Battleship Investing Blog

June 2, 2020

CO2 Gro Q1 2020 Results

On May 21st, 2020, CO2 Gro Q1 2020 results were released. We are starting to see revenue come in from the Missouri hemp installations but it is still early days.

The major concern is cash is dwindling. The cash balance and commercial feasibility success are my main focus with CO2 Gro at this point in time.

This post will be much shorter than my full year 2019 results post. To see my previous post click here.

Disclosure: I own shares of GROW.V

1.1 CO2 Gro Q1 2020 Results

1.2 Balance Sheet

As at	**March 31, 2020**	December 31, 2019
Assets	**$**	$
Current assets		
Cash	**136,229**	438,428
Sales taxes recoverable	**34,055**	28,953
Accounts receivable *(note 6)*	**20,708**	7,193
Prepaid expenses *(note 7)*	**8,389**	22,848
Inventory *(note 8)*	**191,319**	179,619
Total current assets	**390,700**	677,041
Non-current assets		
Intangibles, net *(note 9)*	**81,575**	30,300
	81,575	30,300
Total assets	**472,275**	707,341
Liabilities		
Current liabilities		
Trade payables and accrued liabilities *(note 10)*	**234,054**	169,573
Due to related parties *(note 12)*	**64,430**	137,733
Total current liabilities	**298,484**	307,306
Total liabilities	**298,484**	307,306
Shareholders' equity		
Common shares *(note 11.2)*	**15,399,817**	15,399,817
Reserve for warrants *(note 11.3)*	**158,500**	130,461
Contributed surplus *(note 11.4)*	**3,998,320**	3,960,737
Accumulated deficit	**(19,382,846)**	(19,090,980)
Total shareholders' equity	**173,791**	400,035
Total liabilities and shareholders' equity	**472,275**	707,341

CO2 Gro Inc. Q1 2020 Balance Sheet

Similarly to the end of 2019 GROW is running out of cash. The company is down to $136,000 with $234,000 in payables. The cash crunch is very real. Something will have to be done soon to boost their working capital.

You will see in the MD&A section that the company received a small loan and a grant from the government. These are only a temporary stop-gap and provide a month or two worth of cash.

Inventory continues to increase. This is a good sign. Management is preparing for further commercial feasibility studies or installations.

1.3 Income Statement

	3 months ended	
	March 31, 2020	March 31, 2019
	$	$
Revenue	**41,295**	6,650
Cost of sales ***(note 14)***	**(35,701)**	(3,325)
Gross margin	**5,594**	3,325
Expenses		
Administration	**45,853**	51,830
Amortization & depreciation	**361**	610
Compensation	**80,287**	71,036
Consulting fees	**23,688**	22,500
Foreign exchange (gains) losses	**(1,668)**	13,604
Investor relations and public reporting costs	**27,424**	22,830
Professional fees	**30,477**	11,756
Research and development *(note 13)*	**22,899**	54,694
Share-based compensation *(note 11.5)*	**65,622**	166,050
Total expenses	**294,943**	414,910
Operating loss	**(289,349)**	(411,585)
Change in expected credit losses *(note 6)*	**(2,517)**	-
Interest income	**-**	1,210
Loss and comprehensive loss for the period	**(291,866)**	(410,375)
Basic and fully-diluted loss and comprehensive loss per share	**(0.00)**	(0.01)
Weighted average number of common shares outstanding	**66,892,173**	64,514,505

CO2 Gro Inc. Q1 2020 Income Statement

GROW reported $41,295 in revenue in Q1. Revenue was collected from the initial installations of the commercial feasibility studies in Missouri.

The gross margin was 13.5%. I don't think this is an accurate reflection of their potential gross margins which the company states will be in the 70% range. Based on the information provided by GROW the revenue in Q1 is from down payments on a few installations. I'll break down my understanding of GROW's revenue recognition model in the MD&A section.

For the most part, expenses are similar to the expenses from a year ago. The big difference in Q1 was less share-based compensation recognized in the quarter. This isn't a cash charge and doesn't influence their cash balance which is critical at this time.

1.4 Cash Flow Statement

	3 months ended	
	March 31, 2020	March 31, 2019
	$	$
Operating activities		
Net loss	**(291,866)**	(410,375)
Non-cash items:		
Amortization and depreciation	**361**	610
Change in expected credit losses *(note 6)*	**2,517**	-
Share-based compensation	**65,622**	166,050
Net change in non-cash working capital items:		
Accounts receivable	**(16,031)**	(3,341)
Prepaid expenses	**14,459**	12,375
Sales taxes recoverable	**(5,102)**	176,272
Inventory	**(11,700)**	-
Trade payables and accrued liabilities	**64,482**	(66,895)
Cash used for operating activities	**(177,258)**	(125,304)
Financing activities		
Exercise of warrants	**-**	402,500
Exercise of options	**-**	88,250
Repaid to related parties	**(73,305)**	(10,389)
Cash provided from financing activities	**(73,305)**	480,361
Investing activities		
Purchase of equipment	**-**	(58,554)
Purchase of intangibles	**(51,636)**	-
Cash used for investing activities	**(51,636)**	(58,554)
(Decrease) increase in cash for the period	**(302,199)**	296,503
Cash at the beginning of the year	**438,428**	1,319,812
Cash at end of the period	**136,229**	1,616,315

CO2 Gro Inc. Q1 2020 Cash Flow Statement

In Q1 GROW had a decrease of $302,199 in cash. $11,700 was spent on inventory.

$51,636 was spent on legal patenting costs which is seen in the purchase of intangibles.

Again we see the remaining cash the company has, $136,229

1.5 Additional Sources of Funding

Federal Government of Canada emergency assistance

Due the global outbreak of COVID-19, the federal government of Canada introduced the Canada Emergency Business Account ("**CEBA**"). CEBA provides an interest-free loan ("**CEBA Loan**") of $40,000 to eligible businesses. The CEBA Loan has an initial term that expires on December 31, 2022, throughout which, the CEBA Loan remains interest free. Repayment of $30,000 by December 31, 2022, results in a $10,000 loan forgiveness. In April 2020, the Company applied for and received a CEBA Loan.

Grant from Ontario Agri-Food Technologies ("OAFT")

In April 2020, the Company received an OAFT grant in the amount of $15,000. The grant was provided by OAFT as reimbursement of 75% of the costs expended (to a maximum of $15,000) for the Company's registered participation at The Global Forum for Innovation in Agriculture, held in the United Arab Emirates.

CO2 Gro Inc. Loans and Grants

GROW is tapping into some additional funding. GROW has qualified for an interest-free $40,000 loan and also received a $15,000 reimbursement for costs associated with travelling to the UAE. I mentioned in my last post that this trip has led to some very exciting development for the company in the UAE. It was money and time well spent even before the reimbursement.

2.1 Q1 2020 MD&A

2.2 Page #3 Dotz Nano

In Q1, 2020, the Company announced that Dotz Nano Inc. would be its second strategic alliance partner in the Middle East area, representing its patent-pending CO2 Delivery Solutions™ in Israel. The Company continued to add independent U.S. and Canadian greenhouse consultants to represent its CO2 Delivery Solutions™ in the greenhouse marketplace during the quarter.

CO2 Gro Inc. Dotz Nano Partnership

Dotz Nano is an Israeli based technology company. They have a market cap of $23 million, so very similar to GROW. Dotz Nano has developed a carbon-based technology that can be embedded into plastics, fuels, lubricants, chemicals and more recently cannabis. The technology is used to authenticate a product to prevent counterfeiting.

In relation to cannabis Dotz Nano's has BioDotz technology.

"BioDotz are carbon-based in-plant markers that are added to plants during irrigation. The markers are dispersed in different areas of the cannabis plant, creating a unique identifiable code that can later be detected by a dedicated reader."

The agreement with Dotz Nano is for two years and gross profit from revenue is split between GROW and Dotz Nano. Dotz Nano trades on the ASX. I read through some of their filings. It looks like their only agreement with a cannabis producer is with Seach Medical.

I'm not nearly as hopeful for the Dotz Nano partnership as I am the Gulf Cyro partnership. Gross profit is split with Dotz Nano and they are still a very small company with very little revenue. In 2019 they had $34,000 in revenue. By comparison Gulf Cyro is a billion-dollar company and has been established for years. There is also no revenue sharing with Gulf Cyro.

Also reading through their filings Dotz Nano does not appear to be a company I would consider investing in. The CEO's compensation is nearly $500,000 with share-based payments included. They have constantly diluted shares. I hope I am wrong with the Dotz Nano partnership. Israel is hoping to be a major player in the global cannabis market but like a lot of other countries, they have significant hurdles.

2.3 Page #3: Revenue

Revenue for the 3 months ended March 31, 2020, of $41,295 was recorded towards the installation of fifteen CO2 Delivery Solutions™ systems at hemp greenhouses in Missouri, US. In April 2020, the Company announced the completion of these commercial system installations. Upon successful completion of one grow cycle commercial feasibility per site and satisfaction of other agreement conditions, the Company anticipates additional revenues from these hemp greenhouse growers from further system purchases.

This is the only explanation we get for the $41,295 in revenue. I communicated with VP Sam Kanes and asked for additional clarity on how GROW recognizes revenue.

In the case of the 15 Missouri hemp installations, the revenue is recognized in three payments. The first payment is received after the commercial feasibility study. The second payment is received after the CO2 delivery system is installed. The third payment is received after the feasibility is completed and the grower agrees to buy the system.

The first two payments cover the cost of the equipment and installation. If the company decides not to proceed with the installation GROW keeps the down payments. The third payment upon finalization of the commercial feasibility is the largest payment of the three. If a company decides to lease the CO2 delivery system it is the third payment that is extended over the time of the lease.

In relation to the Q1 revenue this is the comment I received from VP Kanes:

"Missouri hemp – you will see some revenue from the first of three Missouri hemp greenhouse down payments in our Q1 2020 FS due out shortly.

Some revenue in Q2 from the second payment upon installations and early purchases and some revenue in Q3 from later purchases only."

Based on this comment it appears that Q1 revenue is from only three greenhouses down payments of a possible 15. I did ask for some additional information about whether the $41,295 was from the first and second down payments however GROW is not willing to provide any additional information.

Patience is needed with GROW. While the lack of clarity regarding the business model can be frustrating the company is still very new. They only have a small number of installations and as they become more established their business model will become more refined. As I've said before an investment in CO2 Gro is really an investment in the technology.

2.4 Page #4

During the first quarter of 2020, the Company initiated a cost control program designed to reduce operating expenditures by about 60%. Employees (excluding management, which do not receive salaries) have been placed on temporary lay-off and consultants have agreed to fee deferrals. In addition, three sales representatives have agreed to an enhanced commission structure in lieu of monthly cash draws.

CO2 Gro Inc Q1 2020 Cost Reduction

Not much to comment on here. The company has cut costs and as per my last post and comment from Dil Vashi they are operating at a $50,000 a month burn rate.

2.5 Page #4: Commercial Feasibility and Installations

To-date, the Company has signed twenty-one commercial feasibility agreements and has installed CO2 Delivery Solutions™ systems in nineteen separate plant-grow facilities. These growers are US-based and Canadian-based hemp, Canadian cannabis and UAE lettuce-based producers. In May 2020, the Company announced that its second Canadian cannabis and first Canadian hemp greenhouse commercial feasibilities will proceed for installing its systems.

CO2 Gro Inc. Commercial Feasibility and Installations

After re-reading many of the news releases here is the list of growers I believe they are referencing:

Grower	Plant	Number	Start Date	Projected End Date	Potential Opportunity
Tumbleweed Farms	Cannabis	1	Q2 2019	NA	Unknown
US Warehouse	Hemp	1	Q2 2019	NA	Instal delayed
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.

List of Growers: Green indicates confirmed by GROW installed
Yellow: Delayed installation

The 19 installations are the four growers outlined in green and presumably, the cannabis cultivator GROW signed up in December. The company has not confirmed with a press release that the system was successfully installed but I assume it is. I have speculated from the news release that it is CannabCo in Brampton.

Floriculture Growers

I haven't included the Michigan floriculture grower in my tracking sheet. VP Kanes explained that the Michigan grower decided not to purchase the system once the commercial feasibility was completed. Here is his explanation on the status of both flower growers:

"*Michigan – the flower grower from our 2018 initial flower trial chose not to buy our system. Ontario – the flower grower where we installed two different set-ups last fall into a boom and a separate misting system has been decimated by COVID issues. Our equipment is still there. Not clear if/when we re-start.*"

"You can see from our Q2 2020 deck we are not focused on flowers for several reasons – non-essential under COVID, complex sales cycle that has to take a year to assess added value as flower greenhouses grow varieties throughout the year. Simplest fastest sales cycle with one crop growers. "

"*Flower growers do not get paid extra for plants grown faster as they are on scheduled sales/deliveries for Valentine's Day, Mother's Day, Christmas etc. from Walmart, Lowes garden centres."*

"*So our CO2 systems use opens multiple idle 1-2 week holes in their greenhouse planting rotation schedules. Value add question for flower growers is can you squeeze in an extra grow of some additional flower that does create more $$$."*

GROW has stated that they are not focused on floriculture at the moment. Their technology doesn't seem to be a great fit based on the market these growers serve. Although GROW's technology can increase plant growth and health flower growers don't benefit nearly as much as a hemp or cannabis grower. Its possible there is potential in this market but at the moment they are focusing on essential plants (veggies, cannabis, and hemp).

CO2 Gro Q1 2020 Results: Conclusion

Commercial feasibility studies are starting to trickle in. The Missouri hemp installations are vitally important to the company. If these installations are successful it could be the exposure they need to start to get into the other 250 greenhouses associated with American Hemp Ventures.

The UAE lettuce installation has completed multiple grows with one left to complete. According to my talk with management their partner in the Middle East, Gulf Cryo, is already seeing interest from other growers. CO2 Gro Q1 2020 results do not include any revenue from their UAE installation as far as I can tell.

The cash crunch is very real. If they can achieve their stated $50,000 per month burn rate they have a quarter or two worth of money left. Their short term cash crunch could be alleviated by some purchases from their Missouri installations or additional installations in the Middle East.

It is also possible that other hemp growers who are impressed by the Missouri installations skip a commercial feasibility study altogether. If we start to see that happen business could start to accelerate nicely in the hemp vertical. By the time Q2 financials are released in August, we should know what the status of the lettuce and hemp feasibilities.

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