CO2 GRO Inc.

CO2 GRO Inc.

Unaudited Interim Consolidated Financial Statements

(expressed in Canadian dollars)

As at and for the three and six months ended June 30, 2020 and 2019

NOTICE TO READER

The accompanying unaudited interim consolidated financial statements of CO2 GRO Inc. (the "Company") have been prepared by and are the responsibility of management. These unaudited interim consolidated financial statements as at and for the three and six months ended June 30, 2020 and 2019 have not been reviewed by the Company's auditors.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited interim consolidated financial statements of CO2 GRO Inc. are the responsibility of the management and the Board of Directors (the "**Board**") of the Company and have been prepared in accordance with the accounting policies disclosed in the notes to the unaudited interim consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the statement of financial position date. In the opinion of management, the interim unaudited consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard 34 Interim Financial Reporting of International Financial Reporting Standards using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

The Board is responsible for reviewing and approving the unaudited interim consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited interim consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board for its consideration in approving the unaudited interim consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

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.

"John Archibald"	*"Stephen M. Gledhill"*
John Archibald President and Chief Executive Officer	Stephen M. Gledhill Chief Financial Officer
August 21, 2020	August 21, 2020

CO2 GRO Inc.

Unaudited Interim Consolidated Statements of Financial Position

(expressed in Canadian dollars)

As at	**June 30, 2020**	December 31, 2019
Assets	**$**	$
Current assets		
Cash	**158,981**	438,428
Sales taxes recoverable	**17,777**	28,953
Accounts receivable *(note 6)*	**27,266**	7,193
Prepaid expenses *(note 7)*	**9,905**	22,848
Inventory *(note 8)*	**213,661**	179,619
Total current assets	**427,590**	677,041
Non-current assets		
Intangibles, net *(note 9)*	**94,649**	30,300
Total non-current assets	**94,649**	30,300
Total assets	**522,239**	707,341
Liabilities		
Current liabilities		
Trade payables and accrued liabilities *(note 10)*	**262,062**	169,573
Due to related parties *(note 13)*	**99,738**	137,733
Total current liabilities	**361,800**	307,306
Non-current liabilities		
Government loan *(note 11.1)*	27,978	-
Total non-current liabilities	**27,978**	-
Total liabilities	**389,778**	307,306
Shareholders' equity		
Common shares *(note 12.2)*	**15,399,817**	15,399,817
Reserve for warrants *(note 12.3)*	**158,500**	130,461
Contributed surplus *(note 12.4)*	**4,045,095**	3,960,737
Accumulated deficit	**(19,470,951)**	(19,090,980)
Total shareholders' equity	**132,461**	400,035
Total liabilities and shareholders' equity	**522,239**	707,341

Going concern (note 1)
Significant contracts and commitments and contingencies (note 16)
Subsequent event (note 18)

Approved for issuance by the Board on August 21, 2020

"Rose Marie Gage", Independent Director

"Michael Boyd", Independent Director

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

CO2 GRO Inc.

Unaudited Interim Consolidated Statements of Loss and Comprehensive Loss

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

	3 months ended		6 months ended	
	June 30, 2020	June 30, 2019	**June 30, 2020**	June 30, 2019
	$	$	**$**	$
Revenue	**34,179**	67,638	**75,474**	74,288
Cost of good sold ***(note 14)***	**(16,926)**	-	**(52,627)**	(3,325)
Gross margin	**17,253**	67,638	**22,847**	70,963
Expenses				
Administration *(note 11.2)*	**(5,517)**	28,954	**40,336**	50,935
Amortization and depreciation	**808**	6,848	**1,169**	7,458
Compensation	**384**	76,738	**80,671**	147,774
Consulting fees	**22,500**	12,500	**46,188**	35,000
Foreign exchange (gains) losses	**717**	24,255	**(951)**	37,859
Investor relations and public reporting costs	**1,350**	20,854	**28,774**	43,684
Professional fees	**36,305**	29,544	**66,782**	41,300
Research and development non-compensation *(note 15)*	**15,565**	47,947	**38,464**	102,641
Share-based compensation *(note 12.5)*	**46,775**	-	**112,397**	166,050
Total expenses	**118,888**	247,640	**413,831**	662,550
Operating loss before other items	**(101,635)**	(180,002)	**(390,984)**	(591,587)
Other items:				
CEBA grant component *(note 11.1)*	**12,998**	-	**12,998**	-
Interest income (expense)	**(1,207)**	2	**(1,207)**	1,212
Change in expected credit losses	**1,739**	-	**(778)**	-
Gain on settlement of accounts payable *(note 10)*	**-**	59,090	**-**	59,090
	13,530	59,092	**11,013**	60,302
Income (loss) and comprehensive income (loss) for the period	**(88,105)**	(120,910)	**(379,971)**	(531,285)
Basic and fully-diluted income (loss) and comprehensive income (loss) per share	**(0.00)**	(0.00)	**(0.01)**	(0.01)
Weighted average number of common shares outstanding	**68,117,004**	67,439,660	**68,117,004**	65,985,163

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

CO2 GRO Inc.

Unaudited Interim Consolidated Statements of Changes in Equity

(expressed in Canadian dollars)

	Common shares						
	Number of Shares	**Amount**	**Shares to be issued**	**Warrants**	**Contributed surplus**	**Accumulated deficit**	**Total**
		$	$	$	$	$	$
Balance at December 31, 2018	63,087,662	14,008,856	2,000	304,461	3,879,572	(17,616,959)	577,930
Shares to be issued	10,695	2,000	(2,000)	-	-	-	-
Exercise of warrants	3,437,500	402,500	-	-	-	-	402,500
Fair value of exercised warrants	-	148,500	-	(148,500)	-	-	-
Shares for debt	471,698	125,000	-	-	-	-	125,000
Adjustment to shares for debt *(note 10)*	-	282,635	-	-	-	-	282,635
Exercise of options	643,449	112,500	-	-	-	-	112,500
Fair value of exercised options	-	223,258	-	-	(223,258)	-	-
Share-based compensation	-	-	-	-	166,050	-	166,050
Loss and comprehensive loss for the period	-	-	-	-	-	(531,285)	(531,285)
Balance at June 30, 2019	67,651,004	15,304,999	-	155,961	3,822,364	(18,148,244)	1,135,080
Exercise of warrants	300,000	24,000	-	-	-	-	24,000
Fair value of exercised warrants	-	25,500	-	(25,500)	-	-	-
Exercise of options	166,000	26,699	-	-	-	-	26,699
Fair value of exercised options	-	18,619	-	-	(18,619)	-	-
Share-based compensation	-	-	-	-	156,992	-	156,992
Loss and comprehensive loss for the period	-	-	-	-	-	(942,736)	(942,736)
Balance at December 31, 2019	68,117,004	15,399,817	-	130,461	3,960,737	(19,090,980)	400,035
Expired warrants' issue costs	**-**	**-**	**-**	**28,039**	**(28,039)**	**-**	**-**
Share-based compensation	**-**	**-**	**-**	**-**	**112,397**	**-**	**112,397**
Loss and comprehensive loss for the period	**-**	**-**	**-**	**-**	**-**	**(379,971)**	**(379,971)**
Balance at June 30, 2020	**67,651,004**	**15,399,817**	**-**	**158,500**	**4,045,095**	**(19,470,951)**	**132,461**

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

CO2 GRO Inc.

Unaudited Interim Consolidated Statements of Cash Flow

(expressed in Canadian Dollars)

Six months ended June 30,	**2020**	2019
	$	$
Operations		
Net loss	**(379,971)**	(531,285)
Non-cash items:		
Amortization and depreciation	**1,169**	7,458
Gain on settlement of accounts payable *(note 10)*	**-**	(59,090)
IAS 20 adjustment on interest-free loan *(note 11.1)*	**(12,998)**	
IFRIC adjustment on shares issued for debt *(note 10)*	**-**	282,635
Interest accretion	**976**	-
Share-based payments	**112,397**	166,050
Net change in non-cash working capital items:		
Accounts receivable	**(20,852)**	(70,377)
Prepaid expenses	**12,943**	(14,922)
Sales taxes recoverable	**11,176**	11,386
Inventory	**(32,042)**	-
Trade payables and accrued liabilities	**92,490**	(325,894)
Cash used for operations	**(215,933)**	(534,039)
Financing activities		
Exercise of warrants	**-**	402,500
Exercise of options	**-**	112,250
Related-party loans repaid	**(37,997)**	(134,887)
Government loan *(note 11.1)*	**40,000**	-
Cash provided from financing activities	**2,003**	379,887
Investing activities		
Purchase of equipment	**-**	(121,553)
Purchase of intangibles	**(65,517)**	-
Cash used for investing activities	**(65,517)**	(121,553)
Decrease in cash for the period	**(279,447)**	(275,729)
Cash at beginning of year	**438,428**	1,319,812
Cash at end of period	**158,981**	1,044,083
Non-cash financing activities		
Settlement of debt with issuance of shares *(note 10)*	**-**	125,000

The accompanying notes are an integral part of these unaudited interim 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, and trades on the TSX Venture Exchange ("**TSXV**") under its 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 ("**CO2 Delivery Solutions™"**), both of which form the Company's Dissolved CO2 plant-enrichment platform.

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

These unaudited interim consolidated financial statements (the **"Interim Consolidated Financial Statements"**) have been prepared using International Financial Reporting Standards (**"IFRS"**) applicable to a 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 Interim 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

These unaudited interim consolidated financial statements, including comparatives, have been prepared in accordance with *International Accounting Standards ("**IAS**") 34* 'Interim Financial Reporting' using accounting policies consistent with the IFRS issued by the International Accounting Standards Board ("**IASB**") and Interpretations of the International Financial Reporting Interpretations Committee ("**IFRIC**").

The Interim Consolidated Financial Statements were approved and authorized for issuance by the Board on August 21, 2020.

2.2 Basis of presentation

The Interim Consolidated Financial Statements have been prepared on a historical cost basis with the exception of financial instruments which are measured at fair value. In addition, the Interim Consolidated Financial Statements have been prepared using the accrual basis of accounting, except for cash flow information and are presented in Canadian dollars, the Company's functional currency.

The preparation of the Interim 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 Interim Consolidated Financial Statements consolidate the accounts of the Company and all its subsidiaries. The Company has the following inactive, wholly-owned subsidiaries: Pure Polar Canada Inc., CO2 GRO (US) Inc., BlueOcean Shrimp Products Inc., Asta NutraSciences Inc., BlueOcean Algae Inc., Solutions4CO_2 USA, Inc., 70717 Newfoundland and Labrador Limited ("70717") and virtually inactive wholly-owned subsidiary, Pure Polar Labs Inc. ("Pure Polar"). 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.

The Company owns a 50% equity interest in 2453969 Ontario Inc., an inactive joint arrangement. The Company accounts for this arrangement using the equity method in accordance with IFRS 11 *'Joint Arrangements'* ("**IFRS 11**").

2.4 Reclassifications

Certain comparative amounts have been changed to conform with current reporting classifications. These reallocations have not affected previously-reported loss and comprehensive loss.

3. Adoption of new and revised standards and interpretations

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2020. The following IFRS amended standards have been issued but not yet adopted, as they are being evaluated to determine their impact on the Company.

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 the amendments to IFRS 10, is yet to be determined, however early adoption is permitted. The Company has not yet adopted this standard and is assessing its impact on its consolidated financial statements.

IFRS 17 – Insurance Contracts ("**IFRS 17**") was new in 2017 and will replace IFRS 4 – Insurance Contracts. The amended Standard provides updated guidance for entities in dealing with insurance contracts (including reinsurance contracts) it issues or holds and goes into effect for annual periods commencing after January 1, 2021. The Company has not yet adopted this IFRS 17 and is currently assessing the effects on its consolidated financial statements.

IAS 1 – Presentation of Financial Statements ("**IAS 1**"). In January 2020, the classification of liabilities as current or non-current was amended. An entity shall apply the amendments for annual reporting periods on or after January 1, 2022, retrospectively in accordance with IAS 8 – Accounting Policies, changes in accounting estimates and errors. The Company has not yet adopted this amendment and is currently assessing the effects on its consolidated financial statements.

(expressed in Canadian dollars)

4. Capital management

The Company's main objective in managing capital is to ensure sufficient liquidity to pursue and fund product development, production, promotion and sales. 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 6 months ended June 30, 2020 or the comparable period. 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.

5. Risk management and financial instruments

The Company's financial instruments are detailed as follows:

	June 30, 2020	December 31, 2019
	$	$
Financial assets		
Cash	**158,981**	438,428
Accounts receivable	**27,266**	7,193
	186,247	445,621
Financial liabilities		
Accounts payable and accrued liabilities	**262,061**	169,573
Due to related parties	**99,738**	137,733
Government loan	**27,978**	-
	389,777	307,306

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.

5.1 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. As at June 30, 2020, the Company had $361,800 (December 31, 2019 - $307,306) of liabilities with a maturity of one year or less and working capital of $65,790 (December 31, 2019 – $369,735). The Company manages its liquidity risk by reviewing its growth plans on an ongoing basis.

5.2 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 $27,266 at June 30, 2020 (December 31, 2019 - $7,193). The allowance for doubtful accounts as at June 30, 2020 is $2,436 (December 31, 2019 - $1,657). See note 6.

As at June 30, 2020 and December 31, 2019, the Company's accounts receivable, net of the allowance for doubtful accounts, was aged as follows:

	June 30, 2020	December 31, 2019
	$	$
Current	**18,309**	4,706
1 – 30 days	**1,119**	-
31 – 60 days	**-**	-
61 – 90 days	**1,201**	-
Over 90 days	**6,637**	2,487
	27,266	7,193

5.3 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.

5.4 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 3 and 6 months ended June 30, 2020 of $717 (2019 – $24,255) and a gain of $951 (2019 – loss of $37,859), respectively.

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 June 30, 2020 and December 31, 2018, the Company's exposure to foreign currency balances is as follows:

		Exposure ($Cdn)	
Account	**Foreign currency**	**June 30, 2020**	December 31, 2019
Cash	US dollar	**3,081**	87,368
Accounts receivable	US dollar	**18,309**	-
Accounts payable and accrued liabilities	US dollar	**(83,124)**	(58,861)
		(61,734)	28,507

The Company believes that a change of 10% in foreign exchange rates would increase/decrease net income for the period by approximately $6,000 (2019 – $3,000).

(expressed in Canadian dollars)

6. Receivables

	June 30, 2019	December 31, 2019
	$	$
Receivables	**29,703**	8,850
Allowance for expected credit losses	**(2,436)**	(1,657)
	27,266	7,193

Generally, the receivables are on terms due within 30 days.

The Company has recognized expected credit recoveries (losses) for the 3 and 6 months ended June 30, 2020, of $1,739 (2019 - $nil) and $(778) (2019 - $nil), respectively.

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 June 30, 2020, is expected to be utilized during the upcoming year, with any portion consumed being expensed through the consolidated statements of loss and comprehensive loss, and any unconsumed portion reallocated to the appropriate consolidated statements of financial position classification.

	June 30, 2020	December 31, 2019
	$	$
Administration	**-**	8,395
Consulting	**-**	7,500
Insurance	**2,893**	6,953
Inventory	**7,012**	-
Total	**9,905**	22,848

8. Inventory

As at June 30, 2020 and December 31, 2019, the Company's inventory included the following:

	June 30, 2020	December 31, 2019
	$	$
Opening balance, January 1	**179,619**	-
Raw material purchases	**55,138**	249,750
Transferred to cost of good sold	**(21,096)**	(70,131)
Closing balance	**213,661**	179,619

(expressed in Canadian dollars)

9. Intangibles, net

Cost	**Patents**
	$
January 1, 2019	-
Additions	32,144
December 31, 2019	32,144
Additions	**65,517**
June 30, 2020	**97,661**

Accumulated Depreciation	
	$
January 1, 2019	-
Depreciation	1,843
December 31, 2019	1,843
Depreciation	**1,169**
June 30, 2020	**3,012**

Net Book Value	
December 31, 2019	30,300
June 30, 2020	**94,649**

10. 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:

	June 30, 2020	December 31, 2019
	$	$
Administration	**50,538**	40,176
Compensation	**17,298**	225
Consulting	**200**	-
Cost of goods sold	**5,439**	-
Investor relations and public reporting costs	**9,806**	1,188
Professional fees	**70,767**	23,070
Research and development	**3,580**	3,580

(expressed in Canadian dollars)

	June 30, 2020	December 31, 2019
Trade payables and accrued liabilities	**157,828**	68,239
Disputed amounts from legacy shrimp and algal oil segments	**104,234**	101,334
Total trade payables and accrued liabilities	**262,062**	169,573

In May 2019, 471,698 common shares with a fair value of $125,000, were issued in settlement of related-party debt (note 12.2(ix)). Pursuant to IFRIC 19.6, an addition of $282,638 to common shares was made (being the difference between the amount of the retired debt and the fair value of the shares issued).

In May 2019, 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 loss and comprehensive loss.

11. Government loans and grants

11.1 Federal Government of Canada emergency assistance

Due the global outbreak of Novel Coronavirus ("**COVID-19**"), the federal government of Canada introduced the Canada Emergency Business Account ("**CEBA**"). CEBA provides an interest-free loan ("**CEBA Loan**") of $40,000 to eligible businesses. The CEBA Loan has an initial term that expires on December 31, 2022, throughout which, the CEBA Loan remains interest free. Repayment of $30,000 by December 31, 2022, results in a $10,000 loan forgiveness. In April 2020, the Company applied for and received a CEBA Loan.

Pursuant to IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, the benefit of a government loan at below-market rate is treated as a government grant and measured in accordance with IFRS 9 *Financial Instruments*: the benefit of below-market rate shall be measured as the difference between the initial carrying value of the loan (being the present value of a similar loan at market rates) and the proceeds received. The Company has estimated the initial carrying value of the CEBA Loan at $27,002, using a discount rate of 15%, which was the estimated rate for a similar loan without the interest-free component. The difference of $12,998 will be accreted to the loan liability over the term of the CEBA Loan and offset to other income on the statements of loss and comprehensive loss.

11.2 Ontario Agri-Food Technologies ("OAFT")

In April 2020, the Company received an OAFT grant in the amount of $15,000. The grant was provided by OAFT as reimbursement of 75% of the costs expended (to a maximum of $15,000) for the Company's registered participation at The Global Forum for Innovation in Agriculture, held in the United Arab Emirates. The loan has been recorded as an offset to administrative costs on the statements of loss and comprehensive loss.

12. Capital stock

12.1 Authorized

CO2 GRO's authorized share capital consists of an unlimited number of common shares.

12.2 Issued and outstanding

2020:

There has been no common share activity during the 6 months ended June 30, 2020.

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 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 12) 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) 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.

(expressed in Canadian dollars)

(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.

12.3 Warrants

The outstanding issued warrants balance as at June 30, 2020 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
Total		**3,962,500**	**0.12**	**158,500**

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

	June 30, 2020		December 31, 2019	
	Weighted Average Exercise Price	**Number of Warrants**	Weighted Average Exercise Price	Number of Warrants
	$		$	
Outstanding at beginning of year	**0.12**	**3,962,500**	0.12	7,700,000
Transactions during the period:				
Exercised	**-**	**-**	(0.11)	(3,737,500)
Outstanding at end of period	**0.12**	**3,962,000**	0.12	3,962,500

12.4 Contributed surplus

The Company has 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. As at June 30, 2020, 1,236,103 options (December 31, 2019 – 2,465,103) are available for issuance under the Plan.

The principal features of the Plan are as follows:

(expressed in Canadian dollars)

- 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;

- 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 TSX Venture Exchange ("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;

- 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;

- 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;

- 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

- 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:

	June 30, 2020		December 31, 2019	
	Weighted Average Exercise Price	**Number of Options**	Weighted Average Exercise Price[1]	Number of Options
	$		$	
Outstanding at beginning of year	**0.20**	**4,355,598**	0.18	3,149,197
Transactions during the period:				
Granted	**0.18**	**1,245,000**	0.22	2,240,849
Exercised	**-**	**-**	(0.17)	(809,449)
Expired	**0.22**	**(25,000)**	(0.35)	(225,000)
Outstanding at end of period	**0.19**	**5,575,598**	0.20	4,355,598

(expressed in Canadian dollars)

Exercisable at end of period	**0.19**	**4,540,598**	0.19	4,035,598

The following table provides additional information about outstanding stock options at June 30, 2020:

Exercise Prices	No. of Options Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price ($)
$0.10 to $0.15	3,076,143	2.2	0.14
$0.16 to $0.20	1,363,606	3.0	0.19
$0.21 to $0.30	2,060,849	0.6	0.18
Outstanding	**5,575,598**	**1.9**	**0.19**
Exercisable	**4,540,458**	**1.5**	**0.19**

The Black-Scholes option pricing model was used to estimate the fair value of the issued options. The weighted average assumptions used for the options issued in 2020, were as follows: risk-free interest rate of 0.95%; expected volatility of 161.6%; expected life of 2.2 years; expected dividends of $nil and weighted average common share price of $0.17. The grant-date fair value of the options issued in 2020 is $120,000.

The Black-Scholes option pricing model was used to estimate the fair value of the 2019 issued options. The weighted average assumptions used for the options issued in 2019, were as follows: risk-free interest rate of 1.75%; expected volatility of 152.28%; expected life of 1.9 years; expected dividends of $nil and weighted average common share price of $0.24. The grant-date fair value of the options issued in 2019 is $377,000. All options issued in 2019, vested in 2019 except for 320,000, which will vest when certain operational milestones have been met. These milestones were not met as at December 31, 2019.

12.5 Share-based compensation

The fair value of the stock options vested for the 3 and 6 month ended June 30, 2020 was $46,775 (2019 – $nil) and $112,397 (2019 - $166,050), respectively, which amounts have been expensed in the consolidated statements of loss and comprehensive loss and off-set to contributed surplus.

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.

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 Operations. Related-party compensation paid or payable to key management is detailed below:

(expressed in Canadian dollars)

	3 months ended		6 months ended	
	June 30, 2020	June 30, 2019	**June 30, 2020**	June 30, 2019
Transactions:	**$**	$	**$**	$
Compensation to key management	**-**	-	**-**	-
Consulting fees to key management	**22,500**	22,500	**45,000**	45,000
Share-based payments	**30,405**	97,327	**71,654**	243,387

As at June 30, 2020, $99,738 (December 31, 2019 - $137,733) is owed to Officers or Directors of the Company or entities controlled by them.

14. Cost of sales

	3 months ended		6 months ended	
	June 30, 2020	June 30, 2019	**June 30, 2020**	June 30, 2019
	$	$	**$**	$
Commissions and fees	**1,400**	-	**2,760**	-
Freight, shipping and purchase discount	**4,235**	-	**4,858**	3,325
Consumable parts and tools	**11,290**	-	**23,913**	-
Finished equipment sales	**-**	-	**21,096**	-
	16,926	-	**52,627**	3,325

15. Research and development costs

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

	3 months ended		6 months ended	
	June 30, 2020	June 30, 2019	**June 30, 2020**	June 30, 2019
	$	$	**$**	$
Technical consulting	**15,565**	43,521	**38,464**	96,856
Patent filing costs	**-**	818	**-**	818
Technical consumables	**-**	3,608	**-**	4,967
Research and development costs	**15,565**	47,947	**38,464**	102,641

16. Significant contracts, commitments and contingencies

16.1 Legal proceedings

The Company is, from time to time, involved in various claims and legal proceedings. In October 2019, the Company was served with a statement of claim filed in the Ontario Superior Court of Justice against the Company and two Officers. The case pertains to alleged breaches of non-competition agreements by these Officers and claims damages and an injunction against them and the Company. The Company's lawyers are managing the claim and are vigorously defending against this action.

The Company cannot reasonably predict the likelihood or outcome of these activities. The Company does not believe that adverse decisions in any ending or threatened proceedings related to any matter, or any amount which may be required to be paid by reasons thereof, will have a material effect on the financial condition or future results of operations.

16.2 Licences

The Company previously obtained a licence (the "**Licence**") from Neptune Technologies & Bioressources Inc. ("**Neptune**") to sell its shrimp oil globally. Pursuant to the Licence, the Company had an annual obligation to pay a minimum fee of US$250,000 which continued 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). In March 2019, the Company was notified by Neptune that it had transferred the outstanding amount owed to it by the Company, to an officer of the Company. In May 2019, the Company issued 471,698 common shares to the officer in settlement of the outstanding liability (note 12.2 (ix)).

16.3 COVID-19

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.

17. Segmented information

Operating segments

CO2 GRO's sole focus is commercializing its patent-protected CO_2 gas infusion technology license and its patent-pending US PTO CO2 Delivery Solutions, both of which form the Company's Dissolved CO_2 plant-production platform. As such, the Company's operating segment information is the same as that reporting in the Consolidated Financial Statements.

(expressed in Canadian dollars)

Geographic segments

CO2 operates in two geographic segments being Canada and the United States. The Company realized its first ongoing operating lease revenue in late March 2019, from its first CO2 Delivery Solutions installation.

As at	**June 30, 2020**	December 31, 2019
	$	$
Identifiable assets:		
Canada	**147,425**	678,887
United States	**66,236**	28,454
	213,661	707,341

	3 months ended		6 months ended	
	June 30, 2020	June 30, 2019	**June 30, 20120**	June 30, 2019
	$	$	**$**	$
Loss and comprehensive net loss:				
Canada	**(118,371)**	(118,371)	**(530,200)**	(530,200)
United States	**(2,539)**	(2,539)	**(1,085)**	(1,085)
	(120,910)	(120,910)	**(531,285)**	(531,285)

	3 months ended		6 months ended	
	June 30, 2020	June 30, 2019	**June 30, 2020**	June 30, 2019
	$	$	**$**	$
Revenues				
Canada	**5,400**	-	**5,400**	-
United States	**28,779**	67,638	**70,074**	74,288
	34,179	67,638	**75,474**	74,288

(expressed in Canadian dollars)

	6 months ended	
	June 30, 2020	June 30, 2019
	$	$
Cash used for operations:		
Canada	**(358,513)**	(532,954)
United States	**142,580**	(1,085)
	215,933	(534,039)

18. Subsequent events

18.1 Option issuance

In July 2020, the Company issued 1,200,000 options to participants of the Plan. The options are exercisable at 0.15 each over a period of 3 years.

18.2 Private placement

In August 2020, the Company completed a private placement (the "**Offering**") raising gross proceeds of $1,379,843. The Offering consisted of 11,498,695 units (each a "**Unit**") at $0.12 per Unit, with each Unit consisting of 1 common share and 1 common-share purchase warrant (each a "**Warrant**"). Each Warrant is exercisable for $0.15 into 1 common share for a period of 18 months after issuance.