CO2 Gro Inc.
(formerly BlueOcean NutraSciences Inc.)

Consolidated Financial Statements
(expressed in Canadian dollars)

For the years ended
December 31, 2018 and 2017

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**.

"John Archibald"	*"Stephen M. Gledhill"*
John Archibald President and Chief Executive Officer	Stephen M. Gledhill Chief Financial Officer
April 26, 2019	April 26, 2019

UHY McGovern Hurley LLP
Chartered Professional Accountants

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Independent Auditor's Report

To the Shareholders of CO2 Gro Inc.,

Opinion

We have audited the consolidated financial statements of CO2 Gro Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flow for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss during the year ended December 31, 2018. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that material uncertainties exist that cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner of the audit resulting in this independent auditor's report is Martin Cairns.

UHY McGovern Hurley LLP

UHY McGovern Hurley LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
April 26, 2019

CO2 Gro Inc.
(formerly BlueOcean NutraSciences Inc.)

Consolidated Statements of Financial Position
(expressed in Canadian dollars)

As at	**December 31, 2018**	December 31, 2017
Assets	**$**	$
Current assets		
Cash	**1,319,812**	568,967
Sales taxes recoverable	**200,866**	32,498
Prepaid expenses *(note 9)*	**13,130**	5,305
Total current assets	**1,533,808**	606,770
Total assets	**1,533,808**	606,770
Liabilities		
Current liabilities		
Trade payables and accrued liabilities *(notes 10 & 13)*	**675,182**	634,088
Due to related parties *(note 13)*	**280,696**	139,877
Total current liabilities	**955,878**	773,965
Non-current liabilities		
Secured loan *(note 11)*	**-**	206,666
Total non-current liabilities	**-**	206,666
Total liabilities	**955,878**	980,631
Shareholders' equity (deficiency)		
Common shares *(note 12)*	**14,008,856**	8,248,939
Shares to be issued *(note 12)*	**2,000**	3,247,300
Reserve for warrants *(note 12)*	**304,461**	1,566,621
Contributed surplus *(note 12)*	**3,879,572**	2,883,718
Accumulated deficit	**(17,616,959)**	(16,320,439)
Total shareholders' equity (deficiency)	**577,930**	(373,861)
Total liabilities and shareholders' equity (deficiency)	**1,533,808**	606,770

Going concern (note 1)

Significant contracts and commitments (note 16)

Subsequent events (note 19)

Approved for issuance by the Board on April 26, 2018

"Michael Boyd", Director

"John Archibald", Director

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, 2018	December 31, 2017
	$	$
Revenue ***(note 14)***	**3,578**	19,516
Expenses		
Administration	**138,135**	184,480
Compensation	**-**	169,077
Consulting fees	**120,255**	192,657
Foreign exchange (gains)/losses	**(24,761)**	2,284
Investor relations and public reporting costs	**477,141**	288,806
Licence fees *(note 16)*	**-**	327,746
Professional fees	**133,754**	60,494
Research and development *(note 15)*	**133,272**	342,690
Share-based compensation *(notes 12 & 13)*	**321,777**	3,495,283
Total expenses	**1,299,573**	5,063,517
Operating loss	**(1,295,995)**	(5,044,001)
Gain on conversion of onerous contract *(note 11)*	**-**	213,249
Interest expense	**(525)**	(7,043)
Loss and comprehensive loss for the year	**(1,296,520)**	(4,837,795)
Basic and fully diluted loss and comprehensive loss per share	**(0.027)**	(0.158)
Weighted average number of common shares outstanding	**48,264,849**	30,697,981

CO2 Gro Inc.
(formerly BlueOcean NutraSciences Inc.)

Consolidated Statements of Changes in Equity
(expressed in Canadian dollars)

	Common shares						
	Number of shares	**Amount**	**Shares to be issued**	**Reserve for Warrants**	**Contributed surplus**	**Accumulated deficit**	**Total**
		$	$	$	$	$	$
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	-	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)	(373,861)
Exercise of warrants	**9,847,247**	**1,823,525**	**-**	**-**	**-**	**-**	**1,823,525**
Fair value of exercised warrants	**-**	**491,865**	**-**	**(491,865)**	**-**	**-**	**-**
Expiry of warrants	**-**	**-**	**-**	**(770,295)**	**770,295**	**-**	**-**
Exercise of options	**571,538**	**79,009**	**-**	**-**	**-**	**-**	**79,009**
Fair value of exercised options	**-**	**96,218**	**-**	**-**	**(96,218)**	**-**	**-**
Shares for debt *(note 12)*	**12,989,199**	**3,247,300**	**(3,247,300)**	**-**	**-**	**-**	**-**
Shares for service *(note 12)*	**154,315**	**22,000**	**2,000**	**-**	**-**	**-**	**24,000**
Share-based compensation *(note 12)*	**-**	**-**	**-**	**-**	**321,777**	**-**	**321,777**
Loss and comprehensive loss for the year	**-**	**-**	**-**	**-**	**-**	**(1,296,520)**	**(1,296,520)**
Balance at December 31, 2018	**63,087,662**	**14,008,856**	**2,000**	**304,461**	**3,879,572**	**(17,616,959)**	**577,930**

CO2 Gro Inc.
(formerly BlueOcean NutraSciences Inc.)

Consolidated Statements of Cash Flow
(expressed in Canadian Dollars)

	Years ended	
	December 31, 2018	*December 31, 2017*
	$	$
Operating activities		
Net loss	**(1,296,520)**	(4,837,795)
Non-cash items:		
Effect of straight-line interest expense *(note 11)*	**(6,666)**	6,666
Gain on conversion of onerous contract *(note 11)*	**-**	(213,249)
Issuance of shares for services	**24,000**	35,000
Share-based compensation *(note 12)*	**321,777**	3,495,283
Net change in non-cash working capital items:		
Sales taxes recoverable	**(168,368)**	16,282
Prepaid expenses	**(7,825)**	195,117
Trade payables and accrued liabilities	**41,094**	392,223
Cash used for operating activities	**(1,092,508)**	(910,473)
Financing activities		
Proceeds from issuance of shares *(note 12)*	**-**	600,000
Cost of issuance of shares	**-**	(56,000)
Exercise of options and warrants	**1,902,534**	30,169
Repayment of secured loan *(note 11)*	**(200,000)**	-
Advanced from related parties	**140,819**	122,948
Cash provided from financing activities	**1,843,353**	697,117
Increase (decrease) in cash for the year	**750,845**	(213,356)
Cash at beginning of year	**568,967**	782,323
Cash at end of year	**1,319,812**	568,967

Supplemental information:		
Expiry of warrants *(note 12)*	**770,295**	400,170
Warrants issued	**-**	58,500
Secured loan issued in part settlement of onerous contract *(note 11)*	**-**	200,000
Shares issued in part settlement of onerous contract *(note 11)*	**-**	209,347
Cash interest paid	**7,192**	-

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-enrichment platform: As of late 2017, CO2 GRO's sole focus is commercializing its CO_2 gas infusion technology and its patent-pending US PTO CO_2 Foliar Spray, both of which form the Company's Dissolved CO_2 plant- 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 three other business platforms pursuant to a license agreement signed in October 2014.

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

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 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.

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 26, 2019.

2.2 Basis of presentation

The Consolidated Financial Statements have been prepared on a historical cost basis with the exception of financial instruments which are measured at fair value, as explained in the accounting policies set out below. In addition, the 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 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 inactive, wholly-owned subsidiaries: Pure Polar Canada Inc. (formerly, Solutions4CO_2 Technologies Inc.), CO2 GRO (US) Inc., BlueOcean Shrimp Products Inc. (formerly, S4CO2 Services Inc.), Asta NutraSciences Inc. (formerly, S4CO2 Manufacturing Inc.), BlueOcean Algae Inc. (formerly, Solutions4CO_2 (SJVB) Limited), 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").

3. Adoption of new standards

During the year ended December 31, 2018, the Company adopted a number of new IFRS standards, interpretations, amendments and improvements of existing standards. These included IFRS 2 and IFRIC 22. These new standards and changes did not have any material impact on the Company's financial statements.

Effective January 1, 2018, the Company adopted IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from Contracts with Customers,* which resulted in changes in accounting policies as described below. In accordance with the transitional provisions in both standards, the Company adopted these standards retrospectively without restating comparatives, with the cumulative impact adjusted in the opening balances as at January 1, 2018. There were no effects on opening balances at January 1, 2018 with respect to the adoption of these policies.

IFRS 9, *Financial Instruments*

IFRS 9 replaces International Accounting Standard ("IAS") 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for the classification, measurement and impairment of financial assets and hedge accounting. It establishes two primary measurement categories for financial assets: (i) amortized cost and (ii) fair value either through profit or loss ("FVPL") or through other comprehensive income ("FVOCI"); establishes criteria for the classification of financial assets within each measurement category based on business model and cash flow characteristics; and eliminates the existing held for trading, held to maturity, available for sale, loans and receivable and other financial liabilities categories. IFRS 9 also introduces a new expected credit loss model for the purpose of assessing the impairment of financial assets and requires that there be a demonstrated economic relationship between the hedged item and hedging instrument.

(expressed in Canadian dollars)

Upon adoption of IFRS 9, the two main changes in the Company's accounting policy on financial instruments are: i) equity investments previously classified as available-for-sale are now classified as financial assets measured at FVOCI and ii) derivative instruments previously held for trading now qualify for hedge accounting, including the Company's commodity swap and option contracts, to the extent they comply with the IFRS 9 criteria for hedge accounting.

The following table shows the previous classification under IAS 39 and the new classification under IFRS 9 for the Company's financial instruments:

	Financial instrument classification	
	Under IAS 39	**Under IFRS 9**
Financial assets		
Cash	Loans and receivables	Amortized cost
Financial liabilities		
Trade payables and accrued liabilities	Other financial liabilities	Amortized cost
Due to related parties	Other financial liabilities	Amortized cost
Secured loan	Other financial liabilities	Amortized cost

The Company adopted IFRS 9 retrospectively without restating comparatives and therefore the comparative information in respect of financial instruments for the year ended December 31, 2017 was accounted for in accordance with the Company's previous accounting policy under IAS 39. See significant accounting policies which outline the current and previous accounting policies pertaining to financial instruments.

IFRS 15, Revenue from Contracts with Customers

IFRS 15 establishes the principles that an entity shall apply to report the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. IFRS 15 replaces IAS 11, Construction contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programmes, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers and Standard Interpretations Committee interpretation 31, Revenue – Barter Transactions Involving Advertising Services.

Under IFRS 15, revenue is recognized when control of a good or service transfers to a customer and is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Under IAS 18, revenue was recognized when the significant risks and rewards of ownership had been transferred to the customer and was measured at the fair value of the consideration received or receivable.

The adoption of IFRS 15 did not have a material impact on the Company's financial statements.

The Company adopted IFRS 15 retrospectively without restating comparatives and therefore the comparative information in respect of revenue for the year ended December 31, 2017 was accounted for in accordance with the Company's previous accounting policy under IAS 18. There are no significant differences in the current and previous accounting policies pertaining to revenue recognition.

4. Summary of significant accounting policies

4.1 Common shares, shares to be issued, contributed surplus and reserve for warrants

Common shares, shares to be issued, contributed surplus and reserve for warrants are classified as shareholders' equity. Incremental costs directly attributable to the issuance of these securities is recognized as a deduction from shareholders' equity.

4.2 Financial instruments

Financial assets and liabilities

<u>Accounting policy under IFRS 9 applicable from January 1, 2018</u>

Financial assets

Initial recognition and measurement

Non-derivative financial assets within the scope of IFRS 9 are classified and measured as "financial assets at fair value", as either FVPL or FVOCI, and "financial assets at amortized costs", as appropriate. The Company determines the classification of financial assets at the time of initial recognition based on the Company's business model and the contractual terms of the cash flows.

All financial assets are recognized initially at fair value plus, in the case of financial assets not at FVPL, directly attributable transaction costs on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Financial assets with embedded derivatives are considered in their entirety when determining their classification at FVPL or at amortized cost. The Company has classified accounts receivable on provisionally priced sales as financial assets measured at FVPL. Other accounts receivable held for collection of contractual cash flows are measured at amortized cost.

Subsequent measurement – financial assets at amortized cost

After initial recognition, financial assets measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate ("EIR") method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR.

Subsequent measurement – financial assets at FVPL

Financial assets measured at FVPL include financial assets management intends to sell in the short term and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial assets measured at FVPL are carried at fair value in the consolidated statements of financial position with changes in fair value recognized in other income or expense in the consolidated statements of earnings (loss).

Subsequent measurement – financial assets at FVOCI

Financial assets measured at FVOCI are non-derivative financial assets that are not held for trading and the Company has made an irrevocable election at the time of initial recognition to measure the assets at FVOCI. The Company does not measure any financial assets at FVOCI.

After initial measurement, investments measured at FVOCI are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss in the consolidated statements of comprehensive income (loss). When the investment is sold, the cumulative gain or loss remains in accumulated other comprehensive income or loss and is not reclassified to profit or loss.

Dividends from such investments are recognized in other income in the consolidated statements of earnings (loss) when the right to receive payments is established.

Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the Company no longer retains substantially all the risks and rewards of ownership.

Impairment of financial assets

The Company's only financial assets subject to impairment are other accounts receivable, which are measured at amortized cost. The Company has elected to apply the simplified approach to impairment as permitted by IFRS 9, which requires the expected lifetime loss to be recognized at the time of initial recognition of the receivable. To measure estimated credit losses, accounts receivable have been grouped based on shared credit risk characteristics, including the number of days past due. An impairment loss is reversed in subsequent periods if the amount of the expected loss decreases and the decrease can be objectively related to an event occurring after the initial impairment was recognized.

Financial liabilities

Initial recognition and measurement

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVPL as is the case for held for trading or derivative instruments, or the Company has opted to measure the financial liability at FVPL. The Company's financial liabilities include trade payables, accrued liabilities, due to related parties, and secured loan, which are each measured at amortized cost. All financial liabilities are recognized initially at fair value and in the case of long-term debt, net of directly attributable transaction costs.

Subsequent measurement – financial liabilities at amortized cost

After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gain or loss recognized in other income or expense in the consolidated statements of earnings (loss).

Accounting policy under IAS 39 applicable prior to January 1, 2018

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.

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.

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.

4.3 Impairment of non-financial assets

At each date of the statement of financial position, the Company reviews the carrying amounts of its non-financial assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, or when annual impairment testing for an asset is required, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the assets belong.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are considered.

If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly-traded companies or other available fair value indicators.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount.

An impairment loss is recognized immediately in the consolidated statement of operations, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A previously-recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized.

4.4 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 and its subsidiaries is the Canadian dollar.

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 Company's functional currency are recognized in the consolidated statements of operations.

4.5 Income taxes

Income taxes comprise current and deferred income taxes. Income taxes are recognized in the consolidated statements of operations, 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 reporting 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. When applicable, deferred income tax assets and liabilities are presented as non-current.

4.6 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 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, 2018 and 2017, all the outstanding stock options, warrants and finders' warrants were anti-dilutive.

4.7 Prepaid expenses

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

4.8 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.

4.9 Sales taxes recoverable

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

4.10 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 fair 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.

4.11 Significant accounting judgments and estimates

The preparation of the Consolidated Financial Statements requires management to make and use 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 may cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Significant accounting estimates

i) *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 recognizes the value 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.

Significant accounting judgements

ii) *The determination of the value of current and deferred income taxes.*

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.

iii) *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.

4.12 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 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.

5. Recent accounting pronouncements

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2019. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and 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 these amendments is yet to be determined, however early adoption is permitted.

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. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

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.

6. 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.

(expressed in Canadian dollars)

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, 2018 or 2017. The Company is not subject to externally imposed capital restrictions.

7. Risk management and financial instruments

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

	2018	2017
	$	$
Financial assets		
Cash	**1,319,812**	568,967
Financial liabilities		
Accounts payable and accrued liabilities	**675,182**	634,089
Due to related parties	**280,696**	139,877
Secured loan	**-**	206,666
	958,878	980,632

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

7.1 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. As at December 31, 2018, the Company had $955,878 (2017 - $773,966) of liabilities with a maturity of one year or less and working capital of $577,930 (2017 – working capital deficiency of $167,195). The Company manages its liquidity risk by reviewing its growth plans on an ongoing basis.

7.2 Credit risk

The Company is not currently exposed to any significant credit risk and other price risk.

7.3 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).

7.4 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 and trade payables and accrued liabilities that are denominated in foreign currencies. The Company has recognized currency exchange gains during the year ended December 31, 2018 of $24,761 (2017 – losses of $2,284).

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

8. Sensitivity analysis

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

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

		Exposure ($Cdn)	
Account	**Foreign currency**	**December 31, 2018**	December 31, 2017
Cash	US dollar	**791,802**	3,575
Prepaid expenses	US dollar	**771**	-
Accounts payable and accrued liabilities	US dollar	**(146,251)**	(74,660)
		646,322	(71,085)

The Company believes that a change of 10% in foreign exchange rates would increase/decrease net income for the year by approximately $65,000 (2017 – $7,000).

9. 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, 2018, is expected to be utilized during the upcoming year, with any portion consumed being expensed through the consolidated statements of operations and any unconsumed portion reallocated to the appropriate consolidated statements of financial position classification.

As at December 31, 2018 and 2017, the prepaid expenses of the Company are detailed as follows:

(expressed in Canadian dollars)

	December 31, 2018	December 31, 2017
	$	$
Consulting	**7,674**	-
Insurance	**4,685**	5,305
Legal fees	**771**	-
Total	**13,130**	5,305

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:

	December 31, 2018	December 31, 2017
	$	$
Administration	**-**	7,549
Broker finders' fees capitalized *(note 12(xi))*	**-**	24,000
Consulting	**90,186**	35,271
Investor relations and public reporting costs	**1,974**	14,197
Licence fees	**407,638**	407,638
Professional fees	**54,739**	48,316
Research and development *(note 15)*	**120,645**	97,117
Total trade payables and accrued liabilities	**675,182**	634,088

11. Secured loan and shares for debt

11.1 Shares for debt (2017)

In June 2017, the Company was advised by a debtholder that it had assigned $321,000 of a $647,700 debt (the "**Onerous Contract**") to arm's length parties that subsequently agreed to settle the assigned portion of 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

In June 2017, the Company converted the remainder of the unsecured Onerous Contract in the amount of $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 the Company to the lender that provides a floating charge against the Company's interest in personal, real, immovable and leasehold property. The Secured Loan had a term of 3 years and boar 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 gain of $101,596.

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 years ended December 31, 2018, the Company has incurred $7,192 (2017 - $nil), of cash interest paid on the loan and $6,666 of non-cash, straight-line interest income (2017 – interest expense of $6,666). In October 2018, the Company repaid the Secured Loan plus accrued interest of $2,191.

12. Common shares

Authorized

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

Issued and outstanding

2018:

(i) 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 warrants, 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.

(ii) 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.

(iii) 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, were exercised 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.

(iv) 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 warrants, respectively, were exercised 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.

(v) In February through December 2018, the Company issued a total of 154,315 shares with a fair value of $22,000, for management services provided by the Company's CFO. See note 13. 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.

(vi) 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.

(vii) 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.

(viii) 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.

(ix) In August 2018, a total 12,989,199 (representing the Shares to be issued to management – see "shares to be issued", note 12), were issued.

(x) 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.

2017:

(xi) 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.

(xii) 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 $28,683 was transferred from contributed surplus to common shares.

(expressed in Canadian dollars)

(xiii) 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.

(xiv) 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).

(xv) 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.

Shares to be issued

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. See note 13.

During 2017, various members of management (the "**Management Group**") were tasked with restarting the Company's dissolved CO_2 plant-enrichment 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 estimated at $0.25 based on the quoted market price of the shares on March 26, 2018 (the day of the 2018 ASM). The number of shares required to be issued was calculated at 12,989,199 (the "**Management Shares**") and valued at $3,247,300. In August 2018, these Management Shares were issued and the fair value of $3,247,000 was transferred from shares to be issued to common shares.

Reserve for warrants

The outstanding issued warrants balance as at December 31, 2018 is comprised of the following items:

Date of expiry	Type	Number of warrants	Exercise price $	Fair value $
December 14, 2019	Finders' Warrants	400,000	0.08	34,000
December 14, 2019	Corporate Finance Warrants	112,500	0.08	9,500
December 19, 2019	Corporate Finance Warrants	37,500	0.08	3,000
December 14, 2022	Warrants	5,375,000	0.12	215,000
December 19, 2022	Warrants	1,775,000	0.12	71,000
Cash costs allocated to warrants		-	-	(28,039)
Total		**7,700,000**		**304,461**

(expressed in Canadian dollars)

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

	December 31, 2018		December 31, 2017	
	Weighted Average Exercise Price	**Number of Warrants**	Weighted Average Exercise Price	Number of Warrants
	$		$	
Outstanding at beginning of year	**0.181**	**31,492,046**	0.230	23,964,196
Transactions during the year:				
Granted	**-**	**-**	0.118	8,200,000
Exercised	**(0.192)**	**(9,847,247)**	(0.115)	(131,900)
Expired	**(0.20)**	**(13,944,799)**	(1.460)	(540,250)
Outstanding at end of year	**0.117**	**7,700,000**	0.181	31,492,046

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Contributed surplus

The Company has a 10% rolling stock option 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 December 31, 2018, 3,159,569 (2017 – 1,281,302) options are available for issuance under the Plan.

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;

(c) 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;

(d) 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;

(expressed in Canadian dollars)

(e) 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

(f) 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).

Continuity of the Company's outstanding and exercisable options follows:

	December 31, 2018		December 31, 2017	
	Weighted Average Exercise Price	**Number of Options**	Weighted Average Exercise Price	Number of Options
	$		$	
Outstanding at beginning of year	**0.14**	**2,671,235**	0.15	588,756
Transactions during the year:				
Granted	**0.21**	**1,779,000**	0.14	2,261,506
Exercised	**(0.14)**	**(571,538)**	(0.14)	(110,000)
Cancelled	**(0.15)**	**(729,500)**	(0.25)	(69,027)
Outstanding at end of year	**0.18**	**3,149,197**	0.14	2,671,235
Exercisable at end of year	**0.18**	**3,049,197**	0.14	2,421,235

The following table provides additional information about outstanding stock options at December 31, 2018:

Exercise Prices	**No. of Options Outstanding**	**Weighted Average Remaining Life (Years)**	**Weighted Average Exercise Price ($)**
$0.10 to $0.15	1,104,364	3.0	0.14
$0.155 to $0.20	1,819,833	4.0	0.19
$0.205 to $0.35	225,000	0.6	0.35
Outstanding	**3,149,197**	**3.4**	**0.18**
Exercisable	**3,049,197**	**3.4**	**0.18**

The Black-Scholes option pricing model was used to estimate the fair value of the issued options. The weighted average assumptions used for the 2018 options were as follows: risk-free interest rate of 2.05%;

(expressed in Canadian dollars)

expected volatility of 166.26%; expected life of 4.5 years; expected dividends of $nil and weighted average common share price of $0.20. The grant-date fair value of the options issued in 2018, is $321,000.

The Black-Scholes option pricing model was used to estimate 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.

Share-based payments

The fair value of the stock options vested for the year ended December 31, 2018 was $321,777 (2017 – $3,495,283, including $3,247,300 to the Management Group), which amount has been expensed in the consolidated statements of operations and comprehensive loss.

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 chief operating officer. Related-party transactions are detailed below:

	Year ended	
	December 31, 2018	December 31, 2017
Transactions:	**$**	$
Compensation	**-**	157,906
Consulting fees	**90,792**	140,130
Legal fees	**-**	18,367
Share-based payments	**286,800**	3,470,300

As at December 31, 2018, $280,696 (December 31, 2017 - $139,877) is owed to officers or directors of the Company or entities controlled by them. This amount is unsecured, non-interest bearing with no fixed terms of repayment.

During 2018, the Company issued (or will issue) 165,010 (2017 – nil) common shares with a fair value of $24,000 (2017 - $nil), in partial payment of management fees to its CFO. See note 12.

During 2018, the Company's CFO (or a company controlled by him) exercised 15,000 options and 137,608 warrants (2017 – 110,000 options), raising gross proceeds for the Company of $29,772 (2017 - $15,000).

(expressed in Canadian dollars)

14. Revenue

	Years ended	
	December 31, 2018	December 31, 2017
	$	$
Revenue streams (returns):		
Omega-3 tablets and gel-caps	**3,578**	2,852
Shrimp oil	**-**	(7,925)
Specialty oil	**-**	24,589
	3,578	19,516

15. Research and development costs

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

Years ended	**December 31, 2018**	December 31, 2017
	$	$
Technical consulting	**106,743**	76,290
Technical consumables	**26,529**	266,400
Research and development costs	**133,272**	342,690

16. Significant contracts and commitments

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 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 (2017-$407,638) owing to the licensor. In March 2019, the Company was notified by Neptune that it had transferred the outstanding amount owed to it by the Company, to an insider of the Company. Subsequent to the transfer, the Company issued 471,698 in settlement of the outstanding liability.

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(expressed in Canadian dollars)

The Company is, from time to time, involved in various claims and legal proceedings. 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.

17. Segmented information

Segments under development

As of late 2017, CO2 GRO's sole focus is commercializing its CO_2 gas infusion technology and its patent-pending US PTO CO_2 Foliar Spray, both of which form the Company's Dissolved CO_2 plant-enrichment 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 three other business platforms pursuant to a license agreement signed in October 2014.

As at	**December 31, 2018**	December 31, 2017
	$	$
Identifiable assets:		
Corporate	**1,531,477**	603,416
Shrimp oil	**2,331**	3,354
	1,533,808	606,770

	Years ended	
	December 31, 2018	December 31, 2017
	$	$
Income (loss) and comprehensive net loss:		
Algal oil	**-**	(23,954)
Corporate	**(1,189,663)**	(4,809,404)
Omega-3 tablets and gel-caps	**(2,850)**	(9,871)
Dissolved CO_2 plant enrichment	**(104,007)**	5,434
	(1,296,520)	(4,837,795)

(expressed in Canadian dollars)

	Year ended	
	December 31, 2018	December 31, 2017
	$	$
Cash provided from (used for) operations:		
Algal oil	**-**	12,092
Corporate	**(985,651)**	(954,174)
Omega-3 tablets and gel-caps	**(2,850)**	26,175
Dissolved CO_2 plant enrichment	**(104,007)**	5,434
	(1,092,508)	(910,473)

Geographic segments

CO2 GRO operates in two geographic segments being Canada and the United States. As the Company is still pre-revenue and in its development stage, most operations have been performed in Canada.

As at	**December 31, 2018**	December 31, 2017
	$	$
Identifiable assets:		
Canada	**1,531,477**	603,416
United States	**2,331**	3,354
	1,533,808	606,770

	Years ended	
	December 31, 2018	December 31, 2017
	$	$
Loss and comprehensive net loss:		
Canada	**(1,292,514)**	(4,816,597)
United States	**(4,006)**	(21,198)
	(1,296,520)	(4,837,795)

(expressed in Canadian dollars)

	Years ended	
	December 31, 2018	December 31, 2017
	$	$
Cash used for operations:		
Canada	**(1,088,502)**	(889,275)
United States	**(4,006)**	(21,198)
	(1,092,508)	(910,473)

18. 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:

	2018	2017
	$	$
Loss before income taxes	**(1,296,520)**	(4,837,795)
Combined statutory rate	**26.5%**	26.5%
Expected income tax benefit	**344,000**	1,282,000
Share-based compensation	**(85,000)**	(926,000)
Non-deductible expenses	**(51,000)**	50,000
Change in unrecognized deferred tax asset	**(208,000)**	(406,000)
Deferred income tax recovery	**-**	-

The Canadian statutory income tax rate of 26.5% (2017 – 26.5%) is comprised of the federal income tax rate of approximately 15% (2017 – 15%) and the provincial income tax rate of approximately 11.5 % (2017 – 11.5%).

As at December 31, 2018, the Company had estimated combined non-capital losses for Canadian income tax purposes of approximately $12,732,000 (2017 - $11,882,000) available to use against future taxable income. The non-capital losses expire between 2029 and 2038, as follows:

Year	**Amount**
	$
2029	112,000
2030	508,000

(expressed in Canadian dollars)

2031	298,000
2032	1,495,000
2033	2,315,000
2034	1,999,000
2035	1,561,000
2036	1,966,000
2037	1,421,000
2038	1,057,000
Total	**12,732,000**

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 temporary differences are as follows:

	December 31, 2018	December 31, 2017
Deferred income tax assets	**$**	$
Non-capital losses carry-forward	**12,732,000**	11,882,000
Financing costs	**103,000**	163,000
SR&ED pool	**37,000**	37,000
Deductible temporary differences	**12,872,000**	12,082,000

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.

19. Subsequent events

- In February 2019, the Company issued 2,005,000 options with a 2-year maturity, exercise price of $0.22 and varying vesting periods.
- In January 2019, the Company issued 10,695 common shares with a fair value of $2,000 to its CFO in partial payment of management fees.
- During January through April 2019, 157,894 options were exercised, raising proceeds of $30,000 for the Company.
- During January through April 2019, 3,187,500 warrants with each with an exercise price of $0.12, were exercised, raising proceeds of $382,500.
- During January through April 2019, 250,000 corporate finance warrants each with an exercise price of $0.08, were exercised, raising proceeds of $20,000.