The Green Organic Dutchman Holdings Ltd.

Second Quarter 2020 Results

August 13, 2020 — 9:00 a.m. E.T.

Length: 44 minutes

CORPORATE PARTICIPANTS

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

Brian Athaide
The Green Organic Dutchman Holdings Ltd. — Chief Executive Officer

Sean Bovingdon
The Green Organic Dutchman Holdings Ltd. — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Luke Hannan
Canaccord Genuity — Analyst

Tamy Chen
BMO Capital Markets — Analyst

George Haywood
Private Investor

Robert Joslin
Niagara Steels — Private Investor

PRESENTATION

Operator

Good morning, ladies and gentlemen. My name is Chris and I'll be your conference operator today. Welcome to The Green Organic Dutchman Second 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 would like to ask a question, simply press star then the number one. If you would like to withdraw your question, please press star then by two.

This call is being recorded on Thursday, August 13, 2020.

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

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

Thank you, Chris. Good morning and thank you all for joining us for our Q2 conference call. Today we'll provide comments on our performance as well as an update on our operations and how we're executing our plan. This call is being recorded and the audio recording will be available on the company website at tgod.ca. Joining me on the call this morning are Brian Athaide, Chief Executive Officer, and Sean Bovingdon, Chief Financial 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 Mr. Brian Athaide.

Brian Athaide — Chief Executive Officer, The Green Organic Dutchman Holdings Ltd.

Thanks, Shane, and good morning, everyone.

The second quarter marked the start of more material sales in Canada as we've had more supply with our Ancaster facility being fully operational. We successfully launched new products with many more to come, significantly reduced costs, strengthened our balance sheet, and are still on track to reach monthly positive cash flow later this year while navigating the pandemic.

As the world continues to be affected by COVID-19, our top priority remains the health and safety of our employees, customers, and patients. Thanks to our team's resilience and dedication, we've been able to continue operating safely with minimum impact on operations.

We implemented numerous precautionary measures to ensure the safety of our employees and products, including office staff working from home, limiting visitors to our facilities, ensuring proper protocols around sanitation and physical distancing, splitting the teams into shifts, wearing masks, and ensuring potentially exposed employees remain in self-quarantine for 14 days. We continue to monitor the situation closely and adjust as required based on guidance from health authorities.

I'll start with the quarters key milestones and then I'll ask Sean to walk us through the financials and we'll finish with an update of what's ahead for TGOD.

As you've seen in our press release, the second quarter marks a significant improvement compared to the first quarter with a quadrupling of our Canadian revenue. We expanded our product portfolio with our RIPPLE dissolvable powder and our vapes being distributed to more stores and started serving a greater part of the market with our launch in Quebec, including the organic mainstream brand Highly Dutch. This resulted in a 309% increase, or quadrupling, in revenue from Canada quarter over quarter to $2.72 million though we're still not where we want to be and we're just getting started down our road of innovation and distribution expansion.

As I mentioned last quarter, high THC is where the main demand is within the recreational market and we've made several adjustments to better serve consumers. Now that Ancaster is operating at scale, we've been focused on continual improvement in quality, cannabinoid potency, yields, and cost. We are seeing velocity significantly increase in the stores which we are now selling 21% Unite flower as well as good momentum on our vapes, RIPPLE products, as well as our mainstream 28-gram highly Dutch Rotterdam OG in Quebec. Highly Dutch has been extremely successful in attracting mainstream consumers looking for a quality organic product at a reasonable price. We'll be soon launching new strains, which I'll discuss in a moment.

For the second quarter, total revenue came in at $4.83 million compared to $2.9 million in Q2 2019 and $3.06 million in the first quarter of this year. This acceleration in revenue growth is a testament to our focus on executing our plan. With our proven products, we anticipate to significantly scale our revenue as we expand to new provinces and stores and complement them with a broader portfolio of strains, which we currently have in the soil and expect to launch next month.

We've overcome many challenges and continue to work on continuing improvements in processes and costs. I feel very good about our innovation portfolio. We took a little longer to launch certain products, but we did not want to rush to market with subpar products. We took the time to do it right and put our best foot forward with RIPPLE, vapes, and Highly Dutch. These successful launches contributed to establishing our reputation as a high quality differentiated producer with both retailers and consumers.

We've also begun selling premium infused teas, which are getting very good consumer reviews and we'll focus more on expanded launch in the fall as the weather cools and consumption increases for these kind of products. Everything we've launched is really consumer-inspired products specifically designed to serve their needs by leveraging science to prove credibility and efficacy, all produced within our sustainable and organic footprint.

At the end of May we successfully launched in Quebec with our dual branding strategy, quickly capturing market share. Our brands revolve around our core differentiator of delivering certified high-quality organic cannabis at scale. We now have a variety of options to serve our broad customer base. First we have our core Green Organic Dutchman brand, which remains our premium brand featuring craft, higher-potency flowers and oils designed for the most discerning cannabis consumer. Second, we have our Highly Dutch brand, which caters to more frequent consumers whose consumption habits skew towards bulk purchases and consume significantly more product. And then third we have our TGOD organics, which includes all our innovative 2.0 products, which have rolled out to exciting early successes, addressing new usage occasions and providing easy accessibility to both current and new consumers in the category.

There have been many questions around value brands and the race to the bottom in terms of pricing. I would like to provide a clarification. Highly Dutch is a mainstream, not value brand. Not quite as premium as TGOD, but still a quality certified organic product. The reason behind the success of Highly Dutch is its unique positioning as the only organic cannabis available in a larger format at a more affordable price point, developed with regular users in mind. We have designed this product to sell at a lower price per gram and still deliver attractive margins. Given we have now reached scale and we’re fully leveraging our Ancaster facility, our cash cost of flower cultivation in this facility is less than $1 per gram, which is what enables us to profitably cater to mainstream consumers with a certified organic product.

From a single recreational SKU in 24 stores in Ontario last year, we’ve added more than 20 SKUs including flower, oils, vapes, dissolvables, and teas, with flower servicing consumers in both premium and mainstream segments. Our products are currently available in around 800 retail locations across the country as well as through relationships with 55 medical partners representing 125 physical clinic locations across the country, and also through medical cannabis by Shoppers Drug Mart.

Our first 2.0 product, RIPPLE THC, quickly became and remains among the top selling SKUs within the beverage category. The consistency, convenience, and predictable effects of these dissolvable powder products with science to back it up, resonate with both current and new cannabis consumers. This is something that’s been lacking amongst legal providers in Canada. Others have made claims on product efficacy, but we have the evidence to back up our claims and differentiate the products to consumers. In addition to the THC version, we're now launching additional sizes and formats, including lower THC concentration levels and balanced CBD/THC as well as CBD-only options. I'll talk about our expanded agreement with Stillwater brands in a moment.

Another bright spot in the quarter was the introduction of our Unite Organic vape, which appeals to high THC consumers. It's formulated with certified organic, full-spectrum, CO2 extracted cannabis oil and flavoured with naturally derived terpenes. It ranks among the best sellers, where sold. Here again, given the great product feedback and uptake we have seen, we'll be expanding with balanced and CBD versions.

We're also expanding our tea line-up by adding Zen Green Sencha and Restful Chamomile to our Happy Hibiscus Maté blend. Premium cannabis-infused teas consistently tested as one of the favourite concepts among Canadians. We expect the category to grow exponentially as consumers embrace new cannabis delivery methods.

We have adopted a true CPG approach, making sure that consumers love our products the first time they try them, building loyalty and driving repeat purchases. Our team has extensive experience in the space and we intend to continue capturing market share by going to market with high-quality, differentiated products.

On the international front, we obtained our EU GMP certification, which allows us to export dried flower and cannabis extracts to Germany for validation. TGOD is the first certified organic Canadian licensed producer to obtain the certification. We intend to leverage our existing network of distribution partners in Germany and in other countries to ramp international sales in 2021.

As you can see, our team delivered key elements of our plans we discussed last quarter despite the additional layer of complexity caused by COVID-19. The construction phase is now well behind us and we've shifted to portfolio and distribution expansion mode. With revenue growth accelerating in Canada during Q2, we're still only just getting started.

Over to you, Sean.

Sean Bovingdon — Chief Financial Officer, The Green Organic Dutchman Holdings Ltd.

Thank you, Brian. Good morning, everyone. As Brian mentioned, I'm just going to provide some more details on our financial performance from the second quarter.

Firstly, we registered quarterly revenue of $4.83 million consisting of sales from cannabis products in Canada of $2.7 million, of which, it should be noted, $1.5 million was in June alone, and hemp-derived product sales in Europe of $2.1 million. HemPoland's performance is fairly consistent with the prior year, despite a significant pullback in retail sales in Europe due to pandemic-related shutdowns.

The net loss for the quarter decreased to $9.8 million, which is a $63.7 million reduction compared to Q1 2020, which can be attributed to the lower loss from operations as well as no further impairment charges recognized during this quarter. It is significantly below our operational loss for Q1 2020, which was $15.2 million.

Cash used in operations was negative $8.2 million this quarter. That compares to a negative $13 million in Q1 of 2020. And this reflects the contributions from both increased sales as well as a significant reduction in general and administrative costs. In fact, our G&A decreased by $4 million, or 42%, to just

$5.7 million compared to quarter one of 2020, reflecting our commitment to being more agile and adapt to dynamic market conditions.

This decrease was achieved as we managed costs and cash flow, including temporarily laying off the majority of our employees in Quebec with intention of restarting operations in Valleyfield as market demand requires. We also made further cost reductions, cutting back the size of the organization, making temporary salary cuts, and eliminated several third-party costs or consultancy work, as well as most travel. These changes are in line with our plans to halve our Canadian G&A in 2020, which is evidenced by that 42% reduction quarter over quarter.

We ended the quarter on June 30th with $19 million in cash and restricted cash that we intend to use for working capital until we turn positive in operating cash flow on a monthly run rate basis, which is still expected by the end of 2020.

I will not spend too much time on financing activities, since we already discussed them as part of our Q1 results, but to summarize, during the quarter we secured additional financing by closing on gross proceeds $23 million of new equity, $18 million of term debt, and a $17 million revolving operating facility to use in the coming year.

We incurred $6.2 million in new capital expenditures during the quarter, which was expected within budget, and was mainly for the completion of the processing building and fit-out of machinery at Hamilton, which is now fully operational.

Lastly, a note that at the end of May we sold our interest in Epican Medicinals Limited in Jamaica, which, given its history of operating losses, the recent economic developments in Jamaica restricting operations, and our strategic decision to no longer pursue opportunities in Jamaica, leaves us to focus on the Canadian operations.

We continue to maintain a disciplined approach to operational costs related to the commercialization of our products in Canada and the entire management team is laser-focused on where we spend our SG&A. Our priority is on the higher value-added part of the value chain and working with good partners for the rest. As Brian mentioned, we expect revenue and cash flows to continue to increase in the coming quarters as we expand our product portfolio and distribution.

With that, I'll hand it back to you, Brian.

Brian Athaide — Chief Executive Officer, The Green Organic Dutchman Holdings Ltd.

Thank you, Sean.

As you can see, we have reached several milestones during the quarter and now have real momentum. Despite a few delays earlier in the year, we're closing the gap and are still on track to reach a monthly run rate scale which delivers operationally cash flow positive later this year.

We expect Highly Dutch to play an important role in revenue growth acceleration. It exceeded our expectations in Quebec and we anticipate similar performance in other provinces as we expand distribution. In fact, demand in Quebec was so strong we pushed the launch in other markets by a month to avoid shortages. We're also looking to add new strains under the brand as well as other product lines, such as concentrates in late September.

Beyond our premium and mainstream flower strategy, we're doubling down on our 2.0 products, which have high margins, even higher than premium flower on a per-gram basis. Our expanded licensing agreement with Stillwater Brands is going to be a catalyst to accelerate our product development pipeline. Their products are already some of the best-selling SKUs, where sold, in the United States. Their proven formulations and flavour profiles make it much faster for us to get some concept to commercialization.

In order to accommodate the additional processing requirements for these new products, we are leveraging our Valleyfield facility, which is already licensed. This quarter we'll be launching our first concentrate under the Highly Dutch brand and it is being produced at Valleyfield. We will gradually shift other processing activities to Valleyfield to better utilize the facility there and start absorbing the fixed costs of maintaining the site.

We've also signed co-packing agreements with other producers who do not have the space and/or the required licenses to process or sell certain products. This is another way for us to leverage our investment in Valleyfield while maintaining the optionality to restart cultivation as the market further develops and our share grows. Valleyfield is quickly becoming our processing hub with a highly skilled team onsite. The expertise we have developed is proving to be extremely valuable.

Finally, our TGOD premium flower portfolio will also see exciting expansion as we go from one high-THC strain to multiple high-THC strains for sale in multiple size formats starting next month. We have selected these new strains based on extensive market research in order to provide consumers with the type of product they're looking for.

For us, beyond managing costs and having unique organic products, we will leverage strains to prove credibility and efficacy with a focus on responsible and sustainable scaling. Our revenue growth in Canada should continue to accelerate as we bring high-quality products, innovative products to market with our unique organic positioning. I expect this to be compounded further as we push to bring these high-quality products into more stores, including the rapid expansion of new stores opening in Ontario.

To close, it's been a very challenging couple years. Beyond numerous industry issues, we faced our own challenges in construction timing and costs and have overcome them by redesigning our plan and scale, putting in alternative financing in place and still got high-quality innovative products to market. I'd like to thank our incredible team here at TGOD for their perseverance, passion, and dedication to achieve this and I'm confident this team of talented people will enable us to quickly win market share and get to operational cash flow.

Operator, at this time, you can open up the line for questions.

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 are polled in the order received. If you are using a speakerphone, please lift the handset before pressing any keys.

Your first question comes from Luke Hannan, Canaccord. Luke, please go ahead.

Luke Hannan — Analyst, Canaccord Genuity

Thanks and good morning, guys. Appreciate the additional disclosure that you included in the MD&A. It's definitely very helpful to help frame-up the rest of the year. I wanted to ask a little bit more about your gross margin assumptions for the balance of the year. Obviously, you did 18% in Q2 and you expect sort of improvement as you get into the backup year. I think in the MD&A it said somewhere in the 40% range. So I'm just curious, as part of that assumption, what sales mix is included in that? Is that mostly skewed towards Highly Dutch products or cannabis 2.0? Maybe you can just take us through what your sort of sales mix assumptions are for the back half of the year.

Sean Bovingdon — Chief Financial Officer, The Green Organic Dutchman Holdings Ltd.

Yes, certainly. Thanks, Luke. Firstly, I would note that the margin in Q2 is reflective of a cost of goods from production coming in the earlier months of the year. As you know, as we were ramping up in Q1 we only had a couple of greenhouse rooms available, so the kind of fixed cost in Hamilton facility in that inventory that's gone to the cost of goods in Q2 is over a smaller amount of product, so that's partly the reason for, the main reason for that kind of lower margin that was achieved in Q2, as you're using higher-cost product that was produced at the time.

Now that we're at scale at the Hamilton with all the rooms fully cultivating, as Brian mentioned, our cash costs of cultivation are now under $1 per gram and that helps to improve the kind of gross margins going forward as that inventory now goes into the cost of goods for products for Q3 and Q4.

So, as you mentioned, we, and in the MD&A, overall we're talking about 40% gross margin, and that does reflect a good half of our sales coming from the Highly Dutch product, which is indicative of how well it's been received in Quebec and how we expect it to be well received across the rest of the country. The balance is split evenly between kind of 2.0 products and our premium flower.

Luke Hannan — Analyst, Canaccord Genuity

Okay. Got it. That's very helpful. I guess a follow up on that: The margin profile for maybe each of those different products, just to get a better understanding between what your premium flower is, like your Unite Organic strain, versus Highly Dutch. And then 2.0 products, I know there's probably a lot of variability there, depending on whether it's teas or vapes or otherwise, but any insight there would be helpful.

Brian Athaide — Chief Executive Officer, The Green Organic Dutchman Holdings Ltd.

Yeah. We don't disclose specific kind of gross margins by brand. That is pretty competitively sensitive. But I can tell you the margins across all of our flower, including mainstream, is very attractive. Now recall that we've designed it to be able to be sold at a mainstream price, right? Unlike TGOD, which is in glass packaging, is much more craft, hand trimmed, hang dried, I mean we've got much more automated processes on Highly Dutch, which allows us to still have very attractive margins. On 2.0, and I mentioned earlier, it's got a higher gross margin per gram. The amount of cannabinoids that go in there, relative revenue is much less, so when you look on a percentage basis, you don't necessarily see the same percentage gross margin, but on per-gram it's significantly higher. So it's a combination of all of that mix. But all three segments of our business are very attractive financially.

Luke Hannan — Analyst, Canaccord Genuity

Understood. And last question before I pass the line here, I'm just curious, I'm not sure if it was disclosed in either the press release or the MD&A, if it was, maybe I missed it. I know that you had disclosed the benefits that you would have gotten from the Canadian wage subsidy program. Were there any specific costs related to COVID-19 to ensure the health and safety of your workers that you had incurred in the quarter and, if so, if you can disclose that, that would be helpful.

Sean Bovingdon — Chief Financial Officer, The Green Organic Dutchman Holdings Ltd.

In terms of that, yes, we did get the wage subsidy for the couple of months we qualified for it, so that's been reflected in this Q2. In terms of cost, the worst marginal increases as we had to split up some of the shifts in Ancaster to have enough physical distancing and too the little longer time in terms of some of the processing costs, not so much on the cultivation side but particularly on the processes and packaging. So there's some marginal cost there, but that has since...

Brian Athaide — Chief Executive Officer, The Green Organic Dutchman Holdings Ltd.

There's a bit more PP&E and the sanitation, but I wouldn't say it's material.

Sean Bovingdon — Chief Financial Officer, The Green Organic Dutchman Holdings Ltd.

It's not material. And with Ontario switching now towards, ah, into stage three and more automation coming into the facility in Hamilton has enabled us to continue to bring the costs down from where they were in Q1 and the beginning of Q2.

Brian Athaide — Chief Executive Officer, The Green Organic Dutchman Holdings Ltd.

Yeah, I mean overall it's PPE and sanitation, but it's not material.

Sean Bovingdon — Chief Financial Officer, The Green Organic Dutchman Holdings Ltd.

Not material.

Luke Hannan — Analyst, Canaccord Genuity

Great. Thank you very much.

Operator

Thank you. Your next question comes from Tamy Chen, BMO Capital Markets. Tamy, please go ahead.

Tamy Chen — Analyst, BMO Capital Markets

Thanks. Good morning. Thanks for the question. First, wanted to understand, if you're able to comment or give a bit more colour on your current breakdown of cannabis sales between the provinces, where (inaudible) currently and how you expect that to evolve over the coming quarters, because I'm wondering specifically does that—are there differences or meaningful differences in margin based on the different pricing structures and supply chains across the different provinces?

Brian Athaide — Chief Executive Officer, The Green Organic Dutchman Holdings Ltd.

There are some differences. I wouldn't say they're significant. In Q2, the revenue that we published, there was, ah, a significant part of that ramp was entering into Quebec because of Highly Dutch. If you think from a timing standpoint, though, and our launches, when we got into Quebec, we started in 13 stores as we were ramping up supply and that's really what you're seeing in Q2 is a bit of pipeline for those 13 stores and sales. Since then we've gotten to 43 stores with Highly Dutch in Quebec and we were hoping to expand across the country in August. We've pushed that to September just given the success that we've had there. So that's, I mean we've proven it out that mainstream organic resonates with consumers. We're also bringing in new strains, so that'll further accelerate.

The other thing in Q2, we launched our vapes, our Organic Unite vape, and frankly that was only in about 30 stores in Ontario in Q2 as well. And again, we were hoping to launch that nationally. It took us a bit longer, frankly, and we mentioned that in the press release, just kind of getting the listings in some of the other provinces, but this week consumers can now find that in the other big provinces in Alberta and BC. We're not able to sell vapes in Quebec, obviously. So it took us a bit longer, but that further kind of acceleration. The fact that we've proved that, in the stores it was selling, it was selling really well, that encouraged us to continue to expand our portfolio and we're bringing out the balanced and CBD versions.

So, I mean that's a bit of the story that you're seeing throughout. You're not going see a huge variation kind of province by province in terms of margin, but what you're seeing is rollout timings vary across our different product lines as we launch, we prove success on a certain product, and then once we confirm that success, then we're expanding to other provinces and fine-tuning based on learnings that we've found from consumers on communication or things like that, as well as the additional variants.

So, we've tried to do this very methodically versus trying to kind of rush and then be out of stock or avoid hiccups. Not that we'll get everything perfectly, but we're trying to be very methodical and make sure that what we're doing is sustainable.

Tamy Chen — Analyst, BMO Capital Markets

Okay. Got it. And my second question is also on the gross margin. So you mentioned your cash costs for flowers sub $1 a gram, so is right now then the big kind of overhang or drag on your margins more in the processing area? And when we think about your margins going forward, I mean do you need to be operating at full capacity utilization in both of your facilities before we can see a more normalized gross margin?

Sean Bovingdon — Chief Financial Officer, The Green Organic Dutchman Holdings Ltd.

Not quite, Tamy. I mean the drag on the gross margin for Q2 was because our cash costs per gram in the production that that's related to was closer to $3 a gram, as it was related to the grow in just the two rooms through Q1 and the early part of Q2, which then gets processed in this part, is the inventory that sold in Q2. It's just the average costing. So, as we've now got into Q2, we're now fully cultivating and all eight rooms in Hamilton, that's where the cash cost now is under $1 a gram. Similarly, (inaudible) fixed costs on the processing cycle, there's more manual processing in Q1, was higher, and then the early part of Q2, but now that we're automating those processes, that processing cost is coming down as well.

So when we talk quoting those numbers in terms of looking at a 40% gross margin going into the balance of the year and having that under $1 of cash cost on the cultivating side, that's talking about Hamilton alone. At Valleyfield and the market demand grows from Highly Dutch into 2021, as well as it's been growing in Quebec, across the rest of the country and we go into Valleyfield, then at scale, the Valleyfield costs would be even lower, much significantly lower at scale than $1 per gram cultivating. But that's a ways off yet until we get to that kind of volume or expect to see that kind of volume. So we're basing those margins just on Hamilton alone and the processing automation in Hamilton alone for balance of this year.

Tamy Chen — Analyst, BMO Capital Markets

Okay. Got it. And as a further clarification on that 40% was Hamilton alone, so I know you mentioned earlier that you're looking to ramp up a bit of processing in Valleyfield to absorb some of the fixed costs there, so are you saying the 40% gross margin reflects just Hamilton and so when you reflect then Valleyfield there'll be a little bit of drag on that? Or the 40% includes sort of Valleyfield—

Sean Bovingdon — Chief Financial Officer, The Green Organic Dutchman Holdings Ltd.

Yeah, the processing of Valleyfield is on some of the 2.0 products. Some of the new 2.0 products. It's not on flower. But it does average out to be included in the same amount, so it's still, it doesn't, it's not a drag on the 40%.

Tamy Chen — Analyst, BMO Capital Markets

Okay. Got it. And my last question, if I can squeeze this in, is I noticed in your MD&A you provided this outlook table on your operating cash flow over the next 12 months. The gross profit dollars did come down between your June outlook to now. Is that a function of just things you mentioned such as pushing back some of your launches so the revenues are coming in a bit slower than you thought in June or was that something else?

Sean Bovingdon — Chief Financial Officer, The Green Organic Dutchman Holdings Ltd.

Yeah, the first thing I'd just clarify that's not, that comparison is based on June to May, which was the disclosure in the prospectus, so we're required to show the same update for June to May. It's not the coming 12 months. It's still June to May of 2021 is the comparison. And you're right, I mean because of the push out, as Brian mentioned, on some of the launches nationally, the impact on the gross margin there is shown as you move out a month to two months. And additionally, moving more towards the Highly Dutch, as we've seen the velocities in Quebec go where they are and there's a bit more of a mix towards Holly Dutch, which has more of a mainstream, slightly lower margin than the premium flower, that has an impact on that June to May of 2021 cash flow that was disclosed in the prospectus has now been updated.

Tamy Chen — Analyst, BMO Capital Markets

Got it. Okay. Thank you.

Operator

Thank you. Ladies and gentlemen, as a reminder, should you have a question, please press star one on your touchtone phone.

Your next question comes from George Haywood. George, please go ahead.

George Haywood — Private Investor

Good morning. You're at a critical juncture in TGOD's existence, because you have so many rapidly moving parts. Your number of SKUs is rising dramatically at the same time as the number of retail distribution points is expanding, especially in Ontario. So I'd like to just tap into your wisdom here and see what—give us a sense for how rapidly you see growth going on.

For example, I look at the last quarter, you gave us June, you said about $1.5 million sales for June. Well, that's 25% higher than April and May combined. If I look at April and May and just throw a number on there for a guess, you know, $400,000 for April, $800,000 for May, again, these are my guesses, and that would leave, again, the $1.5 million, so every month it looks like you're doubling.

So, number one, can you give us a sense for what July was like? That's got to be in the books. So tell us how July was and then just give us a sense for what you see going forward as to how rapidly things are expanding.

Brian Athaide — Chief Executive Officer, The Green Organic Dutchman Holdings Ltd.

That is very perceptive. I mean, as you look at Q2, we did see—I'm not going to confirm those monthly numbers you said, but you are seeing month-after-month growth, and we expect to see that. As I mentioned earlier, really, if you look at Quebec, that was primarily in June, which I mean we got in June, yeah, that $1.5 million out of that total quarterly revenue was June alone. That shows you we've moved to a new level. And then now we're kind of moving to the next level of expansion with the new, expanding each of the kind of key segments from teas, vapes, flower, to more strains, more 2.0 products. That's going to help us further accelerate. On top of that, the distribution expansion into more provinces and more stores, so absolutely.

Sean Bovingdon — Chief Financial Officer, The Green Organic Dutchman Holdings Ltd.

That didn't take place in July though.

Brian Athaide — Chief Executive Officer, The Green Organic Dutchman Holdings Ltd.

No. Yeah, yeah.

Sean Bovingdon — Chief Financial Officer, The Green Organic Dutchman Holdings Ltd.

Steps. So you'll see the next kind of step of doubling in September kind of, over September.

Brian Athaide — Chief Executive Officer, The Green Organic Dutchman Holdings Ltd.

I mean we will be, we do expect quarter after quarter after quarter growth, by continually to bring in new innovation and to be expanding that after you bring it in nationally. Like I said, I mean the vapes, although we launched it in Q2, it took us a bit longer to get that full distribution. It's really only this week now, middle of August, consumers in Alberta and BC can buy it. Right? I mean Ontario's had it for a while, we can't be in Quebec, and those are the four key markets.

So yeah, I mean we're not giving guidance, but I can tell you we will see sequential quarter-after-quarter growth. Yeah, we quadrupled Canadian revenue last quarter. Don't expect a quadrupling every quarter, but do expect growth.

George Haywood — Private Investor

Well, can you be specific as to July?

Sean Bovingdon — Chief Financial Officer, The Green Organic Dutchman Holdings Ltd.

No. We're not able to disclose the specific month like that in terms of that but, as Brian mentioned, as things (inaudible), it was up from June, but that's about as far in terms of detail we'd be comfortable getting at this point in time. But expect, as I said, Q3 to start to demonstrate the next step up as the launch of those products that went in Quebec now launch nationally, so you'd see that kind of reflected in Q3.

George Haywood — Private Investor

Okay. And then on G&A, congratulations, 42% drop in G&A is very impressive. Do you think you'll be able to maintain that discipline as you experience rapid growth in sales going forward?

Sean Bovingdon — Chief Financial Officer, The Green Organic Dutchman Holdings Ltd.

Yes. We've put ourselves and continue to monitor that. There's not going to be another 42% drop, obviously, because we made the right sizing as was necessary to get us down to this level, as we talked about at the beginning of the year and in Q1, and that reflects those kind of measures that we took. Going forward from here we fully see we're at a point where we can maintain our G&A costs at that low level and continue to maintain that discipline through the balance of the year.

As sales ramp up, it's not the G&A that we see increasing. There'll be some variable incremental increase on the sales side related to agency commissions and royalties on some of the ingredients and things like that, but you're not going to see a rapid increase in G&A at all as a sales ramp up, because, if anything, we could look to see some marginal decreases in G&A because of the discipline we're applying.

Brian Athaide — Chief Executive Officer, The Green Organic Dutchman Holdings Ltd.

Our focus is trying to get to that operational cash flow run rate as soon as possible. So, I mean there's many variables within that. I mean clearly it's driving revenue, like we already discussed, but we're constantly focused on taking out every dollar we can from the cost structure, whether it's in G&A or whether it's even in our processing and manufacturing side as well.

George Haywood — Private Investor

One last question: Do you plan to raise—do you feel that you'll have the need to raise dollars in the near future? And, if so, would it be dilutive or non-dilutive financing? What are your thoughts on that?

Sean Bovingdon — Chief Financial Officer, The Green Organic Dutchman Holdings Ltd.

So I'd note actually, we are actually only one of, I think we're the only one of the large LPs that doesn't actually have a shelf prospectus in place, so likely prudent for us to do that in case we want to do an ATM or to ensure we have sufficient buffer if there's a COVID second wave issues or to take advantage of any investment opportunities that may arise, both Canada or into Europe, or working capital requirements if the national launch of the Highly Dutch and the vapes kind of exceeds expectations. I think it's always prudent to manage the balance sheet and something like an ATM, obviously, is less dilutive than other offerings could be.

But we also have some surplus assets. We had a small sale of surplus assets that we're not using in Valleyfield in the last month and we did look at those opportunities as well to take advantage of some funding, if necessary, from that as well. Nothing's off the table. Obviously, doing a shelf prospectus would give us more flexibility to be reactive if necessary.

George Haywood — Private Investor

Gentlemen, thank you for taking my questions.

Operator

Thank you. Your next question comes from Tamy Chen, BMO Capital Markets. Tamy, please go ahead.

Tamy Chen — Analyst, BMO Capital Markets

Hi, sorry, just a quick last follow up. On the GMP certification, just wanted to understand what this allows you to do currently and not. You mentioned export for validation. So, is that sort of an initial test and you need a different certificate to allow you to export commercially?

Brian Athaide — Chief Executive Officer, The Green Organic Dutchman Holdings Ltd.

So we have our GMP certification, which allows us to kind of complete the validation, so what now is required is getting the export and import permit to Germany, proving out kind of the whole shipping methodology, transport, that it happens at kind of temperature controlled and quality. So, I mean there's still a few months of work there and we've got 'til the end of the year. Once that's confirmed, we'd expect the inspector to make that an unlimited certificate, which would be good for a couple of years. So, I mean we're not really looking at commercialization in Europe this year. It's more 2021. And that's kind of the normal process for GMP certificates, I mean if you look at what others have done as well.

Tamy Chen — Analyst, BMO Capital Markets

Right. Okay, thank you.

Operator

Thank you. Your next question comes from Robert Joslin, Niagara Steels. Robert, please go ahead.

Robert Joslin — Private Investor, Niagara Steels

Hi. How are you, guys?

Brian Athaide — Chief Executive Officer, The Green Organic Dutchman Holdings Ltd.

Good. Thank you.

Robert Joslin — Private Investor, Niagara Steels

So I have a couple of quick questions. So we're at scale at Ancaster, so that changes from 8,000 to 10,000 kilograms more up to the 15,000 to 17,500 that we originally planned.

Sean Bovingdon — Chief Financial Officer, The Green Organic Dutchman Holdings Ltd.

That would be an annualized basis, but the 8,000 to 10,000 is the ramp up through this year, so in 2021 that's where you look more to the capability of doing the 15,000 for a full year.

Robert Joslin — Private Investor, Niagara Steels

And my second question then is exactly how much inventory do we really have? When you read it it's, to me, not being an accountant, but I come up with around $13 million in inventory we have.

Sean Bovingdon — Chief Financial Officer, The Green Organic Dutchman Holdings Ltd.

Yes. And again, what that's reflective of, as I mentioned, we're now growing and cultivating in all the rooms in Ancaster, so at the end of June that $13 million does include, you know, a half of that is biological assets in the grow stage. So, as you start to look at that as a couple of million there that's biological assets, there's a couple that's been harvested, there's a lot of packaging material for all the 2.0 products and Highly Dutch to do the national launch. So, it's kind of like a pre-build of inventory at the end of June and readiness for the national launches that we're doing now.

Brian Athaide — Chief Executive Officer, The Green Organic Dutchman Holdings Ltd.

In terms of finished goods, we're actually not sitting on much. I mean we've been shipping it out within a week or two of being packaged in most cases.

Sean Bovingdon — Chief Financial Officer, The Green Organic Dutchman Holdings Ltd.

Yeah, there's not a lot, yeah, there's no flower sitting that's not moving. It's mainly packaging goods and growing—

Brian Athaide — Chief Executive Officer, The Green Organic Dutchman Holdings Ltd.

Yes. Because recall, I mean once you harvest, you need to dry, that takes a couple of weeks, and you need to then get it tested. It takes 10 days to get back kind of the COA, the Certificates of Analysis. So there is, ah, and packaging, there's probably a month lag from when you harvest to when you're selling. And if you look at our inventory, it's primarily plants in the ground and stuff that's in process. It's not a lot of finished flower.

Robert Joslin — Private Investor, Niagara Steels

Yeah, that's good. So it's just, so it's not—because shelf life, sitting there drying out is no good.

Brian Athaide — Chief Executive Officer, The Green Organic Dutchman Holdings Ltd.

No. And I think that's one of the feedbacks we've been getting from the market. Like if you look at Highly Dutch and you look at people posting on Instagram and stuff, I mean people are really impressed with the fresh product. And we've got a lot of those comments from even the Maritimes as well, where, when people are comparing us to other LPs, they're getting fresh product, and that's been very positive.

Robert Joslin — Private Investor, Niagara Steels

All right, guys. Thanks. Just keep moving forward. That's all we can do. Thanks, guys.

Brian Athaide — Chief Executive Officer, The Green Organic Dutchman Holdings Ltd.

Thank you, everyone.

Operator

Thank you. There are no further questions at this time.

Brian Athaide — Chief Executive Officer, The Green Organic Dutchman Holdings Ltd.

Okay. I mean just to wrap up, Q2 was really an inflection point for the company. We're now seeing the revenue growth that we had hoped to be at earlier. So, yeah, we are a little bit behind where we had expected to be. We've now got momentum. We're very focused on proving out the innovation we're bringing before expanding it, being very methodical there. We're very focused on costs and focused on getting to operational cash flow as soon as possible. So, we'll continue to keep you updated as we progress. Thank you very much, everyone.

Operator

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