Basic and diluted loss per share (note 12)	**0.01**	0.01	**0.02**	0.02

The accompanying notes are an integral part of these condensed interim consolidated financial statements, and note 13 provides additional information on loss and comprehensive loss.

CO_2 Solutions Inc.

Condensed Interim Consolidated Statements of Cash Flows

For the three- and six-month periods ended December 31, 2016 and 2015

(Unaudited)

(expressed in Canadian dollars)

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2016	2015	**2016**	2015
	$	$	**$**	$
OPERATING ACTIVITIES				
Net loss for the period	**(1,354,003)**	(1,391,050)	**(2,748,152)**	(2,981,544)
Adjustments				
Depreciation and amortization	**198,604**	110,804	**243,547**	146,808
Interest expense on refundable contributions (note 7)	**6,113**	2,623	**12,078**	5,070
Interest expense on convertible debentures (note 8)	**21,450**	1,376	**60,118**	1,376
Interest and fees added to term loan (note 6)	**27,916**	-	**27,916**	-
Accretion expense (notes 6 and 8)	**49,048**	1,908	**115,872**	1,908
Change in fair value of derivatives (note 8)	**(56,883)**	-	**(94,337)**	-
Stock-based compensation costs	**200,712**	26,784	**224,108**	36,512
Gain on refundable contributions (note 7)	**-**	(15,440)	**-**	(15,440)
	(907,043)	(1,262,995)	**(2,158,850)**	(2,805,310)
Changes in non-cash working capital items				
Accounts receivable	**(14,724)**	15,850	**(30,503)**	41,632
Tax credits receivable	**272,139**	(78,833)	**224,530**	(71,853)
Inventory	**(3,849)**	27,015	**7,459**	98,728
Prepaid expenses	**42,516**	(123,323)	**18,669**	(142,776)
Accounts payable and accrued liabilities	**433,362**	106,711	**895,201**	73,743
	729,444	(52,580)	**1,115,356**	(526)
Cash flows used in operating activities	**(177,599)**	(1,315,575)	**(1,043,494)**	(2,805,836)
INVESTING ACTIVITIES				
Acquisition of property, plant and equipment (note 4)	**(5,376)**	(12,737)	**(18,169)**	(26,235)
Amounts capitalized to patents (note 5)	**(166,442)**	(54,702)	**(192,582)**	(109,731)
Cash flows used in investing activities	**(171,818)**	(67,439)	**(210,751)**	(135,966)
FINANCING ACTIVITIES				
Term loans received, net of issuance fees (note 6)	**593,354**	619,100	**1,166,540**	619,100
Reimbursement of term loan (note 6)	**(240,400)**	-	**(240,400)**	-
Issuance fees on share issue from July 2015 for debt settlement	**-**	-	**-**	(4,476)
Proceeds from the issuance of convertible debentures of December 2015	**-**	2,093,000	**-**	2,093,000
Issuance fees on convertible debentures of December 2015	**-**	(329,465)	**-**	(329,465)
Refundable contribution received	**-**	54,817	**-**	54,817
Share issues from warrants exercised (note 9)	**322,817**	4,375	**322,817**	4,375
Share issue from broker units exercised (note 9)	**142,537**	-	**142,537**	-
Share issues from stock options exercised (notes 9 and 10)	**79,394**	71,879	**79,394**	71,879
Issuance fees on various share and warrant issues	**(7,866)**	-	**(7,866)**	-
Cash flows from financing activities	**889,836**	2,513,706	**1,463,022**	2,509,230
Net increase (decrease) in cash during the period	**540,419**	1,130,692	**208,777**	(432,572)
Cash and short-term investments - Beginning of period	**542,667**	863,169	**874,309**	2,426,433
Cash and short-term investments - End of period	**1,083,086**	1,993,861	**1,083,086**	1,993,861
Interest income received	**3,078**	783	**4,043**	4,961
Accounts payable and accrued liabilities paid by issuance of shares (note 9)	**40,387**	-	**40,387**	100,000
Acquisition of intellectual property paid by issuance of shares (note 9)	**400,000**	-	**400,000**	-
Accounts payable and accrued liabilities paid by issuance of warrants (note 9)	**104,123**	-	**104,123**	-
Broker warrants relating to public offering of December 2015	**-**	46,574	**-**	46,574

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

(expressed in Canadian dollars)

1- GOVERNING STATUTE AND NATURE OF OPERATIONS

CO_2 Solutions Inc. (the "Corporation"), incorporated under Part IA 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 fuelpower 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, Québec City, Quebec, Canada G2C 1T9.

2- SIGNIFICANT ACCOUNTING POLICIES

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. Accordingly, these are condensed interim consolidated financial statements since they do not include all the information required under IFRS for annual consolidated financial statements. These condensed interim consolidated financial statements should be read in conjunction with the June 30, 2016 audited annual consolidated financial statements.

The results for the interim periods are not necessarily indicative of the results for the full fiscal year.

There has been no change in future accounting changes from those previously described in the Corporation's June 30, 2016 audited annual consolidated financial statements.

These condensed interim consolidated financial statements for the second quarter ended December 31, 2016 have not been subject to review by the Corporation's independent auditor.

These condensed interim consolidated financial statements have been approved by the Corporation's Board of Directors on February 27, 2017.

3- ACCOUNTS RECEIVABLE

	As at December 31, 2016	As at June 30, 2016
	$	$
Trade accounts receivable and others	**143**	532
Government assistance receivable	**545,591**	534,156
Commodity taxes receivable	**80,459**	61,002
	626,193	595,690

4- PROPERTY, PLANT AND EQUIPMENT

	Laboratory equipment and layout	**Office equipment**	**Computer equipment**	**Leasehold improvements**	**Total**
	$	**$**	**$**	**$**	**$**
Cost					
Balance as at July 1, 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
Acquisitions	18,169	-	-	-	18,169
Balance as at December 31, 2016	840,867	131,458	106,707	35,539	1,114,571
Accumulated depreciation					
Balance as at July 1, 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)
Depreciation expense	(12,646)	(949)	(3,782)	-	(17,377)
Balance as at December 31, 2016	(722,879)	(122,922)	(85,277)	(35,539)	(966,617)
Net book value					
June 30, 2016	112,465	9,485	25,212	-	147,162
December 31, 2016	117,988	8,536	21,430	-	147,954

5- PATENTS

	$
Cost	
Balance as at July 1, 2015	1,254,632
Costs incurred	189,092
Abandoned	(255,065)
Balance as at June 30, 2016	1,188,659
Costs incurred	592,582
Abandoned	(233,791)
Balance as at December 31, 2016	1,547,450
Accumulated amortization	
Balance as at July 1, 2015	(308,808)
Amortization expense	(268,049)
Abandoned	255,065
Balance as at June 30, 2016	(321,792)
Amortization expense	(227,761)
Abandoned	233,791
Balance as at December 31, 2016	(315,762)
Net book value	
June 30, 2016	866,867
December 31, 2016	1,231,688

6- TERM LOANS

On November 6, 2015, the Corporation entered into 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 research and development (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 related borrowing outstanding. On November 3, 2016, the funds relative to the 2015 R&D tax credits were received and the loan was totally reimbursed.

On November 20, 2015, the Corporation entered into a second term loan agreement with a financial intermediate related to the financial institution noted above, for a principal amount of $378,700. This second term loan is to finance a federal subsidy holdback receivable. The term of this loan has been extended and accrued interest and fees for $27,916 were added to the loan until reimbursement.

On March 22, 2016, the Corporation entered into a third term loan agreement with the same financial institution noted above, for a principal amount of $285,500. This third term loan is to finance provincial tax credits receivable for SR&ED tax credits accrued for its fiscal year ended 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 related borrowing outstanding. The initial drawdown of $124,800 on this third term loan was made on April 29, 2016, with subsequent drawdowns of $112,100 and $36,400

having been made on September 14, 2016 and November 2, 2016, respectively. On Decemer 8, 2016, the term loan was amended, increasing the principal amount to $535,800. On December 13, 2016, the Corporation drew down an additional $250,000 arising from this amendment.

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 the interest is paid in advance. The term of these term loans is a maximum of 12 months unless further extended upon agreement by the parties.

On August 31, 2016, the Corporation entered into a loan agreement and made an initial drawdown with 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. The term loan is repayable in full upon the earlier of the second anniversary of the initial drawdown or the completion of the next public financing of the Corporation. In addition, the Corporation 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 includes standby fees of 3% per annum. The Corporation's obligations with respect to the term loan is secured by a movable hypothec granted by the Corporation over the universality of its movable property including but not limited to its patent portfolio. The hypothec is ranked after currently outstanding hypothecs over the Corporation's assets.

In connection with the DCP loan agreement, the Corporation has agreed to issue 2,941,176 non-transferable common share 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 entitles its holder to acquire one common share of the Corporation at a price of $0.17 per common share until the second anniversary of the first drawdown provided that, if the loan is repaid within the first year following the initial drawdown, 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 first draw of $200,000 was made on August 31, 2016, and the second and final draw of $300,000 was made on September 12, 2016. The proceeds of the loan are being used for working capital and general corporate purposes.

The initial estimate of the fair value of the financial liability has been valued using an implicit rate of 23% taking into consideration the interest rate of the loan, the drawdown, commitment and standby fees and the warrants associated with the loan based on an estimated date of reimbursement of August 31, 2018.

The fair value of the financial liability was estimated at $163,874 for the August 31 draw and $246,777 for the September 12 draw. Consequently, the residual amounts of $36,126 and $53,223 were allocated to the warrants.

Issuance fees have been prorated over the financial liability and the equity instrument. The fees allocated to the financial liability together with the initial discount are amortized with an overall effective interest rate of 28% for both draws.

The following summarizes the face value and carrying values of the financial liability and the equity instrument related to the agreement with DCP as at December 31, 2016:

		Financial liability	Equity
		Term loan	Warrants
	Face value $	Carrying value $	Carrying value $
Balance as at July 1, 2016	-	-	-
Issuance at August 31, 2016	200,000	163,874	36,126
Issuance at September 12, 2016	300,000	246,777	53,223
Issuance fees incurred	-	(31,960)	(6,954)
Accretion expense	-	11,678	-
Balance as at December 31, 2016	500,000	390,369	82,395

On December 8, 2016, the Corporation entered into a second loan agreement with DCP and made full drawdown for a term loan in the amount of up to $300,000. The term loan is repayable in full on December 8, 2017. In addition, the Corporation 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 includes a commitment fee of 3% paid out of the first drawdown under the loan.

7- REFUNDABLE CONTRIBUTIONS

The Corporation obtained from Economic Development of Canada two separate refundable contributions (loans), one for $250,000, granted in January 2011, and a second 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 December 31, 2016 and June 30, 2016, since the Corporation had no income, there is no short-term portion payable related to this refundable contribution.

The second refundable contribution (loan) of up to $400,000, of which the entire $400,000 was drawn down, is refundable starting 36 months after March 31, 2016, the end date of the R&D project to which the contribution was attached. This second contribution will be reimbursed by way of 59 equal and consecutive instalments of $6,667 and one final payment of $6,647. As at December 31, 2016 and June 30, 2016, there is no short-term portion payable related to this refundable contribution.

The loans totalling $650,000 were accrued on initial recognition at fair value, using an estimated weighted average capitalization rate of 10%. For the six-month period ended December 31, 2016, interest expense of $12,078, for both loans, is recorded in the condensed interim consolidated statements of comprehensive loss in 2016 ($5,070 in 2015).

8- 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 a $1,000 principal amount of 12% convertible secured debentures (the “Debentures”) and 4,348 share purchase warrants (each 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. 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.

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 December 31, 2016 for $19,020 was settled by a cash payment on that date.

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. The embedded derivative component is classified as a Level 3 financial instrument due to the unobservable nature of the expected volatility used in the valuation technique.

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 December 31, 2016, the Corporation estimated the fair value of the conversion option of the embedded derivatives and adjusted the initial fair value at $46,034 using the Black-Scholes option pricing model based on the following unobservable data (Level 3 measurement). The expected life was estimated by the Corporation based on its expectation of conversion date as at December 31, 2016.

	Adjusted fair value December 31, 2016
Expected volatility	59.01%
Expected life	1 year
Weighted fair value of conversion option per underlying share	$0.0167

For the six-month period ended December 31, 2016, the change in fair value of derivatives resulted in a gain of $94,337 (nil for 2015) and was recorded in the condensed interim consolidated statements of comprehensive loss. An increase (decrease) in the expected volatility of 5% would increase (decrease) net loss by approximately $7,994 ($7,994).

The following summarizes the face value and carrying values of the liability and equity components of the Debentures as at December 31, 2016:

	Liability components			Equity component
		Principal and interest [1]	Conversion Option [2]	
	Face value $	Carrying value $	Carrying value $	Warrants Carrying value $
Balance as at July 1, 2016	1,308,000	763,637	239,822	-
Converted	(674,000)	(430,090)	(99,451)	-
Change in fair value of derivatives	-	-	(94,337) [3]	-
Accretion expense	-	104,194	-	-
Balance as at December 31, 2016	634,000	437,741	46,034	-

(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.
(3) Of which a loss of $60,838 is related to the conversion option still outstanding as at December 30, 2016.

9- 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 six-month period ended December 31, 2016 and the year ended June 30, 2016:

	Six-month period ended December 31, 2016		Year ended June 30, 2016	
	Number	**$**	**Number**	**$**
Beginning balance	**138,079,874**	**26,526,879**	127,211,353	24,600,812
Share issues from:				
Restricted Share Units	**819,168**	**139,259**	-	-
Payment of interest on convertible debentures	**-**	**-**	197,250	30,425
Convertible debentures converted	**3,362,824**	**529,541**	4,743,004	699,478
Warrants exercised	**1,314,171**	**425,930**	4,587,867	825,816
Broker units exercised	**570,150**	**236,213**	-	-
Stock options exercised	**427,300**	**135,802**	840,400	259,420
Debt settlements	**2,479,000**	**439,475**	500,000	110,928
Ending balance	**147,052,487**	**28,433,099**	138,079,874	26,526,879

The following table shows the changes in the Corporation's warrants during the six-month period ended December 31, 2016 and the year ended June 30, 2016:

	Six-month period ended December 31, 2016		Year ended June 30, 2016	
	Number	**Average strike price $**	Number	Average strike price $
Outstanding – Beginning of period	**46,708,764**	**0.28**	41,292,687	0.27
Issued	**5,490,326**	**0.17**	10,316,469	0.24
Exercised	**(1,314,171)**	**0.25**	(4,587,867)	0.15
Forfeited	**-**	**-**	(312,525)	0.15
Outstanding – End of period	**50,884,919**	**0.27**	46,708,764	0.28

In connection with the loan by DCP (see note 6), The Corporation has agreed to issue 2,941,176 non-transferable common share 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 entitles its holder to acquire one common share of the Corporation at a price of $0.17 per common

share until the second anniversary of the first drawdown provided that, if the loan is repaid within the first year following the initial drawdown, 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.

On October 21, 2016, one warrant holder exercised 741,562 common share purchase warrants from the June 2015 private placement at a price of $0.25.

On December 16, 2016, one warrant holder exercised 572,609 common share purchase warrants from the December 2015 convertible debenture issue at a price of $0.24.

On November 8, 2016, the Corporation announced that it had entered into an asset purchase agreement (the "APA") with Akermin Inc. of St. Louis, Missouri, ("Akermin") pursuant to which the Corporation purchased certain intellectual property owned by Akermin (the "Assets") for a value of $400,000 (the "Purchase Price"). Akermin, a former US-based competitor of the Corporation in the field of enzyme-based carbon capture, decided to cease operations and liquidate its assets. Pursuant to the terms of the APA, the Corporation issued, as payment in full of the purchase price for the Assets, 2,000,000 common shares of the Corporation (the "Common Shares") at a deemed price of $0.20 per Common Share to Akermin. In connection with this acquisition, the Corporation also issued 1,500,000 non-transferable common share purchase warrants to an adviser. Each warrant entitles the holder thereof to purchase one common share at a price of $0.30 per common share until November 7, 2019.

On November 8, 2016, the Corporation also announced that it has entered into securities for debt settlement agreement with one of its service provider to settle $69,510 in outstanding debt. With the approval of the TSX Venture Exchange, on November 9, 2016, the Corporation issued 479,000 common shares and 479,000 common share purchase warrants (each a "debt warrant"). Each debt warrant entitles the holder thereof to acquire one common share at a price of $0.30 per common share until November 7, 2019.

On December 16, 2016, one holder of broker units had exercised 570,150 units, and the Corporation issued 570,150 common shares and 570,150 common share purchase warrants. Each warrant entitles the holder thereof to purchase one common share at a price of $0.35 until June 5, 2018.

The following table shows the change in the Corporation's broker units for the six-month period ended December 31, 2016 and the year ended June 30, 2016:

	Six-month period ended December 31, 2016		Year ended June 30, 2016	
	Number	**Average strike price $**	Number	Average strike price $
Outstanding – Beginning of period	**633,500**	**0.25**	633,500	0.25
Issued	**-**	**-**	-	-
Exercised	**(570,150)**	**0.25**	-	-
Outstanding – End of period	**63,350**	**0.25**	633,500	0.25

10- 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, exercise price, expiry date, terms of acquisition and any restrictions on the exercise of the options.

Under the terms of the Corporation's stock-based remuneration plans (including stock options, Deferred Share Units and Restricted Share Units (see note 11)), the maximum number of common shares available to be issued under all of the Corporation's plans cannot exceed 10% of the issued and outstanding shares of capital stock. As at December 31, 2016, this amount is currently established at 12,633,523 common shares, 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 six-month period ended December 31, 2016 and the year ended June 30, 2016:

	Six-month period ended December 31, 2016		For the year ended June 30, 2016	
	Number	**Weighted average exercice price $**	Number	Weighted average exercice price $
Outstanding - Beginning of period	**5,034,200**	**0.14**	4,705,100	0.13
Granted	**1,380,000**	**0.15**	1,217,000	0.23
Expired	**(75,900)**	**0.22**	(47,500)	0.26
Exercised	**(427,300)**	**0.19**	(840,400)	0.18
Outstanding - End of period	**5,911,000**	**0.14**	5,034,200	0.14
Exercisable - End of period	**3,852,834**	**0.13**	3,881,117	0.13

As at December 31, 2016, the following outstanding stock options had been granted:

Outstanding options			Exercisable options	
Number	Weighted average exercise price $	Weighted average remaining contractual life (years)	Number	Weighted average exercise price $
367,000	0.10	0.92	367,000	0.10
200,000	0.10	1.00	200,000	0.10
750,000	0.12	1.42	750,000	0.12
892,000	0.10	1.92	892,000	0.10
100,000	0.10	2.13	100,000	0.10
1,007,500	0.10	2.92	872,500	0.10
1,214,500	0.23	3.92	671,334	0.23
1,380,000	0.15	4.92	-	0.15
5,911,000	0.14	3.05	3,852,834	0.13

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.

11- DEFERRED AND RESTRICTED SHARE UNITS

On November 26, 2015, the Corporation's 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 DSU and RSU awards may be granted by the Board or the Corporate Governance & Human Resources Committee of the Board (the "Committee"), which administers the Plans, to full-time employees, officers and eligible consultants 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 DSU or RSU 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 PlanS (or any other stock-based compensation plans, including the Corporation's amended stock option plan, see note 10) shall not exceed 12,633,523 common shares.

Concurrent with the determination to grant DSUs or RSUs to a Participant, the Committee shall determine the vesting period and the term applicable to such DSUs or RSUs. Unless the Committee, at its discretion, has set a shorter period of time, the DSUs and RSUs will expire 10 years from the grant date.

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

On October 13, 2016, in accordance with the terms of the respective DSU and RSU Plans that were approved in November 2015, the Corporation's Board of Directors granted an additional 487,157 RSUs to certain officers, consultants and employees and 442,308 DSUs to the non-executive directors of the Corporation. In accordance with the terms of the respective plans, these DSUs and

RSUs were valued at $0.195 per share, that being the last closing price of the Corporation's common shares on the TSX Venture Exchange immediately prior to the date on which market value of the units is determined, that date being October 12, 2016. The RSUs granted will fully vest on January 1, 2017.

The following table summarizes information about outstanding DSUs and RSUs for the six-month period ended December 31, 2016 and the year ended June 30, 2016:

	Six-month period ended December 31, 2016		Year ended June 30, 2016	
	Number	**Fair value $**	Number	Fair value $
Outstanding – Beginning of period	**819,168**	**0.1700**	-	-
Common shares issued August 12, 2016	**(819,168)**	**0.1700**	-	-
Restricted Share Units granted	**487,157**	**0.1950**	819,168	0.17
Deferred Share Units granted	**442,308**	**0.1950**		0.17
Outstanding – End of period	**925,465**	**0.1950**	819,168	0.17

12- 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:

	Six-month period ended December 31, 2016	Six-month period ended December 31, 2015
Basic weighted average number of shares outstanding	**141,524,413**	127,623,866

For the periods ended December 31, 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 10), conversion option (note 8), broker units and warrants (note 9) was not included in the calculation; otherwise the effect would have been anti-dilutive. Accordingly, the diluted loss per share for those periods was calculated using the basic weighted average number of shares outstanding.

13- COSTS AND OPERATING EXPENSES

	Three-month periods ended December 31,		**Six-month periods ended December 31,**	
	2016 $	2015 $	**2016 $**	2015 $
Costs and operating expenses				
a) Research and development expenses, net				
Salaries, employee benefits and other compensation	**281,868**	288,255	**555,495**	569,788
Stock-based compensation costs	**34,781**	8,542	**39,799**	11,709
Professional fees and subcontractors	**126,272**	155,188	**333,324**	520,907
Pilot unit construction expenses	**-**	585	**-**	22,362
Laboratory and other supplies	**32,100**	161,381	**147,723**	601,350
	475,021	613,951	**1,076,341**	1,726,116
Tax credits	**(102,915)**	(78,833)	**(150,524)**	(192,094)
Government assistance	**(25,315)**	(64,797)	**(29,534)**	(69,072)
	346,791	470,321	**896,283**	1,464,950
b) Business development expenses				
Salaries, employee benefits and other compensation	**94,313**	73,120	**168,964**	145,921
Stock-based compensation costs	**19,804**	5,440	**37,532**	8,091
Professional fees	**2,514**	146,268	**19,887**	213,807

Travel, entertainment, advertising and office expenses	**19,191**	24,009	**174,464**	43,824
	135,822	248,837	**400,847**	411,643
c) General and administrative expenses				
Salaries, employee benefits and other compensation	**125,294**	142,659	**267,624**	279,158
Stock-based compensation costs	**146,127**	12,802	**146,777**	16,712
Rent, electricity, taxes and insurance	**56,810**	56,646	**117,110**	112,088
Office expenses	**17,481**	17,416	**37,735**	30,715
Travel, entertainment and advertising	**15,313**	13,902	**34,208**	42,978
Directors' fees	**30,173**	32,247	**54,048**	56,521
Professional fees	**161,234**	241,500	**305,511**	370,670
Depreciation of property, plant and equipment	**8,840**	11,053	**17,377**	21,137
Amortization of patents	**190,559**	100,773	**227,761**	127,715
Amortization of deferred credits	**(795)**	(1,022)	**(1,591)**	(2,044)
	751,036	627,976	**1,206,560**	1,055,650
d) Financial expenses, net				
Accretion expense	**49,048**	1,278	**115,872**	1,278
Change in fair value of derivatives	**(56,883)**	-	**(94,337)**	-
Interest and other financial expenses	**132,658**	58,363	**227,747**	65,213
Interest income and gain on refundable contribution	**(3,078)**	(16,223)	**(4,043)**	(20,401)
Foreign exchange expense	**(1,391)**	498	**(777)**	3,211
	120,354	43,916	**244,462**	49,301

14- SUBSEQUENT EVENT

Issue of shares associated with October 2016 RSUs

On January 3, 2017, the Corporation issued the 487,157 shares relative to the October 2016 RSU grant (note 11).