

TSXV: CST

CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS,
AS AT MARCH 31, 2014



ENZYMATIC POWER FOR CARBON CAPTURE



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SOLUTIONS

CO₂ Solutions Inc.

**Condensed Interim Consolidated
Financial Statements**

(Unaudited)

March 31, 2014 and 2013

(expressed in Canadian dollars)

14- FEDERAL TAX CREDITS RECEIVABLE WRITE-OFF

In July 2010, a draft notice of assessment from the Canada Revenue Agency (CRA) was received by CO₂ Solution Technologies Inc. questioning its status as a Canadian-controlled private corporation (CCPC). CO₂ Solution Technologies Inc. is a consolidated variable interest entity. The draft assessment focused on the fiscal year ended June 30, 2009 and, as a consequence, research and development tax credits claimed by CO₂ Solution Technologies Inc. for that year and subsequent years included on the Corporation's balance sheet as at June 30, 2009, 2010 and 2011 have not been paid by CRA, and credits to be claimed for the year ended June 30, 2012 could be affected as well as the amounts recorded in the three-month period ended September 30, 2012. In the opinion of CO₂ Solution Technologies Inc. and the Corporation's management, these credits are receivable according to the CCPC status of CO₂ Solution Technologies Inc., and the Corporation's position was that the draft notice of assessment was unfounded and that CO₂ Solution Technologies Inc.'s position would ultimately prevail. Under the circumstances, up until the fiscal quarter ended September 30, 2012, no provision for the potential non-collectability of these federal tax credits was made in the accounts of CO₂ Solution Technologies Inc. or in the consolidated financial statements of the Corporation. However, it was recognized in the quarter ended September 2012 that future receipt of these federal tax credits depended on the successful resolution of this matter.

In December 2012, CO₂ Solution Technologies Inc. received a formal assessment related to the claimed 2009 federal tax credits. Canada Revenue Agency formally confirmed their position that CO₂ Solution Technologies Inc. did not qualify for status as a Canadian-controlled private corporation and the assessment indicated that the credits were in fact denied on that basis from fiscal year 2009. Furthermore, legal proceedings, that had been before the Canadian Tax Court relative to another company, also assessed by CRA for their CCPC status, was concluded in January 2013 in favor of CRA. Under the circumstances, in the judgment of the management of CO₂ Solution Technologies Inc., the Corporation believed it could no longer definitively conclude that it will be successful in contesting the CRA assessment received in December 2012 and has determined that the federal tax credits claimed for CO₂ Solution Technologies Inc. fiscal years ended June 30, 2009 through June 30, 2012 and federal tax credits receivable accrued in the Corporation's accounts in its 2013 fiscal year through December 31, 2012, may not be collectible. Given these new facts, in December 2012, CO₂ Solution Technologies Inc. determined it would be prudent to write off the full amount of the federal tax credits receivable amounting to \$1,085,683. However, CO₂ Solution Technologies Inc. intends to continue to firmly defend its position.