CO2 GRO Inc.

Consolidated Financial Statements
(expressed in Canadian dollars)

As at and for the years ended December 31, 2022 and 2021

McGovern Hurley

Audit. Tax. Advisory.

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, 2022 and 2021, and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and 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, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

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, 2022 and that the Company requires further funding. 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.

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Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
Revenue contracts which include a significant financing component are required to be recognized at a discounted amount reflecting a discount rate that would be reflected in a separate financing transaction between the Company and its customers. We determined this matter to be a key audit issue due to the judgment required in estimating the appropriate discount rate to use to measure the revenue. The disclosures related to the recognition of revenue with long-term payment terms by the Company are provided in Notes 6.3 and 16 to the accompanying consolidated financial statements.	In this regard, our audit procedures included: • Understanding the policies and procedures applied to revenue recognition. • Obtaining information about the Company's customers. • Review of market rates of interest, including by credit rating. • Utilizing a valuations expert to assess the methodology and assumptions used. • Recalculating the present value of future expected cash flows.

Allowance for credit losses	
The Company recognized $58,076 in allowances for credit losses on its consolidated statement of financial position. The expected credit loss is estimated by evaluating a range of possible outcomes incorporating the time value of money and reasonable and supportable information about past events, current conditions, and future economic forecasts. The allowance for credit losses was a key audit matter because it required the application of significant judgment due to the forward-looking nature of the key assumptions. The disclosures related to the expected credit loss are provided in Note 6.3 to the accompanying consolidated financial statements.	In this regard, our audit procedures included: • Utilizing a valuations expert to assess the methodology and assumptions used. • Evaluating the forward-looking information developed by management. • On a sample basis, recalculating the expected credit losses. • Evaluating management's methodology over the qualitative components contributing to the expected credit losses and the application of the valuation expert's judgment.

Other information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do 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 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.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, 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.

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- 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

McGovern Hurley LLP

McGovern Hurley LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
April 25, 2023

CO2 GRO Inc.

Consolidated Statements of Financial Position

(expressed in Canadian dollars)

As at	**December 31, 2022**	December 31, 2021
Assets	**$**	$
Current assets		
Cash	**1,096,631**	543,213
Sales taxes recoverable	**34,485**	41,098
Accounts receivable *(notes 6.3 & 7)*	**97,907**	37,712
Prepaid expenses *(note 8)*	**26,301**	52,590
Total current assets	**1,255,324**	674,613
Non-current accounts receivable *(notes 6.3 & 7)*	**71,454**	37,042
Intangibles, net *(note 9)*	**96,933**	164,937
Total assets	**1,423,711**	876,592
Liabilities		
Current liabilities		
Trade payables and accrued liabilities *(note 10)*	**207,460**	264,296
Deferred revenue *(note 12)*	**-**	12,398
Due to related parties *(note 15)*	**194,799**	164,153
Total current liabilities	**402,259**	440,847
Other liabilities *(note 11)*	**100,174**	-
Total liabilities	**502,433**	440,847
Shareholders' equity		
Common shares *(note 14.2)*	**19,937,136**	17,448,626
Reserve for warrants *(note 14.3)*	**-**	495,611
Contributed surplus *(note 14.4)*	**4,489,105**	4,232,019
Accumulated deficit	**(23,505,563)**	(21,740,511)
Total shareholders' equity	**921,278**	435,745
Total liabilities and shareholders' equity	**1,423,711**	876,592

Going concern (note 1)
Significant contracts, commitments and litigation (note 20)
Subsequent events (note 24)

Approved for issuance by the Board on April 25, 2023

"Michael Boyd", Director

"Rose Marie Gage", Director

CO2 GRO Inc.

Consolidated Statements of Operations and Comprehensive Loss

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

	Years ended	
	December 31, 2022	December 31, 2021
	$	$
Revenue *(notes 4.14 & 16)*	**284,836**	258,634
Cost of sales *(note 17)*	**(213,652)**	(241,947)
Gross margin	**71,184**	16,687
Expenses		
Administration	**236,377**	179,931
Amortization *(note 9)*	**24,105**	19,600
Compensation	**569,421**	400,896
Consulting fees	**90,000**	104,240
Foreign exchange losses (gains)	**20,813**	8,656
Investor relations and public reporting costs	**215,184**	182,897
Professional fees *(note 13)*	**137,532**	91,644
Research and development *(note 18)*	**90,978**	149,335
Share-based compensation *(note 14.5)*	**365,416**	331,289
Total expenses	**1,749,826**	1,468,488
Loss before the undernoted	**(1,678,642)**	(1,451,801)
Change in expected credit loss and bad debts *(note 7)*	**(81,181)**	(24,952)
Impairment of inventory	**-**	(172,566)
Interest income accretion	**13,607**	846
Interest expense	**(1,062)**	(959)
Other income *(note 19)*	**65,603**	-
Write-off of abandoned patents *(note 9)*	**(83,377)**	(5,664)
Loss and comprehensive loss for the year	**(1,765,052)**	(1,655,096)
Basic and fully diluted loss and comprehensive loss per share	**(0.02)**	(0.02)
Weighted average number of common shares outstanding	**96,027,511**	83,680,191

CO2 GRO Inc.

Consolidated Statements of Changes in Equity

(expressed in Canadian dollars)

	Common shares					
	Number of shares	Amount	Reserve for Warrants	Contributed surplus	Accumulated deficit	Total
		$	$	$	$	$
Balance at December 31, 2020	79,615,699	16,310,249	621,993	4,174,669	(20,085,415)	1,021,496
Exercise of warrants	3,850,000	462,000	-	-	-	462,000
Fair value of exercised warrants	-	126,382	(126,382)	-	-	-
Exercise of options	1,350,019	276,056	-	-	-	276,056
Fair value of exercised options	-	273,939	-	(273,939)	-	-
Share-based compensation	-	-	-	331,289	-	331,289
Loss and comprehensive loss for the year	-	-	-	-	(1,655,096)	(1,655,096)
Balance at December 31, 2021	84,815,718	17,448,626	495,611	4,232,019	(21,740,511)	435,745
Exercise of warrants	**11,488,695**	**1,723,304**	**-**	**-**	**-**	**1,723,304**
Fair value of exercised warrants	**-**	**491,105**	**(491,105)**	**-**	**-**	**-**
Expiry of warrants	**-**	**-**	**(4,506)**	**4,506**	**-**	**-**
Exercise of options	**1,022,285**	**161,865**	**-**	**-**	**-**	**161,865**
Fair value of exercised options	**-**	**112,836**	**-**	**(112,836)**	**-**	**-**
Share-based compensation	**-**	**-**	**-**	**365,416**	**-**	**365,416**
Loss and comprehensive loss for the year	**-**	**-**	**-**	**-**	**(1,765,052)**	**(1,765,052)**
Balance at December 31, 2022	**97,326,698**	**19,937,736**	**-**	**4,489,105**	**(23,505,563)**	**921,278**

CO2 GRO Inc.

Consolidated Statements of Cash Flow

(expressed in Canadian Dollars)

	Years ended	
	December 31, 2022	December 31, 2021
	$	$
Operating activities		
Net loss	**(1,765,052)**	(1,655,096)
Non-cash items:		
Amortization	**24,105**	19,600
Change in expected credit losses and bad debts	**81,181**	24,952
Impairment of inventory	**-**	172,565
Interest (income) accretion	**(13,607)**	(846)
Share-based compensation	**365,416**	331,289
Write-off of abandoned patents *(note 9)*	**83,377**	5,664
Net change in non-cash working capital items *(note 22.1)*	**(46,177)**	(90,019)
Cash used for operating activities	**(1,270,757)**	(1,191,891)
Financing activities		
Advanced from (repayment to) related parties *(note 15)*	**30,646**	161,657
Change to non-current accounts receivable *(note 7)*	**(52,162)**	(37,042)
Exercise of options and warrants	**1,885,169**	738,056
Proceeds from government grant *(note 13)*	**18,750**	-
Cash provided from financing activities	**1,882,403**	862,671
Investing activities		
Purchase of intangibles	**(58,228)**	(72,986)
Cash used for investing activities	**(58,228)**	(72,986)
(Decrease)/increase in cash for the year	**553,418**	(402,206)
Cash at beginning of year	**543,213**	945,419
Cash at end of year	**1,096,631**	543,213

Supplemental cash flow information *(note 22.2)*

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 saturated CO2 solutions plant platform.

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

These consolidated financial statements (the **"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 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 25, 2023.

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, wholly-owned subsidiaries: Pure Polar Canada Inc. (inactive), CO2 GRO (US) Inc. ("**CO2 US**"), BlueOcean Shrimp Products Inc. (inactive), Asta NutraSciences Inc. (inactive), BlueOcean Algae Inc. (inactive), Solutions4CO_2 USA, Inc. (inactive), 70717 Newfoundland and Labrador Limited (inactive), Pure Polar Labs Inc. (inactive). 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 also 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 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, 2023. 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.

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, 2023, 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.

The Company has adopted the following standards that came into effect for accounting periods commencing on or after January 1, 2022.

IAS 16 – Property, Plant and Equipment – Proceeds before Intended Use ("**IAS 16**"). The Standard was amended in 2020 to provide for the costs of testing whether a product is functioning properly in accordance with management's expectations and the disclosure of those costs. An entity shall apply the amendments for annual reporting periods on or after January 1, 2022. At present, the standard does not affect the Company's reporting requirements.

IAS 37 – Provisions contingent liabilities and contingent assets ("**IAS 37**"). The Standard was amended in May 2020 to expand on the definition of onerous contracts and the costs to be included in fulfilling a contract. An entity shall apply the amendments for annual reporting periods on or after January 1, 2022. At present, the standard does not affect the Company's reporting requirements.

4. Summary of significant accounting policies

4.1 Common shares, contributed surplus and reserve for warrants

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

4.2 Cost of sales

Cost of sales includes the cost of equipment that has been sold and deployed to customers, purchase discounts, freight and shipping costs, consumable parts and tools and any inventory written down to realizable value during the year.

4.3 Financial instruments

Financial assets and financial liabilities are initially measured at fair value. Except for financial assets and financial liabilities at fair value through profit and loss ("**FVTPL**"), transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, upon initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial assets

All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets. The classification and measurement of financial assets after initial recognition at fair value depends on the business model for managing the financial asset and the contractual terms of the cash flows. Financial assets are classified in one of the three categories: (i) amortized cost; (ii) Fair Value Through Other Comprehensive Income ("**FVTOCI**"); or (iii) FVTPL.

(i) Amortized cost

Financial assets that are debt instruments and are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are measured at amortized cost at each subsequent reporting period. The Company's cash and accounts receivable and non-current accounts receivable are subsequently measured at amortized cost.

(ii) FVTOCI

Financial assets that are debt instruments and are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets, and that have contractual cash flows that are solely payments of principal and interest ("**SPPI**") on the principal outstanding, are measured at FVTOCI. In addition, the Company may, at initial recognition, make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity instrument is held for trading. Currently, the Company has no financial assets measured at FVTOCI.

(iii) FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI are measured subsequently at FVTPL. Trading financial instruments are mandatorily measured at FVTPL as they are held for trading purposes or are part of a business model with a pattern of short-term profit taking. Non-trading financial assets are also mandatorily measured at FVTPL if their contractual cash flow characteristics do not meet the SPPI test or if they are managed together with other financial instruments on a fair value basis. In addition, the Company may, at initial recognition, make an irrevocable election to designate a financial asset as FVTPL. A financial asset is designated as FVTPL when such classification eliminates or significantly reduces a measurement inconsistency that would otherwise arise from measuring the financial asset on different basis. Gains and losses realized on disposition and unrealized gains and losses from changes in fair value of the financial assets are recognized in the consolidated statement of operations. Currently, the Company has no financial assets measured at FVTPL.

(iv) Impairment of financial assets

For financial assets measured at amortized cost, the Company recognizes lifetime expected credit losses (“**ECL**”) when there has been a significant increase in credit risk since initial recognition. If the credit risk on such financial instruments has not increased significantly since initial recognition, the Company measures the loss allowance on those financial instruments at an amount equal to 12-month ECL.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial asset. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial asset that are possible within 12 months after the reporting date. In assessing whether the credit risk on a financial asset has increased significantly since initial recognition, the Company compares the risk of default on the financial asset at the reporting date with the risk of default occurring at the initial recognition. The Company considers both quantitative and qualitative factors that are supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Irrespective of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise. The Company presumes that the credit risk on a financial asset has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(v) Financial liabilities

All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL. Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL. A financial liability is classified as held for trading if it has been acquired principally for the purpose of repurchasing it in the near term or on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking, or it is a derivative financial liability.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise or the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis.

Financial liabilities classified or designated at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognized in profit or loss. However, for financial liabilities that are designated as FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the issuer is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability’s credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

The Company classifies accounts payable and accrued liabilities, due to related parties and other liabilities at amortized cost.

(vi) Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company’s obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

4.4 Impairment of non-financial assets

At each reporting date of the statement of financial position, the Company reviews the carrying amounts of its tangible and intangible 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 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.

4.5 Foreign currency translation

Functional and presentation currency

The Consolidated Financial Statements are presented in Canadian dollars. Items included in the financial statements of each entity in the Consolidated Financial Statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The functional currency of the Company and its inactive subsidiaries is the Canadian dollar. The functional currency of CO2 US is also the Canadian dollar as the subsidiary does not operate autonomously.

Transactions and balances

Foreign currency transactions are translated from the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

4.6 *Government assistance*

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received. The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognized as a reduction of the non-current assets in the consolidated statement of financial position, and transferred to the consolidated statement of operations on a systematic and rational basis over the useful lives of the related assets. Other government grants are recognized as a reduction of the related expenses over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized in the consolidated statement of operations in the period in which they become receivable.

4.7 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 consolidated statements of financial position 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.

4.8 Intangible assets

Intangible assets are comprised of patents (or costs incurred in the perfection of patents), which are amortized over ten years and are reviewed for impairment whenever facts and circumstances indicate that their carrying values may not be fully recoverable.

The Company evaluates the recoverability of any indefinite-life intangible assets for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable.

As at December 31, 2022 and 2021, the Company has no indefinite-life intangible assets.

4.9 Investment in 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.

4.10 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, 2022 and 2021, all the outstanding stock options, warrants and finders' warrants were anti-dilutive.

4.11 Prepaid expenses

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

4.12 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.

4.13 Research and development

Research and development costs are expensed as they are incurred. However, development costs are recognized as intangible assets when they meet the following criteria: a) the feasibility of the product has been demonstrated, b) management intends to produce the product and has the capacity to bring it to market or use it, c) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity, d) a defined market for the product exists, e) the Company has the resources to complete the project and f) the development costs can be evaluated reliably.

4.14 Revenue and deferred revenue

Revenue

Revenue is recognized at the transaction price, which is the amount of consideration to which the Company expects to be entitled in exchange for transferred goods and services to a customer. Revenue presented in the consolidated statement of operations represents revenue from the sale of equipment and installation of equipment, less expected price discounts, returns, and rebates. The Company's contracts with customers for the sales of its Delivery Solutions™ equipment, and in some cases, the installation of the equipment, consist of one performance obligation. The Company recognizes revenue at the point in time when control is transferred to the customer, which is on shipment or upon completion of installation, depending on the contract. The Company's payment terms range from 30 days to 10 years from the transfer of control. Revenue collected in advance of its recognition is reflected as deferred revenue.

For sales that are collected over more than one year, the Company calculates the discounted cash flow ("**DCF**") of the sales proceeds and records the discounted amount as revenue. The accounts receivable is subsequently accreted as interest income over the term of the payment schedule.

Deferred revenue

In addition to deferred revenue resulting from sales with payment terms in excess of one year, the Company generally charges customers an upfront payment that is due upon signing of the sales contract. Those amounts may be received prior to the Company fulfilling its performance obligation and recognizing the sales revenue. Amounts received and held by the Company for which its performance obligation has not been met, are recorded as deferred revenue. Upon completion of its performance obligations, the respective amount is transferred to revenue.

4.15 Sales taxes recoverable

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

4.16 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, which requires six key inputs to determine the fair value: risk-free interest rate, exercise price, market price at date of issuance, expected yield, expected life, and expected volatility. Certain of the inputs are estimates, which involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control. 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.

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

ii) *Intangible asset carrying values and impairment charges*

In the determination of carrying values and impairment, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets, and reviews objective evidence to support whether the assets have a significant or prolonged decline in fair value. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

iii) *Valuation of inventory*

The Company carries inventory on its accounts at the lower of cost and net realizable value. Judgment is required to evaluate when a write-down of inventory might be necessary and is required in the evaluation of available data to determine net realizable value.

iv) Discounted cash flows

Discounted cash flows are exclusively reliant on the discount factor ("**DF**") applied the applicable cash flows. In determining the DF, management reviews the practices of similar companies in similar industries along with details specific to transaction. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

v) Research and development expenditures

Management monitors the progress of internal research and development. Significant judgement is required in distinguishing the research phase from the development phase. Development costs are recognized as an asset when all the criteria are met, whereas research costs are expensed as incurred.

vi) Allowance for credit losses

The allowance for credit losses has been assessed by the Company's management based on the age of the amounts uncollected as at the end of the reporting period and management's experiences regarding the Company's customers' likelihood of payment. The allowance is assessed at the end of each reporting period and adjusted so that the net amounts receivable reflects the expected future collection of accounts.

Significant accounting judgements

vii) Determination of the categories of financial asset and liabilities.

viii) The ability of the Company to continue as a going concern (note 1).

ix) 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.

x) Impairments

IFRS requires management to undertake an annual assessment of indicators of 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. Should an indicator of impairment be present, the recoverable amount of the asset must be calculated. 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.

xi) *Commitments and litigation.* See note 20.

4.18 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.

The Company transfers all of accounts payable for which the statute of limitations prevents the creditor from enforcing a claim to non-current liabilities on the basis that these liabilities are barred under the Limitations Act (Ontario). Pursuant to IFRS, a debt can only be removed from the Company's Statement of Financial Position when it is extinguished, meaning only when the contract is discharged or canceled or expires. Although the effect of the Limitations Act prevents a creditor from enforcing an obligation, it does not formally extinguish the debt for accounting purposes. It is the position of management of the Company that these liabilities cannot be enforced by the creditors, do not create any obligation for the Company to pay out any cash and do not affect the financial or working capital position of the Company. These liabilities are required to be reflected on the Company's Statement of Financial Position, but they are classified as long-term liabilities since the Company has no intention or obligation to pay these liabilities and the creditors cannot enforce payment of these liabilities.

4.19 Warrants

The Company uses the Black-Scholes option pricing model to calculate the fair value of warrants issued as part of the Company's public and/or private placements. Proceeds from financings, net of issuance costs, are allocated between common shares and warrants issued using the relative fair value method.

5. Liquidity and capital resources

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.

(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, 2022 or 2021. 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.

6. Financial instruments and risk management

6.1 Financial instruments

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

	2022	2021
	$	$
Financial assets		
Cash	**1,096,631**	543,213
Accounts receivable	**97,907**	37,712
Non-current accounts receivable	**71,454**	37,042
	1,265,992	617,967
Financial liabilities		
Accounts payable and accrued liabilities	**207,460**	264,296
Due to related parties	**194,799**	164,153
Other liabilities	**100,174**	-
	502,433	428,449

The carrying and fair values of current financial instruments are approximately equivalent because of the short-term nature of these instruments. The carrying and fair value of the non-current receivable is approximately equivalent as management believes they are discounted at a fair value market rate of interest that is not significantly different from the estimated market rate at December 31, 2022. The other liabilities are carried at their face value.

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 transfers between levels during 2022 and 2021.

6.2 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. As at December 31, 2022, the Company had $402,259 (2021 - $340,673) of liabilities with a maturity of one year or less and working capital of $853,065 (2021 – $333,940). The Company manages its liquidity risk by reviewing its growth plans on an ongoing basis.

6.3 Credit risk

The Company recognizes a loss allowance for expected credit losses on financial assets measured at amortized cost. The Company considers whether evidence of impairment exists on an individual and collective basis for trade receivables. All trade receivables that are individually material are individually assessed for impairment. All trade receivables that are individually material and not individually impaired are collectively assessed to detect any impairment that may exist but has not yet been identified. Trade receivables that are not individually material are collectively assessed for impairment by aggregating trade receivables. In performing the collective impairment assessment, the Company uses historical patterns for the timing of collection and the amount of incurred credit losses, which are adjusted based on management's judgment about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

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

The carrying amount of cash and accounts receivable represents the Company's maximum exposure to credit risk, which amounted to $1,265,992 at December 31, 2022 (December 31, 2021 - $617,967). The allowance for doubtful accounts as at December 31, 2022, is $58,076 (December 31, 2021 - $19,107).

As at December 31, 2022 and 2021, the Company's accounts receivable, net of the allowance for doubtful accounts, was aged as follows:

	December 31, 2022	December 31, 2021
	$	$
Current	**-**	-
1 – 30 days	**-**	-
31 – 60 days	**90,754**	-
61 – 90 days	**-**	-
Over 90 days	**7,153**	37,712
	97,907	37,712
Receivable with terms in excess of one year	**71,454**	37,042
	169,361	74,754

The non-current receivable is a financial asset consisting of the Company's balance of sales receipts for transactions extended beyond one year and for which the fair values have been calculated using an estimated weighted average market rate of 19% and which are receivable in ten annual instalments of $20,316 (US$15,000), commencing in 2023.

A continuity of allowance for doubtful accounts is as follows:

	December 31, 2022	December 31, 2021
	$	$
Opening balance	**19,107**	-
Provisions made during the year	**38,969**	19,107
Closing balance	**58,076**	19,107

6.4 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.

6.5 Currency risk

The Company's functional currency and the majority of its operations have been conducted in Canadian dollars. CO2 GRO also 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

(expressed in Canadian dollars)

Company has recognized currency exchange losses the year ended December 31, 2022 of $20,813 (2021 – $8,656).

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

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

As at December 31, 2022 and 2021, the Company's exposure to foreign currency balances is as follows:

		Exposure ($Cdn)	
Account	**Foreign currency**	**December 31, 2022**	December 31, 2021
Cash	US dollar	**53,986**	28,994
Accounts receivable	US dollar	**180,700**	63,523
Accounts payable and accrued liabilities	US dollar	**(182,894)**	(83,638)
		51,792	8,879

The Company believes that a change of 10% in foreign exchange rates would increase/decrease net income for the year by approximately $5,200 (2021 – $900).

7. *Accounts receivable*

	December 31, 2022	December 31, 2021
	$	$
Accounts receivable - current	**143,375**	50,282
Allowance for expected credit losses	**(45,467)**	(12,570)
Current receivables	**97,907**	37,712
Accounts receivable – non-current	**84,063**	43,579
Allowance for expected credit losses	**(12,609)**	(6,537)
Non-current receivables	**71,454**	37,042
	169,361	74,754

Generally, receivables are on terms due between thirty and ninety days. Non-current receivables range between two and ten years.

The Company has recognized changes in expected credit losses for the year ended December 31, 2022, of $38,969 (2021 – $20,802) and bad debts expense of $42,212 (2021 - $4,150).

(expressed in Canadian dollars)

As at December 31, 2022, there are two customers (2021 – two customers comprising 72%) that comprise 90% of the outstanding gross accounts receivable current balance and one (2021 - one) customer comprises 100% of the outstanding gross accounts receivable of the non-current balance.

Further, a 10% increase/decrease in the collection rate will impact the Company's loss by $23,000.

8. 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, 2022, is expected to be utilized during the upcoming year, with any portion consumed being expensed through the consolidated statements of operations and comprehensive loss, and any unconsumed portion reallocated to the appropriate consolidated statements of financial position classification.

As at December 31, 2022 and 2021, the prepaid expenses of the Company are detailed as follows:

	December 31, 2022	December 31, 2021
	$	$
Administration	**-**	1,993
Consulting	**19,209**	15,295
Cost of sales	**950**	20,833
Insurance	**5,874**	3,522
Legal fees	**268**	10,947
Total	**26,301**	52,590

9. Intangible assets, net

Cost	**Patents**
	$
December 31, 2020	122,200
Additions	72,986
Impairment	(6,495)
December 31, 2021	188,691
Additions	**58,228**
Government grant ***(note 12)***	**(21,500)**
Write-off of abandoned patents	**(113,755)**
December 31, 2022	**111,664**

(expressed in Canadian dollars)

Accumulated amortization

	$
December 31, 2020	4,985
Amortization	19,600
Impairment	(831)
December 31, 2021	23,754
Amortization	**24,105**
Government grant ***(note 12)***	**(2,750)**
Write-off of abandoned patents	**(30,378)**
December 31, 2022	**14,731**

Net Book Value

	$
December 31, 2021	164,937
December 31, 2022	**96,933**

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, 2022	December 31, 2021
	$	$
Administration	**84,176**	71,923
Compensation	**94,808**	13,547
Consulting	**6,095**	7,195
Cost of sales	**13,142**	38,386
Investor relations and public reporting costs	**288**	10,000
Professional fees	**5,373**	19,491
Research and development	**3,578**	3,580
Total payables and accrued liabilities	**207,460**	164,122

11. Other liabilities

During the year ended December 31, 2022, the Company transferred $100,174 of accounts payable to non-current liabilities on the basis that any claims in respect of these liabilities are potentially statute-barred under the Limitations Act (Ontario). Pursuant to IFRS, a debt can only be removed from the Company's Statement of Financial Position when it is extinguished, meaning only when the contract is discharged or canceled or expires. The effect of the Limitations Act is to prevent a creditor from enforcing an obligation but it does not formally extinguish the debt for accounting purposes. It is the position of management of the Company that these liabilities cannot be enforced by the creditors, do not create any obligation for the Company to pay out any cash and do not affect the financial or working capital position of the Company. The other liabilities are required to be reflected on the Company's Statement of Financial Position, but they are classified as long-term liabilities since the Company has no intention or obligation to pay these liabilities and the creditors cannot enforce payment of them. While inclusion of these items is intended solely to comply with the requirements of IFRS, the Company in no way acknowledges any obligations in regard to these liabilities.

12. Deferred revenue

The Company generally charges customers an upfront payment that is due upon signing of the sales contract. Those amounts may be received prior to the Company fulfilling its performance obligation and recognizing the sales revenue (note 16). Amounts received and held by the Company for which its performance obligation has not been met, are recorded as deferred revenue. Upon completion of its performance obligation, the respective amount is transferred to revenue. As at December 31, 2022, the Company has $nil (2021 - $12,398) deferred revenue.

13. Government grant

In March 2022, the Company received a Government of Canada grant through the National Research Council of Canada's Industrial Research Assistance Program, in the amount of $18,750. The grant was provided as reimbursement of the costs expended (to a maximum of $18,750) to further development of new export opportunities and markets, especially in high-growth emerging markets. The grant has been recorded as an offset patent acquisition costs.

14. Common shares

14.1 Authorized

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

14.2 Issued and outstanding

2022

(i) In January and February 2022, 11,488,695 warrants and 1,022,285 options were exercised raising proceeds of $1,885,169. The fair value of exercised warrants ($491,105) and options ($112,836), was transferred from reserve for warrants and contributed surplus, respectively, to common shares.

(expressed in Canadian dollars)

2021

(i) In December 2021, 91,000 common shares were issued on the exercise of the same number of options. The options had expiry dates of December 14, 2021 (6,000 options) and January 12, 2022 (85,000 options) with exercise prices of $0.15 and $0.14, respectively, raising proceeds of $12,800. The fair value of the exercised options of $8,448 was transferred from contributed surplus to common shares.

(ii) In October 2021, 20,000 common shares were issued on the exercise of the same number of options. The options had an expiry date of January 12, 2022 and an exercise price of $0.14, raising proceeds of $2,800. The fair value of the exercised options of $1,918 was transferred from contributed surplus to common shares.

(iii) In July 2021, 95,000 common shares were issued on the exercise of the same number of options. The options had expiry dates of January 22, 2022 (45,000 options) and September 9, 2021 (50,000 options) and a exercise price of $0.14 and $0.15 each, respectively. Total proceeds raised amounted to $13,800. The fair value of the exercised options of $69,743 was transferred from contributed surplus to common shares.

(iv) In March 2021, 62,858 common shares were issued on the exercise of the same number of options. The options had an expiry date of January 22, 2022 and an exercise price of $0.14 each, raising proceeds of $8,800. The fair value of the exercised options of $6,028 was transferred from contributed surplus to common shares.

(v) In February 2021, 3,850,000 common shares were issued on the exercise of the same number of warrants. The warrants had an expiry date of December 14, 2022 and an exercise price of $0.12 each, raising proceeds of $462,000. The fair value of the exercised warrants of $126,382 was transferred from reserve for warrants to common shares.

(vi) In February 2021, 1,081,161 common shares were issued on the exercise of the same number of options. The options had an expiry date of February 15, 2021 and an exercise price of $0.22 each, raising proceeds of $237,856. The fair value of the exercised options of $53,361 was transferred from contributed surplus to common shares.

14.3 Reserve for warrants

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

	December 31, 2022		December 31, 2021	
	Weighted Average Exercise Price	**Number of Warrants**	Weighted Average Exercise Price	Number of Warrants
	$		$	
Outstanding at beginning of year	**0.15**	**11,611,195**	0.14	15,461,195
Transactions during the year:				

	December 31, 2022		December 31, 2021	
	Weighted Average Exercise Price	**Number of Warrants**	Weighted Average Exercise Price	Number of Warrants
	$		$	
Exercised	**0.15**	**(11,488,695)**	0.12	(3,850,000)
Expired	**0.15**	**(122,500)**	-	-
Outstanding at end of year	**-**	**-**	0.15	11,611,195

14.4 Contributed surplus

On August 9, 2022, at its annual shareholder meeting, the shareholders of the Company approved a new omnibus incentive plan (the "**Incentive Plan**"). The Incentive Plan includes a rolling component, similar to the Company's old 10% rolling plan (the "**Plan**"), whereby the maximum aggregate number of common shares that may be allocated and made available to be granted to participants under the Incentive Plan with respect to options, is 10% of the issued and outstanding common shares of the Company, less the number of options currently issued.

In addition, the Company's shareholders approved a fixed component, whereby the maximum number of common shares that may be allocated and made available to be granted to participants under the Incentive Plan with regard to Restricted Share Units ("**RSUs**"), Deferred Share Units ("**DSUs**"), Performance Share Units ("**PSUs**") and Share Appreciation Rights ("**SARs**") (altogether, the "**Compensation Units**") is limited to 9,732,669, less the total number of Compensation Units that are currently issued.

As at December 31, 2022, 3,396,064 options (December 31, 2021 – 2,503,681) and 9,732,669 Compensation Units (2021 – n/a) are available for issuance under the Incentive Plan.

The principal features of the Plan are as follows:

- the maximum aggregate number of common shares that may be allocated and made available to be granted to participants under the Incentive Plan is as follows: With regard to options, 10% of the issued and outstanding common shares of the Company, less the number of options currently issued. With regard to Compensation Units, 9,732,669 less the number of Compensation Units already issued, in aggregate;

- the maximum number of common shares issuable to any one participant in any 12-month period shall not exceed 5% of the outstanding shares, without disinterested shareholder approval;

- the aggregate number of common shares that may be reserved for issuance pursuant to options or Compensation Units granted to Insiders (as 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

(expressed in Canadian dollars)

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 or Compensation Units 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).

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

	December 31, 2022		December 31, 2021	
	Weighted Average Exercise Price	**Number of Options**	Weighted Average Exercise Price	Number of Options
	$		$	
Outstanding at beginning of year	**0.21**	**5,977,891**	0.19	6,775,598
Transactions during the year:				
Granted	**0.21**	**2,025,000**	0.32	1,680,000
Exercised	**0.16**	**(1,022,285)**	0.27	(1,350,019)
Expired	**0.22**	**(644,000)**	0.23	(1,127,688)
Outstanding at end of year	**0.22**	**6,336,606**	0.21	5,977,891
Exercisable at end of year	**0.22**	**6,336,606**	0.21	5,977,891

The following table provides additional information about outstanding stock options at December 31, 2022:

(expressed in Canadian dollars)

Exercise Prices	No. of Options Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price ($)
\$0.10 to \$0.15	1,363,000	1.0	0.15
\$0.16 to \$0.20	1,643,606	0.5	0.19
\$0.21 to \$0.30	1,900,000	3.5	0.22
\$0.31 to \$0.35	1,430,000	1.3	0.32
Outstanding	**6,336,606**	**1.7**	**0.22**
Exercisable	**6,336,606**	**1.7**	**0.22**

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 2022, were as follows: risk-free interest rate of 1.83%; expected volatility of 127.1%; expected life of 5.0 years; expected dividends of $nil and common share price of $0.21. The grant-date fair value of the options issued in 2022 is $361,875.

- The weighted average assumptions used for the options issued in 2021, were as follows: risk-free interest rate of 0.30%; expected volatility of 96%; expected life of 3.0 years; expected dividends of $nil and common share price of $0.32. The grant-date fair value of the options issued in 2021 is $320,880.

14.5 Share-based payments

The fair value of the stock options vested for the year ended December 31, 2022, was $365,416 (2021 – $331,289), which amount has been expensed in the consolidated statements of operations. As at December 31, 2022, the Company has not issued any Compensation Units.

15. Related-party transactions and key-management compensation

The Consolidated Financial Statements include balances and transactions with directors and/or officers of the Company and/or corporations related to or controlled by them. These transactions are measured and recorded at an arm's-length basis, being the amounts agreed to by the related parties.

Key management includes those individuals having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly. Key management includes the Directors, Chief Executive Officer, Chief Financial Officer, former Chief Science Officer and Vice President of Operations. Related-party compensation paid or payable to key management is detailed below:

	Years ended	
	December 31, 2022	December 31, 2021

(expressed in Canadian dollars)

Transactions:	**$**	$
Consulting fees	**198,000**	203,919
Share-based payments	**282,366**	261,684
Total	**480,366**	465,603

As at December 31, 2022, $194,799 (2021 - $164,153) is owed to officers or directors of the Company or entities controlled by them. These amounts are unsecured, non-interest bearing and due on demand.

During 2022, the key management (or companies controlled by them) exercised 892,285 options (2021 – 56,000), raising gross proceeds for the Company of $143,665 (2021 - $8,400).

During 2022, the key management (or companies controlled by them) exercised 11,488,695 (2021 – nil) warrants, raising gross proceeds for the Company of $1,723,304 (2021 - $nil).

16. Revenue

The Company recognizes revenue at the point in time when control is transferred to the customer, which varies by contract but is usually on shipment or upon completion of installation. The Company's payment terms range from thirty days to ten years from the transfer of control. See note 4.14 regarding the Company sales and accounts receivable for transactions with payment terms in excess on one year.

During the year ended December 31, 2022, the Company had revenues of $284,836 (2021 - $258,634). The Company derives all of its revenues from its sole operating segment, saturated CO_2 plant-based production.

For 2022, two customers (2021 – four customers) comprise 44% and 30% (2021 – 20%, 17%, 15% and 12%), respectively, of the Company's revenues.

For 2022, the Company has a total of $288,345 (2021 - $105,570) of revenue where terms of payment extend for longer than one year. The DCF of this revenue of $73,084 (2021 - $52,353), was calculated using a weighted-average discount rate of 18%.

17. Cost of sales

Cost of sales for the Company are detailed as follows:

Years ended	**December 31, 2022**	December 31, 2021
	$	$
Commissions	**30,274**	21,387
Consumable parts and tools	**161,989**	189,279
Purchase discounts	**3,055**	962
Freight, shipping and purchase discounts	**18,334**	30,319

(expressed in Canadian dollars)

Years ended	December 31, 2022	December 31, 2021
	$	$
Cost of sales	**213,652**	241,947

18. Research and development costs

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

Years ended	December 31, 2022	December 31, 2021
	$	$
Technical consulting	**19,400**	113,951
Technical consumables	**71,578**	35,384
Research and development costs	**90,978**	149,335

19. Other income

During the year ended December 31, 2022, the Company completed the sale of previously-impaired inventory. The amount reported of $65,603 is net of holding costs and commissions on sale.

20. Significant contracts, commitments and litigation

20.1 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 (the "**Action**") filed in the Ontario Superior Court of Justice against the Company and two Officers. During 2022, the Company received a Notice of Discontinuance from the claimant regarding the Action. The Company has continued with its counter-action but is working with the claimant on a full without costs settlement basis (the "**Settlement**").

The Company cannot reasonably predict the likelihood or outcome of the Settlement. The Company does not believe that adverse decisions regarding the Settlement 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.

20.2 Novel Coronavirus (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. Although, 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, it has experienced the effect 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.

(expressed in Canadian dollars)

20.3 Commitments

The Company is party to certain management and consulting agreements with minimum commitments of $235,500 due within one year.

21. Segmented information

Operating segments

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

Geographic segments

CO2 GRO operates in two geographic segments being Canada and the United States.

As at	**December 31, 2022**	December 31, 2021
	$	$
Identifiable assets:		
Canada	**1,180,944**	876,592
United States	**242,767**	-
	1,423,711	876,592

Years ended	**December 31, 2022**	December 31, 2021
	$	$
Revenue		
Canada	**33,250**	95,240
Central America	**64,321**	53,218
European Union	**-**	2,747
Japan	**-**	3,125
Malaysia	**-**	2,985
United States	**187,265**	101,319
	284,836	258,634

(expressed in Canadian dollars)

Years ended	**December 31, 2022**	December 31, 2021
	$	$
Income (loss) and comprehensive net loss:		
Canada	**(1,827,927)**	(1,665,639)
Central America	**16,075**	3,433
European Union	**-**	178
Japan	**-**	202
Malaysia	**-**	193
United States	**46,800**	6,537
	(1,765,052)	(1,655,096)

Years ended	**December 31, 2022**	December 31, 2021
	$	$
Cash used for operations:		
Canada	**(1,295,711)**	(1,174,760)
Central America	**16,075**	3,433
European Union	**-**	178
Japan	**-**	202
Malaysia	**-**	193
United States	**8,879**	(21,137)
	(1,270,757)	(1,191,892)

22. Supplemental cash flow information

22.1 Change in non-cash working capital items

Years ended	**December 31, 2022**	December 31, 2021
	$	$
Accounts receivable	**(123,626)**	(62,664)
Sales taxes recoverable	**6,613**	1,374
Prepaid expenses	**26,289**	6,943
Inventory	**-**	(6,999)

(expressed in Canadian dollars)

Accounts payable	**43,338**	(37,572)
Deferred revenue	**1,209**	8,899
	(46,177)	(90,019)

22.2 Supplemental information

Years ended	December 31, 2022	December 31, 2021
Cash interest paid	**1,062**	960

23. 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:

	2022	2021
	$	$
Loss before income taxes	**(1,765,052)**	(1,655,096)
Combined statutory rate	**26.5%**	26.5%
Expected income tax benefit	**467,000**	438,000
Share-based compensation	**(97,000)**	(88,000)
Change in unrecognized deferred tax asset	**(370,000)**	(350,000)
Deferred income tax recovery	**-**	-

The Canadian statutory income tax rate of 26.5% (2021 – 26.5%) is comprised of the federal income tax rate of approximately 15% (2021 – 15%) and the provincial income tax rate of approximately 11.5 % (2021 – 11.5%).

As at December 31, 2022, the Company had estimated combined non-capital losses for Canadian and US income tax purposes of approximately $17,561,000 (2021 – $16,427,000). These non-capital losses expire between 2029 and 2042 as follows:

Year	Amount
	$
2029	112,000
2030	508,000
2031	298,000

(expressed in Canadian dollars)

Year	**Amount**
	$
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
2039	1,573,000
2040	820,000
2041	1,154,000
2042	1,281,000
Total	**17,561,000**

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

	December 31, 2022	December 31, 2021
Deferred income tax assets and temporary differences	**$**	$
Non-capital losses carry-forward	**17,561,000**	16,427,000
Financing costs	**1,000**	3,000
SR&ED pool	**50,000**	-
Deductible temporary differences	**17,612,000**	16,430,000

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.

24. Subsequent events

24.1 In January 2023, 200,000 options were issued with exercise price of $0.11 per option and expiry date of January 03, 2025.

24.2 In January 2023, 3,925,000 RSUs were issued and vest on December 31, 2023. Pursuant to the Company's Incentive Plan, the RSUs are subject to various vesting provisions and once vested, require a payment of $0.11 by the recipient to the Company, per common share issued.

24.3 In January, 2023, 1,254,000 options with exercise price of $0.19, expired unexercised.

24.4 In March, 2023, 366,000 options with exercise prices between $0.15 and $0.32, expired unexercised.

24.5 In April 2023, 89,606 options with an exercise price of $0.19, expired unexercised.