TSXV: CST

MANAGEMENT DISCUSSION AND ANALYSIS,

AS AT SEPTEMBER 30, 2014

ENZYMATIC POWER FOR CARBON CAPTURE

producers, to adopt new emissions reductions technologies such as carbon capture and storage.[17] Aimed at solving this issue, the new potential 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[(3)]. This increased regulation could drive greater demand for efficient CO_2 capture technologies such as that being developed by the Corporation. At present, this potential legislation is still in review, however the Corporation expects that this or some other form of increased carbon pricing in Alberta is inevitable. This is being driven by the present 'social license' and export market barriers which the oil sands industry faces for its product brought about by its rapidly growing carbon output.[18]-[19]

In early October 2014 a significant step forward toward the advancement of carbon capture and storage (CCS) for power plants was reached with the unveiling of a $1.4 billion large scale application of current amine based CCS technology in Saskatchewan aimed at reducing harmful emissions from coal-fired power plants. For several years, SaskPower has been outfitting its Boundary Dam power plant, near Estevan, Sask., in the province's southeast, with equipment for CCS. The project is aimed at demonstrating that such a system is feasible for conventional power plants that use coal as a fuel in the generation of electricity. Saskatchewan has no plans to phase out coal, which, according to SaskPower, supplies 47 per cent of it's the provinces electricity. Saskatchewan's project, in general, collects carbon dioxide gas that is emitted when coal is burned in a power plant. That gas is compressed to liquid form. SaskPower has plans to sell the liquefied CO_2 to the oil industry. Studies are also underway to see if the CO_2 can be injected into natural underground storage caverns. While the developments in Saskatchewan are laudable, it has been noted that the carbon capture process deployed in the Boundary Dam project, currently, has a steep price tag. Observers have noted that when you transfer the cost of CCS based on the technology deployed in the Boundary Dam project in terms of electricity prices, prices have to go up by 80 per cent. Experts admit that nobody can afford that. Costs have to come down within a level of 25 to 30 per cent. While Saskatchewan's venture into clean coal is the first large-scale project of its kind, observers are optimistic it will be proven feasible over time and that costs can be reduced.[20] Although CO_2 Solutions was not part of this project, which was launched over 6 years ago, the Corporation welcomes any positive advancement in CCS and federal and provincial efforts to reduce greenhouse gas emissions.

As noted above and further discussed below, CO_2 Solutions itself is also involved in a pilot project for the application of its enzyme based carbon capture technology in the Western Canadian oil sands. This project will demonstrate the applicability of the Corporation's technology for this important market and its potential to cost effectively address a critical environmental challenge facing the oil sands. CO_2 Solutions believes its technology can significantly reduce the cost of CCS and looks forward to validating that assumption in the tests it is undertaking in at EERC in North Dakota (see above) and as part of its project with Husky Energy.

Another country that increasingly has embraced the GHG challenge is China. Already the source of a quarter of global emissions, current trends indicate that, by 2020, China will emit as much GHG as the US, the European Union and Japan combined.[21] According to a report issued by the Chinese Academy for Environmental Planning, China plans to invest 1.7 trillion Yuan (US$277 billion) to combat air pollution

[17] http://www.pembina.org/blog/707
[18] http://www.theglobeandmail.com/news/politics/alberta-can-win-friends-for-oil-sands-new-energy-minister-says/article4105583/
[19] http://www.cbc.ca/news/business/pipeline-push-back-what-s-behind-the-rising-opposition-to-canada-s-big-oil-pipelines-1.2619646
[20] SaskPower set to unveil 'clean coal' technology, CBC News Posted: Oct 02, 2014
[21] The Age, July 27, 2013

over the next five years, underscoring the new government's concerns about addressing a key source of social discontent. The government plans to reduce air emissions by 25 percent by 2017 compared with 2012 levels in those areas, according to the report.[22] CO_2 Solutions is closely monitoring developments in China to determine in what context its technology could be deployed to support the country's stated efforts to reduce its CO_2 emissions.

Government initiatives in turn are being reinforced by private industry leaders and senior executives who embrace the notion that "going green" is both good for the health of the planet and good for business, urging governments to put a significant price on carbon dioxide to reduce greenhouse gases. Certain companies have even begun to factor in the potential cost of CO_2 capture or an internal carbon tax into their future project financial forecasts in anticipation of regulations to come.

With its patented technology, the Corporation looks forward to supporting worldwide efforts by industry and governments to efficiently meet needs for emissions reductions. 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 favorably disposed to enacting carbon reduction legislation.

5.0 INTELLECTUAL PROPERTY HIGHLIGHTS

Continued expansion of intellectual property dominance

As the world searches for innovative solutions to lower the current cost barrier to CO_2 capture, continued growth in industry interest in the potential of enzyme-enabled carbon capture, largely pioneered by CO_2 Solutions, has emerged as a focal point in its own right. This is particularly the case south of the border, where the United States' government has recently invested millions of dollars in enzyme-related projects. It is fortunate that the Corporation has a broad international patent position in the field which will both allow it to commercialize its technology and block potential competitors from entering the market. In this regard, CO_2 Solutions continues to expand its intellectual property dominance with the filing of new patents.

On September 10, 2014, the Corporation announced that it had been granted U.S. Patent No. 8,722,391 entitled Process for CO_2 capture using Carbonates and Biocatalysts with Absorption of CO_2 and Desorption of Ion-rich Solution. The patent adds even more depth to CO_2 Solutions' already-extensive U.S. patent portfolio, providing broad coverage for enzyme accelerated carbonate-based solvent processes for carbon capture. The Corporation believes the patent may have significant value relative to these CO_2 capture processes, especially where precipitates are produced during the absorption stage. Formation of precipitates can drastically reduce the amount of solvent to be heated to produce pure CO_2 for industrial re-use. This, in turn, reduces the total energy requirement, and hence the associated costs are lower than for comparable solutions available on the market.

CO_2 Solutions continues to hold the industry's broadest portfolio of patents in the field of enzyme-enhanced carbon capture. As at September 30, 2014 the Corporation has 49 patents issued and 41 patents pending covering not only the use of carbonic anhydrase with various capture solvents, but also the use of the enzyme in different reactor configurations and in key industrial sectors such as power generation and cement. Management believes that with its very comprehensive intellectual property

[22] Reuters, July 24, 2013

portfolio, the Corporation has covered all viable routes to commercialization of carbonic anhydrase enzyme based systems for the capture of CO_2.

6.0 FINANCIAL REVIEW

6.1 Selected Unaudited Quarterly Information

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

	Quarters ended			
	September 30, 2014	**June 30, 2014**	**March 31, 2014**	**December 31, 2013**
Revenues	-	$106,720	-	$127,995
Profit (loss)	($734,345)	($31,710)	($879,849)	($574,992)
Profit (loss) per share	($0.01)	-	($0.01)	($0.01)

	Quarters ended			
	September 30, 2013	**June 30, 2013**	**March 31, 2013**	**December 31, 2012**
Revenues	$154,148	$475,600	$126,425	$152,511
Profit (loss)	($233,115)	$47,382	($283,815)	($1,609,084)
Profit (loss) per share	-	-	-	($0.02)

6.2 Results of Operations

Comparison between the three-month periods ended September 30, 2014 and 2013

Revenues

The Corporation recorded no revenues for the quarter ended September 30, 2014 ($154,148 in 2013). 2013 revenues were generated from agreements undertaken during the previous fiscal years with Carbon Capture Project and Statoil to provide certain project data and reports. Revenue is recognized for these agreements when non-refundable amounts are billed as per the contracts. There were no such agreements in force during the quarter ending September 30, 2014. Funds received from subsidy agreements signed with federal and provincial government agencies (ecoENERGY, CCEMC & IRAP) 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 below).

Research and development expenses

Research and development expenses, before tax credits and government assistance, increased by $177,952, totalling $661,484 for the quarter ended September 30, 2014, compared with $483,532 for the same period in 2013. Increases in the three-month period from that of the prior year reflect the work associated with the ecoENERGY project which was started in January 2013 (see Update on the Application of CO_2 Solutions' Carbon Capture Program in Western Canada above), and continued work in the area of enzyme evolution and management. These expenses will vary based upon on-going collaborative agreements and/or projects undertaken by the Corporation.

Government assistance for the three months ended September 30, 2014, amounted to $508,307 ($639,703 in 2013) and included amounts for eligible expenses claimed from federal and provincial government agencies (ecoENERGY, CCEMC & IRAP) for approved subsidized projects. Variances between periods reflect timing and type of work completed and the level of subsidy available in each period based on projects undertaken and claims made to funding agencies.

Tax credits for the three-month period ended September 30, 2014 were $38,805 (nil in 2013). This increase results from the fact that the tax credit calculation is adjusted to reflect any amounts of eligible expenses funded through federal or provincial subsidies (e.g. those received from ecoENERGY, CCEMC & IRAP) received in the same period. A lower claim to a government funding agency will usually yield a higher amount of expenses eligible for tax credits.

<u>Business development expenses</u>

Business development expenses were $150,796 for the quarter ended September 30, 2014, compared with $108,448 for the same period in 2013, representing an increase of $42,348. The net increase is related to the following:

- an increase in professional fees of $38,349 associated with the negotiation of various business development agreements and patent related fees;
- an increase of $14,012 in salaries and non-cash stock based compensation costs relative to administrative salaries allocated to business development;
- a decrease in travel expenses for the period of $10,013.

<u>General and administrative expenses</u>

General and administrative expenses totalled $392,099 for the quarter ended September 30, 2014, compared with $395,085 for the same period in 2013, representing a small decrease of $2,986. This net decrease is related to:

- a decrease of $20,898 in amortization of patents primarily related to lower patent asset values following the abandonment of a number of inactive patents in the prior year. (see Additional information with respect to the accounting for intellectual property below);
- a $11,481 increase in Directors fees, related to increased fees in the current period and the number of meetings held in the past quarter;
- a non-cash increase in stock-based compensation costs of $4,401 reflecting the current value of stock options;
- an increase of $4,116 in professional fees, primarily due to higher audit fees;
- a decrease in office expenses of $3,125;
- an increase of $1,664 in salaries, employee benefits and other compensation paid in the quarter reflecting salary increases awarded in January 2014.

<u>Financial expenses (income), net</u>

Financial expenses (income), net for the quarter ended September 30, 2014, was a loss of $77,078 compared with a loss of $39,901 for the same period in 2013. This financial loss was primarily the result of:

- a non-cash increase in interest expense of $14,796 relating to interest accrued for the convertible debentures issued on August 9, 2013, now reflecting a full quarter of interest (see Shares Issued in Payment of Interest on Outstanding Convertible Debentures above);

- a non-cash accretion expense of $51,164 for accounting purposes related to the convertible debentures issued on August 9, 2013 (see Additional information with respect to accounting for August 2013 Private Placement, below);
- an increase in interest income of $4,359 due to higher overall cash balances during the period relating to the July 2014 financing (see Private Placement above);
- a favorable net variance on foreign exchange transactions during the period of $3,950.

Loss and comprehensive loss for the quarter

The Corporation recorded a loss of $734,345, or $0.01 per share, for the three-month period ended September 30, 2014, an increase of $501,230 from the loss of $233,115, or $0.00 per share, for the same period in 2013. No significant factors, other than those described above, contributed to the change in the loss for the periods.

6.3 Cash Flows

Cash totalled $2,122,767 as at September 30, 2014, compared with $426,146 as at June 30, 2014. The cash balance at September 30, 2014 reflected the closing, in July 2014, of the non-brokered private placement financing (see Private Placement above).

Operating Activities

For the quarter ended September 30, 2014, cash flow required for operating activities amounted to ($1,007,414), compared with ($410) required in the same quarter for 2013, representing an increase of $1,007,004 in cash used in the operating activities, primarily due to the higher loss in the quarter and a net decrease on non-cash working capital items.

Investing Activities

For the quarter ended September 30, 2014, cash flow required for investing activities totalled $39,139, compared with $98,138 required for the same period in 2013, a difference of $58,999. This decrease in the funds required for investing activities relates to lower spending for new patent registrations during the period.

Financing Activities

For the quarter ended September 30, 2014, cash flow from financing activities totalled $2,743,174 compared to a cash flow from financing activities for the same period in 2013 of $1,174,602. Financing activities in the quarter ended September 30, 2014 relates to the closing, in July, 2014, of a non-brokered private placement of 20,232,333 Units at $0.15 per unit representing aggregate gross proceeds of $3,034,850, less issuance fees of $289,648 (see Private Placement above).

6.4 Liquidity and operational effectiveness

As noted earlier, in July 2014, the Corporation closed a private placement raising over $3 million. In addition, with the contracted government subsidies (ecoENERGY, and IRAP), collaboration revenues pipeline the Corporation is currently pursuing, favorable tax credits and its rigorous oversight of expenses, the Corporation should be able to continue its current projects.

6.5 Issued Capital

As at November 26, 2014, the number of outstanding common shares, warrants, options and subscription rights are as follows:

- Common shares: 100,494,626;
- Share purchase warrants attached to August 2013 and July 2014 private placements: 25,232,733;
- Share conversion options attached to August 2013 convertible debentures: 10,000,000;
- Board, Officer, Consultant and Employee stock options: 4,070,600;
- Broker subscription rights attached to July 2014 private placement: 741,562.

7.0 OFF BALANCE SHEET ARRANGEMENTS

As at September 30, 2014, the Corporation did not have any off balance sheet arrangements.

8.0 RELATED PARTY TRANSACTIONS

As at September 30, 2014, there were no related party transactions other than those disclosed above relative to the participation of certain insiders in the August 2013 and July 2014 Private Placements, nor were there any off balance sheet agreements.

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 and government assistance.

The Corporation's access to sufficient long-term capital depends on the ability to continue to obtain funds from collaborative agreements, 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, favorable market conditions, and on 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 September 30, 2014, the Corporation had cash of $2,122,767, accounts receivable of $883,958 and tax credit receivables of $357,622 for a total of $3,364,347. The Corporation had short-term financial obligations from accounts payable and accrued liabilities of $748,646 and current portion of long-term debt of $15,555 which totaled $764,201. The liquidity and maturity timing of these assets are adequate for the settlement of the Corporation's short-term (less than one year) financial obligations.

As at September 30, 2014 the Corporation benefited from credit facilities in the form of an operating line of credit of $150,000 bearing interest at prime plus 2% secured by a universal charge on the Corporation's assets to a maximum of $225,000. As at September 30, 2014, this operating line of credit was unused.

10.0 CRITICAL ACCOUNTING POLICIES AND ESTIMATES

10.1 Significant management judgements and estimations

The Corporation's unaudited condensed interim consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"). The full description of accounting policies and estimates are presented in the relevant section of the Corporation's audited financial statements for the year ended June 30, 2014.

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 the accounting for intellectual property

The determination and reflection of the value in the accounts of a biotech company and the accounting for patents related to new technological products or services generally calls for an understanding of the specific underlying science and technology and the benefits that can be derived from the application of the technology, often in very specialized markets. These determinations are normally based on judgments made by the Corporation's management who will use their knowledge of how the ownership rights of a new technology restricts competitors from duplicating or stealing the developing Corporation's ideas and proprietary property. The proof of the technology's intrinsic value is often evidenced by the registration of a patent or patents. In the end, these proprietary rights are what will create value for the Corporation. IAS 38, *Intangible Assets,* states that an intangible asset 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, 2014 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 toward 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 quarter ended September 30, 2014, one patent was deemed to be without value resulting in a write-down included in general and administrative expenses in the amount of $16,522.

10.3 Additional information with respect to accounting for August 2013 Private Placement

In order to continue to fund the advancement of the Corporation's research and development and commercialization efforts, on August 9, 2013, CO_2 Solutions closed a non-brokered private placement of 1,200 units of the Corporation (the "Units") at a price of $1,000 per Unit for aggregate gross proceeds of $1,200,000. Each Unit was comprised of (i) $1,000 principal amount of convertible subordinated redeemable debentures (the "Convertible Debentures") and (ii) 4,167 common share purchase warrants (the "Warrants"). The Convertible Debentures bear interest at a rate of 10% per annum payable annually on June 30. Interest is payable, at the option of the Corporation, in cash or, subject to applicable regulatory approvals, in common shares of the Corporation at a deemed price per share equal to the weighted 20 day market price at the time of payment. The Convertible Debentures are convertible at a conversion price of $0.12 per common share and have a maturity date of June 30, 2016. Each warrant entitles its holder to acquire one common share at a price of $0.15 per common share until June 30, 2016.

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 Convertible Debentures referred to above and the application of IAS 32, the fair value of the liability component of the convertible debentures were calculated to be $572,550, using an implicit rate of 47%. The balance of the gross proceeds of $1,200,000 were prorated over the fair value of the equity components of the Convertible Debentures on a basis of $429,297 being allocated to the conversion option component and $198,153 being allocated to the warrants component. These fair values of the equity components of the Convertible Debentures were calculated using the Black-Scholes Option pricing model based on the following assumptions:

Share price	$ 0.12
Risk-free interest rate	1.25%
Expected volatility	96%
Annual dividend yield	Nil
Expected life	2.89 years

10.4 Additional information with respect to accounting for July 2014 Private Placement

On July 17, 2014, the Corporation announced the closing of a Private Placement. In total, the Corporation issued 20,232,333 Units at $0.15 per unit representing aggregate gross proceeds of $3,034,850. Each Unit was comprised of one common share and one common share purchase warrant. Each warrant entitles its holder to acquire one additional common share of the Corporation at a price of $0.25 per common share until July 3, 2017.

In connection with this Private Placement closed on July 17, 2014, the Corporation paid an agent a cash commission of $136,235 and issued 741,562 non-transferable broker units having a fair value of $65,257, entitling the agent to purchase 741,562 units at a price of $0.15 per unit until July 3, 2017. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles its holder to acquire one additional common share of the Corporation at a price of $0.25 per common share until July 3, 2017.

The following table shows the changes in the Corporation's subscription rights during the three-month period ended September 30, 2014:

	Three-month period ended September 30, 2014	
	Number	Average strike price $
Outstanding – Beginning of period	-	-
Issued	741,562	0.15
Outstanding – End of period	741,562	0,15

The fair value of the subscription rights is determined according to the Black-Scholes option pricing model and the binomial distribution methods based on the following weighted average assumptions:

	For the three-month period ended September 30, 2014
Share price	$0.101
Risk-free interest rate	1.14%
Expected volatility	91%
Annual dividend yield	Nil
Expected life	3 years
Weighted average fair value of each unit granted	$0.088

11.0 NEW ACCOUNTING STANDARDS

There has been no change in future accounting changes from those previously described in the Corporation’s June 30, 2014 Consolidated Financial Statements except for the following:

IFRS 9 Financial Instruments was issued by the IASB in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. Requirements relating to hedge accounting representing a new hedge accounting model have also been added to IFRS 9. The mandatory effective date for IFRS 9, which is to be applied retrospectively, would be annual periods beginning on or after January 1, 2018. The Corporation is currently assessing the impact of adopting IFRS 9 on its financial statements.

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, 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 risks and uncertainties described in CO_2 Solutions most recent Annual Report and MD&A under the heading "Risk Factors and Uncertainties".

13.0 DISCLOSURE AND INTERNAL CONTROLS

As at September 30, 2014, 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 September 30, 2014, an evaluation of the design and operating effectiveness of internal controls over financial reporting, as defined in the rules of the Canadian Securities Administrators, was carried out to provide reasonable assurance regarding the reliability of financial reporting and financial statement compliance with IFRS. Based on that evaluation, the President and Chief Executive Officer and the 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 Canadian Securities Administrators. 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 period ended September 30, 2014, that have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

14.0 AUDITORS

The Corporations external auditors, PricewaterhouseCoopers LLP, have audited the consolidated financial statements for the year ended June 30, 2014, and have expressed an opinion thereon. This Management's Discussion and Analysis and the condensed interim consolidated financial statements for the three-month periods ended September 30, 2014, and 2013, have not been audited nor reviewed by the Corporation's external auditors.

15.0 ADDITIONAL AND CONTINUOUS DISCLOSURE

This analysis was prepared on November 26, 2014. Additional disclosure is provided on the SEDAR web site 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