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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to Village Farms International's Year-End 2017 Financial Results Conference Call. Earlier today, Village Farms issued a news release reporting its financial results for the year ending December 31, 2017. That news release, along with the company's financial statements, are available on SEDAR and on the company's website at villagefarms.com under the Investors heading.

Please note that today's call is being broadcast live over the Internet and will be archived for replay both by telephone and via the Internet beginning approximately 1 hour following completion of the call.

Details of how to access the replays are available in yesterday's news release. Before we begin, let me remind you that forward-looking statements may be made today, during or after the formal part of this conference call. Certain material assumptions are applied in providing these statements, many of which are beyond our control. These statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from those expressed or implied in forward-looking statements.

A summary of these underlying assumptions, risks and uncertainties is contained in our various securities filings, including Village Farms' current annual information form for the year ended December 31, 2017, and MD&A for the quarter ended December 31, 2017, and the press release issued by Village Farms and Emerald announcing the joint venture, all of which are available on SEDAR.

These forward-looking statements are made as of today's date. And except as required by applicable securities law, we undertake no obligation to publicly update or revise any such statements.

I would now like to turn the call over to Michael DeGiglio, Chief Executive Officer of Village Farms International. Please go ahead, Mr. DeGiglio.

Michael A. DeGiglio - *Village Farms International, Inc. - CEO, President & Director*

Thank you, Chantel. And thank you to everyone on the phone and listening on the Internet for joining us today. With me for today's call is Village Farms' Chief Financial Officer, Stephen Ruffini.

In terms of the agenda for today's call, I'll begin with an update on a significant progress that Pure Sunfarms, our joint venture for large-scale, high-quality, low-cost cannabis production, has made towards beginning commercial production. Steve will then do a brief review of our fourth quarter year-end financial results. I'll return for some concluding comments before Steve and I take your questions.

But before I begin, I would like to explain and to have your understanding for any inconvenience caused by the rescheduling of our year-end reporting conference call. We have historically the last 12 years on TSX, reported our year-end results in mid-March, as per our original schedule dates. However, we underestimated the amount of accounting paperwork involved in finalizing the year-end financial statements during the first

fiscal year of our cannabis joint venture, Pure Sunfarms and rolling up their numbers to Village Farms. While we are still within the regulatory deadline, in hindsight, we should have given ourselves a bit more time than our originally scheduled reporting dates.

Going forward, we will be reporting at or towards the end of each filing period to allow for sufficient time to consolidate those numbers at Village Farms. Any questions on that, I'd be happy to answer that in the Q&A.

So moving forward, let me begin today's call with an update on Pure Sunfarms. The last few months, we have continued to be very busy and very productive. We have accomplished a tremendous amount in a very short period of time.

It was only 16 months ago that Village Farms formally made the internal decision to leverage its existing broadscale greenhouse assets and 3 decades of low-cost operating expertise to pursue the transformational opportunity in cannabis production.

And to do so, through an accretive joint venture strategy providing the benefit of both capital efficiency and speed to market, we then embarked on an extensive search for the right partner and discussed the opportunity with numerous licensed producers in Canada. And within 6 months of beginning our search, chose Emerald Health and likewise, they accepted and chose us.

We publicly announced our entry into the cannabis industry last June and immediately began planning for conversion of the first 1.1 million square-foot greenhouse, the Delta 3 greenhouse, on the same footprint of a total of about 5 million square feet.

And with the benefit of our partner's regulatory experience, we began preparing our application for a cultivation license. We submitted our application in September of last year and immediately set work on the physical conversion of the facility.

Over the ensuing months, the Pure Sunfarms development team worked tirelessly on the conversion of the facility, such that in early February, the final submission was made to Health Canada for issuance of the cultivation license. Later, on March 2 of this year, Pure Sunfarms received notice that Health Canada had issued the cultivation license for the Delta 3 facility.

Conversion of Delta 3 is substantially complete in the first 250,000 square foot quadrant and as a result, we remain firmly on track to begin commercial development this quarter.

Since announcing our entry into the Canadian cannabis industry last June, Pure Sunfarms has consistently executed on every facet of this development and licensing plan, successfully achieving each of the milestones we set out for the company on the schedule we publicly communicated. It's a testament to the team's experience, know-how and discipline as well as their tireless effort. Moreover, I'm immensely proud of the considerable contribution that many experienced personnel throughout the Village Farms team have made to the Pure Sunfarms startup while continuing to drive the success of our incumbent produce business.

From day 1, Village Farms has pursued the significant opportunity in cannabis in Canada as a prudent, capital efficient manner, cognizant of our fiduciary responsibilities to our shareholders.

It's a manner in which we have always approached the governance of our produce business. The conversion of the Delta 3 facility embodies this approach, balancing optimal design with capital efficiency to maximize return on investment.

Village Farms has been at the leading edge of large-scale, high-technology greenhouse design for nearly 3 decades. We have designed, engineered, built and retrofitted greenhouses to -- to grow a long list of different agricultural products in some of the most challenging growing environments in various countries in the world. With the benefit of this knowledge and experience, the Pure Sunfarms development team paid meticulous attention to the growing environment and systems, processing area and production ramp-up with a particular focus on management of climate and contaminants, optimizing yield, maximizing efficiencies to achieve consistent, continuous, year-round production at the lowest cost of production.



Some of the key elements of the design, conversion and operation include growing systems with automation proven to provide optimal efficiencies, industry-leading HVAC systems, reflecting hundreds of aggregate years of climate management experience with technically advanced data systems, high-tech light deprivation and light supplementation systems with individual control over 17 growing zones within the 1.1 million square-foot footprint.

Fully automated 90,000 square foot nursery capable of supplying the Delta 3 facility as well as the 1.1 square-foot Delta 2 facility should the Pure Sunfarms exercise this option to purchase that facility. And finally, we made -- complete core upgrades to the facility infrastructure, including all new underground main heating pipes, main water systems and much more.

Importantly, the Delta 3 greenhouse has been configured for continuous weekly harvesting throughout the year, maximizing operational efficiencies and flexibility to adapt to a massive and evolving cannabis market. Our design will consist of 17 zones, half of them at 67,000 square feet and half at 33,000 square feet for maximum flexibility and strains. Each zone will harvest 5 times per year for a total of approximately 85 harvests per year on a continuous basis.

We now move into production with the benefit of Village Farms' long operating history specifically at the Delta 3 facility, including an established management team labor force improvement, proprietary labor-tracking systems. As a result, Pure Sunfarms saw our position to be a consistent and reliable supplier of quality cannabis and cannabis products to wholesalers, distributors, retailers across Canada and internationally.

I will also note that the Delta 3 facility is located in one of the best, if not the best, growing environments in all of Canada. An abundance of sunlight throughout the summer, a very low humidity temperature in the summer, not too cold in the winter, as you know, very little snow. Moreover, Village Farms brings with it the benefit of 2 decades of microclimate data at that specific facility. And as you all know, BC Grown speaks for itself, and that's the reason it is so well accepted is because of the growing climate there in Canada.

All of this positions Pure Sunfarms for successful production ramp-up and to achieve our goal to be the low-cost producer in Canada at an all-in cost, including depreciation, of under \$1. It's something that we believe will be essential to the long-term, maybe even short term, success in the Canadian cannabis industry as it will commoditize out at some point in time.

There's no other group in Canada with more experience and expertise managing labor and other production costs in large-scale growing operations than the Village Farms team now working at the Pure Sunfarms greenhouse.

Let me now quickly turn to our incumbent produce business sales for 2017. It increased 3% to USD 158.4 million. The result of higher revenues from our partner relationships and higher volumes of our own product. This was particularly offset by a decrease in the selling price of product from our own facilities. And EBITDA did decrease 17% as we continue to experience pricing pressure on the commoditized varieties as well as higher external costs.

In this continuing challenging environment, I'm pleased to report that we once again lowered our production cost per pound in all facilities. So it's the 7th in the last 8 quarters that we have achieved this. And this demonstrates one of the culture -- our culture of low-cost production that has become engrained in our produce business, and which we know will be integral to the success in the cannabis industry at Pure Sunfarms.

Diversification of the cannabis is a transformational opportunity for Village Farms, one that allows us to deploy existing greenhouse assets and dictates our proven operating capabilities to significantly more profitable agricultural product being in the regulated industry or not and deliver it remarkably greater long-term value for our shareholders. The conversion of Delta 3 facility, which represents approximately 10% of our total greenhouse-owned assets prior to the contribution to Pure Sunfarms, we generate more revenue from cannabis than Village Farms' entire produce business, even at conservative market pricing and yields significantly greater EBITDA margins in excess of 50%.

And as I'll discuss in a few minutes, Delta 3 is just the beginning of this opportunity. I'd like to now turn the call over to Steve to walk through the financial results in detail. Steve?

Stephen C. Ruffini - *Village Farms International, Inc. - CFO, Executive VP, Company Secretary & Director*

Thanks, Mike. In the interest of time, I'm going to confine my remarks to the key financial metrics for the relevant periods.

Our complete fourth quarter and full year 2017 financial results and discussions are available on our MD&A and financial statements, which are posted on our website and filed with SEDAR this morning.

I'm happy to go into more detail in the Q&A at the end of the call. Or if you want to call me after the conference call, that's fine as well. I'll remind you, all the numbers that we discuss today are in U.S. dollars unless otherwise stated.

Sales for the fourth quarter of 2017 were \$36.9 million, a decline of 1% from \$37.3 million in the fourth quarter of 2016. For the full year, sales increased 3% to \$158.4 million from \$155.5 million from the prior year in 2016.

Overall, the cost of sales for Q4 were essentially unchanged from the same period last year at \$31.9 million. Cost per pound at the Village Farms owned facilities in Q4, however, decreased 2% year-over-year, making it our seventh quarter of improvement in the last 8, as Mike has mentioned.

Cost of sales for the full year increased 3% to \$144.4 million from \$140.8 million in 2016 with cost per pound at our own facilities decreasing 1% year-on-year. Selling, general and administrative expenses for Q4 increased by 4% to \$4 million from \$38.2 million for the full -- for the full year, increased 3% to \$13.9 million from \$13.5 million, so \$400,000 increase.

We reported a net loss for the fourth quarter of 2017 of \$600,000 or a loss of \$0.02 per share, which compares to a net income of \$500,000 or \$0.01 per share in the same period of last year.

For the full year, we reported net income of \$3.8 million or \$0.10 per share compared to a net loss in 2016 of \$2 million or \$0.05 a share. EBITDA for the fourth quarter was \$2.6 million compared to 35. -- \$3.5 million in the fourth quarter of 2016, while EBITDA for the full year was \$7.4 million compared to the 2016 figure of \$9.4 million.

Turning to the balance sheet. Long-term debt at the end of 2017 was \$38.6 million, down from \$45.5 million at the end of 2016. During the fourth quarter, the company completed a bought-deal equity offering of 2.5 million shares at a price of CAD 5.40. Gross -- resulting in gross proceeds of \$13.5 million. We used USD 4 million of the net proceeds to pay down part of our long-term debt with Farm Credit of Canada, which allowed us to remove the Delta 2 facility from the existing collateral package.

It is a requirement under the joint venture agreement that Pure Sunfarms, if it were to exercise its option to Delta 2 greenhouse that the greenhouse be contributed to Pure Sunfarms on an unencumbered basis, hence, we're just getting ourselves in the position to be able to do that last year, if that were to occur in 2018.

That concludes my remarks. Now I'll turn the call back over to Mike.

Michael A. DeGiglio - *Village Farms International, Inc. - CEO, President & Director*

Thanks, Steve. 2018 promises to continue to be a busy and exciting time for Village Farms as our Pure Sunfarms cannabis joint venture continues to steadily progress towards becoming a leading, fully integrated supplier of dried cannabis and extracted cannabis products in the future in Canada.

Our mission is to set the standard for repeatedly delivering expected quantities and consistent quality with full regulatory compliance at a very competitive price, and we will do so at the low -- as a low-cost provider in the country.

Upon receipt of the cultivation license for Delta 3, Pure Sunfarms immediately brought in starter plants, initiated 2 test growth cycles required by Health Canada for our sales license, which we are doing concurrently.



In addition, in the next few weeks, we will finalize conversion of the entire first 250,000 square-foot quadrant of the 1.1 million square-foot Delta 3 facility. And we are making tremendous progress on the remaining 3 quadrants, looking to plant out the second 250,000 square feet around August of this year.

All of these firmly positions Pure Sunfarms to begin generating its first revenue and cash flows from the sale of cannabis as soon as this summer. Conversion of the remaining 1.1 million square feet of Delta 3 is underway, as I mentioned and on schedule. We'll continue to expect to achieve our conservative full production target of 75,000 kilograms or approximately 65 grams per square foot annually in 2020.

That said, throughout our long history, Village Farms has had a relentless focus on generating more production from our fixed cost base. We are always looking to improve our yields and lower our cost on a per-square-meter, per-square-foot basis.

With the conversion of the first quadrant, Delta 3 greenhouse almost complete, Village Farms has modeled and proposed a strategy to Pure Sunfarms has been accepted that will significantly and accretively accelerate production ramp-up plan for Delta 3.

A major limiting factor is the speed of the production ramp-up of Delta 3. It's always been on the availability of adequate electrical power to supplement lighting during the winter without having to purchase cogeneration.

So we, as discussed in our last call, we have secured 48 megawatts from the local utility, enough to power Delta 3 and even Delta 2, should it ever come to fruition and should Pure Sunfarms exercise the option on Delta 2.

The power of Delta 3, however, won't be available until mid-2019, and we don't actually need supplemental lighting in the summer period. So that will go fully operational by the fourth quarter -- third quarter rather of 2019.

So our acceleration strategy of course involves renting, temporary renting generation equipment through the winter months at the end of this year 2018 and the beginning of 2019 to power supplemental lighting systems we've installed. Successful execution of this plan is expected to increase Pure Sunfarms' production target for 2019 up to 30% over the current 2019 target of 35,000 to 40,000 kilograms, which we previously stated.

Under the joint venture agreement, receipt of the cultivation license for Delta 3 now allows Pure Sunfarms to, at any time, exercise the option on either the 1.1 million square-foot Delta 2 or 2.6 million square-foot of Delta 1 facilities. As Steve discussed earlier, a portion of the proceeds of December capital raise we used to pay down the term loan, which enable us to remove Delta 2 facility as collateral on that loan. Such that it's free of any incumbent, which apparently is and can be contributed.

The terms for each are similar to those with Delta 3, such that Village Farms contributed facility to the joint venture in kind and our partner would be required to contribute cash. We can plan a substantial portion of the conversion of neither facility for cannabis production. I want to be clear that the planned acceleration of the production and ramp-up at Delta 3 does not impact any move to move forward at some time on the Delta 2 facility. That decision has not been made at this point. And it is fully planted out with currently tomatoes in that facility.

In addition, of Delta 2 -- the addition of Delta 2 will double Pure Sunfarms' annual output production to a conservative 150,000 kilograms annually. And the addition of Delta 1 will double again to 300,000. It will not only make Pure Sunfarms one of the largest cannabis producers in Canada but the combined facility will be by far the largest single site cannabis production operation in existence and benefit from the unique economies of scale that's such a massive operation on one footprint would yield.

Since entering the cannabis space in Canada, there's been no shortage of interest in Pure Sunfarms' anticipated output in 2018. With the cultivation license, we are now actively engaging discussions around our supply agreements for the initial production.

That said, we will be prudent in our order to maximize the return on our investment. Looking out further in 2018, Pure Sunfarms clearly intends to be a fully integrated supplier and the joint venture has potentially held back making definitive decisions in this regard as the Canadian regulatory



landscape continues to develop, but that will accelerate this year. In fact, Pure Sunfarms has now begun a search for a President and CEO to oversee the build-out of product development and marketing distribution strategies.

With that, I'd like to open up the call to any questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Francesco Pellegrino with Sidoti & Company.

Francesco Pellegrino - Sidoti & Company, LLC - Research Analyst

So just a quick question about a comment you made on closing it out about no management team in place at Pure Sunfarms -- the JV. What impact does this necessarily have on the decision to contribute Delta 2? Are you going to be waiting for a management team to be in place to make that decision? Or are there ongoing discussions right now in regard to maybe expediting that process?

Michael A. DeGiglio - Village Farms International, Inc. - CEO, President & Director

Well, I can't reflect that there's ongoing discussions on Delta 2, but I can say that the management team of product development and CEO, I mean we're operating as an executive management team now, both Emerald and Village Farms in steering Pure Sunfarms. So bringing in that team now is, as I mentioned, looking at the landscape, as far as distribution and how it will be distributed, we're pretty solid where that's going, so we are recruiting for those senior positions. But all the other positions at Delta 1 from an operational -- I mean Delta 3, from an operation perspective, and the same would be true for Delta 2 from an operational perspective, are there and in place, including the whole finance team and human resources team. So that would not be an impact. Hiring those folks would have no -- that's not the reason for not triggering Delta 2. Just as a reminder, Delta 2 or Delta 1, as far as that being optioned that wasn't even possible until about just over 3 weeks ago because it really was after Delta 3 got its license. So it's just been in the last few weeks that the possibility even came available. So we don't look at it as it we are procrastinating and the schedule for any of these conversions, we know what that schedule would be in ending an existing crop and converting it over to Pure Sunfarms into cannabis.

Francesco Pellegrino - Sidoti & Company, LLC - Research Analyst

Got it. The 2019 increase for production that you guys put in your press release, what's the marginal cost of this increase in -- and I assume it's all yield as compared to revision to estimates or timing, is that correct?

Stephen C. Ruffini - Village Farms International, Inc. - CFO, Executive VP, Company Secretary & Director

Yes, it's all yield output. So of course, there are -- it's -- like all agricultural crops, it's a variable cost business. So I mean it's a fixed cost business to a high degree in that, in this case, you're not utilizing more fertilizer, more strain if you're just increasing the output to do so. It's providing supplemental lighting is the major input. So there's no capital costs associated with that, but there is operating cost because we would be generating supplemental lighting and really electricity is the main cost that would come into bear, increasing that yield. But most of the other cost with the exception of additional labor because you have additional production, those variable components are the smaller percentage of the increase in cost.



Francesco Pellegrino - *Sidoti & Company, LLC - Research Analyst*

And the increase in your yield assumption, this would be margin accretive, right? After considering the increase for the rental equipment, the increase in more workers, we would see a margin uplift hopefully, right?

Michael A. DeGiglio - *Village Farms International, Inc. - CEO, President & Director*

Yes, absolutely. I mean, again, it goes back to always looking -- when you look at even building new or even converting -- but how can you always maximize your output, either by cutting costs -- because again on a fixed cost business, if you cut your cost \$0.01, it goes to the bottom line. If you increase your production, 1 gram, it goes to the bottom line. Because the variable costs are so small so it's very accretive in this case because all other costs are fixed. We're just increasing certain costs tied to that increasing yield. So it's very accretive.

Francesco Pellegrino - *Sidoti & Company, LLC - Research Analyst*

And just a question about the tax treatment for the greenhouse contributions to the partnership. Are these items -- because you're contributing depreciated assets, are they triggering type of taxable gain? Or are you able to utilize some sort of like a Section 1031 or something to protect any gain in regards to I think Delta 3 -- the Delta 3 contribution triggered a step-up in fair market value. I was just wondering what the treatment has been -- what this treatment could be for Delta 2 and Delta 1?

Michael A. DeGiglio - *Village Farms International, Inc. - CEO, President & Director*

Steve, you want to answer that?

Stephen C. Ruffini - *Village Farms International, Inc. - CFO, Executive VP, Company Secretary & Director*

Yes. The treatments for book and tax will be very similar with respect to Delta 2 and Delta 1, if and when those options are exercised, so we'll just leave it at that for now.

Francesco Pellegrino - *Sidoti & Company, LLC - Research Analyst*

Got it. And just my last question for you guys is, you guys have done a really great job of sort of not diluting out shareholder value. Obviously, there was that equity raise you guys did that decollateralized Delta 2. Obviously, there was probably an amount that needs to be de-collateralized for Delta 1 as well. A year, 2 years from now, just looking at a really strong balance sheet, what would be the priorities for cash? Is there the ability to move downstream just given how much volume you guys are going to be of cannabis? May be have large-scale oil extraction capabilities? I just see a company with a really strong balance sheet and potentially flush with cash. And I was just wondering what those priorities would be. I'll jump back in queue, though.

Michael A. DeGiglio - *Village Farms International, Inc. - CEO, President & Director*

Well, yes. I mean, we're clearly -- extraction is clearly on our radar screen sooner rather than later. So we're moving forward in that direction, and I think our approach has always been we don't take dilution of -- our shareholders very lightly. So again, way -- the conversions of the other 2 facility, if and when they happen, are based on a significant contribution from our partner and will help in, as I mentioned, that would go a long way to pay for those conversions and that is sort of fungible those funds because part of it going into the post-harvest or extraction equipment is all part of it. We have great relationships with banks that we've had for many, many years, and we expect to continue looking at bringing in bank debt, where it makes sense, over raising equity and those discussions are currently ongoing right now as well. So I hope that answers the question.



Operator

Your next question comes from Vahan Ajamian with Beacon Securities.

Vahan Ajamian - *Beacon Securities Limited, Research Division - Research Analyst*

Just a couple of questions on my end. You're so confident that you'll be able to get your sales license in and around the July time frame now the plants are in?

Michael A. DeGiglio - *Village Farms International, Inc. - CEO, President & Director*

Well, I think, Health Canada, they -- it -- we've looked -- there has -- if you look at last years, I mean, there's been about 45 cultivation licenses issued in '17 and not too many sales license this year. I think most to second sales license for existing LPs. Some of the LPs, where we fit in but some of the other LPs that are new, it's -- it takes time. So we remain fairly confident by the end of the summer, we'll be there, but it's more -- a chunk of that is more not in our control, so -- but that's -- we feel confident at this point. But yes, I guess we could always try, Vahan.

Vahan Ajamian - *Beacon Securities Limited, Research Division - Research Analyst*

Okay. And you mentioned, preliminary discussions regarding offtake agreements for their production that's going to be coming. Any color you can give? Are the interested parties more licensed producers? Are they more in-store restate retailers, like the governments in Ontario and Québec? Are they more kind of private sector retailers out west? How many people have expressed interest? Can you give any color like that?

Michael A. DeGiglio - *Village Farms International, Inc. - CEO, President & Director*

I'd rather not give too much color on that. I can only say that we've had many conversations, and we feel we're in a good spot. We looking at that again, even if initially, a lot of -- or consistent amount of our product goes, let's just call it on a wholesale level, where the market is and the needs today and the pricing today is very strong, and I would be very, very positive for us. Again, the philosophy is to do everything we have to do now to be the low-cost producer down the road, and then could fill in products as the market moves more to edibles and other types of grains and stuff that we can move into that. We can look at possible acquisitions. We can do branding at some point in time. So we feel that as long as we get the low-cost right and solidify our longevity and sustainability long term. But specifically, we're in discussions across a lot of different peers, and I would limit it to that answer at this point.

Vahan Ajamian - *Beacon Securities Limited, Research Division - Research Analyst*

Got you. And they tend to be more in a spot basis or people looking sort of multiyear commitments?

Michael A. DeGiglio - *Village Farms International, Inc. - CEO, President & Director*

I think it goes both ways where we think it's beneficial for us but at the same time, we're not -- I don't think we're necessarily interested in very short-term spot type of arrangements. But on the other hand, we still want to reserve enough capacity to continue our product development going forward. So I think we'd probably look in the realm of 2-year-type of arrangements going down the road. I mean, a lot of things can change. We look at the industry every day, and I mean when we cut through it, it's really a question of execution by all the other LPs and meeting capacity so you can talk about -- I mean, as you know, this weekend, there was a lot of flow on people's belief stemming from there won't be enough capacity to there will be too much capacity. But at the end of the day, it really is the execution issue of any of these companies, can they scale up, can they deliver what they are going to say? So from a timing situation, we want to remain very flexible as we see how the market develops.

Vahan Ajamian - *Beacon Securities Limited, Research Division - Research Analyst*

Got you. Okay. And regarding a potential decision on D2, is this sort of a binary event? Is there a date where you will be able to announce -- we've made a decision or are you just -- we'll know when we know. And any kind of color you can give on timing and what we should expect?

Michael A. DeGiglio - *Village Farms International, Inc. - CEO, President & Director*

Well, I can answer this way that from a strategic perspective, we're looking long -- we're looking down the road, 2, 3 years. So based on strategy, I think we already know what needs to be done, when it will be done, how it will be done, especially with completing now Delta 3 and constantly looking at the regulatory changes from Health Canada. So it's not like it's not being designed, worked on and that both from a strategic side, operational side as well as the capital cost and conversion and of course, the timing. So if those decisions are made, they will be made, with already the work being done moving forward. Not like Delta 3, we scrambled pretty quick to get that going once we kicked it off, but here we would be in a, I think, a much stronger position then. Of course, things like securing an additional 24 megawatts are very important too and that's been done. But we just aren't in the position on this call or neither one of us, us and our partner, today to talk about if and when specifically.

Vahan Ajamian - *Beacon Securities Limited, Research Division - Research Analyst*

And in terms of staffing and management of the JV, you're out there, you said you were looking to have a President and a CEO that they're recruiting. Any sense of timing? Are there any leading candidates already identified or...

Michael A. DeGiglio - *Village Farms International, Inc. - CEO, President & Director*

It's a work in progress right now, as we speak. We're not procrastinating, so what we -- we communicated that we very clearly last year that we would start that process once we received our cultivation license and once we were very confident that the legalization of the recreational market would come to fruition. And those events have just taken place very recently or at least the second one that we believe are much more confident it'll happen, so that is in progress right now. And we formulated the type of individuals that cannabis we're looking for and we're pursuing that, as we speak. So we said that, that would all come to play this year in '18 because our production is still fairly low for '18, as you know, and this enhancement we're doing, again, will impact '19 much stronger. So we think we're perfectly timed. The way we look at it, well, we're perfectly timed to start that process now and it is in work.

Vahan Ajamian - *Beacon Securities Limited, Research Division - Research Analyst*

Perfect. Okay. And final one for me regarding the cost of the acceleration. I guess you were saying the electricity, labor, those are all kind of variable costs. I would imagine the only real fixed cost would be the equipment rental. Any sense of how much that might run or...

Michael A. DeGiglio - *Village Farms International, Inc. - CEO, President & Director*

Well, we've modeled all that out, Steve. I mean, do you want to give some insight on that? But it is -- it's just -- we're not purchasing anything. It's just rental and it's many units on the market worldwide. They're built up on pallets and they ship it in containers. So it's sort of a plug-and-play deal for a period of about 5, 6 months. But from a cost perspective, as we said early, it's accretive. I mean, do you want to share some light on that, Steve?

Stephen C. Ruffini - *Village Farms International, Inc. - CFO, Executive VP, Company Secretary & Director*

Well, it wouldn't be in our best commercial interests to share that. So we're in discussions with some suppliers that do supply cogen on a short-term basis. These cogens are essentially in shipping containers and shipped around the world for temporary use. So we're in discussions.



Operator

Your next question comes from the line of Andrew Semple with Echelon Wealth Partners.

Andrew Semple

Congratulations on receiving your cultivation license, a big win for the business. My first question is on the starting material of the Delta 3 facility, specifically how much starting materials are in there? How many square feet do you initially plan to plant in the first quadrant? Any color on the ramp-up there would be appreciated.

Michael A. DeGiglio - *Village Farms International, Inc. - CEO, President & Director*

Well, we have an array of strains, I think, for our initial test for Health Canada we're at 5 or so, and we're working on a lot of different strategies on those particular strains. But as far as the 250,000 first quadrant, we are going through next phase of approvals with Health Canada, but we believe that we will have that entire quadrant planted out. It's a ramp-up plan, planting out that's occurring from this month, April, with the whole 250,000 planned to be in full production by the end of May. And then we're substantially down the road on quadrant #2, and we're planning to buy, have that 250,000, if all goes well with our approvals, of course, with Health Canada to have that planted out in the August, September time frame, which will bring us up to 500,000 square feet. So that just a little flavor on the next 3 or 4 months down the road.

Andrew Semple

And it's typically 3 to 4 months later, we can start seeing the first yields from these planted plants, is that correct?

Michael A. DeGiglio - *Village Farms International, Inc. - CEO, President & Director*

Yes.

Andrew Semple

So that would be contribution from the second quadrant kind of the end of the year and the first quadrant kind of mid-July, mid-July-ish?

Michael A. DeGiglio - *Village Farms International, Inc. - CEO, President & Director*

Yes, and allowing about a month in postharvest drawing from point of harvest. So again, waiting to see when the actual -- besides our sales license, when will in fact legalization commence, would that be July or August or September, yes. So...

Andrew Semple

Okay. Just on the cogeneration, could you walk us through maybe some timing on when you expect these to be installed? Would there be a downtime installing them and finally...

Michael A. DeGiglio - *Village Farms International, Inc. - CEO, President & Director*

We're not cogenerating, we're just generating electricity. So we won't be extracting any CO2 off the system. So just pure generation, looking up to install half of them at the end of August, the other half in September and be operational at that point. We're generating supplemental lighting



and then run that to about March of next year. Then, of course, we go into abundant light, so now we're shading those rentals. We'll be gone and then by the fall, we'll be operating on our own internal capacity off of BC Hydro.

Andrew Semple

Okay. Great. And just finally on the transition from your Mexican supplier partner, what was the reason for the change there? And when can we expect to see volumes get back to more normal levels?

Michael A. DeGiglio - *Village Farms International, Inc. - CEO, President & Director*

On the produce side?

Andrew Semple

Yes.

Michael A. DeGiglio - *Village Farms International, Inc. - CEO, President & Director*

Yes, so we basically in the -- ever since we started operating with partners in Mexico in '94, '95, and we actually are on our third partner, which actually isn't unusual in Mexico. I mean, we didn't own any assets in Village Farms, we never took an approach of investing equity in Mexico. Depending on after talks, which I don't necessarily think are going to impact horticulture favorably for Canada and the U.S., and looking at Mexico, at some point, we are now looking at Mexico in a different light. We may do -- we may be much more involved there in the future than we were in the past. However, our current partner is a very, very large multinational company. We feel very secure with who they are in building brand-new additional capacity going forward. And that was a big part of our change. It's an exclusive arrangement between Village Farms and them, and we are working on additional capacity, not just this year, but next year going forward. And as we convert or plan to convert more assets in Canada to cannabis, we're actually just much more focused on production in the U.S. and Mexico. First of all, remember, I had said previously that 50% to 60% of all greenhouse-grown vegetables in Canada are exported to the U.S. and nearly 100% from Mexico to the U.S. So the U.S. is the market. We would clearly look at developing additional assets in the U.S. very close or adjacent to the markets we service. The problem today is the immigration policies and the ability to get labor in the U.S. that's also productive. So I don't think that's on the cards anytime soon, just as we would never develop or put new equity into the capacity in Canada any longer for vegetables. And that's assuming that NAFTA stays or at some point it goes. So I think at some point, that's why we're looking more supply agreements in Mexico to make up the difference of supply in Canada going forward. And I'll just finish -- there's always a possibility for us looking at assets in Canada, assets to be acquired as opposed to build. That's -- my point was building new greenhouses but not being in the cards, but possible acquisitions could be.

Operator

There are no further questions at this time. I will now turn the call back over to Michael DeGiglio.

Michael A. DeGiglio - *Village Farms International, Inc. - CEO, President & Director*

Okay. On behalf of Steve and myself, the rest of Pure Sunfarms team, thank you all for participating today, and we look forward to further reporting after the first quarter in May. Thank you. Bye.

Operator

This concludes today's conference call. You may now disconnect.



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