**The Green Organic Dutchman Holdings Ltd.**

**Third Quarter Analyst & Investor Earnings Call**

November 15, 2019 — 9:00 a.m. E.T.

Length: 50 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

**Brett Hundley**

Seaport Global Securities — Analyst

**Chris Carey**

Bank of America Merrill Lynch — Analyst

**Ryan Tomkins**

Jefferies LLC — Analyst

**Tamy Chen**

BMO Capital Markets — Analyst

**Vito Cusano**

TD Wealth — Analyst

## PRESENTATION

**Operator**

Good morning, esteemed guests. My name is Joana 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 Third Quarter Analyst and Investor 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 star then the number one on your telephone keypad. If you would like to withdraw your question, please press star then number two. Thank you.

I would now like to invite Mr. Brian Athaide, CEO, and Mr. Sean Bovingdon, CFO, to begin the call. Thanks, Brian and Sean. I will now turn the call 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 Q3 conference call. Today we’ll provide comments on our performance, as well as an update on our overall operational readiness 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 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 Brian Athaide.

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

Thanks, Shane, and good morning, everyone.

I’ll begin the call with a discussion of some of the macro industry wide factors affecting the cannabis sector, the actions we have taken to position TGOD for success despite these headwinds, and the performance of our two main markets, Europe and Canada. I’ll then ask Sean to walk us through detailed financials, as well as provide an update on our financing activities, and we’ll finish with our cannabis 2.0 product portfolio.

As you’ve seen in our press release and obviously our Q3 results reflect the fact that TGOD is it still largely pre-revenue. I believe this is not a bad position to be in at this point as it has allowed us to right size our business without incurring large write-downs. We are not immune to the macro challenges the industry is facing, but TGOD is well positioned to weather the storm and will emerge stronger. I will outline our strategic plan in a moment.

Demand remains high for cannabis in Canada. While it may be a new category for the legal market, unlike other nascent industries, it’s an existing $8 billion to $10 billion a year opportunity in Canada alone. The challenge for licensed producers has been a much slower conversion rate from the illicit market to the legal market due to a lack of retail accessibility.

If you look at Ontario, Canada’s largest province, there are only 24 stores open today. Based on its population, the province should have well over thousands in order to meet demand, very similar to alcohol distribution. Regulators are well aware of this and I’m confident that the situation will be addressed in the next couple of quarters, which is timed well as our production scales.

Governments are leaving potential revenue on the table, while the illicit market is thriving. Consumers purchasing cannabis products on the illicit market also expose themselves to the risk of consuming potentially dangerous substances due to the absence of controls, a growing concern which should help convert existing users into the legal market.

This lower conversion, combined with the ambitious business plans of several licensed producers, has created an excess of cannabis on the market, pressuring margins as unsold inventories piled up. Some are calling it oversupply. In my view, what we are seeing is oversold inventory piling up. This seems to be more in the midrange cannabis with average quality, which cannot compete with lower-priced illicit market cannabis. Our pilot with the OCS has proven that consumers and budtenders appreciate the quality of our product and the differentiated and recyclable packaging, as well as sustainable brand positioning. Organic cannabis currently sells at a price premium of 50% to 60%. We launched our brand and our initial strain, Organic Unite, at $0.30 premium, which we believe is sustainable price premium for the mass craft brand we’re building.

That being said, we do expect price compression as the market develops and cannabis becomes more commoditized. I believe TGOD is best positioned, given our differentiated premium organic products, which will continue to command a premium price. You see the same in many other consumer categories, such as Grey Goose vodka, which has large-scale distribution despite the significant price premium in a largely commoditized vodka category, or Whole Foods carving out a growing premium niche in a very competitive grocery retail environment. That said, we’ve designed our plan to be a low-cost producer despite being organic so we can withstand a 10% to 20% annual price decrease and still be financially attractive.

Another factor hampering the growth of Canadian licensed producers is the limited opportunity for international distribution, as countries take longer than initially anticipated to legalize cannabis or make it more medically accessible. It remains a global opportunity and Canada can play a leadership role given our first mover advantage, but the pace is much slower than many had anticipated. Our team has been nimble with international expansion plans, focusing on capital-light joint ventures in order to minimize capital requirements. This is proving to be a wise strategy and I’ll discuss this in more detail later.

The trend has changed rather quickly and this is all much different than what we had expected in our call in August. As we have continued to face challenges which are affecting everyone in the sector, we’ve taken decisive actions to mitigate risk and position TGOD for success. Today I’m going to outline the steps we have taken to right-size our business, while maintaining our path to near-term profitability.

First, we adopted the new construction and operating plan to reduce our capital requirements. Secondly, we are aggressively managing costs in this challenging business environment by scaling back our SG&A by $3 million a quarter starting in Q1 2020 with primary focus on Canadian operational readiness and production sales in cannabis 2.0. We have right-sized our near-term production to capture the organic segment while avoiding excess capacity. This includes demarcating Valleyfield into smaller phases. Fourth, we’re maintaining the optionality to quickly accelerate and expand production as the market develops. Fifth, we have delayed or scaled back some of our international projects in order to focus on the Canadian recreational market and our European subsidiary in Poland. And finally, we’ve raised new capital, which we’ll get to in the moment. These actions are consistent with our strategy to remain disciplined on capital deployment and continue to focus on areas that will quickly generate operational cash flow, which is really Canadian recreational market and HemPoland.

In terms of revenue, we generated $2,612,000 this past quarter, a reduction of 10% compared to the second quarter. I want to add some more colour in this number, as it doesn’t tell the full story. As I mentioned earlier, TGOD is largely still pre-revenue. In Canada, our small pilot with the OCS generated $600,000 in revenue. Most of our revenue came from Europe where we sell CBD products through our wholly-owned subsidiary HemPoland. We made the strategic decision to focus on higher-margin CannabiGold brand and private label sales as we continue adding new distribution points and decided to reduce reliance on less profitable bulk sales. This led to initial revenue reduction of $800,000 while our gross margin improved from 69% to 80% in HemPoland. We anticipate that this shift in strategy is going to positively influence HemPoland revenue and profitability going forward. We’ve recently appointed a sales director for the UK and expect to start selling CannabiGold products in the UK this quarter. We also appointed a managing director for Europe based in Germany who is going to work with the HemPoland team on entering new markets across Europe.

Before I turn it over to Sean for a review our financials, I’d like to add how proud I am of our employees around the world who continue to execute our strategy, while also aggressively managing costs in this challenging environment.

Over to you Sean.

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

Thanks, Brian. Good morning, everyone. I’m going to provide a few updates on our financial performance.

We ended the quarter with $63 million in cash and restricted cash to continue funding the construction of our sites and working capital. This $63 million in cash, together with additional funding sources, which we’ll discuss in a moment, will be used until we have positive operating cash flow, which is expected by the end of Q2 2020.

During the quarter we’ve registered a net loss of $20 million, of which $4.3 million is related to non-cash items, such as stock based compensation, depreciation, and amortization. We continue executing our plans to commence commercial production and enter the recreational market. The net loss increased by $3.7 million compared to the previous quarter, which was in line with our plan, as the management teams maintained a disciplined approach to operational costs related to commercialization of our products in Canada. We have continued to be very focused on where we spend our SG&A, focusing on the higher value-added parts of the value chain and finding good partners for the rest.

As we scale commercial production and distribution, revenue and cash flow are expected to increase rapidly in 2020. In line with TGOD’s strong governance, transparency and accountability, we disclosed on October 9, 2019 that we were reviewing alternative financial options and on October 18, 2019 unveiled our new strategic plan, which Brian mentioned earlier. We made these announcements because we take our disclosure requirements very seriously and wanted to be as transparent as possible with our shareholders. With this, yesterday we announced that we signed arrangements for up to $103 million in funding. Despite the headwinds affecting the cannabis sector, we’ve been able to raise some capital, the majority of it is being non-dilutive, which is a clear show of confidence from our financial partners.

This financing package consists of three elements: a definitive agreement for a sale leaseback of the Ancaster Energy Centre, a construction mortgage loan term sheet, and a convertible to equity note term sheet. The first is we executed the definitive sale and leaseback agreement for the Ancaster Energy Centre, our cogen facility, for proceeds of $23 million. The sale leaseback carry the term of 10 years, after which TGOD is able to repurchase the energy centre for $1 and it is non-dilutive.

We also signed a term sheet with an investment fund for up to $40 million construction mortgage loan, secured on the facilities at Ancaster and Valleyfield. The terms include $15 million payable on closing with a $25 million additional advance available upon achieving certain operational milestones, which are expected later in 2020. The loan carries a 12% interest rate and initial term of two years with the ability to extend further and, again, is non-dilutive. Thirdly, we entered into a term sheet with an investment fund for US$30 million, approximate C$40 million, convertible note which has a 5% coupon convertible into common shares of TGOD. Under the terms, TGOD would receive US$10 million upon closing with US$20 million immediately placed into escrow. These escrow funds would be released as the note is converted into common shares over time.

Closing of the two non-binding term sheets is subject to various conditions, including entering into legally binding documentation, completing the satisfactory due diligence, and the receipt of required regulatory approvals, which we expect to close these transactions in December. I also want to point out that the convertible equity note is purely Canadian market offering and, at this time, due to the market conditions and eligibility criteria, we’ve decided to reconsider our NASDAQ application for a later date once the market conditions improve.

We intend to use the proceeds from financings to continue our rapid yet disciplined expansion with a focus on near-term profitability. The capital being raised is going to be used towards four things. Firstly, completing construction of the processing facility at Ancaster; secondly, completing construction of six zones in the Valleyfield hybrid greenhouse and closing the balance of the facility with the ability quickly expand production as the market develops in the future; thirdly, we’re going to be providing adequate cash for working capital needs to bridge us until the company expects to generate positive operational cash flow, again, by Q2 of 2020; finally, this capital helps us achieve the national distribution of TGOD products in early 2020 with the production coming on from our Ancaster facility in Valleyfield.

There’s still heavy lifting to be done, but our execution remains strong throughout the organization. Despite the exceptionally challenging environment, we are well positioned for long-term attractive earnings growth and sustainable value creation for our shareholders.

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

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

Thank you, Sean.

In conclusion, I would like to discuss our product portfolio for Cannabis 2.0. We’ve put together a solid team with hundreds of years of combined CPG, medical, and beverage experience to develop a full suite of cannabis and hemp infused products. These value-added products will begin to be launched at the end of December. The first wave of products we will be launching includes three categories; infusers, teas, and vapes. We are really excited about all three.

First, the TGOD-Infusers are a tasteless, odourless, dissolvable powder available in three unique cannabinoid blends that can be mixed with your favourite drinks or food. The TGOD-Infusers are backed by a preliminary pharmacokinetic study that compared our proprietary patent-pending water-soluble cannabinoid technology, Caliper CBD, with CBD in carrier oil. We observed the total bioavailability of our water-soluble CBD that was 4.5 times greater than the same CBD in a carrier oil. We also measured a higher cannabinoid absorption, or bioavailability, within 15 minutes compared to the maximum absorption of the CBD in oil, which took 45 minutes. It really is a superior product to how most of the cannabinoids are being consumed today. We believe that being able to make product claims backed by scientific research is a true differentiator and intend to undertake additional studies in the next couple of months.

For the second category, teas, we’re launching three different taste profiles, also leveraging the fast-acting ingredient technology used in TGOD-Infusers. The first variant is Happy Hibiscus Mate, which is formulated to energize and enhance focus and contains 2.5 milligrams of THC per dose and 5 milligrams of CBD. The second flavour is a green sencha, which is formulated to relieve stress and promote relaxation. It contains 1 milligram of THC per dose and 10 milligrams of CBD. And the third one is restful chamomile, which is formulated to promote restful sleep. It contains 2.5 milligrams of THC per dose and 5 milligrams of CBD.

The third category, our TGOD vapes, sets us apart by being 100% certified organic. There has been a lot of noise surrounding the category recently, as well as some misinformation. The TGOD vaping products are formulated solely with natural ingredients derived from our organic cannabis plants, allowing terpenes to infuse flavours. There are no synthetic inputs or cutting agents, such as Vitamin E acetate, polyethylene, glycol, or vegetable glycerin, that are added.

In terms of hardware, we selected Green Tank, a reputable Canadian manufacturer specializing in premium cannabis vaporizers. Their products are carefully designed specifically for cannabis vaporization and meet the current highest standards for vaping hardware implemented by the State of California. TGOD vapes will initially be offered in three different profiles: Unite Organic, a high THC indica-dominant hybrid strain; Harmony Organic, a one-to-one CBD-THC hybrid strain; and Care Organic, a high CBD no THC sativa strain.

We believe vapes are going to be an important category for the Canadian market and are committed to deliver products that meet the highest safety and quality standards. This commitment, combined with the widespread news coverage around the risks associated with purchasing unregulated products on the illicit market, should contribute to accelerating conversion to the legal market. These three categories, however, only represent the first wave of our added-value products with many more to be launched in 2020. We’ve got a lot of the formulation work done and are currently working with co-packers to get them to market.

To wrap up, we continue making good progress and remain focused on delivering our operational plan. We’re taking actions on what we can control to offset the impact of this dynamic environment. I am confident that we will see accelerated revenue growth as we scale our production up, concurrent with the retail store expansion each quarter in 2020, and continue to develop high-quality, innovative products with our unique organic positioning.

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

## Q & A

**Operator**

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the star followed by the one on your touchtone phone. You will hear a three-tone prompt acknowledging your request. Should you wish to decline from the polling process, please press star followed by two. If you are using a speakerphone, please lift the handset before pressing any keys. One moment for your first question.

Your first question comes from Brett Hundley from Seaport Global. Please go ahead, Brett.

**Brett Hundley** – Analyst, Seaport Global Securities

Hey. Good morning, guys. Sean, I just have a real quick modelling question for you. So, on the potential SG&A reduction, is this just a one-time anticipated drop in Q1 2020 and then relative flat line from there or is there any sequential declines thereafter potentially?

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

We’ve built in, it’d be a continual $3 million targeted reduction in the SG&A. So, we’re looking at, compared to where we are this quarter, that will continue on at that level, $3 million lower continuous quarters through 2020.

**Brett Hundley** – Analyst, Seaport Global Securities

Okay. So, just to be clear, like Q1 would drop by $3 million and then Q2 would drop by another $3 million or…?

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

No, no.

**Brett Hundley** – Analyst, Seaport Global Securities

Okay. Q1 is the one drop.

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

Versus our current run rate, we’re taking out $3 million of costs a quarter.

**Brett Hundley** – Analyst, Seaport Global Securities

That makes sense. All right. Thank you. And then, to the extent that you can, because I think this is important next to your funding, I mean what specific assumptions underlie your positive EBITDA target out towards the end of Q2? I think the street could use any transparency that you can give us.

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

We’ve incorporated not only those SG&A reductions, but producing around 5,000 kilos and selling 5,000 kilos of production in the quarter is kind of the breakeven point for us. At a pricing point in terms of similar to what we’re getting just now. But we actually did a reduction, expected some kind of price compression in 2020, of approximately 20% later in the year, by the end of later in year, maybe 10% by Q2 from where we are today.

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

In terms of market, we’re assuming that the number of stores gross from where we are now to about 1,000 over the balance of the 2020 across Canada.

**Brett Hundley** – Analyst, Seaport Global Securities

2,000 stores by the end of 2020?

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

Not 2,000. To 1,000.

**Brett Hundley** – Analyst, Seaport Global Securities

Excuse me, 1,000 by the end of 2020…

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

Yes. That’s our base case. And we’ve modelled some upside and downside how to manage versus that, but that’s our base case.

**Brett Hundley** – Analyst, Seaport Global Securities

Okay. Great. And then just one last question for me, more of a higher level question is to the store growth point. I mean it’s definitely been relatively limited to date and you guys also mentioned that in your mid-October release as a factor contributing to the moderated production expectations at Valleyfield, but do you think that anything else has changed insofar as the ability of your products, or organic product overall, to take share away from conventional product? I mean there is demand of about, well, not demand, but there is sell through of about a million kilograms out there today annualized sell through and so do you think that anything has changed with regards to organic to compete in the marketplace? Thank you.

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

Well, right now, I mean the organic segment is severely underserved. You’ve only got a couple certified organic producers that are craft producers and very little volume. So, I mean the potential of organic is largely untapped. Now organic is an important differentiator. I mean we’ve done a lot of work with consumers. We talk with consumers across the country, across different product forms. We clearly know organic resonates with consumers and they’re willing to pay a premium for it or a large number of consumers are willing a pay a premium for it.

In terms of the, I mean so far it’s a matter of our volume coming online to be able to convert that, but just given all of the news, especially if you look at vaping, I think we’re best positioned, if people are looking for a safer product, having organic that’s never seen any pesticides or synthetic chemical fertilizers. It really works well with many consumers who are looking for that cleaner, healthier product and cleaner, healthier lifestyles.

I mean organic is an important differentiator and even beyond that, I think even more or so, is the quality. Right? So, if you look at the feedback on our Organic Unite strain, and that’s why we did a pilot, we didn’t have a lot of volume to sell but we did our pilot especially to get feedback and we’re very happy with the feedback we’ve been getting from consumers and from budtenders as well. And if you go online and look at feedback on different sites, it’s been very positive. And we also launched at a 30% premium versus where the other players are at 50% to 60%, because we are looking at ourselves as being more of a mass craft brand than a craft brand.

**Brett Hundley** – Analyst, Seaport Global Securities

Thank you.

**Operator**

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

**Chris Carey** – Analyst, Bank of America Merrill Lynch

Hi. Good morning.

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

Good morning, Chris.

**Chris Carey** – Analyst, Bank of America Merrill Lynch

So, I just wanted to test the confidence level around the Q2 2020 operating cash flow by quarter end and maybe I’m just trying to get a sense of—it sounds like the financing that you’ve announced, you have some immediately available, but a lot it’s also contingent on some things, and so I just wonder if you can kind of put it all together and frame the risk of getting the financing and how much it’s depending on you kind of delivering on the things that you’ve kind of said that you could do over the next six to twelve months?

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

Certainly. The milestones in terms of achievement on some of the tranches there are related to actually getting the production and the cash flow profitability. The majority of it actually comes in in the middle to Q3 of next year. The funding that we’re getting up front on closing in December, which is expected to close in December, is sufficient to get us through the period to the second quarter in terms of being able to do that, and then we start generate positive operating cash flow.

**Chris Carey** – Analyst, Bank of America Merrill Lynch

Got it. So, the funding at the outset is really meant to get your working capital needs settled and ensure that you can get some product into the market to start generating said cash flow and once that starts to occur then the kicker is coming on the back end of that.

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

That’s correct. Almost two thirds, three quarters, actually, of that funding package will come in before Q2.

**Chris Carey** – Analyst, Bank of America Merrill Lynch

Okay. Understood. And then on just, you know, we’ve seen some of the products and the brands and the packaging, but the other element of this is provincial willingness to order or certainly right now they’re completing inventories, and you will get more stores but we’re not quite there yet, so I suppose how would you frame the risk that your product selling won’t be as big out of the gate or are your conversations with the provinces, are they kind of really excited about getting these products or—

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

We’ve spoken with all of the provinces and I’d say generally they’re very excited. They can’t wait to have our product and have organic at scale. There is one province we’re still working and that is focused on very low price, kind of overarching, and we’re still working on a solution there, which could be a different type of product for that province to get our foot in with then our normal kind of TGOD brand on top of that. But in terms of our TGOD organic product, we presented it, both our base core cannabis portfolio as well as our 2.0 portfolio, and all the provinces are very excited to be able to start selling it. They’re just waiting for our production to be online at scale to be able to do so. So, we’ll have, I mean we’ve got the first harvest coming out of our Hamilton hybrid greenhouse in December. By the time we process it, we expect to start to be able to sell that in January and our plan will be to be national in the first quarter of 2020.

**Chris Carey** – Analyst, Bank of America Merrill Lynch

Okay. And apologies if I missed this, right, but obviously you’ve had a target on what the ramp up would be from selling into the market and some of the cash flow targets were predicated on that ramp. So, on the Q2 2020, and again, sorry if you said this and I missed it, but do you have, you know, we need to sell this amount to be operating cash flow positive and clearly pricing has been pressured so do you still think that you’re going to be able to get the same level of pricing? I’m just—you can see kind of what I’m trying to do here, maybe test some of these assumptions. So, just in general, what do you need to deliver to kind of hit these targets on a volume and pricing standpoint?

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

Yeah, as we said in Q2, we’re looking at 4,000 to 5,000 kilo is the breakeven point for sales in the quarter, which we’re fully expecting on production ramp with Valleyfield coming on, the grow room, there by Q2, reaching that 4,000 to 5,000 kilos level of sales. The pricing, as I said, currently we’re receiving $8.42 a gram, but we’re look at about, you know, we’ve incorporated about a 10% price reduction in Q2 and then later in the year there will be another 10% price (inaudible).

**Chris Carey** – Analyst, Bank of America Merrill Lynch

Okay. All right. Thanks so much. I’ll pass it on.

**Operator**

Thank you. The next question is from Ryan Tomkins from Jefferies. Please go ahead, Ryan.

**Ryan Tomkins** – Analyst, Jefferies LLC

Thank you. Hi, Brian. Hi, Sean. Just Firstly, just a housekeeping one. Can I ask about the, um, a question on growth in payables this quarter, which obviously helped out on cash. Can we any sense of maybe when they’re due, how you’re going to be able to pay them, whether there’s something we should worry about or whether that might increase in coming quarters?

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

This is actually probably a high point of our accounts payable in Q3, as we’ve really incurred a lot of capital expenditure this quarter to finalize the Ancaster facility pretty much done, as well as the Valleyfield greenhouse being virtually complete. The majority of that accounts payable is actually going to be funded out of the restricted cash, which is the construction escrow money. And so, as it stands just now, we have approximately $10 million to go on Ancaster and $5 million or so to go on Valleyfield that isn’t covered by the escrow. So, that is the reason, you know, in terms of doing this funding, getting closed in December, and looking to the vendors to be fully paid up and everything by the closing of those, the mortgage and the cogen sale, and the first tranche of convertible note money. (Inaudible) that and provide additional work (inaudible). So this is just a high point on the (inaudible).

**Ryan Tomkins** – Analyst, Jefferies LLC

Brilliant. Okay. Thank you. And then second question may be a bit higher level. Obviously, you guys aren’t in many stores, if any at all right now, so there’s a big upside to have there—

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

No, actually we’re in all the Ontario stores.

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

We’re in all the Ontario stores.

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

One SKU, which is Organic Unite flower. It’s a higher THC strain. We only did the Ontario pilot given the limited volume we had but I mean as we have more production scaling up, that’s what will allow us to go into the other provinces. But we’re already in those stores in Ontario.

**Ryan Tomkins** – Analyst, Jefferies LLC

Okay. So, my point is there are 24 stores out of several hundred and hopefully more by the time we get into the second quarter, so there is obviously a lot of headroom there to move on to a number shelves. But then the worry or the balance of that is the retail stores are going to have full shelves already from the increasing supply we’re getting elsewhere, as well as the rollout of derivative products that have got even less shelf space. So, is there anything you can do, anything that you have done to talk or educate the retailers with regards to your product and why they should be making room for that product?

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

We’ve actually got a very robust kind of education program around organic for retail store owners and for budtenders explaining the differences, explaining the product quality and features and the kind of the taste profile and the different terpenes. The feedback we’ve gotten is very positive. And even if you look at those 24 stores, we came later than everybody else in Ontario, and we got listed everywhere. So, we’re not concerned based on all the discussion we’ve had with the provinces and with different stores. Recall, our sales agent across Canada as Velvet Management, a subsidiary of Philippe Dandurand, the largest wine distributor in Canada. Incredible capabilities, incredible relationships across all the provinces. They’ve been really on the front line with different retailers, not just in Ontario but across the other provinces, and they are raring to go, just can’t wait for our production to be there.

**Ryan Tomkins** – Analyst, Jefferies LLC

Okay, great. Thanks for taking my questions.

**Operator**

Thank you. The next question is from Tamy Chen from BMO Capital Markets. Please go ahead.

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

Thanks. I just had a quick, I guess it’s a housekeeping item. Just first on the convertible equity note term sheet that you’ve got, maybe it was somewhere and I missed it, but I just want to double check. Did you provide what the—because $20 million will come off as the $10 million is converted over the time. Did you provide what the conversion rate or the strike price would be for that?

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

We didn’t. There’s going to be normal kind of market rates on the discount from VWAP. The terms still have be, obviously, approved through the regulator and we’ll be disclosing that at the time of the filing of the prospectus.

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

Okay, thanks. And I just have another clarification question on the construction mortgage loan term sheet. So, you get the $50 million upfront and the $25 million is available upon certain milestones, which you said in the press release are expected later in 2020, so is that in the latter half of the 2020? I just wanted to understand. You won’t be able to reach that until past Q2? Is that how it works?

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

That is how it works, yes. So, we’re still expecting to have about $72 million to $74 million of the funding available by Q2 with the $25 million being the big tranche that would be later in year (inaudible).

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

Got it. Okay. Thank you.

**Operator**

Thank you. The next question is a follow-up from Chris Carey of Bank of America. Please go ahead.

**Chris Carey** – Analyst, Bank of America Merrill Lynch

Hi. Thanks for taking the follow-up. I’ll keep this short. Just like I suppose big picture, what’s the plan with Valleyfield? Obviously, an impressive facility, and we’ve seen it, but it does need quite a bit of work to finish. Did that just get idled for all of 2020 until you kind of get your cash flow rolling? Just how to think about it in general.

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

Sure. And you’ve seen it, right? So the greenhouse, the larger hybrid greenhouse is complete. Parts of the processing building, like the whole, the centre for irrigation is done. The second floor greenhouse has been enclosed, I mean the rooftop, the sides. What we’re doing is, I mean we’re fully enclosing everything so we can heat it to above freezing, make sure we protect it from the snow, to be able to melt the snow on the roof. The first two rooms we applied for our Health Canada license amendment over a couple months ago, we’re expecting to get that in the next couple weeks. As soon as we get that, we’ll apply for the license amendment for the whole of the greenhouse.

Now our plan is to use kind of fix rooms out of that in 2020. We’ll be using four of them for growing, one of them from others, and one of them for drying. After it’s dried, we will ship the product to Ancaster where we do have the processing capacity to manage the four rooms of grow coming out of there. And that will give us then capacity of about 27,000 to 30,000 kilos a year, but with the ramp up we’re expecting kind of 2022 in 2020.

Now, we’ll watch how the market develops. Ontario has talked about opening up and unrestricting the number of stores based on market demand. Don’t know how long it’ll take to get their act together to be able to fully release it. I don’t think it’s going to be in the next couple of quarters. I think it’ll take more time than that. But if it really is opened up, like in Alberta or what Saskatchewan is planning to do, it’s possible you could have 1,000 stores in Ontario within the next year. If that’s the case, what we would do is we would bring on additional rooms in Valleyfield as they’re needed beyond the original six.

So, that whole facility will be licensed, the whole hybrid greenhouse. At some point we would need to make the investment in the Valleyfield processing facility for capacity. But our expectation is in Ancaster, as we commission the processing facility that’s still being completed right now, that we’ll be able to drive more and more efficiencies out of there and we’ll see what our maximum processing capacity is. For sure we can manage the six rooms in Valleyfield to start, but potentially even more. So, our plan really is to be agile and nimble and only invest the capital, the additional capital, as the market needs it.

**Chris Carey** – Analyst, Bank of America Merrill Lynch

Okay. Okay. All right. Thanks so much. I’ll pass it on and we’ll be in touch.

**Operator**

Thank you. Your next question is a follow-up from Brett Hundley from Seaport Global. Please go ahead.

**Brett Hundley** – Analyst, Seaport Global Securities

Hey. Thank you for taking my follow-up as well. I just wanted to come back to the funding announcement, because I think a lot of us are focused on, all right, you’re gaining access to a certain portion, there’s another portion that will come maybe later in calendar 2020, and you’re going to have that midpoint in late Q2 where hopefully you reach profitability on the EBITDA line. I guess my question is if you do reach profitability but those ongoing levels are maybe smaller than anticipated in bridging you to additional funding later in the year, should we be thinking that potentially getting to EBITDA profitability by the end of Q2 could also open up additional forms of traditional financing, be that credit. Is that something we should be thinking of as well?

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

I think, absolutely. And we actually had an offer of a traditional lending facility that was conditional upon us having achieved a full quarter in revenue, which was going to be the case by the end of March, so that’s why we actually ended up having that announcement on October 9, 2019 and having to look at this kind of bridge financing. So, having achieved that and going forward and getting that done, absolutely more traditional forms of financing and lending will be available to us by the end of Q2, both (inaudible), but also potentially on the normal operating facilities, because we will have the revenue from the provinces, which is solid quality of collateral for receivables (inaudible).

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

And it’s possible to get out of the mortgage loan that we’re doing now, if we have lower-cost financing or when we have lower cost financing.

**Brett Hundley** – Analyst, Seaport Global Securities

Thank you, guys.

**Operator**

Thank you. The next question is from Tamy Chen from BMO Capital Markets. Please go ahead, Tamy.

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

Thanks. Sorry, just had one follow-up. On your expectation to sell about 4,500 to 5,000 kilograms in Q2, can you help us just understand the picture at the Ancaster greenhouse? I think last when we talked in, I think it was September, it hadn’t been planted yet. I assume it’s been planted now because you’re expecting first harvest in December. But can you just help us understand, because it is going from quite a low sell volume right now to a substantial amount by Q2, so is the Ancaster greenhouse, have you fully planted it? Can you just help us understand just how the production output is going to step up over the next couple of quarters to Q2? Thanks.

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

Yeah, we’re ramping up the Ancaster hybrid greenhouse and going room by room, so I think we’ve got—there is activity in more than half of the rooms now. The thing is you can’t plant it all at once, because you need to time it around operational harvest and just overall kind of production. So, our key challenge right now is we’re still doing all of the processing manually in the original facility. We need the processing building to the online to move to automated processing and then packing and drying with the EnWave dryer, all the rest of that. So, right now we’re targeting kind of a room every two to three weeks.

Once we get into the end of this year, we do expect all of the rooms to be in flower mode. Going into next year we’ll have our processing facility licensed in Q1. Once we get the processing facility licensed, we expect to be on an eight-week cycle. So every room we’re moving in the plants from our 20,000 square foot indoor facility, which have already been through the veg state, moves into the greenhouse. It’s only flowering in the greenhouse, which, depending on the strain, is kind of the six to ten weeks, eight weeks on average, and then we’re doing a harvest. Every week one of those rooms gets harvested and gets processed in the facility. So, our key constraint right now is processing capacity, but as that processing facility is licensed then we don’t have that restriction anymore. Right now we’re doing it all very manually and that’s why the smaller volume until we get to Q1.

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

And you’re looking at 5,800 plants per room in Ancaster and the Valleyfield rooms come on at closer to 13,000 plants per room, four rooms in Valleyfield. And for Q2 the first those rooms will be coming on as well.

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

Okay. Thank you.

**Operator**

Thank you. And your last question is from Vito Cusano from TD Wealth. Please go ahead.

**Vito Cusano** – Analyst, TD Wealth

Good morning, gentlemen. I’m at a loss here. This is all based on continuing to sell more and you’ve stated that the problem in selling is that there are not enough stores. You’re basing it on that in Ontario we’re going to go from 24 to 1,000 stores. What happens if—

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

No, we’re assuming 1,000 across Canada.

**Vito Cusano** – Analyst, TD Wealth

Okay. But right now you’re only selling to Ontario, right, because of your production?

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

Yes.

**Vito Cusano** – Analyst, TD Wealth

Right? You’re not selling anything to BC, you’re not selling anything to Alberta, which those are the other two provinces that you have signed agreements with. Right, Brian?

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

That’s correct, because we only had limited production and we didn’t want spread ourselves too thin. But I mean we expect to be national in Q1.

**Vito Cusano** – Analyst, TD Wealth

So, by March of 2020 you’ll be selling to every province in Canada except for, let’s say, Quebec?

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

That will be before March, probably even by January we’ll be selling to all provinces except for one and then by March we hope to be in that one too.

**Vito Cusano** – Analyst, TD Wealth

Okay. So, with the cash that you have left on hand and how much you’re losing per month, how are you going to make it to the second quarter of next year? That’s where I don’t get the numbers.

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

So, that is the funding. Remember, there’s only, as I mentioned earlier, there’s only about, a total of about $15 million left in capital, so the funding that’s being raised is being used for the working capital, the SG&A, and also the inventory build. As we mentioned on October 9, 2019, we needed about $70 million to $80 million. We will have that portion in the three arrangements we’ve arranged just now to get us to Q2 2020 with an additional $30 million kind of coming in later in 2020 as well.

**Vito Cusano** – Analyst, TD Wealth

Okay. And just a quick question from what I see here on that additional funding you got. You were only able to secure $15 million on putting up those two buildings up that’s collateral?

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

No, the $15 million is Ancaster and the $25 million is on Valleyfield in the complete (inaudible).

**Vito Cusano** – Analyst, TD Wealth

Okay. So, the $25 million is going to be later on if you get to certain operational milestones. I guess if you start producing anything at Valleyfield they’ll give you the other $25 million. So, right now all you getting is $15 million from Ancaster. Is that correct?

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

That is correct.

**Vito Cusano** – Analyst, TD Wealth

Okay. Well, I wish I could say that I come away from this conference call warm and fuzzy, but honestly, guys, I don’t. And I really, I think everybody needs to see some more proof in the pudding before things get any better.

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

We’re focused 100% on executing this plan.

**Vito Cusano** – Analyst, TD Wealth

Okay. Well, let’s hope it happens.

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

I mean we are coming to the market a bit later than others but, frankly, just given the market dynamics and lack of stores, we really haven’t missed much. So, I think our timing is going to coincide with those additional stores and we’ll prove that high-quality organic can sell at a premium.

**Vito Cusano** – Analyst, TD Wealth

But, Brian, I’ve spoken about this before. My concern is that, at the rate that—we’re not cutting expenses enough. By the time, hopefully, that the demand does come online, you’re not going to be there. We’ve got to keep the lights on. How you’re going to do that if we’re burning $6.6 million a month?

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

Well, we’re not. As we’ve said, we’ve gone through part of our strategic plan and re-org is cutting $3 million a quarter from our burn rate, so we’re looking at an SG&A in Canada of under $10 million for Q1, which is significant drop from where we are just now, and that’s part of getting ourselves lean and being nimble and agile and being appropriately right-sized for the level of production we’ve got scheduled coming on nationally in first quarter of 2020.

**Vito Cusano** – Analyst, TD Wealth

Okay. All right. Thank you, gentlemen.

**Operator**

Thank you. There are no father questions. You may proceed with closing comments.

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

Okay. Thank you, everyone, for joining. If you have any further questions, just reach out to us directly. Bye-bye.

**Operator**

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