

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

APH.V - Q3 2018 Aphria Inc Earnings Call

EVENT DATE/TIME: APRIL 16, 2018 / 1:00PM GMT



CORPORATE PARTICIPANTS

Carl A. Merton *Aphria Inc. - CFO*

Victor Neufeld *Aphria Inc. - Chair of the Board of Directors, CEO & President*

CONFERENCE CALL PARTICIPANTS

Alan Brochstein

Jesse Pytlak *Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research*

Keith Carpenter *AltaCorp Capital Inc., Research Division - MD of Institutional Equity Research*

Martin Landry *GMP Securities L.P., Research Division - MD Equity Research & Equity Research Analyst*

Neal Gilmer *Haywood Securities Inc., Research Division - Research Analyst of Special Situations*

Nick Warner *Canaccord Genuity Limited, Research Division - Associate*

Noel John Atkinson *Clarus Securities Inc., Research Division - VP & Research Analyst of Growth and Innovation*

PRESENTATION

Operator

Good morning. My name is Kim, and I will be your conference operator today. At this time I would like to welcome everyone to the Aphria Inc. Q3 Quarterly Investor's Call.

(Operator Instructions)

Mr. Carl Merton, Chief Financial Officer of Aphria, you may begin your conference.

Carl A. Merton - *Aphria Inc. - CFO*

Thank you. Good morning, everyone. Thank you for joining us to discuss our Q3 financial results. With me on the call is Vic Neufeld, Chief Executive Officer of Aphria.

I trust that you've all had the opportunity to read our press release on our Q3 financial results. Today's call is intended to give you more color about the results and to answer any questions that you may have in the 45 minutes allotted for this analyst call.

Before we get started, I'm required to read the following cautionary statements.

In talking about our financial and operating performance and in responding to your questions, we may make forward-looking statements, including statements concerning Aphria's objectives, its strategy to achieve those results as well as statements with respect to management's beliefs, plans, estimates, intentions and similar statements concerning anticipated future results, circumstances, performances or expectations that are not historical facts. These statements are based on our current estimates and assumptions and are subject to risks and uncertainties that could cause our actual results to differ materially from the conclusion in these forward-looking statements.

The forward-looking statements in this discussion speak only as of today's date, and we undertake no obligation to update or revise any of these statements.

Now I would like to turn the call over to Vic Neufeld, Chief Executive Officer of Aphria.



Victor Neufeld - *Aphria Inc. - Chair of the Board of Directors, CEO & President*

Thank you, Carl, and good morning to all the participants on the call this morning.

As evidenced in our quarterly release, Aphria continues to hit on all cylinders. Steady revenue growth while at the same time beginning the inventory management to service the opening of the recreational market. Cash cost once again reflects industry-leading metrics at \$0.96 per gram, and this solid cost metric is without impact of IFRS. EBITDA has stellar growth, delivering our 10th consecutive quarter of positive EBITDA. Significant investments in our marketing efforts in bringing our recreational brands to market. We will be unveiling our recreational brands later this week and begin certain preceding activities. Our Aphria innovation center continues to advance various new product introductions once regulatory approvals. But what I really want to convey is the confidence management has in delivering quality products at affordable prices, supporting both our strong medical platform growth and our expectations of servicing all provincially regulated recreational retail outlets. While many provincial conversations are still under a form of embargo, we're most excited with the traction that both our product offerings and related suggested selling prices have received.

As the media has been communicating, I agree that depending when the opening bell rings for recreational, there could be the possibility of shortages. Aphria has been keeping a focused approach on building up inventories of those strains that have been accepted by certain provinces and a healthy balance between dried flower and oils.

In terms of the international landscape, we've almost completed the commercial integration of the international assets relating to our Nuuvera acquisition, and we remain very excited about the progress made before and subsequent to our acquisition.

While all LPs were forced to push the pause button relating to Germany, we continued to move forward with our plans of our complete vertically integrated business model in Germany. GMP compliancy under EU standards is now scheduled for the end of April for both our Aphria One greenhouse campus and our Avanti laboratory site. This is the most important advancement of our quality story and will advance our international commerce significantly.

As previously disclosed, our completed and Health Canada-approved Part III greenhouse will generate its first harvest in a few weeks, supporting the demands we need to supply both medical and current recreational expectations. Part IV expansion at Aphria One and the retrofit project of Aphria Diamond is currently tracking on time and on budget with an expected completion date in September of this year, at which time we will submit a request for Health Canada inspection.

Based on these timelines, the entire Aphria greenhouse campuses, together with Broken Coast, will produce on a monthly basis almost 20,000 kilos with salable product shipping in January of 2019.

In conclusion, another quarterly performance that reflects management's focus on short-term objectives, while at the same time prudently and strategically planning for our longer-term objectives.

I would now ask Carl Merton to discuss the Q3 operating results.

Carl A. Merton - *Aphria Inc. - CFO*

Thank you, Vic. I'll spend a few minutes on our Q3 results as well as provide early indicators on future endeavors.

Q3 was highlighted by multiple important key performance indicators. Our continued revenue growth out at 9,000-kilo capacity level, the return of all-in cost and cash costs to previous quarters' levels and an industry-leading 10th consecutive quarter of positive adjusted EBITDA.

We experienced a 20% increase in sales from the prior quarter, growing to \$10.3 million from \$8.5 million. This includes \$1.1 million of sales from Broken Coast during the month of February, the first month of our ownership. Next quarter will represent the first full quarter of Broken Coast

results in our financial reporting. Broken Coast sales included one wholesale order of trim priced at \$2.50 a gram. Without the wholesale order, Broken Coast average retail selling price was \$7.25 per gram compared to Aphria One's average retail selling price of \$8.30 per gram. The lower average retail selling price per gram for Broken Coast was driven by a disproportionate level of flower sales versus oil sales. This disproportionate level was tied to both product availability and a focus on oil products.

Over the long term, we are working on increasing the \$7.25 per gram metric through product mix changes at Broken Coast and continued focus on the development and acceptance by their patients of their oil offering.

On the cost side, as previously reported and commented on, we viewed the prior quarter's increased cost per gram metrics as temporary and a function of our speed-to-market decision in Q1. We are pleased to report that the current quarter's results demonstrate that the increased costs were temporary as our all-in cost per gram amounts were below Q1 figures, coming in at \$1.56.

Further, our cash cost per gram metric returned to Q1 levels, finishing at \$0.96 per gram. These improvements were driven by better aging of vegetative plants entering the flowering spaces in the greenhouse and operational efficiencies to offset the recent minimum wage increases in the province of Ontario.

Going forward, we expect continued improvement on these metrics as Q4 will include increased production levels from our recently announced amendment to our Health Canada license approving our Part III expansion, offset slightly by higher employment levels to manage the additional space.

With this expansion, we increased our growing capacity from 9,000 kilos a year to 30,000 kilos a year. We expect the 200,000 square-foot Part III greenhouse to be in full crop rotation by the end of next week and our first harvest will occur the week after.

Shifting into Q1 of 2019, which we will report in early October, we anticipate a slight increase in the cost per gram metrics as we add additional labor for the 700,000 square-foot Part IV greenhouse. This increase will be offset the following quarter once Part IV's expansion is Health Canada approved. The improvement in our cost per gram metrics also resulted in our adjusted gross margin increasing to 77.1% in the quarter.

As we move closer to the starting date of the legalization of adult use, we are announcing the change in our 2-prong sales strategy. We've already started moving away from LP to LP-wholesale sales in order to build our inventory. This inventory build will then be deployed in Canada as part of the pipeline fill for adult use, ensuring we have sufficient quantities of product available to attain maximum shelf space in retail stores on day 1, and for international opportunities to take advantage of higher pricing and margin opportunities.

To that end, we continued to move forward with our plans to secure multiple international sites with full EU-compliant GMP status for cannabis for all steps in the process of cultivation, processing, testing, and packaging.

We expect to have announcements over the next 3 months for full EU-compliant GMP status at Aphria One and at ASG Pharma in Malta. Shortly thereafter, we expect to announce full EU-compliant GMP status at Avanti and at Verve's laboratory in Lesotho, our offtake partner.

Once those full EU-compliant GMP statuses are achieved, international sales will become a larger portion of our overall sales mix.

In the current quarter, our nonoperating items continued to drive significant amounts of income. This quarter, nonoperating items generated over \$21 million of net income before tax. The majority of this amount related to the first sale of our non-escrowed Liberty Health Sciences shares announced in early February, net of a derivative liability of almost \$17 million, reflecting the agreed-upon selling price of escrow shares being subject to an 18% reduction from their 10-day VWAP when sold.

This amount also includes the mark-to-market adjustment on our Copperstate Farms shares down to the transaction price with Liberty Health Sciences and a \$4 million provision for transaction costs associated with our purchase of Broken Coast in the quarter and our purchase of Nuuvera, which closed subsequent to quarter end.



For the quarter, we reported \$12.9 million of net income. On a per share basis, we reported basic and fully diluted earnings per share of \$0.08. On an EBITDA basis, for the 10th consecutive quarter, we reported positive adjusted EBITDA. This quarter's adjusted EBITDA was over 80% higher than the previous quarter at \$2.9 million. We closed the quarter with almost \$174 million of cash and marketable securities. While a portion of these funds are dedicated to our Part III and Part IV expansion projects at Aphria One, the acquisition of Nuuvera, the retrofit at Aphria Diamond and the necessary working capital to support harvest yields of 225,000 kilos a year, a significant portion remains available for strategic investments in both Canada and internationally.

As part of the Nuuvera acquisition, we assumed a significant amount of deal flow that we will continue to execute on. In that vein, we note that Lorne Abony and his team from Aphria International are gathering in Leamington this week for yet another round of international strategic planning. Stay tuned for more international investments and announcements.

Finally, we continued to move -- to mark forward on the expansion project for Part IV, including the soon-to-be-announced Part V project associated with the additional land we purchased on our eastern boundary at Aphria One announced in our last -- announced in our MD&A last quarter, along with the retrofit project at Aphria Diamond.

As mentioned in our MD&A, Broken Coast Phase III expansion project is complete and awaiting Health Canada approval, while we've adjusted the expected timing for our Broken Coast Phase IV expansion project, moving that timeline out to July 2019, with the possibility of further adjustments as we refine their original strategic expansion plan.

In conclusion, this quarter, we introduced additional production capabilities to our retail sales channels with the acquisition of Broken Coast. We revised our wholesale sales strategy to create additional shareholder value. We increased our international presence significantly with the acquisition of Nuuvera. We proved our prior quarter's cost per gram metric increases were temporary. We reported our 10th consecutive quarter of positive adjusted EBITDA and closed the quarter with over \$170 million of cash available for deployment domestically and internationally.

Vic and I will now answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your next question comes from the line of Noel Atkinson from Clarus Securities.

Noel John Atkinson - *Clarus Securities Inc., Research Division - VP & Research Analyst of Growth and Innovation*

Just in terms of the really strong cash cost per gram in the quarter, how was the weather relative to expectations? Was it in line with expectations? And then how has it been so far this quarter?

Carl A. Merton - *Aphria Inc. - CFO*

I mean, the weather typically in our Q3 is not as strong as it is in other quarters. We supplement that with our shoulder lightings. And as a result, we were able to bridge that reduced amount of light that enters the greenhouse in this period. It was not a repeat of the prior year with significantly poor weather results.

Victor Neufeld - *Aphria Inc. - Chair of the Board of Directors, CEO & President*

Yes, I think Q3, Noel, to your question, you obviously have learned from previous seasonal questions of this nature. Q3 is generally our weakest month -- or, a quarter in terms of using Mother Nature at her best. As Carl said, shoulder lighting, et cetera. So Q4 and Q1 of next year really start

to generate better or, I should say, higher yields per plants because of flower use of that sun. So we're fully expecting greater efficiencies from harvests in the Q that we're in and more importantly Q1.

Noel John Atkinson - *Clarus Securities Inc., Research Division - VP & Research Analyst of Growth and Innovation*

Okay, great. Did you have any export revenues in the quarter?

Victor Neufeld - *Aphria Inc. - Chair of the Board of Directors, CEO & President*

No.

Carl A. Merton - *Aphria Inc. - CFO*

No.

Noel John Atkinson - *Clarus Securities Inc., Research Division - VP & Research Analyst of Growth and Innovation*

Okay. And then could you give a bit of a discussion of the environment on the medical? I know everybody's talking about the rec opportunity. But what are you seeing on the medical side right now in terms of new patient demand, competitive environment, that sort of thing?

Victor Neufeld - *Aphria Inc. - Chair of the Board of Directors, CEO & President*

Yes. So we continue on a weekly basis to onboard tremendous numbers. The problem is, there's a stickiness of how long do they stay in the medical community. I think a lot of license producers are now experiencing what have been for quite a period of time where patients do move around, they do leave, et cetera. But from our perspective, our onboarding is absolutely stellar. And this is now without, and let me just address quickly pharmacy. This is without, for Aphria, the Shoppers Drug Mart opportunity coming to the table. I speak to them weekly, as recently as yesterday. And they're fully expecting to have some sort of positive traction in the not-too-distant future. They didn't want to comment on what week or what month. But I can tell you, they're moving the needle as fast as they possibly can. In fact, we should be in receipt of their first purchase order imminently because they want to start doing their in-house distribution center SOPs walking through the system. So the medical journey is still something that is very important to Aphria yesterday, today and tomorrow. Not sure what other LPs are contemplating or what their messaging is to The Street. But we will continue to advance the cause of medical. We have a number of research science clinicals underway. We're very supportive of certain other initiatives that all speak to the medical community. And we again are really trying to get the Department of Finance to remove the excise tax from a medically scripted cannabis patient. Very important. When you look at that \$1 per gram, it does add up to the patient, and we're really trying to demonstrate to Finance that this is very problematic. It's important to have a price difference on why the medical community continues to flourish for us.

Noel John Atkinson - *Clarus Securities Inc., Research Division - VP & Research Analyst of Growth and Innovation*

Okay, great. Just one more, and then I'll drop into the queue. Can you give us a sense of sort of what the remaining CapEx costs are for Aphria One and for Aphria Diamond?

Carl A. Merton - *Aphria Inc. - CFO*

So Aphria Diamond is, we have contributed almost \$40 million of the \$100 million between the equity contributed by the 2 parties and additional amounts that we have loaned into the venture for the retrofit. There is another approximately \$60 million on top of the \$40 million to get us to the \$100 million. At Aphria One, there is approximately \$45 million more to go.



Victor Neufeld - Aphria Inc. - Chair of the Board of Directors, CEO & President

Has been committed. Just hasn't been...

Carl A. Merton - Aphria Inc. - CFO

This is committed money that just has not been physically written as a check yet.

Victor Neufeld - Aphria Inc. - Chair of the Board of Directors, CEO & President

And Noel, both are on target timing and on budget, to answer your question in a different way. But let me just off road a bit here. As we all know, this space runs at 100 miles an hour. There are opportunities that avail themselves from time to time with very short fuse of timing. So as Aphria continues to look and reach out, a, for product innovation but also technology innovation, these opportunities have to be quickly evaluated and trying to best understand is this the direction of the Aphria model, most specifically in oil extraction and derivative products. So back to Aphria Diamond. What are the concepts right now, not the retrofit CapEx that Carl just spoke about is, but more importantly to the innovation center and the advancement of technology in certain areas where expectations of what forms of products will be over time allowed to enter the recreational space will give rise to us seeking and securing that sort of skill set, both technology and people, and perhaps "certain branding opportunities."

Operator

Your next question comes from the line of Martin Landry from GMP Securities.

Martin Landry - GMP Securities L.P., Research Division - MD Equity Research & Equity Research Analyst

Wondering with your Part III expansion this quarter, is there going to be some ramp-up period, which could impact your costs? Just trying to understand a little bit where your cost profile is going to go in Q4, just to make sure that we model properly.

Carl A. Merton - Aphria Inc. - CFO

So as I said during my portion of the discussion, we -- in Q4, we see the metric decreasing as a result of the additional capacity coming on being larger than the incremental costs that we're going to incur through that ramp-up. Once we move to Part IV though, there will be a ramp-up, moving from 200,000 to 700,000 -- well, sorry, really 300,000 square feet to 1 million square feet is a significant jump, and there will be at least a 2-quarter ramp-up in production and costs before they normalize.

Victor Neufeld - Aphria Inc. - Chair of the Board of Directors, CEO & President

Yes, Martin, it's Vic. Your question really relates to what happened in Q2 when Part II expansion came online. We learned from our endeavors and our expectations of Q2. We have that recalibrated. So Part III, once we started rolling in with the cuttings and vegetation, we actually had a jumpstart. So the learning experience from several months ago to now has brought forward, what Carl was saying, the expectation that we should still be in line with sub-\$1 cash cost per gram in this quarter.

Martin Landry - GMP Securities L.P., Research Division - MD Equity Research & Equity Research Analyst

Okay. That's helpful. And on your international sales, just to be clear as well, from what you were talking about getting your GMP certification or your EU certification, does it imply that there's going to be little to no international sales in Q4 and it's mostly going to be a fiscal '19 endeavor?



Victor Neufeld - Aphria Inc. - Chair of the Board of Directors, CEO & President

In terms of EU compliance, you're probably correct. It's probably Q1, given that the -- even though the Maltese Department of Health is here end of the month, it still takes time for processing, et cetera. However, there are other countries, most notably in Latin America, that do not require EU GMP compliancy. They're basing everything on our ACMPR standards. So there may -- I'd say, maybe some Q4 sales to certain countries that are not mandated to have us EU compliant.

Martin Landry - GMP Securities L.P., Research Division - MD Equity Research & Equity Research Analyst

Okay. And you also talked about being focused on the medical side of things, and you talked about potential new product developments. Is this something that we could see announcing because right now you have oils and dried. Are you looking to develop other products to tack on the medical market?

Victor Neufeld - Aphria Inc. - Chair of the Board of Directors, CEO & President

Absolutely. So our R&D on soft gels are going very effectively and very smoothly. We've already reached out to certain medical platforms that by July of this year we'll be in a position of salable soft gels using our 3 existing oils, only encapsulated. And we're also looking at sprays given that there seems to be some form of traction and consumer preference. So we will be exploring that. But that's all on the medical side. There is a lot of activity on the recreational side happening.

Operator

Your next question comes from Nick Warner from Canaccord.

Nick Warner - Canaccord Genuity Limited, Research Division - Associate

Pretty impressive cash costs and patient acquisition. I just wanted to quickly ask to pivot towards the recreational opportunities that are coming up. So you guys recently reiterated on your purchase orders of Québec, and recently we've seen Ontario starting to review locations for its stores. Are there any of these that you guys can share relating to the timing of purchase orders, when you expect them to come in, from the province of Ontario? Or anything further that you can see -- that you can discuss on the recreational side?

Victor Neufeld - Aphria Inc. - Chair of the Board of Directors, CEO & President

So the certain provincial regulators are such -- trying to remain as flexible as possible. No one knows when the opening bell is. I'm out there trying to convey a message that it will be fall, like October 1, which will reflect September 2018 shipping in terms of filling the pipeline, but I could be off. POs are coming in, in this case from Québec. But they are very much on the conservative side. I think it's more in line like the Shoppers when they start taking delivery. It's slow and steady, trying to best understand their distribution model and training their staff, et cetera. The real key is, when the bell rings, and let's assume for this conversation it's October 1, there is going to be a big demand in the month of September for all licensed producers who have presented and have been approved for shelf presence of their brand or brands, plural, on their shelves. And that's why in my opening comments, I'm very concerned that there will be a shortage. Given the conversations we've had to date, obviously, Québec is completed, but Ontario, Nova Scotia, New Brunswick, Alberta, BC, when you look at their requirements and then look at the landscape of licensed producers and their capabilities of harvest, unless someone is hiding like 100,000 keys somewhere on their balance sheet, there will be an allocation problem out-of-the-box. And that's why our Part III was very important to get us to 30,000 keys. That's why the Broken Coast acquisition and their recently completed Part III expansion is important to us also. But it's really our Part IV here at Aphria One and Aphria Diamond. We can survive and we can struggle from October through January on allocation. But it's what license producer is going to be in a complete in-stock position consistently going forward, and we believe Aphria is one of the best situated, given where we are in all of our capacity growth and our ability to grow to scale.

Nick Warner - *Canaccord Genuity Limited, Research Division - Associate*

Great. Okay. Appreciate that answer. And just a quick follow up on that one. Are you guys seeing any type of demand or requests for product mix coming out of these discussions you're having for the provinces, such as more oils or strict dried bud, if you are able to comment on that?

Victor Neufeld - *Aphria Inc. - Chair of the Board of Directors, CEO & President*

The call to -- for information followed up by tendering process, the -- and let me use SAQ as an example because they're the most advanced and really on top of their game right now. They really weren't restricting any LP in terms of percentage of dried bud versus preroll versus oil in a bottle versus capsules. It was really LP's decision on what to put forward. So we put up all of our SKUs that we have in our 2 brands and -- walking forward and they accepted all of them. And the situation is this though. Once you throw up your SKUs, you better have them in stock. We feel very good on our allocation and, as Carl and I both mentioned, starting to build up the inventory in our vaults. Nevertheless, no one knows the offtake. Once that bell rings between brick-and-mortar and online, what is the POS going to read, no one knows. So it's really a question of every LP making their own decision, where do they want to focus in on. Now some will say that oils have better margins and maybe that's where they're focusing in on. But if you look at Colorado, it's still a pretty balanced mix of 50-50. And so we -- as I said, we threw up all of our SKU listings with related pricing, and they were all accepted.

Nick Warner - *Canaccord Genuity Limited, Research Division - Associate*

Perfect. I just have one more quick question, I won't have the line for too much longer. But with regards to Aphria International and the international opportunities that you guys are eyeing with the [enter], I believe, in Germany, do you guys see the need for a shift in strategy? Are you guys focusing on different opportunities before? Is there anything that you can share with regards to your game plan for the international?

Victor Neufeld - *Aphria Inc. - Chair of the Board of Directors, CEO & President*

We had -- prior to the Nuuvera purchase, we had proceeded on certain countries on our own, like starting 12, 18 months ago. Australia is a great example, Greece is one, Ireland is one. So we continued to move the needle forward there. And lost in all of the shuffle, by the way, is Australia, which is a very market akin to Canada, and they're really, really advancing their medical platforms there. So people talk a lot about Germany. Please do not let go of the very exciting opportunities we have in Australia. But back to the Nuuvera acquisitions. Now there are about 3 or 4 key countries that we're continuing the strategies that were developed by the Nuuvera team, by Lorne and his team, and moving it forward. And then there are certain countries where more of an emerging market basis that we have not paid attention to. We do not have the expertise, we do not have the relationships, and that's where other organizations come to us with opportunities. And we evaluate these country by country and make a decision accordingly. The latter though is strictly a supply contract basis.

Operator

Your next question comes from Neal Gilmer from Haywood Securities.

Neal Gilmer - *Haywood Securities Inc., Research Division - Research Analyst of Special Situations*

A number of my questions have been touched on. Maybe what -- I'll follow up on one of, Carl, your comments in the prepared remarks, with respect to moving away from wholesaling to other LPs to build up inventory. So can you give us a little bit of color as far as when that strategy shifted? Was that right at the beginning of March for this entire fiscal quarter of Q4? Or just any little bit more detail around that.



Carl A. Merton - *Aphria Inc. - CFO*

No, it was during the quarter.

Neal Gilmer - *Haywood Securities Inc., Research Division - Research Analyst of Special Situations*

It was during the quarter?

Carl A. Merton - *Aphria Inc. - CFO*

It was during Q3.

Neal Gilmer - *Haywood Securities Inc., Research Division - Research Analyst of Special Situations*

During Q3. Okay. So we should expect the...

Victor Neufeld - *Aphria Inc. - Chair of the Board of Directors, CEO & President*

Yes, Neal, just for added clarification though. We make sure that when we commit to something in contractual form to what we call friendly LPs that we will not toss them to the curve. So we had a few orders that we fulfilled because of our agreements and commitments, and that's the right thing to do. But since then, they have been all fulfilled and now it's managing our inventory for the rec.

Neal Gilmer - *Haywood Securities Inc., Research Division - Research Analyst of Special Situations*

Yes, okay. Maybe I -- you both touched on it as far as your cost per gram and I'm interested to ask it a little bit different way. Maybe you're not comfortable putting this out there yet, but when you see Part IV coming online, do you have any sort of indication you give to the market with respect to where do you think those costs can go when you're producing across that size of a facility?

Carl A. Merton - *Aphria Inc. - CFO*

So I think we've been out in the market on more than a few occasions and have said that we've always viewed, once Part IV was online or that facility gets to the scale of Part IV, so we're expecting the same thing at Aphria Diamond, that we will be sub-\$1 on the cash cost basis, moving to sub-\$1 all-in after an extensive ramp-up period in -- of that facility.

Neal Gilmer - *Haywood Securities Inc., Research Division - Research Analyst of Special Situations*

Yes, okay.

Victor Neufeld - *Aphria Inc. - Chair of the Board of Directors, CEO & President*

To answer it a little more non-cryptically per my CFO, when you heard Carl say sub-\$1 all-in, if you understand the component tree, et cetera, et cetera, when we are in full crop rotation of Part IV at Aphria One and Aphria Diamond with the automation that we are installing, truly revolutionary, back to your question, if we're not at \$0.75 a gram cash cost or lower, then we haven't met our expectations.



Operator

Your next question comes from Keith Carpenter from AltaCorp Capital.

Keith Carpenter - *AltaCorp Capital Inc., Research Division - MD of Institutional Equity Research*

Just a couple of questions here. Just build on Neal's prior question on inventory. Is there an inventory figure from a kilogram perspective that you guys have in mind prior to the rec launch?

Carl A. Merton - *Aphria Inc. - CFO*

I wouldn't say it's necessarily a specific kilogram amount. We have existing demand flowing through the facility from the medical perspective. We'll continue to devote as much product as necessary to that, and we will maintain the rest of the inventory on hold for the international opportunities and for the pipeline fill. Didn't really answer your question, but there really isn't a specific answer.

Victor Neufeld - *Aphria Inc. - Chair of the Board of Directors, CEO & President*

Well, to add a little more clarity, once our Part III harvest starts, which is in a few weeks, and cutting off wholesale, the unknown of Shoppers Drug Mart, so I do want to leave that footnote out there. I have no idea about the quantities and the timely -- time deliveries of the Shoppers PO. If we don't have 8,000 to 10,000 kilos available for the rec market in the month of September, then we will not be able to service what we are projecting to be the conservative opening order from various provincial regulators and the conversations we've had to date.

Keith Carpenter - *AltaCorp Capital Inc., Research Division - MD of Institutional Equity Research*

Okay. That's helpful. Can I ask you just on a percentage of -- sorry, oil volumes on a percentage of sales, is there a view or can you guys comment on where you think that will go or how long that will take? Do you think it will go to 50% of the overall sales? And if you do, when do you think that would happen?

Victor Neufeld - *Aphria Inc. - Chair of the Board of Directors, CEO & President*

So today, in medical, we're at 35% oil on a total market -- medical market basis. However, when you take out the importance of the veterans who primarily just drive the dry buds, I think we're closer to 42% -- over 40% of oil, and that will continue. And it will continue to rise, and 50-50 is the right balance. It's again a function of when service providers, whether it's Manulife, Sun Life, Green Shield, etcetera, continue their understanding and comfort level of insurance coverage and more employers have this embedded in their employee benefit plan as a stand-alone. So oils, as the medical community moves forward, will eventually for us get to 50-50. But again, we have a significant portion of veterans continuing since day 1 coming to Aphria for their dry flower. That's the preferred method of intake for veterans.

Carl A. Merton - *Aphria Inc. - CFO*

I would add that it's the same thing for the current customers of Broken Coast. The current customers of Broken Coast go to Broken Coast for flower. And so their -- our expectations of their -- of the oil, flower mix for Broken Coast are different than they are for an Aphria medical patient.

Keith Carpenter - *AltaCorp Capital Inc., Research Division - MD of Institutional Equity Research*

Okay. And then just last question. Apologies, if I missed this. But with regards to the Ontario process, is there timing on the discussion with the OCRC? And your view on how they are with regards to -- you had mentioned that Québec has really been up to speed as of late. How would you characterize the process and the timing of that for Ontario?



Victor Neufeld - *Aphria Inc. - Chair of the Board of Directors, CEO & President*

So I know the next series of meaningful meetings are scheduled for early May. I would suggest you that by June 1, they will be ready for a full-blown hear the brands, hear the license producers, their SKU offerings, their price points, in terms of bringing each LP into their offices one by one and trying to arm-wrestle on pricing. So I would suggest you by early to mid-June, the Ontario regulators will have their act together, just like SAQ is today. There are other problems though that are late to the party. BC just started their dialogues last week. Alberta has been moving along nicely. And again under terms of embargo, I'll leave it at that. They're making progress. As you probably can appreciate, Saskatchewan and Manitoba going private retail, the discussions and conversations are still in flux right now for those 2 provinces.

So -- it's still my intention in terms of our internal metrics and planning that the month of September of 2018 is the month we begin the delivery of the pipeline sales. But again, that date moves depending on how the Fed, province, municipalities and law enforcement get to complete their various parts of this model.

Operator

Your next question comes from Jesse Pytlak from Cormark Securities.

Jesse Pytlak - *Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research*

Just to circle back on your commentary about the opening bell of the rec market and the pipeline fills. Are you expecting like a coordinated roll-up by the provinces for the start of sales? Or you think it could be like one-off province-by-province?

Victor Neufeld - *Aphria Inc. - Chair of the Board of Directors, CEO & President*

It could be a one-off province-by-province but within a short bandwidth of time. I don't think anybody on the border between Québec and Ontario wants to have one province too far ahead of the other province. So it will be somewhat coordinated. But I can't speak to the ministers of finance and their provincial health ministers. They're going to have to arm-wrestle on that one. But I don't think it will all be effective one particular day. Some provinces may have online before they have retail. As we all know, Ontario came up with at least 4 locations announced the other day. They've got a long way to go to get to the next 20 location sites. So online, it may all be the same day. But brick-and-mortar, probably not.

Jesse Pytlak - *Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research*

Okay. That's fair. And then just switching topics to the international stuff. In terms of the offtake agreements that you have with Nuuvera prior to the acquisition, do these volumes still have a home at the original end-buyers? Or has anything changed with these contracts? And are they somewhat dependent on the EU GMP certification?

Carl A. Merton - *Aphria Inc. - CFO*

So those contracts were always dependent on the EU GMP certification. We continue to believe strongly that the volumes that Nuuvera was purchasing from us will be available in the international market.

Jesse Pytlak - *Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research*

And so it is fair to say, probably more of a fiscal 2019 type shipment schedule?



Carl A. Merton - *Aphria Inc. - CFO*

Yes. We -- in order to be able to sell into that market, you require full GMP status and EU compliancy with that, and that process is very much underway.

Operator

Your next question comes from Alan Brochstein from 420 Investor.

Alan Brochstein

I think I got in under the bell. So awesome on that. Two quick ones. Well, one quick one and one maybe not too quick. Can you tell us, Carl, on Nuuvera, how many shares total were issued and also any warrants or options?

Carl A. Merton - *Aphria Inc. - CFO*

So there were 4.2 million warrants that rolled as part of the transaction. Those warrants maintain their same status. So they're at -- they're priced at \$7.20. A person who exercises that warrant receives the same compensation that a Nuuvera shareholder would have received during the transaction. So they get \$0.62 per warrant, and they get 0.3546 shares as a result. There were also options that were rolled. Those options were -- those options are being treated differently than the warrants. They're actually converted into an Aphria replacement option. And there's just under 1.3 million of those outstanding. And then we issued a little over 31.2 million shares in the transaction.

Alan Brochstein

Great. And then Vic, you're the first person that gets a chance to answer a question lot of people will be asking. But do you see this U.S. potential policy changes having any sort of impact on your own position in the United States?

Victor Neufeld - *Aphria Inc. - Chair of the Board of Directors, CEO & President*

So thank you, John Boehner, Weld, Donald Trump, Governor of Colorado. All of these conversations are meaningful because they reflect what state by state, whether legislature or their voter population and their patients have been demanding for quite some time. This is just another advancement of eventually getting to the position where medical cannabis in the U.S. moves to Schedule II. That journey is still a long way off. We know that there is a bipartisan bill supported in the House that's trying to get it to a reading. Again, these are all conversations and they're all positive, all supportive. If your question though is reflective of will the TSX change its stance on their policy notice of January of this year, probably not. It will be compelling. They will put more focus, more eyeballs on what's happening in the U.S. And stay tuned, I think, is what they're going to say. So for the time being, while Liberty Health Sciences has kind of been given a stamp of validation by key political leaders and what the President has talked about, we'll see if there is an Executive Order coming. But until now, it's still a status quo. We're very excited though with what has happened. We were very confident that this was going to happen. 33 plus 7, well, almost 40 states by 2018 are medical. I think one would be a fool to think that this is not -- the train's already left the station, and it will move. And Liberty was just ahead of the curve. We had the foresight to move forward. Now to our Aphria ownership of Liberty, as Carl has already said, because of what was already released out of escrow, that, that was a sale in the quarter. We still have approximately 28% of the outstanding shares of Liberty on our Aphria books as our investment, and I think the next tranche of release, Carl, is late July?

Carl A. Merton - *Aphria Inc. - CFO*

Late July of this year, yes.

Victor Neufeld - *Aphria Inc. - Chair of the Board of Directors, CEO & President*

So Alan, I know your next question, so I'll just get to the answer. Will there be an enough advancement between now and, say, late July? Probably not. Will we therefore be bound by legal contract to make the next disposition? Probably. Do we have a put-call that we can terminate the agreement? Yes. But it's not going to be -- it's not going to happen without the TSX blessing. You know how they can play big brother. And so to that extent, we're going to comply with our agreements and undertakings we gave them several months ago. And we still think that -- yes, so late July, I think, is the next tranche. Carl, you know the percentage what's coming out of escrow?

Carl A. Merton - *Aphria Inc. - CFO*

It's another 15% of the shares that we own. It's about 16 million shares.

Victor Neufeld - *Aphria Inc. - Chair of the Board of Directors, CEO & President*

So it will take us -- 28% drops to about 20%?

Carl A. Merton - *Aphria Inc. - CFO*

Yes.

Victor Neufeld - *Aphria Inc. - Chair of the Board of Directors, CEO & President*

So at the end of July, Alan, we should, with the contemplated transaction, drop down to about 20% ownership of Liberty. And then we have another 6 months wait period. We're very excited with the developments.

Operator

There are no further questions at this time. I turn the call back over to the presenters.

Carl A. Merton - *Aphria Inc. - CFO*

As there are no more analyst questions, we will now conclude the call. Thank you, again, for joining us this morning. We look forward to updating you on our progress and new developments in Aphria's business in the future. Have a great day, everyone.

Victor Neufeld - *Aphria Inc. - Chair of the Board of Directors, CEO & President*

Thank you.

Operator

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

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2018, Thomson Reuters. All Rights Reserved.