



Management Discussion and Analysis

as at March 31, 2019

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1. INTRODUCTION

The following is Management's Discussion and Analysis ("MD&A") of the unaudited condensed financial position and results of operations of CO₂ Solutions Inc. ("CO₂ Solutions" or "the Corporation") for the nine-month periods ended March 31, 2019, and 2018 and the notes included therein. The unaudited condensed 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 unaudited condensed financial statements for the nine-month period ended March 31, 2019, were reviewed by the Corporation's Audit Committee and approved on May 28, 2019, by the Corporation's Board of Directors (the "Board").

Caution Regarding Forward-Looking Statements

Certain statements in this MD&A may be forward-looking. These statements relate to future events such as (i) the Corporation's projects, including their costs, profitability, performance, potential, progression and benefits, (ii) the Corporation's expected revenues, activities, expenditures and capital requirements, (iii) the Corporation's ability to continue as a going concern, (iv) anticipated developments in the Corporation's operations foreseeable future, (v) the adequacy of the Corporation's financial resources and (vi) other events or conditions that may occur in the future, and reflect the current assumptions and expectations of management. 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.

Factors that could cause actual results to differ materially from such forward-looking statements include, but are not limited to, (i) availability of funding, (ii) general business and economic uncertainties, (iii) third party events and adverse market conditions, and (iv) the adequacy of the Corporation's available cash resources as well as those risks set out in the Corporation's public documents filed on SEDAR. 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 news release 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.

Readers are cautioned not to place undue reliance on such forward-looking statements. CO₂ Solutions undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable law.

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.

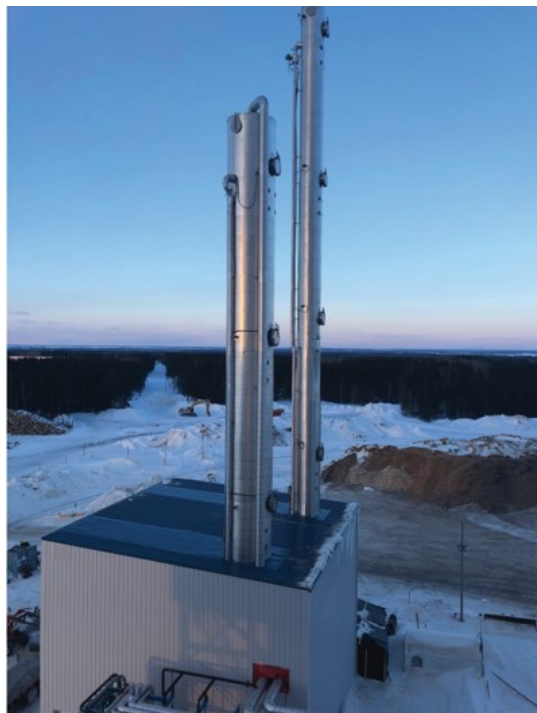
2. CORPORATION OVERVIEW

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 pre-commercial 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 leading (see Information on the VCQ Project, below).

The Corporation secured its first commercial CO₂ capture contract on August 11, 2016. The commissioning of this first CO₂ capture unit was completed on April 29, 2019, a significant milestone in the Corporation's technology development strategy. The Corporation was pleased to announce that the performance of this first commercial CO₂ capture unit met or exceeded all initial expectations (see update on Saint-Félicien project below). This project confirms the Corporation's position as the leading provider of second-generation carbon capture technologies. Full commercial operation, including revenue generation, of this CO₂ capture unit is expected to start over in the fall of 2019. To complement this first commercial unit, the Corporation is actively pursuing additional commercial projects around the world.

3. HIGHLIGHTS OF DEVELOPMENTS DURING AND SUBSEQUENT TO THE THREE-MONTH PERIOD ENDED MARCH 31, 2019.



CO₂ Solutions 30 tonne-CO₂ per day carbon capture unit in Saint-Félicien, Quebec.

Update on the Saint-Félicien Project – Commissioning complete and the unit now in operation

On March 14, 2019, the Corporation announced that the start of the commissioning of the CO₂ capture unit had officially begun. This start-up was preceded by the successful pre-operation verifications of each of the capture unit's systems, after which the unit was put into operation and the first tonnes of CO₂ were captured. The Corporation also announced that it would then ramp up the overall capture rate to validate the unit's nominal capacity of 30 tonnes of CO₂ per day. This is the Corporation's first commercial project with Fibrek General Partnership, a subsidiary of Resolute Forest Products Inc. (TSX: RFP) (NYSE: RFP), and Serres Toundra Inc. The project involves the deployment of a 30-tonne per day (tpd) CO₂ capture unit and ancillary equipment at Resolute's pulp mill in Saint-Félicien, Quebec and the commercial reuse of the captured CO₂ by the adjacent Serres Toundra Greenhouse complex.

The construction of the Saint-Félicien CO₂ capture unit was partly financed with investments from Sustainable Development Technology Canada (SDTC) and the Technoclimat program of the Quebec government as well as a loan from Canada Economic Development (CED).

On April 29, 2019, the Corporation announced that the successful completion of the commissioning of the CO₂ capture unit located at the Resolute Forest Products Inc. pulp mill in Saint-Félicien, Québec, a significant milestone and development in the objective of monetizing the Corporation's proprietary CO₂ capture technology. Given the late delivery of certain components and the difficult weather conditions experienced during equipment installation over the fall and winter months, the project's capture unit was completed later than originally planned and, because of these delays, unforeseen additional equipment costs, and variations in the U.S. to Canadian exchange rate, the Corporation estimates that the total

cost of the completed CO₂ capture unit and ancillary equipment could reach \$11.1M, approximately \$2.6M higher than the original estimate provided by the Corporation's consulting engineers in October 2017. Under the circumstances, given the Corporation's current cash situation, aggravated by this cost overrun, CO₂ Solutions is currently evaluating alternative financing options (see "special committee" announcement below). It should be noted that even at this higher level of capital expenditure ("capex"), the Saint-Félicien capture unit is expected to be profitable and its operating cost profile is expected to confirm the competitive operating and capex estimates of the Corporation's enzymatic technology at large scale. CO₂ Solutions' completed unit is now only the second commercial carbon capture unit in Canada and the first such project using second-generation technology. The Corporation's management is confident that this successful completion of the unit will be a major stepping stone for future projects at the same and greater scales.

As part of the commissioning phase, CO₂ Solutions contracted Tetra Tech, an independent consulting engineering services firm, to review the Unit's operational efficiency and deliver a performance audit report (the "Audit"). Specifically, the Corporation sought to validate the Unit's nominal capacity of 30 tonnes-CO₂ per day and the ability of the pulp mill to provide all of the Unit's thermal requirements with only residual low-grade energy (i.e. hot water).

The Audit confirmed the following:

1. The Unit and its components are accurately sized to produce at least 30 tonnes-CO₂ per day under normal operating conditions.
2. The quantity of thermal energy required by the reboiler of the Unit is only 2.4 GJ/tonne-CO₂.
3. The required thermal energy is entirely provided by the pulp mill through residual, low-grade energy (i.e. hot water) that has nil value and no parasitic impact on the mill's energy balance.
4. The quantity of electrical energy required to operate the Unit translates into a cost of only C\$7.35/tonne-CO₂ (or less than US \$5.00/tonne-CO₂).

Along with these excellent results confirmed by the Audit, the Corporation recorded two additional significant operating outcomes during this commissioning period; the first is related to enzyme half-life (i.e. durability), and the second is related to the quality of the CO₂ produced for delivery to the greenhouse.

Regarding enzyme half-life, the configuration of the Unit enabled a doubling of the enzyme's half-life relative to what had been observed in earlier large-scale demonstrations of the Corporation's technology. This gain is the result of modifications to the process following the 2015 Valleyfield demonstration and clearly demonstrates the cost reduction potential of the Corporation's enzymatic technology.

With respect to CO₂ quality, an analysis of the samples drawn from the Unit confirmed its high degree of purity which was well within the stringent guidelines required by greenhouse operators. This purity level was obtained even though the Unit draws raw and unpolished flue gas from the pulp mill's lime kiln, which mimics conditions similar to those found in cement plants and other industrial applications.

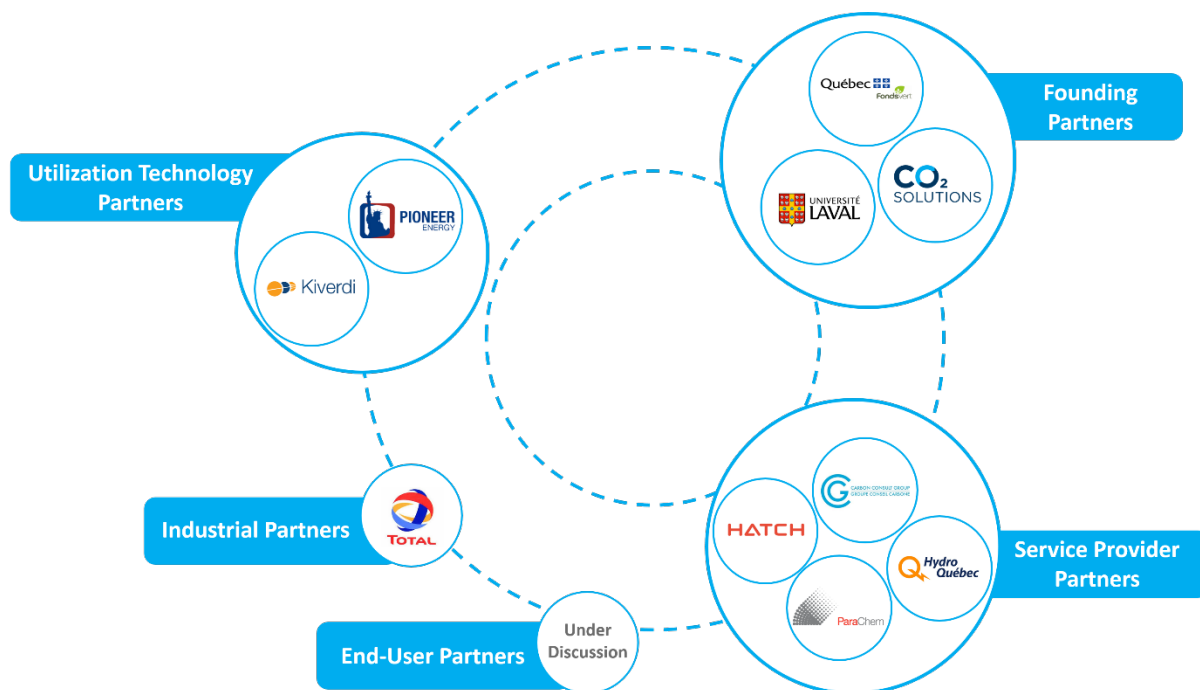
Since the capture unit has now successfully reached its nominal capacity, as provided in the contract, a six-month demonstration period has begun, after which the Corporation expects to generate revenues from the sale of the captured CO₂ to the Serres Toundra greenhouse. This unit in Saint-Félicien is the Corporation's second operating CO₂ capture unit and its first commercial unit. The completed Saint-Félicien unit will provide several benefits to its stakeholders, from generating revenues for CO₂ Solutions, to reducing the CO₂ emissions of Resolute pulp mill and enhancing the growth of Serres Toundra's greenhouse production. As a result of the successful completion of this Unit, CO₂ Solutions

continues to attract strong interest from corporations worldwide seeking a cost-effective and environmentally friendly CO₂ capture technology.

Update on the VCQ Project

The VCQ project, lead by the Corporation, is the most comprehensive CO₂ capture and utilization demonstration project. Launched 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.

Due to the Corporation's current cash situation noted above, the VCQ project has currently been paused pending the raising of additional financing.



CO₂ Solutions announces the creation of a special committee by the Board of Directors to review Strategic Options

On April 1, 2019, the Corporation announced that its Board of Directors had appointed a special committee (the "Special Committee") to review all strategic alternatives that may be open to the Corporation. The Special Committee is composed of independent members of the Corporation's Board of Directors, namely Kimberley Okell, Jocelyn Proteau and Glenn Kelly, the latter acting as Chairman of the Special Committee. In connection with this review process, the Corporation retained the services of Langlois Lawyers and Ernst & Young to act as its advisors.

In order to provide adequate leeway for the Special Committee's review, the Corporation immediately curtailed its operating activities until its financial situation allows for their resumption. At this time, the Special Committee has initiated a process allowing it to evaluate various strategic alternatives, with the support of its financial and legal advisors.

4. SECTOR AND POTENTIAL MARKET OVERVIEW

4.1 General Overview

In the recent months, 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, with the latest report from the United Nations' ("UN") Intergovernmental Panel on Climate Change ("IPCC")¹ gaining unprecedented attention when it was released last October. This latest report clearly states the growing risks of inaction towards greenhouse gas emissions and recently culminated with cities and provinces declaring a state of climate emergency. On May 1st, the UK was the first country to declare a state of climate emergency.

A little over 80% of the current energy consumed in the world comes from fossil fuels such as oil, coal and natural gas². 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 2018, according to the National Oceanic and Atmospheric Administration (NOAA), the average level of CO₂ in the atmosphere was 408.52.0 parts per million (ppm)³. 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. CO₂ Solutions endorses 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.⁴

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.⁵ 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 investments 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 Outlook⁶

¹ <https://www.ipcc.ch/sr15/>

² U.S. Energy Information Administration, *International Energy Outlook 2018*.

³ <https://www.esrl.noaa.gov/gmd/ccgg/trends/data.html>

⁴ Attribution of Extreme Weather Events in the Context of Climate Change," National Academies Press, 2016

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

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

("IEO2018") Reference case that was revalidated in 2018, the world's estimated CO₂ emissions will 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 2050.⁷ To meet the reductions objective, Canada must decrease its GHG emissions relative to the 2015 figures by approximately 28%.⁸ 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 October 2018, the federal government announced that provinces that did not have a carbon mitigation process in place or had not adopted the federal carbon pricing system, namely Ontario, New Brunswick, Manitoba and Saskatchewan would be charged a federal carbon tax. Accordingly, in these provinces, a charge on fuel and a charge equivalent to \$20/tonne-CO₂ on carbon output for industries has been imposed as of January 1, 2019.

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.

⁷ U.S. Energy Information Administration, *International Energy Outlook 2018*

⁸ <https://www.ec.gc.ca/indicateurs-indicators/default.asp?lang=en&n=CCED3397-1>

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 to respond to climate change and to deliver on its international climate change commitments."⁹ (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 CO₂ capture 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

⁹ http://www.oag-bvg.gc.ca/internet/English/parl_otp_201803_e_42883.html

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 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.

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.¹⁰ 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.¹¹ 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.

¹⁰ <https://www.energy.gov/fe/science-innovation/oil-gas-research/enhanced-oil-recovery>

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

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%¹².

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 combustion¹³. 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 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 phase¹⁴. 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 utilization technologies and positions the Corporation at the centre of the growing CO₂ capture and utilization

¹² Advanced Resources International, Inc., *The CO₂-EOR Oil Recovery and CO₂ Utilization "Prize"*, April, 2014

¹³ Ibid

¹⁴<https://www.mckinsey.com/business-functions/sustainability-and-resource-productivity/our-insights/why-commercial-use-could-be-the-future-of-carbon-capture>

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 2035,¹⁵ 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.¹⁶ 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 Europe¹⁷.

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 started imposing its Greenhouse Gas Pollution Pricing Act on January 1, 2019 to the provinces of Saskatchewan, which never had a carbon pricing system as well as Ontario, New Brunswick and Manitoba. The Greenhouse Gas Pollution Pricing Act now imposes a tax of \$20 per tonne-CO₂ and is expected to increase to \$50 per tonne-CO₂ in 2022.

Unfortunately, some provinces are opposing the Greenhouse Gas Pollution Pricing Act. Saskatchewan has begun challenging the constitutionality of the act at the appeal court and Alberta and Ontario have threatened to follow suit. In early May 2019, Saskatchewan's highest court concluded that the federal carbon tax is constitutional. The court battles are likely to continue.

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. More and more governments are now declaring the state of climate emergency¹⁸ and the government of Canada is

¹⁵ U.S. Energy Information Administration, *Annual Energy Outlook 2014*

¹⁶ International Energy Agency (IEA) GHG Program; large source defined as >100,000 tonnes-CO₂ emissions annually

¹⁷ <http://www.gassnova.no/en/co2-storage-contract-awarded-to-statoil>

¹⁸ <https://www.theclimatemobilization.org>

currently contemplating making a similar statement, following the UK¹⁹ and many more local governments.

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 U.S. 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 challenges 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. These patents reflect a major strength in the Corporation's financial position. As at March 31, 2019, the Corporation had 59 patents issued and 33 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.

¹⁹ <https://www.bbc.com/news/uk-politics-48126677>

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

The Corporation is in early stages of its commercialization and has not yet earned significant revenue. Until the Corporation's projected CO₂ capture plants are operational, or technology licences are sold, the Corporation expects to incur losses. Quarterly losses for the three-month period ended March 31, 2019, and 2018 are comprised of R&D, general and administrative and financial expenditures. Changes in quarterly losses are dependent on the level of project activity that is ongoing net of the governmental support received.

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

Three-month periods ended				
	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
Revenues	-	-	-	\$629,306
Loss (profit)	\$2,451,953	\$3,765,693	\$1,570,884	\$(384,759)
Loss per share	\$0.02	\$0.02	\$0.01	\$0.00
Three-month periods ended				
	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017
Revenues	\$10,000	-	\$15,000	-
Loss	\$485,661	\$1,096,426	\$742,989	\$938,930
Loss per share	\$0.00	\$0.01	\$0.01	\$0.01
Nine-month period ended				
	March 31, 2019	March 31, 2018		
Revenues	-	\$25,000		
Loss	\$7,788,530	\$2,325,076		
Loss per share	\$0.05	\$0.02		

6.1 Results of Operations

Comparison between the three-month and nine-month periods ended March 31, 2019, and 2018.

Revenues

The Corporation recorded no revenues for the three-month period ended March 31, 2019, and \$10,000 for the same period in 2018. For the nine-month periods ended March 31, 2019, and 2018, the Corporation recorded \$0 and \$25,000 respectively.

Research and Development Expenses

Research and development expenses, before tax credits and government assistance, increased by \$350,899, to \$2,604,521 for the three-month period ended March 31, 2019, compared with \$2,253,622 for the same period in 2018. Increases in the three-month period from that of the prior

year mainly reflect the volume of work associated with the completion of the Saint-Félicien project and activities on the VCQ project. These expenses are expected to vary based upon ongoing projects undertaken by the Corporation and the level of government grants associated with those projects. Government grants serve to decrease the research and development expenses.

For the nine-month period ended March 31, 2019, research and development expenditures, before tax credits and government assistance, increased by \$5,996,317 to \$13,839,886 from \$7,843,569 for the same period last year. As was the case above relative to the three-month increase, this increase reflects the higher volume of research and development activities associated with the VCQ and Saint-Félicien projects.

Government assistance for the three-month period ended March 31, 2019, was \$612,412, compared to \$2,087,132 for the same period in 2018. The government assistance comes in the form of subsidies granted to the Corporation mainly by the Government of Quebec for the VCQ project, as well as assistance received from Sustainable Development Technology Canada (SDTC), and Technoclimat (Transition Énergétique Québec) associated with the Saint-Félicien project.

Government assistance in the form of grants received or receivable from the agencies noted above totalled \$8,018,215 for the nine-month period ended March 31, 2019. For the same nine-month period in 2018, grants received from SDTC, Technoclimat and Government of Quebec totalled \$7,418,734, a difference of \$599,481.

Tax credits for the three-month period ended March 31, 2019, were \$207,340 (\$99,489 in 2018). This increase between the three-month periods is a result of the fact that the tax credit calculations are adjusted to reflect the amount of eligible expenses and grants received relative to those expenses. For the nine-month period ended March 31, 2019, tax credits amounted to \$443,701, compared to \$143,106 in 2018. This increase reflects the fact that there were more eligible expenses in 2019 than for 2018 due to a smaller portion of projects being eligible for grants and subsidies.

Business Development Expenses

Business development expenses were \$49,057 for the three-month period ended March 31, 2019, compared with \$144,816 for the same period in 2018, representing a decrease of \$95,759 related to travel and advertising.

Business development expenses for the nine-month period ended March 31, 2019, were \$213,420 compared to \$338,512 for the same nine-month period in 2018, a net decrease of \$125,092. The net decrease is predominantly related to a decrease in compensation-related expenses (cash-based salaries and benefits and non-cash stock-based compensation) of \$61,793 and by a decrease in travel and advertising of \$63,337.

General and Administrative Expenses

General and administrative expenses totalled \$654,973 for the three-month period ended March 31, 2019, compared with \$510,782 for the same period in 2018, representing an increase of \$144,191. This net increase is mainly related to:

- an increase in travel, entertainment and advertising of \$166,961;
- an increase in professional fees of \$28,747;
- an increase in salaries, employee benefits and other compensation and Directors' fees of \$27,195;

- offset by an increase in government grants of \$16,606 and a decrease in amortization of patents of \$50,999

General and administrative expenses totalled \$2,047,852 for the nine-month period ended March 31, 2019, compared to \$1,690,206 for the same period in 2018. This net increase of \$357,646 is predominantly related to:

- an increase in travel and advertising of \$315,840;
- an increase in professional fees of \$89,530;
- an increase in salaries and other compensation and Directors' fees of \$35,441;
- offset by an increase in government grants of \$46,675 and a decrease in patent amortization of \$41,748.

Financial Expenses, Net

Financial expenses, net for the three-month period ended March 31, 2019, were a gain of \$36,846 compared with a gain of \$226,938 for the same period in 2018. The decrease of \$190,092 reflects the gain on refundable contribution of \$166,132, changes in Interest and fees paid on term loans, convertible debentures and refundable contributions of \$48,004 offset by a decrease of \$19,111 in loss from a loan extension and a positive change in fair value of derivatives of \$26,713.

Financial expenses, net for the nine-month period ended March 31, 2019, were \$149,288 compared to \$39,629 for the same period in 2018. The increase of \$109,659 is due to the same reasons noted above for the three-month period, with an additional increase in management and renewal fees in term loans of \$73,897 and an increase in interest on refundable contribution of \$88,195.

Loss and comprehensive loss for the three-month period ended March 31, 2019

The Corporation recorded a loss of \$2,451,953, or \$0.02 per share, for the three-month period ended March 31, 2019, an increase of \$1,966,292 from the loss of \$485,661, or \$0.00 per share, for the same period in 2018. For the nine-month period ended March 31, 2019, the Corporation recorded a loss of \$7,788,530, or \$0.05 per share, an increase of \$5,463,454 from the loss of \$2,325,076, or \$0.02 per share, for the same period in 2018. No significant factors, other than those described above, contributed to the change in the loss for the three-month or the nine-month periods.

6.2 Cash Flows

Cash totalled \$1,597,725 as at March 31, 2019, compared with \$7,207,252 as at June 30, 2018.

Variations in cash between the three-month and nine-month periods ended March 31, 2019, and 2018 are as follows:

Operating Activities

For the nine-month period ended March 31, 2019, cash flows used for operating activities amounted to \$5,696,060 compared with cash generated of \$4,557,452 for the same nine-month period for 2018, representing a decrease of \$10,253,512 in cash from operating activities primarily due to a higher loss and comprehensive loss for the nine-month period ended March 31, 2019, and by a decrease of \$4,786,002 in net changes in non-cash working capital items.

Investing Activities

For the nine-month period ended March 31, 2019, cash flow required for investing activities totalled \$149,345, compared with \$208,498 required for the same period in 2018, a decrease of \$59,153. This decrease in the funds required for investing activities relates primarily to costs incurred for patents.

Financing Activities

For the nine-month period ended March 31, 2019, there was \$235,878 generated from financing activities, compared to \$747,183 generated in 2018 mainly from the issuance of the 2017 debentures (net of fees) and reimbursements of outstanding 2015 debentures that occurred in 2018 and were not recurrent in 2019.

6.3 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 March 31, 2019, the Corporation had an accumulated deficit of \$47,748,114 compared to \$40,344,343 as at March 31, 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 March 31, 2019, the Corporation showed a working capital deficiency of \$10,402,657 compared to \$3,867,536 at the same time last year. The working capital deficiency includes cash and cash equivalents of \$1,447,725 (\$8,124,284 in 2018) and deferred grant of \$5,880,325 (\$9,188,973 in 2018). As at March 31, 2019 and currently, 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 especially given the cost increase related to the Saint-Félicien project.

Through the creation of a Special Committee and through current and ongoing discussions 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. 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 has commenced limiting the ongoing project and development work and reducing 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. In the case that the Corporation is unable to continue its operations, amounts realized for assets might be less than amounts reflected in the Corporation's condensed interim consolidated financial statements.

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

6.4 Issued Capital

As at May 28, 2019, the number of outstanding common shares, warrants, broker units, options, restricted share units, and deferred share units were as follows:

- common shares: 159,867,537;
- share purchase warrants: 15,791,887;
- broker units attached to 2015 Private Placement: 0;
- board, Officer, Consultant and Employee stock options: 7,628,666;
- restricted share units: 0; and,
- deferred Share Units: 3,842,819.

7. OFF-BALANCE SHEET ARRANGEMENTS

As at March 31, 2019, the Corporation did not have any off-balance sheet arrangements.

8. RELATED PARTY TRANSACTIONS

As at March 31, 2019, there were no related party transactions.

9. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

9.1 Significant Management Judgments and Estimates

The Corporation's condensed interim 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.

9.2 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' 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 noted above, as at March 31, 2019, the Corporation had 59 patents issued and 33 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 three-month period ended March 31, 2019, two patents were deemed to be without value resulting in write-downs included in general and administrative expenses in the amount of \$26,209.

9.3 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.

10. NEW ACCOUNTING STANDARDS

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:

<u>Category</u>	<u>Financial instrument</u>
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

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. 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.

11. RISK FACTORS AND UNCERTAINTIES

The Corporation's activities are subject to some risk factors that generally affect biotechnology companies. The profitability of the Corporation will depend on its ability to successfully develop its technologies, to preserve its intellectual property rights, to maintain its highly qualified personnel, to conclude strategic alliances, research and development collaborations, and strategic out-licensing agreements. These activities require important financial investments. Therefore, the Corporation's ability to obtain necessary liquidity to finance its activities is essential to ensure future success and is as such an additional risk factor. The reader is referred to the applicable general risk and uncertainties described in CO₂ Solutions June 30, 2018, Annual Report and the related MD&A under the heading 'Risk Factors and Uncertainties'. In addition to those risks and uncertainties disclosed in its most recent annual report, the Corporation expects that it will continue incurring losses and consuming cash for the foreseeable future and therefore continues to require cash for operations. With no revenue from operations, the Corporation will continue to have negative cash flows from its operating activities and will likely need to raise additional capital, the availability of which cannot be assured. (See section 6.3, Liquidity and Going Concern)

12. DISCLOSURE AND INTERNAL CONTROLS

As at March 31, 2019, 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 March 31, 2019, 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 three-month period ended March 31, 2019, that have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

13. 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. This Management's Discussion and Analysis and the condensed interim consolidated financial statements for the nine-month periods ended March 31, 2019, and 2018 have not been audited nor reviewed by the Corporation's external auditors.

14. ADDITIONAL AND CONTINUOUS DISCLOSURE

This MD&A was prepared on May 28, 2019. Additional information relating to the Corporation, including the Corporation's Annual Information Form for the financial year ended June 30, 2018, is available on SEDAR at www.sedar.com.

On behalf of management,

[signed] Jérémie Lavoie

Jérémie Lavoie, CPA, CA
Vice-President, Finance,

[signed] Evan Price

Evan Price
President and Chief Executive Officer