CO_2 Solutions Inc.

Consolidated Financial Statements
June 30, 2013 and 2012
(expressed in Canadian dollars)

September 26, 2013

Independent Auditor's Report

To the Shareholders of
CO_2 Solutions Inc.

We have audited the accompanying consolidated financial statements of CO_2 Solutions Inc., which comprise the consolidated statements of financial position as at June 30, 2013 and June 30, 2012 and the consolidated statements of changes in shareholders' equity, comprehensive loss and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of CO_2 Solutions Inc. as at June 30, 2013 and June 30, 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP[1]

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

CO_2 Solutions Inc.
Consolidated Statements of Financial Position

(expressed in Canadian dollars)

	As at June 30, 2013	As at June 30, 2012
	$	$
ASSETS		
Current assets		
Cash	**348,259**	2,887,270
Accounts receivable (note 6)	**888,255**	108,863
Tax credits receivable	**301,702**	1,723,233
Prepaid expenses	**36,313**	21,652
	1,574,529	4,741,018
Non-current assets		
Property, plant and equipment (note 7)	**174,014**	201,343
Patents (note 8)	**938,582**	774,202
	2,687,125	5,716,563
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**455,499**	678,851
Short-term portion of refundable contribution (note 10)	**30,181**	–
	485,680	678,851
Non-current liabilities		
Refundable contribution (note 10)	**205,404**	231,479
Deferred credits (note 11)	**31,038**	37,453
Advance from a shareholder with significant influence (note 12)	**–**	475,000
	722,122	1,422,783
SHAREHOLDERS' EQUITY		
Capital stock (note 13)	**18,868,074**	18,771,401
Stock options (note 14)	**643,458**	602,871
Warrants (note 13)	**768,903**	889,163
Contributed surplus	**3,130,985**	2,933,429
Deficit	**(21,446,417)**	(18,903,084)
	1,965,003	4,293,780
	2,687,125	5,716,563

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

Approved by the Board of Directors

Evan Price
Director

Glenn Kelly
Director

CO_2 Solutions Inc.

Consolidated Statements of Changes in Shareholders' Equity

For the years ended June 30, 2013 and 2012

(expressed in Canadian dollars)

	Capital stock $	Stock options $	Warrants $	Contributed surplus $	Deficit $	Total $
Balance as at July 1, 2012	18,771,401	602,871	889,163	2,933,429	(18,903,084)	4,293,780
Stock-based compensation costs	–	114,443	–	–	–	114,443
Stock options expired	–	(73,856)	–	73,856	–	–
Consultant fees in consideration of warrants	–	–	3,440	–	–	3,440
Warrants cancelled	–	–	(123,700)	123,700	–	–
Share capital issuance	100,000	–	–	–	–	100,000
Share issue expenses	(3,327)	–	–	–	–	(3,327)
Loss and comprehensive loss for the year	–	–	–	–	(2,543,333)	(2,543,333)
Balance as at June 30, 2013	**18,868,074**	**643,458**	**768,903**	**3,130,985**	**(21,446,417)**	**1,965,003**

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

CO_2 Solutions Inc.

Consolidated Statements of Changes in Shareholders' Equity (continued)

For the years ended June 30, 2013 and 2012

(expressed in Canadian dollars)

	Capital stock $	Stock options $	Warrants $	Contributed surplus $	Deficit $	Total $
Balance as at July 1, 2011	15,684,667	608,713	79,028	2,718,295	(17,247,261)	1,843,442
Stock-based compensation costs	–	209,292	–	–	–	209,292
Stock options expired	–	(215,134)	–	215,134	–	–
Consultant fees in consideration of warrants	–	–	41,232	–	–	41,232
Share capital issuance (Private Placement)	4,347,391	–	–	–	–	4,347,391
Brokers fees in consideration of warrants (Private Placement)	(120,007)	–	120,007	–	–	–
Share issue expenses	(491,754)	–	–	–	–	(491,754)
Warrants attached to new shares (Private Placement)	(648,896)	–	648,896	–	–	–
Loss and comprehensive loss for the year	–	–	–	–	(1,655,823)	(1,655,823)
Balance as at June 30, 2012	**18,771,401**	**602,871**	**889,163**	**2,933,429**	**(18,903,084)**	**4,293,780**

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

CO_2 Solutions Inc.
Consolidated Statements of Comprehensive Loss
For the years ended June 30, 2013 and 2012

(expressed in Canadian dollars)

	2013	2012
	$	$
Revenues		
Collaborative research and development	**754,536**	1,050,216
Costs and operating expenses		
Research and development expenses, net	**1,001,669**	737,609
Business development expenses	**679,391**	556,689
General and administrative expenses	**1,629,756**	1,477,435
Financial income, net	**(12,947)**	(65,694)
	3,297,869	2,706,039
Loss and comprehensive loss for the year (note 17)	**2,543,333**	1,655,823
Basic and diluted loss per share (note 15)	**0.03**	0.02

The accompanying notes are an integral part of these consolidated financial statements and Note 17 provides additional information on loss and comprehensive loss.

CO_2 Solutions Inc.
Consolidated Statements of Cash Flows
For the years ended June 30, 2013 and 2012
(expressed in Canadian dollars)

	2013	2012
	$	$
OPERATING ACTIVITIES		
Loss and comprehensive loss for the year	**(2,543,333)**	(1,655,823)
Adjustments		
Depreciation and amortization	**110,625**	78,993
Consultant fees in consideration of warrants	**3,440**	41,232
Gain on refundable contribution	**–**	(13,480)
Interest expense on refundable contribution	**4,106**	7,724
Stock-based compensation costs	**114,443**	209,292
Write-off of federal tax credits receivable (note 22)	**1,085,683**	–
Elimination of advance from a shareholder with significant influence (note 12)	**(475,000)**	–
	(1,700,036)	(1,332,062)
Change in non-cash working capital items		
Accounts receivable	**(779,392)**	556,652
Tax credits receivable	**335,848**	(502,436)
Prepaid expenses	**(14,661)**	31,033
Accounts payable and accrued liabilities	**(123,352)**	219,278
	(581,557)	304,527
Cash flows from operating activities	**(2,281,593)**	(1,027,535)
INVESTING ACTIVITIES		
Term deposits	**–**	187,628
Additions to property, plant and equipment	**(19,834)**	(19,912)
Amounts capitalized to patents	**(236,679)**	(392,829)
Deferred credits	**2,422**	12,988
Cash flows from investing activities	**(254,091)**	(212,125)
FINANCING ACTIVITIES		
Refundable contribution	**–**	138,180
Shares and warrants issued	**–**	4,347,391
Share issue expenses	**(3,327)**	(491,754)
Cash flows from financing activities	**(3,327)**	3,993,817
Net increase (decrease) in cash	**(2,539,011)**	2,754,157
Cash-Beginning of year	**2,887,270**	133,113
Cash-End of year	**348,259**	2,887,270
Interest income received	**18,636**	33,491
Income taxes paid	**–**	–
Accounts payable and accrued liabilities paid by issuance of shares	**100,000**	–

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

1- GOVERNING STATUTE AND NATURE OF OPERATIONS

CO_2 Solutions Inc. (the “Company”), incorporated under Part 1A of the Companies Act (Quebec) and now governed by the Business Corporations Act (Quebec), is a high technology enterprise involved in the capture and management of carbon dioxide (CO_2). More specifically, the Company is currently focused on commercializing an enzyme-based enabling technology for efficient CO_2 capture from fossil fuel-power plants and other large emitters of CO_2. The Company intends to continue its research and development and commercialization efforts. The Company's operations are subject to all the inherent risks related to running an emerging high technology company, 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 Company is listed on the TSX Venture Exchange (TSXV:CST) and is incorporated and domiciled in Canada.

The Company's registered head office is located at 2300 Rue Jean-Perrin, Québec, Quebec, Canada, G2C 1T9.

2- BASIS OF PREPARATION

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

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

These consolidated financial statements have been approved by the Company’s Board of Directors on September 26, 2013.

3- SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The Company earns its income essentially from clients based in Canada, the United States and Europe. The Companies tangible and intangible assets are located in Canada.

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

The Company has no financial instruments at fair value through profit or loss nor available-for-sale investments.

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

Financial liabilities at amortized cost – Financial liabilities include accounts payable and accrued liabilities, advance from a shareholder with significant influence and refundable contribution and are initially recognized at the amount required to be paid less, when material, a discount to reduce the payable to fair value. Subsequently, they are measured at amortized cost using the effective interest method.

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

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

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. As at June 30, 2013, there were no assets that were deemed to be impaired.

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

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

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

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

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

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

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

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

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

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

Research and development expenses
Expenses related to research and development are expensed as incurred. Development expenses which meet generally accepted capitalization criteria are deferred and amortized. As at June 30, 2013 and 2012, no development costs had been deferred or capitalized except as otherwise stated for the patents as described above.

Capital stock and warrants
Capital stock and warrants are classified as shareholders' equity. The Company allocates the proceeds from an equity financing between common shares and warrants based on the relative fair value of each instrument using the Black-Scholes pricing model.

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

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

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

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

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

If a grant is received and expenses related to this grant are not yet incurred, the grant is recorded as a deferred grant until expenses are incurred.

The gain from the receipt of the government non-interest bearing loan is accounted for in the year the loan is received as gain on refundable contribution and is reported in Financial income, net in the Consolidated Statements of Comprehensive Loss.

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

Income Tax
Income tax expenses comprise current and deferred income taxes. Income taxes are recognized in the Consolidated Statements of Comprehensive Loss except to the extent that it relates to items recognized directly in other comprehensive income or directly in equity, in which case the income taxes are also recognized directly in other comprehensive income or equity, respectively.

a) Current Income Taxes

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

b) Deferred Income Taxes

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

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

Deferred tax liabilities are generally recognized for all taxable temporary differences and for taxable temporary differences arising on investments in subsidiaries, except where the reversal of the temporary differences can be controlled and it is probable that the differences will not reverse in the foreseeable future. However, deferred tax is not recognized if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss.

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

Foreign currency translation

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

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

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

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

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

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

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

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

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

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

4- NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET IN EFFECT

The IASB issued the following standards which are currently relevant but have not yet been adopted by the Company: IFRS 7, Financial Instruments: Disclosures, IFRS 9, "Financial instruments", IFRS 10, "Consolidated Financial Statements", and IFRS 13, "Fair Value Measurement". Unless otherwise noted, each of the new standards is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated financial statements or whether to early adopt any of the requirements.

The following is a brief summary of the new standards:

IFRS 7 – Financial Instruments: Disclosures
IFRS 7 has been amended to enhance disclosure requirements related to offsetting of financial assets and liabilities. The amendments are applicable retrospectively for annual periods beginning on or after January 1, 2013. The Company has determined there is no impact related to the application of this standard.

IFRS 9 – Financial Instruments – Classification and Measurement
IFRS 9 was originally issued in November 2009. It addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39, ''Financial Instruments: Recognition and Measurement'', for debt instruments with a new mixed measurement model with only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are recognized at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, being recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010. They largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit or loss would generally be recorded in other comprehensive income.

The application of IFRS 9 is required for accounting periods beginning on or after January 1, 2015, with earlier adoption permitted.

IFRS 10 – Consolidated Financial Statements
IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 "Consolidation – Special Purpose Entities" and parts of IAS 27 "Consolidated and Separate Financial Statements".

IFRS 13 – Fair Value Measurement
IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

5- SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The judgments that have a significant risk of causing material adjustments to the Company's consolidated financial statements are listed below. There were no areas where assumptions and estimates are significant to the consolidated financial statements.

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

Revenue recognition

The nature of the Company's business is such that many revenue transactions do not have a simple structure. Revenue agreements may consist of multiple components occurring at different times. The Company is also party to agreements which can involve upfront and milestone payments that may occur over several periods. These agreements may also involve certain future obligations. Revenues are only recognized when, in management's judgment, the significant risks and rewards of ownership have been transferred or when the obligation has been fulfilled. For some transactions, this can result in cash receipts being initially recognized as deferred income and then released to income over subsequent periods on the basis of the performance of the conditions specified in the agreement. Management's judgment for revenue recognition is mainly based on contractual clauses in regards to amounts and obligations. For the years ended June 30, 2013 and 2012, there was no deferred income recognized nor future obligations related to recognized revenues. Contract agreements also provide that payments are not refundable. Invoiced amounts are determined relative to contract agreements in regards to the required obligations and revenue is recognized accordingly.

Government assistance and tax credits

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

Impairment of assets with definite useful lives

All assets, including intangible assets (predominately patents-as described in Note 3) are reviewed for an indication of impairment at each statement of financial position date. If, in the judgment of management, an indication of impairment exists, the asset's recoverable amount is estimated. Factors such as changes in the planned use of production unit, laboratory equipment, or the presence or absence of technical obsolescence could result in shortened useful lives or impairment. An impairment loss, if any, is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. As of June 30, 2013 and June 30, 2012, management determined that there were no impaired assets.

6- ACCOUNTS RECEIVABLE

	As at June 30, 2013	As at June 30, 2012
	$	$
Trade accounts receivable and others	**2,952**	6,649
Government assistance receivable	**830,834**	1,018
Commodity taxes receivable	**54,469**	101,196
	888,255	108,863

7- PROPERTY, PLANT AND EQUIPMENT

	Laboratory equipment and layout	Office equipment	Computer equipment	Leasehold improvements	Total
	$	**$**	**$**	**$**	**$**
Cost					
Balance as at July 1, 2011	735,979	131,458	66,670	31,674	965,781
Acquisitions	7,896	–	8,151	3,865	19,912
Balance as at June 30, 2012	743,875	131,458	74,821	35,539	985,693
Acquisitions	15,836	–	3,998	–	19,834
Balance as at June 30, 2013	759,711	131,458	78,819	35,539	1,005,527
Accumulated depreciation					
Balance as at July 1, 2011	(576,040)	(102,511)	(34,278)	(18,663)	(731,492)
Depreciation expense	(32,975)	(5,789)	(10,733)	(3,361)	(52,858)
Balance as at June 30, 2012	(609,015)	(108,300)	(45,011)	(22,024)	(784,350)
Depreciation expense	(29,350)	(4,632)	(9,627)	(3,554)	(47,163)
Balance as at June 30, 2013	(638,365)	(112,932)	(54,638)	(25,578)	(831,513)
Net book value					
June 30, 2012	134,860	23,158	29,810	13,515	201,343
June 30, 2013	121,346	18,526	24,181	9,961	174,014

8- PATENTS

	$
Cost	
Balance as at July 1, 2011	718,668
Costs incurred	392,829
Abandoned	(110,424)
Balance as at June 30, 2012	1,001,073
Cost incurred	236,679
Abandoned	(26,288)
Balance as at June 30, 2013	1,211,464
Accumulated amortization	
Balance as at July 1, 2011	(300,258)
Amortization expense	(37,037)
Abandoned	110,424
Balance as at June 30, 2012	(226,871)
Amortization expense	(72,299)
Abandoned	26,288
Balance as at June 30, 2013	(272,882)
Net book value	
June 30, 2012	774,202
June 30, 2013	938,582

9- BANK LOAN

As of June 30, 2013, the Company has an available unused authorized line of credit of $150,000, bearing interest at prime rate plus 2% and secured by a universal charge on the Company's assets to a maximum of $225,000. The Company must comply with certain financial ratios and the agreement is renewable annually. As at June 30, 2013, the Company was in compliance with all required ratios.

10- REFUNDABLE CONTRIBUTION

The Company obtained from Economic Development of Canada a refundable contribution of $250,000 of which $111,820 was received on March 31, 2011 and balance of $138,180 was received on February 7, 2012. This contribution is refundable starting in July 2013 with annual payments representing 4% of the Company's total annual revenues up to the total of the refundable contribution. The last payment is due and payable when ten (10) full years have passed since the date of the first payment. The total loan of $250,000 was accrued at initial recognition at fair value, using an estimated capitalization rate of 5%. The difference between the initial fair value and the principal amount of the loan was accounted for as gain on refundable contribution and was reported in Financial income, net in the Consolidated Statements of Comprehensive Loss for $13,480 in 2012. Interest expense is recorded in the Consolidated Statements of Comprehensive Loss for $4,106 in

2013 and $7,724 in 2012. As at June 30, 2013, the short-term portion payable is estimated at $30,181.

11- DEFERRED CREDITS

	Government assistance	Tax credits	Total
	$	$	$
Cost			
Balance as at July 1, 2011	33,485	171,062	204,547
Increase	–	12,988	12,988
Balance as at June 30, 2012	33,485	184,050	217,535
Increase	–	2,422	2,422
Balance as at June 30, 2013	33,485	186,472	219,957
Accumulated amortization			
Balance as at July 1, 2011	(29,075)	(140,105)	(169,180)
Amortization	(882)	(10,020)	(10,902)
Balance as at June 30, 2012	(29,957)	(150,125)	(180,082)
Amortization	(706)	(8,131)	(8,837)
Balance as at June 30, 2013	(30,663)	(158,256)	(188,919)
Net book value			
June 30, 2012	3,528	33,925	37,453
June 30, 2013	2,822	28,216	31,038

12- ADVANCE FROM A SHAREHOLDER WITH SIGNIFICANT INFLUENCE

Prior to June 30, 2013, the Company had a $475,000 advance from a shareholder with significant influence, bearing no interest and payable under certain conditions and uncertain duration. Pursuant to the amended and restated Joint Development Agreement (JDA) with that shareholder in May 2013, potential refund of this advance was extinguished. Therefore, the liability was reversed from the accounts of the Company and taken into Collaborative research and development revenues.

13- 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 Company's capital stock during the years ended June 30, 2013 and 2012.

	June 30, 2013		June 30, 2012	
	Number	**$**	Number	$
Beginning balance	**79,187,836**	**18,771,401**	60,286,136	15,684,667
Share issue from				
Debt settlement	**500,000**	**96,673**	–	–
Private Placement	**–**	**–**	18,901,700	3,086,734
Ending balance	**79,687,836**	**18,868,074**	79,187,836	18,771,401

The following table shows the changes in the Company's warrants during the years ended June 30, 2013 and 2012:

	June 30, 2013		June 30, 2012	
	Number	**Average strike price**	Number	Average strike price
		$		$
Outstanding-Beginning of year	**11,773,968**	**0.28**	1,000,000	0.24
Issued	**–**	**–**	10,773,968	0.28
Cancelled	**(1,000,000)**	**0.24**	–	–
Outstanding-End of year	**10,773,968**	**0.28**	11,773,968	0.28

The outstanding warrants at the beginning of year 2012 are those issued in connection with an agreement concluded in December 2009 with a consultant. They have a fair value of $123 700, give the right to acquire one common share for $0.24 and expire in August 2013. Related expense is amortized over 36 months as research and development fees. Pursuant to a renewal of this agreement concluded in December 2012, these warrants have been cancelled. On August 31, 2011, the Company closed a brokered private placement of 18,901,700 units at a price of $0.23 per unit. Each unit consists of one common share of the Company and one-half share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share of the Company at a price of $0.28 per common share until August 31, 2013. Expenses related to the issue of these warrants were applied against the net proceeds of the private placement.

14- STOCK OPTIONS

The Company has a stock option plan for directors, executives, employees and consultants. All the options granted under the terms of the plan may be exercised within a maximum five-year period commencing on the date of grant. The Board of Directors designates those individuals eligible to receive options and determines the number of common shares involved in each of these options, the vesting date, the exercise price, the expiry date, the terms of acquisition and any restrictions on the exercise of the options. The share acquisition price must not be less than the closing price on the day prior to the date of grant of these shares.

Under the terms of the plan, the maximum number of common shares available to be issued under the plan cannot exceed 10% of the issued and outstanding shares of capital stock. As at June 30, 2013, this amount is currently established at 7,968,784. The maximum number that may be granted to a director, executive or employee of the Company or to a consultant cannot exceed 5% of all the outstanding common shares.

The following table summarizes information about outstanding and exercisable stock options for the years ended June 30, 2013 and 2012:

	For the year ended June 30, 2013		For the year ended June 30, 2012	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
		$		$
Outstanding-Beginning of year	**5,011,530**	**0.19**	4,830,840	0.22
Granted	**1,574,500**	**0.11**	957,890	0.21
Forfeited[1]	**(344,492)**	**0.21**	–	–
Expired	**(628,400)**	**0.17**	(777,200)	0.42
Outstanding-End of year	**5,613,138**	**0.16**	5,011,530	0.19
Exercisable-End of year	**5,110,938**	**0.17**	4,081,572	0.18

[1] Unvested options forfeited upon departure of President & CEO.

As at June 30, 2013, 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
	$			$
10,000	0.30	0.17	10,000	0.30
1,759,140	0.18	0.17	1,759,140	0.18
10,000	0.19	0.33	10,000	0.19
296,700	0.16	1.33	296,700	0.16
450,000	0.17	2.67	450,000	0.17
350,000	0.18	0.17	350,000	0.18
150,000	0.20	1.83	150,000	0.20
25,000	0.31	2.92	25,000	0.31
25,000	0.24	3.08	25,000	0.24
413,400	0.21	3.42	369,200	0.21
170,998	0.21	0.17	170,998	0.21
380,900	0.20	2.42	355 900	0.20
622,000	0.10	4.42	314,000	0.10
200,000	0.10	4.50	75,000	0.10
750,000	0.12	4.92	750,000	0.12
5,613,138	0.16	2.15	5,110,938	0.17

Options issued prior to November 2009 vest as follows: 20% upon signing and the remaining 80% is gradually acquired at the rate of 20% per year, over 4 years, except for the President & CEO whose vesting period is 100% upon the date of the grant, as well as for consultants for which the expenses are recognized when services are rendered.

Options issued after November 2009 vest gradually at the rate of 25,000 options every 6 months, up to a maximum period of 3 years, except for the President & CEO and the Chairman of the Board of Directors whose vesting period was 100% immediately at the date of the grant for the May 23, 2013 grant and for the Senior Vice-President Finance and CFO whose vesting period in regard to the March 2011 award was 112,500 options vested immediately at the date of the grant and 112,500 every 6 months thereafter up to a maximum period of 3 years.

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

	Employees, directors and executives	
	For the year ended June 30, 2013	For the year ended June 30, 2012
Share price	**$ 0.107**	$ 0.211
Risk-free interest rate	**1.40%**	1.34%
Expected volatility	**106%**	99%
Annual dividend yield	**Nil**	Nil
Expected life	**5 years**	5 years
Weighted average fair value of each option granted	**$ 0.069**	$ 0.156

15- LOSS PER SHARE

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

	For the year ended June 30, 2013	For the year ended June 30, 2012
Basic and fully diluted weighted average number of shares outstanding	**79,427,562**	76,028,922

For the years ended June 30, 2013 and 2012, the diluted loss per share was the same as the basic net loss per share since the dilutive effect of stock options and warrants was not included in the calculation; otherwise the effect would have been anti-dilutive. Accordingly, the diluted loss per share for those years was calculated using the basic weighted average number of shares outstanding.

16- TRANSACTIONS WITH DIRECTORS AND EXECUTIVE OFFICERS

The following table sets out the remuneration paid for the years 2013 and 2012 to directors and executive officers of the Company who are considered as key personnel:

	For the years ended June 30,	
	2013	2012
	$	$
Short-term employee benefits	**935,387**	728,625
Directors fees and payments for attendance at Board meetings	**138,027**	86,868
Stock-based compensation	**106,723**	172,195
Defined contribution pension plan	**17,368**	11,159
	1,197,505	998,847

17- LOSS AND COMPREHENSIVE LOSS

	For the years ended June 30, 2013 $	2012 $
Revenues		
Collaborative research and development	**754,536**	1,050,216
Costs and operating expenses		
Research and development expenses, net		
Salaries, employee benefits and other compensation	**788,193**	782,342
Stock-based compensation costs	**19,446**	31,003
Professional fees	**335,295**	578,346
Laboratory and other supplies	**90,064**	114,301
	1,232,998	1,505,992
Tax credits	**(342,465)**	(767,365)
Write-off of federal tax credits receivable (note 22)	**1,085,683**	–
Government assistance	**(974,547)**	(1,018)
	1,001,669	737,609
Business development expenses		
Salaries, employee benefits and other compensation	**426,178**	351,955
Stock-based compensation costs	**24,435**	66,379
Professional fees	**157,466**	54,397
Travel, entertainment, advertising and office expenses	**71,312**	83,958
	679,391	556,689
General and administrative expenses		
Salaries, employee benefits and other compensation	**531,997**	472,877
Stock-based compensation costs	**70,562**	111,910
Rent, electricity, taxes and insurance	**184,390**	183,740
Office expenses	**65,759**	71,906
Travel, entertainment and advertising	**65,061**	79,056
Tax on capital	**(7,780)**	7,273
Directors' fees	**138,027**	86,868
Professional fees	**471,115**	384,812
Depreciation of property, plant and equipment	**47,163**	52,858
Amortization of patents	**72,299**	37,037
Amortization of deferred credits	**(8,837)**	(10,902)
	1,629,756	1,477,435
Financial income, net		
Gain on refundable contribution	**–**	(13,480)
Other financial expenses	**7,658**	12,841
Interest income	**(18,636)**	(33,491)
Foreign exchange income	**(1,969)**	(31,564)
	(12,947)	(65,694)
	3,297,869	2,706,039
Loss and comprehensive loss for the years	**2,543,333**	1,655,823

18- INCOME TAXES

Current tax expense:

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

	2013 $	2012 $
Income tax expenses at the combined statutory tax rate of 26,9 % (27,65 % in 2012)	**(606,970)**	(457,696)
Difference between statutory and future tax rates	**–**	11,432
Related differences in tax rates of CO2 Solution Technologies Inc.	**–**	31,053
Non-deductible expenses	**35,369**	74,261
Non-taxable items	**29,498**	(48,772)
Change in unrecognized deferred tax assets	**587,417**	587,881
Items not affecting earnings	**(17,219)**	(135,970)
Other	**(28,095)**	(62,189)
	–	–

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

Deferred Income Taxes:

Recognized deferred tax assets and liabilities:

	2013 $	2012 $
Deferred tax assets		
Non-capital losses	**182,058**	223,959
Deferred tax liabilities		
Intangible assets	**(179,319)**	(172,162)
R&D tax credits receivable	**–**	(51,797)
Interest expense on refundable contribution	**(2,739)**	–
	(182,058)	(223,959)
Deferred tax, net	**–**	–

Unrecognized deferred tax assets:

	2013 $	2012 $
Property, plant and equipment	**201,901**	194,086
Research and development expenses	**1,315,253**	1,100,218
Non-capital losses	**2,771,832**	2,378,475
Financing expenses	**86,926**	115,727
Unrecognized deferred tax assets	**4,375,912**	3,788,506

As at June 30, 2013, the amounts and expiry dates of tax attributes for which no deferred tax assets is recognized are as follows:

	2013	
	Canada	
	Federal	Provincial
	$	$
Research and development expenses, without limitation	3,538,457	8,959,400
Losses carried forward:		
2015	733,302	611,510
2026	719,598	353,344
2027	484,674	427,712
2028	1,065,210	1,016,654
2029	1,501,075	962,743
2030	1,924,377	1,913,390
2031	1,404,942	1,404,003
2032	1,835,277	1,818,028
2033	1,736,940	1,488,762
	11,405,395	9,996,146

The Company is entitled to a non-refundable federal tax credit of approximately $1,009,331. This credit can be applied against future years' taxable income and will expire at the latest in 2033.

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

	2013	2012
	$	$
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months	**167,263**	172,162
Deferred tax assets to be recovered within 12 months	**14,795**	51,797
	182,058	223,959
Deferred tax liabilities:		
Deferred tax liability to be recovered after more than 12 months	**(167,263)**	(172,162)
Deferred tax liability to be recovered within 12 months	**(14,795)**	(51,797)
	(182,058)	(223,959)
Deferred tax assets (liabilities) net	**–**	–

19- FINANCIAL INSTRUMENTS

Financial risk

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

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

The Company attempts to minimize its credit risk on cash by entering into agreements only with high-credit quality financial institutions. Generally, the Company does not require collateral or other security from Collaborative Partners for trade accounts receivable and government assistance receivable, since Collaborative Partners are generally government agencies or large financially sound international corporations. As at June 30, 2013 and 2012, no trade accounts receivable were past due or impaired.

Liquidity risk
Liquidity risk is the risk that the Company may be unable to fulfill its financial obligations related to financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidities to meet liabilities when due. As at June 30, 2013, the Company had cash and available bank line of credit for a total amount of $498,259 ($3,037,270 in 2012) to settle current liabilities of $485,680 ($678,851 in 2012).

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

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

As at June 30, 2013 and June 30, 2012, the Company's exposure to interest rate risk is summarized as follows:

Cash	Variable interest rate
Accounts receivable	Non-interest bearing
Accounts payable and accrued liabilities	Non-interest bearing
Refundable contribution	Non-interest bearing
Advance from a shareholder with significant influence	Non-interest bearing

The sensitivity to a ± 1% change in interest rates as at June 30, 2013 would have no material effect on the Consolidated Statements of Comprehensive Loss.

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

Because the Company does business internationally, it is exposed to currency risks as a result of potential exchange rate fluctuations related to non-intragroup transactions. Fluctuations in the Canadian dollar, US dollar and Euro exchange rates could have an impact on the Company’s results of operations. Foreign exchange risk arises on recognized assets and liabilities, principally cash, trade receivables and trade payables.

Foreign exchange risk arises when future recognized assets or liabilities are denominated in a currency that is not the entity's functional currency. The Company does not currently use derivative instruments to hedge its foreign currency risk; however it may consider doing so in the future. The sensitivity to a ±5%

change to the US dollar or the Euro exchange rates as at June 30, 2013 would have no material effect on the Consolidated Statements of Comprehensive Loss.

20- CAPITAL MANAGEMENT

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

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

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

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

The total capital as at June 30, 2013 and 2012 is calculated as follows:

	2013	2012
	$	$
Long-term debt	**236,442**	743,932
Short-term portion of refundable contribution	**30,181**	–-
	266,623	743,932
Shareholders' Equity	**1,965,003**	4,293,780
Total Capital	**2,231,626**	5,037,712

21- COMMITMENTS

Royalties

Following a sales technology agreement dated May 21, 1998, and amended March 3, 2004, the Company reached agreement with a former director having at that time a controlling interest in the Company to pay him a royalty corresponding to 5% of cumulative gross earnings exceeding $5,000,000 on sales of products (excluding revenues from Collaborative Agreements). The maximum amount of royalties has been set at $1,000,000 for the period ending January 1, 2021. Under the terms of the agreement, no payments have become due up to June 30, 2013.

Lease agreement

The Company has entered into a lease agreement for its office premises expiring in February 2015, which calls for lease payments of $239,704. Minimum payments for the next years are $151,392 in 2014 and $88,312 in 2015.

22- CONTINGENCIES

In July 2010, a draft notice of assessment from the Canada Revenue Agency (CRA) was received by CO_2 Solution Technologies Inc. questioning its status as a Canadian-controlled private corporation (CCPC). CO_2 Solution Technologies Inc. is a consolidated variable interest entity. The draft assessment focused on the fiscal year ended June 30, 2009 and, as a consequence, research and development tax credits claimed by CO_2 Solution Technologies Inc. for that year and subsequent years included on the Company's balance sheet as at June 30, 2009, 2010 and 2011 have not been paid by CRA, and credits to be claimed for the year ended June 30, 2012 could be affected as well as the amounts recorded in the three-month period ended September 30, 2012. In the opinion of CO_2 Solution Technologies Inc. and the Company's management, these credits are receivable according to the CCPC status of CO_2 Solution Technologies Inc., and the Company's position was that the draft notice of assessment was unfounded and that CO_2 Solution Technologies Inc.'s position would ultimately prevail. Under the circumstances, up until the fiscal quarter ended September 30, 2012, no provision for the potential non-collectability of these federal tax credits was made in the accounts of CO_2 Solution Technologies Inc. or in the consolidated financial statements of the Company. However, it was recognized in the quarter ended September 2012 that future receipt of these federal tax credits depended on the successful resolution of this matter.

In December 2012, CO_2 Solution Technologies Inc. received a formal assessment related to the claimed 2009 federal tax credits. Canada Revenue Agency formally confirmed their position that CO_2 Solution Technologies Inc. did not qualify for status as a Canadian-controlled private corporation and the assessment indicated that the credits were in fact denied on that basis from fiscal year 2009. Furthermore, legal proceedings that had been before the Canadian Tax Court, relative to another company also assessed by CRA for their CCPC status, was concluded in January 2013 in favor of CRA. Under the circumstances, in the judgment of the management of CO_2 Solution Technologies Inc., the Company can no longer definitively conclude that it will be successful in contesting the CRA assessment received in December 2012 and has determined that the federal tax credits claimed for CO_2 Solution Technologies Inc. fiscal years ended June 30, 2009 through June 30, 2012 and federal tax credits receivable accrued in the Company's accounts in its 2013 fiscal year through December 31, 2012, may not be collectible. Given these new facts, in December 2012, CO_2 Solution Technologies Inc. wrote off the full amount of the federal tax credits receivable amounting to $1,085,683. However, CO_2 Solution Technologies Inc. intends to continue to firmly defend its position.

23- SUBSEQUENT EVENT AND RELATED PARTY TRANSACTIONS

On August 12, 2013, CO_2 Solutions announced the closing of 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 (the "Offering"). Each Unit is 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 will bear interest at a rate of 10% per annum payable annually on the anniversary date of the Convertible Debentures. Interest will be payable, at the option of the Corporation, in cash or, subject to applicable regulatory approvals, in common shares of the Corporation (the "Common Shares") at a deemed price per share equal to the market price at the time of payment. The Convertible Debentures will be convertible at a conversion price of $0.12 per Common Share and will have a maturity date of June 30, 2016. Each Warrant will entitle 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 debenture has been calculated at $572,550, using an implicit rate of 47%. The balance of the gross proceeds of $1,200,000 has been prorated over the fair value of the equity components of the convertible debenture 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

Certain insiders of the Corporation participated in the Offering and subscribed for an aggregate 945 Units representing an aggregate amount of $945,000. Insiders consist of directors and management.