**The Green Organic Dutchman Holdings Ltd.**

**Third Quarter 2020 Results**

November 11, 2020 — 9:00 a.m. E.T.

Length: 27 minutes

## Corporate participants

**Shane Dungey**

The Green Organic Dutchman Holdings Ltd. — Vice President, Investor Relations

**Sean Bovingdon**

The Green Organic Dutchman Holdings Ltd. — Chief Financial Officer & Interim Chief Executive Officer

## Conference Call Participants

**Tamy Chen**

BMO Capital Markets — Analyst

**Robert Tucker**

Niagara Stools — Analyst

## PRESENTATION

**Operator**

Good morning, ladies and gentlemen. My name is Pam and I will be your conference operator today. Welcome to The Green Organic Dutchman Third Quarter 2020 Results Conference Call. To ensure an enjoyable experience for all participants, all lines have been placed on mute. Following the presentation, we will conduct a question-and-answer session. If you’d like to ask a question, simply press star then the number one. If you’d like to withdraw your question, please press star then the number two. This call is being recorded on Wednesday, November 11, 2020.

I’d now like to turn the conference over to Shane Dungey, Vice President of Investor Relations. Please go ahead.

**Shane Dungey** — Vice President, Investor Relations, The Green Organic Dutchman Holdings Ltd.

Thank you, Pam. Good morning and thank you all for joining us for our Q3 conference call. Today we’ll provide comments on our performance as well as an update on our operations and how we’re executing our plans. This call is being recorded. The audio recording will be available on the company website at tgod.ca. Joining me on the call this morning is Sean Bovingdon, CFO and Interim Chief Executive Officer.

Today’s discussion includes forward-looking statements. We caution that such statements are based on management’s assumptions and beliefs and are subject to uncertainties and other factors that could cause actual results to differ materially. I refer you to our news release and MD&A for more information on these assumptions and factors.

With that, I will now turn the call over to Sean.

**Sean Bovingdon** — Chief Financial Officer & Interim Chief Executive Officer, The Green Organic Dutchman Holdings Ltd.

Thanks, Shane, and good morning, everyone.

Firstly, on this day, we would like to keep the spirit of Remembrance Day alive, especially in this unprecedented year. Lest we forget the brave men and women who have served and continue to serve Canada during times of war, conflict, and peace. This call will end well before eleven so that everyone can observe a moment of silence to honour and remember them at that usual time.

As you have seen in our press release, Brian Athaide has left his positions as CEO and Board Director and I have been appointed as Interim CEO. We have also promoted Michel Gagne, our Vice President of Operations, to Chief Operating Officer, who will be overseeing the company’s cultivation and processing operations, supply chain, and product development.

Michel joined TGOD in March 2019 and brings with him 30 years of experience holding leadership roles in manufacturing and supply chain for small, medium, and multinational companies such as Cargill and Maple Leaf Foods. Since his appointment to VP of Operations in August, Michel is successfully implemented several changes, enabling us to ramp up production while improving quality and consistency, and I look forward with working closely with him in building growth for the company going forward.

The Board of Directors decided that this change in leadership was necessary to drive the company forward as we enter our next phase of growth and continue to work towards achieving positive EBITDA and cash flow as rapidly as possible. We will operate with a renewed commitment to executional excellence and cost discipline to drive our revenue forward and reach operational stability.

Moving to discuss the third quarter, we maintained our focus on building operational scale to enable this continued revenue growth. We have added several new products to our portfolio, ramped up production, and implemented significant further cost reduction measures, all while navigating the second wave of COVID-19.

With COVID showing no signs of slowing down, unfortunately, our top priority remains the health and safety of our employees, customers, and patients. We are pleased with the resilience our team has demonstrated, which has enabled us to continue operating safely with minimum impact on operations to date.

I will start with the highlights from the quarter, then Shane will walk you through the financials, and we will finish with an update on what is coming next for our business.

We delivered revenue growth in the third quarter, expanding our product portfolio with additional SKUs, including several 2.0 products, concentrates, dry flower strains, and vapes. We have benefited from the continued acceleration of consumer accessibility with expansion of legal retail across the country, especially in Ontario. This resulted in a 41% increase in revenue from Canada quarter over quarter to $3.84 million in Canada this quarter.

While this increase is positive, as previously disclosed, we did face certain challenges at our Ancaster facility with the start-up, commissioning, and calibrations at the energy centre, leading to some inconsistent climate controls in the hybrid greenhouse during the very hot weather in late July and early August. This resulted in several late August harvests not meeting our strict premium flower specifications and most of the flower from those harvests have been used for extraction. With support from our equipment vendors, we have since fine-tuned the calibrations and significantly reduced the energy centre downtimes, resulting in improved climate controls.

Harvests in September have now met our specifications. However, the resulting delays caused lower than expected flower availability through Q3 and a shifting of the Highly Dutch expansion from Quebec only to nationally, as well as the expansion of new TGOD strains to the balance of the country, moving into the fourth quarter. We now have listings of these products across most provinces and have already seen significant shipments, I’m pleased to say. Given the overwhelmingly positive consumer and retail feedback so far, we are encouraged that we can now quickly grow share in the flower category.

Also in September we completed the equipment transfers to transform Valleyfield into a production and processing hub for our 2.0 products. Production of dissolvable powders, premium teas, and concentrates has commenced, as the sales of hash under the Highly Dutch brand. Our focus has been on ensuring we bring high-quality, unique innovation to customers.

Again, on our dissolvable powders, teas, and hash, the consumer feedback has been overwhelmingly positive that our products are high quality and higher quality than some of the direct competitors in those product formats. Our RIPPLE powders and teas are also backed by proven pharmacokinetic data, which confirms the faster onset and higher bioavailability of these products versus traditional oil-based products. We are confident that our science and technology driven approach to ensure efficacy will lead to better consumer experiences and drive repeat purchase and brand loyalty.

Looking beyond the quarter, with that, October has been our best month to date with sales in Canada of $2.2 million, driven by the start of the hash in Quebec, new TGOD strains such as Gorilla Glue, Rockstar Tuna, and Organic Fire, additional teas and additional RIPPLE formats. This is expected to accelerate further, noting we’ve shipped over $600,000 of product in the first week of November alone, as we have sales of our mainstream Highly Dutch brand and the new TGOD strains in more stores and expanding our hash product delivery to other provinces. The fourth quarter is shaping up to be strong and we expect monthly revenue growth acceleration.

For the third quarter, on a consolidated basis, the revenue came in at $5.71 million compared to $2.6 million in the second quarter of 2019 and $4.83 million for Q2 2020. We anticipate continuing to scale our consolidated revenue as we expand distribution and go to market with a broader, more differentiated portfolio. We have added more than 20 SKU so far this year to that portfolio, with our product serving both the premium and mainstream segments, giving us access to a significantly larger share of the overall market available.

We are currently available in over 1,000 retail locations across nine provinces, or through our relationships with 56 medical clinics, which represents 110 physical medical locations across the country as well as through Medical Cannabis by Shoppers Drug Mart and six additional medical cannabis wholesale or resale agreements. So TGOD’s products are well positioned for this continued growth.

We would like to note that RIPPLE dissolvable powders continue to remain among the top selling SKUs within beverage category due to their consistency, versatility, convenience, and predictable effects. For example, if you look at Ontario, so far this year our 10 milligram THC RIPPLE SKU ranks third within beverages category and we are now building on that with additional THC potencies as well as balanced and CBD-only RIPPLE versions.

We have also added two THC and a balanced tea to the beverage portfolio with our CBD-only tea coming soon. No other beverage currently available, we believe, has the same science to back up its claims. We are happy to see these products received well by consumers and retailers, enabling us to reach that third place in the wholesale beverage share in some markets where we have the data for October.

Moving on to the international front, we are on track to extend our EU GMP certificate, which initially allowed us to export dry flower and cannabis extracts to Germany for validation. TGOD is the first certified organic Canadian licensed producer to obtain this certification and we expect to be the only cannabis in Germany at this time. We intend to leverage our existing network of distribution partners in Germany and other countries to quickly ramp up international sales in 2021.

Now I’d like to hand over to Shane to provide some more details on our financial performance.

**Shane Dungey** — Vice President, Investor Relations, The Green Organic Dutchman Holdings Ltd.

Thanks, Sean.

As Sean mentioned earlier, we registered quarterly revenue of $5.71 million consisting of sales from cannabis products in Canada of $3.84 million and hemp-derived products sales in Europe of $1.87 million. The revenue mix has shifted toward Highly Dutch’s mainstream flower assortment and TGOD’s premium 2.0 products.

Highly Dutch products are designed to sell at a lower price per gram and still delivered attractive margins. We expect Highly Dutch to play an important role in our growth story. It exceeded our initial expectations in Quebec and we anticipate a similar performance in other provinces as we expand distribution.

Our cash cost of flower cultivation is below a $1 per gram, enabling us to profitably cater to mainstream consumers with a certified organically-grown product. HemPoland’s performance is fairly consistent with prior year, despite a significant pullback in retail sales in Europe due to pandemic-related shutdowns.

Loss from operations decreased by 68% year over year to $6.34 million, primarily driven by increased gross profit and decreased operating expenses. The net loss for the quarter increased to $76.24 million, which can be attributed to a non-cash impairment charge of $67.84 million recognized during the quarter to reflect changes in the timing of accessing market demand, sales price compression across the industry, and the resulting slower revenue ramp up and growth.

I would note in particular that our G&A expenses of $5 million for the quarter decreased in comparison to expense of $13.34 million during the prior year period and decreased by $0.71 million compared to Q2 2020, reflecting the company’s plan to significantly reduce overhead spending. This was partially offset in Q3 by $0.63 million of severance costs and the fact the company received $0.34 million in CEWS payments in Q2 2020. Excluding these two elements, the base underlying G&A was down $1.68 million or nearly 30% versus last quarter.

Revenue and cash flow are expected to continue increasing in the coming quarters as we expand our product portfolio and distribution. We continue to maintain a disciplined approach to operational cost related to the commercialization of our products in Canada and the entire management team is laser focused on where we spend our SG&A.

We ended the quarter on September 30th with $4.32 million in cash and restricted cash that we intend to use for working capital. Subsequent to the quarter, we raised additional funds by closing on gross proceeds of $12.78 million in new equity.

We agreed with our lender under our revolving credit facility to extend the maturity date to December 31, 2021 and with our senior lender to extend the maturity date for our senior secured credit facility to December 15, 2021. We continue to monitor our working capital situation and are considering filing a shelf prospectus similar to what our license producer peers have done and are currently doing in the market.

With that, I will pass it back to Sean.

**Sean Bovingdon** — Chief Financial Officer & Interim Chief Executive Officer, The Green Organic Dutchman Holdings Ltd.

Thank you, Shane.

As you can see, we are continuing to show progress. Despite several challenges, we still delivered meaningful revenue growth acceleration and look to continue to do so. We have also signed some co-packing agreements with other producers, BZAM and MTL Cannabis, who do not have the space and/or the required licenses to manufacture and sell their high-quality products and brands themselves. This does not in any way mean TGOD is moving away from organic cultivation and building our own leading premium and mainstream organic brands; rather, it is another way for us to leverage our significant investment in Valleyfield and spread fixed costs further while maintaining the optionality to restart cultivation there sometime in the future as the market develops and when we need additional capacity.

We bought a lot of innovation to the market over the past several months and there’s still much more to come. In early 2021 we plan to launch RIPPLE Gummies, while chocolates are expected later in 2021. Gummies are an exciting category, offering a convenient and discreet way for consumers to get their dose of cannabinoids, whether it’s THC, CBD, or a balance. They will be infused with all natural fruit juices, low in sugar and fat, and will be made with the same RIPPLE technology, which leads to proven, fast acting, consistent, and reliable experiences. We believe this focus on high quality and differentiation with this technology and efficacy will lead to a high rate of repurchase and brand loyalty for those gummies.

To close, it’s been a challenging year so far, no doubt. Beyond COVID-19 and numerous industry issues, we faced our own challenges and addressed them by reorganizing our production and designing a portfolio to serve a much larger share of the market while bringing high quality and innovative products to market.

Going forward, our focus will be on executing our plan to achieve revenue growth and operational stability while maintaining financial discipline. Early numbers for Q4 are trending positively, as I noted, and we expect continued growth going into 2021. The market conditions remain dynamic and we continue to maintain a very disciplined approach to cost management and the capital deployment.

I’d like to recognize the very talented team here at TGOD for their perseverance, resilience, and dedication. Rest assured that every effort will be taken to ensure TGOD’s success.

Pam, operator, at this time, you can open the lines for questions, please.

## Q & A

**Operator**

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press star followed by one on your touchtone phone. You will hear a three-tone prompt acknowledging your request and your questions will be polled in the order they are received. If you are using a speakerphone, please lift your handset before pressing any keys.

Your first question comes from Tamy Chen with BMO Capital. Please go ahead.

**Tamy Chen** — Analyst, BMO Capital Markets

Hi. Good morning. Thanks for the question. First, a bit of a housekeeping. I was just wondering if you could break down the overall gross margin between what it was in cannabis versus HemPoland. For example, I think last quarter HemPoland, the gross margin was 53%. I just wonder if you could break that down again for us this quarter.

**Sean Bovingdon** — Chief Financial Officer & Interim Chief Executive Officer, The Green Organic Dutchman Holdings Ltd.

HemPoland remains consistent and so the increase on our overall gross margin is related to an improvement in our gross margin in Canada from the previous quarter as it moves from Q3 being of approximately 20% but it is increasing as we get through using up the inventory that was built when we were at a lower capacity level earlier in the year in Ancaster. So our gross margins are continuing to improve now as we have that lower cost and fully utilized Hamilton facility up and running.

**Tamy Chen** — Analyst, BMO Capital Markets

Got it. Okay. And did you, it doesn’t sound like it, but just to confirm, did you receive any CEWS or COVID subsidies this quarter?

**Sean Bovingdon** — Chief Financial Officer & Interim Chief Executive Officer, The Green Organic Dutchman Holdings Ltd.

No. No. Because of the growth in our revenue, we don’t qualify for the CEWS or other subsidies. It was just in Q2 that we had those.

**Tamy Chen** — Analyst, BMO Capital Markets

Got it. Thanks. And last question on my end is with respect to the leadership changes announced today. Is the intent to conduct a search for a permanent CEO? Could you give a bit more colour on that? And if so, possibly a potential timeline for that? Thank you.

**Sean Bovingdon** — Chief Financial Officer & Interim Chief Executive Officer, The Green Organic Dutchman Holdings Ltd.

So, at this moment in time the Board is focused on the existing management team getting through the financial discipline that we need to get through the next few months and drive towards that cash flow positive operations. We want to get operational stability and giving Michel an opportunity here to continue the work he’s been doing to get that stabilized and really focus on that first and put our company on a stable platform for going forward. And the Board will assess the situation and requirements for any further leadership going forward at that time.

**Tamy Chen** — Analyst, BMO Capital Markets

Okay. Thank you.

**Operator**

Your next question comes from Robert Tucker with Niagara Stools. Please go ahead.

**Robert Tucker** — Analyst, Niagara Stools

Hey. Good morning, guys.

**Sean Bovingdon** — Chief Financial Officer & Interim Chief Executive Officer, The Green Organic Dutchman Holdings Ltd.

Good morning, Rob.

**Robert Tucker** — Analyst, Niagara Stools

Sorry to hear about Brian, but things have to happen. Sean, wish you the best. I agree TGOD should keep you for a while and see what you can do.

My questions, I have three basic questions. One is the amount of the write down, if you could break that down why it’s so high. I thought when we wrote down Valleyfield that would be the end of the write down, so I’m a little confused on the write down, same with social media.

My second question, we addressed this the last time, but if you could refresh everybody on the inventory number, because now I hear it’s gone up to $18 million. But we already know how yous break that down. It’s not like we got $18 million of flower sitting on a shelf. So if you could address that for people can understand that part.

And my third question, Valleyfield. I love the idea of the processing facility, I love the packaging agreements. Are there plans to expand that? And second, we got a million square feet of greenhouses. Is there any possibility we could rent some of them out? Due to the high tech facility, there would be no cross contamination if someone was growing in one greenhouse, because the next greenhouse has its own controlled system. And that’s my questions.

**Sean Bovingdon** — Chief Financial Officer & Interim Chief Executive Officer, The Green Organic Dutchman Holdings Ltd.

Thanks, Robert. Very good questions and right on point, so I appreciate that.

Firstly, with regards to the write down, the write down is based on the discounted cash flow model for future, ah, the next five years is how that’s based, and last time it was done where the forecast was and where the prices were and where the mix of our products were, we weren’t fully writing down the whole value.

As you know, we spent well over $300 million on all our facilities and getting that down to the recoverable amount of the value in use is what this latest write-down represents. It reflects closer to the, not only the market value of where we’re trading, but the market value of the facilities as an alternative use, but more appropriately, on an IFRS basis, reflects the discounted cash flow of the forecasts where they stand today. So this has brought it down to be exactly where that is and reflective. So there is no more spare construction cost remaining in the balance sheet on those assets. So hopefully that helps kind of to clear that up a little bit.

On the inventory, you’re exactly correct. The inventory, bear in mind the $18 million includes $4.8 million of inventory from HemPoland. It’s not just Canada. Canada’s number is $13.3 million, which represents about a build-up of inventory for the growth and the acceleration across Canada and additional listings that we have been getting. There are quite some long lead times on some of the raw materials and packaging, which represents about $4.3 million of the $13 million of inventory in Canada. And then $8 million of the remainder is work in process. A lot of it’s the finished goods on the bud side and the oil side and getting ourselves prepared to ensure we have a dedicated and continuous supply to those additional listings of our products across Canada.

There has also been an increase in the biologic asset value. As I mentioned, the Hamilton facility is fully planted and fully cultivating and, at the point in time, the end of September, the value of those biological assets increases because of the stage of growth of where the plants are at in a full greenhouse.

On the Valleyfield side, I appreciate your support of the 2.0 and the utilization of Valleyfield as best we can. We have, as I said, got a couple of co-packaging agreements and we have more in the works. There are more in the works coming to be able to utilize that and take advantage of that capability with other LPs who could use our help in getting and using that space and the licenses.

You’re right in saying, you know, there’s 580,000 square feet of the main greenhouse and another 240,000 square feet of a rooftop greenhouse as well as a support building. We are actively looking for any avenues and partners to lease out some of that space while we are not requiring it. There is the ability, as you mentioned, quite rightly, to section off and isolate sections of the greenhouse or whole quarters or half of the greenhouse to allow other people to be able to utilize that. Or, if necessary, us focus on using just the rooftop greenhouse ourselves for future cultivation and taking the opportunity to monetize the full greenhouse itself.

There is a big drive in Quebec to get self-sufficiency on agricultural and vegetables and fruits just now. There are some programs underway at the federal level in terms of grants for suppliers and companies to look to move towards that self-sufficiency or better sufficiency on food supply and we’re looking to take advantage of that or be part of that as best as we can.

**Robert Tucker** — Analyst, Niagara Stools

Thanks, Sean. Okay. Just a shout-out to Shane. Shane’s been good to investors, especially me, so a big shout-out to Shane. I hope he stays where he is. He’s really good. And advancement for him wouldn’t hurt me either.

And I wish you the best, Sean, because I believe we got to stay where we are. We can’t be spending money trying to bring in a high-price deal. I think we’re good right where we are and let’s see where we go from here. Thanks, guys.

**Sean Bovingdon** — Chief Financial Officer & Interim Chief Executive Officer, The Green Organic Dutchman Holdings Ltd.

Thank you. Appreciate the support, Rob.

**Operator**

This is all the questions we have for this morning. Please proceed.

**Sean Bovingdon** — Chief Financial Officer & Interim Chief Executive Officer, The Green Organic Dutchman Holdings Ltd.

Okay. Well, with that, I appreciate everyone taking the time to take part in the call. We look forward to having a positive fourth quarter and being able to grow from where we are and continue with the progress we’re making. Appreciate everybody’s support. Stay safe and take care.

**Shane Dungey** — Vice President, Investor Relations, The Green Organic Dutchman Holdings Ltd.

Thank you, everyone.

**Operator**

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines. Have a great day.