CO2 GRO Inc.

Annual Management's Discussion and Analysis

of the Financial Condition and Results of Operations

Year ended December 31, 2022

April 27, 2023

*This annual management discussion and analysis ("**MD&A**") has been prepared based on information available to CO2 GRO Inc. ("**CO2 GRO**" or the "**Company**") as at April 27, 2023. The Annual MD&A of the operating results and financial condition of the Company as at and for the year ended December 31, 2022, should be read in conjunction with the Company's audited annual consolidated financial statements and the related notes as and for years ended December 31, 2022 and 2021 (the "**Consolidated Financial Statements**"). The Consolidated Financial Statements have been prepared by management and are in accordance with International Financial Reporting Standards ("**IFRS**") and all amounts are expressed in Canadian dollars unless otherwise noted. Other information contained in this document has also been prepared by management and is consistent with the data contained in the Consolidated Financial Statements. Additional information relating to the Company can be found on SEDAR at www.sedar.com or on the Company's website at www.co2gro.ca.*

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

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

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION AND STATEMENTS

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

General

CO2 GRO Inc. was incorporated under the provisions of the Business Corporations Act (Ontario) on September 17, 2010. The Company trades on the TSX Venture Exchange ("**TSXV**") under the trading symbol "**GROW**", on the US OTCQB market under the symbol "**BLONF**" and on the Frankfurt Stock Exchange under the symbol "**4O21**".

Dissolved CO_2 plant-enrichment platform: CO2 GRO's sole focus is commercializing its patent-licensed CO2 gas infusion technology and its patent-pending US PTO CO2 Delivery Solutions system ("**Delivery Solutions™**"), both of which form the Company's saturated CO2 solution plant platform.

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

The Consolidated Financial Statements have been prepared using 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 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. The Consolidated Financial Statements do not reflect the adjustments to the carrying amounts of assets and liabilities and the reported expenses and consolidated statement of financial position classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

The Consolidated Financial Statements 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.

The Consolidated Financial Statements were authorized for issuance by the Board of Directors (The "**Board**") of the Company on April 25, 2023.

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

The Company and our business

The Company's patent protected **CO2 Delivery Solutions™** is the first major efficiency improvement in CO_2 gas delivery to indoor and protected plant growers in decades. Benefits of using the Company's saturated CO_2 misting technology include larger plant yields, faster cycle times for more harvests per year, very low CO_2 gas usage and power operating costs to run pumps for seconds per hour and natural pathogen protection from misting related pH fluctuations. All of these benefits add to customer profitability.

Our Mission is precisely delivering carbon to enhance plant growth and productivity sustainably while reducing our Partners' carbon footprints. CO2 Delivery Solutions™ technology enables all greenhouse and protected facility growers worldwide to achieve up to 30% value increases, easily maximizing revenue and profits and suppressing the development of pathogens such as *E.coli* and powdery mildew producing healthier crops and reducing crop losses, all in an environmentally friendly and sustainable manner.

Worldwide there are two distinct markets we believe can realize significant benefits from employing CO2 Delivery Solutions™ technology. They are one, the 50 billion square feet of greenhouses, 85% or 42.5 billion square feet which cannot gas with CO_2, and two, the approximate 550 billion square feet of open sided facilities that cannot CO_2, gas. These are GROW's target markets.

Approximately 85% or 42.5 billion square feet of the world's 50 billion square feet of greenhouses are not economically able to use CO_2 gassing. They are typically located in hotter countries like in the Middle East, Southern Europe, Asia, South America, the Southern U.S. and climates where warmer spring, summer and early fall months lead to excess indoor heat that has to be constantly vented. This venting process eliminates CO_2 gassing as the CO_2, would be constantly vented along with the warmer air. These greenhouses, along with open side facilities (semi-enclosed shade houses, hoop houses and other indoor horizontal and vertical grow facilities) that cannot gas with CO_2 are our primary target customers. Of the 15% or 7.5 billion square feet of greenhouses that do CO_2 gas, many have to vent during the warmer spring, summer and fall months to maintain temperatures that support good growing conditions. Unfortunately, during these months, productivity declines due to CO_2 gas being lost. We can help these growers using CO_2 gas attain the same up to 30% yield improvements during these months while employing up to 95% less CO_2 gas doing so.

The approximate 550 billion square feet of open side facilities are defined as any type of method or structure used to extend the growing season of plants or more simply covered overhead structures with open sides or retractable sides. None of these facilities can CO_2 gas and are more exposed to pathogens. Our CO2 Delivery Solutions™ can also provide plant value increases of up to 30% to them while producing healthier crops and reducing crop losses. Of that, a significant portion can benefit from the use of our GROW's CO2 Delivery Solutions™.

Environmental Social and Governance principles (ESG)

CO2 GRO's Environment, Social and Governance ("**ESG**") practices are a Sustainability Platform with a Planet, People and Profits focus. CO2 GRO addresses ESG as a strategic element of value creation and sustainability in our Corporate Value Proposition, now and in the future. We are committed to promoting and maintaining diversity, equality and inclusiveness in our workplace as well as a safe and healthy workplace.

CO2 GRO is committed to ensuring our technology enhances global food production by up to 30%. Where current vegetable or fruit production is limited, CO2 GRO's CO2 Delivery Solutions™ technology can increase yields and provide plant perimeter protection helping to grow food locally, minimizing supply chain transportation and landfill waste due to spoilage in transit.

CO2 GRO's Executive and the Board are committed to diversity and inclusion in its role in delivering enhanced shareholder value, short and long term. In addition, the Executive and Board is also committed to transparency and prudent management of CO2 GRO as the Company grows.

Studies have shown that organizations with diverse management, Board composition and employees collectively deliver better performance generating enhanced shareholder value in the long term. Purposeful companies, with better environmental, social and governance (ESG) practices have outperformed their peers.

Our annual Environmental, Social and Governance Report ("ESG Report") has been updated and released in Q2 2023.

Operational updates

As 2022 progressed, our potential sale pipeline increased above 200 million square feet of grow area. This represents growers who are currently utilizing our technology and those who have expressed an interest.

Protected growers suffered a sharp increase in 2022 input costs, energy, fertilizer, labor as well as the soaring cost of capital and sourcing of it. Despite these difficult financial conditions, we increased our technology's utilization through Technology Adaptation Projects ("TAPs", formerly referred to as Technology Trials or Trials) around the world including key markets such as Canada, the US, Mexico, Colombia, Ecuador, Middle East & North Africa, Japan, South Africa as well as Commercial Technology Purchases ("**Sales**") in El Salvador, Canada and the US.

Global Protected Grower Market

We estimate the global protected grower market is now about 900 billion square feet of which 700 billion square feet are for fruits & vegetables (Cuesta Roble's 2019 estimate was 600 billion square feet), an estimated 100 billion square feet of floriculture (our 2021 estimate unchanged) and another estimated 100 billion square feet of crops such as medicinal plants, citrus tree seedlings and other non-food varieties (also our 2021 estimate unchanged).

Operational Focus

During 2022, we narrowed our focus on the countries where we have ongoing TAPs that have the greatest prospects for revenue generation. They include growers in the countries stated above who typically grow greenhouse vegetables such as tomatoes, peppers, cucumbers, leafy greens and berries. For example, El Salvador based Hidroexpo S.A. de C.V. has 18 active greenhouses. Only two have our CO2 Delivery Solutions™ technology installed to date. We would like to install our technology into their remaining 16 greenhouses. The grower has expressed interest in exploring various financing options to proceed with this expansion.

Canada

Our TAP at Alberta's The Cucumber Man had exceptional yield improvement results. The grower will be continuing the project through 2023.

Our TAPs with Ontario greenhouse growers were successful and will continue through 2023. We have since added another Ontario greenhouse grower for a 2023 project to provide an expanded scope of data to further optimize the benefits to growers. These projects are expected to serve as strong references to growers in the Ontario greenhouse market including Leamington where many of the growers also source produce from other markets such as Mexico and Central America.

United States

We had a Sale of a US$127,750 Commercial Technology Purchase to a greenhouse grower in the US. In addition to that success, we added a number of TAPs across the US for crops including high value floriculture, leafy greens, tomato and peppers. These TAPs are expected to be completed in 2023 with Commercial Technology Purchase negotiations for 2024.

Mexico

Our TAPs with two Mexico greenhouse growers in 2022 will continue through 2023. We are in discussion with additional growers for TAPs and Commercial Purchases for the 2023 growing season. Mexico represents the largest immediate opportunity for CO2 GRO with approximately 25,000 hectares (2.7 billion square feet) of greenhouse vegetables and another 30,000 hectares (3.3 billion square feet) of shade/net houses and high-tunnel facilities.

European Union and United Kingdom

We are in discussion with two of the UK's largest greenhouse vegetable growers for projects in 2023. The UK tomato, pepper and cucumber market has experienced supply problems over the past year, which provides CO2 GRO an opportunity to help these growers increase production.

Middle East & North Africa (MENA)

Our two TAPs in the MENA region in 2022 have shown strong results and will continue through 2023 with negotiations for Commercial Technology Purchases in 2024.

South America

We began TAPs in Colombia and Ecuador in 2022 which will continue through 2023 with negotiations for Commercial Technology Purchases later in 2023 / 2024.

Asia and Africa

Our TAP with a Japan greenhouse grower began in 2022 and will continue through 2023. We began another TAP with a South African greenhouse grower in 2022 and will continue through 2023.

Business Development and Marketing Strategy

Key business development and marketing channels CO2 GRO employs are protected ag conferences, Canadian Trade Commissioners and associations, digital media and customer referrals and testimonials. Participation in protected ag conferences has led to introductions and project opportunities. Canadian Trade Commissioner Missions have been critical in accelerating market penetration through sponsored introductions to potential customers and international partners.

Our digital marketing platform has expanded across all social media channels resulting in over 15 million impressions as of December 31st 2022. We have also been featured in key industry media outlets such as an article in Forbes magazine and Hortidaily which resulted in an influx of interest from growers around the world.

CO2 GRO exhibited or presented at several trade shows and conferences in 2022 including Cultivate, Greentech Americas, the MANTS show, AgriTech4Morocco Innovation Challenge, CEA 4.0 virtual conference, Grower Day Conference, Canadian Greenhouse Conference and CO2 Summit.

We continue to expand our commercialization partnerships around the world in order to leverage their experience in their respective markets.

Global Issues Discussion

COVID-19

With most COVID-19 related travel restrictions lifted in 2022, we expanded our personal outreach in key markets.

Labor

Our existing and potential customer base is very labor supply sensitive with labor typically their #1 cost. Accessibility to migrant temporary labor for protected ag facilities remains difficult to source for growers.

General Inflation

While higher inflation continues to affect the food production industry, the low-cost nature of our technology enables us to provide meaningful impact to our customers by optimizing their production up to 30%, increasing customer profits without additional facility expansion.

Industrial CO_2 Gas Supply

Industrial supply of CO_2 remains constrained globally due to multiple factors such as feedstock supply (ammonia plant closures) and pressure to limit CO_2 production from fossil fuel sources. Greenhouse growers that do currently employ traditional CO_2 enrichment through atmospheric gassing are finding it difficult to source CO_2 gas in large volumes. CO2 GRO's technology enables these growers to continue practicing CO_2 enrichment while utilizing up to 95% less CO_2 gas.

Global Carbon Taxes

Taxing of CO_2 emissions continues to expand to industries not previously taxed. For example, Austria and Ireland directly tax CO_2 emissions from their greenhouse growers. The EU ETS carbon emission cost is now about €100/MT.

Revenue Recognition

As we follow IFRS reporting standards, our revenue will not match our announced Sales, lease and rental agreements if over one-year in length. The discounted basis will vary by the credit quality of the customer, duration of the receivable, the country in which the grower is located and other factors.

CO2 GRO continues to have project financing and equipment leasing discussions with third parties that could accelerate revenue recognition of any Sales with payment terms in excess of one year.

Corporate

Common share activity to-date in 2023:

(i) In January 2023, 200,000 options with a maturity of three years and at an exercise price of $0.11 per option, were issued.

(ii) In January 2023, 3,925,000 DSU's with vesting on December 31, 2022, subject to various vesting conditions and requiring a payment to the Company of $0.11 each, were issued.

See note 22 of the Consolidated Financial Statements.

Common share activity during 2022:

(iii) 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 ($55,320), was transferred from reserve for warrants and contributed surplus, respectively, to common shares.

Common share activity during 2021:

(iv) 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.

(v) 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.

(vi) 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.

(vii) 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.

(viii) 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.

(ix) 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.

Warrant activity for 2022 and 2021

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:				
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

Option activity for 2022 and 2021

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 RSUs, DSUs, PSUs and SARs combined 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.

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**	**5,867,891**	0.19	6,775,998
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	5,997,891
Exercisable at end of year	**0.22**	**6,336,606**	0.21	5,867,891

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

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 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-ate 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.

Significant accounting policies and adoption of new standards

The Company's significant accounting policies are detailed in note 3 of the Consolidated Financial Statements.

The following details newly-issued or revised standards during 2022, for which the Company is assessing the effects on its consolidated financial statements:

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.

Selected annual financial information

	December 31, 2022	December 31, 2021	December 31, 2020
	$	$	$
Consolidated statements of operations and comprehensive loss			
Revenue (see note 16 and *Revenue* section of this MD&A)	**284,836**	258,634	91,248
Total operating expenses	**(1,749,826)**	(1,441,801)	(890,221)
Loss and comprehensive loss	**(1,765,052)**	(1,655,096)	(994,435)
Basic and diluted loss per common share	**(0.020)**	(0.020)	(0.014)
Consolidated statements of cash flow			
Cash used for operations	**(1,270,757)**	(1,191,892)	(667,454)
Cash used for investing activities	**(58,228)**	(72,985)	(90,057)
Cash provided from financing activities	**1,882,403**	862,671	1,264,502
Increase/(decrease) in cash	**553,418**	(402,206)	506,991
Consolidated statements of financial position			
Cash	**1,096,631**	543,213	945,419
Total assets	**1,423,711**	876,592	1,212,990
Shareholders' equity	**921,278**	435,745	1,021,496
Average number of common shares outstanding	**96,027,511**	83,680,191	72,578,247

Financial condition

As at December 31, 2022, the Company had assets totaling $1,423,711 and shareholders' equity of $921,278. This compares with assets of $876,592 and shareholders' equity of $435,745, as at December 31, 2021.

During the year ended December 31, 2022, the Company's net assets increased by $485,533, the result of an increase in assets of $547,119, offset by an increase in liabilities of $61,586.

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

Item	**Change Fav/(Unfav)**	**Explanation of change**
	$	
Cash	553,418	Increase in cash provided from financing activities of $1,877,503 less cash used for operating activities of $1,265,857 less cash used for investing activities of $58,228.
Account receivable	60,195	Gross increase in receivables of $93,093 offset by change in expected credit losses of $23,274 (see note 7). Receivables increase is a direct result of increased recognized sales during the year.
Prepaid expenses	(26,289)	Decrease reflects prepayment of consulting and administration costs offset by lower investor relations and pubco reporting prepaid costs (note 8).
Sales taxes recoverable	(6,613)	Increase in HST is the result of normal increased business activities.
Non-current accounts receivable	34,412	Change in receivables with payment terms in excess of one year.
Intangible assets	(68,004)	The decrease is patent expenditures of $58,228 less amortization of $24,105, impairment of abandoned patents of $83,377 less government grant of $18,750.
Increase in assets	**547,119**	
Accounts payable and accrued liabilities	(43,338)	Increase is due to normal-course activity during 2022.
Due to related parties	(30,646)	Increase due to advances from related parties of $35,027 less repayments to related parties of $4,381.
Deferred revenue	12,398	Changes in deferred revenue are the result payments received by the Company for sales not meeting the Company's revenue recognition policy.
Increase in liabilities	**(61,586)**	
	485,533	

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 and comprehensive loss 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.

Where sales terms exceed 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.

For 2022, there are two customers (2021 – four customers) that individually comprise greater than 10% of the Company's revenues. The total Sales of these two customers is $288,345 (2021 – $173,877). As both customers have payment terms in excess of one year, the DCF of the Sales has been calculated using an average discount rate of 19% (2021 – 25%), resulting in revenues of $210,551 (2021 - $173,877).

Results of operations

The Company has generated a 10% increase in revenues during 2022 over 2021, but its cost of sales and operating activities have created losses for the year ended December 31, 2022.

Year ended December 31, 2022 and December 31, 2021

Loss and comprehensive loss for the year was $1,765,052 (2021 – $1,655,096) or $0.02 (2021 – $0.02) loss per share, an increased loss of $109,955 (6.6%) from 2021. The loss resulted from a gross margin increased by $54,497 (226.6%) over 2021, the result of revenues increasing by $26,202 (10.1%), offset by cost of goods sold increasing by $28,295 (11.7%). Operating costs increased by $226,841 (15.6%) from 2021 and other losses decreased by $116,886 (57.5%) from 2021.

The significant changes are detailed below:

Gross margin of $71,184 *(2021 - $16,687)*

The Company recorded revenues of $281,836 (2021 - $235,800) for commercial sales of its Delivery Solutions™ supplemented by sales on feasibility projects of $3,000 (2021 - $22,833), offset by cost of goods sold of $213,652 (2021 - $241,947).

Operating expenses of $1,749,826 *(2021 - $1,468,488)*

Administration of $236,377 (2021 - $179,931)

The increase of approximately $56,000 was mainly the result of the following approximate increases: director fees- $10,000; travel of $50,000 and other office and general costs of $13,000. Small decreases over a number of expense categories totaling approximately $17,000, offset these increases.

Compensation of $569,421 (2021 - $400,896)

The increase of approximately $169,000 is the result of the Company increasing its sales staff in 2022 to drive sales and expand its footprint throughout the USA, EU and South America.

Consulting fees of $90,000 (2021 - $104,240)

The decrease of approximately $14,000 is the result of fees paid to specialists regarding customer installs in 2021.

Investor relations and public reporting costs of $215,184 (2021 – $182,897)

The approximate increase of $32,000 is the result of increased transfer agent (Canadian and US) of approximately $23,000 and investor relations fees of approximately $12,000 offset by reduced filing fees of approximately $3,000.

Professional fees of $137,532 (2021 – $91,644)

The increase of approximately $46,000 is the result of increased legal fees of approximately $20,000, together with increased audit and audit-related fees of approximately $26,000.

Research and development of $90,978 (2021 – $149,335)

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

Other items, loss of $86,410 (2021 – $203,295)

Significant changes are detailed below:

Expected credit losses of $38,969 (2021 – $20,802)

A substantial component of the loss for the year, is the result of the provision for long-term accounts receivable.

Bad debts of $42,211 (2021 - $4,150)

The increase of approximately $38,000 is the result of the Company's review and write-off of impaired receivables.

Impairment of inventory of $nil (2021 - $172,566)

During 2021, the Company impaired the value of obsolete or non-recoverable inventory.

Write-off of abandoned of patents of $83,377 (2021 - $5,664)

The Company impairs (writes-off) any abandoned patents.

Other income of $65,603 (2021 - $nil)

During 2022, the Company sold previously-impaired inventory that it retained, for $77,080. In regard to this sale, the Company paid commissions of $11,475.

Summary of quarterly results

	4th Quarter 2022	3rd Quarter 2022	2nd Quarter 2022	1st Quarter 2022
Total revenues	86,463	166,873	-	31,500
Loss and comprehensive loss	(551,812)	(233,744)	(586,115)	(393,382)
Net loss per share – basic and fully-diluted[1]	(0.01)	(0.00)	(0.01)	(0.00)
Total assets	1,423,711	1,791,016	1,922,457	2,377,909
Long-term debt	-	-	-	-
Equity (deficiency)	921,278	1,421,772	1,583,107	2,029,036
Cash dividends declared per common share	-	-	-	-

	4th Quarter 2021	3rd Quarter 2021	2nd Quarter 2021	1st Quarter 2021
Total revenues	28,274	122,103	91,660	16,597
Loss and comprehensive loss	(683,462)	(299,805)	(458,895)	(212,935)
Net loss per share – basic and fully-diluted[1]	(0.01)	(0.00)	(0.01)	(0.00)
Total assets	876,592	1,378,114	1,590,026	1,794,971
Long-term debt	-	-	-	-
Deficiency	435,745	1,079,040	1,294,701	1,524,198
Cash dividends declared per common share	-	-	-	-

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

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.

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.

Transactions with related parties

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
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).

Significant accounting policies

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

Risks and uncertainties

Financial instruments and risk management

	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**	164,122
Due to related parties	**194,799**	164,153
Other liabilities	**100,174**	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 significant transfers between levels during the year.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. As at December 31, 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.

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 major Canadian financial institutions. The Company has established a policy to mitigate the risk of loss related to granting customer credit.

The carrying amount of cash and 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

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, commodity prices and/or stock market movements (price risk). The Company is not subject to significant market risk.

Currency risk

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

Other risk factors

Key personnel

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

Segregation of duties

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

Technical, Regulatory and Product Platform Risk

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

Contagious diseases

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

Research and development costs

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

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

Disclosure of outstanding share information

The following table sets forth information concerning the outstanding securities of the Company as at the date of this MD&A:

	Number
Common shares	97,326,698
Warrants	-
Options	4,827,000
RSUs	3,925,000