

Battleship Investing Blog

CO2 GRO Q2 2019 Financials

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On August 29th, 2019 CO2 GRO (GROW.V, OTC: BLONF) announced their Q2 2019 financials. CO2 GRO Inc. is an agriculture tech company. They dissolve CO2 gas into water and then using a foliar spray apply it to the leaves of high-value plants. The CO2 gas is absorbed by the plant leaf. This results in increased growth and overall plant value.

Please read my previous posts for more information on CO2 GRO Inc.

<https://battleshipinvesting.com/co2-gro-inc/>

This is my first article on the company and a good general overview of the business.

<https://battleshipinvesting.com/co2-gro-q1-results-talk-with-management/>

CO2 GRO Q2 2019 Financials

Similarly to Q1 GROW had little revenue to report. The revenue they reported is as a result of their two ongoing commercial contracts.

	3 months ended		6 months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	\$	\$	\$	\$
Revenue (note 12)	67,638	245	74,288	343
Cost of goods sold	-	-	(3,325)	-
Gross margin	67,638	245	70,963	343

CO2 GRO Q2 2019 Revenue

Also in line with Q1 GROW is operating on a low cash burn, \$534,039 cash used in operations for the previous six months.

The real updates for GROW come in their MD&A. They announced that they have 30 active proposals for grow trials, commercial pilots and commercial installations compared to the 16 they announced in late June.

The Company's marketing initiatives have led to the distribution of 30 active proposals for grow trials, commercial pilots and commercial installations versus 16 announced in late June as follows; U.S. (17), Canada (10), the EU (one – flowers), the UAE (one – vegetables) and Columbia (one – outdoor flowers). Most proposals are to North American cannabis growers, followed by growers of indoor and outdoor flowers and hemp CBD. Total greenhouse grow space owned by these 30 companies represents approximately 20M square feet. Ready to install automated CO2 Delivery Solutions equipment in inventory will cover approximately 6M square feet.

Ongoing indoor trials include 1) Ontario medical tobacco, 2) several U.S. Midwest US Hemp CBD and 3) several Michigan and Ontario commercial flower trials. Outdoors, the University of Guelph's Muck Station in Ontario is performing grow trials on four vegetables until a mid-October harvest. Hemp CBD plant research at St. Cloud State University will begin as soon as a Minnesota State permit is granted to the university.

CO2 GRO Trials

This is a significant increase in only two months' time. Their current grow trials also show the adaptability of their technology. They are able to service many different plant types which should give GROW a large addressable market.

Info from VP Sam Kanés

I sent an email to VP of Communications Sam Kane with some clarifying questions about their grow trials and proposals.

The typical sequence to a commercial contract is: grow trial proposal, grow trial, commercial contract. Growers do have the option to skip a grow trial if they feel it is unnecessary which is what happened with their first two contracts.

I asked about the length of grow trials. Mr. Kanés said that they vary depending on the grower and the plant. The medical tobacco grow trials are for up to six months while some of their other trials are in grow cycle three. This allows GROW to optimize application rates and CO₂ concentrations for best results.

I asked about the composition of their grow trials. Their thirty proposals are a combination of GROW approaching growers as well as growers coming to GROW wanting to try their CO₂ delivery system technology. Again a good sign that they have lots of interest in their technology. Six of the thirty proposals have come from a combination of Henry James Innovations, OgranicGrow Solutions, and some other informal partners. This is

Lastly, I asked about their guidance of a \$10 million run rate entering 2020. Although this was not addressed in the MD&A VP Kanés said that this was still their goal for 2019. \$10 million in revenue sure seems like a long way off. GROW does have the volume in their current trials and proposals to achieve this number. I think it is understandable for growers to be hesitant to add CO₂ delivery systems to their processes. With their scientific data backing GROW's technology and Chief Science Officer Matthew Julius working full time with the company I think GROW will convince growers of the value proposition of their technology.

October 17th Health Canada Wording Changes

GROW previously let investors know that with some Health Canada changes to wording their CO₂ delivery technology could be approved for use on cannabis.

Delays in wording clarity from Health Canada for Licensed Producers (LPs) wishing to trial or install a CO₂ Delivery Solution system may be resolved October 17, 2019. Health Canada will then require that any water touching any part of a plant must be potable. Health Canada is kept aware of the Company's technology re: plant growth efficiency, CO₂ gas usage reduction, reduction in pathogens and human safety improvements.

Dissolved CO₂ saturated water is intermittently applied for approximately 10 minutes per day on all plants while CO₂ gassing fills an entire greenhouse for up to 18 hours per day with less effect, CO₂ gas waste and human safety concerns. The Canadian Food Inspection Agency concluded that the Company's water-based technology does not create a fertilizer nor a supplement, so the non-bubble CO₂ saturated water created is still defined as water, which is allowed by Health Canada.

If these wording changes do come into effect and they are clear enough for licensed growers in Canada than this could be a major catalyst for GROW. There are two concerns

though. I would not be surprised if Health Canada delayed the changes to the wording. The general rollout of legal cannabis across Canada has been a disaster so this should be no exception. My other concern is the wording won't be clear enough for licensed producers and their compliance team to fully embrace GROW and their technology. This will again leave GROW in a sort of grey area where growers are unsure if they can use the CO2 delivery system.

The true test will be when a substantial grower in Canada adopts GROW's technology. GROW is well-positioned in Toronto with access to many large growers in Southern Ontario.

Balance Sheet Strengthening

GROW was able to strengthen their balance sheet and prepare for an eventual ramp-up of commercial contracts. GROW invested \$120,000 into ready to install automated CO2 Delivery Solutions equipment that will cover 6 million square feet. This investment is seen as equipment under non-current assets.

VP Kanes also brought to my attention that GROW was able to pay down over \$500,000 of payables that related to their prior business line (shrimp oils). These payables were 2+ years old and were paid down at \$0.30 or less on the dollar. By efficiently dealing with past accounts payable at an attractive rate management has given themselves the flexibility to execute and purchase further equipment when the need arises.

New Patent Applications and Outdoor Cannabis

On September 4th, 2019, GROW announced that it had filed two additional patent applications. The goal of the patents is "to further secure GROW's intellectual property around nutrient delivery technologies, especially in the case of outdoor value crops, and nutrient constituents delivered."

VP Kanes said that outdoor cannabis growers are an obvious target for GROW in 2020. Outdoor cannabis acres are growing in size in Canada. GROW's technology is the only option in the market for growers that want to boost growth using organic CO2. Traditional CO2 gassing is clearly not an option in outdoor grows.

Canadian licensed producers like Aleafia Health, WeedMD (in my neck of the wood in Alymer and Strathroy Ontario), Aurora, Canopy Growth and 48North, are all growing outdoors. According to a [report by Technical 420](#), these growers have over 500 acres of outdoor cannabis cultivation. Canopy has an additional 5000 acres of outdoor hemp cultivation.

GROW is not lacking in potential growers with square footage to partner with. 503 acres of outdoor cannabis cultivation equates to 22 million square feet. If they can partner with

one of these well-known growers it will provide excellent exposure for GROW and their technology for outdoor and indoor grows.

CO2 GRO Q2 2019 Fully Diluted Shares

Outstanding securities

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

Security	Number outstanding
Common shares	67,651,004
Options	4,746,598
Warrants	3,962,500
Finder's and Corporate Finance Warrants	300,000

CO2 GRO Inc. Fully Q2 2019 Fully Diluted Shares

Conclusion

GROW is making progress. They are collecting revenue from two commercial installations, have numerous trials ongoing, and 30 proposals out. Many of the trials have gone through multiple grow cycles so hopefully, a contract announcement is imminent. They have nearly doubled their proposals (16 to 30) since late June. This shows there is definitely interest in their technology. GROW continues to operate using a low cash burn rate and has no debt.

October 17th could be a critical catalyst for GROW and their exposure in the Canadian legal cannabis market. If the changes Health Canada makes are clear and beneficial to GROW hopefully we see some big news between October 17th and the end of the year.

I own shares of CO2 GRO (GROW.V).

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