TSXV: CST

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS, AS AT MARCH 31, 2012

ENZYMATIC POWER FOR CARBON CAPTURE

MANAGEMENT'S DISCUSSION AND ANALYSIS
NINE MONTH PERIOD ENDED MARCH 31, 2012

GENERAL

The following is a discussion and analysis of the unaudited consolidated financial condition and results of operations of CO_2 Solutions, Inc. ("**CO_2 Solutions**" or the "**Company**") for the three and nine-month periods ended March 31, 2012 and 2011. The unaudited condensed interim consolidated financial statements referred to herein include the accounts of the Company, its subsidiary companies and other entities, directly or indirectly controlled by the Company. This discussion and analysis should be read in conjunction with the information contained in the unaudited condensed interim consolidated financial statements and related notes for the nine-month period ended March 31, 2012 prepared in accordance with International Financial Reporting Standards and with the Management's Discussion and Analysis for the year ended June 30, 2011, prepared in accordance with Canadian generally accepted accounting principles. The June 30, 2011 Annual Report of CO_2 Solutions and additional information regarding the Company are available on SEDAR at www.sedar.com. Unless otherwise stated, all amounts specified in this report are expressed in Canadian dollars.

The information contained herein is dated as of May 29, 2012, date of the approval by the Board of the MD&A and the unaudited condensed interim consolidated financial statements.

BASIS OF PREPARATION AND ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company is reporting on this basis in these unaudited condensed interim consolidated financial statements. In the financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 "Interim Financial Reporting" and IFRS 1 "First-time Adoption of International Financial Reporting Standards". Subject to certain transition elections disclosed in Note 18, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at July 1, 2010 and throughout all periods presented, as if these policies had always been in effect. As disclosed in Note 18, there is no impact of transition to IFRS on the company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the company's consolidated financial statements for the year ended June 30, 2011.

The policies applied in these unaudited condensed interim consolidated financial statements are based on IFRS effective for the year ending June 30, 2012, as issued and outstanding as of May 29, 2012, which is the date of approval of the unaudited condensed interim consolidated

financial statements by the Company Board of Directors. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending June 30, 2012 could result in restatement of these condensed interim consolidated financial statements, including transition adjustments recognized on change-over to IFRS.

The unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP annual statements for the year ended June 30, 2011.

FORWARD-LOOKING STATEMENTS

All statements in this Management's Discussion and Analysis that are other than statements of historical facts are forward-looking statements which contain the Company's current expectations about its future results. Forward-looking statements, by their nature, involve risks and uncertainties.

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

COMPANY OVERVIEW

CO_2 Solutions is a leading developer of proprietary technologies for carbon dioxide (CO_2) capture and management. More specifically, the Company is focused on commercializing an enzyme-based enabling technology for efficient CO_2 capture for reuse or sequestration, in the short-term from the processing of various industrial gasses and in the longer-term from fossil fuel-power plants and other large stationary emitters of CO_2.

Since its establishment, the Company has worked on developing its technology platform and assembling a broad patent portfolio. To support this effort, it has raised capital, recruited highly-qualified personnel and established strategic partnerships and alliances.

SECTOR AND POTENTIAL MARKET OVERVIEW

The necessity for the reduction in CO_2 emissions has received global attention in the past few years because of accelerating climate change issues. The consensus among the scientific community, the public and our governments is quite clear; the world is getting warmer due to human activity and global warming is accelerating. 70% of global energy demand is currently met through the burning of carbon-based fuels such as coal and natural gas, and this demand is predicted to double by 2035[1]. A central issue to this carbon emissions problem is the fact that large stationary sources of CO_2, such as coal-fired power plants, cement plants, aluminum plants and oil & gas production operations, account for half of all total emissions globally[2]. Globally, there are approximately 8,200 such large industrial sources generating more than 14 billion tons of CO_2 annually, representing half of all worldwide CO_2 emissions from all sources[3].

[1]U.S. Energy Information Administration
[2]International Energy Agency (EA) GHG Program
[3]Ibid

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

In this respect, our third quarter for the fiscal year ending June 30, 2012 continued this positive trend. In addition to applying our technology to the large scale capture from large industrial sources, we have expanded our field of vision for the application of our technology into potential new market applications which may yield shorter term opportunities for the company to exploit. Examples of these opportunities include the use of our technology for the nearer-term carbon capture and reuse, carbon separation and chemical compound production markets.

RECENT DEVELOPMENTS

Government Regulations

Over the past year, certain governments have taken important leadership roles around the issue of reducing carbon emissions. A number of jurisdictions around the world have now established, or are in the process of developing, GHG cap-and-trade programs. Cap and Trade is a market-based system for managing and reducing industrial greenhouse gas (GHG) emissions.

Canadian provinces (British Columbia, Manitoba, Quebec and Ontario) are working with U.S. states (Arizona, California, New Mexico, Oregon, Washington, Utah and Montana) through the Western Climate Initiative (WCI) to design a cap-and-trade system that will support the transition to a low-carbon economy. WCI is a commitment by its member states and provinces to work together to identify, evaluate and implement policies that tackle climate change at a regional level. This work includes designing a broad-based GHG cap-and-trade system. In fact, late in 2011, the California Environmental Protection Agency Air Resources Board (ARB), confirmed the adoption of the final cap-and-trade regulations scheduled to start in 2013 that place a limit on emissions of heat-trapping gases, like carbon dioxide, in the state. Under the program, the emissions cap will decline over seven years and will require that the 600 power plants, refineries and other industrial facilities that emit 85% of the state's greenhouse-gas emissions cut their emissions. The regulation includes rigorous oversight and enforcement provisions, and is designed so that California may link up with programs in other states or Canadian provinces within the Western Climate Initiative referred to above. This announcement came on the heels of the Province of Quebec, announcement of plans to establish its own cap-and-trade system whereby large industrial plants and other significant sources of carbon dioxide and other GHGs would be required to reduce their emissions on an annual basis beginning January 1, 2013. Bill 89, *An Act to Amend the Environment Quality Act in order to reinforce compliance* was passed in Quebec on October 4, 2011, and confirmed the Province was joining the state of California in this effort and becoming the first Canadian province to start enforcing cap-and-trade regulations for carbon emissions.

Earlier in 2011, the Government of Australia announced a carbon tax to be levied as of July, 2012 for each ton of carbon pollution emitted and on Nov. 8, 2011 Australia passed a bill that would cap emissions and allow companies to trade permits.

Recent Governments steps toward regulation

In March 2012, the US government, through the Environmental Protection Agency (EPA), proposed the first rules to cut carbon dioxide emissions from new U.S. power plants. While the proposal does not dictate which fuels a plant can burn, it requires any new coal plants to use technology to capture and store carbon emissions underground.

The EPA's overall clean-air efforts have divided the power industry between companies that have moved toward cleaner energy and those that generate most of their power from coal.

Under the new standards, coal plants could add equipment to capture and bury underground for permanent storage their carbon emissions. The rules give utilities time to get those systems running, by requiring they average the emissions cuts over 30 years. The EPA believes that CCS technology will be ready soon, sighting that this technology is under development and will become commercially available certainly within the next 10 years".

In early May 2012, South Korea also approved a cap-and-trade system as that country seeks support for new restrictions on factories and power plants in the fastest-growing emitter among industrialized democracies. South Korean emissions' trading is scheduled to start in 2015.

Other regions that have such programs in place, or legislation pending, include Japan, New Zealand, Switzerland, the European Union, 20 U.S. states and one other Canadian province.

These government initiatives continue to demonstrate that, despite the current world economic climate, regulation of carbon dioxide pollution is gaining momentum and is now moving from speculation to fact. With CO_2 Solutions patented technology the Company looks forward to supporting worldwide efforts by industry and governments to efficiently meet regulatory requirements for emissions reductions.

Intellectual Property

CO_2 Solutions continues to hold the broadest portfolio of patents in the field of enzyme enhanced carbon capture. As at March 31, 2012 the Company had, 24 patents issued and 46 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. On May 2 2012, the Company announced that it had received the Notice of Allowance from the U.S. Patent and Trademark Office for the issuance of US20100203619, "CO_2 ABSORPTION SOLUTION". The patent will cover the use of carbonic anhydrase (CA) in any form for carbon capture from a gas stream and with any secondary or tertiary amine solvents. This Notice demonstrates the unique nature of the Company's technology, which uses low-energy amine solvents accelerated by CA to cost-effectively capture CO_2 for reuse or sequestration. CO_2 Solutions leading patent position in the use of carbonic anhydrase for efficient carbon capture protects the Company's game-changing technology's position on a worldwide basis. With CO_2 Solutions portfolio of patents, the Company stands to uniquely benefit from the significant potential of this growing global market.

CO_2 Solutions Enzyme Development Partner Announces Important Technical Progress

In August 2011, Codexis, Inc., CO_2 Solutions enzyme development partner reported important technical progress in its carbon capture program at the CO_2 Capture Technology Meeting sponsored by the U.S. Department of Energy/National Energy Technology Laboratory. Codexis, supported by a grant from the DoE's ARPA-E Recovery Act program, is using its

patented CodeEvolver™ directed evolution technology to develop processes to reduce carbon dioxide emissions from coal-fired power plants. The research program is based on development of customized carbonic anhydrase (CA) enzymes that could catalyze carbon capture under industrial conditions. Data showed CA performance has been improved by about two million fold over natural forms of the enzyme. Evolved CA enzymes are functional and stable in relatively inexpensive, energy efficient solvents for 24 hours at temperatures greater than 90^oC. Use of carbon capture solvents with fully developed enzymes is expected to substantially reduce the costs and energy requirements to capture CO_2 produced by coal-fired power plants. Codexis is continuing its joint development of this technology with CO_2 Solutions, Inc. Of particular note was the mention of Codexis' work at the February 2012 ARPA-E Energy Innovation Summit in the keynote presentation discussing ARPA-E's role in meeting 21st century energy needs with American innovation.

Update on Carbon Capture Program with Alcoa

On the process development and engineering front, with respect to the pilot program undertaken jointly with Alcoa, scientists and engineers from the Alcoa Technical Center in Pittsburgh are leading the three-year project, which had an investigation phase that ran through December, 2011. Alcoa received a DOE grant for this project as part of an initiative to find ways of converting captured carbon dioxide emissions from industrial sources into useful products. The continuation of the collaboration agreement with Alcoa has been suspended pending Alcoa's and CO_2 Solutions scientists and engineers completing their techno-economic review of the results of the first phase of the project with a view to determining a work plan for the next phases, and Alcoa's confirming additional DOE funding for the project, including the feasibility of moving to a pilot demonstration phase at an Alcoa manufacturing facility. Working closely with our partner, Procede Group, process modeling and optimization should provide a solid techno-economic basis to pursue this scale-up effort towards this larger scale field testing and ultimate commercial deployment.

OPERATING RESULTS

Comparison between the Three-Month and Nine-Month Periods Ended March 31, 2012 and 2011

Revenues

The Company recorded no revenues for research and development collaborations or product sales for the three-month period ended March 31, 2012 ($718,224 for the same period in 2011). These revenues previously came from the Collaboration Agreements with Alcoa and the Global Leader, such agreements having been successfully completed in the prior fiscal quarter. As noted above, the Company is currently pursuing new collaboration agreements. The gain from the receipt of the government non-interest bearing loan, reported as Government Aid was $13,480 for the three-month period ended March 31, 2012 ($14,000 for the same period in 2011). Revenues for research and development collaborations and product sales were $1,010,860 for the nine-month period ended March 31, 2012 ($1,052,511 for the same period in 2011).

Technology platform development

Research and development expenditures, net of investment tax credits and government assistance, decreased by $267,513 totalling $80,092 for the three-month period ended March 31, 2012, compared with $347,605 for the same period in 2011. For the nine-month period ended March 31, 2012, research and development expenditures, net of investment tax credits and government assistance, increased by $180,390 totalling $730,104 compared with $549,714 for the same period in 2011. Decrease or increase in the three-month and nine-month periods

respectively reflect work done internally and by consultants relative to enzyme performance characterization under various industrially relevant operating conditions as well as to explore new avenues for enzyme immobilization and support the Company's commitments under its current or pending collaboration agreements. These expenses will vary based upon on-going collaboration agreements.

During the previous fiscal year the Company received notification of an approved maximum refundable contribution of $250,000, subject to the Company satisfying certain conditions relative to R&D spending, from the Economic Development Agency of Canada towards the Company's research into the treatment of greenhouse gas emissions, of which $111,820 was received by the Company on March 31st, 2011 and an additional $138,180 being received on February 7th 2012. The loan was accrued at the time of initial recognition using an estimated capitalization rate of 5%. Balance sheet carrying amounts relate to the required accounting treatment of this loan and the amortization of the recorded benefit.

Business development expenses

Business development expenses amounted to $157,786 for the three-month period ended March 31, 2012, compared with $233,256 for the same period in 2011, representing a decrease of $75,470. For the nine-month period ended March 31, 2012 business development expenses were $423,180 compared to $630,077 for the same period in 2011, a decrease of $206,897. The decreases are primarily attributable to lower business development salaries in the current fiscal year and less professional fees paid in 2012 associated with the negotiation of collaboration agreements.

General and administrative expenses

General and administrative expenses totalled $389,487 for the three-month period ended March 31, 2012, compared with $356,083 for the same period in 2011, representing a net increase of $33,404. For the nine-month period ended March 31, 2012 general and administrative expenses increased $85,722 to $1,106,298 ($1,020,576 in 2011). These increases are related to increases in salary and benefits (primarily non-cash stock-based compensation) for the period offset by a decrease in professional fees and a $20,000 decrease in government aid.

Financial expenses and interest income

Net financial expense (bank fees, interest and foreign exchange) for the three-month period ended March 31, 2012, was a gain of $2,528 compared with gain of $2,807 for the same period in 2011, resulting in a small decrease for the three-month period of $279. For the nine-month period ended March 31, 2012 net financial expense was a gain of $41,429 ($3,414 in 2011). This favorable gain includes $22,671 from foreign exchange transactions plus interest of $19,430 from the higher cash balances at the end of the current fiscal quarter.

Loss for the period

The Company recorded a loss of $611,357, or $0.01 per share, for the three-month period ended March 31, 2012, compared with a loss of $201,913, or $0.0 per share, for the same period in 2011. For the nine-month period ended March 31, 2012 the Company recorded a loss of $1,193,813, or $0.02 per share, compared with a loss of $1,159,143 ($0.02 per share) for the same period in 2011. No significant factor, other than those described above, contributed to the change in the loss for the quarter or the nine-month period.

SELECTED UNAUDITED QUARTERLY FINANCIAL INFORMATION

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

	Quarters ended			
	March 31, 2012	**December 31, 2011**	**September 30, 2011**	**June 30, 2011**
Revenues	$13,480	$148,576	$862,284	$847,607
Net loss	$611,357	$551,863	$30,593	$108,410
Net loss per share	$0.01	$0.01	$0.00	$0.00

	Quarters ended			
	March 31, 2011	**December 31, 2010**	**September 30, 2010**	**June 30, 2010[(1)]**
Revenues	$732,224	$243,075	$91,212	$0
Net loss	$201,913	$467,466	$489,764	$598,171
Net loss per share	$0.01	$0.01	$0.01	$0.01

(1): data have not been adjusted to reflect the new standards IFRS. Only fiscal 2011 and 2012 data were adjusted.

CASH FLOWS

Cash and term deposits totalled $3,499,242 as at March 31, 2012, compared with $876,831 as at March 31, 2011. This increase in cash is a result of the proceeds received from the private placement financing completed in August 2011.

Cash flow related to operating activities
For the three-month period ended March 31, 2012, cash flow required for operating activities amounted to $508,021 compared with cash flow required of $972,372 for the same period in 2011. This $464,351 decrease is attributable primarily to the higher loss for the period offset by changes in the non-cash working capital items. For the nine-month period ended March 31, 2012 the required cash flow was $558,783 compared to $1,486,581 for the same period in 2011. This decrease of $927,798 is mainly due to the slight improvement in revenue and changes in the non-cash working capital items.

Cash flow related to investment activities
For the three-month period ended March 31, 2012, cash flow required by investment activities amounted to $129,451 compared with cash flow generated of $469,925 for the same period in 2011, a difference of $599,376. This difference is mainly attributable to a decrease in fiscal 2012 in the level of term deposits (prior to private placement financing) and increased investments in patents. For the nine-month period ended March 31, 2012 cash flow required amounted to $63,488 compared to $1,475,462 generated for the same period in 2011. The decrease of $1,538,950 is attributable primarily to the decrease in term deposits from $1,595,494 in 2011 to $187,628 in 2012.

Cash flow related to financing activities
The cash flow generated by financing activities for the three-month period ended March 31, 2012, amounted to $127,048 compared with $98,356 for the same period in 2011. For the nine-month period ended March 31, 2012 cash flow generated from financing activities amounted to $3,988,400 compared to $101,239 for the same period in 2011. This increase in cash flow is primarily attributable to the net proceeds from the private placement completed in August 2011 and the receipt of $127,084 loan from Economic Development Canada.

LIQUIDITY AND SOLVENCY

To date, the Company has financed its operations mainly through cash flow obtained from technology development collaborations, the issuance of capital stock and government assistance.

At March 31, 2012, the Company has $3,499,242 in cash and $63,635 in receivables for a total of $3,562,877 ($1,327,065 as at March 31, 2011).

On August 31, 2011, CO_2 Solutions announced the close of a brokered private placement offering with net cash proceeds of $4,043,074. With the receipt of the proceeds from this offering and the close monitoring of operating expenses Management believes the Company has sufficient funds to meet its cash requirements for at least the next 6 quarters.

The Company's access to sufficient long-term capital depends on the ability to generate a profit in the future. This will depend in part on its ability to effectively commercialize its technology, the results of research and development activities, favourable market conditions, and to overall economic conditions. Investments in commercialization activities are used to generate income; however, it is difficult to predict exactly when this income will materialize.

As at March 31, 2012 the Company benefited from credit facilities in the form of an operating line of credit of $150,000 bearing interest at prime plus 2% and is secured by a universal charge on the company's assets to a maximum of $225,000. As at March 31, 2012, this operating line of credit was unused.

COMMITMENTS & CONTINGENCIES

As disclosed in Note 19 to the June 30, 2011 audited Consolidated Financial Statements, in July 2011, Revenue Quebec notified Fiducie Financière CO_2 Solution of their intention to modify the tax treatment, and issue an assessment related thereto, relative to certain capital transactions between CO_2 Solutions Inc. and some of its consolidated variable interest entities, namely CO_2 Solution Technologies Inc. and Fiducie Financière CO_2 Solution, which occurred during the December 31, 2008 taxation year of Fiducie Financière CO_2 Solution. On December 29, 2011, that assessment was received by Fiducie Financière CO_2 Solution. The Company's position with respect to this Revenue Quebec assessment remains unchanged, that being Fiducie Financière CO_2 Solution's intent to object to any assessment (such objection having been formally filed on March 29, 2012 with Revenue Quebec) and the opinion of Fiducie Financière CO_2 Solution's that its tax filing position will ultimately prevail, has not changed from that which was disclosed in Note 19 to the June 30, 2011 audited Consolidated Financial Statements. There has been no change in the commitments or contingencies of the Company from those described in the Company's June 30, 2011 audited Consolidated Financial Statements.

INFORMATION REGARDING CAPITAL STOCK

As at May 29, 2012, the number of outstanding common shares, warrants and stock options is respectively 79,187,836, 11,773,968, and 5,464,530.

RELATED PARTY TRANSACTIONS AND OFF-BALANCE SHEET AGREEMENTS

As at March 31, 2012, the Company has recorded a $475,000 advance from a shareholder with significant influence, bearing no interest and payable under certain conditions ($475,000 for the same period in 2011). Pursuant to the extension of the agreement with that shareholder in

January 2011, repayment of this advance has now effectively been deferred indefinitely or until certain subsequent agreements may be negotiated between the parties. The amount outstanding is classified as a long-term debt. As at March 31, 2012, there were no other related party transactions nor were there any off-balance sheet agreements.

OUTLOOK 2011-2012

Liquidity and operational effectiveness

As noted earlier, at March 31, 2012, the Company has over $3.5 million in cash and receivables. In addition, with the collaboration revenue pipeline the Company is currently pursuing, favorable tax credits and its rigorous oversight of expenses, the Company should be able to continue its current projects and pursue new scale-up projects.

Scale-up partnership with Alcoa

The Company continues work on the previously announced pilot program, in collaboration with Alcoa and Codexis, Inc. focused on carbon capture technology designed to sequester industrial carbon emissions from the aluminum manufacturing process and neutralizing the manufacturing by-product material, bauxite residue, to create a commercially viable product.

The $16.5 million project is the latest innovation from the world's leading aluminum producer and is being funded by Alcoa along with approximately $13.5 million in funding from the U.S. Department of Energy (DOE) received from an award with the National Energy Technology Laboratory (NETL).

The pilot program, part of Alcoa's ongoing commitment to enhance its operational sustainability, will use an innovative and proprietary induct scrubber technology to capture emissions. The collaboration is intended to devise solutions that treat and utilize a primary byproduct of the aluminum manufacturing process known as alkaline clay, or bauxite residue, as well as other alkaline industrial residuals. This pilot project will test a scrubbing process that combines treated flue gas, enzymes and alkaline clay to create a mineral-rich neutralized product that could be used for environmental reclamation projects. The project is emblematic of how Alcoa is leveraging its extensive R&D capabilities and utilizing game-changing technologies from companies like CO_2 Solutions and Codexis to advance sustainable solutions that can have an impact beyond Alcoa's operations.

Scientists and engineers from Alcoa Technical Center in Pittsburgh are leading the three-year project, which had an investigation phase that ran through December, 2011. The DOE grant was received as part of an initiative to find ways of converting captured carbon dioxide emissions from industrial sources into useful products. Alcoa and CO_2 Solutions scientists and engineers are currently performing a techno-economic review of the results of the first phase of the project with a view to determining a work plan for the next phases of the project, including continued DOE funding for the project and the feasibility of moving to the pilot demonstration phase at a manufacturing facility to be determined by Alcoa.

Additional scale-up opportunities

The production and refining of oil and purification of natural gas represent important market opportunities for CO_2 Solutions' enzymatic technology. There are presently nearly 800 such operations worldwide, generating in excess of 800 million tons of CO_2 emissions annually.[4]

[4]IEA GHG Program

Of particular interest is the opportunity in the Alberta oil sands. Unconventional hydrocarbon production from the oil sands is the subject of concern by some groups due to its higher overall carbon footprint vis-à-vis conventional oil production. This results largely from the combustion of natural gas to produce steam which is injected underground to produce this oil in-situ. As such, both industry and government are focused on ways to reduce emissions from the oil sands, with Carbon Capture and Sequestration being a mitigation option of major interest. However, the cost of this technology is prohibitive to its wide commercial deployment. CO_2 Solutions' enzymatic technology is well positioned to solve this challenge. For carbon capture from in-situ operations, as well as from heavy oil upgrading operations, enzyme-accelerated, low-energy solvents such as MDEA can be employed to provide a lower-cost solution than conventional solvent approaches. CO_2 Solutions is presently in discussions with major oil producers in Alberta towards the scale-up, demonstration and deployment of its technology in the oil sands. Additionally, international opportunities are being explored in the oil and gas sector, including for the removal of CO_2 from natural gas streams such as is produced from shale gas fields.

The Company is continuing its discussions with potential partners from the cement industry who have shown interest in CO_2 Solutions' technology as a potential solution to manage their carbon footprints. We also continue to explore opportunities in the iron and steel industries. Concurrently, the Company has begun to focus on nearer-term market opportunities where the use of CO_2 and the application of our enzymatic technology could start to generate revenue sooner, opportunities that are not dependent upon regulatory changes but for which the economic drivers for capturing carbon are already there. These potential nearer-term markets include carbon capture and reuse, such as what is being explored with Alcoa; carbon separation, e.g. natural gas sweetening (removal of contaminants from native gas streams) and chemical compound production.

Given the positive nature of a number of these discussions, management is confident that at least one additional scale-up partnership will be secured during the balance of 2012.

In addition to the above, CO_2 Solutions' management team will continue to pursue a multi-pronged strategy aimed at advancing its technology development and deployment. The prime focus in the short term will be as follows:

Advancing the industrial readiness of the technology

Leveraging its internal R&D focus and efforts, CO_2 Solutions intends to continue to fully exploit its relationships with Codexis and Procede Group, to bring the best resources to bear in advancing its technology towards commercial readiness. On the enzyme evolution and supply front, Codexis has, and is expected to continue to make significant progress in increasing the industrial stability and longevity of the enzyme catalyst. This will assist in positioning CO_2 Solutions' technology for pilot and larger scale demonstrations under real-world conditions where significant quantities of robust enzymes are required.

In the area of enzyme delivery and management in the carbon capture process, the Company will continue work on parallel technology paths with internal development efforts which leverage the Company's significant expertise in the area of enzyme immobilization. This work is expected to enhance industrial readiness by incorporating leading-edge processes in which the enzyme is delivered to the carbon capture system as micro-sized particles possessing improved tolerance to high-process temperatures. In addition, these particles can be confined to the front-end CO_2 absorption stage (where the enzyme provides the maximum beneficial impact), without being exposed to the harsher, back-end desorption process, leading to improved system economics.

Leveraging government funding for development and scale-up
To further support its technology validation and scale-up efforts, CO_2 Solutions has confidence that it can continue to tap into beneficial government funding programs in Canada, the U.S. and abroad, and with strategic partners. In Canada, the Company remains hopeful that the Federal Government will see the significant economic and environmental value that exists in supporting home grown, exportable carbon capture technologies such as CO_2 Solutions' that have the potential to significantly reduce the current high cost of carbon capture in Canada and internationally. In western Canada the Alberta GHG reduction process has opened up new opportunities for joint projects to manage CO_2 emissions in the oil sands sector. CO_2 Solutions is actively working on partnerships to advance our technology for use in this sector. In the U.S., in addition to the ARPA-E project with Codexis, and the U.S. Department of Energy support of the Alcoa project, CO_2 Solutions will continue to pursue funding opportunities where possible for its technology, with the possibility of exploiting cross-border clean technology initiatives. The announcements made by the State of California Air Resources Board, Australia and the Canadian provinces of Alberta and Quebec, along with the Western Climate Initiative continue to reflect the trend of governments around the world viewing the GHG issue as critical. This trend supports our beliefs that additional regulation will be forthcoming.

Continued expansion of intellectual property dominance
As the world searches for innovative solutions to lower the current cost barrier to CO_2 capture, continuing along the trend started in past years, and the 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 Company 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 will continue to expand its intellectual property dominance with the filing of new patents. As noted previously, On May 2 2012, the Company announced that it had received the Notice of Allowance from the U.S. Patent and Trademark Office for the issuance of US20100203619, "CO_2 ABSORPTION SOLUTION". The patent will cover the use of carbonic anhydrase (CA) in any form for carbon capture from a gas stream and with any secondary or tertiary amine solvents. This Notice demonstrates the unique nature of the Company's technology, which uses low-energy amine solvents accelerated by CA to cost-effectively capture CO_2 for reuse or sequestration. Near-term commercial applications exist for the technology, such as the processing of various industrial gasses, as well as potential long-term markets, such as flue gas treatment in the power generation and oil industry.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our unaudited condensed interim consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, IAS 34, "Interim Financial Reporting". These are the Company's third quarter consolidated financial statements prepared in accordance with IFRS; in consequence the Company explains its choices related to IFRS 1, "First-time Adoption of International Financial Reporting Standards", in Note 18 of the financial statements.

The Company has consistently applied the same accounting policies in its opening IFRS consolidated statement of financial position at July 1, 2010 and throughout all periods presented, as if these accounting policies had always been in effect. Note 18 of the financial statements for the quarter ended March 31, 2012 discloses the impact of the transition to IFRS on the Company's reported consolidated equity, consolidated statement of comprehensive loss, including the nature and effect of significant changes in accounting policies from those used in

the Company's consolidated financial statements for the year ended June 30, 2011. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending June 30, 2012 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on changeover to IFRS.

The full description of accounting policies and estimates are presented in the relevant section of the Company's financial statements for the quarter ended March 31, 2012.

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

The Company 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.

FUTURE ACCOUNTING CHANGES

The IASB issued the following standards which are relevant but have not yet been adopted by the Company: IFRS 9, Financial Instruments, IFRS 10, Consolidated Financial Statement, IFRS 13, Fair Value Measurement and amended IAS 1, Presentation of Financial Statements. Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted except for the amendment to IAS 1 which is effective for annual periods beginning on or after July 1, 2012 and IFRS 9 which is effective for annual periods beginning on or after January 1, 2015. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

The following is a brief summary of the new standards and amendment:

IFRS 9 – Financial instruments

IFRS 9 was 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 either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are 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 and 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 and loss would generally be recorded in other comprehensive income.

IFRS 10 – Consolidation

IFRS 10 was issued in May 2011. It 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 was issued in May 2011. It 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.

IAS 1 – Presentation of Financial Statements
Amendment to IAS 1 – Presentation of Items of other comprehensive Income: IAS 1 has been amended to change the disclosure of items presented in Other Comprehensive Income ("OCI"), including a requirement to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss in the future.

RISK FACTORS AND UNCERTAINTIES

The Company's activities are subject to some risk factors that generally affect biotechnology companies. The profitability of the Company 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 partnerships, and strategic out-licensing agreements. These activities require important financial investments. Therefore, the Company's ability to obtain necessary liquidities to finance its activities is essential to ensure future success and is as such an additional risk factor. The reader is referred to the applicable general risk and uncertainties described in CO_2 Solutions most recent Annual Report under the heading "Risk Factors and Uncertainties".

INTERNAL CONTROL OVER FINANCIAL REPORTING

Internal control over financial reporting ("ICFR") is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its compliance with IFRS in its financial statements. The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining disclosure controls over financial reporting to the issuers. They established the internal control over financial reporting or had it established under their supervision in order to obtain reasonable assurance about the reliability of the financial reporting and to make sure that the financial statements were being prepared accordingly with IFRS.

The Chief Executive Officer and the Chief Financial Officer have evaluated whether there were changes to its ICFR during the quarter ended March 31, 2012 that have materially affected, or that are reasonably likely to materially affect its ICFR. No such changes were identified through their evaluation.

AUDITORS

This Management's Discussion and Analysis and the condensed interim consolidated financial statements for the three and nine month periods ended March 31, 2012 and 2011 have not been audited nor reviewed by the external auditors

ADDITIONAL AND CONTINUOUS DISCLOSURE

This analysis was prepared on May 29, 2012. Additional disclosure is provided on the SEDAR Web site at: www.sedar.com.

On behalf of management,

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

Glenn R. Kelly
President and Chief Executive Officer

May 29, 2012

CO_2 Solutions Inc.

Condensed Interim Consolidated Financial Statements (Unaudited) March 31, 2012 and 2011 (expressed in Canadian dollars)

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CO_2 Solutions Inc.
Condensed Interim Consolidated Statement of Financial Position
(Unaudited)

	As at March 31, 2012	As at June 30, 2011	As at July 1, 2010
	$	$	$
ASSETS			
Current assets			
Cash	**3,499,242**	133,113	372,180
Term deposits (note 6)	**–**	187,628	2,010,025
Accounts receivable (note 7)	**63,635**	665,515	86,333
Tax credits receivable	**1,581,376**	1,220,797	709,866
Prepaid expenses	**6,533**	52,685	22,354
	5,150,786	2,259,738	3,200,758
Non-current assets			
Property, plant and equipement (note 8)	**208,006**	234,289	247,113
Patents (note 9)	**629,380**	418,410	317,942
	5,988,172	2,912,437	3,765,813
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	**569,619**	459,573	343,700
Advance from a shareholder with significant influence (note 13)	**–**	–	475,000
	569,619	459,573	818,700
Non-current liabilities			
Refundable contribution (note 11)	**228,574**	99,055	–
Advance from a shareholder with significant influence (note 13)	**475,000**	475,000	–
Deferred credits (note 12)	**32,494**	35,367	37,973
	1,305,687	1,068,995	856,673
SHAREHOLDERS' EQUITY			
Capital Stock (Note 14)	**18,771,401**	15,684,667	15,675,834
Stock options (Note 15)	**696,311**	608,713	460,844
Warrants (Note 14)	**878,855**	79,028	37,796
Contributed surplus	**2,776,992**	2,718,295	2,714,374
Deficit	**(18,441,074)**	(17,247,261)	(15,979,708)
	4,682,485	1,843,442	2,909,140
	5,988,172	2,912,437	3,765,813

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

Approved by the Board of Directors

Evan Price
Director

Glenn Kelly
Director

CO_2 Solutions Inc.

Condensed Interim Consolidated Statement of Changes in Equity

For the nine-month periods ended March 31, 2012 and 2011
(Unaudited)

	Capital Stock $	Stock options $	Warrants $	Contributed surplus $	Deficit $	Total $
Balance at July 1, 2011	15,684,667	608,713	79,028	2,718,295	(17,247,261)	1,843,442
Stock based compensation	–	146,295	–	–	–	146,295
Stock options forfeited	–	(58,697)	–	58,697	–	–
Consultant fees in consideration for warrants	–	–	30,924	–	–	30,924
Share capital issuance (Private Placement)	4,347,391	–	–	–	–	4,347,391
Brokers fees in consideration for 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 for the period	–	–	–	–	(1,193,813)	(1,193,813)
Balance at March 31, 2012	**18,771,401**	**696,311**	**878,855**	**2,776,992**	**(18,441,074)**	**4,682,485**

CO_2 Solutions Inc.

Condensed Interim Consolidated Statement of Changes in Equity (continued)

For the nine-month periods ended March 31, 2012 and 2011
(Unaudited)

	Capital Stock	Stock options	Warrants	Contributed surplus	Deficit	Total
	$	$	$	$	$	$
Balance at July 1, 2010	15,675,834	460,844	37,796	2,714,374	(15,979,708)	2,909,140
Stock based compensation	–	92,855	–	–	–	92,855
Consultant fees in consideration for warrants	–	–	30,924	–	–	30,924
Loss for the period	–	–	–	–	(1,159,143)	(1,159,143)
Balance at March 31, 2011	15,675,834	553,699	68,720	2,714,374	(17,138,851)	1,873,776

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

CO_2 Solutions Inc.
Condensed Interim Consolidated Statement of Loss and Comprehensive Loss

For the three and nine-month periods ended March 31, 2012 and 2011
(Unaudited)

	Three-month periods ended March 31		Nine-month periods ended March 31	
	2012	2011	**2012**	2011
	$	$	**$**	$
Revenues				
Products and Collaborative research and development	**–**	718,224	**1,010,860**	1,052,511
Government aid	**13,480**	14,000	**13,480**	14,000
	13,480	732,224	**1,024,340**	1,066,511
Cost of revenues	**–**	–	**–**	28,701
Gross profit	**13,480**	732,224	**1,024,340**	1,037,810
Costs and operating expenses:				
Research and development expenses, net	**80,092**	347,605	**730,104**	549,714
Business development expenses	**157,786**	233,256	**423,180**	630,077
General and administrative expenses	**389,487**	356,083	**1,106,298**	1,020,576
Net interest earned from carrying charges	**(2,528)**	(2,807)	**(41,429)**	(3,414)
	624,837	934,137	**2,218,153**	2,196,953
Net loss and comprehensive loss for the period	**611,357**	201,913	**1,193,813**	1,159,143
Basic and diluted net loss per share (note 16)	0.01	0.00	0.02	0.02

The accompanying notes are an integral part of these condensed interim consolidated financial statements and Note 19 provides other information on net loss.

CO_2 Solutions Inc.

Condensed Interim Consolidated Statement of Cash Flows

For the three and nine-month periods ended March 31, 2012 and 2011
(Unaudited)

	Three-month periods ended March 31		Nine-month periods ended March 31	
	2012	2011	**2012**	2011
	$	$	**$**	$
OPERATING ACTIVITIES				
Loss for the period	**(611,357)**	(201,913)	**(1,193,813)**	(1,159,143)
Adjustments				
Amortization	**21,869**	17,412	**60,312**	59,063
Consultant fees in consideration for warrants	**10,308**	10,308	**30,924**	30,924
Stock-based compensation cost	**62,997**	40,769	**146,295**	92,855
	(516,183)	(133,424)	**(956,282)**	(976,301)
Change in non-cash working capital items				
Accounts receivable	**144,561**	(246,975)	**601,880**	(255,351)
Tax credits receivable	**(182,522)**	(120,581)	**(360,579)**	(275,515)
Prepaid expenses	**6,334**	13,458	**46,152**	(7,391)
Accounts payable and accrued liabilities	**39,789**	142	**110,046**	27,977
Deferred revenue from collaborative research and development	**–**	(484,992)	**–**	–
	8,162	(838,948)	**397,499**	(510,280)
Cash flows from operating activities	**(508,021)**	(972,372)	**(558,783)**	(1,486,581)
INVESTING ACTIVITIES				
Term deposits	**–**	499,261	**187,628**	1,595,494
Amounts capitalized to patents	**(124,450)**	(21,140)	**(238,042)**	(104,661)
Additions to property, plant and equipment	**(5,001)**	(8,196)	**(13,074)**	(15,371)
Cash flows from investing activities	**(129,451)**	469,925	**(63,488)**	1,475,462
FINANCING ACTIVITIES				
Deferred credits	**–**	536	**3,244**	3,419
Deferred financing - refundable contribution	**127,048**	97,820	**129,519**	97,820
Shares issued	**–**	–	**4,347,391**	–
Insuance fee - Shares	**–**	–	**(491,754)**	–
Cash flows from financing activities	**127,048**	98,356	**3,988,400**	101,239
Net increase (decrease) in cash and cash equivalents	**(510,424)**	(404,091)	**3,366,129**	90,120
Cash and cash equivalents -Beginning of period	**4,009,666**	866,391	**133,113**	372,180
Cash and cash equivalents -End of period	**3,499,242**	462,300	**3,499,242**	462,300
Interest income received	**9,538**	738	**23,946**	4,516
Income taxes paid	**–**	–	**–**	–

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

CO_2 Solutions Inc.
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)
For the three and nine-month periods ended March 31 2012

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 Corporation 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 and commercialization of its enzyme technology and obtaining the required financing.

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, Quebec, Quebec, Canada, G2C 1T9.

2- BASIS OF PREPARATION AND ADOPTION OF IFRS

The condensed interim consolidated financial statements of CO_2 Solutions Inc. for the third quarter ended March 31, 2012 as well as the corresponding comparative data have not been subject to review by the Company’s independent auditors.

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles (‘’Canadian GAAP’’) as set out in the Handbook of the Canadian Institute of Chartered Accountants (‘’CICA Handbook’’). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (‘’IFRS’’), and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company is reporting on this basis in these condensed interim consolidated financial statements. In the financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS.

These condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 "Interim Financial Reporting" and IFRS 1 "First-time Adoption of International Financial Reporting Standards". Subject to certain transition elections disclosed in Note 18, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at July 1, 2010 and throughout all periods presented, as if these policies had always been in effect. As disclosed in Note 18, there is no impact of transition to IFRS on the Company’s reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the company’s consolidated financial statements for the year ended June 30, 2011.

The policies applied in these condensed interim consolidated financial statements are based on IFRS effective for the year ending June 30, 2012 as issued and outstanding as of May 29, 2012, which is the date of approval of the condensed interim consolidated financial statements by the Company Board of Directors. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending June 30, 2012 could result in restatement of these condensed interim consolidated financial statements, including transition adjustments recognized on change-over to IFRS.

These condensed interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP annual statements for the year ended June 30, 2011.

3- *SIGNIFICANT ACCOUNTING POLICIES*

Basis of presentation

These condensed interim consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments that are recognized at fair value.

Basis of consolidation

The condensed interim 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 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 the United States and uses its assets in Canada.

Financial assets

Classification under IAS 39

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provision of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss (fair value option), loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition:

a) Loans and receivables

   Loans and receivables would include any non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which there is no intention of trading. They are included in current assets, except for maturities greater than 12 months after

the balance sheet date which would be classified as non-current assets. Loans and receivables comprise cash, term deposits, accounts receivable and tax credits receivable.

b) Available-for-sale

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. Available-for-sale financial assets are comprised of cash equivalents and short-term investments in the form of actively traded securities.

Recognition and measurement under IAS 39

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income.

Regular purchases and sales of financial assets are recognized on the trade date – the date on which the Company commits to purchase or sell the asset.

Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the statement of loss as part of interest income. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of loss and included in other gains and losses.

Financial liabilities

Financial liabilities at amortized cost include an advance from a shareholder with significant influence which is initially recognized at fair value, net of transaction costs incurred, and is subsequently carried at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of earnings over the period of the debt using the effective interest method.

Financial liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liabilities for at least 12 months after the balance sheet date.

Impairment of financial assets

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:

a) 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.

b) Available-for-sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of loss. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to net loss.

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. Impairment losses on available-for-sale equity instruments are not reversed. As at March 31, 2012, there were no assets that were deemed to be impaired.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks and any highly liquid short-term investments having a term of less than three months at the acquisition date.

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 statement of earnings 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, obtained or pending, are recorded at cost and amortized on a straight-line basis over 20 years.

Impairment of non-financial assets

Property, plant and equipment and intangible assets 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, except for development expenses which meet generally accepted capitalization criteria are deferred and amortized. As at March 31, 2012, June 30, 2011 and July 1, 2010, no development costs have been deferred.

Share issue expenses

Share issue expenses are applied against share capital.

Research and development tax credits and receivables

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 and grants are accounted for using the cost reduction method. Accordingly, tax credits and 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 credits and grants will be realized. The tax credits must be reviewed and approved by the tax authorities, accordingly, the amounts granted may differ from the amounts recorded.

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 condensed interim consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency.

The financial statements of entities that would have a functional currency different from that of the Company (foreign operations) are translated into Canadian dollars as follows: assets and liabilities – at the closing rate at the date of the statement of financial position, and income and expenses – at the average rate of the period (as this is considered a reasonable approximation to actual rates). All resulting changes are recognized in other comprehensive income as cumulative translation adjustments.

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 period-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the statement of income.

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 earnings for the year during which the amounts are due.

Revenue recognition

The Company's revenue is derived from research contracts, design, development and marketing of goods and services related to the management and elimination of CO_2.

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

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

The Company 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 stand-alone 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.

If reliable and objective evidence of fair value for each deliverable is available, the total arrangement consideration is allocated to the units of accounting based on their relative fair value. However, if evidence of fair value is only available for undelivered items, the arrangement consideration is allocated first to the undelivered items based on their fair value, with the remainder being allocated to the delivered items, using the residual method.

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.

Earnings per share

Basic earnings per common share are calculated by dividing net earnings available for common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share are 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 period or their issue date. The dilution effect is determined using the treasury stock method for the stock options and the warrants.

Share-based payments

The Company grants stock options to certain employees. Stock options vest over a maximum of three years and expire after a maximum of five years. 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 total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest. It recognizes the impact of the revision to original estimates, if any, in the statement of income, with a corresponding adjustment to equity.

The cash subscribed for the shares issued when the options are exercised is credited, together with the related compensation costs, to share capital (nominal value), net of any directly attributable transaction costs.

4- ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

The IASB issued the following standards which are relevant but have not yet been adopted by the Company: IFRS 9, Financial Instruments, IFRS 10, Consolidated Financial Statement, IFRS 13, Fair Value Measurement and amended IAS 1 Presentation of Financial Statements. Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted except for the amendment to IAS 1 which is effective for annual periods beginning on or after July 1, 2012 and IFRS 9 which is effective for annual periods beginning on or after January 1,2015. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

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Requirements for financial liabilities were added in October 2010 and 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 and loss would generally be recorded in other comprehensive income.

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IFRS 10 was issued in May 2011. It 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 was issued in May 2011. It 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.

IAS 1 – Presentation of Financial Statements

Amendment to IAS 1 – Presentation of Items of other comprehensive Income: IAS 1 has been amended to change the disclosure of items presented in Other Comprehensive Income ("OCI"), including a requirement to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss in the future.

5- SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The estimates and assumptions that have a significant risk of causing material adjustments to the company's financial statements are listed below.

Significant estimates are generally made in connection with the calculation of revenues, research and development expenses, stock-based compensation expense, as well as in determining future income tax assets and liabilities, impairment of property, plant and equipment and intangible assets. Estimates are based on historical experience, where relevant, and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ from those estimates.

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. Revenue is 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.

Research and development expenses

Research and development expenditures consist of direct and indirect expenses. All expenses related to development activities which do not meet generally accepted criteria for deferral, and research activities are expensed as incurred. Development expenses which meet generally accepted criteria for deferral are capitalized and amortized against earnings over the estimated period of benefit. As at March 31, 2012, June 30, 2011 and July 1, 2010, no development costs have been deferred.

Stock-based compensation and other stock-based payments

The Company has a stock option plan which is described in note 15 of the condensed interim consolidated financial statements. As regards stock options granted, the Company uses the fair value based method of accounting. The fair value of stock options is determined using the Black-Scholes option pricing model, which requires the use of certain assumptions, including future stock price volatility and expected life of the instruments.

The expected life is estimated using the contractual life of the instrument. The expected volatility is estimated using the historical volatility of the Company's stock over the same period as the contractual life.

Income taxes, government assistance and tax credits

Income taxes are accounted for using the asset and liability method. Future income tax assets and liabilities are recognized in the balance sheet to account for the future tax consequences attributable to temporary differences between the respective accounting and taxable value of balance sheet assets and liabilities. Future income tax assets and income tax liabilities are measured using the income tax rates that are most likely to apply when the asset is realized or the liability is settled. The effect of changes in income tax rates is recognized in the year during which these rates change. As appropriate, a valuation allowance is recognized to decrease the value of tax assets to an amount that is more likely than not to be realized. In estimating the realization of future income tax assets, management considers whether a portion or all future tax assets are more likely than not to be realized. Realization is subject to future taxable income.

In the event the Company determines that it can realize its tax assets, it will readjust them for the amount and adjust the income in the period for which such determination is made.

Moreover, the Company is entitled to government assistance in the form of research tax credits and grants. These are applied against related expenses and the cost of the asset acquired. Tax credits are available 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 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

Assets are reviewed for an indication of impairment at each statement of financial position date. If 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 is recognized, if any, 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 July 1, 2010, June 30, 2011, and March 31, 2012, management determined that there was no need for impairment.

Government grants

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 period in which those expenses are incurred, provided there is reasonable assurance that the grants 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 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.

The gain from the receipt of the government non-interest bearing loan is reported in the year the loan is received as Government Aid in Condensed Interim Consolidated Statement of Loss and Comprehensive Loss.

6- *TERM DEPOSITS*

	March 31 2012 $	June 30 2011 $	July 01 2010 $
Term deposits, 0,50% maturing August 28th 2011 for 61 282$ and 0.12% maturing June 1st 2012 for 126 346$	–	187,628	2,010,025
	–	187,628	2,010,025

7- *ACCOUNTS RECEIVABLE*

	March 31 2012	June 30 2011	July 01 2010
	$	$	$
Trade accounts	**7,188**	619,716	54,513
Commodity taxes	**56,447**	45,799	31,820
	63,635	665,515	86,333

8- PROPERTY PLANT AND EQUIPMENT

	Laboratory equipment and lay out	Office equipment	Computer equipment	Leasehold Improvements	Total
	$	$	$	$	$
Cost					
Balance as at July 1st, 2010	711,016	131,458	49,490	31,674	923,638
Acquisitions	24,963	–	17,180	–	42,143
Disposals	–	–	–	–	–
Balance as at June 30,2011	735,979	131,458	66,670	31,674	965,781
Acquisitions	4,772	–	4,437	3,865	13,074
Disposals	–	–	–	–	–
Balance as at March 31, 2012	740,751	131,458	71,107	35,539	978,855
Accumulated depreciation					
Balance as at July 1st, 2010	(540,864)	(95,274)	(24,891)	(15,496)	(676,525)
Depreciation expense	(35,176)	(7,237)	(9,387)	(3,167)	(54,967)
Disposals	–	–	–	–	–
Balance as at June 30, 2011	(576,040)	(102,511)	(34,278)	(18,663)	(731,492)
Depreciation expense	(24,682)	(4,342)	(7,861)	(2,472)	(39,357)
Disposals	–	–	–	–	–
Balance as at March 31, 2012	(600,722)	(106,853)	(42,139)	(21,135)	(770,849)
Book value					
July 1st ,2010	170,152	36,184	24,599	16,178	247,113
June 30, 2011	159,939	28,947	32,392	13,011	234,289
March 31, 2012	140,029	24,605	28,968	14,404	208,006

9- PATENTS

	Patents $
Cost	
Balance as at July 1st,2010	576,588
Acquisitions	150,871
Disposals	(8,791)
Balance as at June 30, 2011	718,668
Acquisitions	238,042
Disposals	–
Balance as at March 31, 2012	956,710
Accumulated amortization:	
Balance as at July 1st, 2010	(258,646)
Amortization expense	(41,612)
Disposals	–
Balance as at June 30, 2011	(300,258)
Amortization expense	(27,072)
Disposals	–
Balance as at March 31, 2012	(327,330)
Book value:	
July 1st, 2010	317,942
June 30, 2011	418,410
March 31, 2012	629,380

10- BANK LOAN

As of March 31, 2012, the Company has an available unused authorized line of credit of $150,000, bearing interest at the 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. The company complies with these ratios as at March 31, 2012.

11- REFUNDABLE CONTRIBUTION

The Company obtained from Economic Development of Canada a refundable contribution of up to $250,000 of which $111,820 was received on March 31st, 2011 and balance of $138,180 was received on February 7th, 2012. This contribution is refundable starting July 2013 with annual payments representing 4% of the Company's total income recorded for fiscal 2013. 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 present value and the principal amount of the loan is shown as Government aid in the Condensed Interim Consolidated Statement of Loss and Comprehensive Loss for $13,480 in 2012 and $14,000 in 2011.

12- *DEFERRED CREDITS*

Government assistance and tax credits on property, plant and equipment

	Government Assistance	Tax Credits	Total
	$	$	$
Cost			
Balance as at July 1st 2010	33,485	164,211	197,696
Acquisitions	–	6,851	6,851
Disposals	–	–	–
Balance as at June 30 2011	33,485	171,062	204,547
Acquisitons	–	3,244	3,244
Disposals	–	–	–
Balance as at March 31 2012	33,485	174,306	207,791
Amortization			
Balance as at July 1st 2010	(27,972)	(131,751)	(159,723)
Amortization expense	(1,103)	(8,354)	(9,457)
Disposals	–	–	–
Balance as at June 30 2011	(29,075)	(140,105)	(169,180)
Amortization expense	(661)	(5,456)	(6,117)
Disposals	–	–	–
Balance as at March 31 2012	(29,736)	(145,561)	(175,297)
Book value			
July 1st 2010	5,513	32,460	37,973
June 30 2011	4,410	30,957	35,367
March 31 2012	3,749	28,745	32,494

13- ADVANCE FROM A SHAREHOLDER WITH SIGNIFICANT INFLUENCE

As at March 31, 2012, the Company has recorded a $475,000 advance from a shareholder with significant influence, bearing no interest and payable under certain conditions ($475,000 for the same period in 2011). Pursuant to the extension of the agreement with that shareholder in January 2011, repayment of this advance has now effectively been deferred indefinitely or until certain subsequent agreements may be negotiated between the parties. The amount outstanding is classified as a long-term debt.

14- *CAPITAL STOCK*

Authorized

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

Issued and fully paid

The following table shows the changes in the Company's capital stock during the nine-month period ended March 31, 2012 and the year ended June 30, 2011

	March 31 2012		June 30 2011	
	number	**$**	number	$
Beginning balance	**60,286,136**	**15,684,667**	60,261,136	15,675,834
Share issue from				
Exercised options			25,000	8,833
Private Placement	**18,901,700**	**3,086,734**		
Ending balance	**79,187,836**	**18,771,401**	60,286,136	15,684,667

The following table shows the changes in the Company's warrants during the nine-month period ended March 31, 2012 and the year ended June 30, 2011.

	March 31 2012		June 30 2011	
	number	**$ Average Strike price**	number	$ Average Strike price
Outstanding at beginning	1,000,000	0.24	1,000,000	0.24
Granted	10,773,968	0.28	–	–
Outstanding at end	11,773,968	0.28	1,000,000	0.24

The outstanding warrants as at June 30, 2011 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. 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 was comprised 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 accounted for as a reduction to the net proceeds of the private placement.

15- 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 March 31, 2012, this amount is currently established at 7,918,784. 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 nine-month period ended March 31, 2012 and the year ended June 30, 2011:

	For the nine-month period March 31 2012		For the year ended June 30 2011	
	number	**$ Weighted average exercise price**	number	$ Weighted average exercise price
Outstanding, beginning of period	**4,830,840**	**0.22**	3,955,440	0.22
Granted	**957,890**	**0.21**	920,000	0.19
Expired	**–**	**–**	(17,900)	0.35
Exercised	**–**	**–**	(25,000)	0.20
Forfeited	**(324,200)**	**0.28**	(1,700)	0.20
Outstanding, end of period	**5,464,530**	**0.21**	4,830,840	0.22
Exercisable, end of period	**4,030,272**	**0.22**	3,879,506	0.23

As at March 31, 2012, 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
	$			$
611,000	0.17	1.08	488,800	0.17
10,000	0.30	1.42	10,000	0.30
1,769,140	0.18	1.42	1,769,140	0.18
10,000	0.19	1.58	10,000	0.19
439,800	0.52	0.17	439,800	0.52
300,900	0.16	2.58	300,900	0.16
450,000	0.17	3.92	337,500	0.17
350,000	0.18	2.92	233,332	0.18
150,000	0.20	3.08	150,000	0.20
25,000	0.31	4.17	25,000	0.31
25,000	0.24	4.33	25,000	0.24
932,890	0.21	4.67	–	0.21
390,800	0.20	3.67	240,800	0.20
5,464,530	0.21	2.43	4,030,272	0.22

Options issued prior to November 2009 vest as follow: 20% upon signature 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 is100% 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 whose vesting period is 58,333 every 6 months for the February 2010 award and 85,498 every six months for the November 2011 award, from the date of the grant up to a maximum period of 3 years, and, for the Senior Vice-President Finance and CFO whose vesting period 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 in regards to the March 2011 award.

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 nine-month period ended March 31 2012	For the year ended June 30, 2011
Risk-free interest rate	**1,78%**	2,31%
Expected volatility	**99,17%**	103,76%
Annual dividend yield	**Nil**	Nil
Expected life of each option granted	**5 years**	5 years
Fair value of each option granted	**$0,1675**	$0,1400

The following table presents changes in stock options at the end of the nine-month period ended March 31, 2012 and for the year ended June 30, 2011.

	For the nine-month period ended March 31, 2012	For the year ended June 30, 2011
	$	$
Balance, beginning of period	**608,713**	460,844
Stock-based compensation	**146,295**	155,623
Stock options exercised	**–**	(3,833)
Stock options forfeited	**(58,697)**	(260)
Stock options expired	**–**	(3,661)
Balance, end of period	**696,311**	608,713

16- EARNINGS 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.

	Three-month periods ended March 31		Nine-month periods ended March 31	
	2012	2011	**2012**	2011
Basis and fully diluted weighted average number of shares outstanding	**79,187,836**	60,261,136	**74,995,095**	60,261,136

For the periods ended March 31, 2012 and 2011, the basic weighted average number of shares outstanding was the same as the diluted weighted average number of shares since the effect of stock options and warrants described in Notes 15 and 14 would have been anti-dilutive because the Company has incurred a loss. Accordingly, the fully diluted loss per share for these three-month and nine-month periods was calculated using the basic weighted average number of shares outstanding.

17- TRANSACTIONS WITH DIRECTORS AND EXECUTIVE OFFICERS

The following table sets out the remuneration paid for the period to Directors and Executive Officers of the Company that are considered as key personnel:

	Nine-month periods ended March 31	
	2012	2011
	$	$
Base remuneration	**549,186**	599,261
Directors fees and payments for attendance at Board meetings	**59,133**	49,155
Stock based compensation	**121,727**	81,122
Pension plan contributions	**8,460**	9,210
Benefit from use of Company automobile	**2,884**	2,976
	741,390	741,724

18- *TRANSITION TO IFRS*

The Company's condensed interim consolidated financial statements have been prepared in accordance with IFRS. The consolidated financial statements prepared under IAS 34 and IFRS 1, “First-time Adoption of IFRS”, has been applied. The company's transition date is July 1, 2010, ("transition date"). The Company prepared its opening IFRS statement of financial position at that date.

As at July 1, 2010, March 31, 2011 and June 30, 2011 and for the nine-month period ended March 31, 2012 and the year ended June 30, 2011, there is no effect on equity or on the statement of loss and comprehensive loss and on cash flows arising from the transition to IFRS.

The company has applied the following transition exceptions and exemptions to full retrospective application:

Topic	**International standards**	**Management’s election**
Business combinations	IFRS 1 permits entities to elect not to restate business combinations which occurred prior to Transition date.	Management has taken this IFRS election. There is no financial impact at transition date due to this choice
Stock option costs	IFRS 1 provides alternatives that permit an entity to apply IFRS 2 share-based payments in a prospective manner	Management has elected to apply IFRS 2 prospectively on July 1, 2003. There is no financial impact at transition date due to this choice

19- LOSS

	Three-month periods ended March 31		Nine-month periods ended March 31	
	2012	2011	**2012**	2011
	$	$	$	$
Revenues				
Products and Collaborative research and development	**–**	718,224	**1,010,860**	1,052,511
Government aid	**13,480**	14,000	**13,480**	14,000
Total revenues	**13,480**	732,224	**1,024,340**	1,066,511
Cost of revenues	**–**	–	**–**	28,701
Gross Profit	**13,480**	732,224	**1,024,340**	1,037,810
Costs and operating expenses				
Research and development expenses, net				
Salaries and employee benefits	**242,257**	489,237	**1,183,905**	981,080
Laboratory and other supplies	**20,357**	50,639	**110,071**	112,892
	262,614	539,876	**1,293,976**	1,093,972
Tax credit	**(182,522)**	(120,045)	**(563,872)**	(272,096)
Government assistance	–	(72,226)	–	(272,162)
	80,092	347,605	**730,104**	549,714
Business development expenses				
Salaries and employee benefits	**111,062**	169,276	**308,192**	349,833
Professional fees	**22,471**	45,892	**48,416**	208,438
Travel, entertainment and advertising	**23,305**	18,088	**65,170**	70,953
Offices expenses	**948**	–	**1,402**	853
	157,786	233,256	**423,180**	630,077
General and administrative expenses				
Salaries, employee benefits and other compensation	**165,203**	187,341	**451,880**	366,049
Rent, electricity, taxes and insurance	**45,714**	50,881	**138,074**	142,601
Office expenses	**20,393**	22,152	**55,529**	60,941
Travel, entertainment and advertising	**17,335**	7,578	**65,321**	45,894
Tax on capital	**2,785**	321	**6,039**	2,163
Directors' fees	**25,509**	16,125	**59,133**	49,155
Professional fees	**90,679**	74,273	**270,010**	314,710
Depreciation of property, plant and equipment	**13,240**	13,858	**39,357**	40,538
Amortization of patents	**10,669**	5,788	**27,073**	25,067
Amortization of deferred credits	**(2,040)**	(2,234)	**(6,118)**	(6,542)
Government aid	–	(20,000)	–	(20,000)
	389,487	356,083	**1,106,298**	1,020,576
Financial expenses and other income				
Other financial expenses	**3,286**	1,538	**8,794**	4,709
Interest income	**(9,538)**	(738)	**(23,946)**	(4,516)
Foreign exchange expense (income)	**3,724**	(3,607)	**(26,277)**	(3,607)
	(2,528)	(2,807)	**(41,429)**	(3,414)
	624,837	934,137	**2,218,153**	2,196,953
Net loss and comprehensive loss for the period	**611,357**	201,913	**1,193,813**	1,159,143