



Management Discussion and Analysis

as at June 30, 2018

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1. INTRODUCTION

The following is Management's Discussion and Analysis ("MD&A") of the audited consolidated financial position and results of operations of CO₂ Solutions Inc. ("CO₂ Solutions" or "the Corporation") for the financial years ended June 30, 2018 and 2017. The audited consolidated financial statements referred to herein include the accounts of the Corporation, its subsidiary companies and other linked entities, directly or indirectly controlled by the Corporation. This MD&A should be read in conjunction with the information contained in the audited consolidated financial statements and related notes for the financial year ended June 30, 2018 prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Unless otherwise noted, all amounts expressed herein are in Canadian dollars. Management is responsible for establishing appropriate information systems, procedures and controls to ensure that all financial information disclosed externally, including this MD&A, and used internally by the Corporation, is complete and reliable. The MD&A and audited consolidated financial statements for the year ended June 30, 2018 were reviewed by the Corporation's Audit Committee and approved on October 18, 2018 by the Corporation's Board of Directors (the "Board").

Caution Regarding Forward-Looking Statements

This MD&A contains forward-looking statements concerning anticipated developments in the Corporation's operations foreseeable future, the adequacy of the Corporation's financial resources and other events or conditions that may occur in the future. Forward-looking statements are frequently, but not always, identified by words such as "expects", "anticipates", "believes", "intends", "estimates", "predicts", "potential", "targeted", "plans", "possible" and similar expressions, or statements that events, conditions or results "will", "may", "could" or "should" occur or be achieved. These forward-looking statements include, without limitation, statements about the Corporation's market opportunities, strategies, competition, expected activities and expenditures as the Corporation pursues its business plan, the adequacy of the Corporation's available cash resources and other statements about future events or results. Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of the Corporation or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, such as business and economic risks and uncertainties. Some of these risks, uncertainties and other factors are described herein under the heading "Risk Factors and Uncertainties". For the reasons set forth above, investors should not place undue reliance on forward-looking statements. The Corporation's forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made. Consequently, all forward-looking statements made in this MD&A involve known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied in these forward-looking statements.

Other than as required by Canadian securities laws, the Corporation undertakes no obligation to publicly update or revise any of its forward-looking statements, whether as a result of changed circumstances, new information, future events or for any other reason occurring after the date of this MD&A. In this MD&A, the term "CO₂ Solutions" and the term "Corporation" refers to CO₂ Solutions Inc. its subsidiary companies and other linked entities that are directly or indirectly controlled by the Corporation.

2. CORPORATION OVERVIEW

CO₂ Solutions is a leading developer of proprietary technologies for carbon dioxide (“CO₂”) capture. More specifically, the Corporation is focused on commercializing an enzyme-based technology for efficient CO₂ capture from various industrial flue gases for reuse or sequestration.

Since its establishment, CO₂ Solutions has focused on developing its technology platform, testing, de-risking and enhancing that technology platform and assembling a broad patent portfolio. To support this effort, the Corporation has raised capital, recruited highly qualified personnel and established strategic partnerships and alliances. Following the successful completion of a major precommercial CO₂ capture pilot unit operated in Salaberry-de-Valleyfield, Quebec, for 2500 hours from May until October 2015, the Corporation is now in the process of monetizing its technology. This pilot unit is now used in the comprehensive CO₂ capture and utilization demonstration project, known as Valorisation Carbone Québec (“VCQ”) that the Corporation is actively leading (see Information on the VCQ Project, below).

The Corporation secured its first commercial project on August 11, 2016, which is currently under construction and is expected to be completed in December 2018. This project confirms the Corporation’s position as the leading provider of second-generation carbon capture technologies. The Corporation is actively pursuing additional commercial projects around the world.

3. HIGHLIGHTS OF DEVELOPMENTS DURING AND SUBSEQUENT TO THE FINANCIAL YEAR ENDED JUNE 30, 2018



CO₂ Solutions 30 tonne-CO₂ per day carbon capture unit under construction in Saint-Félicien, Québec.

3.1 Highlights of Developments during the Financial Year ended June 30, 2018

Change in Management

On July 10, 2017, the Corporation announced that its then Senior Vice President, Finance and Chief Financial Officer, Mr. Thom Skinner, CPA, CA, was retiring. Following his retirement, Mr. Skinner agreed to continue to provide support to the Corporation in a consulting role. Mr. Skinner was succeeded by Mr. Jérémie Lavoie, CPA, CA. Mr. Lavoie, a Chartered Professional Accountant and senior financial executive with deep experience in the engineering and construction sectors, with both public and private companies, was formerly Chief Financial Officer with Aval Engineering of Calgary, Alberta, a multidisciplinary consulting company providing full project and construction services to the energy and other sectors. Before Aval, Mr. Lavoie held other senior finance positions, including Vice President Finance, Alberta for Mattamy Homes, Canada's largest home builder, and Senior Divisional Controller at SNC-Lavalin ATP Inc., a major engineering consulting company.

Preliminary Engineering Study for a Potential Commercial Project

On September 7, 2017, the Corporation announced that it had partnered with Seneca on a preliminary engineering study to assess the viability and cost to implement CO₂ Solutions' technology in an approximately 32-tonne per day CO₂ capture unit. For competitive reasons, the client's identity remains confidential at this time.

CO₂ Solutions Wins Gold Leaf Award

On October 16, 2017, BIOTECCanada announced that CO₂ Solutions Inc. had won the Gold Leaf Award as Emerging Company of the Year, recognizing CO₂ Solutions' leadership and contribution to the field of biotechnology, insofar as the Corporation's technology can help reduce the environmental impact of traditional manufacturing and industrial processes in agriculture, forestry, and chemical production.

Grant of Options

On November 22, 2017, the Corporation announced it had granted a total of 2,118,000 stock options to certain of its directors, officers and employees. Each stock option, governed by the stock option plan of the Corporation, allows the holder thereof to acquire one common share of the Corporation until November 22, 2022 for a price of \$0.11 per common share.

Grant of Deferred Share Units ("DSUs") and Restrictive Share Units ("RSUs")

On November 22, 2017, 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 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 granted were valued at \$0.11 per share, that being the last closing price of the Corporation's common shares on the Toronto Stock Exchange "TSXV" immediately prior to the date as at which market value of the units is determined, that date being November 21, 2017. The RSUs granted fully vested on January 1, 2018.

Canada Economic Development Grant

On December 5, 2017, the Corporation announced that it had received a grant commitment from Canada Economic Development for Quebec Regions (“CED”) towards the completion of the Corporation’s first commercial project in Saint-Félicien, Quebec. CED’s assistance has been awarded in the form of a two million dollar repayable financial contribution through the CED Quebec Economic Development Program. Under the terms of the grant contribution agreement, CO₂ Solutions will apply these funds toward the continued realization of the Saint-Félicien project and will be required to refund the contribution over 60 monthly payments with the first payment being due 42 months after the project’s construction completion date which is expected to be in December 2018.

Public Offering of Convertible Debentures

On December 22, 2017, the Corporation announced the closing of a public 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 \$1.5 million. Each unit consisted of an 8% convertible unsecured debenture in the principal amount of \$1,000 and 8,333 share purchase warrants of the Corporation. Each Debenture will be convertible, at the option of the holder at any time prior to the close of business on the tenth business day immediately preceding December 20, 2020 at a price of \$0.12 per common share. Certain “related parties” of the Corporation participated in the Offering and subscribed for an aggregate of 397 Units. (See *Additional information with respect to accounting for December 2017 Issue of Debentures* below for more detail.)

Renewal of Loan

On August 31, 2016, the Corporation entered into a definitive loan agreement with Dundurn Capital Partners (“DCP”), an affiliate of Robert Manherz, a director and insider of the Corporation, and another arm’s length lender, in connection with a secured loan in the amount of \$500,000 (the “**August 2016 Loan**”). The August 2016 Loan was repayable in full upon the earlier of the second anniversary of the initial drawdown or the completion of the next public financing of the Corporation, such public financing having occurred in December 2017 with the issue of the convertible debentures mentioned above. The loan agreement governing the August 2016 Loan was amended in December 2017 to provide that repayment to the lenders thereunder by the Corporation will be deferred until the earlier of August 31, 2019 or the completion of the next public financing of the Corporation.

Partial Conversion of December 2017 Convertible Debentures

As noted above, relative to the convertible unsecured debentures issued in December 2017, each debenture is convertible, at the option of the holder, at any time prior to close of business on December 10, 2020. As of October 18, 2018, 854 units of the debentures, representing \$854,000 had been converted into a total of 9,255,156 shares of the Corporation.

Information on the Saint-Félicien Project

The Saint-Félicien project is proceeding as expected. The engineering and procurement of long lead items was completed in January 2018, and construction of the capture unit on the site at the Resolute Forest Product pulp mill in Saint-Félicien, Quebec, under the supervision of the Corporation’s selected contractor Alco-TMI, from Alma, Quebec, started in June 2018. Construction of the Saint-Félicien capture unit is expected to be completed by December 2018, followed by a six-

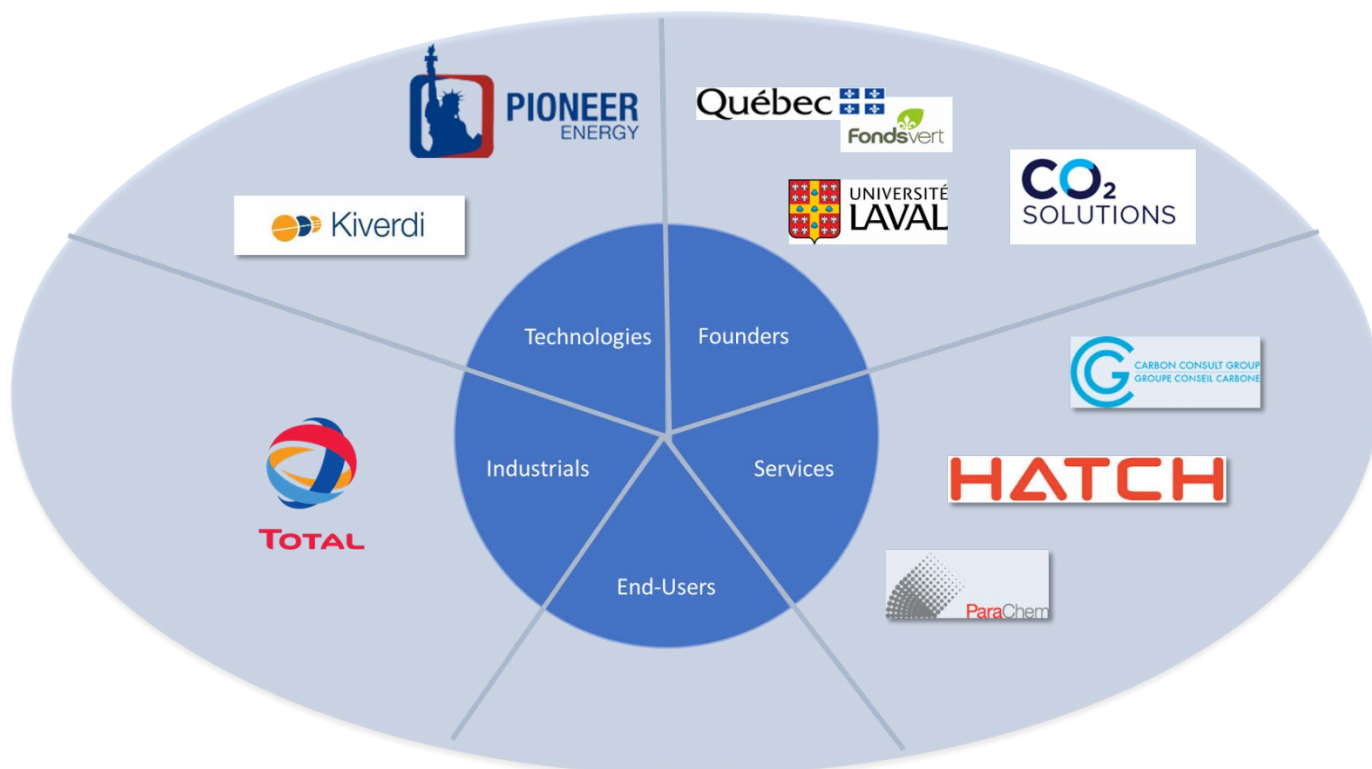
month period of commissioning and demonstration. Following the commissioning and demonstration period, the commercial operation, which consists in providing CO₂ to the adjacent greenhouse operated by Serres Toundra Inc., will begin.

Information on the VCQ Project

The Corporation continues to lead the world's most comprehensive CO₂ capture and utilization demonstration project, Valorisation Carbone Québec. Started in February 2017, the objectives of this project are to develop and demonstrate commercially viable end-to-end solutions to capture and utilize CO₂ in various applications while reducing greenhouse gas ("GHG") emissions.

In its successful first year, the VCQ project marked the following milestones:

- The creation of the management and scientific orientation committees responsible for overseeing the governance of the VCQ project were put in place. Membership of these committees is drawn from executives and scientists from industry (Suncor, Total, Hatch, CO₂ Solutions), academia (Université Laval, Polytechnique de Montréal) and the Quebec government.
- Total S.A. signed on as the VCQ project's first industrial partner (see below).
- Additional industrial CO₂ utilization technology and end-use partners have been identified and discussions are currently being pursued along multiple fronts to broaden even further industry's and academia's participation in the VCQ project (see below).
- An agreement was reached with Chimie Parachem (Parachem), a 51% subsidiary of Suncor Energy, for use of their industrial facilities in Montreal-East as the chosen VCQ demonstration site.
- A 10-tonne per day carbon capture plant utilizing CO₂ Solutions' enzymatic process in packed columns was successfully commissioned at the Parachem facilities.
- A 10-tonne per day rotating packed bed contactor has been ordered and is slated for delivery at the VCQ demonstration site in October 2018 to be followed by an operational demonstration.
- Over 100 CO₂ utilization technologies from around the world have been evaluated for their potential to effectively participate in the VCQ project.
- Agreements were reached with providers of CO₂ utilization technologies converting CO₂ into methanol, dimethyl ether and protein for animals, such as those agreements that were announced with Kiverdi and Pioneer Energy.
- Hatch Ltd., a major international consulting engineering and implementation firm, committed to provide engineering and other services to realize the installation of the various capture and utilization units on the Parachem site and, upon the conclusion of the demonstrations, will generate the related techno-economic reports.
- Carbon Consult Group, a leading carbon management and valorization group has joined the VCQ project as a supplier of services to quantify the reduction of GHG emissions offered by the various technologies.
- To date, nine different organizations have confirmed their participation as partners in one or more of the other categories of the VCQ project making it a truly broad effort to address CO₂ mitigation through carbon capture and utilization.



CO₂ Solutions Welcomes Total as an Industrial Partner in the VCQ Project

On March 27, 2018, CO₂ Solutions welcomed Total S.A., a French global integrated energy company, as the first industrial partner to the VCQ project. As illustrated above, the industrial partner category is one of five partnership types in the VCQ project. Industrial partners make financial contributions to the VCQ budget in exchange for techno-economic reports on the various technologies demonstrated in the project; the amount of these contributions is undisclosed for competitive reasons. Contributions from industrial partners enables the VCQ project to increase the number of demonstrated technologies and accelerates their eventual commercial implementation.

CO₂ Solutions Receives an Additional \$7.5 Million Grant to Enhance and Extend the VCQ Project until 2022

On October 11, 2017, the Corporation also announced that Mr. Denis Roy, currently Director of Operations, Eastern Canada for Suncor Energy (TSX: SU), was appointed as Chair of the VCQ Management Committee. With this appointment, the members of the VCQ Management Committee are as follows:

Name	Position	Affiliation
Denis Roy	Director of Operations, Eastern Canada	Suncor Energy
Sébastien P.-Richard	Technology Transfer and Commercialization Advisor	Université Laval
Evan Price	President and Chief Executive Officer	CO ₂ Solutions
Claudine Gingras	Direction de l'Expertise climatique	Ministère du Développement durable, Environnement et Lutte contre les changements climatiques
Louis Fradette, PhD	Director, Valorisation Carbone Québec	CO ₂ Solutions and Ecole Polytechnique
Robert Zappa	Deputy Director, Valorisation Carbone Québec	CO ₂ Solutions

On March 28, 2018, CO₂ Solutions announced that it had received a \$7.5 million grant from the province of Quebec to enhance and extend the VCQ project from its original end date of 2019 until 2022. In addition to extending the length of the project, this grant will allow the VCQ project to increase the number of utilization technologies it will demonstrate. It allows the Corporation and its partners to build on the success of the first year of this exciting, leading effort and realize one of the most ambitious carbon capture and utilization projects ("CCU") in the world.

Success in Round 2 of the NRG COSIA XPRIZE

On September 20, 2017, the Corporation announced a combined entry partnership with Carbicrete for round 2 of the NRG COSIA XPRIZE. Carbicrete's patented technology allows manufacturers to produce cement-free, carbon-negative concrete with steel slag and CO₂. This represents the Corporation's second combined entry partnership for Round 2 of the XPRIZE.

On October 12, 2017, the Corporation announced two additional combined XPRIZE entry partnerships: Hago Energetics Inc. of Ventura, California and Breathe Applied Sciences Private Limited of Bangalore, India, which will partner separately with CO₂ Solutions in the NRG COSIA Carbon XPRIZE.

Furthermore, on December 1, 2017, the Corporation announced that TerraCOH, from Minneapolis, Minnesota, would also partner with CO₂ Solutions in the NRG COSIA Carbon XPRIZE competition.

Including the two CO₂ Solutions-only entries in the competition for flue gases from natural gas and coal sources, the Corporation had a total of eight entries of the Corporation in the NRG COSIA XPRIZE competition.

On April 9, 2018, CO₂ Solutions announced that two of its joint entries at the NRG COSIA XPRIZE competition had successfully passed Round 2 of the competition. These selected entries, which the Corporation had announced as joint entries in 2017, were with Carbicrete of Montreal, QC and CERT of Toronto, Ontario. CO₂ Solutions and these partners shared US\$ 500,000 for each of the selected entries in Round 2, for a total of US\$ 500,000 for CO₂ Solutions which the Corporation received in May 2018.

CO₂ Solutions' Technology Showcased by CanmetENERGY at the Oil Sands Innovation Summit

On June 7, 2018, CO₂Solutions announced that the Corporation's proprietary enzymatic carbon capture technology was featured in a presentation given at the Oil Sands Innovation Summit in Calgary, Alberta. The presentation summarized extensive modelling work by Natural Resources Canada's CanmetENERGY Research Centre, and CO₂ Solutions in Varennes, Quebec, on the energy integration potential of CO₂ capture with Once-Through Steam Generator ("OTSG") plants providing steam for Steam Assisted Gravity Drainage ("SAGD") operations. This presentation entitled "Integration of SAGD with low-grade heat CO₂ capture technology" underlined how CO₂ Solutions' enzymatic technology, which requires only low-grade heat in the form of hot water at 80° to 85° Celsius for its regeneration energy, can be integrated into a heavy oil operation. Furthermore, the presentation confirmed the availability of sufficient excess heat to drive the capture process in a heat integration scheme, without impacting the plant's steam cycle.

CO₂ Solutions Issues Warrants to GasTran Systems

On, June 22, 2018, the Corporation announced that it had issued 200,000 common share purchase warrants of the Corporation (the "June 2018 Warrants") to Cleveland, Ohio-based Cleveland Gas Systems, LLC, dba GasTran Systems ("GasTran" or "GTS"). The June 2018 Warrants were issued pursuant to the terms of the exclusive collaboration agreement with GasTran (the "Agreement"), the terms of which are described in the news release issued by the Corporation and GasTran on June 22, 2015. Each June 2018 Warrant entitles its holder to acquire one common share of the Corporation at a price of \$0.20 per share until June 22, 2021 or until the Agreement is terminated in certain circumstances and is subject to a four-month statutory hold period until October 23, 2018.

3.2 Highlights of Development Subsequent to the Financial Year ended June 30, 2018

CO₂ Solutions Welcomes Hydro-Quebec as Service Provider in the VCQ Project

On July 17, 2018, CO₂ Solutions announced that Hydro-Quebec, through its Energy Technology Laboratory (Laboratoire des technologies de l'énergie, LTE), had joined the VCQ project as a service provider partner.

CO₂ Solutions Receives \$375,000 Contribution from Natural Resources Canada

On August 7, 2018, CO₂ Solutions announced that it had received a \$375,000 non-refundable contribution from Natural Resources Canada ("NRCan") towards the reduction of the cost and improvement of the performance of the Corporation's proprietary carbon capture technology. Under the terms of the contribution agreement, NRCan's assistance is directed towards helping the Corporation improve the overall performance of its CO₂ capture system through optimized process configurations. Such improvements translate into a decrease in capital and operational expenditures required in future commercial projects integrating the enzymatic technology, thus increasing competitiveness.

4. SECTOR AND POTENTIAL MARKET OVERVIEW

4.1 General Overview

In the previous financial year, there was an unprecedented amount of scrutiny and news coverage drawing global attention to the matters of greenhouse gas and climate changes, and their actual and potential impacts on the planet.

A little over 80% of the current energy consumed in the world comes from fossil fuels such as oil, coal and natural gas¹. The combustion of these fossil fuels generates CO₂, which translates into an increase in CO₂ concentration in the atmosphere. The CO₂ levels are now exceeding any historical levels. In 2017, according to the National Oceanic and Atmospheric Administration (NOAA), the average level of CO₂ in the atmosphere was 405.0 parts per million (ppm)². This is the latest of a trend that shows a constant increase in CO₂ concentration of 2.2 to 3.0 ppm per year since 2015 with an average increase of 2.3 ppm per year over the last decade.

These facts are important as CO₂ is the most abundant greenhouse gas in the atmosphere. Greenhouse gases are trapping the solar energy in the atmosphere, modifying the energy balance and leading to the rise of the earth's temperature as well as the acidification of the oceans by dissolving in their waters. We endorse the overwhelming body of scientific knowledge that unequivocally establishes these impacts. This observable increase in extreme climate events is frequently associated with climate changes driven by human activity by many in the scientific community.³

Energy market projections are subject to much uncertainty, as the events that shape future developments in technology, demographic changes, economic trends, and resource availability that drive energy use cannot be foreseen with certainty.⁴ However, the fact remains that, in order to effectively address the climate change challenge, emissions from large stationary industrial emitters, such as fossil fuel-based power plants, cement plants and metal smelters, must be reduced. Although we are witnessing massive investments in renewables, and it is expected that these will continue to increase, every credible indication is that fossil fuels will remain the primary energy source for decades to come. Many countries are now attempting to accelerate the development and implementation of technologies that reduce CO₂ emissions from conventional fossil fuel-based plants, technologies such as that developed and patented by CO₂ Solutions.

Even though mature economies will decrease their carbon emissions by investing in cleaner and renewable energy sources, the demand for fossil fuel-based energy is expected to increase over the next decades as the growth of emerging economies will more than offset the decrease in carbon emissions of developed ("OECD") countries. According to the 2018 International Energy Outlook⁵ ("IEO2018") Reference case that was revalidated in 2018, the world's estimated CO₂ emissions will

¹ U.S. Energy Information Administration, *International Energy Outlook 2018*.

² <https://www.esrl.noaa.gov/gmd/ccgg/trends/data.html>

³ Attribution of Extreme Weather Events in the Context of Climate Change," National Academies Press, 2016

⁴ U.S. Energy Information Administration, *International Energy Outlook 2018*.

⁵ U.S. Energy Information Administration, *International Energy Outlook 2018*.

continue to grow from 33.9 to 42.8 billion metric tonnes per year between 2015 and 2050, an overall increase of 25.5%.

The challenge for the world is to limit climate change through the reduction of GHG emissions while not damaging a global economy that is sustained by abundant fossil fuels. In order to effectively limit their CO₂ emissions, many countries, in conjunction with the 21st Conference of Parties in Paris (“COP21”), submitted emissions reduction goals or Intended Nationally Determined Contributions (“INDCs”) under the United Nations Framework Convention on Climate Change (“UNFCCC”). Although these goals have tried to include specific details, such as investments in renewable energies, uncertainty remains with regards to how these macro objectives will translate in applicable policies and clear guidance to meet the goals. The figures expressed in the International Energy Outlook may change materially as laws and programs aimed at reducing CO₂ emissions are being implemented. In line with these objectives, recent developments have seen the United States increase the carbon capture tax credits (“45Q”) in their most recent budget bill. This 45Q credit is expected to drive private investments in commercial deployment of technologies to capture CO₂ from power plants and industrial facilities for enhanced oil recovery and other forms of geologic storage and for beneficial uses of CO₂. This enhanced carbon credit is, in our opinion, a strong indication of the pressures put on politicians, even from a country threatening to pull out of the Paris COP21 agreements, by industry to act in some way to reduce greenhouse gas emissions. This bodes well for the acceptance of second-generation CO₂ capture and utilization technologies in North America that are proven, low-cost and environmentally friendly, such as the one provided by CO₂ Solutions.

In November 2016, the Canadian Liberal government confirmed the 30% GHG emissions reduction target set by the previous government, current predictions for energy-related CO₂ emission growth in Canada forecast a 14% increase between 2015 and 2050.⁶ To meet the reductions objective, Canada must decrease its GHG emissions relative to the 2015 figures by approximately 28%.⁷ This will require an immediate significant change in how GHG emissions are viewed by society. In the past few months, provinces such as Alberta and Manitoba have expressed their intention to reject the federal carbon tax. Furthermore, the province of Saskatchewan is currently suing the federal government to be allowed to exit the federal legislation. Ontario just recently announced it was abandoning the cap and trade agreement it had with Quebec and the state of California and it is expected to join Saskatchewan’s legal challenge of the federal carbon tax.

In March 2018, the Auditor General of Canada reported that: “most governments in Canada were not on track to meet their commitments to reducing greenhouse gas emissions and were not ready for the impacts of a changing climate. Based on the current federal, provincial, and territorial policies and actions, Canada is not expected to meet its 2020 target for reducing greenhouse gas emissions. Meeting Canada’s 2030 target will require substantial effort and actions beyond those currently planned or in place. Most Canadian governments have not assessed and, therefore, do not fully understand what risks they face and what actions they should take to adapt to a changing climate.

The federal, provincial, and territorial audit work conducted found similar key issues. Although not necessarily reflective of all governments, these key issues can be obstacles to Canada’s overall efforts

⁶ U.S. Energy Information Administration, *International Energy Outlook 2018*

⁷ <https://www.ec.gc.ca/indicateurs-indicators/default.asp?lang=en&n=CCED3397-1>

to respond to climate change and to deliver on its international climate change commitments.”⁸ (See Section 4.3 Government Regulations for more details.)

Furthermore, there is a trend in energy producers unifying their efforts in terms of clean technology development in separate entities such as the Canadian Oil Sands Innovation Alliance (“**COSIA**”), one of the sponsors of the NRG COSIA XPRIZE, and the Oil and Gas Climate Initiative (“**OGCI**”) to better focus the money spent in developing technologies and avoid redundancy of efforts. Although this facilitates the conversations between cleantech corporations and the energy industry’s investment money for the cleantech sector, it also reduces the number of sources of funding available and adds a level of complexity surrounding corporate and project investments.

The issue of oil sands GHG emissions and access to market is also impacting Western Canada’s ability to sell and distribute its oil resource, slowing the increase in Canadian oil prices. Opponents of the proposed pipelines cite the potential significant increase in greenhouse gas emissions if oil sands production increases because of greater access to markets through a new pipeline. These pipeline opponents are calling for a concrete plan that will address their concerns regarding increased CO₂ emissions from oil sands crude production and safety surrounding the planned pipelines. This recently resulted in open arguments and temporary economic sanctions between Alberta and British Columbia requiring intervention from the federal government. In time, this could lead Canada, Alberta, and the oil companies to increase their efforts to capture the CO₂ generated from the oil sands mining operations and bolster the need for new cleaner technologies to garner public support for the pipelines.

Considering this information, the Corporation remains confident that CO₂ capture projects will eventually be secured in Western Canada. It is the Corporation’s opinion that a carbon tax at \$50 per tonne in Canada would make CO₂ Solutions’ technology very appealing to Canadian GHG emitters as it is higher than the \$28 per tonne capture cost for a 1,250 tonne per day capture plant previously disclosed by the Corporation thus making the Corporation’s technology a serious cost management opportunity for large emitters.

4.2 Opportunities and Applications

The Corporation is also seeing increased interest in its technology from the five main industry verticals that it is focusing on:

- Power
- Oil & Gas
- Pulp & Paper
- Cement
- Mines & Metals

All the above-mentioned industry verticals are major CO₂ emitters, but, interestingly enough, some of those CO₂ emitters also use CO₂ as feedstock in their product process or offer very specific utilization opportunities. The Corporation is currently evaluating the common and individual needs and requirements of these verticals, and of certain corporations operating within them, to assess

⁸ http://www.oag-bvg.gc.ca/internet/English/parl_otp_201803_e_42883.html

how CO₂ Solutions' proprietary technology could be implemented as a solution to reduce their GHG emissions whilst reducing the cost of the CO₂ required by their operations.

Power

The power industry is a major user of fossil fuels, mainly utilized for power generation. Except for geographical areas with hydroelectricity capabilities or countries having developed nuclear power plants, most provinces in Canada and many countries in the world rely on natural gas, diesel or coal to fuel their power generation plants. This makes power plants large CO₂ emitters and, as such, these emitters become the focus of any government's initiative towards fighting greenhouse gases. As power generation plants come in many different sizes, they are a very attractive target for CO₂ Solutions to implement its current technology and, to that end, work with large utilities to scale up its technology. When these power plants are located near oil industry infrastructure, the captured CO₂ may be used for enhanced oil recovery ("EOR") applications.

Oil and Gas

The oil and gas industry is, by nature, a large emitter of greenhouse gas through its refining and transformation processes. More specifically, in the oil sands, steam is utilized to facilitate the oil separation from sands and other minerals. All the heat required by the extraction and refining of oil is generated by burning fossil fuels, hence the large emissions of CO₂. This industry also exhibits a high level of potential for the utilization of captured CO₂ in EOR applications or for the treatment of tailing ponds. Transforming the captured CO₂ from a refinery into green fuels, as will be demonstrated within the Corporation's Valorisation Carbone Québec project is another increasingly attractive utilization path.

CO₂-based EOR, is the practice of injecting pure CO₂ into an aging oil well to re-pressurize the well and temporarily increase its production. This practice has been used for decades, originating in the Permian basin of West Texas. In the process, CO₂ mixes with crude oil (miscible phase). This phase has lower viscosity than crude oil which, combined with the increased pressure, flows to production wells. This is similar to the concept of a CO₂ and soda mixture being released from a shaken pop bottle. This "fizzy" mixture of CO₂ and crude is separated and the CO₂ is recycled and reinjected along with further "fresh" CO₂. As a rule, using conventional EOR techniques, for each tonne of CO₂ injected, approximately two to four barrels of additional oil are produced. In addition, approximately 30% of the injected CO₂ remains permanently sequestered.⁹ Given the declining natural CO₂ sources and the increasing demand, oil producers are increasingly looking at anthropogenic sources, where cost-effective carbon capture technology can provide a continuing opportunity for EOR. As such, the Corporation believes that its technology is well positioned to serve this market.¹⁰ EOR is also gaining significant ground in Canada with the approval of the Alberta Carbon Trunk Line ("ACTL") which is intended to obtain CO₂ from emitters and transport it safely to areas where it can be used for EOR.

Clean natural gas is a newer trend in the natural gas industry where there is an increase in interest for natural gas produced from the transformation of CO₂ into methanol and methane through various technologies, fuels that can then be reused by the very plant or industry that emitted the CO₂ in the first place, leading the way to small circular economies. The Corporation will be demonstrating

⁹ <https://www.energy.gov/fe/science-innovation/oil-gas-research/enhanced-oil-recovery>

¹⁰ Advanced Resources International, Inc., *The CO₂-EOR Oil Recovery and CO₂ Utilization "Prize"*, April, 2014.

its conversion technologies to produce methane and methanol as well as dimethyl ether in the course of its VCQ project.

Pulp and Paper

The utilization of CO₂ in the pulp and paper industry is widespread and includes the following main uses:

Regulating and Stabilizing pH

Over the last few years, more and more pulp & paper mills have started to use CO₂ to regulate and stabilize pH while reducing their use of problematic mineral acids.

Reducing CaCO₃ Dissolution

Calcium carbonate (CaCO₃) is present in most papermaking systems. CO₂ can be added to the process to reduce its dissolution and eliminate mineral deposits.

CO₂ Pulp-Washing

CO₂ pulp-washing technology is widely used in fibre lines, providing better operability, lower steam consumption, reduced wash water volumes, lower volume use of foam inhibitors and pitch dispersants, and lower maintenance costs.

CO₂ for Soap Acidulation

Sulphuric acid consumption for soap acidulation in the production of crude tall oil ("CTO") can be reduced by 30% to 50% by using CO₂. This also allows the pulp mill to have better control over its sulphur/sodium balance.

Most pulp and paper producers currently obtain CO₂ at a significant cost from external bulk gas suppliers. For the pulp & paper industry, CO₂ Solutions' process could be implemented to capture CO₂ from boiler operations, where nil-value-process heat can provide the energy for the CO₂ recovery process. The result is lower CO₂ acquisition costs, reduced dependence on external supply sources, and a lower carbon footprint for the pulp operation.

Cement

The manufacturing of cement emits CO₂ through the thermal decomposition of calcium carbonate to produce lime and through the use of energy to power the cement plants, making the cement industry one of the largest CO₂ emitters in the world.

Recent technological developments have demonstrated promises towards injecting CO₂ into concrete to sequester it permanently. The injected CO₂ also acts to strengthen the concrete.

Carbon Capture and Utilization

CO₂ Solutions' enzyme-based technology provides an elegant solution for the capture of CO₂ from effluent gases and for the production of pure CO₂ therein for utilization. Due to its physical properties, many applications for using CO₂ as an industrial gas have been developed over the years. Some uses go back centuries, to a time when fermentation of food (malt, wheat, grapes, etc.) led to the production of alcohol, wines, or beers in which CO₂ was partly re-used in the process, particularly to exclude air. Other applications for CO₂, termed second-generation, are more recent and have

emerged partly as a result of the trend to use more environmentally friendly products in industry: two examples are CO₂'s use as a solvent and CO₂ use as a feedstock to produce value-added products similarly as is done in the waste industry.

Beverage Carbonation

Soft drink bottlers and canners require CO₂ as an input for the carbonation of their drinks. This is a significant cost to the producer and, in many locations, presents very challenging logistics. In this context, the opportunity exists for soft drink producers to utilize CO₂ Solutions' technology to replace their purchased CO₂ with a lower cost and secure source of CO₂ obtained from the flue gases of their on-site boilers, such boilers being required to generate the heated water to clean and sterilize the bottling or canning equipment. At the same time, this CO₂ recycling operation would provide a means of improving their environmental footprint and generating carbon credits, should they be available in their respective jurisdictions.

Greenhouses

Plants absorb CO₂ during daylight hours as part of their growth cycle. Greenhouses, which are highly controlled environments, typically seek to supplement CO₂ concentrations in the ambient air up to 1,000 ppm (from the normal level of 400 ppm), resulting in plant yields being increased by as much as 50%¹¹.

CO₂ for greenhouses is often obtained by burning fossil fuels such as natural gas in specialized CO₂ generators, where, after complete combustion, the flue gases are introduced directly into the greenhouse. The downsides of using natural gas is that moisture is produced during combustion, which may be disadvantageous for growing certain plants and, if combustion is incomplete, contaminants may be present in the flue gases and then in the greenhouses. Alternatively, pure CO₂ may be purchased for use. This can be supplied to greenhouses by truck in liquid form and has become popular among growers because of the elimination of the risk of crop damage, the lack of moisture production, more precise control over CO₂ levels and increased flexibility to introduce the CO₂ when needed. A drawback of this approach, however, is that liquid CO₂ is typically more expensive than CO₂ generated from natural gas combustion¹². CO₂ Solutions believes that its technology could solve these challenges by allowing CO₂ to be captured and concentrated at a cost lower than that of on-site natural gas combustion. As noted above, the Corporation's first commercial agreement for a carbon capture unit, the Saint-Félicien project, is in the process of being applied in this industry.

Emerging Uses of CO₂

In addition to established uses of CO₂, many novel second-generation uses are under development or in an early demonstration phase¹³. These include algae production for making products ranging from nutraceuticals to biodiesel, the production of bioplastics, the carbonation and reuse of mineral wastes, the transformation of CO₂ into biochemicals and biofuels, the integration of CO₂ into building products such as concrete and the production of animal protein, among other applications. The previously mentioned VCQ project is a showcase of the world's most promising second-generation

¹¹ Advanced Resources International, Inc., *The CO₂-EOR Oil Recovery and CO₂ Utilization "Prize"*, April, 2014

¹² Ibid

¹³<https://www.mckinsey.com/business-functions/sustainability-and-resource-productivity/our-insights/why-commercial-use-could-be-the-future-of-carbon-capture>

utilization technologies and positions the Corporation at the centre of the growing CO₂ capture and utilization industry, known as "CCU". The Corporation believes that its technology is positioned as an ideal front-end solution to provide the lowest possible cost CO₂ feedstock required by the CCU industry.

Carbon Capture and Sequestration

With 70% of global energy demand currently met through the burning of carbon-based fuels, and demand predicted to double by 2035,¹⁴ the world faces a growing challenge: how can it reduce CO₂ emissions which cause climate change while not damaging a global economy dependent on fossil fuels. A central issue to this carbon emissions problem is the fact that approximately 8,200 large stationary emitters of CO₂ worldwide, such as coal and natural-gas-fired power plants, oil and gas production facilities and other large industrial plants generate approximately 14.7 billion tonnes of annual emissions, or half of all total global anthropogenic CO₂ emissions.¹⁵ As such, to deal effectively with the issue of climate change, these existing large sources of emissions must be addressed. Carbon capture and sequestration is considered one of the most promising opportunities to achieve that objective. Recently, Norway announced that it was exploring the feasibility and cost of using exhausted underwater oil wells to sequester large quantities of CO₂ for Europe¹⁶.

The Corporation is discussing additional scale-up partnerships and is continuing to pursue a multi-pronged strategy aimed at advancing its technology development and deployment. The prime focus in the short term will be to leverage the Corporation's internal Research and Development ("R&D") focus and efforts in view of advancing the Corporation's technology towards commercial readiness.

4.3 Government Regulations

In September 2016, Canadian Federal Minister of Environment and Climate Change, Catherine McKenna, announced the federal government's intention to impose a national carbon price across Canada. Ottawa will require provinces to adopt either a carbon tax or cap-and-trade approach and to meet a federally established minimum price. The federal government will impose its own system on provinces that fail to meet that minimum threshold, according to the Minister. Further, on October 3, 2016, the Prime Minister of Canada announced that, should the provinces fail to adopt a price for carbon, the federal government would impose a carbon price of up to \$50 per tonne by 2022¹⁷.

While the overall move towards regulation of greenhouse gases has been slow, CO₂ Solutions has seen individual governments take important leadership roles on the issue of reduction of carbon emissions. The number of jurisdictions around the world that have established or are in the process of developing GHG cap-and-trade programs, or that are implementing a carbon tax, continues to rise.

In June 2015, Alberta Environment Minister Shannon Phillips announced that the existing \$15 per tonne levy on carbon will increase to \$20 per tonne in 2016 and \$30 per tonne in 2017. In addition, Alberta has recently started focusing on the least carbon-intensive projects and introduced, in

¹⁴ U.S. Energy Information Administration, *Annual Energy Outlook 2014*

¹⁵ International Energy Agency (IEA) GHG Program; large source defined as >100,000 tonnes-CO₂ emissions annually

¹⁶ <http://www.gassnova.no/en/co2-storage-contract-awarded-to-statoil>

¹⁷ CBC News; Justin Trudeau gives provinces until 2018 to adopt carbon price plan; October 3, 2016

November 2016, the Oil Sands Emissions Limit Act, which would limit the oil sands extraction process to a maximum of 100 million tons per year.

As noted above, in conjunction with COP21, many countries have submitted emissions reduction goals, or INDCs, under the UNFCCC. These predictions have tried to incorporate some of the specific details, such as renewable energy goals, in the forecasts; however, a great deal of uncertainty remains with regard to the implementation of policies to meet stated goals. The US Energy Information Administration's projections for CO₂ emissions may change significantly as laws and policies aimed at reducing GHG emissions are implemented and enforced, and if existing laws are enhanced.

CO₂ Solutions believes that, despite the struggles faced by the federal government to implement its national carbon price, the increased popular pressure will see the program implemented. Furthermore, it is management's opinion that the Corporation is very well positioned to capitalize on this ongoing convergence of the costs associated with emitting and capturing carbon. Management believes that the reduced cost of CO₂ Solutions carbon capture technology can contribute to reducing the cost of capture below the federally proposed carbon price of \$50 per tonne by 2022.

5. INTELLECTUAL PROPERTY HIGHLIGHTS

Continued Expansion of Intellectual Property

As many countries are increasing their efforts towards fighting climate change and thus reducing their CO₂ emissions, there has been a focus on the current carbon capture technologies. This has also led to more media coverage and news about carbon capture and related technologies and scientific breakthroughs. Specifically, management has noted an increase in the attention and inquiries that CO₂ Solutions' enzyme-based technology receives from many varied sources.

Equipped to meet this increase in focus and activity, CO₂ Solutions holds a broad portfolio of patents in the field of enzyme-enhanced carbon capture. As at June 30, 2018, the Corporation had 54 patents issued and 35 patents pending covering the use of carbonic anhydrase with various capture solvents and the use of the carbonic anhydrase enzyme in different reactor configurations and in key industrial processes such as power generation and cement production.

To date, the Corporation has been successful in fending off the challenges to its intellectual property and will continue to actively oppose any infringement of its patents. It should be noted that none of the actions or potential actions taken by third-parties in Europe or the United States to challenge the Corporation's intellectual property has affected or would affect the Corporation's freedom to operate in any jurisdiction.

Management believes that, with its intellectual property portfolio, the Corporation is well positioned to commercialize carbonic anhydrase enzyme-based systems for the capture of CO₂.

CO₂ Solutions will continue to file additional patents around its proprietary technology as well as complementary processes and technology as deemed appropriate, and, when challenged, it will defend its intellectual property vigorously whenever and wherever necessary.

6. FINANCIAL REVIEW

6.1 Selected Annual Information

	As at June 30		
	2018	2017	2016
Total revenues	\$654,306	\$49,028	-
Net loss	\$1,940,317	\$4,591,468	\$4,964,529
Net loss per share	\$0.01	\$0.03	\$0.04
Total assets	\$10,165,298	\$5,220,118	\$3,380,162
Non-current liabilities	\$1,333,001	\$464,456	\$1,448,032
Total liabilities	\$13,317,123	\$7,679,741	\$3,384,236

The Corporation recorded revenues from a service contract as well as winnings from the NRG COSIA Carbon XPRIZE for a total of \$654,306 in the financial year ended June 30, 2018, an increase from the \$49,028 in revenues from the sale of enzyme recorded for the year ended June 30, 2017. The net loss for the financial year ended June 30, 2018, decreased by \$2,651,151, to \$0.01 per share reflecting an increase in government assistance as well as a reduction in R&D, business development, general and administrative expenses and financial expenses during the year. This is reflective of the levels of activity in delivering the VCQ and Saint-Félicien projects as these projects require an increase in activities levels and the seconding of many internal resources of the Corporation to these projects.

As at June 30, 2018, total assets were \$10,165,298 compared to \$5,220,118 as at June 30, 2017. Specific balance sheet changes are a result of the following:

- a \$4,029,105 increase in cash and cash equivalents mainly due to government grants for the VCQ project received in advance that will be used towards the project in due course;
- an overall increase in accounts receivable of \$1,208,156 from the balance as at June 30, 2017, reflecting net increases of \$1,184,847 in government assistance receivable and of \$21,162 in sales tax refund receivable;
- a decrease of \$52,156 in tax credits receivable mainly due to a larger portion of R&D activities associated with projects that are not subject to a tax credit claim;
- a decrease in inventory of \$90,379, reflecting the normal usage of enzyme inventory required for the operation of the demonstration project as well as the timing of enzyme deliveries;
- a decrease of \$279,779 in prepaid expenses mainly due to a reduction of services paid but not yet rendered on the VCQ project and interest paid in advance on the R&D credit financing;
- a decrease of \$4,358 in property, plant and equipment reflecting the acquisition of additional laboratory and computer equipment of \$28,273, net of amortization charges of \$32,631; and
- a decrease of \$15,409 reflecting the net of additional investments in intangible assets of \$229,730, offset by amortization charges of \$245,139. In accordance with the application of the International Accounting Standard ("IAS 38"), Intangible Assets, CO₂ 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 Corporation does not include any internally generated expenses in the valuation of the patents since the work would be completed by its internal research and development staff prior to the patent application. Further, the Corporation does not include expenses incurred during the development phase.

As at June 30, 2018, the net increase of \$5,637,382 in total liabilities compared to June 30, 2017, is the result of the following items: a \$4,768,837 net increase in current liabilities reflecting the following:

- an increase of \$4,391,198 in deferred government grants that relates to VCQ grants received in advance;
- a decrease of \$540,552 in the short-term portion of convertible debentures reflecting the amount related to the expiry and reimbursement of the 2015 debentures;
- an increase of \$906,397 in accounts payable and accrued liabilities that is reflective of higher levels of activities in the VCQ and the Saint-Félicien projects;
- an increase of \$44,212 in the short-term portion of refundable contribution that reflects the amount the Corporation expects it will have to repay over the next 12 months;
- a decrease of \$32,418 in term loans that reflects the current amount owed on the term loans that the Corporation expects it will have to pay or renew over the next 12 months.

The increase of \$868,545 in non-current liabilities is mainly due to the increase of \$407,871 of convertible debenture, related to the December 2017 emission, and an increase of \$463,157 in the carrying value of refundable contributions.

6.2 Operating Results

Comparison between Financial Years Ended June 30, 2018 and June 30, 2017

Revenues

As noted above, the Corporation reported revenues from a service contract as well as winnings from the NRG COSIA Carbon XPRIZE for a total of \$654,306 in the financial year ended June 30, 2018, compared to revenues of \$49,028 from a sale of enzymes in the financial year ended June 30, 2017.

Research and Development Expenses

R&D expenditures, before tax credits and government assistance, increased by \$6,944,343 totalling \$10,560,862 for the financial year ended June 30, 2018, compared with \$3,616,519 for the financial year ended June 30, 2017. The increase between financial years reflects the increase R&D activities related to the VCQ and the Saint-Félicien projects.

R&D tax credits accrued during the financial year ended June 30, 2018 decreased by \$107,998. This decrease is due to the level of government assistance during the financial year and its effect on expenses that are eligible for research and development tax credits. Research and development expenses covered by government assistance are not eligible for tax credits claims. Government assistance for the financial year ended June 30, 2018 was \$9,563,626 (\$2,027,349 in 2017), an increase from the prior financial year of \$7,536,277. This government assistance comes in the form of subsidies granted to the Corporation mainly by the Quebec government for the VCQ project as

well as Sustainable Development Technology Canada and Technoclimat (Transition Énergétique Québec) for the Saint-Félicien project.

Business Development Expenses

Business development expenses were \$426,066 for the financial year ended June 30, 2018, compared to \$651,242 in 2017, representing a decrease of \$225,176 primarily due to the following:

- a decrease of \$123,504 in salaries, benefits and stock-based compensation due to vacancies in the business development team.
- a decrease of \$61,248 in travel and advertising related to a targeted business development strategy and the location of trade shows and conferences.
- a decrease of \$40,424 in professional fees related to a decrease in patent infringements requiring defence.

General and Administrative Expenses

General and administrative expenses totalled \$2,166,634 for the financial year ended June 30, 2018, compared with \$2,226,027 for the financial year ended June 30, 2017, representing a decrease of \$59,393. This net decrease is primarily related to the following:

- \$141,809 decrease in amortization expenses related to patents.
- \$72,909 increase in stock-based compensation costs (options, DSUs and RSUs).
- \$38,161 decrease in professional fees related to legal, audit tax and consulting services.
- \$13,056 decrease in salaries and benefits related to changes in the management and administration team.

Financial Expenses (revenues)

Financial expenses (revenues) for the financial year ended June 30, 2018 was a net decrease of \$1,277,368. This net decrease is mainly related to the following:

- gain relating to the determination of the carrying value of the refundable contribution of \$1,270,168.
- decrease of \$86,723 in the non-cash accounting gain relative to the change in fair value of derivatives associated with the conversion and make-whole provisions attached to the December 2015 and December 2017 debenture issues.
- decrease of \$46,846 related to management fees and renewal fees on term loans;
- decrease in interest on term loans for \$36,846.
- increase in interest on refundable contributions and convertible debentures of \$12,423;
- increase in interest income of \$28,402.
- loss on loan extension of \$19,111.
- total net decrease of accretion expense, foreign exchange expense and other financial expenses of \$13,363.

Loss and Comprehensive Loss for the Financial Year

As noted above, the Corporation recorded a loss of \$1,940,317, or \$0.01 per share, for the financial year ended June 30, 2018, compared with a loss of \$4,591,468, or \$0.03 per share, for the financial year ended June 30, 2017, a decreased loss of \$2,651,151. The largest factor in the decreased loss between financial years is related to the increase in government assistance associated with the VCQ and the Saint-Félicien projects that were awarded and finalized during the year. This was combined with revenues from the winnings of the NRG COSIA Carbon XPRIZE and from professional services rendered and with a large gain in the determination of the carrying value of the reimbursable contribution and a general reduction in costs. No other significant factor, other than those described above, contributed to the change in net loss for the year.

6.3 Selected Unaudited Quarterly Information

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

	Quarters ended			
	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
Revenues	\$629,306	\$10,000	-	\$15,000
Loss (profit)	\$(384,759)	\$485,661	\$1,096,426	\$742,989
Loss per share	\$0.00	0.00	\$0.01	\$0.01

	Quarters ended			
	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
Revenues	-	\$49,028	-	-
Loss	\$938,930	\$904,386	\$1,354,003	\$1,394,149
Loss per share	\$0.01	0.01	\$0.01	\$0.01

Fourth quarter of 2018

During the fourth quarter of the financial year ended June 30, 2018, the Corporation recorded a profit of \$384,759 or \$0.00 per share, compared with a loss of \$938,930, or \$0.01 per share, a gain of \$1,323,689 compared to the same period in 2017. This gain is mainly attributed to the winnings from the NRG COSIA Carbon XPRIZE and the increase in government assistance related to the Saint-Félicien and VCQ projects that were in full deployment for the year (see Section 6.4 Cash Flows below). There were no other general trends that affected the fourth quarter financial results. The Corporation's business is not subject to any seasonality of its business, but it is subject to changes in activity levels related to the timing of the Corporation's projects.

6.4 Cash Flows

Cash and cash equivalents totalled \$7,057,252 as at June 30, 2018, compared with \$3,028,147 as at June 30, 2017. This increase in cash is mainly attributable to VCQ project grant funds that were paid in advance and will be disbursed in future months. More specifically:

Cash flows generated from operating activities for the financial year ended June 30, 2018, amounted to \$2,306,291, compared with \$1,747,465 for the financial year ended June 30, 2017, representing an

increase of \$558,826 primarily due to the decrease in net loss and changes in non-cash working capital items.

Cash flows required for investing activities for the financial year ended June 30, 2018 totalled \$258,003, compared with \$292,371 required for the financial year ended June 30, 2017, a difference of \$34,368. This difference is mainly attributable to the following factors:

- Property, Plant and Equipment
Purchases of property, plant and equipment, consisting primarily of laboratory and computer equipment, in the financial year ended June 30, 2018, of \$28,273, an increase of \$7,485 from the \$20,788 in the same period in 2017.
- Amounts Capitalized to Patents
For the financial year ended June 30, 2018, the Corporation capitalized \$229,730 in patent-related costs compared to \$271,583 in 2017, a decrease of \$41,853.

The cash flows generated from financing activities for the financial year ended June 30, 2018 amounted to \$1,980,817, compared with \$698,744 generated in the financial year ended June 30, 2017. This \$1,282,073 increase in cash flows is primarily attributable to the following:

- partial receipt of the Canada Economic Development refundable contribution of \$1,717,410;
- proceeds from the December 2017 convertible debentures of \$1,500,000;
- refund of the 2015 convertible debentures of \$632,000;
- issuance fees related to the December 2017 debentures of \$380,280;
- reimbursement of term loans of \$267,042; and
- net receipt of new term loans of \$43,856.

6.5 Liquidity and Going Concern

To date, the Corporation has financed its operations mainly through cash flow obtained from technology development collaborations, the issuance of common shares or convertible securities and government assistance.

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 compared to \$3,279,684 at the same time last year. The working capital deficiency includes cash and cash equivalents of \$7,057,252 (\$3,028,147 in 2017) and deferred grant 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 (12) 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, the Corporation's management is actively seeking to raise the necessary capital to meet its 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 financing at terms acceptable to the Corporation can be confirmed or negotiations with potential funding partners are successfully concluded, the Corporation may have to act 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 act to limit ongoing projects 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.

The 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 inappropriate. These adjustments could be material.

6.6 Issued Capital

As at October 18, 2018, the number of outstanding common shares, warrants, broker units, options, restricted share units, and deferred share units were as follows:

- common shares: 158,693,810;
- share purchase warrants: 16,362,037;
- broker units attached to 2015 Private Placement: 0;
- board, Officer, Consultant and Employee stock options: 7,626,500;
- restricted share units: 0; and,
- deferred Share Units: 1,755,944.

7. OFF-BALANCE SHEET ARRANGEMENTS

As at June 30, 2018, the Corporation did not have any off-balance sheet arrangements.

8. RELATED PARTY TRANSACTIONS

As at June 30, 2018, there were no related party transactions other than those disclosed above relative to the participation of certain insiders in the 2017 Public Offering and the renewal of the August 2016 term loan agreement described above (Section 3.1, Highlights).

9. COMMITMENTS

9.1 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 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, 2018.

9.2 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 two years are, \$153,321 in 2019 and \$78,636 in 2020.

9.3 Contractual Commitment

Pursuant to the terms of the exclusive collaboration agreement with GasTran, the GTS Collaboration Agreement signed in June 2015, the Corporation issued 200,000 GTS Warrants. Each GTS warrant entitled its holder to acquire one common share of the Corporation at a price of \$0.271 per common share until June 22, 2018, or until the GTS Collaboration Agreement is terminated in certain circumstances. These original GTS warrants have since expired, however as part of the Agreement the Corporation undertook to issue up to an aggregate of 800,000, additional common share purchase warrants to GTS in four equal tranches of 200,000 upon each of the first four anniversary dates of the Agreement. Pursuant to this undertaking, as noted earlier, the Corporation issued an additional 200,000 GTS Warrants in June 2018. Each June 2018 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. Each future common share purchase warrant will, if issued, entitle the holder thereof to acquire one common share of the Corporation at a price per common share equal to the higher of (i) the 30-day volume-weighted average trading price in Canadian dollars of the common shares calculated on the day preceding the grant of the tranche; (ii) the closing trading price of the Common shares on the day preceding the grant of the specific tranche, or (iii) \$0.20.

10. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

10.1 Significant Management Judgments and Estimates

The Corporation's audited consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards. The full description of accounting policies and estimates are presented in the relevant section or in the notes to the Corporation's audited consolidated financial statements for the financial year ended June 30, 2018.

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

The Corporation 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.

10.2 Additional Information with Respect to Accounting for Intellectual Property

The determination and reflection of the value in the accounts of a biotech company and the accounting for patents related to new technological products or services generally calls for an understanding of the specific underlying science and technology and the benefits that can be derived from the application of the technology, often in very specialized markets. These determinations are normally based on judgments made by management, who will use their knowledge of how the ownership rights of a new technology restrict competitors from duplicating or stealing the Corporation's ideas and proprietary property. The proof of the technology's intrinsic value is often evidenced by the registration of a patent or patents. In the end, these proprietary rights are what will create value for the Corporation. IAS 38, Intangible Assets, states that an intangible asset (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 capitalized. Internally generated expenses or expenses in the development phase are not included in the valuation of a patent, since the work, completed by internal research and development staff, would have been completed prior to applying for the patent (i.e. do not meet the criteria). Items to be considered in the review of intangible assets 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.

It is the Corporation's interpretation that in consideration of the amounts capitalized and reported on CO₂ Solutions' audited consolidated statements of financial position, all these criteria have been met and the Corporation has correctly capitalized these development costs and has reflected their intrinsic value towards the potential contribution to future revenues for CO₂ Solutions. CO₂ Solutions

holds a broad portfolio of patents in the field of enzyme-enhanced CO₂ capture. As at June 30, 2018, the Corporation had 54 patents issued and 35 patents pending covering not only the use of the carbonic anhydrase enzyme with various capture solvents, but also its use of carbonic anhydrase in different reactor configurations, in key industrial processes, such as power generation and cement production as well as paper production, and in many countries. Patents, obtained or pending, are recorded at cost and amortized on a straight-line basis over 20 years, which is the validity period of regular patents, and over 10 years for utility models. The periods of 20 and 10 years start at the date the patent is originally filed. The Corporation's patent portfolio is regularly reviewed for potential impairment and patents that are no longer deemed of value are written off. During the financial year ended June 30, 2018, nine patents were deemed to be without value resulting in write-downs included in general and administrative expenses in the amount of \$157,491.

10.3 Additional Information with Respect to Accounting for the December 2017 Issue of Debentures

On December 22, 2017, the Corporation announced the closing of a public 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 consisted of an 8% convertible unsecured debenture in the principal amount of \$1,000 and 8,333 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. acted as sole agent for the offering pursuant to an agency agreement entered into between Echelon Wealth Partners Inc. and the Corporation. In connection with this offering, the Agent was paid a cash commission of \$85,610 on December 21, 2017, and was granted 713,387 common share purchase warrants 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.

Each debenture will be convertible, at the option of the holder at any time prior to the close of business on the tenth business day immediately preceding the Maturity Date, into the number of Common shares computed on the basis of (i) an amount equal to the principal amount of the Debentures that is an integral multiple of \$1,000 principal amount divided by the conversion price of \$0.12 per Common Share (the "**Conversion Price**"), which is subject to adjustments in certain events, and (ii) an amount equal to the Interest that would have been payable on the debentures from the date of conversion to the maturity date (the "**Make-Whole Amount**"), provided, however, that such amount will be reduced by 1% for each 1% that the current market price as at the date preceding the notice of conversion exceeds the conversion price divided by the current market price of the common shares on the last trading date prior to the date of conversion. The aggregate number of common shares to be issued upon conversion of the Debentures and for any payment of the Make-Whole Amount in common shares shall not exceed the number of common shares that is equal to the principal amount of the debentures divided by \$0.09. Holders will also be entitled to receive accrued and unpaid Interest since the last interest payment date, payable in cash or common shares, at the Corporation's option. The Corporation will pay any accrued and unpaid interest that it elected to pay in common shares by issuing and delivering to the holder that number of fully paid and non-assessable common shares obtained by dividing the amount of any accrued and unpaid Interest by the current market price on the last trading date prior to the date of conversion.

No holder will be entitled to convert debentures or warrants for an amount which would result in the issuance of common shares providing the holder with more than 9.9% of the issued and outstanding

common shares of the Corporation. Any holder that before acquiring units already held common shares representing more than 9.9% of the issued and outstanding common shares is exempt from this restriction; however, such holder will not be entitled to convert debentures or warrants for an amount which would result in the issuance of common shares providing the holder with more than 19.9% of the issued and outstanding common shares unless disinterested shareholder approval is obtained by the Corporation in accordance with the policies of the TSX Venture Exchange. Each full warrant entitles the holder thereof to purchase one common share at the price of \$0.12 until December 20, 2020. The offering was made in the provinces of British Columbia, Alberta, Ontario and Quebec by way of a prospectus supplement to the Corporation's base shelf prospectus dated November 23, 2015. In connection with the offering, the Corporation entered into an agency agreement with Echelon Wealth Partners concurrently with the filing of the prospectus supplement. Net proceeds of the offering were used (i) to repay certain outstanding debts and (ii) for general working capital.

Certain "related parties" of the Corporation participated in the offering and subscribed for an aggregate of 397 Units. Participation of related parties of the Corporation in the 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 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 offering as the details of the participation of the related parties of the Corporation had not been confirmed at that time.

11. NEW ACCOUNTING STANDARDS

The International Accounting Standards Board ("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.

11.1 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, Financial Instruments was issued by the IASB in October 2010 and will replace IAS 39, "Financial Instruments: Recognition and Measurement". 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 its 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, Leases, 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, Revenue from Contracts with Customers.

12. RISK FACTORS AND UNCERTAINTIES

The following is a list of risk factors and uncertainties that may affect the Corporation and its business. This list may not be exhaustive, as the Corporation operates in a rapidly changing business environment, and new risk factors emerge from time to time. The Corporation cannot predict such risk factors, nor can the Corporation 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 consolidated financial statements or projected in any forward-looking statements. Accordingly, the Corporation does not, and nor should shareholders of the Corporation or purchasers of securities of the Corporation, rely on forward-looking statements as a prediction of actual results. If any of these risks occur, the Corporation's business, results of operations and financial position could be adversely affected. In any such case, the market price of the Common shares could decline, and investors might lose all or part of their investment.

Uncertainty Concerning Revenues and a History of Previous Losses

Founded in 1997, CO₂ 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

Corporation is confident in its technology, it cannot know with complete certainty whether or when any its 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 CO₂ 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 CO₂ 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 environmental legislation and regulation for the reduction of greenhouse gas emissions.

At the moment, CO₂ Solutions' revenues are generated from its current relationships with collaborative partners. CO₂ Solutions also earns interest income on its invested surplus funds. There can be no assurance that any of the Corporation's current collaborative agreements will continue to support CO₂ Solutions' technology research and development on current levels or at all, and CO₂ Solutions might develop new relationships and enter into new agreements with additional collaborative partners or clients.

Dependence on Collaborative Partners and Government Assistance

CO₂ Solutions' strategy is to enter into various arrangements with corporate collaborators and to apply for various federal and provincial government assistance in the form of grants and loans, for the continued development and commercialization of the its enzyme-enabled carbon capture technology. To date, CO₂ Solutions has entered into different types of collaborations for R&D and technology scale-up and has received a significant amount of government assistance related to specific projects. The Corporation also expects to enter into further collaborations for the potential further development and commercialization of its technology with other firms, and apply for additional government assistance, pursuant to which the Corporation may receive additional funding, including milestone payments and scheduled government assistance payments. There can be no assurance, however, that the Corporation will be able to establish such additional collaborations on favourable terms, if at all, or that current or future collaborative arrangements will be successful, nor can there be assurance that future government assistance will be forthcoming. Should any collaborative partner fail to develop or commercialize successfully any technology to which CO₂ Solutions has rights, or any of the partners' technology to which the Corporation has rights, or should the Corporation no longer be able to secure additional government assistance, CO₂ Solutions' business, research and development activities and technology scale-up activities may be adversely affected. Additionally, failure of a collaborative partner or a government funding agency to continue funding any particular project could delay or halt the development or commercialization of the Corporation'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 other entities, including the Corporation'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, CO₂ Solutions' growth could be adversely impacted by a lack of concerted legislative efforts on the part of major industrialized countries.

Unproven Market

Much of the Corporation'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 Corporation's estimated market potential for the sale or licensing of its technology or products, no assurance can be given that this potential will come to fruition owing to competition from existing or new carbon capture technology and the yet to be established commercial viability of the Corporation's technology or products.

Market Acceptance

The enzyme-enabled carbon capture technology development process of the Corporation 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 or marketable at prices that will allow the Corporation to achieve profitability;
- will not be successfully marketed by CO₂ Solutions or its collaborative partners so as to achieve market acceptance; or
- 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 CO₂ Solutions or its collaborative partners, if any, will depend on several factors, including the establishment and demonstration in the carbon capture and environmental community of the efficacy of the Corporation'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 Corporation. In addition, by the time the Corporation's products, if any, are ready to be commercialized, what the Corporation believes to be the market for these products may have changed. Any estimates referenced in the Corporation's statements, presentations or literature regarding the number of potential customers for the Corporation'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 acceptability for such technology. The Corporation's or its collaborative partners' failure to successfully introduce and market CO₂ Solutions' enzyme-enabled carbon capture technology that is under development would have a material adverse effect on the Corporation's business, financial condition and results of operations.

Intellectual Property and Technologies

CO₂ Solutions' success will depend, in part, on its ability to obtain patents or rights thereto, to protect trade secrets and operate without violating the exclusive rights of third parties. Although the Corporation 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 Corporation will develop other patentable technologies in the future. Moreover, there can be no assurance that a patent granted to the Corporation or in respect of which the Corporation holds a licence 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 Corporation's commercial activities.

In order to protect or enforce the intellectual property rights owned or used by the Corporation, CO₂ Solutions may have to initiate legal proceedings against third parties. The Corporation may also have to defend claims brought against it or any purchaser or user of its products asserting that such product or process infringes the intellectual property rights of third parties. Legal proceedings relating to intellectual property are typically expensive, take significant time and divert management's attention from other business matters. The cost of any litigation could adversely affect the business of the Corporation. Further, if the Corporation does not prevail in an infringement lawsuit brought against it, the Corporation might have to pay substantial damages and could be required to stop the infringing activity or obtain a licence 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 Corporation and the Corporation cannot obtain a licence 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 Corporation could be materially adversely affected. Loss of patent protection could lead to new competition for the Corporation's current and future technology, which could materially and adversely affect the financial prospects for the Corporation. There is no guarantee that other companies will not independently develop similar products to those of CO₂ Solutions, that they will not imitate CO₂ Solutions' technology or that the Corporation's competitors will not develop technology designed to circumvent CO₂ Solutions' exclusive proprietary rights. The Corporation 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 CO₂ Solutions on acceptable terms, if at all.

Recruitment and Retention of Key Personnel

CO₂ Solutions' success is largely dependent upon the members of the Corporation's management team and the Corporation's capacity to attract and retain highly competent scientific and business development personnel. The inability to attract such personnel or the potential loss of such persons already within the Corporation could compromise the pace and success of the Corporation's enzyme-enabled carbon capture technology R&D and commercialization projects.

Volatility of Share Price

Market prices for securities in general tend to fluctuate. The volatility may affect the ability of shareholders to sell the Corporation's common shares at an advantageous price. Factors such as the announcement of scientific or technological innovations, new products or patents, the obtaining of exclusive rights by the Corporation or other companies, a change in regulations, publications, quarterly financial results, public concerns, future sales of common shares by the Corporation or

current shareholders, the realization of any of the risks described herein and many other factors could have considerable repercussions on the price of the common shares. In addition, the market price for securities in the stock markets, including the TSX Venture Exchange, may experience significant price and trading fluctuations. These fluctuations may result in volatility in the market prices of securities that are unrelated or disproportionate to changes in operating performance. These broad market fluctuations may adversely affect the market price of the Corporation's common shares.

Future Sales of Common Shares

The market price of the common shares could decline as a result of issuances by the Corporation 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 Corporation to sell securities at a time and price that it deems appropriate.

Competition

There is no guarantee that other persons will not independently develop similar products with the potential for costs approaching the Corporation's technology, or that other competitors will not develop technology designed to circumvent the Corporation's issued and pending patents. In the future, the Corporation 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 the Corporation on acceptable terms or if at all. Finally, loss of patent protection could lead to new competition for the Corporation's current and future technology offerings. Any of these events could in turn materially and adversely affect the Corporation's financial prospects.

Global Political and Economic Conditions

Challenging global political, market and economic conditions in most major economies continue while concerns about the systemic impact of potential long-term and widespread recession, energy costs, geopolitical issues, and the availability and cost of credit have contributed to increased market volatility and diminished expectations for Western and emerging economies. Notwithstanding various actions taken 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 could deteriorate, including a decline in consumer sentiment, increased unemployment and declining economic growth and uncertainty about corporate earnings. These disruptions in the overall financial markets can have a significant material adverse impact on a number of businesses and financial institutions and can limit access to capital and credit for many companies. These disruptions could also, among other things, make it more difficult for the Corporation or its collaborative 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 reassessments of development programs and spending either by the Corporation or its collaborative partners and governments may occur as a result. The Corporation's access to additional capital may not be available on terms acceptable to it or at all. These factors could negatively affect the Corporation's future results of operations in those national markets and its ability to attract collaborative partners and 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 Corporation's cash inflow is in US dollars or Euros, and the Corporation's operating expenses are generally in Canadian dollars, US dollars and Euros. Fluctuation in the exchange rate between the US dollar, the Euro and the Canadian dollar may have a material effect on CO₂ Solutions' results of operations. The Corporation does not currently use derivative instruments to hedge its foreign currency risk; however, it may consider doing so in the future.

Dividends

The Corporation 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 Corporation from paying dividends.

Dilution

The Corporation may consider issuing convertible debt or equity securities, 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 Corporation provide that CO₂ Solutions has an unlimited number of authorized common shares that may be issued. Under applicable law, shareholders' approval is not required for the Corporation to issue shares. If the Corporation issues convertible debt or equity securities to raise additional funds, its existing shareholders may experience dilutions, and the new convertible debt or equity securities may have more advantageous rights, preferences and privileges when compared to those of the Corporation's existing shareholders. The Corporation is unable to predict the future amount of such issuances or dilution. If the Corporation incurs debt, it may increase its leverage relative to its earnings or to its equity capitalization, requiring the Corporation to pay interest expenses.

Tax Credits

The Corporation is eligible R&D tax credits on expenditures incurred on scientific research and experimental development ("SR&ED") 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 SR&ED (ii) the rate applicable to such credit is different from the rate claimed by the Corporation; 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.

Liquidity and Going Concern

See Section 6.5 above.

13. DISCLOSURE AND INTERNAL CONTROLS

As at June 30, 2018, an evaluation of the design and operating effectiveness of the Corporation'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 Vice President, Finance and 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, 2018, 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 Vice President, Finance and 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 *Regulation 52–109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings*. 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 Corporation'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 financial year ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

14. AUDITOR

The Corporation's external auditor, PricewaterhouseCoopers LLP, s.r.l./s.e.n.c.r.l. has audited the consolidated financial statements for the financial year ended June 30, 2018 and has expressed an opinion thereon.

15. ADDITIONAL AND CONTINUOUS DISCLOSURE

This MD&A was prepared on October 18, 2018. Additional information relating to the Corporation, including the Corporation's Annual Information Form for the financial year ended June 30, 2018, will be available on SEDAR at www.sedar.com.

On behalf of management,

[signed] Jérémie Lavoie

Jérémie Lavoie, CPA, CA
Vice-President, Finance,
and Chief Financial Officer

[signed] Evan Price

Evan Price
President and Chief Executive Officer