FINAL TRANSCRIPT

The Green Organic Dutchman Holdings Ltd.

First Quarter 2022 Conference Call

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CORPORATE PARTICIPANTS

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

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

Nichola Thompson
The Green Organic Dutchman Holdings Ltd. — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Tamy Chen
BMO Capital Markets — Analyst

Venkata Velagapudi
Research Capital — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen. My name is Anis (phon), and I'll be your conference Operator today. Welcome to The Green Organic Dutchman First Quarter 2022 Conference Call.

To ensure an enjoyable experience for all participants, all lines have been placed on mute.

Following the presentation, we will open the call for questions. If you'd like to ask a question, simply press *, then the number 1. If you'd like to withdraw your question, press *, then 2.

This call is being recorded on Thursday, May 26, 2022.

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

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

Thank you, Anis. Good morning and thank you all for joining us for our Q1 2022 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, and the audio recording will be available on the Company website at tgod.ca.

Joining me on the call this morning are Sean Bovingdon, Chief Executive Officer, and Nichola Thompson, Chief Financial Officer at The Green Organic Dutchman.

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 cause actual results to differ materially. I refer you to the news release and MD&A for more information on the assumptions and factors.

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

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

Thank you, Shane, and good morning, everyone. Thank you for joining us today.

The progress and momentum built in fiscal 2021 has carried forward into the first quarter of 2022, including another record month in March.

Our focus on quality and consistency have continued to drive brand value. And the solid revenue growth, along with continued cost-cutting initiatives, an increase in the revenue mix towards premium flower, and an increased utilization of our Ancaster facility, have improved our gross margin again this quarter.

In a challenging and highly competitive environment, we've been successful in continuing to grow revenue and our retail distribution by investing in relationships with retail cannabis chains.

Operationally, our strategy and execution has repeatedly delivered quality product to consumers. And demand has outpaced production, while we remain mainly insulated from the pricing pressures our peers have been facing.

Meanwhile, our yields have been consistently strong, repeatedly at or above 100 grams per square foot of canopy, while maintaining the THC levels always above 22 percent, with some strains reaching as high as 28 percent in the TGOD premium flower category.

Our quality, high-THC premium flower, with strong terpene profiles, such as our Sugar Bush and Maple Kush strains and our newly launched Cherry Mints, continue to be the key drivers of our growth. We continue to develop and launch new premium strains to strengthen our leadership position in the premium flower category.

In response to this growing consumer demand, we commenced our first harvest from our Valleyfield facility earlier this week and are excited to be able to offer high-quality, Quebec-grown product to the market. Annually, that Valleyfield will produce an additional 2,500 to 3,000 kilos of flower, while it still remains the production facility for our portfolio of hash products.

In Q1, we also launched our Highly Dutch 6-Month Oak Barrel aged hash in the Quebec market. It will be available in Ontario shortly, and we expect Newfoundland and Manitoba availability to follow.

We launched TGOD pre-rolls for our Rockstar Tuna and Sugar Bush strains in January. Based on the early success, the TGOD pre-rolls will be available in Cherry Mint and Maple Kush in the upcoming months.

We also added the Cruuzy Supercharged Duubyz, combining the flavourful indica flower and rosin to create a unique consumer experience. We are encouraged by the stronger-than-expected consumer demand for these pre-roll offerings.

So our three strategic initiatives have continued to drive demand and expand distribution. That's thanks to our commitment to the TGOD promise to deliver consistent high-quality, high-THC products; our focus on growing key retail chain penetration; and our dedicated sales model. We've been able to continue the momentum from Q4.

These three initiatives will continue to be the foundation of our growth strategy for the remainder of 2022.

We are pursuing opportunities for additional cultivation for 2023 to meet the strong demand for our products, in particular, for our premium flower. We continue to have strong conviction in our potential to achieve significant growth quarter over quarter as we remain focused on the quality and consistency, as well as continued cost discipline and execution.

We are pleased with our progress and continue to build TGOD into a profitable, sustainable, and agile cannabis company that, importantly, is growing faster than the legal market in Canada.

With that, I'll now hand over the call to Nichola to take you through some of the financial results.

Nichola Thompson — Chief Financial Officer, The Green Organic Dutchman Holdings Ltd.

Thank you, Sean.

As Sean mentioned, we built on our momentum from Q4, which included another record month in March. We achieved record quarterly net revenues of $10.6 million, a 96 percent increase from Q1 2021, and a 12 percent increase from Q4 2021.

The quarter-over-quarter increase in revenue can be mainly attributed to the launch of additional premium flower strains, the launch of pre-rolls, and the continued traction for Highly Dutch Organic flower.

With Acosta providing direct store support, budtender and consumer education, in addition to the new listings accepted in the key markets, the Company achieved significant increased revenues.

Gross margin before changes in fair value adjustments improved in Q1 2022 to 35 percent, from 32 percent in Q4 2021, reflecting higher net revenues due to sales mix of products moving towards premium flower, which now represents 27 percent of our revenue.

We believe gross margin in Canada can be consistently between 35 percent to 40 percent, as we continue to sell proportionately more premium flower, which should result in us achieving break-even adjusted EBITDA on a monthly basis in Q2.

We have also continued to keep a close eye on cost, further driving down general and administrative expenses, which decreased to $3.9 million in Q1, a 14 percent decrease in comparison to $4.6 million in Q4 2021.

As a result of increased revenue, increased margin, and cost reduction, our adjusted EBITDA loss was $2.2 million for Q1 2022, representing a 57 percent improvement from Q1 2021, and a 26 percent improvement compared to Q4 2021.

For more information on adjusted EBITDA and non-GAAP performance measures, please see our disclaimer in our Q1 press release.

As of March 31, 2022, the Company had positive working capital of $19 million, including a non-cash contingent consideration liability of $4.8 million.

Subsequent to the quarter, we added to our financial liquidity by negotiating with our Canadian lender to increase the term portion of our existing revolver loan by $4 million, to $24 million.

Additionally, on May 17, 2022, we raised additional working capital through an asset sale of our leasehold improvements at the Puslinch facility, providing net cash proceeds of $2 million.

To further bolster liquidity, we are in negotiations for the sale of HemPoland and anticipate completing the sale within the coming months.

In closing, we continue to build our momentum and are making significant financial progress in 2022, with a focus on achieving positive adjusted EBITDA and expanding profitability into 2023, with increased production and distribution in key Canadian markets, as well as abroad.

With that, I will hand my call back to Sean.

Sean Bovingdon

Thanks, Nichola. Before we move to the question-and-answer portion, let me leave you with these final thoughts, please.

We are pleased with the progress and momentum we've made over the last year, and these results can be attributed to the launch of new products and our existing products gaining further traction, affirming the strategic approach we have taken.

We've continued to expand our product offerings in all provinces where we currently have listings and now have flower available in BC, which is a key growth market for TGOD this year.

As the exclusive producer of Wyld edibles in Canada, we are continuing to see expansion for listings of Wyld edibles across the country as well.

We look forward to sharing news on additional SKUs and distribution points as they occur through 2022.

We are preparing for future growth in Canada and abroad, while not losing our focus on cost discipline and execution.

As previously mentioned, we remain on track for break-even EBITDA, adjusted EBITDA, on a monthly basis in Q2 and are pursuing additional cultivation opportunities to further expand our market share and to improve shareholder value.

Demand for our products remains strong, and we look forward to sharing more on our growth strategies in the coming months.

To conclude, I'm proud of our continued growth quarter over quarter, as we move towards profitability, while building a strong, sustainable organization and brand that resonates with consumers.

Personally, I'd like to thank our employees for their continued hard work and to thank our shareholders for all your continued support.

With that, Anis, we're ready to take any questions.

Q&A

Operator

Thank you, sir. Ladies and gentlemen, we will now conduct the question-and-answer session. If you'd like to ask a question, press *, then the number 1 on your telephone keypad. If you'd like to withdraw your question, press *, 2. If you are using a speakerphone, please lift the handset before pressing any keys. One moment, please, for your first question.

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

Tamy Chen — BMO Capital Markets

Thanks. Good morning. First, I just wanted to start on the premium segment of the market, I guess in the flower category. So, Sean, you said that demand is outpacing production right now for you, yet I see some of your other competitors are walking away or abandoning their efforts for the premium segment. So it's just all a bit conflicting.

Can you offer a bit more commentary about that segment? Like how big is demand in that premium category right now? Is it really growing strongly? Or is it more moderate growth? Anything you can say there would be helpful. Thank you.

Sean Bovingdon

Hi, Tamy. Thanks. Well, what we're seeing, from our own personal perspective, is everything we grow in the premium flower category goes out the door and is already sold. And we're having excess demand from both Ontario, Quebec, and Alberta, right now, for our Sugar Bush, Maple Kush, and even for the Cherry Mint that is coming—that has just come to market. The POs we're receiving are greater than the actual allocation we can supply. So that's why we're looking at additional cultivation capabilities for 2023.

In terms of the whole market, all I can see, and what we've been seeing, is some of the larger players have been hit by the kind of price compression, and there is—much like there was in the early years in the US, there has been some price compression in the kind of value market of flower. We haven't had that in our premium flower segment, such that we've been able to kind of maintain the kind of price that we're getting while increasing the demand.

And as far as the whole premium segment of the market as a whole, I don't think it's changed particularly from what it was over a year ago, in terms of being kind of 15 percent to 20 percent of the total market for flower. But we're just taking a larger portion of that, and we're in the top 10 premium flower producers in Canada, when you look at flower over $32 for a 3.5-gram jar.

Tamy Chen

Okay. That's interesting. Okay.

And then going to your path to profitability, can you just clarify what you mean by breakeven on the adjusted EBITDA line on a monthly basis? So like are you saying one of the months into Q2 is when you'll start to get to breakeven? Like I just wasn't sure what you meant by that.

Sean Bovingdon

Yeah. Any particular PO delivery date on revenue can—because of the set windows for deliveries to some of the provinces, you have something on May the 29th or June the 1st, it makes a difference, right, because each PO can be quite significant. So for June—certainly, for the month of June, we expect to be EBITDA positive. It may be May, if one of the POs gets delivered on May the 31st or at next week, as opposed to June the 1st. But certainly, for June, it'd be EBITDA positive.

For the quarter as a whole, it won't be from a quarter, but by the month of June, as the trend is moving where it is, and then every month afterwards, that's when we start to be EBITDA positive on a quarterly basis for the balance of the year.

Tamy Chen

Okay. Got it. And then, so last question for me is on your balance sheet and liquidity. So I think you highlighted a number of initiatives and things that you've done recently and post the quarter.

I guess I'm just thinking like, if you did need additional capital beyond what you've stated, whether it's for buffer or for capital spending you need to do, et cetera—I guess, what other options or alternatives would be available to you?

Sean Bovingdon

Well, firstly, there's the HemPoland sale that's underway. We've been talking about that for a while. And we're in negotiations now with a potential purchaser on an exclusive basis to complete due diligence and expect that to be concluded in the coming months. The events in Ukraine slowed that down, obviously, in the Q1, but it's on track now. That's a significant portion.

Beyond that, when we look at our needs for capital, it's likely connected to an expansion of the cultivation for 2023 and whether we have some avenues with regards to debt or the EBITDA positive that we're going to be creating for the second half of the year. That would be the first sources that we would look to use.

Tamy Chen

Got it. Okay. Thanks—

Sean Bovingdon

Beyond that—

Tamy Chen

I'm sorry.

Sean Bovingdon

—beyond that, we still have $23 million room on our shelf prospectus, should the equity markets improve in the latter half of this year. But that wouldn't be our first choice.

Tamy Chen

Got it. Thank you.

Operator

Thank you. Your next question comes from Venkata Velagapudi with Research Capital. Please go ahead.

Venkata Velagapudi — Research Capital

Yeah. Thanks, guys, for taking my question. I have a follow-up on HemPoland thing.

So you guys mentioned that there is a confirmed buyer, and the transaction is going to be completed next month. So I just want to ask if there is any change to the earlier guidance on net proceeds. I think you mentioned something like $5 million to $6 million net proceeds from the transaction. Is it correct?

Sean Bovingdon

That's correct, Ven, and there's no change to that expectation.

Venkata Velagapudi

Okay. That's good to know. And my next question is on your partnership with Acosta.

In the MD&A, you guys mentioned that retail distribution is improving into Ontario. So do you have any data points related to percentage of revenue from Ontario this quarter?

Sean Bovingdon

I just got a report yesterday, but I don’t have it at hand, to be honest. But I know the distribution points, from where we were in Q1, had increased by about 20 percent in January. But I know that number’s continued to increase through to April. I just don’t have those numbers on hand.

Nichola Thompson

Yeah. I can jump in there and help out, Sean. So—

Sean Bovingdon

Yeah. If you’ve got those, Nichola—

Nichola Thompson

Yeah. So in Ontario in Q4, Ontario represented about 22 percent of our sales mix. And now for Q1 2022, it’s up to just at 35 percent. So we’ve seen significant growth in the Ontario province.

Venkata Velagapudi

Okay. Thanks. Yeah. And final question from me, it’s related to clarification about adjusted EBITDA.

So I see that you guys managed to reduce the operating expenses slightly this quarter, to $5.8 million from $6 million last quarter. So, do you think there is further scope to reduce the operating expenses going forward? Or is it a—how do we expect—

Sean Bovingdon

Yeah. And absolutely, we’re looking to have an additional kind of 10 percent-a-quarter reduction, looking into Q2 and into Q3. And then it’ll kind of stabilize out from there on Q3 and Q4.

Venkata Velagapudi

Mm-hmm. Thanks, Sean. And is there any update on EU-GMP, by the way?

Sean Bovingdon

Yeah. Again, with the COVID travel restrictions and getting the final inspector visit to sign off on that, that is confirmed for August now. And that's the final step for having that EU-GMP. Everything else has been submitted and cleared.

Venkata Velagapudi

Okay. Thanks a lot. That's it from me.

Operator

Thank you. Ladies and gentlemen, as a final reminder, if you have any questions, press *, 1.

There are no further questions at this time. Mr. Bovingdon, you may proceed.

Sean Bovingdon

Great. Well, as I said, it's been a very encouraging quarter, and Q2 is looking to be just as encouraging going forward. A lot of work over the last year to get our products to the standard that generates the interest from the consumers and the increased demand that we're seeing. It's nice to have challenges of getting more supply and looking at options for additional cultivation for 2023 to meet the demand, as opposed to having large amounts of inventory that you can't sell.

So it's been a very encouraging trend for the last two quarters. And we fully expect this to continue, going forward, as we focus on getting that adjusted EBITDA-positive position and then being able to improve our operating cash flow for the back half of this year and build on that for future growth into 2023.

So with that, again, thank you, everybody, for joining us today.

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.