CO2 Gro Inc.
(formerly BlueOcean NutraSciences Inc.)

Consolidated Financial Statements
(expressed in Canadian dollars)

For the years ended
December 31, 2017 and 2016

MANAGEMENT'S RESPONSIBILITY FOR ANNUAL FINANCIAL REPORTING

The accompanying audited annual consolidated financial statements of CO2 Gro Inc. (formerly BlueOcean NutraSciences Inc.) (the **"Company"**) are the responsibility of management and the Board of Directors (the **"Board"**) of the Company and have been prepared in accordance with International Financial Reporting Standards and contain estimates based on management's judgment. Management maintains an appropriate system of internal controls to provide assurance that the transactions are authorized, assets safe-guarded and proper records maintained.

The Audit Committee of the Board has reviewed with the Company's independent auditors the scope and results of the annual audit and the consolidated financial statements and the related financial reporting matters prior to submitting the consolidated financial statements to the Board for approval.

The Company's independent auditors, UHY McGovern Hurley LLP, are appointed by the shareholders to conduct an audit in accordance with Canadian generally accepted auditing standards and their report follows.

MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING ("ICFR")

Management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting.

As the Company is a Venture Issuer (as defined under under *National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings*) (**"NI 52-109"**), the Company and Management are not required to include representations relating to the evaluation, design, establishment and/or maintenance of disclosure controls and procedures (**"DC&P"**) and/or ICFR, as defined in NI 52-109, nor has it completed such an evaluation. Inherent limitations on the ability of the certifying officers to design and implement on a cost-effective basis, DC&P and ICFR for the issuer may result in additional risks of quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

"John Archibald"	*"Stephen M. Gledhill"*
John Archibald President and Chief Executive Officer	Stephen M. Gledhill Chief Financial Officer
April 18, 2018	April 18, 2018

UHY McGovern Hurley LLP
Chartered Professional Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of CO2 Gro Inc.,

We have audited the accompanying consolidated financial statements of CO2 Gro Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of CO2 Gro Inc. and its subsidiaries as at December 31, 2017 and 2016, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company had continuing losses during the year ended December 31, 2017 and a cumulative deficit as at December 31, 2017. These conditions along with other matters set forth in Note 1 indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

UHY McGOVERN HURLEY LLP

UHY McGovern Hurley LLP

Chartered Professional Accountants
Licensed Public Accountants

TORONTO, Canada
April 18, 2018

CO2 Gro Inc.
(formerly BlueOcean NutraSciences Inc.)

Consolidated Statements of Financial Position
(expressed in Canadian dollars)

As at	**December 31, 2017**	December 31, 2016
Assets	**$**	$
Current assets		
Cash	**568,967**	782,323
Sales taxes recoverable	**32,498**	48,780
Prepaid expenses *(note 7)*	**5,305**	200,422
Total current assets	**606,770**	1,031,525
Total assets	**606,770**	1,031,525
Liabilities		
Current liabilities		
Trade payables and accrued liabilities *(note 9)*	**634,088**	241,865
Provision for onerous contract *(note 10)*	**-**	622,596
Due to related parties *(note 13)*	**139,877**	43,929
Total current liabilities	**773,966**	908,390
Non-current liabilities		
Secured loan *(note 11)*	**206,666**	-
Total non-current liabilities	**206,666**	-
Total liabilities	**980,632**	908,390
Shareholders' equity (deficiency)		
Common shares *(note 12)*	**8,248,939**	7,724,523
Shares to be issued *(note 12)*	**3,247,300**	-
Reserve for warrants *(note 12)*	**1,566,621**	1,644,009
Contributed surplus *(note 12)*	**2,883,718**	2,237,247
Accumulated deficit	**(16,320,439)**	(11,482,644)
Total shareholders' equity (deficiency)	**(373,862)**	123,135
Total liabilities and shareholders' equity (deficiency)	**606,770**	1,031,525

Going concern (note 1)
Significant contracts and commitments (note 15)
Subsequent events (note 17)

Approved for issuance by the Board on April 18, 2018
"Michael Boyd", Director
"Vince Scalisi", Director

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

CO2 Gro Inc.
(formerly BlueOcean NutraSciences Inc.)

Consolidated Statements of Operations and Comprehensive Loss

(expressed in Canadian dollars, except weighted average number of common shares outstanding)

	Years ended	
	December 31, 2017	December 31, 2016
	$	$
Revenue	**19,516**	7,925
Expenses		
Administration	**184,480**	131,648
Compensation	**169,077**	457,680
Consulting fees	**192,657**	142,199
Foreign exchange (gains)/losses	**2,284**	(5,626)
Investor relations and public reporting costs	**288,806**	131,387
Licence fees *(note 15)*	**327,746**	418,419
Professional fees	**60,494**	106,098
Research and development *(note 14)*	**342,690**	279,945
Share-based compensation *(note 12)*	**3,495,283**	66,400
Total expenses	**5,063,517**	1,728,150
Operating loss	**(5,044,001)**	(1,720,225)
Gain on conversion of onerous contract *(note 11)*	**213,249**	-
Interest expense	**(7,043)**	(149,000)
Loss resulting from onerous contract *(note 10)*	**-**	(54,290)
Loss before losses from joint ventures	**(4,837,795)**	(1,923,515)
Attributable losses from joint ventures *(notes 8)*	**-**	(27,347)
Loss and comprehensive loss for the year	**(4,837,795)**	(1,950,862)
Basic and fully diluted loss and comprehensive loss per share	**(0.158)**	(0.184)
Weighted average number of common shares outstanding	**30,697,981**	10,624,381

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

CO2 Gro Inc.

(formerly BlueOcean NutraSciences Inc.)

Consolidated Statements of Changes in Equity

(expressed in Canadian dollars)

	Common shares						
	Number of shares *(note 1)*	Amount	Shares to be issued	Reserve for Warrants	Contributed surplus	Accumulated deficit	Total
		$	$	$	$	$	$
Balance at December 31, 2015	6,543,333	6,434,838	14,000	871,770	1,726,247	(9,531,782)	(484,927)
Shares issued for cash - private placement	22,120,911	2,669,248	-	-	-	-	2,669,248
Fair value of issued warrants	-	(1,234,009)	-	1,234,009	-	-	-
Fair value of brokers'/finders' warrants	-	(76,703)	-	76,703	-	-	-
Cash cost of issuance	-	(82,240)	-	(69,984)	-	-	(152,224)
Conversion of subscription receipts	20,000	14,000	(14,000)	-	-	-	-
Fair value of issued warrants for subscription receipts	-	(3,111)	-	3,111	-	-	-
Shares for service	3,571	2,500	-	-	-	-	2,500
Expiry of warrants	-	-	-	(471,600)	471,600	-	-
Share-based compensation	-	-	-	-	39,400	-	39,400
Loss and comprehensive loss for the year	-	-	-	-	-	(1,950,862)	(1,950,862)
Balance at December 31, 2016	28,687,815	7,724,523	-	1,644,009	2,237,247	(11,482,644)	123,135
Shares issued for cash	**7,500,000**	**600,000**	**-**	**-**	**-**	**-**	**600,000**
Fair value of issued warrants	**-**	**(300,000)**	**-**	**300,000**	**-**	**-**	**-**
Fair value of brokers'/finders' warrants	**-**	**(58,500)**	**-**	**58,500**	**-**	**-**	**-**
Cash cost of issuance	**-**	**(28,000)**	**-**	**(28,000)**	**-**	**-**	**(56,000)**
Exercise of warrants	**131,900**	**15,169**	**-**	**-**	**-**	**-**	**15,169**
Fair value of exercised warrants	**-**	**7,718**	**-**	**(7,718)**	**-**	**-**	**-**
Exercise of options	**110,000**	**15,000**	**-**	**-**	**-**	**-**	**15,000**
Fair value of exercised options	**-**	**28,682**	**-**	**-**	**(28,682)**	**-**	**-**
Shares for debt *(notes 11)*	**2,791,301**	**209,347**	**-**	**-**	**-**	**-**	**209,347**
Shares for service *(note 12)*	**304,347**	**35,000**	**-**	**-**	**-**	**-**	**35,000**
Expiry of warrants	**-**	**-**	**-**	**(400,170)**	**400,170**	**-**	**-**
Share based compensation accrued in 2016 *(note 12)*	**-**	**-**	**-**	**-**	**27,000**		
Share-based compensation *(note 12)*	**-**	**-**	**-**	**-**	**247,983**	**-**	**274,983**
Shares to be issued *(note 12)*	**-**	**-**	**3,247,300**	**-**	**-**	**-**	**3,247,300**
Loss and comprehensive loss for the year	**-**	**-**	**-**	**-**	**-**	**(4,837,795)**	**(4,837,795)**
Balance at December 31, 2017	**39,525,363**	**8,248,939**	**3,247,300**	**1,566,621**	**2,883,718**	**(16,320,439)**	**(373,862)**

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

CO2 Gro Inc.
(formerly BlueOcean NutraSciences Inc.)

Consolidated Statements of Cash Flow
(expressed in Canadian Dollars)

	Years ended	
	December 31, 2017	*December 31, 2016*
	$	$
Operating activities		
Net loss	**(4,837,795)**	(1,950,862)
Non-cash items:		
Effect of straight-line interest expense	**6,666**	-
Gain on conversion of onerous contract *(note 10)*	**(213,249)**	-
Issuance of shares for services	**35,000**	2,500
Loss resulting from onerous contract *(note 10)*	**-**	54,290
Share-based compensation *(note 12)*	**3,495,283**	66,400
Share of loss in joint ventures	**-**	27,347
Net change in non-cash working capital items:		
Prepaid expenses	**195,117**	(118,301)
Sales taxes recoverable	**16,282**	(37,617)
Trade payables and accrued liabilities *(note 9)*	**392,223**	197,629
Cash interest paid	**-**	144,000
Cash used for operating activities	**(910,423)**	(1,614,614)
Financing activities		
Proceeds from issuance of shares *(note 12)*	**600,000**	2,669,248
Cost of issuance of shares	**(56,000)**	(152,224)
Exercise of options and warrants	**30,169**	-
Proceeds from issuance of secured promissory notes *(note 9)*	**-**	400,000
Repayment of secured promissory notes *(note 9)*	**-**	(400,000)
Interest paid on repayment of promissory notes *(note 9)*	**-**	(144,000)
Repayment from related parties	**-**	18,849
Advanced from related parties	**122,948**	2,372
Cash provided from financing activities	**697,117**	2,394,245
Investing activities		
Investment in joint ventures	**-**	(3,926)
Acquisition of joint venture *(note 8)*	**-**	(27,813)
Cash acquired on step-acquisition of joint venture *(note 8)*	**-**	4,392
Cash used for investing activities	**-**	(27,347)
Increase (decrease) in cash for the year	**(213,356)**	752,284
Cash at beginning of year	**782,323**	30,039
Cash at end of year	**568,967**	782,323

Supplemental information:		
Expiry of warrants (note 12)	*400,170*	*471,600*
Warrants issued (note 12)	*58,500*	*1,183,322*

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

1. General information and going concern

CO2 Gro Inc. ("**CO2 Gro**" or the "**Company**") was incorporated under the provisions of the Business Corporations Act (Ontario) on September 17, 2010. At its Annual and Special Meeting held on March 26, 2018 (the "**2018 ASM**"), the shareholders of the Company approved, among other items, the Company's name-change from BlueOcean NutraSciences Inc. to CO2 Gro Inc. As of April 18, 2018, the Company commenced trading on the TSX Venture Exchange ("**TSXV**") under its new trading symbol, "**GROW**".

Dissolved CO_2 plant-production platform: As of late 2017, CO2 Gro's sole focus is commercializing its patent-protected CO_2 gas infusion technology license and its patent-pending US PTO CO_2 foliar spray, both of which form the Company's Dissolved CO_2 plant-production platform. Prior to the 4th quarter of 2017, the Company was a producer and marketer of natural specialty shrimp and algal oil products that formed Co2 Gro's 3 other business platforms pursuant to a License agreement signed in October 2014.(Note 15)

The registered and head office of the Company is located at 120 Adelaide Street West, Suite 2400, Toronto, Ontario, M5H 1T1.

At its annual general and special meeting of the shareholders (the **"2016 ASM"**) held on September 21, 2016, the Company received shareholder approval to consolidate its shares on a one-for-ten basis (the **"Consolidation"**), such Consolidation taking effect on September 27, 2016. At the 2016 ASM, the Company's shareholders also approved the repricing of all outstanding post-Consolidation options to $0.15 each (the **"Re-pricing"**) (note 12), being the closing price of the Company's common shares on September 27, 2016. All outstanding current and comparative period common shares, options, warrants, finders' warrants and corporate finance warrant information and the respective exercise prices, reflect the Consolidation and the Re-pricing.

These consolidated financial statements (the **"Consolidated Financial Statements"**) have been prepared using International Financial Reporting Standards (**"IFRS"**) applicable to going concern, which contemplates the realization of assets and settlement of liabilities as they fall due in the normal course of business for the foreseeable future. The Company is in the development stage and has not yet realized profitable operations and has relied on non-operational sources of financing to fund operations. CO2 Gros's ability to continue as a going concern is dependent on successfully executing its business plan, which includes the raising of additional funds. The Company will continue to seek additional forms of debt or equity financing, but it cannot provide assurance that it will be successful in doing so. These material uncertainties lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness, ultimately, of the use of accounting principles applicable to a going concern. The Consolidated Financial Statements do not reflect the adjustments to the carrying amounts of assets and liabilities and the reported expenses and consolidated statement of financial position classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2. Basis of preparation

2.1 Statement of compliance

The Consolidated Financial Statements including comparatives have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board (the **"IASB"**) and the interpretations of the International Financial Reporting Interpretations Committee (**"IFRIC"**).

The Consolidated Financial Statements were approved and authorized for issuance by the Board on April 18, 2018.

2.2 Basis of presentation

The Consolidated Financial Statements have been prepared on a historical cost basis and are presented in Canadian dollars, the Company's functional currency. The preparation of the Consolidated Financial Statements in accordance with IFRS requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

2.3 Basis of consolidation

The Consolidated Financial Statements consolidate the accounts of the Company and all its subsidiaries. The Company has the following wholly-owned subsidiaries: Pure Polar Canada Inc. (formerly, Solutions4CO_2 Technologies Inc.), BlueOcean Shrimp Products Inc., Asta NutraSciences Inc., BlueOcean Algae Inc. (formerly, Solutions4CO_2 (SJVB) Limited), Solutions4CO_2 USA, Inc., Pure Polar Labs Inc. (**"Pure Polar"**) and 70717 Newfoundland and Labrador Limited (**"70717"**). All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation. Subsidiaries are entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. The existence and effect of potential voting rights that are presently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are deconsolidated from the date on which control ceases.

On December 9, 2016, the Company agreed to buy the 66.67% interest that it did not own in Pure Polar, for $27,813 (the **"Pure Polar Acquisition"**), see note 8. After the close of this transaction (December 9, 2016), Pure Polar became a wholly-owned subsidiary of the Company.

The Company owns a 50% equity interest in 2453969 Ontario Inc., a joint arrangement. The Company accounts for this arrangement using the equity method in accordance with IFRS 11 *'Joint Arrangements'* (**"IFRS 11"**). Prior to the Pure Polar Acquisition, the Company also accounted for that joint arrangement using the equity method in accordance with IFRS 11.

3. Summary of significant accounting policies

3.1 Common shares, subscription receipts, contributed surplus and reserve for warrants

Common shares, subscriptions receipts, contributed surplus and reserve for warrants are classified as shareholders' equity. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from shareholders' equity.

3.2 Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the financial asset and settle the financial liability simultaneously. At initial recognition, the Company classifies its financial instruments in the following categories, depending on the purpose for which the financial instruments were acquired:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash and amount due from related parties are classified as current, except for the portion expected to be realized or paid beyond 12 months of the consolidated statement of financial position dates, which is classified as non-current. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method, less a provision for impairment.

Financial liabilities

Financial liabilities at amortized cost include trade payables and accrued liabilities, amounts due to related parties and onerous contract. Trade payables and accrued liabilities, amounts due to related parties and onerous contract are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables and accrued liabilities, amounts due to related parties and onerous contract are measured at amortized cost, using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within 12 months of the consolidated statement of financial position dates, otherwise, they are classified as non-current liabilities.

3.3 Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each consolidated entity in the Company's Consolidated Financial Statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The functional and presentation currency of the Company is the Canadian dollar.

3. Summary of significant accounting policies (continued)

3.3 Foreign currency translation

Transactions and balances

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

3.4 Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss on financial assets carried at amortized cost as follows: The loss is the difference between the amortized cost of the asset and the present value of the estimated future cash flows, discounted using the financial instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

3.5 Impairment of non-financial assets

Property and equipment, intangible assets and investment in joint ventures

Property and equipment, intangible assets and investment in joint ventures are tested for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash generating unit **("CGU")**. The recoverable amount is the higher of an asset's fair value, less costs to sell and value-in-use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Non-financial assets that have been impaired previously are reviewed for possible reversal of impairment at each reporting date.

3.6 Income taxes

Income taxes comprise current and deferred income taxes. Income taxes are recognized in the consolidated statements of operations and comprehensive loss, except to the extent that they relate to items recognized directly in shareholders' equity, in which case, the income taxes are also recognized directly in shareholders' equity. Current income taxes are the expected income taxes payable on the taxable income for the period, using income tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to income taxes payable in respect of previous periods. In general, deferred income taxes are recognized in respect of temporary differences arising between the income tax bases of assets and liabilities and their carrying amounts in the consolidated statements of financial position. Deferred income taxes are determined on a non-discounted basis, using income tax rates and laws that have been enacted or substantively enacted at the consolidated statements of financial position

3. Summary of significant accounting policies (continued)

3.6 Income taxes

dates and are expected to apply when the deferred income tax asset or liability is settled. Deferred income tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred income taxes are provided on temporary differences arising on investments in subsidiaries, except, in the case of subsidiaries, when the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are presented as non-current.

3.7 Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. The comparative year number of common shares outstanding and the loss per share have been adjusted for the Consolidation. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and warrants, in the weighted average number of common shares outstanding during the year, if dilutive. The “treasury stock method” is used for the assumed proceeds on the exercise of the options, warrants and finders’ warrants that are used to purchase common shares at the average market price during the year. During the years ended December 31, 2017 and 2016, all the outstanding stock options, warrants and finders’ warrants were antidilutive.

3.8 Prepaid expenses

Prepaid expenses consist of services or products that have been paid, but for which the Company has not yet obtained the benefit.

3.9 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management’s best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value when the effect is material. The Company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

3.10 Sales taxes recoverable

Sales taxes recoverable represent harmonized or goods and services sales taxes paid within Canada that are refundable.

3. Summary of significant accounting policies (continued)

3.11 Share-based compensation

The Company grants stock options to certain directors, employees, consultants and advisers. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period, based on the number of awards expected to vest, by increasing contributed surplus. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately. Upon the expiry of unexercised options or warrants, the amount expensed to the expiry date is transferred to retained earnings (deficit). Upon the exercise of options or warrants, the cash received and the original value is allocated to common shares. Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

3.12 Significant accounting judgments and estimates

The preparation of the Consolidated Financial Statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the Consolidated Financial Statements and reported amounts of revenue and expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions.

The following are the estimates and judgments applied by management that most significantly affect the Company's Consolidated Financial Statements. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Share-based compensation expense

The Company estimates share-based compensation expense at the grant date based on the award's fair value as calculated by an options calculator and is recognized over the vesting period. The model requires various judgmental assumptions, including volatility, forfeiture rates and expected stock option life. Changes to the assumptions selected by management and used in an options calculator could materially affect the Company's share-based compensation expense.

3. Summary of significant accounting policies (continued)

3.12 Significant accounting judgments and estimates

Impairments

IFRS requires management to undertake an annual test for impairment of intangible assets, to test for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment testing is an area involving management's judgment, requiring assessment as to whether the carrying amount of assets can be supported by the net present value of future cash flows derived from such assets, using cash flow projections that have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters. Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections or changes in its business focus, could significantly affect the Company's impairment evaluation and, hence, results. Management's review includes the key assumptions related to sensitivity in the cash flow projections.

Income taxes and recoverability of potential deferred tax assets

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

3.13 Trade payables and accrued liabilities

Trade payables and accrued liabilities are, in part, obligations to pay for goods or services that have been acquired in the ordinary course of business. Trade payables and accrued liabilities are classified as current liabilities if payment is due within one year or less. If not, they are classified as non-current liabilities. Trade payables and accrued liabilities are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

3.14 Joint ventures

Pursuant to IFRS 11, joint arrangements are classified as joint operations or joint ventures based on the rights and obligations of the parties to the joint arrangements. Joint arrangements represent arrangements in which two or more parties have joint control established by a contractual agreement. Joint control requires unanimous consent for financial and operational decisions. Joint arrangements can be classified as either a joint operation or a joint venture. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. Interests in joint ventures are accounted for using the equity method of accounting. Under the equity method, the

3. Summary of significant accounting policies (continued)

3.14 Joint ventures

Company's initial investment is recognized at cost and subsequently adjusted for the Company's share of the joint venture's income or loss, less distributions received.

4. Adoption of new and revised standards and interpretations

At the date of the Consolidated Financial Statements, the IASB and IFRIC have issued the following revised standards that are not yet effective for the relevant reporting periods and for which the Company has not early adopted. However, the Company is currently assessing what impact the application of these standards or amendments will have on the consolidated financial statements of the Company.

IFRS 2 – Share-based Payment ("IFRS 2") was amended by the IASB in June 2016 to clarify the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018.

IFRS 9 – Financial Instruments ("IFRS 9") was issued by the IASB as a complete standard in July 2014 and will 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, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

IFRS 10 – Consolidated Financial Statements ("IFRS 10") and IAS 28 – Investments in Associates and Joint Ventures ("IAS 28") were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined, however early adoption is permitted.

IFRS 15 - Revenue from Contracts With Customers ("IFRS 15") proposes to replace IAS 18 - Revenue, IAS 11 - Construction contracts, and some revenue-related interpretations. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

4. Adoption of new and revised standards and interpretations (continued)

IFRIC 22 – Foreign Currency Transactions and Advance Consideration ("IFRIC 22") was issued in December 2016 and addresses foreign currency transactions or parts of transactions where there is consideration that is denominated in a foreign currency; a prepaid asset or deferred income liability is recognised in respect of that consideration, in advance of the recognition of the related asset, expense or income; and the prepaid asset or deferred income liability is non-monetary. The interpretation committee concluded that the date of the transaction, for purposes of determining the exchange rate, is the date of initial recognition of the non-monetary prepaid asset or deferred income liability. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018.

IFRIC 23 – Uncertainty Over Income Tax Treatments ("IFRIC 23") was issued in June 2017 and clarifies the accounting for uncertainties in income taxes. The interpretation committee concluded that an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, then the entity shall determine taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted.

5. Capital management

The Company's main objective in managing capital is to ensure sufficient liquidity to pursue and fund product development, production and promotion. Secondarily, the Company strives to continue to fund research and development and pursue its growth strategy, while at the same time taking a conservative approach toward financial leverage and management of financial risk. The Company's capital is considered to be its shareholders' equity. The Company's primary uses of capital are financing operations, increasing non-cash working capital and capital expenditures. The Company currently funds these requirements from existing cash resources and/or cash raised through the issuance of debt, common shares and/or warrants. The Company's objectives when managing capital is to ensure the Company will continue to have enough liquidity so that it can provide its products and services to its customers and returns to its shareholders. The Company monitors its capital on the basis of the adequacy of its cash resources to fund its business plan. In order to maximize the capacity to finance the Company's ongoing growth, the Company does not currently pay a dividend to holders of its common shares.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the years ended December 31, 2017 or 2016. The Company is not subject to externally imposed capital restrictions.

6. Risk management and financial instruments

6.1 Financial instruments

Fair value

IFRS requires that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

Cash and sales taxes recoverable are classified as loans and receivables and are measured at amortized cost. Accounts payable and accrued liabilities and due to related parties are classified as other financial liabilities, which are measured at amortized cost.

As at December 31, 2017 and 2016, the carrying and fair value amounts of the company's financial instruments are approximately the same because of the short-term nature of these instruments.

Fair value measurements are classified using a fair value hierarchy that reflects the significance of the input used in making the measurements. The fair value hierarchy shall have the following levels: (a) quoted market prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

6.2 Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, commodity prices and/or stock market movements (price risk).

a. Currency risk

The Company's functional currency and the majority of its operations have been conducted in Canadian dollars. CO2 Gro occasionally conducts business in United States (**"US"**) dollars. Financial assets and liabilities denominated in foreign currencies will be affected by changes in the exchange rate between the functional currency and these foreign currencies. The assets and liabilities primarily affected are cash and trade payables and accrued liabilities that are denominated in foreign currencies. The Company has recognized currency exchange losses during the year ended December 31, 2017 of $2,284 (2016 – gain of $5,626).

Management believes foreign currency risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk.

b. Fair value

The carrying amounts of cash, trade payables and accrued liabilities, onerous contract and amounts due to related parties approximate their fair values given their short-term nature. As at December 31,

(expressed in Canadian dollars)

6 Risk management and financial instruments (continued)

b. Fair value *(continued)*

2016, the fair value of the onerous contract was calculated using the present value of future cash commitments utilizing a rate of 12%, compounded monthly. Interest is calculated and accreted up to the Termination Amount of $647,700 (as defined in note 10). In June 2017, the onerous contract was assigned to various parties and one-half of the debt ($321,000) was satisfied with the issuance of 2,791,301 shares (note 11) with a fair value of $209,347, resulting in a gain of $111,653. The remainder of the debt ($321,000) was converted to a secured note in the amount of $200,000 (note 11), resulting in a further gain of $101,596, after accounting for the remaining, unamortized interest accretion of $11,712 and reversing the accretion taken to-date in 2017 of $8,392.

7. Prepaid expenses

Prepaid expenses represent costs expended by the Company for which it has not yet received value. The full amount of the prepaid balance at December 31, 2017 is expected to be utilized during the upcoming year, with any portion consumed being expensed through the consolidated statements of operations and comprehensive loss, and any unconsumed portion reallocated to the appropriate consolidated statements of financial position classification.

As at December 31, 2017 and 2016, the prepaid expenses of the Company are detailed as follows:

	December 31, 2017	December 31, 2016
	$	$
Administration	**-**	1,350
Insurance	**5,305**	4,199
Investor relations	**-**	25,000
Marketing	**-**	169,873
Total	**5,305**	200,422

8. Pure Polar acquisitions

On December 9, 2016, the Company entered into an agreement with its joint-venture partners to acquire the remaining outstanding 66.67% of Pure Polar for $27,813. The Company determined the fair value of its equity interest in the joint venture amounted to its 1/3 share of the cash on hand, immediately before the acquisition, being $1,464. As at December 31, 2017, the attributable losses from joint ventures is $nil (2016 - $27,347).

For accounting purposes, the Pure Polar Acquisition is treated as a step-acquisition and is accounted for pursuant to IFRS 3 – *Business Combinations*, using the acquisition method at the acquisition date. The acquisition is treated as if the previously-held equity interest has been disposed of in return (together with the consideration transferred) for the controlling interest in the subsidiary. The fair value of the previously-held equity interest then forms one of the components used to calculate goodwill, together with consideration less the fair value of identifiable net assets.

(expressed in Canadian dollars)

8. Pure Polar acquisitions (continued)

Loss on revalue of equity interest:

	$
Carrying value of equity interest (at the acquisition date), including initial equity investment	24,885
Acquisition date fair value of equity interest	(1,464)
Loss on revalue of equity interest[1]	**23,421**

[1]This loss is included in attributable losses from joint ventures on the consolidated statements of operation and comprehensive loss.

9. Trade payables and accrued liabilities

Trade payables of the Company are principally comprised of amounts outstanding for trade purchases and financing activities. The usual credit period taken for trade purchases is between 30 and 90 days.

The following is an analysis of the Company's trade payables and its accrued liabilities:

	December 31, 2017	December 31, 2016
	$	$
Administration	**7,549**	33,983
Broker finders' fees (capitalized – note 14(i))	**24,000**	-
Compensation	**-**	50,155
Consulting	**35,271**	14,114
Investor relations and public reporting costs	**14,197**	10,914
Licence fees	**407,638**	83,919
Professional fees	**48,316**	21,780
Research and development	**97,118**	-
Stock-based compensation	**-**	27,000
Total trade payables and accrued liabilities	**634,089**	241,865

On May 31, 2016, the Company closed on a bridge loan (the "Loan") in the amount of $400,000 that consisted of $400,000 in promissory notes (the "Notes"), secured with a fixed and floating charge on all assets of the Company and its subsidiaries. The Notes bear interest at 18.0% per annum. Fees and expense reimbursements totaling $8,000 were paid to the lender for loan-processing and legal fees. In September 2016, the Loan plus accrued and penalty interest of $144,000, was repaid.

10. Provision for onerous contract

During the second quarter of 2015, the Company completed negotiations with TransAlta Generation Partnership ("TransAlta") and entered into a lease termination agreement (the "Termination Agreement") regarding its leased facilities at Bluewater Energy Park. The Termination Agreement fixed the remaining amount payable by the Company to TransAlta pursuant to the lease at $647,700 (the "Termination Amount"). The commitments pursuant to the Termination Agreement are non-recourse and accrue no interest on unpaid amounts. The amount was to be repaid in equal monthly instalments of $26,988 over a two-year period commencing on January 1, 2016. On January 1, 2016, the Company defaulted on the Termination Agreement by failing to make the required first repayment of $26,988. In January 2016, the Company made a $5,000 payment against amounts owing under the Termination Agreement but has made no further payments thereunder.

The Company recognized the Termination Amount as an onerous contract that was initially recorded at fair value being the present value of total cash commitments payable pursuant to the Termination Agreement. The difference between the discounted cash commitments and the actual commitment, is accreted to interest expense over the period until December 31, 2017. As at December 31, 2017, the carrying value of the onerous contract is $nil (December 31, 2016 - $622,596) as the Assignment and Debt Conversion, as defined below, had been completed. Interest accretion for the year ended December 31, 2017, was $nil (2016 - $54,290), as a result of the Debt Conversion, as noted below.

In October 2016, the Company received from, and subsequently acknowledged to, TransAlta a notice of assignment of the Termination Agreement from TransAlta to Pathfinder Asset Management Limited ("PAML").

11. Conversion of Termination Amount

11.1 Shares for debt

On June 20, 2017, the Company was advised by PAML that it had assigned $321,000 of the Termination amount (the "Assignment") to arm's length parties that subsequently agreed to settle the debt with the issuance of 2,791,301 shares of the Company with a deemed value of $0.115 per share. For accounting purposes, this transaction has been accounted for pursuant to International Financial Reporting Interpretations Committee ("IFRIC") 19 *Extinguishment of Financial Liabilities with Equity Instruments*, which provides that the fair value, or trading price, of the shares issued be used to value the transaction. On June 20, 2017, the Company's shares closed trading at $0.075 per share, with the total fair value of the shares issued to settle the debt of $209,347. The difference between the fair value of the shares issued and the settled debt, has been recorded as a gain on conversion of onerous contract, in the amount of $111,653.

11.2 Secured loan

On June 14, 2017, PAML converted (the "Debt Conversion") the remainder of the Termination Amount ($326,700) to a secured loan (the "Secured Loan") in the amount of $200,000. The Secured Loan was collateralized with a general security agreement granted by BlueOcean to PAML that provides a floating charge against the Company's interest in personal, real, immovable and leasehold property. The Secured

11. Conversion of Termination Amount (continued)

Loan has a term of 3 years and will bear an annual interest rate of 0% for the first year and 10% per annum, compounded and paid monthly for years 2 and 3, or until the principal and all accrued interest are repaid in full. The Debt Conversion resulted in a net gain of $101,596, after accounting for the reversal of accretion recorded in the first quarter of 2017, in the amount of $8,392 and the elimination of the remaining discounted loan interest equal to $11,012.

Pursuant to IAS 39 *Financial Instruments: Recognition and Measurement*, the interest payable over the term of the Secured Loan will be recorded on a straight-line basis resulting in an interest expense that is consistent over each of the 3 years during the term of the Secured Loan but an increasing, non-payable, accrued interest payable during the first year of the term and decreasing over years 2 and 3, when interest payments are made. For the year ended December 31, 2017, the Company has incurred $6,666 (2016 - $nil) of non-cash straight-line interest expense.

12. Common shares

Authorized

The Company's authorized share capital consists of an unlimited number of Common shares.

Issued and outstanding

2017:

(i) In December 2017, the Company closed on a non-brokered private placement (the "December 2017 PP") by issuing a total of 7,500,000 units (each a "Unit"), raising gross proceeds of $600,000. Each Unit consists of 1 common share of the Company and 1 common share purchase warrant (each a "December 2017 Warrant"). Each December 2017 Warrant is exercisable into 1 common share at a price of $0.12, for a period of 5 years after closing. The Company paid cash fees of $56,000 and issued 550,000 finders' warrants (each a "December Finder's Warrant") and 150,000 corporate finance warrants (each a "December Corporate Finance Warrant"). Each December Finder's Warrant and each December Corporate Finance Warrant may be exercised into 1 common share for $0.08 each, for a period of 2 years after closing. The fair value of the December 2017 Warrants, the December Finder's Warrants and the December Corporate Finance Warrants are $300,000, $92,000 and $25,000 respectively. The December 2017 Warrants were estimated using the Black-Scholes option-pricing model using the weighted-average input variables as follows: Expected life of 5 years, expected risk-free rate of 1.7%, expected volatility of 171%, common share price of $0.189 and a dividend yield of 0%. The cash finder's fees, fair value of the December Finder's Warrants and December Corporate Finance Warrants have been allocated to common shares and warrants on the same percentage as the fair value of the warrants.

(ii) In December 2017, 100,000 and 10,000 options with a strike price of $0.135 and $0.15, respectively, were exercised raising gross proceeds of $15,000. The fair value of these options totaling $28,682 was transferred from contributed surplus to common shares.

12. ***Common shares (continued)***

(iii) In December 2017, 131,900 finders' warrants with strike price of $0.115 were exercised, raising gross proceeds of $15,169. The fair value of these exercised finders' warrants of $7,718 was transferred from reserve for warrants to common shares.

(iv) In June 2017, the Company issued 2,791,301 common shares with a deemed fair value of $0.115 each, for total consideration of $321,000, to settle debt in that amount (see note 11.1).

(v) In June 2017, the Company issued 304,347 common shares with a deemed fair value of $0.115 each, to settle outstanding consulting services in the amount of $35,000.

2016:

(vi) During October 2016 through December 2016, the Company closed on a non-brokered private placement (the "December 2016 PP") by issuing a total of 21,813,896 units (each a "Unit"), raising gross proceeds of $2,508,598. Each Unit consists of 1 common share of the Company and 1 common share purchase warrant (each a "December Warrant"). Each December Warrant is exercisable into 1 common share at a price of $0.20, for a period of 2 years after closing. The Company paid cash fees of $152,224 and issued 874,615 finders' warrants (each a "Finder's Warrant") and 436,278 corporate finance warrants (each a "Corporate Finance Warrant"). Each Finder's Warrant and each Corporate Finance Warrant may be exercised into 1 common share for $0.115 each, for a period of 2 years after closing. The fair values of the December Warrants, the Finder's Warrants and the Corporate Finance Warrants of $1,179,378, $51,454 and $26,795 respectively, were estimated using the Black-Scholes option-pricing model using the weighted-average input variables as follows: Expected life of 2.0 years, expected risk-free rate of 0.63%, expected volatility of 235.54%, common share price of $0.129 and a dividend yield of 0%. The cash finder's fees, fair value of the Finder's Warrants and Corporate Finance Warrants have been allocated to common shares and warrants on the same percentage as the fair value of the warrants.

(vii) In March 2016 and April 2016, the Company closed on a non-brokered private placement (the "April 2016 PP") whereby the Company issued an aggregate of 271,300 units (each an "April Unit") at $0.50 per April Unit (after giving effect for the Consolidation), for gross proceeds of $135,650. Each April Unit consisted of 1 common share of the Company and 1 share purchase warrant (each an "April Warrant"). Each April Warrant entitles the holder to purchase one common share of the Company at a price of $0.80 per common share (after given effect for the Consolidation) until 2 years after closing. The fair value of $49,075 for the April Warrants was estimated using the Black-Scholes option-pricing model with the weighted-average input variables as follows: Expected warrant life of 2.0 years, expected risk-free rate of 0.57%, expected volatility of 119.8%, common share price of $0.30 (after giving effect for the Consolidation) and a dividend yield of 0%.

(viii) In January 2016, the Company closed on Tranche 2 of a non-brokered private placement (the "December 2015 PP") whereby the Company issued an aggregate of 55,714 units (each a "December Unit") at $0.70 per December Unit (after giving effect for the Consolidation), for gross proceeds of $39,000. Each December Unit consisted of 1 common share of the Company and ½-of-1 common share purchase warrants. Each whole warrant (a "December Warrant") entitles the holder to purchase one common share of the Company at a price of $1.00 per common share (after giving effect for the Consolidation) until January 13, 2018. The fair value of the December Warrants

(expressed in Canadian dollars)

12. Common shares (continued)

(ix) of \$8,667, was estimated using the Black-Scholes option-pricing model with the input variables as follows: Expected warrant life of 2.0 years, expected risk-free rate of 0.30%, expected volatility of 130.05%, common share price of \$0.50 (after giving effect for the Consolidation) and a dividend yield of 0%.

(x) In January 2016, the Company issued 3,571 common shares at \$0.70 per share (after giving effect for the Consolidation), in exchange for partial December 2015 management fees (\$2,500) due to RG Management Services Inc. ("RGMS") (see note 16).

Shares to be issued

During 2017, the Management Group was tasked with restarting the Company's Dissolved CO_2 plant-production platform (the **"Restart"**) without the use of Company cash or resources. The non-compensated Management Group and the Company agreed on the principal terms of the Restart and further agreed that compensation to the Management Group for success, would be made with the issuance of CO2 Gro shares equal to 24% of the outstanding and issued common shares after the issuance. The value of the shares was determined at \$0.25. The number of shares required to be issued was calculated at 12,989,199 and valued at \$3,247,300.

Warrants

The outstanding issued warrants balance as at December 31, 2017 is comprised of the following items:

Date of expiry	Type	Number of warrants	Exercise price $	Fair value $
January 13, 2018	Warrants	27,857[1]	1.00[1]	8,667
March 21, 2018	Warrants	241,300[1]	0.80[1]	43,450
April 28, 2018	Warrants	30,000[1]	0.80[1]	5,625
October 11, 2018	Warrants	7,953,862	0.20	403,570
October 12, 2018	Warrants	2,915,868	0.20	151,419
October 12, 2018	Finders' Warrants	229,860	0.115	3,828
October 12, 2018	Corporate Finance Warrants	225,895	0.115	12,529
October 26, 2018	Warrants	5,720,220	0.20	288,264
October 26, 2018	Finders' Warrants	360,108	0.115	18,143
October 26, 2018	Corporate Finance Warrants	105,904	0.115	5,556
December 12, 2018	Warrants	5,006,546	0.20	257,769
December 12, 2018	Finders' Warrants	152,747	0.115	10,562
December 12, 2018	Corporate Finance Warrants	100,131	0.115	7,046

(expressed in Canadian dollars)

December 13, 2018	Warrants	217,400	0.20	10,878
December 13, 2018	Corporate Finance Warrants	4,348	0.115	315
December 14, 2019	Finders' Warrants	400,000	0.08	42,500
December 14, 2019	Corporate Finance Warrants	112,500	0.08	9,500
December 19, 2019	Finders' Warrants	150,000	0.08	12,000
December 19, 2019	Corporate Finance Warrants	37,500	0.08	3,000
December 14, 2022	Warrants	5,625,000	0.12	225,000
December 19, 2022	Warrants	1,875,000	0.12	75,000
Cash costs allocated to warrants				(28,000)
Total		**31,492,046**		**1,566,621**

[1]After giving effect for the Consolidation

A continuity of the unexercised warrants to purchase common shares is detailed in the following table:

	December 31, 2017		December 31, 2016	
	Weighted Average Exercise Price	**Number of Warrants**	Weighted Average Exercise Price[1]	Number of Warrants[1]
	$		$	
Outstanding at beginning of year	**0.23**	**23,964,196**	2.75	1,004,679
Transactions during the year:				
Granted	**0.118**	**8,200,000**	0.20	23,423,946
Exercised	**(0.115)**	**(131,900)**	-	-
Expired	**(1.46)**	**(540,250)**	(3.09)	(464,429)
Outstanding at end of year	**0.181**	**31,492,046**	0.23	23,964,196

[1]After giving effect for the Consolidation.

Contributed surplus

At the 2016 ASM, shareholders approved a change to the Company's fixed stock option plan, allowing it to convert to a 10% rolling stock option plan (the "Plan"). Pursuant to the Plan, options to purchase common shares of the Company may be granted to certain officers, directors, employees and consultants of the Company. The Plan allows for the issuance of up to 10% of the issued and outstanding common shares. As at December 31, 2017, 1,281,302 (2016 – 2,280,026, after giving effect for the Consolidation) options are available for issuance under the Plan.

(expressed in Canadian dollars)

12. *Common shares (continued)*

The principal features of the Plan are as follows:

(a) the maximum aggregate number of common shares that may be allocated and made available to be granted to participants under the Plan is 10% of the issued and outstanding common shares of the Company, less the number of options currently issued;

(b) the aggregate number of common shares that may be reserved for issuance pursuant to options granted to Insiders (defined as (a) a director or senior officer of the Company; (b) a director or senior officer of a "company" (as defined in the TSXV policies) that is an Insider or subsidiary of the Company; (c) a "person" (as defined in TSXV policies) that beneficially owns or controls, directly or indirectly, "voting shares" (as defined in TSXV policies) carrying more than 10% of the voting rights attached to all outstanding voting shares of the Company; or (d) the Company itself if it holds any of its own securities) shall not exceed 10% of the issued and outstanding common shares (on a non-diluted basis) without the consent of disinterested shareholders;

a. the aggregate number of options that may be granted to all Insiders within a 12-month period shall not exceed 10% of the issued and outstanding common shares (on a non-diluted basis) without the consent of disinterested shareholders;

b. the aggregate number of options that may be granted to any one individual within a 12-month period shall not exceed 5% of the issued and outstanding common shares (on a non-diluted basis) without the consent of disinterested shareholders;

c. the aggregate number of options that may be granted to any one "consultant" (as defined in the TSXV policies) within a 12-month period shall not exceed 2% of the issued and outstanding common shares (on a non-diluted basis); and

d. the aggregate number of options that may be granted to all employees conducting "investor relation activities" (as defined in the TSXV policies) within a 12-month period shall not exceed 2% of the issued and outstanding common shares (on a non-diluted basis).

A continuity of the unexercised options to purchase common shares is detailed in the following table:

	December 31, 2017		December 31, 2016	
	Weighted Average Exercise Price	**Number of Options**	Weighted Average Exercise Price[1]	Number of Options[1]
	$		$	
Outstanding at beginning of year	**0.15**	**588,756**	1.42	502,756
Transactions during the year:				
Granted	**0.14**	**2,261,506**	0.50	90,000
Exercised	**(0.14)**	**(110,000)**	-	-

(expressed in Canadian dollars)

Forfeit	**(0.25)**	**(69,027)**	1.00	(4,000)
Outstanding at end of year	**0.14**	**2,671,235**	0.15[2]	588,756
Exercisable at end of year	**0.14**	**2,421,235**	0.15[2]	588,756

[1]After giving effect for the Consolidation.
[2]After giving effect for the Re-pricing.

The following table provides additional information about outstanding stock options at December 31, 2017:

Range of Exercise Prices	No. of Options Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price ($)
$0.135	897,222	4.1	0.135
$0.14	714,284	4.0	0.14
$0.15	1,059,729	4.6	0.15
Outstanding	**2,671,235**	**4.3**	**0.14**
Exercisable	**2,421,235**	**4.3**	**0.14**

The Black-Scholes option pricing model was used to determine the fair value of the issued options. The weighted average assumptions used for the 2017 options were as follows: risk-free interest rate of 1.08%-1.12%; expected volatility of 165%; expected life of 3.59 years; expected dividends of $nil and weighted average common share price of $0.136. The grant-date fair value of the options issued in 2017, is $274,983.

The Black-Scholes option pricing model was used to estimate the fair value of the issued options. For 2016, the weighted average assumptions used were as follows: risk-free interest rate of 0.68%; expected volatility of 141%; expected life of 3.72 years; expected dividends of $nil and weighted average common share price of $0.344. The estimated grant-date fair value of the 2016 issued options is $22,000.

At the 2016 ASM, shareholders approved the repricing of the exercise price of all outstanding options. The fair value of $10,368, resulting from the Re-pricing, was estimated using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 0.69%; expected volatility of 144%; expected life of 6.3 years; expected dividends of $nil and weighted average common share price of $0.15.

Share-based payments

The fair value of the stock options vested for the year ended December 31, 2017 was $247,983 (2016 – $66,400), which amount has been expensed in the consolidated statements of operations and comprehensive loss. In addition, the Company has recorded $3,247,300 of share-based compensation (2016 - $nil) as a bonus to the Management Group.

(expressed in Canadian dollars)

13. Related-party transactions and key-management compensation

The Consolidated Financial Statements include balances and transactions with directors and/or officers of the Company and/or corporations related to or controlled by them. These transactions are measured and recorded at their exchange amounts, being the amounts agreed to by the related parties.

Key management includes those individuals having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly. Key management includes the directors, chief executive officer, chief financial officer and vice president. Related-party compensation paid or payable to key management is detailed below:

Years ended	**December 31, 2017**	December 31, 2016
	$	$
Compensation to key management	**157,906**	333,158
Consulting fees to key management	**140,130**	120,000
Legal fees	**18,367**	6,528
Rent	**-**	1,350
Share-based compensation	**3,470,027**	44,474

During 2017, the Company issued nil (2016 – 35,714) common shares with a value of $nil (2016 - $2,500) (see note 13 (ix)) to RGMS in payment of partial management fees.

During 2017, the Company's CFO exercised 110,000 options (2016 – nil), raising proceeds for the Company of $15,000 (2016 - $nil).

During the year ended December 31, 2017, related parties invested $nil (2016 - $416,467) in the private placements completed by the Company.

As at December 31, 2017, $139,877 (2016 - $43,929) is owed to officers and/or directors of the Company or entities controlled by them. The remaining outstanding amount is unsecured, non-interest bearing and due on demand.

(expressed in Canadian dollars)

14. Research and development costs

The research and development costs for the Company are detailed as follows:

Years ended	December 31, 2017	December 31, 2016
	$	$
Technical consulting	**76,290**	7,540
Technical consumables	**266,400**	272,405
Research and development costs	**342,690**	279,945

15. Significant contracts and commitments

The Company had entered into the Lease with TransAlta, effective March 1, 2012, and further amended in March 2013 and September 2013, that established a 50,000 square foot research and development facility at the River Centre located in the Bluewater Energy Park. On April 30, 2015, the Company completed negotiations with TransAlta and entered into the Termination Agreement regarding its leased facilities at Bluewater Energy Park. The Termination Agreement fixed the remaining amount payable by the Company to TransAlta pursuant to the lease at $647,700. In June 2017, the Assignment and Debt Conversion were completed and the Termination Amount was settled with no further amounts due pursuant to the Termination Agreement. (Note 11)

Pursuant to the Licence, the Company has an annual obligation to pay a minimum fee of US$250,000 which continues until the licence expires on December 16, 2024 or terminates (in which case a pro-rata payment equal to the annual amount multiplied by the number of months that have elapsed since the prior October 1st). Included in trade payable and accrued liabilities is $407,638 (2016-$83,919) owing to the licensor. (Note 9)

As at December 31, 2017, the Company has minimum cash commitments pursuant to the Licence as follows:

Year	Amount $Cdn	Amount $US
2018	313,625	250,000
2019	313,625	250,000
2020	313,625	250,000
2021	313,625	250,000
2022	313,625	250,000
2023	313,625	250,000
2024	313,625	250,000
	2,195,375	1,750,000

(expressed in Canadian dollars)

16. Income taxes

Deferred income tax expense (recoveries)

The Company's income tax provision differs from the amount resulting from the application of the Canadian statutory income tax rate. A reconciliation of the combined Canadian federal and provincial income tax rates with the Company's effective tax rate is as follows:

	2017	2016
	$	$
Loss before income taxes	**(4,837,795)**	(1,950,862)
Combined statutory rate	**26.5%**	26.5%
Expected income tax benefit	**1,282,000**	517,000
Non-deductible expenses	**(876,000)**	(31,000)
Change in unrecognized deferred tax asset	**(406,000)**	(486,000)
Deferred income tax recovery	**-**	-

The Canadian statutory income tax rate of 26.5% (2016 – 26.5%) is comprised of the federal income tax rate of approximately 15% (2016 – 15%) and the provincial income tax rate of approximately 11.5 % (2016 – 11.5%).

The Company also has non-capital loss carry-forwards of $11,882,000 (2016 - $10,219,000) for which no benefit has been recognized in the Consolidated Financial Statements. These non-capital losses expire as follows:

Year	**Amount**
	$
2030	112,000
2031	508,000
2032	1,793,000
2033	2,315,000
2034	1,999,000
2035	1,561,000
2036	1,960,000
2037	1,634,000
Total	**11,882,000**

Deferred income taxes reflect the net tax effects of differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

(expressed in Canadian dollars)

16. Income taxes (continued)

	December 31, 2017	December 31, 2016
Deferred income tax assets	**$**	$
Non-capital losses carry-forward	**11,882,000**	**10,219,000**
Financing costs	**163,000**	**209,000**
SR&ED pool	**37,000**	**37,000**
Deductible temporary differences[1]	**12,082,000**	**10,465,000**

[1]Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company and its subsidiaries will be able to utilize the benefits.

17. Subsequent events

i. In January 2018, the Company issued 1,404,000 options with an exercise price of $0.19 each and a term of 5 years.

ii. In January 2018, 862,608 warrants with an exercise price of $0.20 each and varying terms to maturity, were exercised; 100.000 broker warrants with an exercise price of $0.12 and varying terms to maturity were exercised; and 629,490 broker warrants with an exercise price of $0.115 and varying terms to maturity, were exercised. Total proceeds raised through the exercises was $256,913.

iii. In January 2018, 27,857 warrants with an exercise price of $1.00, expired unexercised.

iv. In February 2018, 15,000 options with an exercise price of $0.15 each and varying terms to maturity, raising gross proceeds of $2,250.

v. In February 2018, 13,698 shares with a deemed value of $2,000 ($0.146 each), were issued in part payment of January 2018 management fees.

vi. In March 2018, 12,121 shares with a deemed value of $2,000 ($0.165 each), were issued in part payment of February 2018 management fees.

vii. In April 2018, 11,429 shares with a deemed value of $2,000 ($0.175 each), were issued in part payment of March 2018 management fees.