**The Green Organic Dutchman Holdings Ltd.**

**First Quarter Fiscal Year 2019 Financial Results Earnings Call**

Event Date/Time: May 15, 2019 — 9:00 a.m. E.T.

Length: 49 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 Perda**

Seaport — Analyst

**Owen Bennett**

Jeffries — Analyst

**Scott Lewis**

Capital 10X — Analyst

**Chris Carey**

Bank of America — Analyst

**Anthony de Ruijter**

Fundamental Research — Analyst

**Robert Tucker**

Niagara Stools — Investor

**Keith Bare**

Ski Mary Jane Stocks — Analyst

## PRESENTATION

**Operator**

Good morning, esteemed guests. My name is Joanna, and I will be your conference Operator today. At this time, I would like to take the opportunity to welcome everyone to The Green Organic Dutchman First Quarter Fiscal Year 2019 Financial Results Earnings Call. To ensure an enjoyable experience for all participants, all lines have been placed on mute.

After the speakers’ remarks, there will be a question-and-answer period. If you would like to ask a question during this time, simply press \*, then the number 1 on your telephone keypad. If you would like to withdraw your question, please press \*, then 2.

Thank you. I would now like to invite Mr. Brian Athaide, CEO, and Mr. Sean Bovingdon, CFO, to begin the call.

I will now turn the conference over to Shane Dungey. Please go ahead.

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

Thank you, Joanna. Good morning and thank you all for joining us for our Q1 conference call.

Today, we’ll provide comments on our performance as well as an update on our overall operational readiness and how we are executing our plans. We’ll leave as much time as we can for questions.

This call is being recorded, and the audio recording will be available on the Company’s 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 will include 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’ll 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. Today marks yet another important milestone at TGOD as we host our very first quarterly investor call now that we have our second quarter with revenue and are on track for an exciting wrap-up this year. I’m incredibly proud of all the work our team has been able to accomplish. We’re gathering speed, and I can say with confidence that 2019 is shaping up to be a breakthrough year for TGOD.

We’re on track to complete construction at our sites in Hamilton as well as the first phase of Valleyfield. These sites will come online in phases in the months to come.

We announced yesterday that Health Canada has inspected and approved our first phase for our Hamilton facility, which is 20,000 square feet, and we’ll start growing there this month. For those interested in seeing the progress, I encourage you to visit our website at tgod.ca where we have been posting construction updates for both facilities.

The second phase of construction in Hamilton will be completed at the end of this quarter, and we expect to start cultivating there in Q3.

Our much bigger, flagship facility in Valleyfield, though, will see its first phase come online at the beginning of Q4.

In terms of revenue, in the quarter, we generated 2.4 million, 28 percent higher than Q4 of 2018. Revenue mostly came from HemPoland, our European acquisition, which is quickly expanding the distribution of our hemp-based CBD products across Europe.

On March 25th, we also launched our Grower’s Circle, which commenced direct sales to medical patients in Canada. We did this using our original, small-scale growing facility in Hamilton. We produced a limited quantity for this group in order to really test the processes and refine our processes to be ready for larger-scale distribution in the second half of this year as our larger scale production comes online.

We expect to expand our patient count in the months to come and then launch into the Canadian recreational market in Q4 starting with Ontario and BC. We then expect our first harvest in Valleyfield towards the end of the calendar, which will allow us to expand nationally early in 2020.

On the distribution front, we announced that we have secured supply agreements with both the Ontario Cannabis Retail Corporation and the BC Cannabis Stores. These agreements were negotiated jointly with Velvet, our Canadian distribution partner, and pave the way for more agreements as we begin commercial production.

Also in the first quarter, we added deep pharmaceutical, medical, and cannabis experience to our team with the addition of Jacques Dessureault and Dr. Caroline MacCallum on our Board of Directors, and Dr. Rav Kumar as our Chief Science Officer. These are all heavyweights within the industry, and they’re already adding significant value to TGOD. We’ll be sharing more about our research and science strategy in the coming weeks and months.

On the international side, we also made significant progress on our expansion strategy to become the leading organic cannabis brand globally. In January, we entered into agreement with Knud Jepson in Denmark to establish two joint ventures. The first one is to produce cannabis and cannabis oils for the Danish market, and the second one is to develop and patent elite cannabis genetics for TGOD globally.

These two joint ventures are in Denmark, with a goal to expand to larger-scale production for Europe in lower cost European jurisdictions. TGOD will have the exclusive right to all the cannabis-related production from the joint venture through a guaranteed offtake agreement at a predetermined price relative to production costs.

Our strategic partner in Jamaica, Epican, announced the opening of a second, legal cannabis retail store in Montego Bay’s hip strip. Montego Bay is a popular tourist destination and Jamaica’s second largest city. It is also a major port of call for cruise ships, a destination for duty-free shopping, and home to the country’s largest airport. Epican plans to open three additional Herb Houses on the island. In combination with online ordering, these locations will serve the medical needs of Jamaica’s 3 million residents and over 3.5 million annual visitors.

Perhaps one of the most exciting developments so far this year is on May 8th we unveiled our entrance into the US beverage space as a cofounding investor and strategic partner in the newly formed Califormulations. We will leverage the years of experience within Califormulations to expedite the US launch of TGOD-branded, organic, hemp-based CBD beverages as local laws and regulations permit.

The functional beverage market is worth about 20 billion in the US alone and, obviously, much bigger globally. Our cofounding investment in Califormulations is occurring alongside Symrise, which is one of the world’s leading flavour, scent, and nutrition ingredient providers with revenues close to C$5 billion worldwide. This unique model within the cannabis industry enables agility and flexibility and accelerates our speed to market in the US as well as in Canada and globally. These capabilities also make us a much stronger potential partner for global beverage, or CBD companies.

So with that, I’ll pass it over to Sean.

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

Thanks, Brian. Good morning, everyone. I’m going to provide a few more updates on how we are tracking with regards to our production facilities and activities in the quarter.

As we announced earlier this year, we modified the design of our Hamilton and Valleyfield sites, which has enabled our team to optimize annual productive capacity up from 156,000 kilos annually to 202,500 kilos for our Canadian operations. Now 17,500 kilos of the annual capacity will be available from Hamilton in Q3 of this year with 65,000 kilos of annual capacity ready in Valleyfield by Q4 of this year. Another 65,000 kilos will come on in the next phase in quarter two of 2020 and the balance in 2021.

Improvements in the operational readiness include signing an agreement to use EnWave proprietary Radiant Energy Vacuum dehydration technology to dry organic cannabis in Canada. This reduces drying time from 10 days to about an hour, which is saving energy and providing a more sustainable product footprint. We’ve purchased three additional REV machines in March to expand our drying capacity of premium certified, organic cannabis and will place those into the Valleyfield facility.

We also received our organic certification from Pro-Cert. This is the second certification body to endorse TGOD’s organic processes at our Hamilton facility.

Core to our brand DNA, our European subsidiary in Poland also received its organic certification from the Polish Centre of Accreditation on authority from the Minister of Agriculture and Rural Development in Poland.

On the production side, we’ve entered into a multiyear extraction service contract with Valens GroWorks. As per the terms of our initial two-year agreement, Valens will process, extract, and purify TGOD’s cannabis and hemp biomass. TGOD will supply Valens with significant quantities of cannabis and hemp. And Valens will provide extraction purification services, processing the cannabis and hemp into premium quality resins and distillates. We plan on using the concentrated cannabinoid resins and distillates to produce oils, sprays, and capsules as well as oil for vaporization and future edibles, beverages, and topicals that are being developed. We also worked with them in order for their operation to receive an organic certification from Pro-Cert as well.

On the financial side, we ended the quarter with a strong balance sheet and liquidity including $224.4 million of cash and restricted cash to continue funding the construction of our sites as well as the operational readiness and working capital required.

In the quarter, we registered a net loss of 14.1 million as we continue to execute our plans to commence commercial production and enter the recreational market later this year. The net loss improved by $4 million compared with the previous quarter because of the increase in sales from HemPoland and stronger net results from Epican in Jamaica.

The management team has also maintained a disciplined approach to operational costs related to the commercialization of our products in Canada.

Our cash flow from operations is actually 33 percent higher than the previous quarter as we have also been very focused on where we spend our SG&A, focusing on the higher value-added parts of the value chain and finding great partners for the rest. As we start commercial production and distribution this year, our revenue and cash flow are expected to increase rapidly.

Another strategic initiative to progress was the SpinCo transaction, whereby TGOD would spinoff by way of the special dividend under prior arrangement, TGOD Acquisition Corporation, a company that will focus on international acquisitions that are not core to TGOD’s business.

We received a final order in respect to this spinoff from the Ontario Superior Court of Justice on January the 16th, and then on January the 28th, TGOD’s wholly owned subsidiary SpinCo shares were transferred to a third-party company as per the terms of the arrangement. The team from TGOD Acquisition Corporation has now been doing due diligence on acquisition targets, and we expect them to provide an update to the market in the next few weeks.

Finally, during the quarter, 4,264,000 warrants were exercised for aggregate proceeds of $9.2 million to the Company, with a further 702,807 warrants exercised subsequent to March 31 for an additional $1.6 million in proceeds, which reflect the continuing shareholder support for the Company for which we are grateful.

All in all, we continue to be very satisfied with the momentum. There’s still some heavy lifting to be done, but our execution remains strong throughout the organization.

As Brian noted, we continue to make great stride in reaching TGOD’s goal to be Canada’s only certified organic cannabis operation of scale.

And with that, I’ll hand back to Brian.

**Brian Athaide**

Thank you, Sean. Okay. To wrap up, we’re really pleased with our results this quarter. As you’ve seen in several of our recent releases, we remain very focused and are delivering our operational plan, focusing on excellence in execution. Our teams are firing on all cylinders as they collaborate across functions and with our partners globally. We continue to reach new milestones as we lay our strategic building blocks for our future success.

So with that, Operator, Joanna, I’ll let you open the line for questions.

## Q&A

**Operator**

Thank you. Ladies and gentlemen, as a reminder, should you have any questions, please press \*, followed by 1. One moment, please, for your first question.

Your first question is from Brett Hundley from Seaport. Please go ahead.

**Brian Athaide**

Good morning, Brett.

**Luke Perda** — Seaport

Good morning. This is Luke Perda on for Brett Hundley. First question here, the two questions that we get pretty consistently from investors on your company are number one, can TGOD scale organic production like they think they can? And number two, can they distribution the product? Will there be a market for organic cannabis?

And I want to focus on the last part of that first. You guys have announced a number of partnerships on the sales side. Can you give us a sense of what you feel you have locked up from a distribution standpoint as a percentage of your forward 12-month production capacity?

And related to that, can you please comment on the conversations that you’re having with potential partners and customer and why these conversations might give you confidence that organic cannabis will indeed be a meaningful portion of the future market?

**Brian Athaide**

Sure. Okay. So, Luke, there are several questions in there. The first one, I mean can we scale up organic? We really believe we can. We’ve done a lot of work in the original growth facility working around R&D on the agricultural side, our yields, our plants’ health, just the whole kind of strain development. If you look at the new facilities that are being built, they really are state of the art where we have full control on the whole environment; temperature, humidity, atmosphere, lighting, perfect growing condition for cannabis, and we derisked it from a team standpoint as well.

I think you’ve heard from David Perron, our head grower, who has a long history with the cannabis plant, came out of the McGill Agricultural Department, went to Whistler, got them certified, then came to us. On top of that, we’ve also brought in growers who came from million-square-foot organic tomato greenhouses who know how to grow organic at scale. So we are confident we’ll be able to scale up organically.

On the market itself, I mean we’ve talked before how we really are a consumer group. We’ve got over 200 years of CPG experience on our team. We’ve done a lot of consumer work over this past year understanding the current cannabis consumers, as well as new or curious customers who are looking to come into the market to understand what they’re looking for.

Hill+Knowlton did a study a few months ago and found 61 percent of medical patients would prefer organic products and 50 percent of recreational consumers would prefer organic. Now it doesn’t mean that same percentage will buy when they see the premium, but even if it’s only kind of 15, 20, 25 percent, that’s a huge market, and that’s what we’re laser-focused on.

From a distribution standpoint, we’ve announced our supply agreements with both Ontario and BC that we’ve worked together with Velvet Management, a municipal subsidiary of Philippe Dandurand Wines, which is the largest wine distributor in Canada. They’ve got their relationships with all of the liquor boards across every province and have really the best go-to-market capabilities on the beverage alcohol side that they’re bringing over to the cannabis side. So we’re very confident there.

We’ve been in discussions with all of the other provinces explaining our organic product, and how it is different, and how it is consumer preferred as well as from our portfolio and the efficacy of the products that we’re planning on bringing to market. So we’re very confident there.

In terms of as we scale up, not 100 percent of that will be going to Canada. We will be planning some of it for export to Mexico and to Europe, but we’re confident that we have not overbuilt given the size of the potential organic market and that we will be able to sell what we’re producing.

**Luke Perda**

Great. And second one here. And to the extent that you can put parameters around forward top-line growth expectations, how would you guide the Street on thinking about the pacing of revenue growth ahead, taking into account facilities, start-ups, developing, mix, inventory needs, et cetera?

**Sean Bovingdon**

Well, Luke, we’ve been very careful and conservative in our build-outs. We’ve been building in phases, and the number of rooms that are coming on are being carefully managed and carefully scheduled as part of the construction and operational arrangements (phon) to give us confidence in terms of the amount of volumes that can come on at a steady pace rather than trying to bring on everything at the same time. And that’s an important aspect in mitigating that risk of the ramp-up.

With that in mind, as we said, this year, we’ll be bringing on the Hamilton facility, which will give us full capacity next year of about 17,500 kilos. We have 65,000 kilos worth of capacity coming on from the Valleyfield site by the end of the year as well, which will ramp up through the next year.

So in that regard, we think that we paced the scale of our ramp-up very carefully and are confident that we can reach that.

**Brian Athaide**

Yeah. And from a revenue side, we’re not giving guidance, but if you look from a pricing perspective, we’re currently selling flower in the medical market at about $12. You’ve got some other organic products out there even higher than that. And then from a wholesale price, it would be kind of $8 to $9, and the oil is obviously higher than that. That said, we do believe we can maintain that for this coming year as there still is supply shortages, but obviously, we do expect pricing to come down as more and more production comes online, and we’ve modeled that in.

**Luke Perda**

Thank you. And a last one and I’ll hop out. And it seems you guys are in a little bit of a unique situation in that you’ve been able to watch some of your larger conventional peers work through some early industry growing pains thus far. As you prepare to commercialize your own business, can you talk about any learnings from this dynamic, and maybe give some examples of how you’ve reacted accordingly?

**Brian Athaide**

Yeah. That’s a great point. I mean we are coming to the market a little bit later than some of our competitors. We’re not late on organic, but that’s actually led to us being able to leverage on those learnings, especially if you look—many of the other kind of peers have struggled in terms of getting their production ramp-up, not so much on the growing side. I think people have been able to grow, but how do you process it, packing it, managing excise labels, the whole supply chain. We’ve been focused very much on getting those learnings and adapting our plans.

And if you recall, I think it was February 1st, we announced that we had pushed back our start-up to be able to do a lot of redesign, especially on the processing side of our facilities. We doubled the size of our processing building in Valleyfield. We added 30 million in capital more to the facility budget to be able to execute that. So we think we’ve done a lot of that, and even onto like the whole A-track system and cooling capacity. We’ve had learnings for many of our other peers out there to be able to address that up front.

So we’re very confident. I mean will we still have learnings? Absolutely. But we’re confident we’ve addressed kind of the biggest learnings that the industry has faced on the supply chain side, whether it’s growing or processing and go to market, and we do feel good about our distribution plans with Velvet, who is very, very experienced, on the beverage alcohol side especially, but have been ramping up, working with each of the cannabis boards across the province.

Thank you, Luke.

**Luke Perda**

Great. Thank you, guys.

**Brian Athaide**

(unintelligible) Operator?

**Operator**

Thank you. Thank you. Your next question is from Owen Bennett of Jefferies. Please go ahead.

**Brian Athaide**

Good morning, Owen.

**Owen Bennett** — Jeffries

Good morning, guys. Hope you’re all well. And just one question for me. I was just hoping you could comment a bit further on the deal with Symrise; how much money yourselves and Symrise are putting into it and how you see this relationship developing in terms of revenue opportunities over the next 12 months. And linked to this as well, could you please give an update on where we are with the beverage facility at Valleyfield? Thanks very much.

**Brian Athaide**

Sure. So in terms of Symrise, what it’s doing is providing us significant capabilities. So it’s a cash investment we made into that business for a 15 percent share of the Company. We have a board seat, and we’re working very closely with them.

What they’ll be doing is doing formulation development for us for US beverages but also for Canadian and global beverages as well. They’ll be doing a lot of the innovation around the infusion, around the taste profile, as well as working with us on developing a contract bottler network across the US and other markets around the world.

So think of it similar to like a Coke concentrate kind of model where the concentrate’s made in one place, and then we’ll be shipping it from there to our bottling facility or our partner’s bottling facility in Canada where we’ll be infusing it then with TGOD either THC or CBD oils, carbonating some products, not all, and doing the infusion with our organic cannabis here in Canada or in different states.

So what it’s doing is giving us that speed to market, that centralized innovation hub and allowing us the flexibility and agility to leverage all of their learnings, which I mean over 100 years of knowledge on their senior team in US and global beverages, to move much faster without us having to invest a lot of our own capital and bricks and mortar around the world because we’ll be working with them on the innovation side and with contract bottlers on the bottling side in different jurisdictions.

**Sean Bovingdon**

So in relation to the beverage facility out of that, Owen, or Phase 2 of Valleyfield, that doesn’t need to be dedicated to beverage facilities now, it’ll actually be used at the cultivation site and additional processing capabilities for the full spectrum of value-added products, not just beverages, but coming into late 2020 and 2021, into edibles, and topicals, and just drive additional capacity both for the value-added products as well as the export of medical cannabis into Germany, now that the distribution network has been set up there and places like that?

**Brian Athaide**

So in the end, we didn’t want to wait for that beverage facility to come online. This helps us significantly accelerate our plans in terms of getting into the different markets much earlier, working with great partners. We recognize we don’t want to do everything on our own. We’re really great at some things, but you can’t be the best at everything. So we’re finding who is the best on the other areas and partnering with them.

So we have evolved versus our original kind of beverage facility that we’re now just repurposing. And we’ll be growing high-quality organic cannabis in there when that phase comes online, but in the meantime, we’re not waiting for that. We’re going to be in beverages much sooner. And we’re targeting for October in Canada. And as we finalize our US plans, we’ll share more details there.

**Owen Bennett**

Okay. Thanks very much.

**Brian Athaide**

Thanks, Owen.

**Operator**

Thank you. Your next question is from Scott Lewis from Capital 10X. Please go ahead.

**Brian Athaide**

Good morning, Scott.

**Scott Lewis** — Capital 10X

Hi. Good morning. Good morning, guys. So I just wanted to start off, I was hoping you could provide a planned timeline for when you think TGOD products should be available to the general public in the dispensaries and online.

**Brian Athaide**

Yeah. So I mean we have launched in March into the medical market with our Grower’s Circle. We really want to more do that with a small pilot, test the pipes, make sure everything was working well, based on the limited amount of product we have out of that original facility.

Now that we’ve got the 20,000-square-foot facility finished and licensed, we’re going to start growing in there. That gives us more volume to expand our medical market in the coming few months. And then we have the larger greenhouse in Hamilton finished at the end of this quarter. We’ll start cultivating. We’ll have the first harvest in Q3. And then we have the much bigger harvest coming out of Valleyfield in Q4.

So from a timing standpoint, we expect to launch in a couple provinces at the end of Q3, early Q4 on the recreational side. And then, as we have more product coming into Valleyfield in early 2020, we’ll get to national distribution in the rec market. We’re already national in medical long before then, but we’ll be national in the rec market in early 2020, which is why we also believe that we’ll get to kind of positive EBITDA and operating cash in the first half of 2020 because we’ll have enough scale at that point.

**Scott Lewis**

Okay. That kind of ties them all to my second question. Based on liquidity, my numbers it looks like you have enough cash to carry you until you hit that profitability point but, I mean, should we expect that if the right accretive asset or company came along you would be willing to use some of that cash to expand?

**Sean Bovingdon**

So yes. You’re correct there, Scott. In terms of the cash we have on hand along with some equipment leasing of putting into the facility just now, we’ve got a sufficient liquidity to get us through to that profitability in the first half of 2020. You’re correct in that assumption.

If there is an opportunity or some opportunities that could accelerate both expansion into the beverages in the US or internationally or an opportunity with another partner in terms of that, then absolutely, we would consider what’s best for the shareholders and look at whether that cash could be utilized to accelerate a path to profitability on a quicker scale.

But at the moment there’s nothing imminent, and so we just make sure we’ve got sufficient liquidity to get us to profitability and complete the construction of facilities in 2019.

**Scott Lewis**

Okay. Thank you. And then last one for me is if you could just help me understand your international strategy a bit more. So number one, as we look forward, what regions do you think will take the majority of your capital outside Canada? I know US will be one big one but other places.

And then number two, do you think these other regions will integrate with Canadian assets down the road? Or due to regulatory realities, will they basically be stand-alone regional businesses? Just kind of how you think about it.

**Brian Athaide**

Yeah. So in terms of our international footprint, I mean our objective is to be the leading organic cannabis brand globally. Where we focused first beyond Canada is Europe and Latin America where we see regulations evolving the fastest from the cannabis side. We can only operate where it’s federally legal as you know. So, I mean, that’s cannabis in Europe and Latin America. And certain markets in the US, it’s hemp-based CBD based on local regulations still. So we’re focused right now on Europe and Latin America.

We have our business in Poland. We’re expanding that into more and more distribution points and expanding our portfolio. We’ve got our joint venture in Denmark focused on cannabis cultivation. We do expect to announce kind of further plans around that moving to more lower-cost jurisdictions in Europe. We do believe longer term we will need to be producing for Europe in Europe.

In the meantime, as our Canadian facilities come online, we will be exporting from Canada into Germany and other markets as we can, but longer term we do plan to be cultivating in Europe and manufacturing in Europe for the European market.

For Latin America, we have our Jamaican business in the Caribbean. We’re building out an export field there. We are looking at another option as well in another similar lower-priced location there because we believe we need to have a certain amount of redundancy in supply chain just given this is an emerging industry, constantly evolving. Rules and regulations, laws, and supply routes are constantly changing. You need to have a bit of redundancy as well as I mean weather and hurricanes and whatnot. So we’re thinking ahead and planning for that.

In the end, I mean, we will be exporting from Canada probably maybe for the next five years, but longer term Canada will not be an export hub. We’ll need to have cultivation in lower-cost locations, whether that’s in southern Europe or in warmer climates in the Americas as well. So that’s our plan.

I mean, there are other markets around the world that are moving towards legalization but just given kind of our bandwidth and where we want to focus first, it’s Europe and Latin America.

On the US, that’s for cannabis on the US side, we clearly recognize it’s a huge market and with the Farm Bill legalizing industrial hemp-based CBD, that’s clearly now becoming a focus for us as well as I’ve talked about with the Califormulations capabilities that we’ve now entered into.

**Scott Lewis**

Great. That’s it for me. Thanks for the time.

**Brian Athaide**

Thank you.

**Operator**

Thank you. Your next question is from Chris Carey from Bank of America. Please go ahead.

**Brian Athaide**

Good morning, Chris.

**Chris Carey** — Bank of America

Hi. Good morning. How are you?

**Brian Athaide**

Good, thank you.

**Sean Bovingdon**

Good, thank you.

**Chris Carey**

Good. So you’ve got like over C$200 million on the balance sheet, including the restricted cash, and you’ve touched on it a few times during the call. But when you think about deploying that capital into various endeavours, how do you think about splitting that up between infrastructure build-out in Canada to international expansion with the sorts of things that you’ve noted with beverage expansion in the US and M&A. So just when thinking about putting that cash to work, how should we be framing it?

**Sean Bovingdon**

So the focus of the use of that cash is on completing the construction of the facilities in Canada and the phases in 2019. That is the number one focus.

There is a small amount, at this point in time, in the region of $10 million, that’s allocated just for the international things, as we’re doing a very, as Brian mentioned, careful approach in terms of building pilot facilities in Denmark and starting an initiation in Jamaica and looking at some other opportunities. So there’s not a lot of the cash on hand earmarked to just go and spend internationally in all those jurisdictions at this point in time.

And similarly the cash investment that we made into Betco and part of the reason of partnering with the guys, so we didn’t have to spend a lot of capital ourselves, so that we could partner and utilize their skill set and their resources and co-packers and contract manufacturers to assist in terms of bringing that to the beverage facility and the beverage opportunity in the US.

**Brian Athaide**

It’s our US strategy is really capital light. We’re not going to be building facilities there. We’re going to be working with Califormulations on the innovation and the formulation, sending the concentrate to different bottlers which are third party. So really, it’s really only working capital investments as we expand our business at this point in the US.

**Sean Bovingdon**

Yeah. So the focus is ensuring that the cash on hand together with normal course bank facilities and equipment leasing will be focused on completing the construction of those facilities and getting them to profitability from our Canadian operations.

**Chris Carey**

Okay. Okay. I’ve got it. So second question. Just how important do you think exports will become for you over the next several years because when you get to your full run rate, again over the next several years, presumably there’s going to be more legal cannabis supply in Canada. So, I mean, do you think you’ll need that export as a lever or can you find a home for all of the supply that you are going to be producing within Canada? Right? So just basically the concept is the ability to sell through everything that you’re going to be producing. Can you do it in Canada? Or are you going to need that export as a lever?

**Brian Athaide**

Well, I think a lot of that will depend on how the local rules and regulations evolve in Canada. We do see significant growth; a lot of new users coming in as the new product forms get legalized around edibles and beverages. I think we’ll start to see cannibalization of other functional drinks or even beverage alcohol.

And, I mean, as Canada kind of evolves and assuming that the government wants us to stay competitive versus the black market where you have beautiful branding and advertising or versus kind of the US, which is evolving fast as well, we do expect that to open up and create significant market growth.

So I mean if you think the market size that everyone’s quoting is kind of a million kilos and that could grow depending on how the rules evolve in Canada, we’ll have a couple hundred thousand. That’s not too far out of range versus what the organic segment could be. And we’re the only certified organic player of scale and our goal really is to dominate that segment.

Now I think beyond Europe and Latin America, I mean, there will be more markets opening up in Asia, Africa, Australia, and New Zealand. I think for at least five years probably longer, there will be still export opportunities. So that is a bit of a lever on how we leverage our production in Canada and, frankly, in our other facilities as well. I mean we’re targeting all of them to be GMP compliant, whether it’s in Jamaica, whether it’s in Denmark or Southern Europe.

Over time, we don’t expect Canada will be an export market just given the cost structure versus the other lower cost, warmer locations. But we do not believe we’ve overbuilt.

**Chris Carey**

Then just one last question if I could.

**Brian Athaide**

Sure.

**Chris Carey**

You kind of indicated that you were setting in the foundation to potentially attract certain partners. So I wonder the sorts of partners that you’re trying to attract and why you think that you need partners to execute on the various things that you have in front of you.

**Brian Athaide**

Well, I mean, when we’re talking partners, we don’t want to just be an ingredient supplier. But we believe we’ve got the skilled capabilities if you look at our team, the expertise we’ve got, the relationships we’ve built across the other parts of the value chain, to be very attractive for global beverage companies, whether beverage alcohol or non-beverage alcohol and functional beverages as well as other CPG-kind of players. There’s other categories around skin care, cosmetics.

Outside of Canada in pet health as well where organic really resonates with a large consumer segment. People are looking for cleaner, healthier products, healthier lifestyles. You see, across other food categories, organic growing much, much faster than nonorganic. And we’re the only organic player of scale.

So that’s where we believe we have a great inroad with partners who can bring us many other things around branding, distribution in certain markets, giving us the scale and the ability to go even much faster. And there’s different types of business models to work through that with. I mean whatever we do has to make sense for our shareholder.

**Chris Carey**

Got it. Thanks so much.

**Brian Athaide**

Okay. Thank you.

**Operator**

Thank you. Your next question is from Anthony de Ruijter from Fundamental Research. Please go ahead.

**Brian Athaide**

Good morning, Anthony.

**Anthony de Ruijter** — Fundamental Research

Hi, gentlemen. Thank you. Good morning. My question relates to HemPoland. So my understanding is most of the 2.4 million generated in revenue for the quarter was from HemPoland. So that’s an annualized run rate of just under 10 million. Is the Company expecting to sustain that or will the run rate change with agreements such as the recent one for German distribution?

**Brian Athaide**

Yeah. So that run rate does not include that pretty significant agreement in terms of distribution expansion in Germany. So, I mean, we didn’t buy this business to stay stable. We bought it to grow. And we do expect to grow quarter over quarter, year after year. We’ve got our expansion plan.

And the European market alone for CBD products could be 20 billion or more if you look at the different estimates from different analysts. It’s a huge market. We’ve got a great brand, terrific products, one of the leading brands there. I mean there are thousands of brands, but we’ve got great capabilities and we’re putting our CPG kind of mind-set and hat on it in terms of how to grow. So no, not stable at all. We bought this business to grow.

**Anthony de Ruijter**

And on the note of there being thousands of CBD brands in Europe, do you have a grasp of what other CBD brands there are in the German market? Sort of what is the HemPoland brand going up against?

**Brian Athaide**

There’s lots of smaller kind of brands. And then you’ve got some medium-sized ones as well. There’s no dominant player in the market or, frankly, in any of the markets, whether you go looking at UK, Germany, or others. So I don’t think anybody has really dominated the market yet.

If you go to the Aponeo website, you can actually see CannabiGold there, and you can see some of the other competitive brands. But we believe from actual product delivery, efficacy around full spectrum oils, we’ve got a terrific product and we can’t wait to bring that to more and more consumers so they can try it and grow to love our brand.

**Anthony de Ruijter**

Right. And now domestically, with TGOD entering the market slightly later than other LPs and also the regulatory restraints on direct product advertising, how does TGOD sort of plan on advertising or otherwise building their product brand once they launch into the market?

**Brian Athaide**

Yeah. So, I mean, we are coming a bit later. Like I said before we’re not late on organic. And frankly, we haven’t missed much because of the difficulties in not being able to advertise, very plain restricted packaging. That has kind of restricted the pace of growth and taking over from the black market with legalization in Canada. And frankly, because we’re coming a bit later that’s worked to our advantage.

I do expect those rules and regulations to loosen as the government clearly wants to eliminate the black market.

Now in terms of what we can do, I mean, the base really is organic. Right? I’m we’re the only organic player of scale. There’s a large selection of consumers that can’t wait to get to it. On top of that, I mean we’ve built the relationship with Velvet to grow across the country to get into all the stores, the capabilities, the planograms.

We’ve been speaking with all of the cannabis boards explaining the importance of having organic section where we expect to be the biggest brand. And from a packaging standpoint, we’ve got a very distinctive jar that’s different from everyone else. It kind of stands on its side as well as straight up. It’s a beautiful jar, very different.

And I think as we’ve started showing kind of our beverages and edible plants, we’re very excited about the differentiation we’re bringing there in terms of unique, not just packaging, but flavours and delivery formats, and then mostly efficacy because in the end, it’s not going to be through supply agreements that’s going to lead to who’s winning. It’s going to be the consumer who votes. So we’re really focused on making sure we’ve got the best products that deliver on their commitment to the consumer.

And then the consumers are also, when they vote in terms of what they buy, they’re also going to be posting on social media and digital, and that’s a key way to get our message out there and our brand. And we’ve actually got a lot of supporters who’ve been waiting until we launched and are super excited now to get into our Grower’s Circle.

I think if you look at the different blogs on early feedback from our Grower’s Circle, it’s been extremely positive in terms of our product delivering and the taste profile and the clean burn and all the rest of it. So encourage you to go on the blogs and look at what our early consumers are saying.

**Anthony de Ruijter**

Okay. I appreciate the insight. Thank you.

**Operator**

Thank you. Your next question is from Robert Tucker of Niagara Stools. Please go ahead.

**Robert Tucker** — Niagara Stools

Hi. How are ya?

**Brian Athaide**

Good morning, Robert.

**Sean Bovingdon**

Good, Robert.

**Robert Tucker**

Good. I go a couple of questions. First off, I stepped out for a minute, so I’m not sure it’s been asked. When will we find out the financial aspect of the Califormulations deal?

And my second question is regards to the Ancaster facility. We have 100 acres there and our footprint, I believe, is on four or five acres. Any plans to use that acreage for anything? I see 48North along with our former coal founder is planning an outdoor grow not far from us in Brantford. Any thoughts on we could do that for extraction of oils and things like that? And that’s it.

**Sean Bovingdon**

So on the Califormulations investment, that’ll be shown in our Q2 financial statements as part of the investment there that’ll be released in the Q2 financials in mid-August. So you’ll see more details being released at that point in time. As it is, it’s not a very large investment, it is a full cash (phon) investment. As Brian alluded to, we’re not heavily investing on capital there. It’s just an investment, 15 percent investment, in the partnership, and then we’ll be utilizing contract manufacturers in developing formulations using working capital rather than heavy CapEx investment.

On the facility in Hamilton, our zoning allotment restricts us to the footprint that we have just now. So we will not be expanding the Hamilton facility beyond the 166,000 square foot that are currently being completed. That’s one of the reasons. And back beginning of last year, we moved to build out the Valleyfield facility, which would be, as you know, 1.3 million square feet when completed. So the focus in terms of the actual facilities on the hyper-greenhouses after the Hamilton’s completed here in the next couple of months, we’ll be moving to Valleyfield in Quebec.

For the outdoor grow, again, that land in Hamilton was restricted in terms of the cannabis zoning just in 166,000 square feet. So the rest of the acreage in Hamilton at this point in time, we have a community farm that’s building there and then providing 10,000 pounds of food to local food banks and being really used as an area there for helping out the community in terms of organic vegetables and food in that respect.

**Brian Athaide**

The rest of it is being leased out for kind of to a neighbour farmer—

**Sean Bovingdon**

That’s right.

**Brian Athaide**

—for dairy cows. So, I mean, it’s all kind of sustainable farming that’s happening on the property. But in terms of cannabis production, for us, just given the power rates in Quebec and the level of automation in that facility, if we need more capacity, we can continue to add on. In Quebec, we’ve got the land, and we’ve built a processing facility, which is kind of in the middle of the greenhouse expansion that we can continue adding there if we needed more capacity.

At this point though, we believe, given the footprint that we’ve been talking about, we can clearly supply the Canadian market as well as exports. But over time, we do expect the Canadian market to continue growing and exports to come from other places, not from Canada. So although we’ll start exporting, we will expect that volume to shift to Canadian production as the market grows with new consumers and new product formats.

In terms of farming, though, outdoor farming, I mean, we are working with other farmers in the area around hemp production. I mean, not the immediate area, but around hemp production and doing that organically. We don’t want to be industrial farmers there on the hemp side because there’s some great, great partners who can do that much better than we can. And that’s our plan. So we’ll focus on the extraction and manufacturing of hemp CBD products on top of our cannabis. We’ll be growing cannabis ourselves in Canada, but outdoor farming will be focused on hemp.

**Robert Tucker**

Okay. Thank you very much.

**Brian Athaide**

Thank you. I think we have time for one last question.

**Operator**

Thank you. Your last question is from Keith Bare from Ski Mary Jane Stocks. Please go ahead.

**Keith Bare** — Ski Mary Jane Stocks

Hi. Good morning.

**Brian Athaide**

Morning.

**Sean Bovingdon**

Morning.

**Keith Bare**

The forward-looking guidance, you said you weren’t going to give guidance. When you will you give guidance in the future, please?

**Brian Athaide**

At this point, we don’t believe—this industry is evolving so fast and so dynamic with changes all the time, we don’t have any plans to give kind of revenue guidance going forward. We will be guiding around production. But we don’t believe it’s, at this stage of industry development, appropriate to be giving revenue guidance.

**Sean Bovingdon**

I think from the analysts, the one thing that is key for us, Keith, is in terms of giving the analysts coverage, we have three analysts covering this just now, and we have five more in the works. And I think the analysts, in terms of having the information on the production, we will give some guidance towards, have their own assumptions about the pricing and the market pricing and market costs in that regard. And they’ll be giving some—utilizing their kind of average for what the expectations would be rather than us providing a specific number at this point in time.

**Brian Athaide**

We’re really focused here on creating long-term shareholder value creation and doing what’s right as opposed to chasing quarter-over-quarter estimates versus guidance. We want to make sure what we’re doing is right for the shareholders long term.

**Keith Bare**

One last question with the Aurora proving out the Sky Class model, is your model still geared for less than $1 a gram production costs?

**Brian Athaide**

Yes. When we get the scale, our cash costs to flower should be sub a dollar, for sure.

**Keith Bare**

Okay. Thank you.

**Brian Athaide**

That’s when we get to scale. Yup. Which will be in not too long. Right? I mean when we get to 2020. So. Okay. Thank you very much, Keith.

**Operator**

Thank you. We have no further questions. Ladies and gentlemen this does conclude your conference call for today. We thank you for participating, and we ask that you please disconnect your lines.