Consolidated Financial Statements (audited)

as at June 30, 2018 and 2017

CO2 SOLUTIONS

October 18, 2018

Independent Auditor's Report

To the Shareholders of
CO_2 Solutions Inc.

We have audited the accompanying consolidated financial statements of CO_2 Solutions Inc., which comprise the consolidated statements of financial position as at June 30, 2018 and 2017 and the consolidated statements of changes in equity, comprehensive loss and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of CO_2 Solutions Inc. as at June 30, 2018 and 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 2 to the consolidated financial statements which describes matters that indicate the existence of material uncertainty that may cast significant doubt about CO_2 Solutions Inc.'s ability to continue as a going concern.

PricewaterhouseCoopers LLP[1]

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

CO_2 Solutions Inc.
Consolidated Statements of Financial Position

(expressed in Canadian dollars)

	As at June 30, 2018 $	As at June 30, 2017 $
ASSETS		
Current assets		
Cash and cash equivalents	**7,057,252**	3,028,147
Certificate of deposit (note 6)	**150,000**	-
Accounts receivable (note 7)	**1,389,148**	180,992
Tax credits receivable	**171,983**	224,139
Inventory	**66,156**	156,535
Prepaid expenses	**66,009**	345,788
	8,900,548	3,935,601
Non-current assets		
Property, plant and equipment (note 8)	**128,657**	133,015
Patents (note 9)	**1,136,093**	1,151,502
	10,165,298	5,220,118
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**2,617,662**	1,711,265
Deferred grants (note 10)	**8,412,608**	4,021,410
Term loans (note 11)	**907,679**	940,097
Short-term portion of refundable contributions (note 12)	**46,173**	1,961
Short-term portion of convertible debentures (note 14)	**-**	540,552
	11,984,122	7,215,285
Non-current liabilities		
Refundable contributions (note 12)	**915,922**	452,765
Deferred credits (note 13)	**9,208**	11,691
Convertible debentures (note 14)	**407,871**	-
	13,317,123	7,679,741
EQUITY		
Capital stock (note 15)	**29,239,851**	28,534,756
Stock options (note 16)	**615,076**	555,933
Deferred and restricted share units (note 17)	**230,750**	108,472
Broker units (note 15)	**10,896**	10,896
Warrants (note 15)	**1,230,123**	2,150,259
Contributed surplus	**5,481,063**	4,199,328
Deficit	**(39,959,584)**	(38,019,267)
	(3,151,825)	(2,459,623)
	10,165,298	5,220,118

Basis of preparation and going concern (note 2)
Commitments (note 24)

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

Approved by the Board of Directors

[signed] Evan Price
Evan Price
Director

[signed] Glenn Kelly
Glenn Kelly
Director

CO_2 Solutions Inc.

Consolidated Statements of Changes in Equity

For the years ended June 30, 2018 and 2017

(expressed in Canadian dollars)

	Capital stock $	Stock options $	Deferred and restricted share units $	Broker units $	Warrants $	Contributed surplus $	Deficit $	Total $
Balance as at July 1, 2017	28,534,756	555,933	108,472	10,896	2,150,259	4,199,328	(38,019,267)	(2,459,623)
Stock-based compensation costs	-	169,770	329,069	-	-	-	-	498,839
Stock options expired (note 16)	-	(108,245)	-	-	-	108,245	-	-
Stock options forfeited (note 16)	-	(506)	-	-	-	506	-	-
Share issues from stock options exercised (notes 15 and 16)	4,876	(1,876)	-	-	-	-	-	3,000
Share issue from RSUs granted in November 2017 (notes 15 and 17)	206,791	-	(206,791)	-	-	-	-	-
Share issues from 2017 convertible debentures converted (notes 14 and 15)	493,428	-	-	-	-	-	-	493,428
Issuance fees on various share and warrant issues		-	-	-	(2,166)	-	-	(2,166)
Warrant issue relating to a collaboration agreement (note 15)	-	-	-	-	3,680	-	-	3,680
Warrants issued to broker upon closing of the December 2017 public financing (notes 14 and 15)	-	-	-	-	23,256	-	-	23,256
Warrants issued from December 2017 public financing (notes 14 and 15)	-	-	-	-	228,078	-	-	228,078
Warrants expired	-	-	-	-	(1,172,984)	1,172,984	-	-
Loss and comprehensive loss for the year	-	-	-	-	-	-	(1,940,317)	(1,940,317)
Balance as at June 30, 2018	**29,239,851**	**615,076**	**230,750**	**10,896**	**1,230,123**	**5,481,063**	**(39,959,584)**	**(3,151,825)**

CO_2 Solutions Inc.

Consolidated Statements of Changes in Equity (continued)

For the years ended June 30, 2018 and 2017

(expressed in Canadian dollars)

	Capital stock $	Stock options $	Deferred and restricted share units $	Broker units $	Warrants $	Contributed surplus $	Deficit $	Total $
Balance as at July 1, 2016	26,526,879	417,661	139,259	108,962	2,049,245	4,181,719	(33,427,799)	(4,074)
Stock-based compensation costs	-	214,562	203,468	-	-	-	-	418,030
Stock options expired	-	(17,609)	-	-	-	17,609	-	-
Stock options forfeited	-	(253)	-	-	-	-	-	(253)
Share issues from stock options exercised	141,822	(58,428)	-	-	-	-	-	83,394
Share issue from RSUs granted in May and October 2016	234,255	-	(234,255)	-	-	-	-	-
Share issues from convertible debentures converted	531,178	-	-	-	-	-	-	531,178
Share issues from warrants exercised	425,930	-	-	-	(103,113)	-	-	322,817
Share issues from debt settlements	440,387	-	-	-	-	-	-	440,387
Share and warrant issues from broker units exercised	236,213	-	-	(98,066)	4,390	-	-	142,537
Warrant issues relating to a loan agreement	-	-	-	-	89,349	-	-	89,349
Warrant issues relating to debt settlements	-	-	-	-	104,123	-	-	104,123
Issuance fees on various share and warrant issues	(1,908)	-	-	-	(8,255)	-	-	(10,163)
Warrant issue relating to a collaboration agreement	-	-	-	-	14,520	-	-	14,520
Loss and comprehensive loss for the year	-	-	-	-	-	-	(4,591,468)	(4,591,468)
Balance as at June 30, 2017	**28,534,756**	**555,933**	**108,472**	**10,896**	**2,150,259**	**4,199,328**	**(38,019,267)**	**(2,459,623)**

CO_2 Solutions Inc.

Consolidated Statements of Comprehensive Loss

For the years ended June 30, 2018 and 2017

(expressed in Canadian dollars)

	2018	2017
	$	$
Revenues		
Income from sale of enzymes, Engineering Agreement, and other revenues	**654,306**	49,028
Costs and operating expenses		
Research and development expenses, net (note 20 a))	**767,322**	1,251,258
Business development expenses (note 20 b))	**426,066**	651,242
General and administrative expenses (note 20 c))	**2,166,634**	2,226,027
Financial expenses (revenues), net (note 20 d))	**(765,399)**	511,969
	2,594,623	4,640,496
Loss and comprehensive loss for the year	**(1,940,317)**	(4,591,468)
Basic and diluted loss per share (note 18)	**(0.01)**	(0.03)

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

CO_2 Solutions Inc.
Consolidated Statements of Cash Flows
For the years ended June 30, 2018 and 2017

(expressed in Canadian dollars)

	2018	2017
	$	$
OPERATING ACTIVITIES		
Loss and comprehensive loss for the year	**(1,940,317)**	(4,591,468)
Adjustments		
Depreciation and amortization	**275,287**	418,702
Warrants issue relating to a collaboration agreement (note 15)	**3,680**	14,520
Interest expense on refundable contributions (note 12)	**62,088**	25,025
Accretion expense on convertible debentures (note 14)	**158,543**	189,176
Accretion expense on loan (note 11)	**59,527**	35,850
Interest and fees added to term loans (note 11)	**112,130**	89,537
Change in fair value of derivatives (note 14)	**(34,182)**	(120,905)
Loss from loan extension (note 11)	**19,111**	-
Stock-based compensation costs	**498,839**	417,777
Gain on refundable contribution (note 12)	**(1,270,168)**	-
	(2,055,462)	(3,521,786)
Changes in non-cash working capital items		
Certificate of deposit (note 6)	**(150,000)**	-
Accounts receivable (note 7)	**(1,208,156)**	414,698
Tax credits receivable	**52,156**	399,951
Inventory	**90,379**	8,064
Prepaid expenses	**279,779**	(238,343)
Accounts payable and accrued liabilities	**906,397**	663,471
Deferred grants (note 10)	**4,391,198**	4,021,410
	4,361,753	5,269,251
Cash flows from operating activities	**2,306,291**	1,747,465
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment (note 8)	**(28,273)**	(20,788)
Amounts capitalized to patents (note 9)	**(229,730)**	(271,583)
Cash flows used for investing activities	**(258,003)**	(292,371)
FINANCING ACTIVITIES		
Term loans received, net of issuance and amendment fees (note 11)	**43,856**	1,284,340
Reimbursement of term loans (note 11)	**(267,042)**	(1,124,181)
Reimbursement of matured 2015 convertible debentures (note 14)	**(632,000)**	-
Proceeds from the issuance of 2017 convertible debentures (note 14)	**1,500,000**	-
Issuance fees on convertible debentures of December 2017 (note 14)	**(380,280)**	-
Refundable contribution received (note 12)	**1,717,410**	-
Share issues from exercise of stock options (notes 15 and 16)	**3,000**	83,394
Issuance fees on various share and warrant issues	**(2,166)**	(10,163)
Reimbursement of refundable contribution (note 12)	**(1,961)**	-
Share issue from warrants exercised	**-**	322,817
Share and warrant issues from exercise of broker units	**-**	142,537
Cash flows from financing activities	**1,980,817**	698,744
Net increase in cash and cash equivalents	**4,029,105**	2,153,838
Cash and cash equivalents Beginning of year	**3,028,147**	874,309
Cash and cash equivalents End of year	**7,057,252**	3,028,147
Interest income received	**37,491**	9,089
Interest paid	**134,709**	117,750
Accounts payable and accrued liabilities paid by issuance of shares	**-**	40,387
Acquisition of intellectual property paid by issuance of shares	**-**	400,000
Broker warrants relating to public offering of December 2017 (note 14)	**23,256**	-
Convertible debentures converted and paid by issuance of shares (notes 14 and 15)	**493,428**	531,178
Accounts payable and accrued liabilities paid by issuance of warrants	**-**	104,123

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

(expressed in Canadian dollars)

1- GOVERNING STATUTE AND NATURE OF OPERATIONS

CO_2 Solutions Inc. (the “Corporation”), incorporated under Part IA of the *Companies Act* (Quebec) and now governed by the *Business Corporations Act* (Quebec), is a high-technology enterprise involved in the capture and management of carbon dioxide (CO_2). More specifically, the Corporation is currently focused on commercializing an enzyme-based enabling technology for efficient CO_2 capture from fossil fuel power plants, pulp and paper mills and other large emitters of CO_2. The Corporation intends to continue its research and development and commercialization efforts. The Corporation's operations are subject to all the inherent risks related to running an emerging high-technology corporation, such as successfully completing its research and development activities, negotiating collaborative working agreements and securing adequate financing and government support for the commercialization of its enzyme technology. The Corporation is listed on the TSX Venture Exchange (TSXV: CST) and is incorporated and domiciled in Canada.

The Corporation's registered head office is located at 2300 Jean-Perrin Street, Québec City, Québec, Canada, G2C 1T9.

2- BASIS OF PREPARATION AND GOING CONCERN

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

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

These consolidated financial statements were approved by the Corporation's Board of Directors on October 18, 2018.

In addition to the above, these consolidated financial statements have been prepared using IFRS applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period.

As at June 30, 2018, the Corporation had an accumulated deficit of $39,959,584 compared to $38,019,267 as at June 30, 2017. In addition to ongoing working capital requirements, the Corporation must secure sufficient funding to meet its capital and operational expense commitments related to its research and development projects as well as its general and administration expenses. As at June 30, 2018, the Corporation showed a working capital deficiency of $3,083,574 ($3,279,684 in 2017). The working capital deficiency includes cash and cash equivalents of $7,057,252 ($3,028,147 in 2017) and deferred grants of $8,412,608 ($4,021,410 in 2017). As at June 30, 2018, management estimates that these current funds alone would not be sufficient to allow the Corporation to continue its operations over the next twelve months. Accordingly, management intends to raise capital through large industrial investors, private placements, public markets as well as grants, all of which, combined with the current working capital, would allow the Corporation to meet its funding requirements for the next financial year.

Through current and ongoing negotiations with potential funding partners and provincial and federal government agencies, management is actively seeking to raise the necessary capital to meet the Corporation's funding requirements. However, there can be no assurance that management's plans or current negotiations will be successful.

While the Corporation believes that it will be able to raise sufficient capital to sustain its operations as it has done in past years, until such time as that financing at terms acceptable to the Corporation can be confirmed or negotiations with potential funding partners are successfully concluded, the Corporation may also have to take action to limit the ongoing project and development work and reduce its operating costs.

Accordingly, these conditions have resulted in an uncertainty that may cast significant doubt about the Corporation's ability to continue as a going concern and, accordingly, the appropriateness of the use of IFRS applicable to a going concern as described in the following paragraph.

If management is unable to obtain new funding, the Corporation may have to take action to limit the ongoing project and development work and reduce its operating costs or take other measures as deemed necessary. In the case that the Corporation is unable to continue its operations, amounts realized for assets might be less than amounts reflected in these consolidated financial statements.

These consolidated financial statements do not reflect the adjustment to the carrying values of assets and liabilities, expenses and consolidated balance sheet classifications that would be necessary were the going concern assumption to be inappropriate. These adjustments could be material.

3- SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation
These consolidated financial statements include the accounts of the Corporation 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 intercorporate accounts and transactions have been eliminated.

Segment reporting
The Corporation manages its business on the basis of one reportable segment. This single reportable segment derives its income from the sale of data, enzymes, procedures and services relating to the management and elimination of CO_2 using an enzyme conversion-based technology. To date, the Corporation has earned its income essentially from clients based in Canada, the United States and Europe. The Corporation's tangible and intangible assets are located in Canada.

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

The Corporation has no available-for-sale financial instruments.

Financial liabilities at fair value through profit and loss – This category includes the Conversion Option and Make-Whole Amount related to the convertible debentures (see note 14), which is initially recognized at fair value and carried subsequently at fair value with gains or losses recognized in the consolidated statements of comprehensive loss.

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

Financial liabilities at amortized cost – Financial liabilities include accounts payable and accrued liabilities, deferred grants, term loans, refundable contributions and convertible debentures and are initially recognized at the amount required to be paid, less, when material, a discount to initially reduce the liability to fair value, net of any transaction costs incurred. The financial liabilities are subsequently recorded at amortized cost using the effective interest method. These financial liabilities are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.Transaction costs are deferred if incurred in the fiscal year preceding the issuance of the financial liabilities.

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

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

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Cash and cash equivalents
Cash and cash equivalents consists of cash on hand, short-term deposits held with banks and balances with banks.

Inventory
Inventory, consisting substantially of enzyme, is stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out method. The cost of inventory comprises all costs related to the purchase such as the cost to subcontract enzyme manufacturing, purchase price, transport and handling costs and other costs directly attributable to the acquisition of supplies. Trade discounts, rebates and other similar items are deducted from the purchase cost whenever applicable.

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 Corporation and the cost can be measured reliably. The carrying amount of a replaced

asset is derecognized when replaced. Repairs and maintenance costs are charged to the consolidated statement of comprehensive loss during the period in which they are incurred.

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

	Methods	Rates or Period
Laboratory equipment and layout	Diminishing balance	20%
Office equipment	Diminishing balance	20%
Computer equipment	Diminishing balance	30%
Leasehold improvements	Straight-line	10 years

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

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

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

Patents, obtained or pending, are recorded at cost and are amortized on a straight-line basis over 20 years, which is the validity period of the regular patents and over 10 years for Utility Model patents. The periods of 20 and 10 years start at the date the patent is originally filed.

Impairment of non-financial assets
Property, plant and equipment and non-financial intangible assets (patents) are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units – CGUs). The recoverable amount is the higher of an asset's fair value less costs of disposal and value 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 Corporation evaluates impairment losses for potential reversals when events or circumstances require such consideration.

Research and development expenses
Expenses related to research are expensed as incurred. Development expenses are expensed as incurred unless they meet generally accepted capitalization criteria in which case they are deferred and amortized. As at June 30, 2018 and 2017, no development costs had been deferred or capitalized, except as otherwise stated for the patents as described above.

Capital stock, warrants, conversion options and broker units
Capital stock, warrants, conversion options and broker units are classified as equity unless they meet the criteria of a financial liability. The Corporation allocates the proceeds from an equity financing between common shares, warrants, conversion options and broker units based on the relative fair value of each instrument using the Black-Scholes pricing model and the binomial distribution method.

Share and warrant issue expenses
Share issue expenses are applied against capital stock. Warrant issue expenses are applied against warrants.

Research and development tax credits
The Corporation 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 Québec.

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

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

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

In certain cases, grant funds can be received before the related expenses are incurred. In these cases where grant funds are received and the related expenses are not yet incurred, the grant is recorded as a deferred grant until the related expenses are incurred (see note 10).

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

Income taxes
The income tax expense includes current and deferred income taxes. Income taxes are recognized in net income, except to the extent that they relate to items recognized directly in other comprehensive income or directly in equity, in which case the income taxes are also recognized directly in other comprehensive income or equity, respectively.

a) Current income taxes

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

b) Deferred income taxes

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

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

Deferred tax liabilities are generally recognized for all taxable temporary differences and for taxable temporary differences arising on investments in subsidiaries, except where the reversal of the temporary differences can be controlled and it is probable that the differences will not reverse in the foreseeable future. However, deferred tax is not recognized if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, does not affect either the accounting profit or loss nor the taxable profit or loss.

Deferred tax assets and liabilities are presented as non-current in the consolidated statement of financial position.

Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

Employee future benefits

The Corporation has established a simplified defined contribution pension plan. The Corporation's contribution is limited to the amount provided under the plan, which is equal to the employee's contribution of up to 2% of gross earnings. Pension expense is recognized in the consolidated statement of comprehensive loss for the year during which the amounts are due.

Revenue recognition

The Corporation's revenues are derived from sale of enzymes, Engineering Agreement and other revenues.

The nature of the Corporation'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 Corporation is also party to agreements which can involve upfront and milestone payments that may occur over several periods. These agreements may also involve certain future obligations. Revenues are only recognized when, in management's judgment, the significant risks and rewards of ownership have been transferred or when the obligation has been fulfilled. For some transactions, this can result in cash receipts being initially recognized as deferred income and then released to income over subsequent periods on the basis of the performance of the conditions specified in the agreement.

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

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

Loss per share

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

Share-based payments

The Corporation grants stock options, restricted share units (RSU) and deferred share units (DSU) to certain employees, officers and directors. Each award is considered as separate with its own vesting period and grant date fair value. The 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 the stock options and RSU and DSU within equity. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

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

4- NEW ACCOUNTING STANDARDS

The IASB issued the following standards which are currently relevant but have not yet been adopted by the Corporation: IFRS 2, “Share-based Payments’’; IFRS 7, “Financial Instruments: Disclosures”; IFRS 9, “Financial Instruments”; IFRS 15, “Revenue from Contracts with Customers"; and IFRS 16, “Leases’’. The Corporation is currently assessing the impact that these new and amended standards will have on its consolidated financial statements.

New accounting standards issued but not yet in effect:

IFRS 2 – Share-based Payments
In June 2016, the IASB issued an amendment to address certain issues related to the accounting for cash-settled awards and the accounting for equity-settled awards that include a "net settlement'' feature in respect of employee withholding taxes. The mandatory effective date of the amendment to IFRS 2 is for annual periods beginning on or after January 1, 2018.

IFRS 7 – Financial Instruments: Disclosures
IFRS 7 has been amended to enhance disclosure requirements related to the offsetting of financial assets and financial liabilities. Originally, the amendments were applicable retrospectively for annual periods beginning on or after January 1, 2013. However, IFRS 7 has since been amended to require additional disclosures on transition from IAS 39, "Financial Instruments: Recognition and Measurement" to IFRS 9 (see below), effective on adoption of IFRS 9, which is effective for annual periods beginning on or after January 1, 2018.

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

IFRS 15 – Revenue from Contracts with Customers
The objective of the IFRS 15 revenue standard is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. The revenue standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The revenue standard is effective for entities that report under IFRS for annual periods beginning on or after January 1, 2018. Early adoption is permitted for IFRS reporters.

IFRS 16 – Leases
In January 2016, the IASB released IFRS 16 which supersedes IAS 17, "Leases", and the related interpretations on leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for companies that also apply IFRS 15.

5- SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The judgments that have a significant risk of causing material adjustments to the Corporation's consolidated financial statements are listed below.

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

Revenue recognition
The nature of the Corporation's business is such that many revenue transactions do not have a simple structure. Revenue agreements, when incurred, may consist of multiple components occurring at different times. The Corporation is also party to agreements which can involve upfront and milestone payments that may occur over several periods. These agreements may also involve certain future obligations. Revenues are only recognized when, in management's judgment, the significant risks and rewards of ownership have been transferred or when the obligation has been fulfilled. For some transactions, this can result in cash receipts being initially recognized as deferred income and then released to income over subsequent periods on the basis of the performance of the conditions specified in the agreement. Management's judgment for revenue recognition is mainly based on contractual clauses in regard to amounts and obligations. For the years ended June 30, 2018 and 2017, there was no deferred income recognized nor any future obligations related to recognized revenues. Contract agreements also provide that payments are not refundable. Invoiced amounts, when incurred, are determined relative to contract agreements in regard to the required obligations, and revenue is recognized accordingly.

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

Impairment of assets with definite useful lives
All assets, including intangible assets (predominantly patents as described in note 3) are reviewed for an indication of impairment at each onsolidated statement of financial position date. If, in the judgment of management, an indication of impairment exists, the asset's recoverable amount is estimated. Factors such as changes in the planned use of a production unit, changes in laboratory equipment, or the presence or absence of technical obsolescence could result in shortened useful lives or impairment. An impairment loss, if any, is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. As at June 30, 2018 and 2017, management determined that there were no impaired assets.

6- CERTIFICATE OF DEPOSIT

On March 6, 2018, the Corporation signed a irrevocable stanby letter of credit (SLOF) in favour of a supplier for a total amount of $150,000, and a guarantee securing this obligation was requested by the issuing financial institution.The irrevocable SLOF is due to expire on March 31, 2019. The funds are invested in a certificate of deposit bearing interest at 1.2% per annum expiring on June 12, 2019.

7- ACCOUNTS RECEIVABLE

	As at June 30, 2018	As at June 30, 2017
	$	$
Trade accounts receivable and others	**6,019**	3,872
Government assistance receivable	**1,202,773**	17,926
Commodity taxes receivable	**180,356**	159,194
	1,389,148	180,992

8- PROPERTY, PLANT AND EQUIPMENT

	Laboratory equipment and layout	**Office equipment**	**Computer equipment**	**Leasehold improvements**	**Total**
	$	**$**	**$**	**$**	**$**
Cost					
Balance as at July 1, 2016	822,698	131,458	106,707	35,539	1,096,402
Acquisitions	11,914	-	8,874	-	20,788
Balance as at June 30, 2017	834,612	131,458	115,581	35,539	1,117,190
Acquisitions	12,411	-	15,862	-	28,273
Balance as at June 30, 2018	847,023	131,458	131,443	35,539	1,145,463
Accumulated depreciation					
Balance as at July 1, 2016	(710,233)	(121,973)	(81,495)	(35,539)	(949,240)
Depreciation expense	(24,794)	(1,897)	(8,244)	-	(34,935)
Balance as at June 30, 2017	(735,027)	(123,870)	(89,739)	(35,539)	(984,175)
Depreciation expense	(20,935)	(1,517)	(10,179)	-	(32,631)
Balance as at June 30, 2018	(755,962)	(125,387)	(99,918)	(35,539)	(1,016,806)
Net book value					
June 30, 2017	99,585	7,588	25,842	-	133,015
June 30, 2018	91,061	6,071	31,525	-	128,657

9- PATENTS

	$
Cost	
Balance as at July 1, 2016	1,188,659
Costs incurred	671,583
Abandoned	(367,700)
Balance as at June 30, 2017	1,492,542
Costs incurred	229,730
Abandoned	(214,981)
Expired	(40,132)
Balance as at June 30, 2018	1,467,159

Accumulated amortization	
Balance as at July 1, 2016	(321,792)
Amortization expense	(386,948)
Abandoned	367,700
Balance as at June 30, 2017	(341,040)
Amortization expense	(245,139)
Abandoned	214,981
Expired	40,132
Balance as at June 30, 2018	(331,066)
Net book value	
June 30, 2017	1,151,502
June 30, 2018	1,136,093

10- DEFERRED GRANTS

From December 23, 2016, to June 30, 2017, the Corporation has cashed grants in advance from Quebec's Ministère de l'énergie et des ressources naturelles (Technoclimat) for $300,000, Sustainable Development Technology Canada (SDTC) for $424,826 and from the Quebec Ministry of Sustainable Development, Environment and the Fight against Climate Change for the VCQ project for $5,375,000.

From July 1, 2017 to June 30, 2018, the Corporation has cashed grants in advance from the Quebec Ministry of Sustainable Development, Environment and the Fight against Climate Change for the VCQ project for $12,125,000. Also, the Corporation has cashed grants in advance from the TOTAL S.A. for $500,000.

The following table shows the variance on deferred grants for the same period:

	For the years ended June 30,	
	2018	2017
	$	$
Balance – Beginning of year	**4,021,410**	-
Grants received during the year	**12,625,000**	6,099,826
Grants earned and recorded during the year:		
-Technoclimat	**(131,604)**	(168,396)
-SDTC	**(301,459)**	(123,367)
-VCQ project	**(7,800,739)**	(1,786,653)
Balance – End of year	**8,412,608**	4,021,410

11- TERM LOANS

On November 20, 2015, the Corporation entered into a second term loan agreement with a financial intermediary institution. This second term loan was to finance a federal subsidy holdback receivable. The term of this loan was extended on July 13, 2017, for a principal amount of $254,500. Accrued interest and fees for $25,600 were added to the loan pending reimbursement. On January 13, 2018, the term loan was extended for a period of twelve months for a principal amount of $320,200. Accrued interest and fees for $65,700 were added to the term loan pending reimbursement. Further to an amendment dated February 13, 2017, retroactive to November 20, 2015, the term loan from the financial intermediate bears interest at a rate of 0.60% per month and bears annual account management fees at the rate of 13%.

On April 6, 2017, the Corporation entered into a fourth term loan agreement with a financial institution for a principal amount of $296,600. The term loan was to finance provincial tax credits receivable for scientific research and experimental development (SR&ED tax credits) accrued for its fiscal year ending June 30, 2017. On January 17, 2018, the financial institution received direct payment of the funds relative to the 2017 SR&ED tax credits for a total of $267,042 and applied this payment as reimbursement of the loan for the same amount. On March 6, 2018 the Corporation entered into a fifth term loan with a principal amount of $109,300 to finance accrued provincial tax credits receivable for SR&ED tax credits for its current fiscal year ending June 30, 2018. On March 13, 2018, accrued interest and fees for $20,830 were added to the loan and the Corporation cashed $58,856, representing the available balance on this loan. The loan bears interest at the monthly rate of 1.50% corresponding to 18% for a term of twelve months. The loan includes placement fees at the rate of 3% and bears monthly account management fees at the rate of 0.50%.

The term loans are secured by a first charge on the Corporation's provincial and federal receivables.The term of the term loans is a maximum of 12 months unless further extended upon agreement by the parties.

On August 31, 2016, the Corporation entered into a loan agreement and made an initial drawdown with Dundurn Capital Partners ("DCP"), representing two lenders, an affiliate of Robert Manherz, a director of the Corporation, for a term loan in the amount of up to $500,000. The term loan is repayable in full upon the earlier of the second anniversary of the initial drawdown and the completion of the next public financing of the Corporation. In December 2017, the terms were amended to provide that repayment to the lenders thereunder by the Corporation will be deferred until the earlier of August 31, 2019 and the completion of the next public financing of the Corporation.The Corporation is of the opinion that the loan will become reimbursable over the next twelve months and may prepay all or a portion of the loan in advance at any time without penalty. The fair value of the liability has been valued using an implicit rate of 23%. The Corporation recorded a loss of $19,111 from the loan extension.

The term loan bears interest at an annual rate of 12% accruing from the date of advance, and includes standby fees of 3% per annum. The Corporation's obligations with respect to the term loan are secured by a movable hypothec granted by the Corporation over the universality of its movable property including, but not limited to, its patent portfolio. The hypothec is ranked after currently outstanding hypothecs over the Corporation's assets.

The first draw of $200,000 was made on August 31, 2016, and the second and final draw of $300,000 was made on September 12, 2016. The fair value of the financial liability was estimated at $410,651 for the August 31 draw and for the September 12 draw. Consequently, the residual amount of $89,349 was allocated to the warrants. Issuance fees have been prorated over the financial liability and the equity instrument. The fees allocated to the financial liability together with the initial discount are amortized with an overall effective interest rate of 28% for both draws.

The following table shows the fluctuation of the term loans for the years ended June 30, 2018 and 2017:

	As at June 30, 2018 $	As at June 30, 2017 $
Balance – Beginning of year	**940,097**	743,900
Received during the year, net of issuance fees	**58,856**	1,284,340
Interest and fees added to the loans	**112,130**	89,537
Accretion expense	**59,527**	35,850
Warrant issues relating to a loan agreement	**-**	(89,349)
Loss from loan extension	**19,111**	-
Amendment fees	**(15,000)**	-
Reimbursed during the year	**(267,042)**	(1,124,181)
Balance – End of year	**907,679**	940,097

The following table summarizes the face values and carrying values of the financial liability and the equity instrument related to the agreement with DCP as at June 30, 2018:

		Financial liability	Equity
		Term loan	Warrants
	Face value $	Carrying value $	Carrying value $
Balance as at July 1, 2017	500,000	414,541	82,395
Accretion expense	-	59,527	-
Amendment fees	-	(15,000)	-
Lost from loan extension	-	19,111	-
Balance as at June 30, 2018	500,000	478,179	82,395

12- REFUNDABLE CONTRIBUTIONS

The Corporation obtained from Economic Development Canada two separate refundable contributions (loans), one for $250,000, granted in January 2011, and one for up to $400,000, granted in February 2015. The first contribution of $250,000, which was totally drawn down, was refundable starting July 2013 with annual payments representing 4% of the Corporation's total annual revenues up to the total of the refundable contribution received. The last payment is due and payable when ten full years have passed since the date of the first payment. As at June 30, 2018, the short-term portion payable is $26,172 ($1,961 as at June 30, 2017, which was paid on February 16, 2018).

The second refundable contribution of $400,000, which was totally drawn down as at June 30, 2016, is refundable starting 36 months after March 31, 2016, the end date of the research and development project to which the contribution was attached. The contribution will be reimbursed by way of 59 equal and consecutive payments of $6,667 and one final payment of $6,647. As at June 30, 2018, the short-term portion payable is $20,001 (nil as at June 30, 2017).

On December 4, 2017, the Corporation received confirmation of a third non-interest-bearing refundable contribution from Economic Development Canada of up to $2,000,000 towards expenses for the Saint-Felicien project. Reimbursements will start 36 months after the end of the related project by way of 59 equal and consecutive payments of $33,333 and one final payment of $33,353. On January 10, 2018, the Corporation cashed a first draw of $377,413, and, a second draw of $104,197 was cashed on March 12, 2018. A third draw of $1,235,800 was cashed on April 2, 2018.

The first two loans totalling $650,000 were accrued at initial recognition at fair value using an estimated weighted average capitalization rate of 10%. The third loan was accrued at initial recognition at fair value using an estimated capitalization rate of 25%. Interest expense of $62,088 for all three loans is recorded in the consolidated statement of comprehensive loss ($25,025 in 2017).

13- DEFERRED CREDITS

	Government assistance	Tax credits	Total
	$	$	$
Cost			
Balance as at July 1, 2016	33,485	186,472	219,957
Balance as at June 30, 2017	33,485	186,472	219,957
Balance as June 30, 2018	33,485	186,472	219,957
Accumulated amortization			
Balance as at July 1, 2016	(32,041)	(173,044)	(205,085)
Amortization	(289)	(2,892)	(3,181)
Balance as at June 30, 2017	(32,330)	(175,936)	(208,266)
Amortization	(231)	(2,252)	(2,483)
Balance as June 30, 2018	(32,561)	(178,188)	(210,749)
Net book value			
June 30, 2017	1,155	10,536	11,691
June 30, 2018	924	8,284	9,208

14- CONVERTIBLE DEBENTURES

2015 Convertible Debentures

On December 30, 2015, the Corporation announced the closing of a marketed offering (the “Offering”) of 2,093 units of the Corporation (the “Units”) at a price of $1,000 per Unit. Each Unit consisted of a $1,000 principal amount of 12% convertible secured debentures (the “Debentures”) and 4,348 share purchase warrants (each single share purchase warrant, a “Warrant”) of the Corporation.

On January 29, 2016, the Corporation announced that Euro Pacific Canada Inc. (“Euro Pacific”), the sole agent for Offering had exercised its option (the “Agent's Option”) with regard to the sale of additional Units (the “Option Units”) at a price of $1,000 per Option Unit in connection with the Offering. The Agent's Option had been granted to Euro Pacific pursuant to an agency agreement entered into between Euro Pacific and the Corporation on December 23, 2015 (the “Agency Agreement”).

In connection with the Agent's Option, on January 29, 2016, the Corporation issued an additional 102 Option Units, bringing the aggregate gross proceeds of the Offering, including the exercise of the Agent's Option, to $2,195,000.

Interest accrued and due on outstanding matured debentures was settled by a cash payment of $18,960 on December 22, 2017, on the along principal amount $632,000.

For the year ended June 30, 2018, the change in fair value of derivatives for these debentures resulted in a gain of $19,235 ($120,905 for 2017) and was recorded in the consolidated statement of comprehensive loss.

2017 Convertible Debentures

On December 21, 2017, the Corporation closed the previously announced Offering. In connection with the closing of the Offering, the Corporation issued 1,500 Units at a price of $1,000 per Unit, representing aggregate gross proceeds of $1,500,000.

Each Unit consists of an 8% convertible unsecured debenture in the principal amount of $1,000 and 8,333 common share purchase warrants of the Corporation. Each common share purchase warrant entitles the holder to purchase one common share of the Corporation at a price of $0.12 per common share until December 21, 2020.

Echelon Wealth Partners Inc. (“Echelon”) acted as the sole agent for the New Offering pursuant to an agency agreement entered into between Echelon and the Corporation. In connection with the New Offering, the Corporation paid to Echelon a cash commission of $85,610 and issued 713,387 broker warrants to Echelon, entitling the latter to purchase 713,387 common shares of the Corporation at a price of $0.12 per common share until December 21, 2020.

Net proceeds of the New Offering will be used (i) to pay down existing debt balances; and (ii) for general working capital purposes.

Certain related parties of the Corporation participated in the New Offering and subscribed for an aggregate of 397 Units. Participation of related parties of the Corporation in the New Offering constitutes a “related party transaction” as defined under Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions (Regulation 61-101 respecting Protection of Minority Security Holders in Special Transactions in Quebec) (“MI 61-101”). The New Offering is exempt from the formal valuation and minority shareholder approval requirements of MI 61-101, as neither the fair market value of securities being issued to related parties nor the consideration being paid by related parties exceeds 25% of the Corporation’s market capitalization. The Corporation did not file a material change report 21 days prior to the closing of the New Offering, as the details of the participation of the related parties of the Corporation had not been confirmed at that time.

These Debentures will mature on December 21, 2020 (the “Maturity Date”) and bear interest at a rate of 8% per annum payable semi-annually in arrears on May 31 and November 30 of each year commencing on May 31, 2018. The Corporation shall pay the interest in cash or common shares at its option. Any such interest amount paid in common shares shall be computed on the basis of the interest amount divided by the current market price of the common shares on the date falling one trading day prior to the interest payment date.

Each of the Debentures is convertible, at the option of the holder, at any time following the date of the issuance of such debentures and prior to the close of business on the tenth business day immediately preceding the Maturity Date into such number of common shares computed on the basis of (i) the principal amount of the debentures that is an integral multiple of the $1,000 principal amount divided by the conversion price of $0.12, and (ii) a make-whole amount equal to the interest amount that such holder would have received if such holder had held the debenture until the Maturity Date divided by the greater of the current market price on the date falling one trading day prior to the conversion date and $0.09. Upon conversion, as permitted, a converting holder will also be entitled to receive accrued and unpaid interest for the period from the date of the latest interest payment to the date of conversion in cash or in common shares at the Corporation's option.

The aggregate number of common shares to be issued upon conversion of the debentures and for any payment of the Make-Whole Amount shall not exceed the number of common shares that is equal to the principal amount of the Debentures divided by $0.09.

During the year ended June 30, 2018, eight debenture holders converted 844 Units representing a total face value of $844,000 and received a total of 9,153,193 common shares of the Corporation.

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 recently issued debentures in December 2017, referred to above, and to the application of IAS 32, the Corporation has determined that the conversion option together with the Make-Whole Amount feature (collectively, the "Conversion Option") constitute an embedded derivative financial instrument.

The fair value attributed to the conversion Option component of December 2017 debentures issue was initially estimated at $49,153 using the Black-Scholes options pricing model based on the following weighted average assumptions (expected life was estimated by the Corporation based on its expectation of conversion dates as at the relevant issue date):

	Initial fair value December 21, 2017
Share price	$0.085
Risk-free interest rate	1.68%
Expected volatility	68.00%
Annual dividend yield	Nil
Expected life	0.27 years
Weighted average fair value of conversion option per underlying share	$0.004

The fair value of the Make-Whole amount feature of the Conversion Option has been valued using an implicit interest rate of 30% taking into consideration an estimate of conversion dates. The initial estimate of the fair value of the Conversion Option totalled $356,306. An amount of $915,616 was allocated to the financial liability at amortized cost represented by the principal amount and interest of the Debentures. The residual amount of $228,078 was allocated to the warrants.

Issuance fees are treated as financing expenses. These fees have been allocated entirely to the financial liability component and are amortized, together with the discount arising from the amount initially attributed to the embedded derivative, with an overall effective interest rate of 51.57%. Upon a conversion, the carrying amount of the host debt instrument recorded at amortized cost and the fair value of the related embedded derivative are transferred to equity.

As at June 30, 2018, the Corporation reviewed the initial fair value of the Conversion Option of the embedded derivatives and adjusted the initial fair value of the outstanding Conversion Option at $146,473 using the Black-Scholes option-pricing model based on the following assumptions (expected life was estimated by the Corporation based on its expectation of conversion date as at June 30, 2018):

	Adjusted fair value June 30, 2018
Share price	$0.090
Risk-free interest rate	1.91%
Expected volatility	80.00%
Annual dividend yield	Nil
Expected life	0.38 years
Weighted fair value of Conversion Option per underlying share	$0.0085

For the financial year ended June 30, 2018, the change in fair value of derivatives resulted in a gain of $14,947 (nil for 2017) and was recorded in the consolidated statement of comprehensive loss. The following summarizes the face value and carrying values of the liability and equity components of the Debentures as at June 30, 2018:

	Liability components			Equity component
		Principal and interest (1)	Conversion Option (2)	Warrants
	Face value $	Carrying value $	Carrying value $	Carrying value $
Balance as at July 1, 2017	632,000	521,317	19,235	-
Change in fair value of derivatives	-	-	(34,182)	-
Reimbursement of matured debentures	(632,000)	(632,000)	-	-
Issuance of December 21, 2017	1,500,000	915,616	356,306	228,078
Accretion expense	-	158,543	-	-
Issuance fees on 2017 debentures	-	(403,536)	-	-
Conversions	(844,000)	(298,542)	(194,886)	-
Balance as at June 30, 2018	656,000	261,398	146,473	228,078

(1) Classified as another financial liability and measured at amortized cost.
(2) Classified as a derivative financial instrument and measured at fair value through profit and loss.

15- 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 Corporation's capital stock during the years ended June 30, 2018 and 2017.

	Year ended June 30, 2018		Year ended June 30, 2017	
	Number	**$**	Number	$
Beginning balance	**147,589,345**	**28,534,756**	138,079,874	26,526,879
Share issues from:				
Restricted share units	**1,819,309**	**206,791**	1,306,325	234,255
Convertible debentures converted	**9,153,193**	**493,428**	3,372,525	531,178
Warrants exercised	**-**	**-**	1,354,171	424,934
Broker units exercised	**-**	**-**	570,150	236,213
Stock options exercised	**30,000**	**4,876**	427,300	141,822
Debt settlement	**-**	**-**	2,479,000	439,475
Ending balance	**158,591,847**	**29,239,851**	147,589,345	28,534,756

The following table shows the changes in the Corporation's warrants during the years ended June 30, 2018 and 2017:

	Year ended June 30, 2018		Year ended June 30, 2017	
	Number	**Average strike price $**	Number	Average strike price $
Outstanding – Beginning of year	**51,084,919**	**0.27**	46,708,764	0.28
Issued	**13,412,887**	**0.12**	5,690,326	0.17
Exercised	**-**	**-**	(1,314,171)	0.25
Expired	**(24,962,260)**	**0.31**	-	-
Outstanding – End of year	**39,535,546**	**0.19**	51,084,919	0.27

Common share purchase warrants attached to matured 2015 Debentures expired on December 30, 2017, representing a total of 9,543,860 common share purchase warrants.

Common share purchase warrants attached to the private placement of June 5, 2015, expired on June 5, 2018, representing a total of 15,218,400 common share purchase warrants.

Common share purchase warrants issued to GTS on June 22, 2015, expired on June 22, 2018, representing a total of 200,000 common share purchase warrants.

Referring to the public offering as described in note 14, of the 2017 Debentures, the Corporation issued 12,499,500 common share, purchase warrants entitling the holder to purchase 12,499,500 common shares of the Corporation at a price of $0.12 per common share until December 21, 2020. The fair value was established at $228,078 as described in note 14.

In connection with the offering mentioned above, the Corporation also issued 713,387 broker warrants to Echelon, entitling the holder to purchase 713,387 common shares of the Corporation at a price of $0.12 per common share until December 21, 2020.

In connection with the execution of the GTS Collaboration Agreement, the Corporation issued 200,000 GTS Warrants. Each GTS Warrant entitles its holder to acquire one common share of the Corporation at a price of $0.20 per common share until June 22, 2021, or until the GTS Collaboration Agreement is terminated in certain circumstances.

The fair value of these broker warrants and GTS Warrants is determined according to the Black-Scholes option-pricing model based on the following weighted average assumptions:

	For the year ended June 30, 2018
Share price	**$0.087**
Risk-free interest rate	**1.75%**
Expected volatility	**68.27%**
Annual dividend yield	**Nil**
Expected life	**3 years**
Average fair value of each warrant granted	**$0.0295**

The following table shows the changes in the Corporation's broker units during the years ended June 30, 2018 and 2017:

	Year ended June 30, 2018		Year ended June 30, 2017	
	Number	**Average strike price $**	Number	Average strike price $
Outstanding – Beginning of year	**63,350**	**0.25**	633,500	0.25
Exercised	**-**	**-**	(570,150)	0.25
Outstanding – End of year	**63,350**	**0.25**	63,350	0.25

16- STOCK OPTIONS

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

Under the terms of the plan, the maximum number of common shares available to be issued under the plan cannot exceed 10% of the issued and outstanding shares of capital stock. As at June 30, 2018, this amount is currently established at 12,633,523, representing less than 10% of the current number of issued and outstanding common shares. The maximum number that may be granted to a director, executive or employee of the Corporation or to a consultant cannot exceed 5% of all the outstanding common shares.

The following table summarizes information about outstanding and exercisable stock options for the years ended June 30, 2018 and 2017:

	For the year ended June 30, 2018		For the year ended June 30, 2017	
	Number	**Weighted average exercice prices $**	Number	Weighted average exercice prices $
Outstanding – Beginning of year	**6,386,000**	**0.14**	5,034,200	0.14
Granted	**2,718,000**	**0.11**	1,910,000	0.16
Expired	**(1,407,500)**	**0.10**	(85,900)	0.21
Forfeited	**(5,000)**	**0.15**	(5,000)	0.15
Exercised	**(30,000)**	**0.10**	(467,300)	0.18
Outstanding – End of year	**7,661,500**	**0.14**	6,386,000	0.14
Exercisable – End of year	**5,375,001**	**0.15**	5,029,251	0.13

As at June 30, 2018, the following outstanding and exercisable 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 $
869,500	0.10	0.42	869,500	0.10
100,000	0.10	0.63	100,000	0.10
965,000	0.10	1.42	965,000	0.10
1,174,000	0.23	2.42	1,090,835	0.23
1,305,000	0.15	3.42	1,075,000	0.15
530,000	0.17	3.50	530,000	0.17
400,000	0.17	4.00	100,000	0.17
2,118,000	0.11	4.50	594,666	0.11
200,000	0.10	4.92	50,000	0.10
7,661,500	0.14*	3.01	5,375,001	0.15*

*weighted average exercise price

Options issued after November 2009 generally vest at the rate of 25,000 options every six months, up to a maximum period of three years. However, at the discretion of the Board of Directors, the vesting period may be accelerated from the issuance date to three years.

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

	Employees, directors and executives	
	For the year ended June 30, 2018	For the year ended June 30, 2017
Share price	**$0.117**	$0.1560
Risk-free interest rate	**1.65%**	1.03%
Expected volatility	**75.34%**	85.95%
Annual dividend yield	**Nil**	Nil
Expected life	**5 years**	5 years
Average fair value of each option granted	**$0.0723**	$0.1045

17- DEFERRED SHARE UNITS AND RESTRICTED SHARE UNITS

On November 26, 2015, the Corporation's shareholders approved the implementation of a Deferred Share Unit Plan ("DSU Plan'') and a Restricted Share Unit Plan ("RSU Plan''). The DSU and RSU Plans provide that deferred and restricted share unit awards may be granted by the Board or the Corporate Governance & Human Resources Committee (the "Committee"), which administers the Plans, to full-time employees, officers and eligible contractors of the Corporation in a calendar year as compensation for services rendered to the Corporation or as incentive to meet certain future objectives. The Plans shall remain in effect until they are terminated by the Corporation.

Each deferred or restricted share unit award entitles the holder, subject to the terms of the DSU or RSU Plan, to receive a payment in fully paid common shares issued from the treasury of the Corporation or a cash equivalent at the discretion of the Committee. The maximum aggregate number of common shares that may be issued under the Plans (or any other stock-based compensation plans, including the Corporation's amended stock option plan) shall not exceed 12,633,523 common shares.

Concurrent with the determination to grant DSUs or RSUs to a participant, the Committee shall determine the vesting period and the term applicable to such DSUs or RSUs. Unless the Committee, at its discretion, has set a shorter period of time, the DSUs and RSUs will expire ten years from the grant date.

In accordance with Section 3.5 of the Plans, if the date on which the Corporation shall issue or deliver common shares to the participant occurs during a blackout period applicable to the participant, the Corporation shall issue or deliver such common shares to the participant on or as soon as practicable after the end of the blackout period.

On October 13, 2016, in accordance with the terms of the respective DSU and RSU Plans that were approved in November 2015, the Corporation's Board of Directors granted an additional 487,157 RSUs to certain officers, consultants and employees and 442,308 DSUs to the non-executive directors of the Corporation. In accordance with the terms of the respective plans, these DSUs and RSUs were valued at $0.195 per share, that being the last closing price of the Corporation's common shares on the TSX Venture Exchange immediately prior to the date on which market value of the units is determined, that date being October 12, 2016. The RSUs granted fully vested on January 1, 2017, and the common shares were issued on that date.

On February 28, 2017, the Corporation's Board of Directors granted an additional 166,667 RSUs to a former officer of the Corporation as part of an agreement signed upon resignation for a total equivalent value of $25,000. Vesting and related shares have been issued on August 31, 2017.

On November 22, 2017, the Corporation's Board of Directors granted an additional 1,652,642 RSUs to certain officers, consultants and employees and 1,313,636 DSUs to the non-executive directors of the Corporation. In accordance with the terms of the respective plans, these DSUs and RSUs were valued at $0.11 per share, that being the last closing price of the Corporation's common shares on the TSX Venture Exchange immediately prior to the date on which market value of the units is determined, that date being November 21, 2017. The RSUs granted fully vested on January 1, 2018, and the common shares were issued on that date.

The following table summarizes information about outstanding RSUs and DSUs for the years ended June 30, 2018 and 2017:

	Year ended June 30, 2018		Year ended June 30, 2017	
	Number	**Fair value $**	Number	Fair value $
Outstanding – Beginning of year	**608,975**	**0.1827**	819,168	0.1700
Common shares issued	**(1,819,309)**	**0.1137**	(1,306,325)	0.1793
RSUs granted	**1,652,642**	**0.1100**	653,824	0.1835
DSUs granted	**1,313,636**	**0.1100**	442,308	0.1950
Outstanding – End of year	**1,755,944**	**0.1314**	608,975	0.1827

18- LOSS PER SHARE

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

	For the year ended June 30, 2018	For the year ended June 30, 2017
Basic weighted average number of shares outstanding	**152,331,053**	144,512,612

For the years ended June 30, 2018 and 2017, the diluted loss per share was the same as the basic net loss per share, since the dilutive effect of stock options (note 16) and restricted and deferred share units (note 17), conversion options (note 14), broker units and warrants (note 15) was not included in the calculation; otherwise the effect would have been anti-dilutive. Accordingly, the diluted loss per share for those years was calculated using the basic weighted average number of shares outstanding.

19- TRANSACTIONS WITH DIRECTORS AND EXECUTIVE OFFICERS

The following table sets out the remuneration paid for the years ended June 30, 2018 and 2017 to directors and executive officers of the Corporation who are considered key personnel:

	For the years ended June 30,	
	2018	2017
	$	$
Short-term employee benefits	**872,900**	932,543
Directors' fees and payments for attendance at Board meetings	**96,277**	98,005
Stock-based compensation	**416,822**	382,023
Defined contribution pension plan	**17,208**	17,569
	1,403,207	1,430,140

20- COSTS AND OPERATING EXPENSES

	For the years ended June 30,	
	2018	2017
	$	$
a) Research and development expenses, net		
Salaries, employee benefits and other compensation	**1,581,304**	1,351,182
Stock-based compensation costs	**139,460**	115,044
Professional fees and subcontractors	**2,443,212**	1,203,441
Pilot units construction expenses	**5,168,529**	452,292
Laboratory and other supplies	**1,228,357**	494,560
	10,560,862	3,616,519
Tax credits	**(229,914)**	(337,912)
Government assistance	**(9,563,626)**	(2,027,349)
	767,322	1,251,258
b) Business development expenses		
Salaries, employee benefits and other compensation	**197,023**	304,264
Stock-based compensation costs	**66,752**	83,015
Professional fees	**30,898**	71,322
Travel, entertainment, advertising and office expenses	**131,393**	192,641
	426,066	651,242
c) General and administrative expenses		
Salaries, employee benefits and other compensation	**561,485**	574,541
Stock-based compensation costs	**292,627**	219,718
Rent, electricity, taxes and insurance	**235,423**	237,265
Office expenses	**77,221**	80,505
Travel, entertainment and advertising	**161,875**	73,187
Directors' fees	**96,277**	98,005
Professional fees	**489,696**	527,857
Depreciation of property, plant and equipment	**32,631**	34,935
Amortization of patents	**245,139**	386,948
Amortization of deferred credits	**(2,483)**	(3,181)
Government assistance	**(23,257)**	(3,753)
	2,166,634	2,226,027

d) **Financial expenses (revenues), net**

Accretion expense	**218,070**	225,026
Change in fair value of derivatives	**(34,182)**	(120,905)
Interest on convertible debentures	**73,094**	97,734
Interest on term loans	**118,655**	155,501
Management and renewal fees on term loans	**66,733**	113,579
Interest on refundable contributions	**62,088**	25,025
Other financial expenses	**6,270**	22,210
Interest income	**(37,491)**	(9,089)
Gain on refundable contribution	**(1,270,168)**	-
Loss on loan extension	**19,111**	-
Foreign exchange expense	**12,421**	2,888
	(765,399)	511,969

21- INCOME TAXES

Current tax expense:

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

	2018	2017
	$	$
Income tax expenses at the combined statutory tax rate of 26.75% (26.85% in 2017)	**(519,035)**	(1,232,811)
Difference between statutory and future tax rates	**(4,395)**	(63,937)
Non-deductible expenses	**138,481**	118,048
Change in unrecognized deferred tax assets	**393,866**	1,164,282
Items not affecting earnings	**(579)**	(2,724)
Other	**(8,338)**	17,142
	-	-

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

Deferred income taxes:

Recognized deferred tax assets and liabilities:

	2018	2017
	$	$
Deferred tax assets		
Non-capital losses	**429,465**	69,023
Deferred tax liabilities		
Intangible assets	**(4,461)**	(5,682)
Convertible debentures	**(65,755)**	(24,234)
Interest expense on refundable contributions	**(359,249)**	(39,107)
	(429,465)	(69,023)
Deferred tax, net	-	-

Unrecognized deferred tax assets:

	2018	2017
	$	$
Property, plant and equipment	**158,584**	148,140
Donations	**-**	519
Research and development expenses	**4,036,865**	2,734,542
Non-capital losses	**2,660,991**	4,729,972
Deferred grants	**2,229,341**	1,012,674
Financing expense	**147,900**	184,885
Unrecognized deferred tax assets	**9,233,681**	8,810,732

As at June 30, 2018, the amounts and expiry dates of tax attributes for which no deferred tax assets are recognized are as follows:

	2018	
	Canada	
	Federal	**Provincial**
	$	**$**
Research and development expenses, without limitation	12,422,603	7,632,502
Losses carried forward:		
2026	347	347
2027	171,491	24,772
2028	315,764	309,190
2029	528,338	241
2030	834,906	826,356
2031	327	327
2032	339,103	322,019
2033	1,591,460	438,319
2034	1,432,553	1,217,505
2035	3,234,921	3,101,158
2036	3,654,764	3,557,918
2037	264	264
2038	261	261
Loss recognized to offset the deferred tax liability	(1,605,477)	(1,605,477)
	10,499,022	8,193,200

The Corporation is entitled to a non-refundable federal tax credit of approximately $1,722,634. This credit can be applied against future years' taxable income and will expire at the latest in 2038.

22- FINANCIAL INSTRUMENTS

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

Credit risk
Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk is managed on a consolidated basis. The maximum exposure to credit risk corresponds to the amount recognized in the consolidated statement of financial position for cash and cash equivalents and accounts receivable.

The Corporation attempts to minimize its credit risk on cash and cash equivalents by entering into agreements only with high-credit-quality financial institutions. Generally, the Corporation does not require collateral or other security from collaborative partners for trade accounts receivable and government assistance receivable, since collaborative partners are generally government agencies or large financially sound international corporations. As at June 30, 2018 and 2017, no trade accounts receivable were past due or impaired.

Liquidity risk
Liquidity risk is the risk that the Corporation may be unable to fulfill its financial obligations related to financial liabilities. The Corporation's approach to managing liquidity risk is to ensure that it will have sufficient liquidities to meet liabilities when due. As at June 30, 2018, the Corporation had cash and cash equivalents and receivables for a total amount of $8,618,383 ($3,433,278 in 2017) to settle current liabilities of $11,984,122, including deferred grants of $8,312,306 as described in note 10 above ($7,215,285 in 2017).

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

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

As at June 30, 2018 and June 30, 2017, the Corporation's exposure to interest rate risk is summarized as follows:

Cash and cash equivalents	Variable interest rate
Certificate of deposit	Variable interest rate
Accounts receivable	Non-interest bearing
Accounts payable and accrued liabilities	Non-interest bearing
Refundable contributions	Non-interest bearing
Term loans	Fixed interest rate (note 11)
Convertible debentures	As described in note 14

The sensitivity to a ± 1% change in interest rates as at June 30, 2018 would have no material effect on the Consolidated Statements of Comprehensive Loss.

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

Because the Corporation does business internationally, it is exposed to currency risks as a result of potential exchange rate fluctuations related to non-intragroup transactions. Fluctuations in the Canadian dollar, US dollar and Euro exchange rates could have an impact on the Corporation's results of operations.

Foreign exchange risk arises on recognized assets and liabilities, principally cash and cash equivalents, trade accounts receivable and trade accounts payable.

Foreign exchange risk arises when future recognized assets or liabilities are denominated in a currency that is not the entity's functional currency. The Corporation does not currently use derivative instruments to hedge its foreign currency risk; however it may consider doing so in the future. The sensitivity to a ± 5% change to the US dollar or the Euro exchange rates as at June 30, 2018 would have no material effect on the consolidated statement of comprehensive loss.

23- CAPITAL MANAGEMENT

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

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

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

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

The total capital as at June 30, 2018 and 2017 is calculated as follows:

	2018	2017
	$	$
Non-current liabilities	**1,333,001**	464,456
Short-term portion of refundable contribution	**46,173**	1,961
	1,379,174	466,417
Shareholders' Equity	**(3,151,825)**	(2,459,623)
Total capital	**(1,772,651)**	(1,993,206)

24- COMMITMENTS

Royalties

Following a sales technology agreement dated May 21, 1998, and amended March 3, 2004, the Corporation reached an agreement with a former director having at that time a controlling interest in the Corporation 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 was 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, 2018.

Lease agreements
The Corporation has entered into lease agreements for its office premises and other miscellaneous equipment expiring in 2020, which call for lease payments totalling $231,957. Minimum payments for the next five years are $153,321 in 2019 and $78,636 in 2020, and $nil in 2021, 2022 and 2023.

Contractual commitment
In connection with the execution of the GTS collaboration agreement, the Corporation is committed to issue to GTS up to an aggregate of 200,000 additional common share purchase warrants of the Corporation in the next anniversary date of the GTS collaboration agreement.