**The Green Organic Dutchman Holdings Ltd.**

**Fourth Quarter and Year-End 2020 Results Conference Call**

Event Date/Time: March 10, 2021 — 10:00 a.m. E.T.

Length: 33 minutes

## Corporate participants

**Shane Dungey**

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

**Sean Bovingdon**

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

**Michel Gagné**

The Green Organic Dutchman Holdings Ltd. — Chief Operating Officer

## Conference Call Participants

**Derek Dley**

Canaccord Genuity — Analyst

**Tamy Chen**

BMO Capital Markets — Analyst

**Joseph Fiore**

Cantor Fitzgerald — Analyst

**Rob Tucker**

Private Investor

## PRESENTATION

**Operator**

Good morning, ladies and gentlemen. My name’s Colin, and I’ll be your conference Operator today. Welcome to The Green Organic Dutchman’s Fourth Quarter and Year-End 2020 Results Conference Call. To ensure an enjoyable experience for all participants, all lines have been placed on mute.

Following the presentation, we’ll open the call for questions. If you’d like to ask a question, simply press \*, then the number 1. If you’d like to withdraw your question, press \*, followed by 2.

This call is being recorded on Wednesday, March 10, 2021.

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

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

Thank you, Colin. Good morning, and thank you, all, for joining us for our Q4 conference call. Today, we’ll provide comments on our performance, as well as an update on our operations and how we’re executing our plans.

This call is being recorded, and the audio recording will be available on the Company website at tgod.ca.

Joining me on the call this morning is Sean Bovingdon, Chief Executive Officer and Interim CFO; and Michel Gagné, Chief Operating 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’ll now turn the call over to Sean.

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

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

As you have seen in our press release, I am honoured that the board has appointed me as the permanent CEO and a member of the board. I will continue to assume the role of CFO on an interim basis while we complete a formal assessment of internal and external candidates for a permanent replacement. And I appreciate the investors’ support in this regard.

Start with some context on the fourth quarter, and then provide my thoughts on the industry outlook and how we are positioned for 2021.

Yesterday, we reported fourth quarter earnings of $10.92 million, driven by significant growth in Canadian cannabis sales. Despite an increasingly competitive market and a challenging operating environment brought on by the COVID-19 pandemic, we managed to achieve revenue growth of 91 percent quarter over quarter, or 236 percent compared to the same period in 2019.

We have benefitted from strong demand for our mainstream offering, the Highly Dutch brand; our innovative 2.0 products, such as RIPPLE dissolvable powders; and our hash.

Our results for the fourth quarter also benefitted from our continued focus on operational execution, which Michel Gagné will talk about shortly, and financial discipline, with our G&A costs down 59 percent compared to 2019. As planned, our costs have gone down significantly while our revenue has materially increased.

Now for a few thoughts on the outlook for 2021. Consumer demand for legal cannabis products remained strong throughout the pandemic, as you know. But given the restrictions and stay-at-home orders, combined with some provincial listing mandates being revised at the end of the year, we do expect the first quarter of 2021 to be slow for the whole industry. However, we project growth to rebound later in 2021 as restrictions are lifted and stores can reopen.

I would also note the importance of going to market with high-quality, differentiated products. As the market continues to evolve, consumers have higher expectations from licensed producers, particularly as we are also still competing with the illegal market, which isn’t regulated.

Meanwhile, we continue to proactively manage costs to correlate with sales activity levels and still expect to achieve positive monthly Canadian operating cash flow later in 2021.

To position TGOD for this success, we took actions on areas within our control to cut costs, and are committed to focused execution and delivery of quality cannabis products.

First, we’ve aggressively reduced our costs by simplifying our organizational structure and cutting our Canadian G&A spending by more than half compared to Q4 of 2019. We are tactically deploying working capital to invest in sales and revenue-driving initiatives.

Secondly, we launched Highly Dutch, our mainstream organic brand designed for regular cannabis users. This segment represents over 90 percent of cannabis volume consumption in Canada. And the brand strongly contributed to our revenue growth acceleration as we expanded distribution to Ontario and Alberta, in addition to Quebec.

Third, we’ve developed and implemented TGOD’s clean-craft methods to organic growing, and Michel will provide some more information on that shortly.

Fourth, we launched a hash SKU in Quebec, our Organic Afghan Black, which is the top-selling concentrate in that province in December. Organic Afghan Black Hash is now available in British Columbia, Manitoba, and Newfoundland, as well as Quebec, with plans to further expand distribution across the other provinces.

Final key area, we initiated the process of monetizing underutilized assets, especially at Valleyfield. In doing so, we are increasing our financial flexibility to be able to reduce our debt and capitalize on future opportunities, including in Mexico and the United States.

These actions are consistent with our new leadership’s commitment to provide quality organic flower and 2.0 products, remain disciplined on capital deployment, and continue to focus on areas that generate operational cash flow.

One other item of note is that last month we unveiled plans to phase out the direct-to-patient sales and transition our medical business to a wholesale model, in line with other pharmaceutical distribution models, allowing us to invest working capital in other growth opportunities. We are pleased to be supplying Medical Cannabis by Shoppers and other medical distributors and clinics, with plans to increase our presence within this space.

In our view, Medical Cannabis by Shoppers and other medical distributors will play an increasingly central role in supporting patients, a trend we see accelerating in the years ahead as licensed producers focus on product research and innovation.

And with that for now, I’ll turn it over to Shane for a further review of our financials.

**Shane Dungey**

Thank you, Sean. As mentioned earlier, we registered quarterly revenue of $10.92 million, consisting of sales from cannabis products in Canada of $8.55 million and hemp-derived product sales in Europe of $2.37 million.

Q4 loss from operations decreased by 36 percent year over year to $11.4 million, primarily driven by the increase in revenue and implementation of cost-cutting measures and the resulting decreased operating expenses. Compared to Q3 2020 loss from operations of $6.34 million, the Company’s loss from operations for Q4 was higher, primarily due to a $1.48 million inventory provision and lower fair value adjustment gains related to biological assets in inventory.

Our net loss for the quarter was $23.68 million compared to $144.75 million in Q4 2019, a year-over-year reduction of 84 percent. The net loss is comprised primarily of the loss from operations that was just discussed and the impairment charges of $8.64 million related to the Company’s goodwill previously allocated to the acquisition of HemPoland in 2018, whereas 2019 we had an impairment charge of $123.4 million related to our Canadian facilities.

We also continued to benefit from our cost-containment programs with further reductions in G&A expenses, which were down approximately $7.91 million from a year ago. We anticipate sales and marketing expenses to increase slightly in 2021 to support further distribution expansion. As Sean mentioned, we will balance investment in key growth areas while also being laser focused on costs.

Compared to Q3 2020, G&A expenses increased slightly by $0.55 million, primarily reflecting higher legal and professional fees related to the Annual General and Special Meeting held in December, exchange listing fees, and the gradual salary reinstatement for certain lower and middle management staff back to 100 percent of their original salaries to support the ramp-up in sales.

During the fourth quarter, we raised additional funds by closing on gross proceeds of $25.43 million of new equity, including through the filing of a base shelf prospectus. We also agreed with our lenders to extend the maturity date for our senior secured credit facility to December the 15, 2021, and our revolving credit facility to extend the maturity date to December 31, 2021.

In December, we also filed an at-the-market prospectus supplement, permitting us to raise up to $15 million in common shares. We did not issue any common shares under the ATM during 2020.

We ended the quarter on December 31st with $11.83 million in cash and restricted cash that we are using for working capital.

Subsequent to December 31, 2020, we took advantage of market upticks and issued 14.34 million common shares under the ATM for gross proceeds of $7.89 million. In addition, during the month of February 2021, 24.2 million warrants were exercised by certain warrant holders for gross proceeds of $7.56 million.

In summary, we started 2021 on stable financial footing and continue to strengthen our balance sheet.

And with that, I’ll pass it over to Michel.

**Michel Gagné** — Chief Operating Officer, The Green Organic Dutchman Holdings Ltd.

Thank you, Shane. First, I will talk about our plans for Valleyfield. Back in 2019, we made a strategic decision to use the facility as a processing hub while maintaining the optionality to start cultivation later. Fast forward to 2021, it has become evident that large indoor cultivation facilities such as Valleyfield are no longer necessary to continue growing our business. Furthermore, the approval of outdoor cultivation sites has transformed our industry. For background, approximately 450 acres of land were used for outdoor cannabis cultivation in 2020.

That’s why we have retained the services of a commercial real estate advisor to identify potential buyers for Valleyfield focused on the main greenhouse. Multiple options are on the table, and the transaction could result in a complete or partial sale of the site. Selling a portion or the totality of the greenhouse is expected to result in a significant reduction in operating costs while providing capital to reduce debt and reinvest in future growth opportunities, including considerations in the US and Mexico.

The option to purchase organic cannabis biomass from other producers for extraction, including in Quebec, offers a more efficient use of capital. From a processing standpoint, we remain committed to maintaining a significant portion of our operations, including all 2.0 product manufacturing in Quebec.

As Sean mentioned earlier, we officially implemented our clean craft process, which has five pillars: an organic certification by Pro-Cert; we grow in living soil; we harness the power of natural elements like sunlight and rainwater; our buds are hand-selected and trimmed; and slow dried and cured.

We have significantly improved the quality, the potency, and the consistency of our products. Our yields are now higher than initially planned, reducing our production costs per gram with consistently high potency and cannabinoid content. I’m happy to say that we are now producing craft-quality organic cannabis at scale.

Our recently launched Organic Sugar Bush, a high-THC sativa strain, is evidence of this focus. With all our premier organic strains being harvested now for sale in the 3.5 format achieving at least 20 percent THC content, this commitment is reaping rewards for our customers.

And with that, back to Sean.

**Sean Bovingdon**

Thank you, Michel. As you can see, against a challenging backdrop we’ve delivered strong growth, thanks primarily to the expansion of our product assortment, including the launch of Highly Dutch, and the continuous improvements to our production and supply chain. It is a testament to the quality of our products and reflects the hard work of our talented and committed team.

Since November, the new senior leadership team has been focused on improving execution and producing quality organic flower with higher potency and good 2.0 quality products. This improvement, together with certain new competitive pricing initiatives that are possible now due to reduced costs of production and the new hash and edible SKUs being introduced across the country, are expected to provide an added boost to our sales growth in the coming months.

In closing, I’m pleased to say we are strongly positioned with sufficient cash resources to take advantage of the return to retail growth in 2021 and the potential opening of new markets.

I’d like to take this opportunity to thank our talented team and the loyal investors for their continued support.

And, Operator, at this time if you can open the line for questions. Thank you.

## Q&A

**Operator**

Thank you. Ladies and gentlemen, we’ll now begin the question-and-answer session. Should you have a question, please press \*, followed by 1 on your touch-tone phone. You’ll hear a three-tone prompt acknowledging your request, and your questions will be polled in the order they are received. Should you wish to decline from the polling process, please press \*, followed by 2. If you’re using a speakerphone, please lift the handset before pressing any keys.

Your first question comes from Derek Dley from Canaccord Genuity. Derek, please go ahead.

**Derek Dley** — Canaccord Genuity

Yeah. Hi ,guys. Thanks. Just in terms of CapEx for this year for 2021, can you just give us some goalposts of where you think you’ll wind up, obviously given now that Valleyfield is not going to go ahead?

**Sean Bovingdon**

Hi, Derek. Thanks. There’s going to be very minimal CapEx this year. It’s mainly maintenance capital, so probably around the $1 million mark at most as there is, as you said, there’s not going to be work done on Valleyfield; that’s in a process. And Hamilton, our Ancaster facility, is fully operational.

**Derek Dley**

Okay. And then in terms of just cash needed on hand to run the business, obviously, you have $7 million from the ATM and another $7 million or so from warrants come in subsequent to the quarter. How much cash do you feel you need to make to have on the balance sheet to effectively run the business or conservatively run the business?

**Sean Bovingdon**

Yeah. So we’ve currently got more than sufficient cash resources, as I mentioned, with the funds coming in from the warrants and the ATM that we did at a kind of average price of $0.55 a share. We don’t need to be raising money. And with the increasing revenue and the reduced costs, we’re getting to a point of being cash flow positive later in the year, so we have more than sufficient funding to cover off for the foreseeable future.

And that’s why we’ll be using that additional cash resources now to look at opportunities as Mexico opens up and considerations in the US, or other brand opportunities that we may be able to take advantage of.

**Derek Dley**

And you mentioned cash flow positive. And in the MD&A it says you expect to be cash flow positive on a monthly basis later in the year. I guess like I would take that to assume you’re not expecting to be cash flow positive on a quarterly basis at all this year, but perhaps near the end of year on a monthly basis you could inflect to cash flow positive? Is that the right way to think about that?

**Sean Bovingdon**

Not quite. It’s just in the past people have asked for specific dates and specific quarters. And with the volatility in the market and the changing regulations that have happened with the listings, it’s always difficult to put an exact date on it, so we just used the monthly one. Frankly, the fourth quarter as a whole should be cash flow positive, but whether that happens in September or October, I can’t put a fine month, exact month on it.

But yeah, no, I think we’ll be fine by the fourth quarter as a whole.

**Derek Dley**

Okay. And then just the last one for me just on the strategic initiatives at Valleyfield. I guess two questions. One, can you just remind us how much capital you invested into this facility? And then two, in your view who are some of the potential buyers or partners to help you out with that asset going forward?

**Sean Bovingdon**

Yeah. Certainly. We did spend over $230 million in Valleyfield through 2018 and the early part of 2020. We’ve actually got over 25 different parties in our data room already on the Valleyfield process. It’s a wide range of groups from other or new cannabis funds to high-end organic and premium vegetable and fruit companies, greenhouse companies, as well as investment funds in the space from North America that have got international agricultural clients that are looking to expand into North America.

As you may be well aware, there’s a move towards having food security and also greenhouse security to combat the climate change volatility that’s happening for outdoor grow. So there’s a big move for agricultural operations looking for a greenhouse space.

**Derek Dley**

Okay. Thank you very much, and good luck on the initiatives there.

**Sean Bovingdon**

Thank you.

**Operator**

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

**Tamy Chen** — BMO Capital Markets

Hi. Thanks. Good morning. Thanks for the questions. First, a housekeeping one. Of the cannabis sales this quarter, are you able to quantify or give us a sense what the mix was between flower and pre-rolled versus your 2.0 products?

**Sean Bovingdon**

Hi, Tamy. Thanks for the question. The majority of our sales have been in the flower. And I don’t have an exact percentage in front of me, but it’s certainly at least 65 percent to 70 percent of our sales would be in the flower. And then the remaining portion—and there’s a big chunk of that—and for Q4 in particular was hash. Hash, as I said, was the number one selling hash in Quebec in December, and at least well over $1.2 million of our Q4 sales was related to hash.

And then the balance would be made up of the RIPPLE dissolvable powders and only a small portion on teas. And gummies didn’t really start until January. So a good 65 percent on the flower, including the Highly Dutch.

**Tamy Chen**

Got it. Okay. Thanks. And next, Sean, you mentioned as part of your outlook for the Canadian market you mentioned provincial listing mandates were being revised. I assume you’re referring to some of the provinces doing a bit of a rationalization on their SKUs. So I was wondering if you could talk a bit about how TGOD is positioned there? Are your products included in those provinces’ top 100 or top 50, I don’t know what the number is, SKUs as they’ve done their rationalizations?

**Sean Bovingdon**

Right. It’s not only just the rationalization review that they’re doing, but also the process for listing new products. Ontario, as you’re probably familiar, is only doing it once a quarter now in terms of listing new products as opposed to taking new stuff on every single month. So that has just had a move out in the timing of some of our new products getting into the Ontario stores.

But we have had—as of today, we have not had anything major delisted. I think they’re taking through the first quarter here to review, and we’ll asses that as we’re going. But we’re taking every effort we have to continue to push our main products. The Highly Dutch is doing really well, as is the hash, as is Rockstar Tuna. And the Sugar Bush is a new one, which we are just more inclined to get listed as that’s the higher THC.

One of the things we—as Michel mentioned there, all of our products now since Michel has taken charge here of the operations and improved through the end of Q4, the production process and the clean craft, all of the harvests we’ve had here in January and February and March are now getting at least 20 percent THC. So that’s a big catalyst for that flower product getting into the market. Even the Highly Dutch is 18 percent to 20 percent on a mainstream kind of value basis.

So our premium flower is all over 20 percent. The Highly Dutch is 18 percent to 20 percent. And that is a big catalyst for increasing velocity and showing to the boards as they’re reviewing the listings which kind of brands they want to keep.

So we’re feeling positive and doing every effort to promote and get that message out there.

**Tamy Chen**

Got it. That’s helpful. And one last one, if I can squeeze it in there. Apologies if I missed this, but on the gross margin there was a bit of a decline sequentially here. So I saw there was a bit of a commentary in the MD&A, but just wondering if you could elaborate on that a bit more what drove sort of that sequential decline? Thank you.

**Sean Bovingdon**

Yes. The main item really was about $1.4 million in an inventory write-down primarily related to packaging, frankly, not flower. It was packaging. There was a lot of excess and packaging that was bought back in 2019 in the heady days of over-optimism that the industry had. That’s on vape cartridges and boxes and teas and tins and everything else that had been bought previously for 2.0 products. And given the timeline and the velocity of that, we took a write-down on the packaging in Q4. So that’s had the biggest impact.

As well, as was mentioned in the MD&A, the lower yields and the higher operating costs we had through the summer of last year, that flows through to having a higher production cost of sales in Q4, such that if you remove the inventory provision and all the rest of it you’re around about 20 percent gross margin, I think, for Q4, when you back that out and look at that. And that’s just reflective, as I said, of the lower yields and the higher kind of operating costs we had in the products that went into the inventory that then got sold in Q4.

Going into Q1 and beyond, we look for that gross margin to move up to 30 percent and potentially higher, depending on the mix.

**Tamy Chen**

Great. Thank you.

**Operator**

Your next question comes from Joseph Fiore from Cantor Fitzgerald. Joseph, please go ahead.

**Joseph Fiore** — Cantor Fitzgerald

Hey, Sean and Shane. Just want to say first off, congratulations on the quarter. Just to follow up there, so how are you and the broader management team specifically thinking about international expansion into Europe?

**Sean Bovingdon**

Thank you. Well, firstly, as you know, we have distribution agreements with pharmaceutical wholesalers in Germany. And the EU-GMP initial certification that we had in place, we’ve just passed our first stability testing on our product in there. And we’re waiting for the final full certification from the inspector in Germany on our EU-GMP, which will allow us then to move in through that pharmaceutical wholesale market into Germany as the first step. So that would be it in Europe.

Beyond that, we’re one of, I think, only three cannabis LPs that have already established a foothold of operations and product review from Mexico. Our joint venture in Mexico with LLACA it goes to 7,600 pharmacies. And our products are already in front of the COFEPRIS there from the Mexican equivalent of Health Canada for approval. And that’s usually about a six-month process, which we started five-and-a-half months, six months ago. So we’re well ahead of the game in terms of any potential for Mexico as well.

**Joseph Fiore**

Awesome. Thanks a lot.

**Operator**

Your last question comes from Rob Tucker (phon) from Niagara Stools. Rob, please go ahead.

**Rob Tucker** — Private Investor

Hi, guys. How are you? Congratulations, Sean.

**Sean Bovingdon**

Appreciate that, Rob. We’ve got a good team around us here now for a promising year ahead.

**Rob Tucker**

Yeah. Shane’s not bad, I guess. Yeah.

**Shane Dungey**

Mm-hmm.

**Rob Tucker**

Couple of quick questions. So $230 million to build Valleyfield, and if you look at what HEXO sold Up Cannabis for, they got like 10 percent of that cost. Aurora sold a facility in Exeter; they got about 10 percent. So is it fair to say we get 10 percent selling Valleyfield? Or do you expect much better than that?

**Sean Bovingdon**

There’s two things to note on that, Rob. First of all, it’s not on our books at $230 million anymore because of the impairments we took back in 2019 and the early part of 2020. So the carrying value on the books is only around $75 million now.

Having said that, we’ve already had some initial offers that were at more than 10 percent of the $230 million, which given the interest and the nature of our facility and the quality of our facility, which is adaptable for more than just cannabis, and its location particularly close to Montreal and the hub there and the importance of Quebec as an agricultural producer and the support we’re getting from Investment Quebec in terms of promoting agricultural greenhouses, we feel that the value would be certainly more than 10 percent of the $230 million. And the range we’re getting is—we’re expecting to get and the interest we’re getting is evidence that that’s likely to be the case.

**Rob Tucker**

Good. That’s good. The other thing, I just noticed someone posted on social media. Was any of our write-down on inventory this quarter?

**Sean Bovingdon**

There was $1.4 million of an impairment that was primarily related to packaging, as I mentioned to Tamy there. We had a lot of—

**Rob Tucker**

Yeah.

**Sean Bovingdon**

—packaging that was bought back in 2019 for expected balloon growth which— because it’ll take over a year to get through we were prudent in taking the write-down on it. So no, there’s not been any mass write-downs on our inventory—

**Rob Tucker**

Okay.

**Sean Bovingdon**

—on the flower or cannabis product inventory at all.

**Rob Tucker**

Okay. And then so if we sell the full Valleyfield’s facility—let’s just say you sell the whole thing; that’s the deal they want—so now we got to move that processing facility. That would basically wipe out our gains from Valleyfield building a new facility, no?

**Sean Bovingdon**

Not at all. Michel and his team have already identified several sites, and two in particular we’re focusing on in Quebec that could house our operations. They’re licensed and they’re capable—immediately turnkey to move our equipment from Valleyfield into them with a staff and be able to operate straight away without much downtime at all. And it wouldn’t involve a lot of capital.

**Rob Tucker**

Okay. And final question. If we go into Mexico and Europe and, say, the US with the Ancaster facility alone, how do we get that product out there? Ancaster, I believe, would be 17.5 kilograms total. Correct?

**Sean Bovingdon**

Yeah. So a big part of that planning is for our 2.0 products out of Quebec, there’s a lot of, as Michel mentioned, a lot of organic biomass that’s able to be bought from the market, and so we don’t need to use our grow in Ancaster. Our grow in Ancaster will be the premium flower for our own flower products, whereas the organic biomass that we’re sourcing or able to source from other growers can be used for the 2.0. So we’re able to ramp up and grow across all products without needing the additional growing capacity ourselves.

Again, the two facilities that we’ve narrowed down on as potential for Michel also have growing and cultivation capabilities as well, should we need it.

**Rob Tucker**

Okay. Thanks, guys. And a shout-out to Shane for always being there when you call. He returns calls immediately. Thanks, Shane. Have a good day, guys.

**Sean Bovingdon**

Thanks, Rob.

**Shane Dungey**

Thanks.

**Operator**

That’s all the time we have for questions. Please proceed.

**Sean Bovingdon**

Okay. Again, I’d like to thank everybody for their time on here. If you have any other questions at any time, please reach out to myself or Sebastien or Shane, whose information is on the press release.

Again, thanks to the team for their continued efforts, and I’m looking forward to a positive 2021. Been a lot of work to get here, but we’re now, as I said, strongly positioned with the cash resources and the team and the product to take advantage of further growth in 2021.

**Operator**

Ladies and gentlemen, this concludes—

**Shane Dungey**

Take care, everyone.

**Operator**

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