Battleship Investing Blog

May 27, 2021

CO2 Gro 2020 Results

CO2 Gro 2020 results were released on April 28th. While the big contract signing I was hoping for in 2020 did not occur there was a lot of progress made by CO2 Gro.

The company continued to expand internationally with numerous feasibility studies signed in new regions.

Delays of feasibilities in 2020 was a common theme and one I hope does not continue as the pandemic subsides.

My previous CO2 Gro posts can be found here: Q3, Q2.

Disclosure: I own shares of GROW.V

CO2 Grow 2020: Balance Sheet

CO2 GRO Inc.

Consolidated Statements of Financial Position

(expressed in Canadian dollars)

As at	December 31, 2020	December 31, 2019
Assets	**$**	**$**
Current assets		
Cash	**945,419**	438,428
Sales taxes recoverable	**42,472**	28,953
Accounts receivable *(note 7)*	**-**	7,193
Prepaid expenses *(note 8)*	**59,533**	22,848
Inventory *(notes 4.9 & 9)*	**165,566**	179,619
Total current assets	**1,212,990**	677,041
Non-current assets		
Intangibles, net *(note 10)*	**117,215**	30,300
	117,215	30,300
Total assets	**1,330,205**	707,341
Liabilities		
Current liabilities		
Trade payables and accrued liabilities *(note 11)*	**301,868**	169,573
Deferred revenue *(note 4.15)*	**4,345**	-
Due to related parties *(note 13)*	**2,496**	137,733
Total current liabilities	**308,709**	307,306
Total liabilities	**308,709**	307,306
Shareholders' equity		
Common shares *(note 12.2)*	**16,310,249**	15,399,817
Reserve for warrants *(note 12.3)*	**621,993**	130,461
Contributed surplus *(note 12.4)*	**4,174,669**	3,960,737
Accumulated deficit	**(20,085,415)**	(19,090,980)
Total shareholders' equity	**1,021,496**	400,035
Total liabilities and shareholders' equity	**1,330,205**	707,341

CO2 Gro 2020 Balance Sheet

GROW's balance sheet appears to be a weakness based on the year-end numbers but it has been solidified since then. As a result of the exercise of 4.9 million options and warrants in February, $700,000 was added to the balance sheet. This additional money gives CO2 Gro some additional time to operate before they start generating cash. There are 11.5 million warrants from the private placement in the money that

will generate $1.7 million as long as GROW maintains a share price similar to today (around $0.30).

In numerous podcast appearances, COO Aaron Archibald has said they expect to be cash-flow positive by year-end. If that is the case then GROW should have enough cash to execute on a business model that should not require a ton of capital to fund.

CO2 Grow 2020 Results: Income Statement

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, 2020	December 31, 2019
	$	$
Revenue *(note 15)*	**91,248**	11,137
Cost of sales *(note 16)*	**(200,190)**	(113,479)
Gross margin	**(108,942)**	(102,342)
Expenses		
Administration *(note 14.2)*	**96,686**	274,878
Amortization	**3,142**	1,843
Compensation	**166,245**	329,592
Consulting fees	**91,188**	72,783
Foreign exchange (gains) losses	**(10,541)**	33,860
Investor relations and public reporting costs	**139,485**	96,123
Professional fees	**106,345**	126,327
Research and development *(note 17)*	**83,739**	172,840
Share-based compensation *(note 12.5)*	**213,932**	323,042
Total expenses	**890,221**	1,431,288
Operating loss	**(999,163)**	(1,533,630)
CEBA grant component *(note 14.1)*	**12,387**	-
Change in expected credit loss and bad debts *(note 7)*	**(6,222)**	(1,657)
Gain on settlement of accounts payable *(note 11)*	**-**	59,090
Gain on sale of trademarks	**1,643**	-
Interest (expense) income	**(3,080)**	2,176
Loss and comprehensive loss for the year	**(994,435)**	(1,474,021)
Basic and fully diluted loss and comprehensive loss per share	**(0.014)**	(0.022)
Weighted average number of common shares outstanding	**72,578,247**	66,892,173

CO2 Gro 2020 Income Statement

While GROW made progress in 2020 they still lack meaningful revenue. The sales of 15 systems to hemp growers in Missouri were financed by the buyers, which led to a longer payout period. I expect the revenue number to be much larger in 2021 based on completed sales and potential large purchases in 2021.

Compensation was down significantly as GROW cut costs in early 2020 as there was uncertainty surrounding the pandemic. This is seen as well in professional fees.

Investor Relations Expenses

Investor relations and public reporting costs of $139,485 (2019 – $96,122)

The increase of approximately $44,000 was due in part to increased shareholder communications and reporting (approximately $15,000) together with increased investor relations consulting fees (approximately $29,000).

GROW had a meaningful increase in investor relations and public reporting costs. While $44,000 isn't a huge amount of money, I question whether the investor communications I see are worth the investment. Here are some examples of investor communication GROW is paying for:

While it is nice to get an update from the company this video, and all the other videos from Proactive Investors are just a repeat of the news release. I never understood the thinking behind paying for a promotion like this. The strategy is more logical if a company is leading up to a capital raise and hopes to increase awareness of their company and draw investors in for a capital raise.

For GROW they should not need money in the next year and if the share price remains close to where it is today the warrants from the private placement will be exercised by February 2022 when they expire. I get that companies want more investors to know about their company but I feel this is accomplished with execution. Investors, both big and small, will get to know CO2 Gro when they sign up a couple of large growers with full systems.

The podcast Chief Science Officer Dr. Julius did was much more informative. He discusses the actual technology and how it impacts growers. This is more of the type of marketing I think they should be doing instead of regurgitating news releases on Proactive Investors.

CO2 Gro 2020 Results: Cash flow Statement

CO2 GRO Inc.

Consolidated Statements of Cash Flow

(expressed in Canadian Dollars)

	Years ended	
	December 31, 2020	December 31, 2019
	$	$
Operating activities		
Net loss	**(994,435)**	(1,474,021)
Non-cash items:		
Adjustment on settlement amounts due to related parties *(note 13)*	**27,225**	-
Amortization and depreciation	**3,143**	1,843
CEBA grant component *(note 14.1)*	**(12,387)**	-
Change in expected credit losses and bad debts	**6,222**	1,657
Gain on settlement of accounts payable *(note 11)*	**-**	(59,090)
Interest accretion	**2,387**	-
Share-based compensation *(note 12.5)*	**213,932**	323,042
Net change in non-cash working capital items *(note 20)*	**86,458**	(65,157)
Cash used for operating activities	**(667,455)**	(1,271,726)
Financing activities		
Proceeds from issuance of common shares	**1,379,844**	-
Issue costs	**(5,105)**	-
Exercise of options and warrants	**-**	565,449
Proceeds from Government loan *(note 14.1)*	**40,000**	-
Proceeds from Government loan *(note 14.2)*	**15,000**	-
Repayment of Government loan *(note 14.1)*	**(30,000)**	-
Repayment of secured loan	**-**	-
(Repayment to)/advanced from related parties *(note 13)*	**(135,237)**	(142,963)
Cash provided from financing activities	**1,264,502**	422,486
Investing activities		
Purchase of intangibles	**(90,056)**	(32,143)
Cash used for investing activities	**(90,056)**	(32,143)
Increase (decrease) in cash for the year	**506,991**	(881,384)
Cash at beginning of year	**438,428**	1,319,812
Cash at end of year	**945,419**	438,428
Supplemental cash flow information		
Non-cash financing activities		
Related-party gain on settlement of debt *(note 11)*	27,225	282,635
Settlement of debt with issuance of shares *(notes 11 & 12.2(x))*	-	125,000

CO2 Gro 2020 Results: Cash flow Statement

There isn't much to see in the cash flow statement other than cash leaving the company via operations and the $1.4 million private placement. Share-based compensation was lower in 2020 compared to 2019, likely as a result of cost cutting measures implemented by the company.

CO2 Gro Business Development

There were some big business developments for CO2 Gro in 2020, including starting feasibilities with very large growers. There were also numerous delays on some very important feasibilities that impacted 2020. I will go through each of these feasibilities to track their progress and point out any interesting features. Some of this will be replicated from prior posts but as I was writing this post there were some important feasibilities that I have forgotten about.

Missouri Commercial Hemp Demonstration

In February 2020 GROW announced a hemp demonstration in Missouri. The growers had 22 greenhouses available to them with 15 installations completed by April. The really interesting part was that the hemp growers were part of a larger network growing for American Hemp Ventures. To date, there haven't been any follow-up orders with the 240 other hemp growers.

A quick look into American Hemp Ventures and they haven't published financials since their year-end report for 2019. An update from June 2019 showed 3 outstanding litigations involving American Hemp Ventures. With a current ratio of 0.63 as of June 2019, American Hemp Ventures does not appear to be in very good financial shape.

I did have a brief LinkedIn conversation with Levi Swanson of Linn County Seed and Flower outlined in my Q2 post. He said hemp seed growers could pay for their system in one harvest and if marketed properly CO2 delivery technology could be massive success. It is disappointing that additional hemp growers haven't made purchases.

U.A.E. Lettuce Trial

I've written about this trial in the past. It initially showed that GROW is able to enter a new market and make meaningful progress. Their partner Gulf Cryo found this grower. The installation and one grow cycle were completed in late April 2020. A minimum of 2 additional grow cycles was expected so the timeline for completion was vague.

Unfortunately, the trial was delayed with Ramadan cited as one reason which I was skeptical of. In the year-end MD&A COVID and "other issues related to the customer's business, the commercial feasibility is on hold". To date Gulf Cryo has not signed any other trials. I was excited for GROW to enter the Middle East market. The technology appears to be a great fit for the region but I'd say this trial has been a failure.

Michigan Cannabis Grower

In May 2020 a trial with a Michigan cannabis grower Nature's ReLeaf Holdings was announced. The trial was for a minimum of three months on both vegetative and flowering cannabis. Nature's Releaf had 30,000 sq. ft. of grow space at the time of the release. In the MD&A the grower's name has changed to Sunshine Lands and the trial is on hold after one grow cycle "while they develop a research and development protocol that will incorporate the commercial feasibility".

Canbud Canadian Hemp Grower

In May 2020 a hemp trial was announced with Canbud Distribution Corp. The trial is on a portion of a 2,000 sq. ft. hoop house for a minimum of 3 months. According to the 2020 MD&A the trial was completed and Canbud was pleased with the results. They asked that the purchase of the system be delayed until 2021 due to COVID impacts on the hemp market. Canbud is a publicly-traded company with the ticker CBDX on the CSE.

Columbian Rose Greenhouse

The Columbian rose feasibility study was done in collaboration with a global industrial CO2 gas supplier believed to be Praxair. This trial was delayed due to Columbian Customs clearance and will commence in the summer of 2021.

Leafy Greens Florida Trial

In July 2020 a trial with a Florida leafy greens grower was announced. The grower will trial CO2 Gro's technology on a portion of the greenhouse growing spinach. Leafy Greens has 120,000 sq. ft. of greenhouse space growing spinach, lettuce and other microgreens. Leafy Greens put the trial on hold while they address internal crop scheduling.

GROW's ability to protect against *E.coli* is a huge selling feature to leafy green growers. E.coli and salmonella are serious concerns for leafy green growers and recalls in this space are common. I anticipate the pathogen protection becomes an even more important part of GROW's value add to growers in the future.

Strong Agronomy Cannabis Trial

On July 29th, 2020 GROW announced a trial with Strong Agronomy in California. Strong Agronomy will be using CO2 delivery technology on their cannabis mother nursery. There is an additional opportunity with Strong Agronomy's blueberry and cannabis bud greenhouses. California is America's largest cannabis market so a successful entrance into California is very important.

The Strong Agronomy trial was delayed due to the California wildfires and resulting in poor light conditions. The trial is expected to start in the summer of 2021.

HidroExpo Pepper Trial

The HidroExpo trial I believe is the most important trial in 2020 and thankfully there have been no delays. The trial is on a 1-hectare (107,000 sq. ft.) pepper greenhouse. HidroExpo has an additional thirty 1-hectare greenhouses. GROW was introduced to HidroExpo through Lipman Family Farms who have greenhouses in Canada and the U.S.

According to the MD&A, the trial has met expectations and is scheduled to conclude at the end of June 2021 with the discussions concerning the purchase to commence after. GROW announced that HidroExpo had achieved a 20% increase in pepper yields.

"We are impressed with the 20% yield improvement as a result of applying aqueous CO_2 through our existing misting systems. The feasibility is being conducted at a scale which provides us the confidence that the results are accurate." Rodrigo Martinez, General Manager of HidroExpo

In recent podcasts, VP Aaron Archibald has said that they expect CO2 Gro to be cash flow positive by year-end. I expect management is confident the HidroExpo trial will convert to a sale on a major portion of HidroExpo's greenhouses in order to achieve cash flow for 2021.

Iowa Based Strawberry Grower

The significance of this grower is they are owned by Dan and Jerry's. Dan and Jerry's have 60 acres (2.4 million) square feet of greenhouse with 35 acres (1.5 million) dedicated to produce. The first grow cycle was completed with the second to start in the summer.

New Commercial Partners

In September GROW signed an agreement with Rika Biotech to market and sell GROW's technology in the UK, Netherlands and Belgium. I was initially skeptical of this agreement due to Rika's lack of experience in protected growing but as you will see below they have been successful in signing up growers.

I was equally skeptical about the Pharmacrop partnership that was announced in December for South Africa. They don't have a website and there is no information on the company. Pharmacrop did sign a trial in South Africa in 2021 which I will describe below.

Business Development in 2021

If 2020 was busy for CO2 Gro I expect 2021 to continue or increase that momentum. To date in 2021 GROW has signed numerous feasibility studies in various regions and for various plant types.

Plant Advanced Technologies

In January GROW announced a trial with Plant Advanced Technologies in France. This trial was facilitated by Rika Biotech. Plant Advanced Technologies has 30,000 sq. ft. of greenhouse where they grow medicinal plants for a variety of applications. The trial is for 6 months.

"We are excited to test the CO2 Delivery Solutions™ technology. I came across CO2 GRO online a few months back. Since our greenhouse does not currently use CO2 gassing, we believe our yields are lower than they could be. We grow a variety of medicinal plants for extracting compounds primarily from the roots. Previous data has shown enhanced biomass with added CO2 and we hope to achieve the same results on our plants." Jean-Paul Fèvre, CEO of Plant Advanced Technologies

It is good to see that word is spreading about CO2 delivery technology and the CEO sought out CO2 Gro. These types of inbound sales opportunities are critical for a small company with a small but expanding sales force.

Malaysia Commercial Feasibility

In January an interesting trial was signed with CH Green Sdn. from Malaysia. This trial is interesting because CH Green will conduct its own trial but also market and sell the CO2 delivery system. The CH Green installation will be used as a demonstration site for potential customers. Based on the quote from the news release CH Green approached GROW because of CH Green's involvement in the biogas sector in Malaysia.

Prism Farms

In February GROW announced their first trial in the greenhouse capital of Canada, Leamington, Ontario. This trial is significant because of the location and proximity to 80 million sq. ft. of greenhouse in the Leamington region. Additionally, Prism Farms already utilizes CO2 gassing to boost yields but due to heat venting, the yield increase is diminished in the summer months. If CO2 delivery technology provides enough value to Prism, even though they already use CO2 gassing, this will be a big win for GROW. I think the pathogen protection will also be a focal point of growers trialling misted CO2 compared to gas supplementation. This quote from Mike Tiessen is especially bullish:

"The management and growing team at Prism Farms Ltd is excited to pioneer this exciting new technology in the Leamington area. We are confident in the scientific merit and feasibility of this innovation and look forward to showcasing the benefits at commercial scale to a global audience. ***After successful implementation, a 27-acre roll-out is anticipated.*** *We are excited to work closely with the accomplished team at CO2 GRO."* Mike Tiessen, Prism Farms

Outdoor Macadamia Nursery

In March GROW announced a trial with a South African macadamia nut nursery in South Africa. This trial was facilitated by Pharmacrop. What's really interesting about this trial is the type of crop and design. This is the first trial on trees and also

the first outdoor trial. This image was taken off of Mountain View Nursery Facebook page.

CO2 ENRICHMENT HOLDS HUGE MACADAMIA POTENTIAL

PharmaCrop

12 MARCH 2021

PHARMACROP & CO2 GRO

Special Points of Interest:

- *CO2 enrichment for macadamias*
- *Increased growth and yields*
- *World first trials for macadamia seedlings*

MOUNTAIN VIEW NURSERY FIRST TO EMBRACE NEW TECHNOLOGY

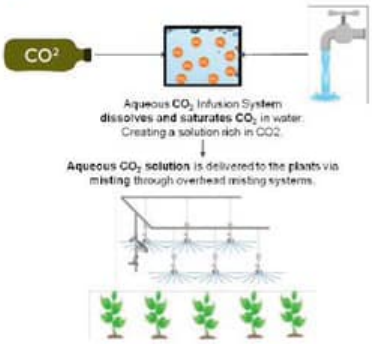
Mountain View macadamia nursery, located in Mpumalanga South Africa, has become the first nursery worldwide to implement a feasibility trial for the installation of CO2 enrichment on macadamia seedlings. With a unique method of application through CO2 infused water, CO2 can now be used on all shaded and protected growing areas with real potential to shake up the African agricultural sector. When asked, Ruan Van Der Westhuizen *(Group CFO)* stated *"We are excited to start the use of the CO2 GRO technology in partnership with Pharmacrop, which will enable us to enhance root development and produce trees in a shorter time."*

With the development of the macadamia industry it was only a matter of time before this high value crop started to adopt new technology to meet the increased expectations of growers. With the length of time which these trees take to reach full maturity the opportunity to decrease this timeframe by up to 30% is not one to be missed.

Early CO2 supplementation results have indicated dramatic improvement in sound kernel recovery while the anti-micro pathogenic properties hold great potential in the control of flower diseases.

Jason Field handing over the first worldwide CO2 enrichment trial for macadamias to Mountain View owner Peter Schroeder.

HOW IT WORKS



A key aspect is the simplicity of the design, tailor made for an African environment.

For more info contact: jason@pharmacrop.co.za

Source: Mountain View Nursery Facebook Page

Israel Cannabis Trial

In April GROW announced a trial with Pharmocann in Israel for a portion of their 8 acres (348,000 sq. ft.) cannabis greenhouse. This trial was initiated by a new marketing and sales partner, Greenmist Ltd. It appears GROW has quietly moved on from their first Israeli partner Dotz Nano. Greenmist appears to be another company, similar to Pharmacrop that was created with the sole purpose of selling CO2 delivery technology.

I'm undecided if this is a good thing or not. On one hand, the company's focus is selling CO2 delivery technology exclusively. On the other hand, if the company and its employees lack experience and connections in the industry the sales cycle might be even longer than they are now as they build credibility with growers. It's hard to form an opinion with such little information about Greenmist and Pharmacrop but both have successfully signed trials.

Cucumber Man Trial

In April GROW announced a tomato trial in Alberta, Canada with grower Cucumber Man. The trial will take place on a 3-acres of Cucumber Man's 12-acre greenhouse. This is another important trial as Cucumber Man already uses supplemental CO2. The trial will last 1 year and will be conducted in 3 different tomato types. The quote from Cucumber Man's President Wayne Stigter was interesting:

"The Cucumber Man prides itself on quality produce grown in an environmentally sustainable way. The increased yield and profit potential of CO2 GRO's technology is very appealing. Equally attractive is the opportunity to target a fraction of our current CO2 usage to the benefit of plant, without wasting a significant amount to the outside atmosphere. ***Reducing our carbon footprint is important to us and our customers."*** Wayne Stigter

CO2 Gro has been leaning into the environmental, social, governance (ESG) angle for the last little while. ESG is a popular investing theme right now so it is not surprising. GROW's technology does reduce CO2 gas usage by a significant margin for growers but I'm not sure they reduce enough total CO2 emissions to be a real value add for growers. The reduction in CO2 gas costs I do believe will factor into a growers decision.

UK Tomato Grower

In May GROW announced a trial with a UK tomato grower. The trial will be conducted for one year. Again, this is a grow where the greenhouse must vent out heat during the summer months which makes CO2 gassing inefficient. This is GROW's first trial in the UK and was facilitated by Rika Biotech.

CO2 Gro 2020 Results: Sales in 2020 and 2021

In addition to the numerous trials that were signed and started in 2020 GROW also sold some systems. While these sales are on the smaller side compared to the large customers that are currently in trials it is good to see GROW picking up some traction. With the exception of one sale, they were all done without trials.

Many of the sales were to Canadian micro cannabis cultivators while one sale was to a 20,000 licensed cannabis grower. These small sales are great and do add up over time but I'm still waiting for the big order to drop.

Outlook for 2021

2021 has started well for CO2 Gro and management appears confident they will finalize sales with large commercial feasibility customers. COO Archibald has stated that they expect the company to be cash-flow positive by year-end. In order to do this, they will need to secure some of these large growers.

To date, the company has not been able to reach its stated goals. In order for management to gain credibility with the market, they need to start meeting these goals. I wrote in my Q3 post that the company again failed to meet stated goals for 2020. GROW's goal was to reach EBITDA positive by 2020, which did not occur. It is difficult to forecast when growers will make their final decision and purchase a system. Since the final decision is out of CO2 Gro's hands then they should refrain from providing goals until they are much more established. What bothers me more is when they state a goal and back away from it without acknowledging they did not achieve it. This happened in 2020 and also very early after commercializing CO2 delivery technology.

CO2 Gro 2020 was a successful year for the company in my opinion even if they did not close a big deal. The comments from growers are more positive than ever. The

amount of delays in 2020 is concerning. My hope is that the company has learned from these delays and devised strategies to avoid them in the future. Some of the delays were unavoidable like the wildfires in California.

2021 is poised to be a big year for CO2 Gro. HidroExpo is expected to complete its trial at the end of June. This trial was done on 107,000 sq. ft. of grow space so there should be no question that CO2 delivery technology can scale up to meet their demands. If GROW can close this deal in 2021 I think it could be the tipping point for the company to really get recognized by both growers and investors.
