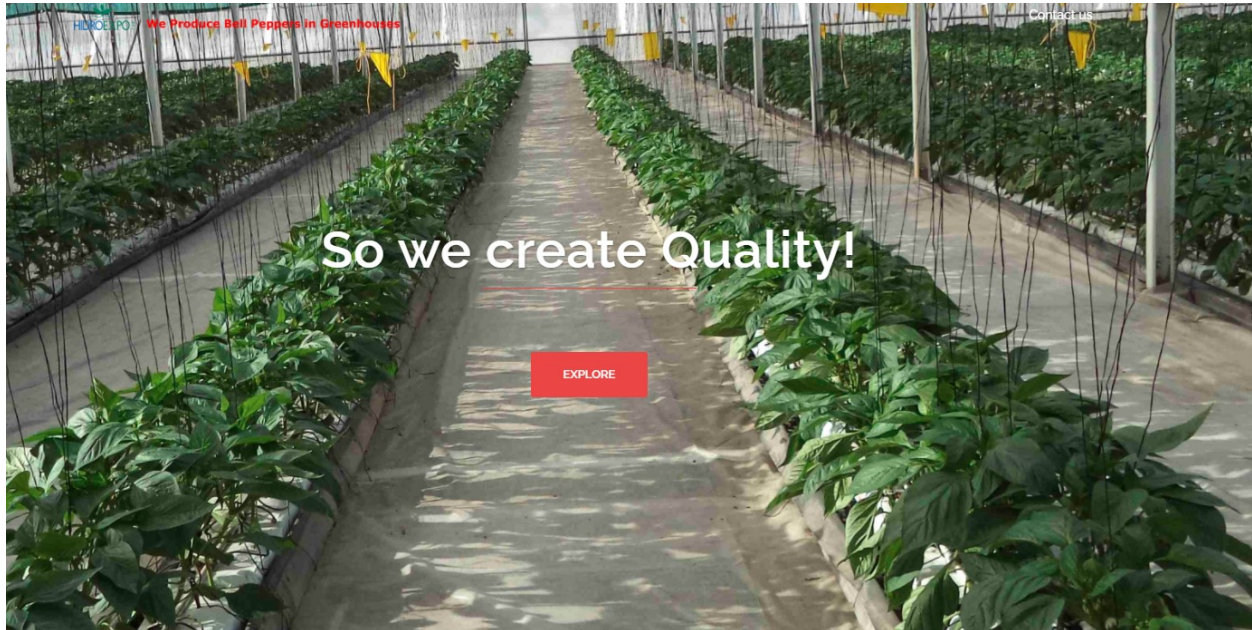


# Battleship Investing Blog



## CO2 Gro Q2 2020 Results

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On August 20th, CO2 Gro Q2 2020 results were released.

There isn't a ton of information to be gathered from the financials. Cash on the balance sheet at the end of June was \$158,000. That included a \$40,000 Canadian loan.

Revenue for the quarter was \$34, 179.

CO2 Gro has announced some significant commercial feasibility studies in the Q2 and Q3.

The big news came on August 17th when CO2 Gro announced they had [secured funding](#) from Ospraie Ag Science for \$1.38 million.

My previous posts on CO2 Gro can be seen here:

- [CO2 Gro Q1 2020 Results](#)
- [CO2 Gro 2019 Results | Talk with Management](#)

Disclosure: I own shares of CO2 Gro Inc. (GROW.V)

## CO2 Gro Q2 2020: Balance Sheet

### Unaudited Interim Consolidated Statements of Financial Position

(expressed in Canadian dollars)

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

The need for cash has been evident for a while. As you can see above the company didn't have enough cash and accounts receivable to cover current liabilities. The cash situation was resolved for the time being with the private placement which I will write about more below.

Inventory continues to build and has been building since the end of 2019. It looks like management wants to be ready when the commercial feasibility growers outfit the rest of their growing area with CO2 delivery solutions.

The company now has a tiny amount of debt in the form of a government loan. It's inconsequential.

## CO2 Gro Q2 2020: Income Statement

### Unaudited Interim Consolidated Statements of Loss and Comprehensive Loss

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

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

CO2 Gro Inc. Q2 2020 Income Statement

Revenue continues to be very modest. Revenue is currently being generated by commercial feasibility studies. Some of the studies should be concluding soon so hopefully, we see some contract announcements.

GROW was focused on reducing expenses which can be seen in the 6 months of total expenses. With some cash in the bank, I expect expenses to start rising again to try and drive business growth.

## CO2 Gro Q2 2020: Cash Flow Statement

### Unaudited Interim Consolidated Statements of Cash Flow

(expressed in Canadian Dollars)

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



Again, not much to see on the cash flow statement. Cash used in operations is down significantly compared to the first half of 2019 due to cash preservation strategies.

## MD&A Notes

### Commercial Feasibility Updates

Grower	Plant	Number	Start Date	Projected End Date	Potential Opportunity
Tumbleweed Farms	Cannabis	1	Q2 2019	Purchased system	
Niagara Region	Floriculture	1	Q4 2019	Unknown	500,000 sq. ft.
CannabCo (my guess)	Cannabis	1	Q4 2019	June 2020	17,500
Missouri Hemp	Hemp	15	Q1/Q2 2020	Q3 2020	250 greenhouses
UAE Installation	Lettuce	1	Q2 2020	Q2 2020	75,000 sq. ft.
Canadian Micro	Cannabis	1	Q2 2020	Q2 2021	2,150 sq. ft.
Canbud	Hemp	1	Q2 2020	Q3 2020	16,000 sq. ft.
Sunshine Lands (Michigan)	Cannabis	1	Q2 2020	Q3/Q4 2020	30,000 sq.ft.
Colombian Rose Grower	Floriculture	1	Q3 2020	Unknown	Unknown
Florida Greenhouse	Leafy Greens	1	Q3 2020	Unknown	120,000 sq.ft.
Costal Star Cannabis	Cannabis	1	Q3 2020	Unknown	8 greenhouses
Canadian Micro Grower	Cannabis	1	Q3 2020	Q1/Q2 2020	2,150 sq. ft.
El Salvador Hydroexpo	Pepper	1	Q3/Q4 2020	Q2 2021	3.2 million
	Total:	27			

Co2 Gro Installations and Commercial Feasibility

### Missouri Hemp Installations & Conversation with Levi Swanson

Closest to further revenue are the fifteen US hemp greenhouses with March 2020 installations that are now completing their one grow cycle feasibility duration. Owners will decide shortly whether to buy their installed systems at a pre-determined price. Two down payments have already been made by the hemp greenhouse owners.

The \$34,000 in revenue in Q2 was mainly from the second installment paid by the Missouri growers. Back at the beginning of June, I messaged with Levi Swanson. Mr.

Swanson is the owner of Linn County Seed and Flower. Linn County Seed and Flower have 13 of the 15 Missouri hemp installations.

His comments about the CO2 delivery system and the company were glowing. Here are some quotes from our brief conversation:

*“Hey Blair, we love our systems. Considering we grow for seed production, it will pay for itself multiple times over in our first harvest!”*

I asked what it was like to work with the CO2 Gro team:

*“They were great, they all came down to see the farm. Including executive team, which is rare in my experience.”*

I explained that I was an investor in the company. I asked if he thought the CO2 delivery system would become an essential piece of technology for growers:

*“Congrats! I think if it is marketed correctly it could, be a massive success. I hope to be helpful on that front. “*

Mr. Swanson also said that Linn County Seed and Flower would install CO2 delivery systems in their remaining greenhouses. They currently have 13 of 22 outfitted. I tried to set up a phone call with Mr. Swanson but was unsuccessful.

## **United Arab Emirates Lettuce Feasibility**

In the UAE, an ongoing commercial feasibility first installed in March 2020 at a 75,000 square foot hydroponic greenhouse UAE is recommencing a third grow cycle on seven lettuce varieties using CO2 Delivery Solutions™ system. The two-month pause post the completion of the second lettuce grow cycle was due mainly to COVID-19 related restart delays. The UAE grower can buy or lease a full-size CO2 Delivery Solutions system any time after the third lettuce grow cycle is completed.

## **UAE Lettuce Update**

It is disappointing that there was a delay in the decision by the UAE grower. It's only two months but investors are getting impatient, myself included.

## **New Commercial Feasibility Installations**

CO2 Gro announced some exciting commercial feasibility installations in Q2 and into Q3. I'd like to focus on the California cannabis installation, Colombian floriculture installation and the El Salvador pepper installation.

## Strong Agronomy Cannabis Installation

On July 29th, CO2 Gro announced they would be [installing a CO2 delivery system](#) at Strong Agronomy's Coastal Star cannabis nursery, located in California. The CO2 delivery system will be trialled on cannabis mother plants. Coastal Star has 8 cannabis mother greenhouses. They also have blueberry and cannabis bud greenhouses.

I have been unable to find a square footage number that Strong Agronomy manages. I did find [this article](#) from early 2020. Strong Agronomy is focused on being an organic provider of food and cannabis while generating as little waste as possible. The company sounds very progressive and open to trying new technology.

In the CO2 Gro news release, they estimate that 90% of the CO2 gas used in the cannabis bud greenhouses is wasted. Gas savings could be another angle GROW can use to enter the cannabis bud greenhouses. Aqueous CO2 delivery is a more efficient use of CO2 than gassing reducing CO2 use and reducing waste.

An entrance in California is a very important accomplishment for GROW. The California cannabis market is projected to reach [\\$5 billion in 2022](#). California is much more than cannabis. In 2018 California's agriculture sector generated \$50 billion. This was 13% of the total agriculture production of the United States. If GROW can succeed with Strong Agronomy this could lead to further installations in a massive market.

## Colombian Rose Greenhouse

GROW [announced an installation](#) with a Colombian rose grower. There are no specifics mentioned about the grower in the new release.

The interesting part of this installation was it will be done in collaboration with a "leading global industrial CO2 supplier". Thanks to the crew on the Stockhouse CO2 Gro board and SpenceW15 who were able to recall this [news release](#) from July of 2019. GROW mentions they are hoping to start a flower grow trial in Colombia initiated by Praxair.

Linde and Praxair merged to create a company with \$29 billion in sales in 2019. If GROW signed an agreement with Linde/Praxair similar to the Gulf Cryo deal (no royalties or revenue paid to the gas supplier) then I think this is an important accomplishment. It is discouraging to know it took 1 year for the commercial feasibility to become official.

## EI Salvador Pepper Installation

On [August 26th GROW announced](#) an interesting feasibility with an EI Salvador pepper grower Hidroexp0. The feasibility is being installed on a 1-hectare (107,639 sq. ft.) pepper greenhouse. This is a large opportunity for GROW as the grower has 29 additional 1-hectare greenhouses.

The most interesting item in the news release is that Lipman Family Farms made the introduction to Hidroexpo. Lipman Family Farms is America's largest field tomatoes grower. They also have greenhouses in the U.S. and Canada. I've been trying to find a square footage number for Lipman's greenhouses but I didn't find one.

The connection with Lipman has the potential to be huge. Not only can Lipman install GROW's technology in their greenhouses but as we see with this feasibility they also have an influence on growers they source from.

## **Private Placement**

I will readily admit I am no expert on public company financing. I will offer my two cents regardless.

[On August 17th CO2 Gro announced a \\$1.38 million private placement](#) at \$0.12 per share for a total of 11,498,695 shares. Attached is a full warrant per share at \$0.15. Even more important than the share price, Ospraie Ag-Tech Investment Fund is purchasing the entire private placement.

My first reaction is the dilution is difficult to swallow. The raise is being done at an all-time low which it seems is all too common in Canadian micro caps. If you've read any of my previous posts I've commented frequently that the company was running out of money. It felt like, to me anyway, that the cash crunch was projectable so why not raise money at a better share price.

I'm not suggesting that GROW should have had the foresight to try and raise money at \$0.40 but to complete the raise near all-time lows is disappointing. VP Sam Kanes explained that GROW has been working on financing starting in July of last year. Ospraie began their due diligence on the company in May of this year. Unfortunately during due diligence, the share price declined to \$0.10.

It is also important to note that management and the board of directors did participate in the private placement to the tune of 1.5 million shares.

## **Private Placement Structure**

I think I will save digging into Ospraie for another post. To conclude this post I'd like to look a little more closely at the private placement structure. I found this article on Veritas Vatillum extremely helpful:

## **[The True Costs of a Private Placement Financing on Canada's Venture Exchanges](#)**



The quick takeaways from Trevor's article are:

- financing is expensive, even more so when marketing is required;
- most private placements are done at a discount to market price;
- warrant overhang can impair a company's stock price movement;
- attracting long-term shareholders is a real challenge.

So let's look at the private placement through these four criteria.

- No commission or finders fees were paid out of the \$1.38 million since it was a non-brokered private placement. I don't foresee GROW having to do additional marketing. The entire private placement amount goes to GROW to invest in the company's growth;
- I have mentioned above that I wasn't pleased with the price of the PP, however, it was done at a premium to the market price (20% premium) which is obviously better than at a discount;
- A full warrant is attached to each share and expires on February 12th, 2022. The warrant overhang can constrict the stock price movement as investors wait to see if the warrants are exercised or not. If warrants are exercised it adds an additional 11.5 million shares that can now free trade in the market. The supply of shares greatly increases. Some investors may sell shares purchased in the PP to fund the exercise of their warrants. I don't think this is a concern since Ospraie purchased the entire PP.
- Based on what I have read about Ospraie GROW found a very knowledgeable and committed investor. Ospraie specializes in ag-tech investments. They have a very experienced leadership team which has worked many years in the agriculture business. According to their website, they have 12 investments in ag-tech that are multi-million investments. The anticipation is Ospraie will be a long-term investor in GROW and provide guidance and assistance where they are able.

## **CO2 Gro Q2 2020: Conclusion**

CO2 Gro has released multiple interviews with VP Aaron Archibald. In addition to the announced commercial feasibility studies, he also mentions feasibility studies coming to Israel, Western Europe and Japan.

With \$1.38 million in the bank the company now has the resources to commercialize its technology. Since the private placement was announced the stock price has risen to \$0.17 from \$0.10 so hopefully some investors are returning now that the balance sheet has some cash on it.

VP Archibald has stated the goal is to be EBITDA neutral by year-end and cash-flow positive in 2021. I think it is also important to remember that management is not being

paid in cash. This means that they may reach EBITDA positive by year-end but it is slightly misleading until management starts to take a salary.

Since I began investing and following CO2 Gro the excuses have been plentiful. From the installation that never materialized on one of their first two customers, the delays last year because customers didn't want to engage them in the summer, the spur of the moment \$10 million revenue projection, and the list goes on.

With Ospraie in the fold and a member of their leadership team on the board, I hope the excuses end and the execution begins.

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