three years for work on CO_2 Solution's capture technology. The funding is made available under the Dutch Ministry of Economic Affairs' International Innovation Program, which fosters the development of new technologies involving collaboration with international partners. The funding will be used by Procede to further the optimization of enzymatic carbon capture technology including advanced separation techniques for the efficient management of the enzyme used in the process. The work will complement CO_2 Solution's commercialization efforts and industrial projects in Canada, the U.S. and abroad. The work is being led by Procede, with CO_2 Solutions as its international partner, governed by the extended Consulting & Technology Transfer Agreement noted above.

Further work on-going in the area of enzyme evolution and management

On January, 15, 2013, the Company announced it will also receive $348,000 in non-reimbursable funding from the National Research Council (NRC) Canada's Industrial Research Assistance Program (IRAP). This funding will be used to support the ongoing development of CO_2 Solutions' technology, including enzyme evolution and enzyme management process optimization work and will be disbursed over the next twelve months. This funding demonstrates the Company's ability to secure financial backing from multiple sources in order to develop and commercialize its low-cost carbon capture technology. NRC-IRAP's commitment enables CO_2 Solutions to drive further optimization of its technology for commercial application.

Appointment of Chief Technology Officer

On January 17, 2013, the Company announced the appointment of Louis Fradette, Ph.D. as Senior Vice President, Process Engineering and Chief Technology Officer. Dr. Fradette will be responsible for leading the development and application of the Company's carbon capture technology, notably in the recently announced Alberta oil sands project, where his knowledge and experience in chemical absorption, particularly in carbon capture, makes him a strong addition to the CO_2 Solutions team.

Dr. Fradette, an experienced research & development professional, has more than 25 years of chemical engineering, engineering development and project management experience. He holds a Master's degree in Chemical Engineering from Laval University in Quebec City, a Ph.D. in Process Engineering from l'Institut National Polytechnique de Lorraine in France, and a Ph.D. in Chemical Engineering from the École polytechnique de Montréal. Dr. Fradette's research and development activities encompass work in both the public and private sectors, including the petrochemicals and oil and gas industries, as well as multiphase hydrodynamics with application to carbon capture. He is a member of the Ordre des ingénieurs du Québec and the American Institute for Chemical Engineers.

Appointment of Mr. Evan price as President and CEO of CO_2 Solutions Inc.

On May 6, 2013, the Company announced that effective May 21, 2013, Mr. Glenn R. Kelly, previously the President and CEO of the Company had been appointed Chairman of the Board of Directors of the Company. Mr. Evan Price, former Chairman of the Board of the Company was appointed President and CEO of CO_2 Solutions Inc.

Mr. Kelly and Mr. Price both joined the CO_2 Solutions team in 2008 and have worked closely together since then to propel the company forward. The two will be working together in their new roles to ensure the continuity of the business and the Company's steady progress towards commercializing its carbon capture technology.

Mr. Price has previously led a number of technology companies including Domosys Corporation, a power line communication provider whose technology was sold to Analog Devices in 2009. In addition, he has a broad international experience in the hospitality and forest industries. He holds a bachelor's degree in Forestry Engineering from Laval University, an MBA (Honours) from INSEAD in Fontainebleau, France and certificate in corporate governance from the Collège des Administrateurs de Sociétés.

Extension of Agreement with Codexis

On May 21, 2013, the Company announced that it has renewed until March 31, 2015 its Joint Development Agreement (JDA) with Codexis, Inc. ("Codexis") to continue the development and deployment of CO_2 Solutions' enzymatic carbon capture technology.

Under the amended and restated JDA, CO_2 Solutions' proprietary enzymatic method for the efficient capture of carbon dioxide from power plants, oil production operations and other large sources of emissions will continue to benefit from Codexis' directed enzyme evolution technology and enzyme production capabilities. CO_2 Solutions' technology uses the natural enzyme, carbonic anhydrase, to enhance the efficiency of CO_2 capture from industrial emission sources, at lower cost than conventional carbon capture technology. Codexis' technology has dramatically improved this enzyme's ability to function in harsh industrial conditions. Carbonic anhydrase provided by Codexis is now suitable for pilot and demonstration testing in CO_2 Solutions' carbon capture projects.

Intellectual Property

CO_2 Solutions enzyme-enabled, low-energy solvent approach to carbon capture eliminates the need for high value process heat and significantly reduces the cost that has historically been associated with carbon capture. As the Company progresses towards the commercialization of its technology, it is protecting its path forward by expanding its patent portfolio.

CO_2 Solutions continues to hold the broadest portfolio of patents in the field of enzyme enhanced carbon capture. As at June 30, 2013 the Company had, 33 patents issued and 56 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 October 3, 2012, the Company announced that it was granted U.S. Patent 8,277,769, "PROCESS FOR TREATING CARBON DIOXIDE CONTAINING GAS". The patent broadly covers the use of the enzyme carbonic anhydrase (CA), or an analogue thereof, for the efficient capture of carbon pollution from any cooled gas stream with any aqueous solvent or solution. The issuance of this patent follows the previously announced allowance of U.S. Patent 8,192,531, "CO_2 ABSORPTION SOLUTION" and U.S. Patent 8,192,531 covering the use of CA for carbon capture with any secondary or tertiary amine solvent with significant near-term application in the treating of various industrial gasses, including natural gas processing. Combined, these patents increase the Company's reach into the growing opportunity for the management and beneficial reuse of carbon dioxide in the United States. This is particularly the case in large jurisdictions such as California, which are implementing cap and trade systems that impose penalties on carbon emissions and can provide economic opportunities for the capture of these emissions.

Also in October 2012 the Company announced that it has been granted Canadian patent 2,738,061, "PROCESS FOR CO_2 CAPTURE USING MICRO-PARTICLES COMPRISING BIOCATALYSTS". The patent covers the use of a biocatalyst, including the enzyme carbonic anhydrase, for the efficient capture of carbon dioxide where the biocatalyst is attached to, or enclosed in a small particle support. Primary applications of the patent include high temperature CO_2 capture and production processes and mineral carbonation opportunities where the biocatalyst may be retained in the CO_2 absorption phase to reduce denaturation and losses in the mineral material, respectively. The company believes that the patent may have significant potential for application in the Alberta oil sands, an area of current opportunity for CO_2 Solutions, where pure CO_2 can be produced at high process temperatures for Enhanced Oil Recovery or geologic sequestration.

In January 2013, the Company announced that it has been granted three additional U.S. Patents as follows: 8,329,458, entitled "CARBONIC ANHYDRASE BIOREACTOR AND PROCESS FOR CO2 CONTAINING GAS EFFLUENT TREATMENT", 8,329,459, "CARBONIC ANHYDRASE SYSTEM AND PROCESS FOR CO2 CONTAINING GAS EFFLUENT TREATMENT" and 8,329,460, "CARBONIC ANHYDRASE BIOREACTOR AND PROCESS". These three patents broadly cover the use of the enzyme carbonic anhydrase flowing through an absorption reactor either homogeneously or attached to or in substrates, and optionally removed after absorption, for the efficient capture of carbon emissions from any gas stream with any aqueous solvent or solution. Notable industry applications of the patents for carbon management include power generation, oil refining, metals production, and cement production, among others. The issuance of all these patents noted above further expands CO_2 Solutions already dominant intellectual property portfolio for enzymatic carbon capture and will provide significant incremental value going forward in commercializing its technology in the U.S. and Canadian markets.

Finally, on September 19, 2013, the Company announced that it had received Notices of Allowance in Canada for two broad patents: Patent 2,813,640, "CARBONIC ANHYDRASE SYSTEM AND PROCESS FOR TREATING A CO_2-CONTAINING GAS" and patent 2,769,772, "FORMULATION AND PROCESS FOR CO_2 CAPTURE USE CARBONATES AND BIOCATALYSTS". These patents will be directly applicable to the use of CO_2 Solutions' technology in the Alberta Oil Sands, the coal-fired power generation industry, and wherever CO_2 capture is beneficial, including the production of CO_2 for use in Enhanced Oil Recovery.

Private Placement

On June 27, 2013, CO_2 Solutions announced its intention to complete a non-brokered private placement of units of the Corporation at a price of $1,000 per Unit for gross proceeds of up to $1.2 million. Each Unit was comprised of (i) $1,000 principal amount of convertible subordinated redeemable debentures and (ii) 4,167 common share purchase warrants. The Convertible Debentures will bear interest at a rate of 10% per annum payable annually on the anniversary date of the Convertible Debenture. Interest will be payable, at the option of the Corporation, in cash or, subject to applicable regulatory approvals, in common shares of the Corporation at a deemed price per share equal to the market price at the time of payment. The Convertible Debentures is convertible at a conversion price of $0.12 per Common Share and has a maturity date of June 30, 2016. Each Warrant entitles its holder to acquire one Common Share at a price of $0.15 per Common Share for a period of 36 months following the closing of the Offering.

Corporate Events after Year-End

On August 12, 2013, CO_2 Solutions announced the closing of a non-brokered private placement of 1,200 units of the Corporation (the "Units") at a price of $1,000 per Unit for aggregate gross proceeds of $1,200,000 (the "Offering"). Each Unit is comprised of (i) $1,000 principal amount of convertible subordinated redeemable debentures (the "Convertible Debentures") and (ii) 4,167 common share purchase warrants (the "Warrants"). The Convertible Debentures will bear interest at a rate of 10% per annum payable annually on the anniversary date of the Convertible Debenture. Interest will be payable, at the option of the Corporation, in cash or, subject to applicable regulatory approvals, in common shares of the Corporation (the "Common Shares") at a deemed price per share equal to the market price at the time of payment. The Convertible Debentures will be convertible at a conversion price of $0.12 per Common Share and will have a maturity date of June 30, 2016. Each Warrant will entitle its holder to acquire one Common Share at a price of $0.15 per Common Share until June 30, 2016.

In accordance with IAS 32, ''Financial Instruments: Presentation'', the issuer of a non-derivative financial instrument shall evaluate the terms of the financial instrument to determine whether it contains both a liability and an equity component. In application of this standard, the issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument.

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

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

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

Proceeds of the Offering will be used by CO_2 Solutions for working capital and general corporate purposes.

SELECTED ANNUAL INFORMATION

	As at June 30		
	2013	**2012**	**2011**
Total revenues	$754,536	$1,050,216	$1,900,118
Net loss	$2,543,333	$1,655,823	$1,267,553
Net loss per share	$0.03	$0.02	$0.02
Total assets	$2,687,125	$5,716,563	$2,912,437
Non-current liabilities	$236,442	$743,932	$609,422

Revenues for 2013 totaled $754,536 ($1,050,216 for 2012) and were primarily generated from research and development collaborations between CO_2 Solutions, Codexis, CCP, Stat Oil and the Global Leader. The decrease in revenue between the years is the result of the completion of the projects with Alcoa and the Global Leader in mid fiscal year 2012.

As at June 30, 2013, the net decrease of $3,029,438 in total assets compared to the balances as at June 30, 2012, is the result of the following items:

- A $2,539,011 decrease in cash, such cash having been used for normal operating expenses during the past year. As at June 30, 2012 there was a significant amount of cash on hand following the closing of the August 2011 private placement;
- A decrease in research and development tax credits receivable resulting from the write-down of the federal tax credits receivable of $1,085,683 from which $967,729 were receivable as of June 30, 2012 (see Status of pending Canadian research and development tax credit issues below);
- A decrease of $453,802 in research and development tax credits receivable resulting from the accounting treatment of government grants to be received by the Company. Accounting for grants is done by way of offsetting grant payments received and receivable against overall research and development expenses. Additionally, since these grants serve to reduce allowable expenses generally eligible for research and development tax credits their recognition will reduce net research and development tax credits being claimed. Additional anticipated grant payments expected to be received in the 2014 fiscal year will likely serve to further lower future research and development tax credits;
- An increase of $829,816 in government grants receivable (ecoENERGY and CCEMC by the Company pursuant to its project in the Alberta oil sands and enzyme evolution project (IRAP);
- An increase of $164,380 (net of annual amortization charge) in the investment of patents. In accordance with the application of IAS 38, Intangible Assets, CO_2 Solutions considers that an intangible asset worthy of capitalization is established only once it has reached a stage where it is ready to start the process of being patented, and generally only the professional and filing fees paid to secure the patents are capitalized. The Company does not include any internally generated expenses in the valuation of the patent since the research work, completed by its internal research and development staff, would be completed prior to applying for the patent. Further, the Company does not include expenses incurred during the development phase.

As at June 30, 2013, the net decrease of $700,661 in total liabilities compared to the balances as at June 30, 2012, is the result of the following items:

- A $193,171 net decrease in current liabilities reflecting a lower trade accounts payable balance at June 30, 2013 as compared to the prior year and the addition of the short-term portion of refundable contribution in 2013.
- A $507,490 decrease in non-current liabilities. As at June 30, 2012, long-term liabilities included a $475,000 commitment fee which was received from Codexis, Inc. upon signature of the Joint Development Agreement (JDA) in 2009. As noted above, on May 21, 2013, the Company announced that it has renewed, until March 31, 2015, its JDA with Codexis, Inc. to continue the development and deployment of CO_2 Solutions enzymatic carbon capture technology. Under the amended and restated JDA the requirements for potential refund of this fee to Codexis was extinguished. Therefore, in June 2013 the liability was reversed from the accounts of the Company and taken into earned revenues. Also, as at June 30, 2013, the Company has a long term liability in the form of a refundable contribution obtained from Economic Development of Canada of $250,000 which was received in installments over fiscal 2011 and 2012. The loan was accrued to a present value using an estimated capitalization rate of 5%. The difference between the present value and the principal amount of the loan received in 2011 and 2012 was included as Gain on refundable contribution in the Consolidated Statements of Comprehensive Loss when the loan was received ($13,480 in 2012 and $14,000 in 2011). The gain is currently amortized over an estimated period of ten years. This contribution is refundable starting July 2013 with annual payments representing 4% of the Company's total revenues.

Additional information concerning results

	June 30, 2013	June 30, 2012
	$	$
Research and development expenses, net		
Salaries, employee benefits and other compensation	788,193	782,342
Stock-based compensation costs	19,446	31,003
Professional fees	335,295	578,346
Laboratory and other supplies	90,064	114,301
Tax credits	(342,465)	(767,365)
Write-off of federal tax credits receivable	1,085,683	-
Government assistance	(974,547)	(1,018)
Business development expenses		
Salaries, employee benefits and other compensation	426,178	351,955
Stock-based compensation costs	24,435	66,379
Professional fees	157,466	54,397
Travel, entertainment, advertising and office expenses	71,312	83,958
General and administrative expenses		
Salaries, employee benefits and other compensation	531,997	472,877
Stock-based compensation costs	70,562	111,910
Rent, electricity, taxes and insurance	184,390	183,740
Office expenses	65,759	71,906
Travel, entertainment and advertising	65,061	79,056
Tax on capital	(7,780)	7,273
Directors' fees	138,027	86,868
Professional fees	471,115	384,812
Depreciation of property, plant and equipment	47,163	52,858
Amortization of patents	72,299	37,037
Amortization of deferred credits	(8,837)	(10,902)
Financial income, net		
Gain on refundable contribution	-	(13,480)
Other financial expenses	7,658	12,841
Interest income	(18,636)	(33,491)
Gain on foreign exchange	(1,969)	(31,564)

OPERATING RESULTS

Comparison between financial years ended June 30, 2013 and June 30, 2012

Revenues

The Company recorded revenues for 2013 of $754,536 ($1,050,216 for 2012). These revenues were generated from research and development collaborations between CO_2 Solutions, Codexis, CCP, Stat Oil and the Global Leader. The decrease in revenue between the fiscal years 2012 and 2013 is the result of the completion of the projects with Alcoa and the Global Leader in mid fiscal year 2012.

Research and development expenses, net

Research and development expenditures, before investment tax credits and government assistance, decreased by $272,994 totalling $1,232,998 for the year ended June 30, 2013, compared with $1,505,992 for the same period in 2012. This decrease between the years reflects timing of work done internally and by consultants relative to the ramp up of the project related to the Alberta oil sands as well as work on enzyme performance characterization under various industrially relevant operating conditions and the continued exploration into new avenues for enzyme immobilization. These expenses will vary based upon on-going collaboration agreements and projects and the timing thereof.

Research and development tax credits accrued during the period ended June 30, 2013, decreased in total by $1,510,583. This decrease is net of Quebec provincial tax credits earned offset by the write off of $1,085,683 in previously recognized Federal research & development credits (see Status of Pending Canadian Research and Development Tax Credit Issues below). Government assistance for the year ended June 30, 2013 was $974,547 ($1,018 in 2012), an increase over the prior year of $973,529. This government assistance comes in the form of subsidies granted to the Company by the Natural Resources Canada through the ecoENERGY Innovation Initiative and Alberta's Climate Change and Emissions Corporation (CCEMC) in support of the Company's carbon capture program in the environmental management of the Alberta oil sands project (see Update on the Application of CO_2 Solutions Carbon Capture Program in the environmental management of the Alberta Oil Sands, above) and the National Research Council (NRC) Canada's (IRAP) subsidy supporting its enzyme evolution and management work. Accounting for these subsidies is done by way of offsetting subsidy payments receivable against overall research and development expenses. Additionally, since these subsidies serve to reduce allowable expenses generally eligible for research and development tax credits, their recognition will reduce net research and development tax credits being claimed.

Business development expenses

Business development expenses amounted to $679,391 for the year ended June 30, 2013, compared with $556,689 for the same period in 2012, representing an increase of $122,702. The increase is primarily attributable to the consideration paid for business development services provided by the two principals of Procede, each of their holding companies having received 250,000 common shares of CO_2 Solutions Inc. at a value of $0.20 per share ($50,000 each).

General and administrative expenses

General and administrative expenses totalled $1,629,756 for the year ended June 30, 2013, compared with $1,477,435 for the same period in 2012, representing an increase of $152,321. This net increase is related to increases in:

- employee salaries and benefits;
- Directors' fees;
- Incentive compensation
- Professional fees and
- Increased patent amortization expense resulting from the write-down of the value of two abandoned patents.

These increased expenses were offset by decreases in non-cash stock-based compensation and travel & entertainment expenses.

Financial income, net

Financial income, net (gain on refundable contribution, bank fees, interest and foreign exchange) for the year ended June 30, 2013, was a gain of $12,947 compared with gain of $65,694 for the same period in 2012, resulting in a decreased gain year over year of $52,747. This decrease is attributed to a decrease in the gain on foreign exchange transactions of $29,595 and less interest ($14,855) from lower cash balances in place during the year.

Comprehensive Loss for the year

The Company recorded a loss of $2,543,333, or $0.03 per share, for the year ended June 30, 2013, compared with a loss of $1,655,823, or $0.02 per share, for the same period in 2012. The largest single factor in the increased loss between periods being the write-off of federal research and development tax credits receivable noted below (see STATUS OF PENDING CANADIAN RESEARCH AND DEVELOPMENT TAX CREDIT ISSUES). No other significant factor, other than those described above, contributed to the change in the loss for the 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			
	June 30, 2013	**March 31, 2013**	**December 31, 2012**	**September 30, 2012**
Revenues	$475,600	$126,425	$152,511	$0
Profit (loss)	$47,382	($283,815)	($1,609,084)	($697,816)
Profit (loss) per share	$0.00	($0.00)	($0.02)	($0.01)

	Quarters ended			
	June 30, 2012	**March 31, 2012**	**December 31, 2011**	**September 30, 2011**
Revenues	$39,356	$0	$148,576	$862,284
Profit (loss)	($462,010)	($611,357)	($551,863)	($30,593)
Profit (loss) per share	($0.01)	($0.01)	($0.01)	($0.00)

4TH QUARTER OF 2013

During the last quarter of 2013, the Company recorded a net profit of $47,382 or $0.00 per share, compared with a loss of $462,010, or $0.01 per share, for the same period in 2012, a $509,392 increase in the year over year quarterly results. This decreased loss is mainly attributed to higher revenues generated by the reversal, in June 2013, of the $475,000 advance from a shareholder with significant influence (See reference above under SELECTED ANNUAL INFORMATION).

CASH FLOWS

Cash totalled $348,259 as at June 30, 2013, compared with $2,887,270 as at June 30, 2012. This decrease in cash is a result of normal working capital usage during the period.

For the year ended June 30, 2013, cash flow required for operating activities amounted to $2,281,593, compared with $1,027,535 for 2012, representing an increase of $1,254,058, primarily due to less revenue and the negative impact of the change in non-cash working capital items.

For the year ended June 30, 2013, cash flow required for investing activities totalled $254,091, compared with $212,125 required for the same period in 2012, a difference of $41,966. This difference is mainly attributable to the following factors:

- Term deposits
  Term deposits decreased by $187,628 in 2013, funds having been used for working capital requirements.

- Capital expenditures

For the year ended June 30, 2013, the Company capitalized only $236,679 in patent related costs compared to $392,829 in 2012.

The cash flow used in financing activities for the year ended June 30, 2013, amounted to only $3,327, compared with $3,993,817 generated for the same period in 2012. This $3,997,144 decrease in cash flow is primarily attributable to the net proceeds from the private placement completed in August 2011. There were no new capital funds raised in the year ended June 30, 2013.

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 or convertible debt and government assistance.

At June 30, 2013, the Company has $348,259 in cash, $888,255 in receivables and $301,702 in provincial tax credits receivable in the short term for total liquid assets of $1,538,216 ($3,751,637 as at June 30, 2012).

On August 12, 2013, CO_2 Solutions announced the close of a non-brokered private placement offering in the form of units of the Corporation (as described above under Private Placement) with net cash proceeds of $1,200,000. With the receipt of the proceeds from this offering, added to the liquid assets held at June 30, 2013, the announced government assistance and the close monitoring of operating expenses Management believes the Company has sufficient funds to meet its working capital requirements for at least the next 12 months.

The Company's access to sufficient long-term capital depends on the ability to continue to obtain government assistance to support continuing research & development of the Company's technology, continue, if required, to have access to capital markets and in the longer term to generate a profit. This will depend in part on the Company's 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 future income; however, it is difficult to predict exactly when this income will materialize.

As at June 30, 2013 the Company benefited from credit facilities in the form of an operating line of credit of $150,000 bearing interest at prime plus 2% secured by a universal charge on the company's assets to a maximum of $225,000. As at June 30, 2013, this operating line of credit was unused.

STATUS OF PENDING CANADIAN RESEARCH AND DEVELOPMENT TAX CREDIT ISSUES

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

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

COMMITMENTS AND CONTINGENCIES

Pending tax assessment under dispute, assessment now rescinded
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 always remained 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. In July 2012, Fiducie Financière CO_2 Solution was informed by Revenue Quebec that upon their further review the assessment has been rescinded. This file is now closed.

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

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

INFORMATION REGARDING CAPITAL STOCK

As at September 26, 2013, the number of outstanding common shares, warrants and stock options is respectively 79,687,836, 5,000,400, and 3,843,998.

RELATED PARTY TRANSACTIONS AND OFF-BALANCE SHEET AGREEMENTS

As at June 30, 2013, there were no related party transactions nor were there any off balance sheet agreements. See Corporate Events after Year-End above for references to related party transactions associated with the non-brokered private placement closed on August 12, 2013.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's audited consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"). The full description of accounting policies and estimates are presented in the relevant section of the Company's financial statements for the year ended June 30, 2013.

Estimates, assumptions and judgments 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.

RISK FACTORS AND UNCERTAINTIES

The following is a list of risk factors and uncertainties, some having significant impact ("Significant Factors") and some having less significant impact ("General Factors") on the Company. This list may not be exhaustive, as the Company operates in a rapidly changing business environment, and new risk factors emerge from time to time. The Company cannot predict such risk factors, nor can the Company assess the impact, if any, of such risk factors or uncertainties on its business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those reported in the financial statements or projected in any forward-looking statements. Accordingly, the Company does not, and nor should shareholders of the Company or purchasers of Common Shares, rely on forward-looking statements as a prediction of actual results. If any of these risks actually occur, the Company's business, results of operations and financial condition could be adversely affected. In any such case, the market price of the Common Shares could decline, and investors may lose all or part of their investment.

Significant factors

Uncertainty Concerning Revenues and a History of Previous Losses
Founded in 1997, CO_2 Solutions has yet to generate significant revenues from the sale of its technology. Investments in research and development in the field of enzyme-enabled carbon capture are necessary to develop the technology required to generate future revenues. While the Company is confident in its

technology, it cannot know with complete certainty if or when any of CO_2 Solutions technologies will be commercialized. It is not certain whether commercial applications of its enzyme-enabled carbon capture technology or services can be produced or delivered at a reasonable cost and be successfully marketed, nor is it known whether investments in any such technology will be recovered through future licensing agreements or royalties. Some of the technology or processes currently being developed may not be commercially available for some years to come or may be discontinued altogether. Even if CO_2 Solutions were to use all means at its disposal to ensure the commercialization of its technologies, revenues would depend on one or more factors such as CO_2 Solutions or its collaborative partners capability to promote this technology, on the performance of its collaborative partners, on the competition, on the acceptance of the technology by the industrial community, and on the impact of the intervention of regulatory authorities.

At the moment, CO_2 Solutions revenues are generated from its current relationships with collaborative partners. CO_2 Solutions also earns interest income on its invested surplus funds. There can be no assurance that any of the Company's current collaborative agreements will continue to support CO_2 Solutions technology research and development on current levels or at all and CO_2 Solutions might develop new relationships and enter into new agreements with additional collaborative partners or clients.

Dependence on Collaborative Partners

CO_2 Solutions strategy is to enter into various arrangements with corporate collaborators, for the continued development and commercialization of the Company's enzyme-enabled carbon capture technology. To date, CO_2 Solutions has entered into different types of collaborations for research and development and technology scale up. The Company also expects to enter into further collaborations for the potential further development and commercialization of its technology with other firms, pursuant to which the Company may receive additional funding, including milestone payments. There can be no assurance, however, that the Company will be able to establish such additional collaborations on favorable terms, if at all, or that current or future collaborative arrangements will be successful. Should any collaborative partner fail to develop or commercialize successfully any technology to which CO_2 Solutions has rights, or any of the partners' technology to which the Company has rights, CO_2 Solutions business may be adversely affected. Additionally, failure of a collaborative partner to continue funding any particular program could delay or halt the development or commercialization of the company's technology. In addition, there can be no assurance that the collaborative partners will not pursue alternative technologies or develop alternative carbon capture products either on their own or in collaboration with others, including the Company's competitors.

Government regulation in the field of carbon capture

Considering that market development in the field of carbon capture is closely linked to changes in environmental legislation and regulation for the reduction of greenhouse gas emissions, CO_2 Solution's growth could be adversely impacted by a lack of concerted legislative efforts on the part of major industrialized countries.

Unproven Market

Much of the Company's strategy is based on the belief that the application of its enzyme-enabled carbon capture technology to develop products for the markets it is addressing will result in the creation of new, commercially viable products or technical applications. Notwithstanding the Company's estimated market potential for the licensing of its technology or products, no assurance can be given that these beliefs will prove to be correct owing to, in particular, competition from existing or new carbon capture technology and the yet to be established commercial viability of the Company's technology or products.

Market Acceptance
Even if the Company develops safe and effective enzyme-enabled carbon capture technology and secures the necessary collaboration, the enzyme-enabled carbon capture technology development process could take a few more years to perfect and commercialize, and by the time this occurs, because of the competitive and dynamic nature of the carbon capture industry, there is a risk that at such time, any such technology:

- will not be economical to market or marketable at prices that will allow the Company to achieve profitability;
- will not be successfully marketed by, CO_2 Solutions or its collaborative partners so as to achieve market acceptance;
- will not be preferable to existing or newly developed carbon capture technology marketed by third parties.

The degree of market acceptance of technology developed by CO_2 Solutions or its collaborative partners, if any, will depend on a number of factors, including the establishment and demonstration in the carbon capture and environmental community of the efficacy of the Company's enzyme-enabled carbon capture technology and its potential advantage over alternative carbon capture technology. There is no assurance that third parties in the carbon capture community in general will accept and utilize any technology that may be developed by the Company. In addition, by the time the Company's products, if any, are ready to be commercialized, what the Company believes to be the market for these products may have changed. Any estimates referenced in the statements presentations or Company literature regarding the number of potential customers for the Company's enzyme-enabled carbon capture technology who have expressed interest in or might have been candidates to use its specific technology may not accurately reflect the true market or market prices for such technology. The Company's or its collaborative partners failure to successfully introduce and market CO_2 Solutions enzyme-enabled carbon capture technology that is under development would have a material adverse effect on the company's business, financial condition and results of operations.

Intellectual Property and Technologies
CO_2 Solutions success will depend, in part, on the Company's ability to obtain patents or rights thereto, to protect trade secrets and operate without violating the exclusive rights of third parties. Although the Company already owns certain enzyme-enabled carbon capture pending applications or issued patents or has, through licensing agreements, secured rights to certain carbon capture technologies belonging to others, there is no guarantee that the pending applications will be allowed or that the Company will develop other patentable technologies in the future. Moreover, there can be no assurance that a patent granted to the Company or in respect of which the Company holds a license will make the related carbon capture technology more competitive, that third parties will not contest the protection granted by the patents, or that the patents of third parties will not be detrimental to the Company's commercial activities.

In order to protect or enforce the intellectual property rights owned or used by the Company, CO_2 Solutions may have to initiate legal proceedings against third parties. The Company may also have to defend claims brought against it or any purchaser or user of its products asserting that such product or process infringes intellectual property rights of third parties. Legal proceedings relating to intellectual property typically are expensive, take significant time and divert Management's attention from other business matters. The cost of this litigation could adversely affect the business of the Company. Further, if the Company does not prevail in an infringement lawsuit brought against it, the Company might have to pay substantial damages and could be required to stop the infringing activity or obtain a license to use the patented technology. Such royalty or licensing agreements, if required, may not be available on acceptable terms, if at all. In the event a claim is successful against the Company and the Company cannot obtain a license to the relevant technology on acceptable terms, license a substitute technology or redesign potential products to avoid infringement, the business, financial condition and operating results of the Company could be materially adversely affected. Loss of patent protection could lead to new competition for the Company's current and future technology, which could materially and adversely affect the financial prospects for the Company. There is no guarantee that other companies will not independently develop similar products to those of CO_2 Solutions, that they will not imitate CO_2 Solutions technology or that the Company's competitors will not develop technology designed to circumvent CO_2 Solutions exclusive proprietary rights. The Company may also need to obtain rights for other technologies belonging to third parties, but there is no guarantee that such technologies will be offered to CO_2 Solutions on acceptable terms.

General Factors

Global Political and Economic Conditions

Challenging global market and economic conditions in most major economies continues while concerns about the systemic impact of potential long-term and wide-spread recession, energy costs, geopolitical issues, the availability and cost of credit have contributed to increased market volatility and diminished expectations for western and emerging economies. Notwithstanding various actions by the U.S., Canadian and foreign governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. In addition, general economic indicators have deteriorated, including declining consumer sentiment, increased unemployment and declining economic growth and uncertainty about corporate earnings. These unprecedented disruptions in the overall financial markets have had a significant material adverse impact on a number of businesses and financial institutions and have limited access to capital and credit for many companies. These disruptions could, among other things, make it more difficult for the Company or its collaboration partners to obtain, or increase their cost of obtaining, capital and financing for their operations. These factors can lead to a decrease in spending by businesses and consumers alike, and a corresponding decrease in global infrastructure spending. Operational scale backs or reassessment of development programs and spending either by the Company or its collaborative partners may result. The Company's access to additional capital may not be available on terms acceptable to it or at all. These factors could negatively affect the Company's future results of operation in those national markets, the ability to attract collaboration partners and the ability to successfully commercialize its enzyme-enabled carbon capture technology.

Exchange Rates

From time to time a portion, depending on the source of contracts and agreements, of the Company's cash inflow is in U.S. dollars while the Company's operating expenses are generally in Canadian dollars and Euros. Fluctuation in the exchange rate between the U.S. dollar, the Euro and the Canadian dollar may have a material effect on CO_2 Solutions results of operations. The Company does not currently use derivative instruments to hedge its foreign currency risk however it may consider doing so in the future.

Recruitment and Retention of Key Personnel

CO_2 Solutions success is largely dependent upon the members of the Company's Management team and the Company's capacity to attract and retain highly competent scientific and business development personnel. The inability to attract, or the potential loss of such persons already within the Company, could compromise the pace and success of the Company's enzyme-enabled carbon capture technology research and development and commercialization programs.

Volatility of Share Price

Market prices for securities in general, and that of biotech and cleantech companies in particular, tend to fluctuate. Factors such as the announcement (to the public or at scientific conferences) of technological innovations, new commercial products, patents, the obtaining of exclusive rights by the Company or other companies, a change in regulations, publications, quarterly financial results, public regulation on environmental issues, future sales of Common Shares by the Company or current shareholders, and many other factors could have considerable repercussions on the price of CO_2 Solutions Common Shares. In addition, the financial markets may experience significant price and value fluctuations that affect the market prices of equity securities of companies that sometimes are unrelated to the operating performance of these companies. Broad market fluctuations, as well as economic conditions generally, and in the cleantech sector specifically, may adversely affect the market price of the Common Shares.

Future sales of Common Shares

The market price of the Common Shares could decline as a result of issuances by the Company or sales by its existing shareholders of Common Shares in the market or the perception that these sales could occur. Sales by shareholders might also make it more difficult for the Company to sell securities at a time and price that it deems appropriate.

Dividends

The Company has paid no cash dividends on any of its Common Shares to date and currently intends to retain its cash on hand and future earnings, if any, to fund the development growth of its businesses. In addition, the terms of any future debt or credit facility may preclude the Company from paying dividends.

Dilution

The Company may consider issuing convertible debt or equity securities or preferred shares, which may rank prior to the Common Shares, in the future to fund potential acquisitions or investments, or for general corporate purposes. The articles of the Company provide that CO_2 Solutions has an unlimited number of authorized Common Shares that may be issued. Under applicable law, shareholders' approval is not required for the Company to issue shares. If the Company issues convertible debt or equity securities or preferred shares to raise additional funds, its existing shareholders may experience dilution, and the new convertible debt or equity securities or preferred shares may have advantageous rights, preferences and privileges when compared to those of the Company's existing shareholders. The Company is unable to predict the future amount of such issuances or dilution. If the Company incurs debt, it may increase its leverage relative to its earnings or to its equity capitalization, requiring the Company to pay interest expenses.

Tax credits

The Company has determined that its related entity, CO_2 Solution Technologies Inc., is eligible for research and development tax credits on expenditures incurred on scientific research and experimental development related to the field of enzyme-enabled carbon capture. There is a risk that a federal or provincial governmental agency could conclude that: (i) some or all of the expenditures were not incurred on scientific research and experimental development activities, (ii) the rate applicable to such credit is different from the rate claimed by the Company, and,(iii) the related entity does not meet specified criteria for refundable tax credits, and therefore the governmental agency could reduce or disallow claims for such credits, including refundable credits previously funded.

NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET IN EFFECT

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

The following is a brief summary of the new standards:

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

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

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

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

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

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

IFRS 13 – Fair Value Measurement
IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS,

guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

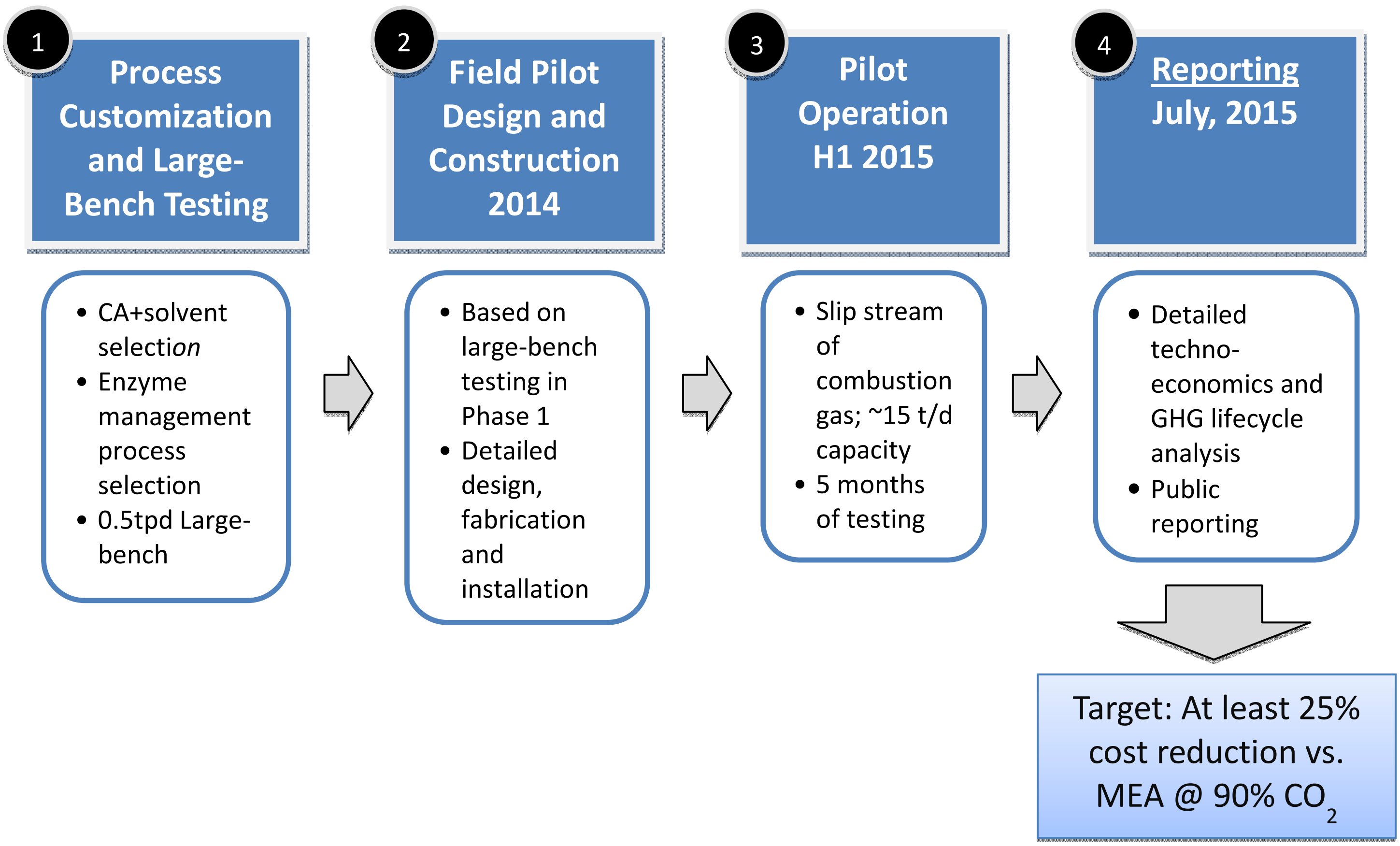
As at June 30, 2013, an evaluation of the design and operating effectiveness of the Company's disclosure controls and procedures, as defined in the rules of Canadian Securities Administrators, was carried out. Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer of the Corporation concluded that the design and operating effectiveness of those disclosure controls and procedures were effective.

Also as at June 30, 2013, an evaluation of the design and operating effectiveness of internal controls over financial reporting, as defined in the rules of the Canadian Securities Administrators, was carried out to provide reasonable assurance regarding the reliability of financial reporting and financial statement compliance with IFRS. Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer of the Corporation concluded that the design and operating effectiveness of internal controls over financial reporting were effective. These evaluations were based on the framework established in *Internal Control over Financial Reporting – Guidance for Smaller Public Companies* issued by the Committee of Sponsoring Organizations of the Treadway Commission, a recognized control model, and the requirements of Multilateral Instrument 52-109 of the Canadian Securities Administrators. All control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention or overriding of the controls or procedures. As a result, there is no certainty that the Company's disclosure controls and procedures or internal control over financial reporting will prevent all errors or all fraud. There were no changes in the internal controls over financial reporting that occurred during the year ended June 30, 2013, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

OUTLOOK 2013-2014

<u>Liquidity and operational effectiveness</u>
As noted earlier, at June 30, 2013, the Company has over $1.5 million in cash and receivables. In addition, with the contracted government subsidies (ecoENERGY, CCEMC and IRAP), 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.

<u>Application of CO_2 solutions carbon capture program in the environmental management of the Alberta oil sands</u>
As discussed previously, this project, supported by the Canadian federal ecoENERGY program and the Province of Alberta has been on-going since January 1, 2013 and is scheduled to be completed for June 15, 2015. The project is divided into 4 distinct phases as outlined below:



As at September 26, 2013, the project was on track and on budget. Milestones slated for July 2013 delivery were achieved (see above discussion under Developments over the Year).

<u>Continued expansion of intellectual property dominance</u>
As the world searches for innovative solutions to lower the current cost barrier to CO_2 capture, continued growth in industry interest in the potential of enzyme-enabled carbon capture, largely pioneered by CO_2 Solutions, has emerged as a focal point in its own right. This is particularly the case south of the border, where the United States' government has recently invested millions of dollars in enzyme-related projects. It is fortunate that the 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 continues to expand its intellectual property dominance with the filing of new patents.

<u>Additional scale-up opportunities</u>
The company continues 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 its 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 was being explored with Alcoa; carbon separation, e.g. natural gas sweetening (removal of contaminants from native gas streams), mineral carbonation 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 over the coming year.

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 renewed 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 made 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 industrial 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 its technology for use in this sector. The announcements made by the State of California Air Resources Board 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 the Company's beliefs that additional regulation will be forthcoming.

Potential for additional climate change regulation in North America

International Energy says in a report released in June 2013, that the world is not on track to control the temperature increase of 2 degrees Celsius and urged the governments to put in action four energy policies that would help keep the climate goals without harming economic growth.[15]

As for prospective plans, in Canada some regulation around climate change is expected in "due course",[16] especially with the pressure coming from the US regarding the Keystone XL pipeline (see below), while the Province of Alberta has proposed what has come to be known as the 40/40 target — a

[15] Guardian Express, June 10, 2013
[16] CBC News, July 3, 2013

40 per cent reduction in greenhouse gas emissions per unit of oil produced from the Alberta oil sands, paired with a $40 per tonne levy on emissions above the regulated level.[17]

South of the boarder in the United States, President Obama's environmental policies are likely to play a prominent role in defining his second term, even as the budget, immigration and health care still dominate the current political debate. Cutting carbon emissions and preparing for the impacts of climate change are the biggest environmental policies the president is pursuing.[18]

In perhaps the most significant policy unveiled, in June 2013, President Obama ordered the Environmental Protection Agency to propose limits on carbon dioxide emissions from existing coal- and gas-fired utilities by 2015.[19] The president also surprised supporters and detractors alike by announcing that he would approve the Keystone XL pipeline — which would carry crude oil from Canada to the Gulf of Mexico — only if "does not significantly exacerbate the climate problem."[20]

The coming year could be important for carbon capture and storage in North America and around the world as the economy starts to recover, with regulations and potential legislation that could help propel the deployment and viability of the technology.

ADDITIONAL AND CONTINUOUS DISCLOSURE

This analysis was prepared on September 26, 2013. Additional disclosure is provided on the SEDAR Web site at: www.sedar.com.

On behalf of management,

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

Evan Price
President and Chief Executive Officer

September 26, 2013

[17] Ibid
[18] Washington Post, August 11, 2013
[19] USA Today, June 25, 2013
[20] Globe and Mail, June 25, 2013