CO2 GRO Inc.

Annual Management's Discussion and Analysis

of the Financial Condition and Results of Operations

Year ended December 31, 2019

April 29, 2020

*This annual management discussion and analysis ("**MD&A**") has been prepared based on information available to CO2 GRO Inc. (formerly BlueOcean NutraSciences Inc.) ("**CO2 GRO**" or the "**Company**") as at April 29,2020. The Annual MD&A of the operating results and financial condition of the Company as at and for the year ended December 31, 2019, should be read in conjunction with the Company's audited annual consolidated financial statements and the related notes as and for years ended December 31, 2019 and 2018 (the "Consolidated Financial Statements"). The Consolidated Financial Statements have been prepared by management and are in accordance with International Financial Reporting Standards ("IFRS") and all amounts are expressed in Canadian dollars unless otherwise noted. Other information contained in this document has also been prepared by management and is consistent with the data contained in the Consolidated Financial Statements. Additional information relating to the Company can be found on SEDAR at www.sedar.com or on the Company's website at www.co2gro.ca.*

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 bases 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.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION AND STATEMENTS

This document contains "forward-looking statements" which may include, but are not limited to, statements with respect to the future financial or operating performance of CO2 GRO or future events related to CO2 GRO which reflect expectations regarding growth, results of operations, performance, business prospects or opportunities or industry performance or trends. These forward-looking statements reflect CO2 GRO's current internal projections, expectations or beliefs and are based on information currently available to CO2 GRO. Often, but not always, forward-looking statements can be identified by terminology such as "may", "will", "should", "expect", "intend", "plan", "anticipate", "believe", "predict", "potential", "continue", "budget", "schedule", "estimate", "forecast" or variations (including negative variations) of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, performance or achievements expressed or implied by the forward-looking statements to differ materially from those anticipated in such statements. Such factors include, among others: general business, economic, competitive, political and social uncertainties; changes in project parameters as plans continue to be refined; changes in labour costs and other costs of materials, equipment or processes to operate as anticipated; accidents, labour disputes and other risks; delays in obtaining governmental approvals or financing or in the completion of research and development activities; and, the factors discussed in the ***Risks and uncertainties*** section of this MD&A. Although CO2 GRO has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as of the date of this MD&A and, unless otherwise required by applicable securities laws, CO2 GRO disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

General

CO2 GRO Inc. 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-enrichment platform: CO2 GRO's sole focus is commercializing its patent-licensed CO2 gas infusion technology and its patent-pending US PTO CO2 Delivery Solutions system ("**Delivery Solutions™**"), both of which form the Company's Dissolved CO2 plant platform.

The registered and head office of the Company is located at 40 King Street West, Suite 5800, Toronto, Ontario, M5H 3S1, Canada.

The 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 GRO'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.

The Consolidated Financial Statements were authorized for issuance by the Board of Directors (The "**Board**") of the Company on April 28, 2020.

Any reference in this MD&A to "**notes**" are to the corresponding notes in the Consolidated Financial Statements.

Operational updates

The following milestones were achieved by CO2 GRO during 2019:

1. Announced the first commercial feasibility of its Delivery Solution with an Ontario flower grower owning and operating 500,000 square feet of grow area.
2. Announced a commercial feasibility of its Delivery Solutions™ with a Canadian cannabis grower in December 2019.
3. Announced a two-year exclusive MOU with Gulf Cryo for six Middle East countries plus Turkey and Egypt. Gulf Cryo's role is to market and sell Delivery Solutions™ to greenhouse customers and exclusively supply CO2 gas to them.
4. Issued numerous requested commercial feasibility proposals for its Delivery Solutions™ to U.S., Canadian, E.U. and U.A.E. greenhouse growers that collectively own/operate approximately 10 million square feet of grow space
5. Demonstrated a 133% increase in bio-pharming dry weight over the best five-week grow trial at University of Guelph's greenhouses for a potential bio-pharma customer. CO2 GRO will assess the bio-pharming potential of bacteria for potential medicines and vaccines using Delivery Solutions™ on post-inoculated plants at St. Cloud State University in late 2020.

6. Completed the first phase of outdoor grow trials at the University of Guelph's Muck Crops Research Station in the Holland Marsh, Ontario, Canada. Results will be owned by CO2 GRO and will be used as a basis for further outdoor grow trials and demo efforts in mid-2020.
7. Dr. Matthew Julius joined CO2 GRO as its Chief Science Officer on a full-time basis.
8. Rose Marie Gage joined the Board bringing significant experience in the agriculture and ag-tech industries, further strengthening the Board.
9. Demonstrated and filed a patent for dramatically lowering micro-pathogen colonization (*E-coli* and powdery mildew) from employing Delivery Solutions™, a major additional benefit to growers.
10. Filed four additional patents to strengthen CO2 GRO's worldwide PCT patent portfolio for its Delivery Solutions™.
11. Scientific plant research partner St. Cloud State University received a hemp research license in Q4, 2019 from the State of Minnesota that will support the Company's 2020 hemp and plant customer prospects.
12. The Company pre-built Delivery Solutions™ inventory that can be utilized to facilitate numerous commercial feasibilities and serve several million square feet of commercial cultivation space.
13. Attended multiple ag-tech conferences resulting in significantly increased awareness of its Delivery Solutions™, leading to introductions to several potential marketing partners including Gulf Cryo who subsequently signed a marketing agreement with the Company.

As of the first quarter of 2020, commercial feasibilities for Delivery Solutions™ were sent to U.S., Canadian, E.U. and U.A.E. greenhouse growers with about 12 million square feet of collective grow space ownership, a 20% quarter over quarter increase. Commercial feasibilities are a critical step in CO2 GRO's sales process where customers can evaluate the value impact of its Delivery Solutions™ on the plants at each respective facility prior to full commercial installation.

CO2 GRO is in discussions with indoor and outdoor irrigation and other CO2 gas supply companies to broaden the marketing and selling of its Delivery Solutions™ to their customers.

The Company signed a marketing and sales Agreement with Dotz Nano Inc. to market and sell its Delivery Solutions™ exclusively in the Israeli horticulture market. CO2 GRO also announced a commercial feasibility with 15 different growers within the Linn County Seed & Flower Co-op and Sacred Seed Hemp Farm. These growers represent 250+ hemp production greenhouses across several states who are contracted to American Hemp Ventures, one of the largest hemp products distributors in the U.S.

During 2019, the Company was honored with the following awards and articles:

1. Life Sciences Ontario as one of its 2019 Success Stories.
2. Canada's Trade Commissioners' selection as one of its top-10 Canadian Ag-Tech Companies.
3. UK's AI GHP MMJ Awards selection as a Leading Innovator of Delivering CO2 Technology.
4. EU's MMJ Daily's, CO2 GRO article on Pathogen Resistance using its Delivery Solutions™.
5. Finalist in the Hemp Innovation Challenge at the World Ag Expo in Tulare, California.

These independent awards and recognitions are bolstering 2020 sales efforts with potential customers as well as increasing editorial awareness of CO2 GRO's technology.

In April 2020, the Company announced the completion of installations of its Delivery Solutions™ Commercial Evaluation systems at fifteen Missouri US hemp greenhouses.

Also, in April 2020, the Company announced the installation of a Delivery Solutions™ Commercial Evaluation system and the completion of a first grow cycle at a Dubai, UAE based lettuce greenhouse. The Commercial Evaluation is being performed in a portion of the 75,000 square foot lettuce greenhouse. The first of a minimum three grow cycles has been completed on seven lettuce varieties to evaluate the Delivery Solutions™ impact on accelerating grow cycle time and biomass production.

This is the first potential Middle East customer that Gulf Cryo has brought to CO2 GRO under the Memorandum of Understanding ("MOU") announced previously on November 21, 2019. The Commercial Evaluation system was installed in collaboration with CO2 GRO management, Gulf Cryo technicians and the customer's greenhouse personnel in early March 2020. Gulf Cryo and CO2 GRO also met with additional greenhouse prospects in the UAE who grow a variety of vegetables in both greenhouse and indoor vertical facilities.

The Company's Delivery Solutions™ aqueous CO2 misting is the first major efficiency improvement in CO2 gas delivery to indoor growers in decades and the first with major outdoor CO2 potential. As more prospective customers conduct commercial feasibilities and eventually agree to commercial installations, CO2 GRO believes growers in its target markets will become more receptive to further commercial feasibilities and the purchase of its Delivery Solutions™. CO2 GRO will continue to engage in ongoing broad-based education of the technology's benefits to support its marketing and sales efforts.

Corporate

Issuance of common shares during 2019:

(i) In January 2019, 500,000 warrants each with an exercise price of $0.12 and an expiry date of December 14, 2022, were exercised raising $60,000 of proceeds for the Company. The fair value of $20,000 of the exercised warrants was transferred from reserve for warrants to common shares.

(ii) In January 2019, 150,000 options each with an exercise price of $0.19 and an expiry date of January 24, 2023, were exercised by key management (note 14) raising proceeds of $28,500. The fair value of $28,526 was transferred from contributed surplus to common shares.

(iii) In January 2019, 10,695 shares with a fair value of $2,000, were issued for December 2018 management services provided by the Company's CFO. The fair value was transferred from shares to be issued to common shares.

(iv) In February 2019, 1,387,500 warrants each with an exercise price of $0.12 and an expiry date of December 14, 2022, were exercised raising $166,500. The fair value of $55,500 was transferred from contributed surplus to common shares.

(v) In March 2019, 1,300,000 warrants each with an exercise price of $0.12 and expiry dates of December 14, 2022 and December 19, 2022 for 987,500 and 312,500 warrants, respectively, were exercised raising $156,000. The fair value of $52,000 was transferred from reserve for warrants to common shares.

(vi) In March 2019, 250,000 finders and corporate finance warrants, each with an exercise price of $0.08 and expiry dates of December 14, 2019 and December 19, 2019 for 212,500 and 37,500 warrants respectively, were exercised raising proceeds of $20,000. The fair value of $21,000 was transferred from reserve for warrants to common shares.

(vii) In March 2019, 335,555 options (150,000 by key management, note 14) with exercise prices between $0.135 and 0.22 and expiry dates between February 15, 2020 and October 1, 2024, were exercised raising proceeds of $59,750. The fair value of $107,490 was transferred from contributed surplus to common shares.

(viii) In April 2019, 157,894 options (7,894 by key management, note 14) were exercised raising $24,000. The fair value of $87,241 for the exercised options, was transferred from contributed surplus to share capital.

(ix) In May 2019, 471,698 common shares with a fair value of $125,000, were issued in settlement of related party debt. Pursuant to IFRIC 19.6, the gain on the settlement of $282,635 was recognized as an increase to the capital of the Company.

(x) In September 2019, 70,000 options were exercised raising $9,450. The fair value of $5,896 for the exercised options, was transferred from contributed surplus to share capital.

(xi) In October 2019, 96,000 options were exercised raising proceeds of $17,250. Concurrently with the exercise, the fair value of the exercised options of $12,723, was transferred from contributed surplus to common shares.

(xii) In October 2019, 300,000 warrants were exercised raising proceeds of $24,000. Concurrently with the exercise, the fair value of the exercised warrants of $25,500, was transferred from reserve for warrants to share capital.

2018:

(xiii) In January 2018, 862,608 warrants each with an exercise price of $0.20 and expiry dates of October 12, 2018 and October 26, 2018 for 437,608 and 425,000, respectively, were exercised raising $172,522 of proceeds for the Company. The fair value of $44,142 of the exercised warrants was transferred from reserved for warrants to common shares.

(xiv) In January 2018, 100,000 warrants each with an exercise price of $0.12 and an expiry date of December 19, 2022, were exercised raising $12,000 of proceeds for the Company. The fair value of $4,000 of the exercised warrants was transferred from reserved for warrants to common shares.

(xv) In January 2018, 629,490 finders' warrants each with an exercise price of $0.115 and expiry dates of October 12, December 12 and December 13, 2018 for 405,655, 219,487 and 4,348 finders' warrants, respectively, raising $72,391 of proceeds for the Company. The fair value of $38,103 of the exercised warrants was transferred from reserved for warrants to common shares.

(xvi) In January 2018, 15,000 options each with an exercise price of $0.15 and maturity dates of February 22, 2023 and March 27, 2024 for 10,000 and 5,000, respectively, raising proceeds of $2,250 for the Company. The fair value of $26,300 of the exercised options was transferred from contributed surplus to common shares.

(xvii) In February through December 2018, the Company issued a total of 154,015 shares with a fair value of $22,000, for management services provided by the Company's CFO (note 14). The fair value of these shares was estimated based on the quoted share price of the shares on the last trading day of the month previous to issue.

(xviii) In April 2018, 146,896 options were exercised raising $20,534 of proceeds for the Company. The fair value of the exercised options was $26,220, with such amount transferred from contributed surplus to common shares.

(xix) In July through September 2018, 407,142 options with exercise prices of $0.135 (for 250,000 options) and $0.14 (for 157,142 options), were exercised, raising a total of $55,750. The fair value of $42,317 of the exercised options was transferred from contributed surplus to common shares.

(xx) In July through September 2018, 1,160,552 warrants with exercise prices ranging from $0.115 to $0.20, were exercised raising proceeds of $201,781. The fair value of $47,726 of the exercised warrants was transferred from warrants to common shares.

(xxi) In August 2018, a total 12,989,199 (representing the Shares to be issued to management – see note 14), were issued. The fair value of $3,247,000 was estimated based on the quoted market price of the shares on March 26, 2018 (the day of approval at 2018 ASM). The fair value was transferred from shares to be issued to common shares.

(xxii) In October through December 2018, 7,094,597 warrants and finders' warrants with exercise prices ranging from $0.115 to $0.20, were exercised raising gross proceeds of $1,364,829. The fair value of $357,894 of the exercised warrants was transferred from warrants to common shares.

Shares to be issued (2018)

In December 2018, the Company incurred consulting fees to its Chief Financial Officer that were to be paid, in part, with the issuance of shares. The fair value of $2,000 has been recorded to shares to be issued based on the quoted market price of the shares on the last trading day of December 2018.

Warrant activity for 2019 and 2018

The outstanding issued warrants balance as at December 31, 2019 is comprised of the following items:

Date of expiry	Type	Number of warrants	Exercise price $	Fair value $
December 14, 2022	Warrants	2,500,000	0.12	100,000
December 19, 2022	Warrants	1,462,500	0.12	58,500
Cash costs allocated to warrants		-	-	(28,039)
Total		**3,962,500**	**0.12**	**130,461**

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

	December 31, 2019		December 31, 2018	
	Weighted Average Exercise Price	**Number of Warrants**	Weighted Average Exercise Price	Number of Warrants
	$		$	
Outstanding at beginning of year	**0.12**	**7,700,000**	0.18	31,492,046
Transactions during the year:				
Exercised	**(0.11)**	**(3,737,500)**	(0.19)	(9,847,247)
Expired	**-**	**-**	(0.20)	(13,944,799)
Outstanding at end of year	**0.12**	**3,962,500**	0.12	7,700,000

Option activity for 2019 and 2018

	December 31, 2019		December 31, 2018	
	Weighted Average Exercise Price	**Number of Options**	Weighted Average Exercise Price[1]	Number of Options
	$		$	
Outstanding at beginning of year	**0.18**	**3,149,198**	0.14	2,421,235
Transactions during the year:				
Granted	**0.22**	**2,240,849**	0.21	1,779,000
Exercised	**(0.17)**	**(809,449)**	(0.21)	(571,538)
Forfeit	**(0.35)**	**(225,000)**	(0.15)	(729,500)
Outstanding at end of year	**0.20**	**4,355,598**	0.18	3,149,198
Exercisable at end of year	**0.19**	**4,035,598**	0.18	3,049,198

The following table provides additional information about outstanding stock options at December 31, 2019:

Exercise Prices	**No. of Options Outstanding**	**Weighted Average Remaining Life (Years)**	**Weighted Average Exercise Price ($)**
$0.10 to $0.145	931,143	2.1	0.14
$0.15 to $0.195	1,363,606	3.1	0.19
$0.20 to $0.350	2,060,849	1.1	0.23
Outstanding	**4,355,598**	**1.9**	**0.20**
Exercisable	**4,035,598**	**1.9**	**0.20**

As at December 31, 2019, 2,456,103 (2018 – 3,159,569) options are available for issuance under the Plan.

Significant accounting policies and adoption of new standards

The Company's significant accounting policies are detailed in note 4 of the Consolidated Financial Statements.

The following details the standards adopted by the Company as at January 1, 2019:

IFRS 16 – Leases ("IFRS 16") was issued in January 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated depreciation and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease.

The Company has adopted this standard but has no leases in place for the years ended December 31, 2019 and 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.

Selected annual financial information

	December 31, 2019	December 31, 2018	December 31, 2017
	$	$	$
Consolidated statements of operations and comprehensive loss			
Revenue	**11,137**	3,578	19,516
Total operating expenses	**(1,431,288)**	(1,299,573)	(5,063,517)
Loss and comprehensive loss	**(1,474,021)**	(1,296,520)	(4,837,795)
Basic and diluted loss per common share	**(0.022)**	(0.027)	(0.158)
Consolidated statements of cash flow			
Cash used for operations	**(1,271,727)**	(1,092,508)	(787,525)
Cash used for investing activities	**(32,143)**	-	-
Cash provided from financing activities	**422,486**	1,843,353	574,169
(Decrease)/increase in cash	**(881,384)**	750,845	(213,356)
Consolidated statements of financial position			
Cash	**438,428**	1,319,812	568,967
Total assets	**707,341**	1,533,808	606,620
Shareholders' equity (deficiency)	**400,035**	577,930	(373,861)
Average number of common shares outstanding	**66,892,173**	48,264,849	30,697,981

Financial condition

As at December 31, 2019, the Company had assets totaling $707,341 and shareholders' equity of $400,035. This compares with assets of $1,533,808 and shareholders' equity of $577,930, as at December 31, 2018.

During the year ended December 31, 2019, the Company's net assets decreased by $177,895, the result of a decrease in assets of $826,467 offset by a decrease in liabilities of $648,572.

The change in the Company's net assets is detailed as follows:

Item	**Change Fav/(Unfav)**	**Explanation of change**
	$	
Cash	(881,384)	Decrease resulting from cash used for operating activities of $1,271,727 plus cash used for investing activities of $32,143 less cash provided from financing activities of $422,486.
Account receivable	7,193	Gross increase in receivables of $8,850 offset by expected credit losses of $1,657.
Prepaid expenses	9,718	Increase reflects prepayment of consulting and membership fees at year end.
Inventory	179,619	Change in inventory is the result of purchases of $249,750 less amounts transferred to cost of goods sold of $70,131.
Sales taxes recoverable	(171,913)	Decrease in HST ITC's mainly the result of amounts paid on shares issued to the Management Group in 2018.
Intangible assets	30,300	The increase are patent expenditures of $32,143 less amortization of $1,843.
Decrease in assets	**(826,467)**	
Accounts payable and accrued liabilities	505,609	Other than the payment of amounts owed for licence-fees of $407,638 (notes 12, 13.2 (ix), 14 and 18), the remaining decrease is due to normal course activity during 2019.
Due to related parties	142,963	Decrease due to advances from related parties of $80,991 less repayments to related parties of $223,954.
Decrease in liabilities	**648,572**	
	(177,895)	

Results of operations

The Company has generated only nominal operating revenue and therefore losses have been incurred throughout the year ended December 31, 2019.

Year ended December 31, 2019 and December 31, 2018

Loss and comprehensive loss for the year was $1,474,021 (2018 – $1,296,520) or $0.02 (2018 – $0.03) loss per share, an increased loss of $177,501 over 2018. Gross margin decreased by $105,920 to a gross loss of $102,342, the result of revenues increasing by $7,559, offset by cost of goods sold increasing by $113,479. Operating costs increased by $131,715 over 2018 and other gains/losses changed from losses of $525 in 2018 to gains of $59,609 in 2019.

The significant changes are detailed below:

Gross loss of $102,342 **(2018 – gross margin of $3,578)**

The Company recorded the revenues of $11,137 (2018 - $3,735) on three pilot projects utilizing its Delivery Solutions^{TM}, offset by cost of goods sold of $113,479 (2018 - $nil). Revenues for 2018 were from now-terminated natural specialty shrimp and algal oil products business platform.

<u>Operating expenses of $1,431,288</u> *<u>(2018 - $1,299,573)</u>*

Administration of $274,877 (2018 - $138,135)

The increase of approximately $137,000 was the result of increased director fees of approximately $6,000 for overlap of independent directors, travel of approximately $90,000 as the Company rolled out its platform to Europe, United Arab Emirates and the US, conferences of approximately $17,000 and other administrative expenses of approximately $24,000.

Compensation of $329,592 (2018 - $29,463)

The entire increase is the result of the Company staffing up with operational and sales personnel to affect the roll-out of its Delivery Systems.

Consulting fees of $72,783 (2018 - $90,792)

The decrease of approximately $18,000 resulted from credits received for consulting work never completed.

Investor relations and public reporting costs of $96,123 (2018 – $477,141)

The decrease of approximately $381,000, was mainly due to the capital market support expenses of approximately $350,000 in 2018, not incurred during 2019. Further decreases in investor relations of approximately $21,000 and public filing costs of approximately $10,000 rounded out the decrease in this category.

Professional fees of $126,327 (2018 – $133,754)

The decrease of approximately $7,000 was the result of increased audit and tax preparation fees offset by decreases to general legal fees.

Research and development of $172,840 (2018 – $133,272)

Details of the increase for the year are disclosed in the *Research and development* section of this MD&A.

<u>Other items, gain of $59,609 (2018 – loss of $525)</u>

Gain on settlement of accounts payable of $59,090 (2018 - $nil)

The Company settled an outstanding legal claim with its former President and CEO. A gain on the settlement of accounts payable of $59,090 has been recorded in the statements of operations and comprehensive loss.

Change in expected credit losses of $1,657 (2018 - $nil)

The Company adopted IFRS 9 on January 1, 2019. The Company has recognized expected credit losses for the year ended December 31, 2019, of $1,657 (2018 - $nil).

Summary of quarterly results

	4th Quarter 2019	3rd Quarter 2019	2nd Quarter 2019	1st Quarter 2019
Total revenues	(70,553)	7,402	67,638	6,650
Loss and comprehensive loss	(392,467)	(550,269)	(120,910)	(410,375)
Net loss per share – basic and fully-diluted[1]	(0.00)	(0.01)	(0.00)	(0.01)
Total assets	707,341	967,503	1,446,087	1,702,949
Long-term debt	-	-	-	-
Equity (deficiency)	400,035	745,518	1,135,080	824,355
Cash dividends declared per common share	-	-	-	-

	4th Quarter 2018	3rd Quarter 2018	2nd Quarter 2018	1st Quarter 2018
Total revenues (returns)	1,765	1,470	245	98
Loss and comprehensive loss	(507,691)	(245,293)	(167,364)	(376,172)
Net loss per share – basic and fully-diluted[1]	(0.01)	(0.01)	(0.00)	(0.01)
Total assets	1,533,808	803,788	592,346	707,758
Long-term debt	-	(200,000)	(200,000)	(200,000)
Deficiency	577,930	(291,112)	(343,746)	(218,984)
Cash dividends declared per common share	-	-	-	-

[1]Inclusion of outstanding warrants and options is anti-dilutive.

Liquidity and capital resources

As at December 31, 2019, the Company had a working capital of $369,735 (December 31, 2017 – $577,930) and has sustained operating losses and negative cash flows from operations since its inception. Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations associated with the financial liabilities that are settled by delivering cash or another financial asset. The Company is exposed to significant liquidity risk, as it continues to have net cash outflows to support its operations.

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, 2019 or 2018. The Company is not subject to any capital requirements by lending institution or regulatory body, other than by the continued listing requirements of the TSXV.

Transactions with related parties

Year ended December 31, 2019 and December 31, 2018

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 an arm's-length basis, 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 of Sales. Related-party transactions are detailed below:

	Year ended	
	December 31, 2019	December 31, 2018
Transactions:	**$**	$
Consulting fees	**90,000**	90,792
Share-based payments	**287,464**	286,800

As at December 31, 2019, $130,938 (2018 - $280,696) is owed to officers or directors of the Company or entities controlled by them.

In May 2019, 471,698 common shares with a fair value of $125,000 were issued to a Vice President of the Company in settlement of related-party debt (note 13.2 (ix)).

Included in 2018 consulting fees to key management above, are 165,011 common shares of the Company (including shares to be issued), with a fair value of $24,000, respectively, were issued to a company controlled by the CO2 GRO's CFO. The shares were issued pursuant to a shares-for-services agreement with the Company's CFO, wherein $2,000 per month is settled with the issuance of shares.

During 2019, the key management (or companies controlled by them) exercised 307,894 options, see notes 13.2 (ii), (vii), (viii), (x) and (xi) (2018 – 15,000), raising gross proceeds for the Company of $63,000 (2018 - $2,250)

Significant accounting policies

A summary of the Company's significant accounting policies are detailed in note 4 of the Consolidated Financial Statements.

Risks and uncertainties

Financial instruments and risk management

As at December 31, the Company held the following financial instruments:

	2019	2018
	$	$
Financial assets		
Cash	**438,428**	1,319,812
Accounts receivable	**7,193**	-
	445,621	1,319,812
Financial liabilities		
Accounts payable and accrued liabilities	**169,573**	675,182
Due to related parties	**137,733**	280,696
	307,306	958,878

The carrying and fair values of these financial instruments are approximately equivalent because of the short-term nature of these instruments.

Basis of fair values

Assets and liabilities recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – quoted prices (unadjusted) observed in active markets for identical assets or liabilities.
Level 2 – 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 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs)

If the inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company has no financial instruments carried at fair value to measure in the fair value hierarchy.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. There have been no significant transfers between levels during the year.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. As at December 31, 2019, the Company had $307,306 (2018 - $955,878) of liabilities with a maturity of one year or less and working capital of $369,735 (2018 – $577,930). The Company manages its liquidity risk by reviewing its growth plans on an ongoing basis.

Credit risk

Credit risk is derived from cash and accounts receivable. The Company places its cash in deposit with major Canadian and United States financial institutions. The Company has established a policy to mitigate the risk of loss related to granting customer credit.

The carrying amount of cash and trade accounts receivable represents the Company's maximum exposure to credit risk, which amounted to $445,621 at December 31, 2019 (December 31, 2018 - $1,319,812). The allowance for doubtful accounts as at December 31, 2019 is $1,657 (December 31, 2018 - $nil). See note 8.

As at December 31, 2019 and 2018, the Company's accounts receivable was aged as follows:

	December 31, 2019	**December 31, 2018**
	$	$
Current	**4,706**	-
1 – 30 days	**-**	-
31 – 60 days	**-**	-
61 – 90 days	**-**	-
Over 90 days	**2,487**	-
	7,193	-

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). The Company is not subject to significant market risk.

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, accounts receivable 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, 2019 of $33,860 (2018 – gains of $24,761).

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

The Company's funds are kept in Canadian and US dollars at a major Canadian financial institution.

As at December 31, 2019 and 2018, the Company's exposure to foreign currency balances is as follows:

Account	Foreign currency	Exposure ($Cdn) December 31, 2019	December 31, 2018
Cash	US dollar	**87,368**	791,802
Prepaid expenses	US dollar	**-**	771
Accounts payable and accrued liabilities	US dollar	**(58,861)**	(146,251)
		28,507	646,322

The Company believes that a change of 10% in foreign exchange rates would increase/decrease net income for the period by approximately $3,000 (2018 – $65,000).

Other risk factors

Key personnel

The success of the Company depends to a large extent upon its abilities to retain the services of its senior management and key personnel. The loss of the services of any of these persons could have a materially adverse effect on the Company's business and prospects. There is no assurance the Company can maintain the services of its directors, officers or other qualified personnel required to operate is business.

Segregation of duties

Segregation of duties is a basic, key internal control and one of the most difficult to achieve in a small company. It is used to ensure that errors or irregularities are prevented or detected on a timely basis by employees in the normal course of business. Due to the Company's size and limited resources, a complete segregation of duties within the Company's accounting group cannot be fully achieved. The result is that the Company is highly reliant on the performance of mitigating procedures during the process of closing its Consolidated Financial Statements in order to ensure the financial statements are presented fairly in all material respects. Management will identify and hire additional accounting resources where cost effective and when required. Where it is not cost effective to obtain additional accounting resources, management will review existing mitigating controls and, if appropriate, implement changes to its internal control processes whereby more effective mitigating controls will be adopted.

Technical, Regulatory and Product Platform Risk

The success of the Company depends to a large extent upon the Company's ability to produce and sell products that are new and have never been sold before. To-date, the Company has sold a de minimus amount of its products and there is no guarantee the Company will be able to produce products that customers are willing to buy. There may also be unknown scientific, technical or regulatory risks associated with sales of the proposed product platforms that the Company is unable to overcome.

Contagious diseases

The Company's operations could be significantly adversely affected by the effects of a widespread global outbreak of a contagious disease, including the recent outbreak of respiratory illness caused by COVID-19. The Company cannot accurately predict the impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Company, including uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company's operations and ability to finance its operations.

Research and development costs

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

	Year ended	
	December 31, 2019	December 31, 2018
	$	$
Technical consulting	**150,158**	106,743
Technical consumables	**12,682**	26,529
Research and development costs	**172,840**	133,272

Disclosure of outstanding share information

The following table sets forth information concerning the outstanding securities of the Company as at April 29, 2020:

	Number
Common shares	67,117,004
Warrants	3,962,500
Options	5,300,598