

Battleship Investing Blog

CO2 Gro Q3 2019 Update

December 2019



On November 21st, 2019, CO2 Gro Inc. released its updated financials for Q3 2019. Although there isn't a whole lot to examine in their financials there are some meaningful news releases to examine. Co2 Gro also released that there is a claim against Co2 Gro for breach of a non-competition agreement. I will try my best to give my two cents on that elephant in the room.

CO2 Gro Q3 2019 Financials

There isn't much to be gleaned from GROW's recent financials. They are still collecting revenue from their first two contracts. GROW is slowing burning cash as they progress toward trying to secure additional commercial contracts.

GROW has \$475,830 in cash left and working capital of \$570,000. They used \$940,607 for operations in the past nine months or \$313,000 per quarter. At this rate, GROW has just shy of two-quarters worth of working capital left. Unless they can secure new contracts in the near future GROW will have to raise cash either through an equity raise or debt facility. I'm hoping for neither.

GROW has inventory on hand to outfit their next phase of growth. Their inventory of CO2 delivery equipment can service over 6 million square feet.

Share Count

GROW's share count continues to creep up. Management is not taking a salary but is being compensated via stock options. The fully diluted share count is up 3.37% in the past nine months. Although I don't love to see stock dilution I think this is a reasonable amount as management is not taking a salary until [EBITA](#) positive.

CO2 Gro Q3 2019 Operational Update

GROW has commercial demonstration proposals out to growers that control 10 million square feet of greenhouse. About half of the 10 million square feet are cannabis and hemp while the other 5 million square feet are floral, fruits and vegetables.

This number is down from 20 million square feet that VP Sam Kanen referenced in his presentation on [September 16th, 2019](#). The last figure I could find GROW had six commercial demonstrations active.

In September GROW started its first [commercial demonstration in Canada](#) with a floriculture operation in the Niagara region. This grower has 500,000 square feet of capacity in Canada.

Also in September GROW [announced very positive results from a grow trial on tobacco](#) used to grow medicines and vaccines. This sounds like wacky stuff, medical tobacco, and the science if above me but I am not surprised that GROW's CO2 delivery technology is an excellent fit for tobacco growth due to its very large leaves.

Canadian Cannabis Commercial Demonstration

As I was writing this GROW announced a major development. On December 9th, 2019, they announced they had signed a commercial demonstration agreement with a Canadian cannabis producer. The demo is scheduled to run from mid-December 2019 until June 2020. This timeline seems consistent with the other commercial demonstrations as growers appear to be testing the technology on multiple stages of the plant.

The name of the company was not released however some details who the client might be were added.

“The Client’s unique proprietary cultivation method creates a virtually odorless cannabis product that would be the first of its kind in the marketplace.”

A quick Google search leads me to believe that CannabCo out of Brampton, Ontario, is the cannabis grower. They have a 17,500 square foot facility and claim to “deploy technology that others won’t try”.

This is a step in the right direction. Hopefully, this leads other growers to engage GROW and at least try their technology.

Additional Developments and Recognition

On November 21st, 2019, GROW announced they had signed an agreement with Gulf Cyro. Gulf Cyro supplies a wide range of gases to twelve countries in the Middle East and North Africa. Terms of the agreement were:

MOU terms:

- 1) This initial two year MOU is exclusive to servicing greenhouse and outdoor growers in the UAE, Saudi Arabia, Kuwait, Qatar, Bahrain, Oman, Jordan, Iraq, Egypt and Turkey.
- 2) GC will introduce GROW’s CO2 Delivery Solutions technology to these growers in exchange for becoming GROW’s exclusive industrial CO2 gas supplier.
- 3) There are no profit or revenue splits.

CO2 Gro Inc. Gulf Cyro Terms

This agreement is a result of CO2 Gro presenting in April of 2019 at the GFIA Conference in Abu Dhabi. GROW’s technology seems to be a perfect fit for greenhouses in these countries as CO2 gassing is not viable due to rapid gas losses. The best part of the deal, in my opinion, is GROW does not have to give any profit or revenue to Gulf Cyro. This is a substantial development for CO2 Gro.

Based on a very brief glance of Gulf Cyro and it’s website it looks like a well-run company. They have been in business for sixty years. The company is still family-run as the Chairman is the son of the founder. Check out their corporate brochure [here](#).

Recognition

On November 27th CO2 Gro was selected by the Canadian Government’s California Ag Tech Program. As a result, GROW will be given the opportunity to showcase its technology in California in front of potential customers and venture capitalists.

CEO John Archibald stated “California is the largest agriculture market by far in North America. We have been actively developing relationships in California. We believe the upcoming CTA experience will accelerate our revenue generation opportunities and Ag Tech story introduction into the US investment community”.

GROW currently has an agreement with Organic Grow Solutions for work in California. [Organic Grow Solutions](#) is strictly targetting cannabis growers in California. The presentations made by GROW in California will hopefully open up new opportunities within cannabis and also other plant types.

On December 2nd, 2019, CO2 Gro announced that they were recognized as an Ontario success story by Life Sciences Ontario. A one-page summary was distributed to the Ontario Government at Queens Park on December 2nd. You can check out CO2 Gro and other companies that were recognized [here](#). A little bit of free publicity never hurts.

Legal Claim against CO2 Gro Inc.

The biggest piece of news in the CO2 Gro Q3 2019 release was that a legal claim had been filed against them.

Claim filed against the CO2 GRO Inc.

The Company was served with a statement of claim filed in the Ontario Superior Court of Justice in October 2019 by Prosper Technologies LLC Canzone Limited and Prosper Industries Inc. against the company and two officers, John Archibald and Aaron Archibald. The case pertains to alleged breaches of non-competition agreements by these officers and claims damages and an injunction against them and the Company. The Company's lawyers are assessing the claim and will be vigorously defending against the action.

CO2 Gro Inc. Legal Claim

I'm no legal scholar but I'll give my two cents anyway. Although the claim concerns me it does seem odd. Here is a bit of history on management and their experience with Canzone.

EXPERIENCED GAS INFUSION MANAGEMENT

Our 2019 Management team:

- 1) John Archibald, President and CEO. He founded gas infusion companies Canzone and inVentures in 2000 as well as CO2 GRO Inc.'s predecessor Carbon2Algae in late 2007
- 2) Sam Kanes, VP Communications. He co-founded Carbon2Algae in late 2007 with John and has been a Director of CO2 GRO Inc. and its predecessor companies Solutions4CO2 and Carbon2Algae and
- 3) Aaron Archibald as VP Sales. He was VP Operations for inVentures from 2005-2017, commercializing gas infusion business verticals such as groundwater remediation, wellness and aquaculture. He heads five CO2 GRO Reps and co-ordinates four Industrial Ag Partners.
- 4) Dr. Matt Julius as Chief Science Officer effective July 2019. He is a Biology Professor at St. Cloud State University (SCSU) who chose to work on Sabbatical with us. He is instrumental in all of CO2 GRO's scientific grow trials and designing commercial demonstrations.

John and Aaron sold both CO2 gas infusion patent owner Canzone and gas infusion equipment manufacturing company inVentures (a Canzone licensee) in July 2017. They then joined CO2 GRO to commercialize a dormant since 2014, CO2 gas infusion license that they assigned from Canzone to CO2 GRO Inc. in its 2012 IPO (then Solutions4CO2). Perpetual royalty free license field of use is for capturing and dissolving all CO2 gas sources into water to enhance all plant growth.

CO2 Gro Inc. Management Experience

CEO John Archibald founded gas infusion company Canzone. Canzone was sold in 2017 to presumably Prosper Technologies. Prosper Technologies has a [release on its website](#) however it is not dated. While the owner of Canzone CEO Archibald assigned a perpetual royalty-free licence to CO2 Gro Inc. (then Solutions4CO2) in 2012. The claim states that CEO Archibald and VP Aaron Archibald breached a non-competition agreement.

I am likely oversimplifying this but CEO Archibald has extensive knowledge of the CO2 technology and the perpetual licence issued to CO2 Gro. CEO Archibald was the driving force in launching the CO2 foliar spray technology. CEO Archibald, VP Archibald, and VP Kanes were responsible for proving the technology and assembling their own management team. They spent \$2.5 million of their own money without any guarantee they would be paid back if the technology was unsuccessful.

I am hoping that the CEO and VP were well aware of any non-competition agreements before they spent \$2.5 million of their own money to launch the CO2 foliar spray technology.

Conclusion

CO2 Gro Inc. is progressing. It is clear that they will not be meeting their \$10 million revenue run rate goal by 2020. In fact, they are nowhere near it. GROWs technology isn't being adopted as fast as management had thought it would be. This is disappointing however their technology is proven. The last time I spoke with VP Sam Kanes said that GROW is making adjustments to their business model and sales staff in response to potential customer feedback. To date he said that they have not had a failed trial, again proving the efficacy of their technology.

The statement of claim is definitely concerning. For a company with limited resources spending money on lawyers if the last thing, I want to see. My hope is that it is resolved sooner than later but based on my knowledge of our court system this is not the likely outcome. VP Kanes did not have any comment on the statement of claim.

I continue to be optimistic about the prospects of CO2 Gro Inc's technology. Their value proposition to clients is clear. With more successful commercial demonstrations under their belt, we should see some commercial installations and increased revenue.