Condensed Interim Consolidated Financial Statements (unaudited)

as at December 31, 2018 and 2017 ($ CAN)

CO2 SOLUTIONS

CO_2 Solutions Inc.
Condensed Interim Consolidated Financial Statements
(Unaudited)
December 31, 2018 and 2017
(expressed in Canadian dollars)

CO_2 Solutions Inc.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited)

(expressed in Canadian dollars)

	As at December 31, 2018	As at June 30, 2018
	$	$
ASSETS		
Current assets		
Cash and cash equivalents	**1,162,821**	7,057,252
Certificates of deposit (note 4)	**450,000**	150,000
Accounts receivable (note 5)	**3,707,545**	1,389,148
Tax credits receivable	**408,344**	171,983
Inventory	**30,435**	66,156
Prepaid expenses	**44,085**	66,009
	5,803,230	8,900,548
Non-current assets		
Property, plant and equipment (note 6)	**129,163**	128,657
Patents (note 7)	**1,138,862**	1,136,093
	7,071,255	10,165,298
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**6,852,091**	2,617,662
Deferred grants (note 8)	**6,017,380**	8,412,608
Term loans (note 9)	**943,132**	907,679
Short-term portion of refundable contributions (note 10)	**86,175**	46,173
	13,898,778	11,984,122
Non-current liabilities		
Refundable contributions (note 10)	**948,342**	915,922
Deferred credits	**8,236**	9,208
Convertible debentures (note 11)	**333,346**	407,871
	15,188,702	13,317,123
EQUITY		
Capital stock (note 12)	**29,258,073**	29,239,851
Stock options (note 13)	**590,879**	615,076
Deferred and Restricted Share Units (note 14)	**508,249**	230,750
Broker units (note 12)	**-**	10,896
Warrants (note 12)	**300,867**	1,230,123
Contributed surplus	**6,520,646**	5,481,063
Deficit	**(45,296,161)**	(39,959,584)
	(8,117,447)	(3,151,825)
	7,071,255	10,165,298

Basis of preparation and going concern (note 2)

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

Approved by the Board of Directors

[signed] Evan Price — Evan Price, Director

[signed] Glenn Kelly — Glenn Kelly, Director

CO_2 Solutions Inc.

Condensed Interim Consolidated Statements of Changes in Equity

For the six-month periods ended December 31, 2018 and 2017

(Unaudited)

(expressed in Canadian dollars)

	Capital stock	Stock options	Deferred and Restricted Share Units	Broker units	Warrants	Contributed surplus	Deficit	Total
	$	$	$	$	$	$	$	$
Balance as at July 1, 2018	**29,239,851**	**615,076**	**230,750**	**10,896**	**1,230,123**	**5,481,063**	**(39,959,584)**	**(3,151,825)**
Stock-based compensation costs (note 13)	-	75,234	277,499	-	-	-	-	352,733
Stock options expired (note 13)		(99,431)	-	-	-	99,431	-	-
Broker units expired (note 12)	-	-	-	(10,896)	-	10,896	-	-
Warrants expired (note 12)	-	-	-	-	(929,256)	929,256	-	-
Share issue from 2017 convertible debentures converted (notes 11 et 12)	18,222	-	-	-	-	-	-	18,222
Loss and comprehensive loss for the period	-	-	-	-	-	-	(5,336,577)	(5,336,577)
Balance as at December 31, 2018	**29,258,073**	**590,879**	**508,249**	**-**	**300,867**	**6,520,646**	**(45,296,161)**	**(8,117,447)**

CO_2 Solutions Inc.

Condensed Interim Consolidated Statements of Changes in Equity (continued)

For the six-month periods ended December 31, 2018 and 2017
(Unaudited)

(expressed in Canadian dollars)

	Capital stock	Stock options	Deferred and Restricted Share Units	Broker units	Warrants	Contributed surplus	Deficit	Total
	$	$	$	$	$	$	$	$
Balance as at July 1, 2017	**28,534,756**	**555,933**	**108,472**	**10,896**	**2,150,259**	**4,199,328**	**(38,019,267)**	**(2,459,623)**
Stock-based compensation costs	-	75,035	329,069	-	-	-	-	404,104
Share issue from stock option exercised	4,876	(1,876)	-	-	-	-	-	3,000
Stock options forfeited	-	(506)	-	-	-	506	-	-
Stock options expired	-	(19,511)	-	-	-	19,511	-	-
Share issue from RSU granted February 28, 2017	25,000	-	(25,000)	-	-	-	-	-
Warrant issue to broker upon closing December 21, 2017 Public Financing	-	-	-	-	23,256	-	-	23,256
Warrants attached to Convertible Debentures from December 21, 2017 Public Financing	-	-	-	-	228,078	-	-	228,078
Loss and comprehensive loss for the period	-	-	-	-	-	-	(1,839,415)	(1,839,415)
Balance as at December 31, 2017	**28,564,632**	**609,075**	**412,541**	**10,896**	**2,401,593**	**4,219,345**	**(39,858,682)**	**(3,640,600)**

CO_2 Solutions Inc.

Condensed Interim Consolidated Statements of Comprehensive Loss

For the three and six-month periods ended December 31, 2018 and 2017

(Unaudited)

(expressed in Canadian dollars)

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Revenues				
Engineering Agreement	**-**	-	**-**	15,000
Costs and operating expenses				
Research and development expenses, net (note 16 a)	**2,694,575**	108,228	**3,593,201**	214,728
Business development expenses (note 16 b)	**91,289**	91,228	**164,363**	193,696
General and administrative expenses (note 16 c)	**928,977**	739,819	**1,392,879**	1,179,424
Financial expenses, net (note 16 d)	**50,852**	157,151	**186,134**	266,567
	3,765,693	1,096,426	**5,336,577**	1,854,415
Loss and comprehensive loss for the period	**3,765,693**	1,096,426	**5,336,577**	1,839,415
Basic and diluted loss per share (note 15)	**0.02**	0.01	**0.03**	0.01

The accompanying notes are an integral part of these condensed interim consolidated financial statements, and note 16 provides additional information on loss and comprehensive loss.

CO_2 Solutions Inc.

Condensed Interim Consolidated Statements of Cash Flows

For the three and six-month periods ended December 31, 2018 and 2017

(Unaudited)

(expressed in Canadian dollars)

	Three-month periods ended December 31, 2018 $	Three-month periods ended December 31, 2017 $	Six-month periods ended December 31, 2018 $	Six-month periods ended December 31, 2017 $
OPERATING ACTIVITIES				
Loss and comprehensive loss for the period	**(3,765,693)**	(1,096,426)	**(5,336,577)**	(1,839,415)
Adjustments				
Depreciation and amortization	**46,025**	43,517	**108,443**	98,961
Interest expense on refundable contributions (note 10)	**36,324**	7,022	**72,422**	13,858
Interest and fees added to term loan (note 9)	**-**	-	**-**	25,600
Accretion expense on convertible debentures (note 11)	**24,215**	63,178	**45,539**	115,255
Accretion expense on loan (note 9)	**18,727**	16,335	**35,453**	30,782
Change in fair value of derivatives (note 11)	**(66,574)**	-	**(101,842)**	(19,235)
Stock-based compensation costs (note 13)	**325,459**	368,888	**352,733**	404,104
	(3,381,517)	(597,486)	**(4,823,829)**	(1,170,090)
Changes in non-cash working capital items				
Certificate of deposit (note 4)	**(300,000)**	-	**(300,000)**	-
Accounts receivable	**(92,389)**	(124,992)	**(2,318,397)**	(566,664)
Tax credits receivable	**(152,157)**	(22,897)	**(236,361)**	(43,617)
Inventory	**-**	12,959	**35,721**	22,502
Prepaid expenses	**15,467**	11,544	**21,924**	236,248
Accounts payable and accrued liabilities	**2,875,593**	(822,571)	**4,234,429**	728,082
Deferred grants	**(2,062,715)**	(81,732)	**(2,395,228)**	(467,640)
	283,799	(1,027,689)	**(957,912)**	(91,089)
Cash flows used in operating activities	**(3,097,718)**	(1,625,175)	**(5,781,741)**	(1,261,179)
INVESTING ACTIVITIES				
Acquisition of property, plant and equipment (note 6)	**(11,243)**	(5,550)	**(16,363)**	(11,461)
Amounts capitalized to patents (note 7)	**(21,107)**	(57,551)	**(96,327)**	(161,056)
Cash flows used in investing activities	**(32,350)**	(63,101)	**(112,690)**	(172,517)
FINANCING ACTIVITIES				
Reimbursement of matured 2015 Convertible Debentures	**-**	(632,000)	**-**	(632,000)
Proceeds from issuance of 2017 Convertible Debentures	**-**	1,500,000	**-**	1,500,000
Issuance fees on 2017 Convertible Debentures	**-**	(364,026)	**-**	(364,026)
Share issues from stock options exercised	**-**	-	**-**	3,000
Cash flows from financing activities	**-**	503,974	**-**	506,974
Net decrease in cash and cash equivalents during the period	**(3,130,068)**	(1,184,302)	**(5,894,431)**	(926,722)
Cash and cash equivalents - Beginning of period	**4,292,889**	3,285,727	**7,057,252**	3,028,147
Cash and cash equivalents - End of period	**1,162,821**	2,101,425	**1,162,821**	2,101,425
Interest income received	**7,248**	4,064	**28,742**	11,041
Interest paid	**28,938**	37,648	**57,840**	72,277
Convertible debentures converted and paid by issuance of shares (notes 11 and 12)	**12,436**	-	**18,222**	-
Broker warrants relating to 2017 Public Offering (note 9)	**-**	23,256	**-**	23,256

(expressed in Canadian dollars)

1- GOVERNING STATUTE AND NATURE OF OPERATIONS

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

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

2- BASIS OF PREPARATION AND GOING CONCERN

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. Accordingly, these are condensed interim consolidated financial statements since they do not include all the information required under IFRS for annual consolidated financial statements. These condensed interim consolidated financial statements should be read in conjunction with the June 30, 2018 audited annual consolidated financial statements, which have been prepared in accordance with IFRS as issued by the IASB. The accounting policies applied in these condensed interim consolidated financial statements are consistent with those of the previous financial year, except for the adoption of new accounting standards presented in Note 3.

The results for the interim periods are not necessarily indicative of the results for the full fiscal year.

These condensed interim consolidated financial statements for the second quarter ended December 31, 2018 have not been subject to review by the Corporation's independent auditor.

These condensed interim consolidated financial statements have been approved by the Corporation's Board of Directors on February 28, 2019.

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

As at December 31, 2018, the Corporation had an accumulated deficit of $45,296,161 compared to $39,959,584 as at June 30, 2018. 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 December 31, 2018, the Corporation showed a working capital deficiency of $8,095,348 compared to $3,083,574 as at June 30, 2018. The working capital deficiency includes cash and cash equivalents of $1,162,821 ($7,057,252 as at June 30, 2018) and deferred grants of $6,017,380 ($8,412,608 as at June 30, 2018). As at December 31, 2018, management estimates that these current funds alone would not be sufficient to allow the Corporation to continue its operations over the next twelve months. Accordingly, management intends to raise capital through large industrial investors, private placements, public markets as well as grants, all of which, combined with the current working capital, would allow the Corporation to meet its funding requirements for the next twelve months.

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

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

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

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

These condensed interim consolidated financial statements do not reflect the adjustment to the carrying values of assets and liabilities, expenses and Condensed Interim Consolidated Statements of Financial Position classifications that would be necessary were the going concern assumption to be inappropriate. These adjustments could be material.

3- NEW ACCOUNTING STANDARDS ISSUED AND EFFECTIVE

There has been no change in future accounting changes from those previously described in the Corporation's June 30, 2018 audited annual consolidated financial statements except for the adoption of new accounting standards:

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. This standard was adopted on

July 1, 2018 and did not have a material impact on the condensed interim consolidated financial statements and there was no transitional adjustment recorded on adoption.

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. This standard was adopted on July 1, 2018 and did not have a material impact on the condensed interim consolidated financial statements and there was no transitional adjustment recorded on adoption.

IFRS 9, “Financial Instruments” (“IFRS 9”)

In July 2015, the IASB issued IFRS 9 to replace IAS 39 ‘Financial Instruments : Recognition and Measurement’ (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. A new hedge accounting model was introduced and represents a substantial overhaul of hedge accounting which allows entities to better reflect their risk management activities in the financial statements. This standard was adopted on July 1, 2018 on a retrospective basis without restating comparatives so any cumulative adjustments would be recorded in the opening retained earnings on adoption. The adoption of IFRS 9 did not have a material impact on the condensed interim consolidated financial statements and there was no transitional adjustment recorded on adoption. The Corporation classifies its financial instruments in the categories below. These categories remain unchanged from the June 30, 2018 audited annual consolidated financial statements. The Corporation has classified its financial instrument as follows:

Category	**Financial instrument**
Financial assets at amortized cost	Cash and cash equivalents Certificates of deposit Accounts receivable
Financial Liabilities at amortized cost	Accounts payable and accrued liabilities Deferred grants Term loans Convertible debenture – Host Refundable contributions
Financial liabilities at fair value through profit or loss	Convertible debenture - Derivatives

4- CERTIFICATES OF DEPOSIT

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

On November 2, 2018, the Corporation signed another irrevocable stanby letter of credit (SLOC) in favour of another supplier for a total amount of EUR200,000, and a guarantee of $300,000 securing this obligation was requested by the issuing financial institution. The irrevocable SLOC was due to expire on December 31, 2018 at issuance and was subsequently amended to expire January 31, 2019. The required securing funds were invested in a certificate of deposit bearing interest at 0.40% per annum for the period of November 2, 2018 to December 31, 2018 and 0.25% for the period of January 1 to January 31, 2019. As stated in Note 17, on January 25, 2019, the Corporation signed another irrevocable stanby letter of credit (SLOC) to this same supplier for a total amount of EUR100,000, and a guarantee of $154,930 securing this obligation was requested by the issuing financial institution. The irrevocable SLOC is due to expire on February 28, 2019. The required securing funds are invested in a certificate of deposit bearing interest at 1.03% per annum.

5- ACCOUNTS RECEIVABLE

	As at December 31, 2018	As at June 30, 2018
	$	$
Trade accounts receivable and others	**25,322**	6,019
Government assistance receivable	**2,970,469**	1,202,773
Commodity taxes receivable	**711,754**	180,356
	3,707,545	1,389,148

6- PROPERTY, PLANT AND EQUIPMENT

	Laboratory equipment and layout	**Office equipment**	**Computer equipment**	**Leasehold improvements**	**Total**
	$	**$**	**$**	**$**	**$**
Cost					
Balance as at July 1, 2017	834,612	131,458	115,581	35,539	1,117,190
Acquisitions	12,411	-	15,862	-	28,273
Balance as at June 30, 2018	847,023	131,458	131,443	35,539	1,145,463
Acquisitions	13,653	-	2,710	-	16,363
Balance as at December 31, 2018	860,676	131,458	134,153	35,539	1,161,826
Accumulated depreciation					
Balance as at July 1, 2017	(735,027)	(123,870)	(89,739)	(35,539)	(984,175)
Depreciation expense	(20,935)	(1,517)	(10,179)	-	(32,631)
Balance as at June 30, 2018	(755,962)	(125,387)	(99,918)	(35,539)	(1,016,806)
Depreciation expense	(10,175)	(606)	(5,076)	-	(15,857)
Balance as at December 31, 2018	(766,137)	(125,993)	(104,994)	(35,539)	(1,032,663)
Net book value					
June 30, 2018	91,061	6,071	31,525	-	128,657
December 31, 2018	94,539	5,465	29,159	-	129,163

7- PATENTS

	$
Cost	
Balance as at July 1, 2017	1,492,542
Costs incurred	229,730
Abandoned	(214,981)
Expired	(40,132)
Balance as at June 30, 2018	1,467,159
Costs incurred	96,327
Abandoned	(63,959)
Balance as at December 31, 2018	1,499,527
Accumulated amortization	
Balance as at July 1, 2017	(341,040)
Amortization expense	(245,139)
Abandoned	214,981
Expired	40,132
Balance as at June 30, 2018	(331,066)
Amortization expense	(93,558)
Abandoned	63,959
Balance as at December 31, 2018	(360,665)
Net book value	
June 30, 2018	1,136,093
December 31, 2018	1,138,862

8- DEFERRED GRANTS

From July 1, 2018 to December 31, 2018, the Corporation has cashed grants in advance from the Quebec Ministry of Sustainable Development, Environment and the Fight against Climate Change for the VCQ project for $1,500,000 and $1,559,186 from Sustainable Development Technology Canada (SDTC) for the St-Félicien project.

The following table shows the variance on deferred grants for the six-month period ended December 31, 2018 and the year ended June 30, 2018:

	Six-month period ended December 31, 2018	Year ended June 30, 2018
	$	$
Balance – Beginning of period	**8,412,608**	4,021,410
Grants received during the period	**3,059,186**	12,625,000
Grants earned and recorded during the period:		
-Technoclimat	**-**	(131,604)
-SDTC	**(1,559,186)**	(301,459)
-VCQ project	**(3,895,228)**	(7,800,739)
Balance – End of period	**6,017,380**	8,412,608

9- TERM LOANS

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

On April 6, 2017, the Corporation entered into a fourth term loan agreement with a financial institution for a principal amount of $296,600. The term loan was to finance provincial tax credits receivable for scientific research and experimental development (SR&ED tax credits) accrued for its fiscal year ending June 30, 2017. On January 17, 2018, the financial institution received direct payment of the funds relative to the 2017 SR&ED tax credits for a total of $267,042 and applied this payment as reimbursement of the loan for the same amount. On March 6, 2018 the Corporation entered into a fifth term loan with a principal amount of $109,300 to finance accrued provincial tax credits receivable for SR&ED tax credits for its fiscal year ending June 30, 2018. On March 13, 2018, accrued interest and fees for $20,830 were added to the loan and the Corporation cashed $58,856, representing the available balance on this loan. The loan bears interest at the monthly rate of 1.50% corresponding to 18% for a term of twelve months. The loan includes placement fees at the rate of 3% and bears monthly account management fees at the rate of 0.50%. As stated in Note 17 below, on February 4, 2019, the financial institution received direct payment of the funds relative to the 2018 SR&ED tax credits for a total of $145,858 and applied this payment as reimbursement of the loan for same amount leaving a credit balance of $39,110 which was reimbursed to the corporation on February 6, 2019.

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

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

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

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

The following table shows the fluctuation of the term loans for the six-month period ended December 31, 2018 and year ended June 30, 2018:

	As at December 31, 2018	As at June 30, 2018
	$	$
Balance - Beginning of period	**907,679**	940,097
Received	**-**	58,856
Interest and fees added to the loans	**-**	112,130
Accretion expense	**35,453**	59,527
Lost from loan extension	**-**	19,111
Amendment fees	**-**	(15,000)
Reimbursement	**-**	(267,042)
Balance - End of period	**943,132**	907,679

The following table summarizes the face values and carrying values of the financial liability and the equity instrument related to the agreement with DCP as at December 31, 2018:

		Financial liability	Equity
		Term loan	Warrants
	Face value	Carrying value	Carrying value
	$	$	$
Balance as at July 1, 2018	500,000	478,179	82,395
Accretion expense	-	35,453	-
Warrants expired (note 12)			(82,395)
Balance as at December 31, 2018	500,000	513,632	-

10- REFUNDABLE CONTRIBUTIONS

The Corporation obtained from Economic Development Canada two separate refundable contributions (loans), one for $250,000, granted in January 2011, and one for up to $400,000, granted in February 2015. The first contribution of $250,000, which was totally drawn down, was refundable starting July 2013 with annual payments representing 4% of the Corporation's total annual revenues up to the total of the refundable contribution received. The last payment is due and payable when ten full years have passed since the date of the first payment. As at December 31, 2018 and June 30, 2018, the short-term portion payable is $ 26,172.

The second refundable contribution of $400,000, which was totally drawn down as at June 30, 2016, is refundable starting 36 months after March 31, 2016, the end date of the research and development project to which the contribution was attached. The contribution will be reimbursed by way of 59 equal and consecutive payments of $6,667 and one final payment of $6,647. As at December 31, 2018, the short-term portion payable is $60,003 ($20,001 as at June 30, 2018).

On December 4, 2017, the Corporation received confirmation of a third non-interest-bearing refundable contribution from Economic Development Canada of up to $2,000,000 towards expenses for the Saint-Felicien project. Reimbursements will start 36 months after the end of the related project by way of 59 equal and consecutive payments of $33,333 and one final payment of $33,353. On January 10, 2018, the Corporation cashed a first draw of $377,413, and, a second draw of $104,197 was cashed on March 12, 2018. A third draw of $1,235,800 was cashed on April 2, 2018. As stated in Note 17 below, the available balance of the refundable contribution for $282,590 was cashed on January 15, 2019.

The first two loans totalling $650,000 were accrued at initial recognition at fair value using an estimated weighted average capitalization rate of 10%. The third loan was accrued at initial recognition at fair value using an estimated capitalization rate of 25%. Interest expense of $72,422 for all three loans is recorded in the condensed interim consolidated statement of comprehensive loss ($13,858 in 2017).

11- CONVERTIBLE DEBENTURES

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

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

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

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

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

These Debentures will mature on December 21, 2020 (the “Maturity Date”) and bear interest at a rate of 8% per annum payable semi-annually in arrears on May 31 and November 30 of each year commencing on May 31, 2018. The Corporation shall pay the interest in cash or common shares at its option. Any such interest amount paid in common shares shall be computed on the basis of the interest amount divided by the current market price of the common shares on the date falling one trading day prior to the interest payment date. Interest accrued and due on November 30, 2018 on outstanding debentures, was settled by cash payment of $25,840 on November 20, 2018.

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

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

During the six-month period ended December 31, 2018, two debenture holders converted 30 Units representing a total face value of $30,000 and received a total of 305,111 common shares of the Corporation.

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

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

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

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

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

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

As at December 31, 2018, the Corporation reviewed the initial fair value of the Conversion Option of the embedded derivatives and adjusted the initial fair value of the outstanding Conversion Option at $39,484 using the Black-Scholes option-pricing model based on the following assumptions (expected life was estimated by the Corporation based on its expectation of conversion dates as at December 31, 2018):

	Adjusted fair value December 31, 2018
Share price	$0.080
Risk-free interest rate	1.86%
Expected volatility	43.00%
Annual dividend yield	Nil
Expected life	0.42 years
Weighted fair value of Conversion Option per underlying share	$0.001

For the six-month periods ended December 31, 2018 and 2017, the change in fair value of derivatives resulted in a gain of $101,842 ($19,235 for 2017) and was recorded in the condensed interim consolidated statement of comprehensive loss.

The following summarizes the face value and carrying values of the liability and equity components of the debentures as at December 31, 2018:

	Liability components			Equity component
		Principal and interest (1)	Conversion Option (2)	Warrants
	Face value $	Carrying value $	Carrying value $	Carrying value $
Balance as at July 1, 2018	656,000	261,398	146,473	228,078
Change in fair value of derivatives	-	-	(101,842)	-
Accretion expense	-	45,539	-	-
Conversions	(30,000)	(13,075)	(5,147)	-
Balance as at December 31, 2018	626,000	293,862	39,484	228,078

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

12- CAPITAL STOCK

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

Issued and fully paid

The following table shows the changes in the Corporation's capital stock during the six-month period ended December 31, 2018 and the year ended June 30, 2018:

	Six-month period ended December 31, 2018		Year ended June 30, 2018	
	Number	**$**	Number	$
Beginning balance	**158,591,847**	**29,239,851**	147,589,345	28,534,756
Share issues from:				
Restricted share units	**-**	**-**	1,819,309	206,791
Convertible debentures converted	**305,111**	**18,222**	9,153,193	493,428
Stock options exercised	**-**	**-**	30,000	4,876
Ending balance	**158,896,958**	**29,258,073**	158,591,847	29,239,851

The following table shows the changes in the Corporation's warrants during the six-month period ended December 31, 2018 and the year ended June 30, 2018:

	Six-month period ended December 31, 2018		Year ended June 30, 2018	
	Number	**Average strike price $**	Number	Average strike price $
Outstanding – Beginning of period	**39,535,546**	**0.19**	51,084,919	0.27
Issued	**-**	**-**	13,412,887	0.12
Expired	**(23,173,509)**	**0.24**	(24,962,260)	0.31
Outstanding – End of period	**16,362,037**	**0.12**	39,535,546	0.19

Common share purchase warrants attached to the private placement of July 3, 2014, expired on July 17, 2018 further to an extension of one year, representing a total of 20,232,333 common share purchase warrants.

Common share purchase warrants attached to the 2016 loan from DCP expired on August 31, 2018 and September 12, 2018, representing a total of 2,941,176 common share purchase warrants.

The following table shows the changes in the Corporation's broker units during the six-month period ended December 31, 2018 and the year ended June 30, 2018:

	Six-month period ended December 31, 2018		Year ended June 30, 2018	
	Number	**Average strike price $**	Number	Average strike price $
Outstanding – Beginning of period	**63,350**	**0.25**	63,500	0.25
Expired	**(63,350)**	**0.25**	-	-
Outstanding – End of period	**-**	**-**	63,350	0.25

13- STOCK OPTIONS

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

Under the terms of the plan, the maximum number of common shares available to be issued under the plan cannot exceed 10% of the issued and outstanding shares of capital stock. As at December 31, 2018, this amount is currently established at 15,869,381, representing less than 10% of the current number of issued and outstanding common shares. The maximum number that may be granted to a director, executive or employee of the Corporation or to a consultant cannot exceed 5% of all the outstanding common shares.

The following table summarizes information about outstanding and exercisable stock options for the six-month period ended December 31, 2018 and the year ended June 30, 2018 :

	Six-month period ended December 31, 2018		Year ended June 30, 2018	
	Number	**Weighted average exercice price $**	Number	Weighted average exercice price $
Outstanding - Beginning of period	**7,661,500**	**0.14**	6,386,000	0.14
Granted	**2,332,708**	**0.10**	2,718,000	0.11
Expired	**(1,210,500)**	**0.11**	(1,407,500)	0.10
Forfeited	**(55,000)**	**0.10**	(5,000)	0.15
Exercised	**-**	**-**	(30,000)	0.10
Outstanding - End of period	**8,728,708**	**0.13**	7,661,500	0.14
Exercisable - End of period	**5,091,332**	**0.15**	5,375,001	0.15

As at December 31, 2018, the following outstanding and exercisable stock options had been granted:

Outstanding options			Exercisable options	
Number	Weighted average exercise price $	Weighted average remaining contractual life (years)	Number	Weighted average exercise price $
100,000	0.10	0.13	100,000	0.10
855,000	0.10	0.92	855,000	0.10
1,078,000	0.23	1.92	1,078,000	0.23
1,200,000	0.15	2.92	1,080,000	0.15
530,000	0.17	3.00	530,000	0.17
400,000	0.17	3.50	200,000	0.17
2,068,000	0.11	4.00	1,061,332	0.11
200,000	0.10	4.42	100,000	0.10
50,000	0.10	4.67	-	0.10
2,247,708	0.10	4.83	87,000	0.10
8,728,708	0.13*	3.39	5,091,332	0.15*

*weighted average exercise price

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

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

	Employees, directors and executives	
	For the six-month period ended December 31, 2018	For the year ended June 30, 2018
Share price	**$0.100**	$0.117
Risk-free interest rate	**2.31%**	1.65%
Expected volatility	**70.00%**	75.34%
Annual dividend yield	**Nil**	Nil
Expected life	**5 years**	5 years
Average fair value of each option granted	**$0.0476**	$0.0723

14- DEFERRED AND RESTRICTED SHARE UNITS

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

Each deferred or restricted share unit award entitles the holder, subject to the terms of the DSU or RSU Plan, to receive a payment in fully paid common shares issued from the treasury of the Corporation or a cash equivalent at the discretion of the Committee. The maximum aggregate number of common shares that may be issued under the Plans (or any other stock-based compensation plans, including the Corporation's amended stock option plan) shall not exceed 15,869,381 common shares.

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

The following table summarizes information about outstanding RSUs and DSUs for the six-month period ended December 31, 2018 and the year ended June 30, 2018:

	Six-month period ended December 31, 2018		Year ended June 30, 2018	
	Number	**Fair value $**	Number	Fair value $
Outstanding – Beginning of period	**1,755,944**	**0.1314**	608,975	0.1827
Common shares issued	**-**	**-**	(1,819,309)	0.1137
Restricted Share Units granted	**970,579**	**0.0850**	1,652,642	0.1100
Deferred Share Units granted	**2,086,875**	**0.0934**	1,313,636	0.1100
Outstanding – End of period	**4,813,398**	**0.1056**	1,755,944	0.1314

15- LOSS PER SHARE

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

For the periods ended December 31, 2018 and 2017, the diluted loss per share was the same as the basic net loss per share, since the dilutive effect of stock options (note 13), restricted and deferred share units (note 14), conversion options (note 11) and warrants (note 12) was not included in the calculation; otherwise the effect would have been anti-dilutive. Accordingly, the diluted loss per share for those periods was calculated using the basic weighted average number of shares outstanding.

	Three-month periods ended December 31,		**Six-month periods ended December 31,**	
	2018	2017	**2018**	2017
Basic weighted average number of shares outstanding	**158,757,846**	147,786,012	**158,694,800**	147,716,410

16- COSTS AND OPERATING EXPENSES

		Three-month periods ended December 31,		Six-month periods ended December 31,	
		2018	2017	**2018**	2017
		$	$	**$**	$
a)	**Research and development expenses, net**				
	Salaries, employee benefits and other compensation	**512,640**	405,200	**890,375**	756,059
	Stock-based compensation costs	**64,182**	89,976	**72,634**	103,145
	Professional fees and Subcontractors	**1,310,239**	578,725	**2,437,028**	1,600,399
	Pilot Units construction expenses	**4,170,644**	772,932	**7,040,467**	2,775,914
	Laboratory and other supplies	**342,006**	121,676	**794,861**	354,430
		6,399,711	1,968,509	**11,235,365**	5,589,947
	Tax credits	**(152,157)**	(22,897)	**(236,361)**	(43,617)
	Government assistance	**(3,552,979)**	(1,837,384)	**(7,405,803)**	(5,331,602)
		2,694,575	108,228	**3,593,201**	214,728
b)	**Business development expenses**				
	Salaries, employee benefits and other compensation	**35,124**	38,730	**84,759**	103,437
	Stock-based compensation costs	**18,305**	46,611	**22,638**	53,031
	Professional fees	**22,467**	1,042	**23,544**	(1,288)
	Travel, entertainment, advertising and office expenses	**15,393**	4,845	**35,797**	38,516
	Government assistance	**-**	-	**(2,375)**	-
		91,289	91,228	**164,363**	193,696
c)	**General and administrative expenses**				
	Salaries, employee benefits and other compensation	**201,155**	160,875	**341,331**	337,035
	Stock-based compensation costs	**242,972**	232,301	**257,461**	247,928
	Rent, electricity, taxes and insurance	**60,643**	59,899	**118,551**	116,223
	Office expenses	**23,292**	26,242	**47,346**	43,073
	Travel, entertainment and advertising	**142,827**	39,619	**237,391**	88,512
	Directors' fees	**32,490**	30,540	**55,069**	51,119
	Professional fees	**197,361**	151,376	**268,246**	207,463
	Depreciation of property, plant and equipment	**8,363**	8,242	**15,857**	15,896
	Amortization of patents	**38,148**	35,896	**93,558**	84,307
	Amortization of deferred credits	**(486)**	(621)	**(972)**	(1,242)
	Government assistance	**(17,788)**	(4,550)	**(40,959)**	(10,890)
		928,977	739,819	**1,392,879**	1,179,424
d)	**Financial expenses, net**				
	Accretion expense	**42,942**	79,513	**80,992**	146,037
	Change in fair value of derivatives	**(66,574)**	-	**(101,842)**	(19,235)
	Interest on Convertible Debentures	**12,890**	22,125	**25,984**	41,241
	Interest on Term loans	**25,908**	33,524	**51,815**	68,772
	Management and renewal fees on Term loans	**-**	9,000	**75,397**	24,270
	Interest on refundable contributions	**36,324**	7,022	**72,422**	13,858
	Other financial expenses	**2,297**	2,380	**3,956**	3,411
	Interest income	**(7,248)**	(4,064)	**(28,742)**	(11,041)
	Foreign exchange expense	**4,313**	7,651	**6,152**	(746)
		50,852	157,151	**186,134**	266,567

17- SUBSEQUENT EVENTS

Refering to Note 4, on January 25, 2019, the Corporation signed another irrevocable stanby letter of credit (SLOC) for a total amount of EUR100,000, and a guarantee of $154,930 securing this obligation was requested by the issuing financial institution. The irrevocable SLOC is due to expire on February 28, 2019.

Relative to the term loan mentioned in Note 9 above, on February 4, 2019, the financial institution received direct payment of the funds relative to the 2018 SR&ED tax credits for a total of $145,858 and applied this payment as reimbursement of the loan for same amount leaving a credit balance of $39,110 which was reimbursed to the corporation on February 6, 2019.

Relative to the refundable contribution mentioned in Note 10 above, on January 15, 2019, the Corporation cashed a final draw of $282,590.