

Battleship Investing Blog



CO2 Gro Q3 2020 Financials

On November 16th CO2 Gro Q3 2020 financials were released.

There isn't a ton of information that can be learned from the financial statements. Cash on the balance sheet increased due to the non-brokered private placement that was completed in Q3.

Expenses are down from 2019 as a result of expense cutting measures the company put into place.

There are some significant news releases in Q3 and Q4. I'll try and provide some insight or opinion on these releases and what I think they mean for the company.

For my previous posts on CO2 Gro Inc. you can find them here: [Q2](#), [Q1](#).

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

CO2 Gro Q3 Financials

Similar to last quarter I'm not sure there is a ton of analysis to do on GROW's financial statements. I'll make a couple of points and move on to the news releases that were made this past quarter and more recently.

CO2 GRO Inc.

Unaudited Interim Consolidated Statements of Financial Position

(expressed in Canadian dollars)

As at	September 30, 2020	December 31, 2019
	\$	\$
Assets		
Current assets		
Cash	1,211,253	438,428
Sales taxes recoverable	24,093	28,953
Accounts receivable (note 6)	27,936	7,193
Prepaid expenses (note 7)	30,619	22,848
Inventory (note 8)	213,661	179,619
Total current assets	1,507,562	677,041
Non-current assets		
Intangibles, net (note 9)	96,087	30,300
Total non-current assets	96,087	30,300
Total assets	1,603,649	707,341
Liabilities		
Current liabilities		
Trade payables and accrued liabilities (note 10)	242,367	169,573
Due to related parties (note 13)	3,911	137,733
Total current liabilities	246,278	307,306
Total liabilities	246,278	307,306
Shareholders' equity		
Common shares (note 12.2)	16,315,354	15,399,817
Reserve for warrants (note 12.3)	650,032	130,461
Contributed surplus (note 12.4)	4,170,188	3,960,737
Accumulated deficit	(19,778,203)	(19,090,980)
Total shareholders' equity	1,357,371	400,035
Total liabilities and shareholders' equity	1,603,649	707,341

Going concern (note 1)
Significant contracts and commitments
and contingencies (note 16)

Approved for issuance by the Board on November 17, 2020

"Rose Marie Gage", Independent Director

"Michael Boyd", Independent Director

CO2 Gro Q3 2020 Balance Sheet

The cash on the balance sheet is a result of the non-brokered private placement completed in Q3 for \$1.38 million. I shared my thoughts on the private placement in my Q2 post. While the raise at such a low share price was frustrating Ospraie Ag Science appears to be a great partner for GROW. GROW continues to have a decent amount of inventory on hand to be ready for big orders. If I recall correctly they have enough inventory for 5 million square feet of installations.

	3 months ended		9 months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	\$	\$	\$	\$
Revenue	24,857	7,402	100,331	81,690
Cost of sales (note 14)	(32,097)	-	(84,724)	(3,325)
Gross margin (loss)	(7,240)	7,402	15,607	78,365
Expenses				
Administration (note 11.2)	17,012	90,620	57,349	171,404
Amortization and depreciation	910	9,799	2,079	17,257
Compensation	16,082	91,719	96,753	239,493
Consulting fees	22,500	11,762	68,688	46,762
Foreign exchange (gains) losses	(600)	(2,179)	(1,551)	35,680
Investor relations and public reporting costs	69,457	47,770	98,231	91,454
Professional fees	20,119	69,959	86,901	110,959
Research and development non-compensation (note 15)	24,225	87,263	62,689	189,904
Share-based compensation (note 12.5)	125,093	151,258	237,490	317,308
Total expenses	294,798	557,671	708,629	1,220,221
Operating loss before other items	(302,038)	(550,269)	(699,022)	(1,141,856)
Other items:				
CEBA grant component (note 11.1)	(611)	-	12,387	-
Interest income (expense)	(1,642)	-	(2,849)	1,212
Change in expected credit losses	(2,961)	-	(3,739)	-
Gain on settlement of accounts payable (note 10)	-	-	-	59,090
	(5,214)	-	5,799	60,302
Income (loss) and comprehensive income (loss) for the period	(307,252)	(550,269)	(687,223)	(1,081,554)
Basic and fully-diluted income (loss) and comprehensive income (loss) per share	(0.00)	(0.01)	(0.01)	(0.02)
Weighted average number of common shares outstanding	74,366,295	67,657,091	70,215,306	66,548,597

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

CO2 Gro Inc. Q3 2020 Income Statement

As we will see in the news releases below GROW completed the sale to the Missouri hemp growers for 15 units. The growers are financing the units so payments will come in over an

undisclosed amount of time. It's nice to see some income coming in and the financed sales will level out some of the lumpiness that is going to be common in GROW's sales.

Total expenses in 2020 have been significantly less than in 2019. This is due to the cash preservation strategies that GROW initiated earlier in the year. It's good to see this type of cost discipline and I hope it continues but I understand the company is investing in itself to fund growth and sales.

CO2 GRO Inc.

Unaudited Interim Consolidated Statements of Cash Flow

(expressed in Canadian Dollars)

<i>Nine months ended September 30,</i>	2020	2019
	\$	\$
Operations		
Net loss	(687,223)	(1,081,554)
Non-cash items:		
Amortization and depreciation	2,079	17,257
Changes in expected credit losses	3,739	-
Gain on settlement of accounts payable <i>(note 10)</i>	-	(59,090)
IAS 20 adjustment on interest-free loan <i>(note 11.1)</i>	(12,387)	-
IFRIC adjustment on shares issued for debt <i>(note 10)</i>	-	282,635
IFRIC adjustment on settlement of amounts due to related parties <i>(note 13)</i>	27,225	-
Interest accretion	2,387	-
Share-based payments	237,490	317,308
Net change in non-cash working capital items:		
Accounts receivable	(24,481)	(75,360)
Prepaid expenses	(7,771)	(6,898)
Sales taxes recoverable	4,860	(20,673)
Inventory	(34,042)	-
Trade payables and accrued liabilities	100,019	(314,232)
Cash used for operations	(415,332)	(940,607)
Financing activities		
Issuance of common shares	1,379,844	-
Exercise of warrants	-	402,500
Exercise of options	-	121,700
Related-party loans repaid	(133,822)	(235,572)
Government loan <i>(note 11.1)</i>	40,000	-
Repayment of government loan <i>(note 11.1)</i>	(30,000)	-
Cash provided from financing activities	1,256,022	288,628
Investing activities		
Purchase of equipment	-	(192,093)
Purchase of intangibles	(67,865)	-
Cash used for investing activities	(67,865)	(192,093)
Increase (decrease) in cash for the period	772,825	(843,982)
Cash at beginning of year	438,428	1,319,812
Cash at end of period	1,211,253	475,830

Supplemental cash flow information *(note 18)*

CO2 Gro Inc. Q3 2020 Cash Flow Statement

In the cash flow statement, we again see the results of the cost-cutting measures instituted earlier in the year. For a company that is generating interest globally only using \$415,000 in cash so far in 2020 is commendable.

Capitalization Table

Outstanding securities

As at the date of this Interim MD&A, the Company has the following securities outstanding:

Security	Number outstanding
Common shares	79,615,699
Options	6,775,598
Warrants	15,461,195

CO2 Gro Inc. Capitalization Table

After the completion of the non-brokered private placement with Ospraie here is the updated cap table. The level of dilution is not pretty when you look at a year over year comparison. I'm sure GROW hoped they would have had enough sales by now to support the business and not have to raise money. It's difficult to predict how fast customers will be willing to adopt a product that is a game-changer like GROW's co2 delivery technology.

CO2 Gro Q3 2020: Business Developments

There was lots of important news develops for GROW in the quarter. It was the busiest quarter I think the company has had. The pace of development by GROW in 2020 has clearly accelerated compared to 2019.

[CO2 GRO Inc. Announces a Commercial Feasibility at an Iowa based Strawberry Greenhouse](#)

This is an interesting announcement because it is one of the first fruit grower signing up for a study. The study is for a portion of an 11,260 square feet greenhouse. The big potential is for the grower's additional acres. Dan and Jerry's Greenhouses has millions of square feet of greenhouse. On their website, they have 60 acres or 2.6 million square feet. Dan and Jerry's are an example of the size of opportunities GROW are pursuing.

[CO2 GRO Inc. Signs Exclusive Marketing Agreement with UK based Rika BioFuel Developments Limited to service the UK, Netherlands and Belgium Greenhouse Markets](#)

Rika Biofuels seems like an odd fit. Rika is a developer of agri-waste products. Similar to a more well-known name, Xebec Absorption. Based on what I can find on Rika Biofuels they have no greenhouse experience. They service and install anaerobic digesters that turn waste into useable fuel. My concern is that Rika does not have experience in greenhouses. Sales staff will need to understand how GROW's CO2 technology affects numerous different plant types. No easy task.

The details of the Rika partnership are interesting. Rika has a "one-year rolling exclusivity in the UK, Netherlands and Belgium based on minimum sales targets achieved." It feels like GROW has an easy "out" built in to this partnership should Rika fail to generate sales. Additionally "Rika will purchase CO2 Delivery Solutions™ system components from GROW with pricing on a project-by-project basis for resale to Rika customers."

The gold standard of partnerships is still the Gulf Cryo deal. Gulf Cryo does not take any portion of the revenue or profit from sales, instead, they get the rights to sell CO2 gas to the customer.

[CO2 GRO Inc. Continues to expand its International Marketing Partners engaging South Africa's Pharmacrop Pty Ltd. In an Exclusive Marketing Agreement](#)

There is even less info Pharmacrop than Rika Biofuels. All I could find on Pharmacrop is a newly created Facebook page with very little info on it. The nice thing about this partnership is Pharmacrop appears solely focus on aqueous co2 application and claims to be "Africa's first CO2 enriched water solutions provider." It almost looks like Pharmacrop was started to sell CO2 delivery solutions.

[CO2 GRO Inc. is pleased Announce the Sale of a Third CO2 Delivery Solutions™ Commercial System to an Ontario Licensed Cultivator](#)

Recently GROW has sold 3 systems to small cannabis growers, 2 in British Columbia and 1 in Ontario. These little sales are promising and are a good grassroots way to spread the word about CO2 Gro's technology.

The important detail from the news release is this quote from the customer. GROW's customer commented, "According to my return-on-investment criteria of a one-year payback, a mere 7% increase in yield justified purchasing the system."

This grower required a one-year payback on their investment in the CO2 delivery system. Testing has shown that GROW's technology provides a 30%+ increase in cannabis yields, so the customer will recoup their investment multiple times over in the first year.

This is consistent with the information I was provided by Levi Swanson. Swanson is the owner of Linn County Seed and Flower and one of the Missouri growers that purchased a system. Swanson said his system paid for itself multiple times over on the first grow.

The statements from the most recent grower and Levi Swanson tell me that GROW is underpricing its technology to try and get it in the hands of growers. Once GROW becomes more established they should have the ability to significantly increase prices.

[CO2 GRO Inc. Selected by Sente Foundry LLC to Participate in its Indoor AgTech Program](#)

The industry recognition of GROW's technology continues. GROW was selected to participate in [Sente's Indoor Ag Tech program](#) Sente is a start-up investment company that focuses on mentoring start-ups to help them achieve success.

Sente partnered with GrowRay Lighting Technologies and Nobo and selected 8 companies to participate in the Indoor Ag Tech program. The end result of the program is at least 3 companies are selected to pilot their technologies in a state of the art growing facility. If successful GROW could also be a candidate for investment from Sente.

GROW's CO2 delivery technology is significantly different than the other 7 companies selected to participate. From a quick look at the other participants, they appear to be mostly software companies with AI integration while GROW is a much simpler, easily quantifiable, technology. The results from the CO2 delivery technology can be observed with the naked eye as plant growth accelerates when CO2 foliar spray is applied.

The "winners" are selected in the second week of January so we should get an idea of how GROW did around then. It is hard to quantify how important this is to GROW but the additional exposure certainly can't hurt.

CO2 Gro 2020 Business Goals

Since 2020 is coming to a close I wanted to review the goals set out by the company earlier in the year. The problem was that CO2 Gro was no longer referencing the goals they identified earlier in the year. I had to email the company to get access to the following slide:

2020 Goals

- 1) Generate sufficient revenue to reach positive EBITDA by year-end.
- 2) Have at least one Flagship Commercial Installation greenhouse customer in each target crop vertical (cannabis, hemp, lettuce, peppers, tomatoes, microgreens).
- 3) Have at least one Flagship Commercial Installation greenhouse customer in the UAE and Israel.
- 4) Add a European greenhouse Agri-Industrial partner for EU sales.
- 5) Expand our Patent Portfolio with IP that enhances our technology's value to customers.



CO2 Gro Inc. Q2 2020 Corporate Presentation

My first comment is why isn't this slide included in more recent presentations? I'll go through each point but overall I think it was a successful year for the company. By not including the slides in more recent presentations it appears the company is distancing itself from goals it set for itself.

2020 Goals

1. **Generate sufficient revenue to reach EBITDA positive:** This is the most important goal for GROW and one they did not achieve. Michael O'Connor (Investor Relations for CO2 Gro) said that sales cycles for larger facilities were longer than expected. There is clearly interest from big growers based on the feasibility studies that have been signed or are underway. He said that completion dates are now into Q1 or Q2 2021;
2. **Have at least one Flagship Commercial installation in each target crop vertical:** Michael said this goal was achieved with the exception of cannabis and hemp. GROW did achieve 15 installations in Missouri for hemp growers and cannabis grow in California with Strong Agronomy which has been delayed. I'd say this goal was mostly achieved;
3. **Have at least one Flagship installation in the UAE and Israel:** The UAE lettuce grow satisfies half of this goal. Israel has been more difficult and COVID restrictions have not helped. Michael said their partner in Israel, Dotz Nano continued to work in Israel. Based on comments made by VP Aaron Archibald in one of his interviews an installation in Israel is being worked on so hopefully that goal is satisfied in early 2021;

4. **Add a European partner for EU sales:** Grow signed an agreement with Rika Biofuels which I've commented on above;
5. **Expand Patent Portfolio with IP that enhances technology value:** Michael felt this goal was achieved as patent applications are in process.

CO2 Gro Q3: Delays, Delays, Delays

The long duration of sales cycles is continuing to hold the company back. COVID travel restrictions and overall issues the pandemic have caused I'm sure explain some of the delays.

1. **Canadian Cannabis producer (Cannabco):** This study was announced in December 2019 and scheduled to conclude in June 2020. The project was delayed due to COVID related concerns but is now underway;
2. **UAE lettuce study:** This study was announced on April 22nd and by that time the system was installed and one harvest of lettuce was completed. The completion of the study was delayed by Ramadan and COVID-related staffing issues. I'm skeptical of the Ramadan excuse since Ramadan is roughly the same time every year. It shouldn't have been a surprise that Ramadan would occur within the study;
3. **Strong Agronomy:** This study was announced on July 29th. There was no timeline for this study but it has yet to commence. The study will start in 2021 and was delayed by the California wildfires;
4. **Columbian Rose Greenhouse:** This study was announced on June 24th but has yet to start. The study will start at the end of 2020 or January 2021. The delays in this study are due to Columbian customs clearance issues.

The consistent delay is a trend I'm not too keen on watching continue. It is only fair to remind myself that the world is in a pandemic that no one could have prepared for. It has certainly hampered GROW's ability to get key executives in front of large growers. Even with the world in turmoil, the company has made great strides in 2020 but I'll be keeping a close eye on execution. The \$1.3 million raised in the private placement won't last forever.

CO2 Gro Q3 2020: Conclusion

Grower Markets Seeded

Feasibilities underway in 11 plant varieties, 8 facility designs, 3 Canadian provinces, 5 US states, and 5 different countries through Q3 2020.



- **Hemp Seeds** – Missouri hoop houses (15).
- **Hemp Mothers** – Ontario hoop house.
- **Cannabis** – Michigan indoor, Canada indoor/micro (3).
- **Cannabis Mothers** – California greenhouse.
- **Lettuce** – UAE greenhouse.
- **Spinach** – Florida hydroponic greenhouse.
- **Kale** – Ontario container.
- **Flowers** – Ontario greenhouse.
- **Roses** – Colombia greenhouse.
- **Peppers** – El Salvador greenhouse.
- **Strawberries** – Iowa greenhouse.

It is pretty clear that business development for GROW has picked up in the 2nd half of 2020. GROW has signed up some serious growers for commercial feasibility studies. While the sales to the 2,000 square foot growers are important the study with Dan and Jerry's, Strong Agronomy and Hidroexpo are opportunities that can really put CO2 Gro on the map.

The pressure on lawmakers in the U.S. to legalize cannabis could provide a boost to GROW. In the most recent election, numerous states voted to legalize recreational cannabis. 15 states have legalized recreational cannabis. Legalized cannabis in the U.S. could provide a boost in opportunities. It is important to remember that cannabis isn't the only crop vertical GROW is active in. CO2 Gro now has studies active in numerous plant types and countries and I hope to see more studies and deals announced early in 2021.

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