**The Green Organic Dutchman Holdings Ltd.**

**Q2 Fiscal Year 2019 Financial Earnings Conference Call and Webcast**

Event Date/Time: August 14, 2019 — 9:00 a.m. E.T.

Length: 42 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

**Owen Bennett**

Jefferies — Analyst

**Tamy Chen**

BMO Capital Markets — Analyst

**Chris Carey**

Bank of America — Analyst

**Evan Veryard**

Capital 10X — Analyst

**Sid Rajeev**

Fundamental Research Corp. — Analyst

## PRESENTATION

**Operator**

Good morning, esteemed guests. My name is Leonie, and I’ll be your conference Operator today. At this time, I would like to take the opportunity to welcome everyone to The Green Organic Dutchman Q2 Fiscal Year 2019 Financial Earnings Conference Call and Webcast. 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 \*, followed by 2. Thank you.

I would now like to turn the call over to your host Mr. Shane Dungey, Vice President of Investor Relations. Please go ahead, sir.

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

Thank you, Leonie. Good morning, and thank you all for joining us on our Q2 conference call. We will provide some 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 the assumptions and factors.

With that, I’ll 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. Last quarter, I started by saying that our team was focused on construction completion and operational readiness. Today, I’m pleased to report that we continue to be on track and have reached several milestones during the second quarter.

However, before looking at the highlights, I want to take a moment to talk about ethics and governance. Considering the recent headlines, I believe it is important to reiterate some of the measures we have put in place to prevent similar situations at TGOD. Out of our six board members, five are independent, including the chair. Second, we have a whistle-blower policy that every employee needs to sign. If they see something, they should say something. Our quality assurance department reports in directly to our President, Csaba Reider, not to the operations group.

But most importantly, we’re really driving a strong compliance culture across the whole organization with robust policies, tracking tools, and importantly, tone from the top. The stories we’ve seen in the news releases recently hurt the entire industry, but they do not reflect the level of ethics and governance at TGOD. Not only do we assure we have the necessary licences in place and operate within the regulatory framework, but our team goes above and beyond to ensure we always do the right thing.

So now back to our second quarter results. In terms of revenue, we generated 2.9 million, up 20 percent compared to the first quarter of this fiscal year. Revenue mostly came from Europe, where we sell CBD products through our wholly owned subsidiary, HemPoland.

We reached several milestones during the quarter as we continue to focus on executing our business plan. In April, we received our licence from Health Canada to start selling oils, and our European subsidiary HemPoland received their organic certification.

In May, in conjunction with Epican, we opened a second retail location in Montego Bay. We also announced our entry into the US CBD market through our cornerstone investment in Califormulations. We signed supply agreements with Alberta and British Columbia, and we signed a distribution agreement with one of Germany’s leading pharmaceutical distributors. We also received our licence extension from Health Canada to start growing in our Phase 2 indoor facility in Ancaster-Hamilton.

In June, we signed a multiyear agreement with Neptune, that’s really the largest in the industry to date for processing and manufacturing. We also launched our Global Strategic Hemp Division and obtained our organic certification for Valleyfield. It was a busy quarter, and we’re not slowing down.

On the construction front, we’re really in the home stretch now, with our new facilities either completed or nearing completion in Hamilton and Valleyfield. In line with what we said last quarter, in Hamilton, our Phase 2 indoor has been completed, and we’re actually growing in all the rooms already, with our larger Phase 3 hybrid greenhouse being largely completed, and growing can start this month, once we receive our licence extension from Health Canada.

As a reminder, Hamilton has a combined square footage of 166,000 square feet with a production capacity of 17,500 kilos. Our much larger flagship site in Valleyfield, Quebec, where we benefit from North America’s lowest power rates, is going to measure a total of 1.3 million square feet once completed, with a total production capacity of 185,000 kilos. The first phase of this facility will be ready early in the fourth quarter, with the first harvest expected by the end of this calendar year.

From a commercialization standpoint, we’re pleased with the learnings from our small pilot in the Canadian medical segment. You may recall, we started selling to a small group of medical patients at the end of Q1, our Grower’s Circle as we affectionately call it. The objective behind this program was to refine our processes, test our systems, and gather feedback from patients. It also confirmed that Canadians appreciate our organic value proposition and are willing to pay a higher price for premium high-quality product. The feedback we received from this group has been overwhelmingly positive.

We expanded our portfolio from one to four strains at the end of July and with the additional capacity from our indoor facility in Ancaster, we’ve just opened sales to medical patients across the country beyond our Grower’s—the initial patients. They’re now able to order dried flower and oils directly from our website, tgod.ca. We’ve also made a number of key hires to build our medical team and expand revenue in this channel in the weeks and months to come.

Another area where we’ve made tremendous progress is on the science side. Our Chief Science Officer, Rav Kumar, has built an impressive team, which comes from pharmaceuticals and cannabis. They’re not just focused on studying the plants but working on several pharmacokinetic studies and also involved in all our R&D and efforts—R&D efforts, including product formulation, from functional beverages to edibles and topicals. Having the ability to make product superiority claims backed by scientific research will be a key differentiator for TGOD, not just in Canada, but globally.

But last quarter, I mentioned that we’d be entering in the recreational market in Q4 of this year. Given the success of our growing operations in our original Phase 1 building, we actually expect to complete our first shipment to the Ontario Cannabis Store this week, ahead of schedule, with our first strain, which is Unite Organic, also known as LA Confidential, being available to Ontario consumers this month.

Our Unite Organic is our higher THC strain, which has received great feedback from our medical patients. Volume will increase significantly in Q4, once we have product from Phase 2, and we add British Columbia and Alberta to our recreational sales market, which we’ll be expanding us as product comes available from the greenhouse. A demand for premium differentiated product is there, and the organic segment, we all know, is severely underserved.

In terms of international expansion, Europe continues to see strong growth, with HemPoland delivering solid quarter-over-quarter results. But as mentioned before, I mean, we’re just getting started. We signed distribution agreements in Germany, Europe’s largest economy, and continue to look for new opportunities. In June, we also launched our Global Strategic Hemp Division, which leverages our expertise in European hemp CBD to fuel growth and accelerate the development and commercialization of new products across our network of international partners.

As part of this initiative, we plan on entering the US hemp CBD beverage market in 2020 while in Canada, The Green Organic Hemp Ltd, the wholly owned subsidiary of TGOD, is getting ready to harvest the 158 acres of organic hemp we planted in Southern Ontario. Demand for CBD products is exploding and expected to hit 22 billion globally in less than three years. Our team has years of direct hands-on experience in the CBD space, as well as proprietary extraction techniques and intellectual property. We’re excited to use this advantage to execute on our fast-moving expansion strategy.

CBD is a wellness product and has a natural fit with TGOD-certified organic positioning and the large segment of consumers who are increasingly demanding natural and organic products. We have the team, the infrastructure, and the know-how to establish a significant presence and leadership in this market.

And with that, over to Sean.

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

Thank you, Brian. Good morning, everyone. I’m just going to provide a few more updates on our operational readiness, as well as on our financial performance.

Last month, we actually successfully completed the implementation of SAP 4HANA, which now integrates all of our key business functions. This is very important as we look at our international markets, significantly strengthening TGOD’s expansion capabilities and also enhancing our financial controls and governance processes. We see technology playing a strategic role in our future growth, and I’m making these investments in core systems and artificial intelligence to provide more effective review and real-time data analysis, which will enable faster decision-making as we grow.

On the production side, as Brian mentioned, we entered into a multiyear agreement with Neptune for extraction, formulation, and packaging services. As part of the agreement, TGOD will have exclusivity on extraction, formulation, and packaging of certified organic products within and for the Canadian market. Neptune’s expertise will enable TGOD to quickly scale up production of a wide range of consumer wellness products, particularly heading into Cannabis 2.0.

Over three years, we will allocate up to 230,000 kilos of cannabis and hemp biomass for Neptune to process and transform into the premium and certified organic consumer wellness products, making this the largest deal for a processer in the industry to date. With a second wave of legalization coming at the end of the year, this agreement with Neptune positions TGOD to capitalize on the Canadian recreational market of value-added products.

In line with our global growth strategy, last week we announced that we submitted an application to list TGOD’s common shares on the NASDAQ capital market, and we expect this process to be completed within six to eight weeks. We’re very excited about this, as it’ll broaden our investor base and facilitate access for international investors.

In terms of financial performance, we ended the quarter with a strong balance sheet and liquidity, including 122.7 million in cash and restricted cash, to continue funding the construction of our sites as well as international expansion and working capital. This cash, together with normal course bank facilities, will be used until we have positive operating cash flow, which is expected by the first half of 2020. We’re currently in discussions with one of our current chartered Canadian banks to establish the asset-backed loan facilities.

We registered a net loss of 16.6 million, as we continued to execute our plans to commence commercial production into the recreational market. This net loss, which has increased 2.5 million from the previous quarter, is actually in line with our plan. And the management teams maintain a disciplined approach to the operational costs related to commercialization of our products in Canada as we ramp up.

The loss was partially offset by the increase in sales from HemPoland and the stronger net results from Epican in Jamaica. We’ve also 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 great partners for the rest. As we scale commercial production and distribution, revenue and the cash flow are expected to increase rapidly.

Now, looking at Epican in Jamaica for a moment, which is accounted for on an equity basis, as shown in the notes to our financial statements. Revenue actually increased by 18.6 percent to 565,000 compared to the previous quarter. This increase can be partly attributed to the opening in May of Epican’s second dispensary located in Montego Bay, as Brian mentioned.

I also want to provide a quick clarification on TGOD Acquisition Corp. The two companies are now separate entities, and the unit warrants have been delivered to the registered shareholders as per the custodian, Computershare. At this point, TGOD is at an arm’s length from TGOD Acquisition, and we are no longer in a position to provide updates or guidance. Investors can contact the team at TGOD Acquisition Corp. and RADD Capital with their inquiries.

All in all, we’ve continued to be very satisfied with the momentum. There’s still some heavy lifting to be done, but our execution remains strong throughout the organization, and we continue to hit our milestones. We’re continuing to make great strides in reaching TGOD’s goal to be the global leader in certified organic cannabis.

With that, I’ll hand it back to Brian.

**Brian Athaide**

Thank you, Sean. To wrap up, we’re pleased with our progress this quarter and remain focused on delivering our operation plan. In the short term, we expect exponential growth in Canada, as we enter the adult-use consumer market and capitalize on the underserved premium organic segments. 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 ahead of legalization 2.0.

These value-added products will begin to be launched in Q4 of this year. Longer term, we see international expansion becoming more and more important, as cannabis and hemp legislation evolves.

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

## Q&A

**Operator**

Thank you. Ladies and gentlemen, should you have a question, please press \*, followed by 1 on your touch-tone phone. If you’re using a speakerphone, please lift your handset before pressing any keys. One moment, please, for your first question.

Your first question is from Brett Hudley (sic) [Hundley] from Seaport Global. Brett, please go ahead.

**Brett Hundley** — Seaport Global Securities

Hey. Good morning, gentlemen.

**Brian Athaide**

Morning, Brett.

**Brett Hundley**

Brian, I’m sorry. I missed your opening remarks, so I apologize if I make you guys repeat anything from those remarks. But I just had a couple questions after review of your MD&A. So construction at Hamilton a little bit delayed; can you just go into further colour on what particular led to those delays? And why you guys are so confident in getting Valleyfield done on time?

**Brian Athaide**

No. Actually, Hamilton is on the plan we have. The greenhouse—I mean, the Phase 2, the indoor has been completed. We’re growing in all the rooms there. We expect the first harvest in there within the next few weeks. The greenhouse is pretty much done. We’re waiting on the Health Canada licence amendment. The moment we have it, the plants can start going in there, and we could expect that any day. We put in the evidence package about two-and-a-half weeks ago, so really any time now.

The support building is not complete, but that was always planned to be done within a couple months of the greenhouse, because it takes about 8 weeks—anywhere from kind of 6 to 8 weeks, or 6 to 10 weeks depending on the strain—of flowering before we harvest. So the timing of the support building is scheduled for when the first harvest is ready in the greenhouse. So it’s actually not delayed.

Valleyfield, we actually are progressing very well. I think you’ll be joining our tour in September, and we’re on track there.

**Brett Hundley**

That’s great. Thank you for clearing that up for me. Sean, I wanted to ask you about your funding position. So, albeit I was doing some quick math here, and I caught some of your comments in your prepared remarks. So, it looks like you’re definitely well funded to finish building out your asset base. Can you just add, a little bit, additional colour to your liquidity expectations into summer next year? And how the market is evolving for you and your peers, as it relates to any potential further capital raise plans into 2020?

**Sean Bovingdon**

Yes, certainly. As I mentioned, we expect to be cash flow positive for the Q1 of next year, so as we move forward from there and continue to ramp up on the cash flow that we have in Q1, Q2. And that surplus cash flow from operations will then be utilized into going into the next phase of our facility at Valleyfield, expanding capacity from the 65,000 kilos of capacity we’ll have at the end of this year, into 130,000 of capacity by the end of 2020, and then into 2021, going up to the full capacity of 185,000.

So I think our cash position will continue to grow from operations through 2020, as we continue that ramp-up and expansion.

In terms of the market, yeah, this has been a—it’s the summer months now, and you’ve seen a couple of offerings be reduced or scaled back. But I think, as more and more companies continue to execute, and the ramp-ups of all the players in the market start to materialize, and people focused on the execution of getting towards profitability, I think that starts to give people a bit more confidence in the stability of the players who are focused on that operational excellence and operational execution. And the money will move towards people like we expect to be, who are the LPs that are actually producing and executing effectively and reaching—

**Brett Hundley**

Great—

**Sean Bovingdon**

—profitability as we expect in Q1.

**Brett Hundley**

That’s great. And then just one final one for me and I’ll yield the floor, is on Germany. And we can maybe use Germany as an example, if you want, to speak about potential international growth, but just focusing on Germany for a minute. Our understanding is that there is strong demand for flower—or THC, I should say—but not really enough supply to go around right now. You guys seemingly have the supply availability and now the distribution on the CBD side. Can you just give us a sense as to what the demand profile inside Germany looks like for CBD?

**Brian Athaide**

Yeah. So in Germany, there’s kind of two prongs there. So we are seeing—and I’d say it’s still very early days, both on the cannabis side and on the hemp CBD side. So we have established a partnership for distribution on the CBD side, and that’ll be exporting product from HemPoland. It’s still a matter of kind of going pharmacy to pharmacy and establishing it. It’s not kind of a big way that you can do with a Shoppers Drug Mart kind of concept here.

On the other side, the other part is the medical cannabis in Germany as well. That will—actually, we expect to be selling late this year from Canada. We’re hoping to get our eGMP certification this quarter, which will allow us access to the medical market there, which is also underserved.

**Brett Hundley**

Thank you so much.

**Brian Athaide**

Okay.

**Operator**

Thank you. Your next question is from Owen Bennett from Jefferies. Owen, please go ahead.

**Owen Bennett** — Jefferies

Morning, guys. Hopes all well. Just a couple of questions, please. Firstly, just coming back to the cash situation, I just wanted to get a better idea of any risk around turning cash flow positive? And on your internal modelling, kind of what sort of sales norm would you think is a minimum requirement in Q1 to turn cash flow positive?

And then the second question is just could you give a bit more colour on the wellness products or the type of wellness products that will come out of Neptune? And then second, kind of what is the timeline around the sort of derivative aspects of Valleyfield? And will they still be focused on beverages? And then, I guess, how does the Neptune deal tie into that, in supplying extracts for that Valleyfield and the beverage opportunity? Thank you.

**Brian Athaide**

Why don’t I start with the portfolio, and then Sean can jump in with the cash flow? So on the portfolio, Neptune is helping us with a variety of value-added products, including kind of vapes, capsules, as well as part of our beverage portfolio. So our expectation is—and we will be launching capsules in the fourth quarter of this year, and potentially even sooner. Vapes, we expect to have ready for when we can start selling it in mid-December. There we’ve got a lineup of rechargeable cartridges, as well as all-in-one lineup.

On the beverages side, we have a lineup of teas that are infused with cannabinoids, different percentages of CBD and THC, of shots and RTDs. Now, those all won’t be December. It’ll be kind of a combination of December, but more of those will come in Q1 of 2020. And then we also have a lineup of kind of edibles, but that’s a bit further out, after our beverages—

**Owen Bennett**

Okay—

**Brian Athaide**

—so more likely, kind of Q2.

**Owen Bennett**

Okay. And then just how does that tie up into kind of Valleyfield longer term? It’s going to be mainly focused on beverages? I mean is that—that’s what—

**Brian Athaide**

No. I mean, Valleyfield is about cultivating high-quality organic cannabis. We are going to be doing some of the products in our processing facility there. But as I say, on the—

**Owen Bennett**

No, sorry. I meant on the R&D centre there, that you said was primarily going to be focused on beverages.

**Brian Athaide**

Oh, yes. So that formulation work. Frankly—

**Owen Bennett**

Yeah.

**Brian Athaide**

—we’ve evolved that. I don’t know if you recall the discussion we had last quarter with our investment in Califormulations.

**Owen Bennett**

Yeah.

**Brian Athaide**

Actually, a lot of the beverage formulations is happening there, in terms of doing the actual taste work and fusion work, stability work, onset, offset testing—

**Owen Bennett**

Yeah.

**Brian Athaide**

—making sure we continue to fine-tune that and get better and better. That, we’re not doing in Valleyfield.

**Owen Bennett**

Okay. Cool.

**Sean Bovingdon**

So going to the cash question in terms of the profitability in Q1. Looking at the fourth quarter of this year, from the ramp-up in our facilities in Hamilton and the first grow harvest out of Valleyfield, that represents about 2,500 kilos of product being sold in the fourth quarter, which really only is representing less than half of the quarter. So as we get into Q1 with Valleyfield grow rooms all being available for harvest, that would look to be being past 6,000 kilos of flower for the kind of breakeven point in Q1, to your point, Owen.

**Owen Bennett**

Okay.

**Sean Bovingdon**

And we expect to be comfortably ahead of that, given all the grow rooms being on in Valleyfield, as well as the full capacity at Hamilton.

**Owen Bennett**

Okay. Thanks very much.

**Operator**

Thank you. Your next question is from Tamy Chen from BMO. Tamy, please go ahead.

**Tamy Chen** — BMO Capital Markets

Yeah. Hi. Thanks. First question just on Valleyfield. I believe the spend so far on—or investment on the facility is a bit over $100 million this year. Just wondering what the total expected investment will be for the facility, as it appears to be tracking above some of the other similar grows that have similar size. So just wondering what’s driving this.

**Sean Bovingdon**

So the MD&A, in fact, again, outlines the full line numbers, as you mentioned there, Tamy. So it ends up being in the region, for Phase 1a, of about $260 million, with Phase 1b and the second floor of greenhouse commencing near the end of this year and into 2020 beyond that. This expenditure, from our perspective, is slightly more than some of the nonorganic greenhouses, and that’s just a function of getting the organic systems in place. We went through a redesign, as was mentioned back in February in our press release there, to facilitate the facilities being properly configured for organic growth at scale.

That meant adding in additional chillers and HVAC capabilities. I think we have over twice the amount of up-chilling with HVAC and temperature control capabilities that some of our nonorganic peers had in their first facilities. And that’s really enabled us to ensure that the climate control and temper (sic) [temperature] control and humidity control will be appropriate for organic, given that we’re growing in soil, which adds to some of the complexities.

The size of our tables need to be a little heavier. The size of our piping needs to be larger, but the roof is a little higher. So it’s all a little bit of incremental costs there just in the organic side, but that’s more than covered off on a return-on-investment perspective from the 30 percent margin that we get on the sales for every gram going forward.

**Brian Athaide**

Third’s been price increases.

**Sean Bovingdon**

Price increasing, yep.

**Tamy Chen**

Okay. Thanks. And on Ancaster, just wondering how much investment is left to get to full production capacity?

**Sean Bovingdon**

And again, mentioned in the MD&A there—I think this is the number, if I recall—no, it’s not—27 million as at the end of Q2. Now, obviously, we’ve spent some of that this month already, so there’s very little left to go.

**Tamy Chen**

Okay. And my next question is just trying to get a sense as well on just the cash usage. I know there’s both unrestricted as well as restricted cash that you ended the quarter with. But just trying to understand, how much runway do you have left, factoring in all the investment you need, before you need to raise some more capital?

**Sean Bovingdon**

Well, the restricted cash is just a function of the holdback with the construction manager, the general contractor. So that actually gets released here in this quarter. So it’ll no longer be restricted, so that’s fully available. We have capacity in place here. As I said, Hamilton’s almost done, so we can kind of discount that, if that’s already been done at the end of this month.

With regards to Valleyfield, the Phase 1a, with the cash we have on hand plus part of the revenues, which are starting to come in from the sales this quarter, plus the normal course bank facilities. I said we’re in discussion with our existing bank to establish an asset-backed loan facility based on the value of Hamilton. That gets us in place to complete Valleyfield comfortably this year and be in a position to go into that profitability and cash flow positive in Q1.

**Tamy Chen**

Okay. And my last one is just trying to understand the cannabis revenue. So this quarter, you mentioned that it was very, very modest, the limited medical sales. So just how should we think about this current quarter and onwards, how that’s evolving both on the medical side as well as the rec side? And are you—I believe you had originally anticipated you would get into the rec market in the fourth quarter. Is that still on track?

**Brian Athaide**

Yeah. So, I mean, our revenue is fully based on starting up the facilities and getting production. So, I mean, everything we’ve sold in medical, we went with an earlier launch before our new facilities were up and running because we wanted to get the learnings from the pilot. So that’s why we started with just a few hundred patients, just to get those learnings. We weren’t expecting a lot of revenue from that.

Now the first—or the second phase of Valleyfield, beyond the original building that you’ve seen on the site there, it’s fully up and running. We’re growing in all the rooms. We’ll have the first harvest coming out of there within the next month. That allows us to fully unrestrict medical and then start selling in one of the rec markets, which is Ontario. If you’ll see, we actually have our first purchase order from Ontario, so we actually are ahead of schedule. Although I said Q4 last time, we’re actually doing a similar kind of pilot, just to more test the pipes on the rec side as well. So it won’t be a huge revenue number, but we are starting to sell to recreational consumers in Ontario this month.

Now as we get, then—the next phase is the greenhouse—the hybrid greenhouse in Ancaster. That’s pretty much completed for the greenhouse part; the support building is still being completed. But the moment we get the Health Canada licence amendment, which could be any day, we’ll have plants going in there. Kind of a couple months after that, then we’ll have the first harvest. So we expect, based on the first harvest coming out of Ancaster, to be able to expand our recreational business towards the end of this calendar year, selling into BC and Alberta on top of Ontario.

Valleyfield, which is really where the big volume comes in, we’ll have that—we’ll be planting in that greenhouse early in Q4 and expect our first harvest at the end of Q4. So by the time we harvest it, process it, we’ll be selling that early in 2020. Now that allows us then to go nationally in the rec market. And we’ve spoken with all of the cannabis boards across the country, and it probably won’t be all national January; we’ll go province by province. But I expect by the second quarter, we’ll be fully national in Canada.

**Tamy Chen**

Okay. That’s helpful.

**Brian Athaide**

But just based on the scale we have in that first quarter, as Sean said, that’s when we get to EBITDA positive.

**Tamy Chen**

Okay. That’s it for me. Thank you.

**Operator**

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

**Chris Carey** — Bank of America

Hi. Good morning.

**Brian Athaide**

Good morning, Chris.

**Sean Bovingdon**

Hi, Chris.

**Chris Carey**

So you mentioned that you have some sales coming into Ontario. I wonder if you could comment on the pricing that you’re seeing? I know the strategy here is that organic should be a yielding a higher price, but we have seen pricing predominantly in the 4 to $6 range, and I suppose the trend is down. And so if you could just comment on where you see things shaking out in the very near term? And how you’re thinking about the—

**Brian Athaide**

Yep. So our—

**Chris Carey**

—improvement, the next couple years?

**Brian Athaide**

—our first strain selling into the rec market is our Organic Unite, which is our higher THC strain. We’re selling a 3.5-gram jar for 52.99 retail, which is about $16 a gram retail. Wholesale for us is just a bit over 8.

**Chris Carey**

Okay. So it’s a bit—

**Brian Athaide**

And that’s in line with where we expected. And we’ve been selling the medical for 12, directly to patients—

**Chris Carey**

Mm-hmm.

**Brian Athaide**

—and retail rec will be above that, so.

**Chris Carey**

Okay. Okay.

**Brian Athaide**

So it’s below—it’s below Whistler, but I mean, we’re coming in with significant scale.

**Chris Carey**

Yeah. And then I suppose I’m conscious that a lot of these large greenhouses have had challenges cultivating at scale, right? And so I just—I wonder how you’re thinking about the risk there? If you’ve learned from others’ mistakes? And how much, on a conservative basis (phon)—

**Brian Athaide**

So 100 percent—so I mean, for sure, we’ve had a lot of learnings, and that’s the advantage of kind of second-mover advantage, I would call it, in this industry, because there has been so many learnings. We talked a lot about some of the things that we were doing back in our February/March release, when we included a lot of the redesign changes. We added capital to the budget to put in sufficient capacity around chilling and cooling, where we saw a lot of the other LPs had to cut down the number of plants because of humidity levels.

So we’ve learned from others, including some of the other organic producers and other big-scale producers. And we’ve put in the investment to make sure we can fully control the environments in each of our facilities. Not to say we won’t have additional learnings as they start up; I’m sure we will. But I don’t believe we’ll have anything that’s critical, based on the adjustments that we’ve made.

And frankly, if you look at a lot of the issues many of the other LPs have had, is not even on the growing; it’s in the processing it on time and at scale. And we’ve actually doubled—almost close to doubled the size of our processing facilities to capture those learnings. So we believe we’re in good shape, and we’re looking forward to proving that to the market as each of these facilities come online.

**Chris Carey**

Okay. That’s helpful. And not to belabour the point around your cash flow expectations for Q1 2020, right? There’s a large gap between negative 100 million and positive, and I fully appreciate that a lot of that has to do with CapEx. So I wonder if you can talk about maybe operating cash flow assumptions in Q1? And where you expect CapEx to go?

And then if I could just add one additional element, right. There’s been a lot of talk about various strategies, whether in Europe or elsewhere, on the call. And I just wonder how much you’re allocating to Canadian operations? And how much you might need to capitalize on some of these other opportunities? Or do you see those as very long term, and those would have to be funded by organic cash flow? Thank you.

**Sean Bovingdon**

So as I said, the 100 million through the balance of the year, or 120 million through the balance of the year, and the capital is—with the cash on hand and the banks that have been mentioned earlier, we’ll cover off the building of the Hamilton and the first phase of Valleyfield. That gives, as I said, about 6,000 kilos is all we need in Q1 to be sold, and we expect to be comfortably above that, to break even.

As the cash flow is being generated through next year, based on our growth plans next year, and I think the—yourself and the other analysts’ kind of consensus is in that kind of 250 million to 300 million in revenue next year, based on those goal plans. That generates sufficient cash flow from operations for that to allow us to move into Phase 2 of the—Phase 1b, the second floor greenhouse in Valleyfield, which will cost about $40 million to complete. And there’s sufficient cash flow, operating cash flow generated, as I said, from that revenue in 2020 to be able to cover that.

When we look into internationally, we’ve taken a capital-light approach to all our international operations. We’re partners, as I said, with Knud Jepsen in Denmark. We’ve got partners in Mexico and distribution partners in Germany, and there’s not a lot of capital required in terms of doing that, so the investment there is really from a working capital perspective.

The total for the whole year, next year, really at this point is on the 10 million to $20 million range. And those revenue numbers we’ve talked about before don’t really incorporate much expansion or revenue generated from that working capital investment. So we’ll do it on a staged basis, very carefully monitoring the level of investment on a working capital basis in line with how the market grows and the regulations relax across European markets, to allow us to start to provide product into those.

Brian, you wanted to add something to that?

**Sean Bovingdon**

Yeah. I’m going to say (unintelligible) from Mexico, it’s really a sales and distribution partnership. We’ll be importing into Mexico from Canada, from Poland, from Jamaica, and it’s not a big—it’s just a capital-light model.

**Chris Carey**

Okay. Thanks.

**Operator**

Thank you. Your next question is from Evan Veryard from Capital 10X. Evan, please go ahead.

**Evan Veryard** — Capital 10X

Hey, guys. Solid quarter preparation there—great job. Looks like second half of the year is going to be pretty good. Most of my questions have been handled at this point. So I guess, I’m just wondering if you could provide a bit of colouring on how HemPoland’s progressing? And especially in respect to the performance-based goals that were laid out originally back a couple of quarters ago?

**Brian Athaide**

Yeah. So those—and you’ll recall, there was an earn-out that’s part of the kind of contingent consideration that we had, which was a three-year goal. Right now, there still is a business plan to get there. It goes beyond kind of just whoever selling today. Every market in Europe is a little bit different in terms of rules and regulations. It’s not a single market that you would expect, even from a product standpoint, so. And we expect to be in the UK shortly, but the rules around the percentage THC that you can legally have is much lower than it is in Germany or Poland and other markets.

So we’ve had to do some reformulation, which we’ve done, but then that allows us to get into not just the UK, but several other markets. So I think what you’ll see in the coming months is us getting into more and more markets with a broader portfolio, which is allowing us to legally enter there. So if you look at those three-year outperformance targets, we still do have a plan to get there. It is very back loaded, but it’s not kind of outside of where we expected to be.

**Evan Veryard**

Okay. Excellent. Thank you. That’s all for me.

**Operator**

Thank you. As time allotted, we do have time for one more question, and that question is from Sid Rajeev from Fundamental Research Corp. Please go ahead.

**Sid Rajeev** — Fundamental Research Corp.

Gentlemen, congratulations on the progress. Brian, I think you mentioned that you are seeing a lot of opportunities for expansion. Are you looking at further acquisitions? And where exactly are you seeing opportunities, in terms of which sectors and geographically?

**Brian Athaide**

Yeah. So in terms of—we’re looking at a number of different opportunities that could include either acquisitions or partnerships. In terms of geographic, outside of Canada, we’re looking at Europe, where we see the fast pace of legalization, Latin America, especially Mexico, and the US on the CBD side. So that’s really our focus.

In terms of types of opportunities outside of Canada, less on the cultivation side, I would say. We’re doing that through partnerships or through offtake agreements. We’re focused on the higher value-add parts of the value chain, so more around the manufacturing and especially the branding, building a brand.

From a portfolio category standpoint, beyond dried flower and oils, we’re heavily focused on beverages, where we have the formulations that taste great and the technology to make sure it’s fast-acting, it’s got the right level of onset and offset, through the technologies licensed from Stillwater. And then beyond that, obviously, vapes and pre-rolled, capsules, all the rest of kind of core cannabis, I would say. And then edibles we’re looking at as well, but that comes after beverages from a priority standpoint.

**Sid Rajeev**

I appreciate it. Again, pleased to see the quarter. Thank you.

**Brian Athaide**

Thank you.

**Operator**

Thank you. Please proceed, Brian.

**Brian Athaide**

If there’s no more questions, then we’ll wrap it up here. If you have any kind of further questions, please reach out to Shane, Sean, or myself. Thank you, everyone.

**Operator**

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