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CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

Aaron Thomas Grey *Alliance Global Partners, Research Division - MD & Head of Consumer Research*

Andrew Partheniou *GMP Securities L.P., Research Division - Analyst*

Doug Cooper *Beacon Securities Limited, Research Division - MD and Head of Research*

Eric Des Lauriers *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

Rahul Sarugaser *Raymond James Ltd., Research Division - MD and Equity Analyst of Healthcare, Biotechnology & Cannabis*

Scott Thomas Fortune *Roth Capital Partners, LLC, Research Division - Director & Research Analyst*

Stefan Mykytiuk

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to Village Farms International's Third Quarter 2019 Financial Results Conference Call. Yesterday after market close, Village Farms issued a news release reporting its financial results for the third quarter ended September 30, 2019. That news release, along with company's financial statements are available on SEDAR and 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 a 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 were 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, 2018, and MD&A for the quarter ended September 30, 2019, 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. - Founder, CEO, President & Director*

Thank you, Casey. And thank you, everyone, for joining us on the telephone and the Internet today.



With me for today's call is Village Farms' Chief Financial Officer, Stephen Ruffini. Agenda for today's call, I will start with a review of another quarter that continues to set Pure Sunfarms apart from its peers both operationally and financially. I'll provide an update on the progress of our U.S. hemp/CBD initiatives, highlighted by the solid results from our first outdoor growing season. Steve will review our Q3 financial results in detail, and I'll return to discuss why we are more confident in Village Farms' ability to capitalize on these new high growth opportunities in cannabis and CBD and why 2020 and beyond holds so much promise for our company. And then we'll take some questions.

Q3 continues to showcase Pure Sunfarms as a best-in-class vertically integrated cannabis supplier. Pure Sunfarms continues to set the standard for operational performance, which was once again clear in its financial results.

Let's get right to the numbers, which once again ranks Pure Sunfarms among the largest, most efficient and most profitable licensed producers.

As a reminder, all of Pure Sunfarms' numbers that I will discuss here are before Village Farms' 50% share and are in Canadian dollars. So net sales were \$24 million, and I remind you that the entirety of that sales figure is sales of cannabis products solely.

I would also note this amount does not include \$7.2 million that Pure Sunfarms invoice, but due to accounting rules, was not -- was unable to recognize in Q3 because the customer, Emerald Health Therapeutics is disputing its liability under terms of the supply agreement.

Gross margin was 69%, driven by what, to our knowledge, continues to be an industry-low greenhouse cost of production of just \$0.63 a gram, down sequentially from \$0.65 per gram in Q2. And I will note that Q3 numbers reflect higher seasonal electricity costs as Pure Sunfarms started to use its supplemental lighting towards the end of the quarter as well as some retail packaging costs in the last few weeks of the quarter that were not incurred in Q2.

SG&A was 12% of sales. Net income before noncash impact of a net change of \$12.6 million for the change in value of the biological asset, in fact, this \$12.6 million charge is the only reason Pure Sunfarms reported a net loss in Q3 and otherwise would have resulted as fourth consecutive quarter of profitability.

EBITDA was \$5 million, which translates into an EBITDA margin of 56%. Q3 marked Pure Sunfarms' fourth consecutive quarter of positive EBITDA. I think it's worth noting here that cumulative over the past 4 quarters since adult-use cannabis was legalized and Pure Sunfarms started sales in earnest, it has generated \$47 million in EBITDA with a Delta 3 facility being at production ramp up for the majority of that period.

A little more detail on Q3 sales. Delta 3 reached a full run rate of 75,000 kilograms annually during Q3. Q3 sales were composed predominately of sales to other LPs as Pure Sunfarms began shipping to provincial distributors late September, following receipt of its packaging license earlier in the month of September.

Pure Sunfarms' adult-use cannabis net sales of \$24 million continues to rank it among the largest Canadian LPs, even with Q3 sales constrained by the shift in market dynamics over the last several months. As been widely discussed, it has been an industry-wide slowdown in sales growth as new supply coming onstream has outpaced the expansion of the retail store infrastructure as well as the mismatch of the actual products consumers want than those being offered.

This supply bottleneck has also precipitated a decline in the spot price in the LP to LP market, which ultimately gave rise to the \$7.2 million invoice to Emerald, which is in dispute and therefore, cannot be recognized in Q3.

Steve will discuss this in more detail shortly.

Looking past these near-term supply issues, the market is still massive, generating double-digit month-over-month sales increases and has multiple catalysts coming that, by even conservative estimates, could double or triple in size next year. We would spend this whole call debating future market projections and what will ultimately determine success for any company, will be its ability to consistently supply high quality, safe product and offer products that consumers really want and do so at the right price point.

This is what Pure Sunfarms offers to customer. It is what will enable it to both capture meaningful market share within the Canadian legal market but also position itself to compete against the larger price-sensitive illicit market with a high-quality safe product. This value proposition, done correctly, is the accelerant to the cannibalization of the illicit market by the legal market.

So this brings me to the recent launch of Pure Sunfarms brand. With respect of its long-awaited packaging license in early September, Pure Sunfarms was finally able to launch its own branded products and began sales to provincial distributors. First in Ontario, at the very end of the quarter and subsequent to the quarter end in British Columbia, which I will note, combined make up more than 50% of Canada's population.

Initial performance has exceeded our expectations. Pure Sunfarms strategic positioning as the affordable luxury brand, coined by Pure Sunfarms of its high-quality safe products that consumers really want at a price point well below the other brands initially, which clearly resonating with consumers.

Here are some of the early data points. Pure Sunfarms was the top-selling dried flower brand in both kilograms sold and dollar value with the Ontario Cannabis Store in October, with a 16% market share, selling twice the value of the second-ranked brand. Its high-THC strain Afghan Kush was the top-selling dried flower product within the OCS for the same period. And Pure Sunfarms had 3 of the top 7 best-selling dried flower products in October. Importantly, Pure Sunfarms had multiple follow-on orders from Ontario throughout October and into November.

In British Columbia, although we don't have access to the same detailed data as we do for Ontario yet, I can tell you that Pure Sunfarms sold out its first order to the BC Liquor Distribution Branch in under 3 weeks, securing a top-10 ranking by sales in that province in October.

And that it is for all product categories, with Pure Sunfarms currently only selling dried flower products in British Columbia, BC has since restocked with multiple follow-on orders.

This strong initial performance is not an accident. It is the product of Pure Sunfarms' extensive market analysis as well as the experience, insight and prospective that Mandesh Dosanjh, who you will recall previously headed up logistics and supply chain for OCS and the rest of his leadership team being at the table.

And I would again like to congratulate Mandesh and his entire team at Pure Sunfarms on yet another success, and well done. Pure Sunfarms' product positioning is something that is uniquely able to do as a result of its exceptional cultural foundation and its low cost production. Again, that number was \$0.63 a gram all in Q3.

This recent price pressure -- The recent price pressures now more than ever underscore that being a low cost producer of high-quality safe cannabis with consistent supply as well as innovation for future product development will be a significant advantage to Pure Sunfarms and Village Farms. There will continue to be pressure on market pricing and regardless of market pricing must come down if the legal market is to woo customers from the illicit market.

Pure Sunfarms is very well-positioned to capture market share and be very profitable in this environment.

Looking ahead, Pure Sunfarms has multiple value-driving milestones to build the success and momentum. With leading market share and expect -- we expect Pure Sunfarms to benefit as provinces, especially Ontario, significantly expand a number of retail stores going into 2020. Moreover, Pure Sunfarms is pursuing additional supply agreements beyond Ontario and British Columbia, focusing on those provinces with the highest sales first. It is also preparing for the launch of its next product offerings, pre-rolled dried products in the near term, and Pure Sunfarms has well advantage in its advancement in the planning for oil products as well as new product forms on the Cannabis 2.0.

As it did with the illicit -- the initial product launch, Pure Sunfarms is approaching the 2.0 market knowledgeably, strategically, prudently and thoughtfully. [Patience] has proved to be a real advantage so far, as you can see by the OCS performance. For competitive reasons, we'll stay pretty tight-lipped around specific plans for now, but you can be assured that Pure Sunfarms plans to fully participate in this opportunity, with product launches targeted in the first half of next year, leveraging our brand success with dried flower. To that end, Pure Sunfarms is nearing completion



of its new 65,000 square foot state-of-the-art processing center within the Delta 3 facility, which has been designed for full GMP compliance and certification.

And I will note that this was an \$18 million investment entirely funded internally by Pure Sunfarms' cash flow. Within its processing center, Pure Sunfarms recently finished installation of extraction equipment capable of processing initially 35,000 kilograms of biomass annually.

We expect it to be operational by the second quarter of next year, subject, of course, to Health Canada licensing and their own testing and calibration. With recent market developments, we believe now more than ever that the cannabis market is moving towards an industry that will be dominated by a handful of large players that will take the majority of market share and large players by sales, not by market category. Accordingly, Pure Sunfarms continues to progress on a conversion of its 1.1 million square foot Delta 2 facility, which will be conservatively -- which will conservatively double annual production to 150,000 kilos and support its low-cost [participation].

We began work on the exterior in the summer and are now working internally, and we remain on schedule within production in Q2 of 2020, ramping to full production by the end of next year.

Pure Sunfarms has already submitted the application for the initial cultivation license for D2 to Health Canada. D2 is being designed for full GMP certification and compliance to allow for potential export in the future. And I'll remind you that D2 does not require any Village Farms' capital to complete this conversion.

So all in all, for Pure Sunfarms, Q3 was another quarter of Pure Sunfarms continued to set itself apart from its peers both operationally and financially, as I mentioned earlier, it firmly positions Pure Sunfarms' continued market leadership as the Canadian market is poised for step function growth over the next 12 to 24 months.

Moving to the U.S. hemp [and] CBD. Now turning to this program as we did in Canada with Pure Sunfarms. We're building a rock solid foundation of exceptional grower operations upon which we can and will build a vertically integrated business and exceptional brand for long-term success of the CBD market. In our outdoor hemp program, we're very pleased to report that our first growing season has been a solid success. We've just completed harvesting, in full, 625 acres. Average yield of these 625 acres was 1,600 pounds per acre of separated material. That is milled flower that has been separated from the stocks. This was well in excess of our projections, resulting in a total of approximately 1 million total pounds of separated material. Success is a testament to the deep experience of our great JV partners as well as the exceptional roster of growers we currently were able to contract through their extensive network. We expect to begin sales of biomass as early as this quarter. These results were even more encouraging giving that the certain aspects of the 2019 season were experimental. The science around growing hemp is very much in its early days and as a result of prior legal status.

Importantly, our first growing season -- but has provided tremendous learning that will be invaluable in our future grows. All of this sets up very well as we look to expand in higher-margin downstream products.

In our controlled environment of greenhouse program, we are being prudent as always in curtailing our capital spend as the regulatory environment with multiple agencies at both the federal and state levels continues to sort itself out. We are not going to make any big dollar decisions on matters out of our control until we have much more clarity. This approach has clearly benefited Pure Sunfarms in Canada as our brand and product performance there is proving, and it's not about being first. We continue work with -- continue to do work with the Texas Department of Agriculture on the implementation of its hemp regulatory framework subject to its rules. And we'll be ready to submit our licensing requirement as soon as we are permitted to, which is currently not known. We are very active in moving forward in R&D in a number of areas, including genetics, seed development and advanced growing techniques for plant health. IP will be a critical success in this market. As with Pure Sunfarms, looking out to 2020, we see multiple opportunities to drive growth in revenue and profitability through advancements in our hemp/CBD business as we aggressively pursue our objective to launch products in 2020.

A few words on produce before I turn the call over to Steve. As you have heard me discuss before, we have not -- would not have been able to achieve anything that we have thus far or anything we plan to achieve in the quarters and years to come without the underlying institutional knowledge, capabilities and infrastructure of our produce business amassed over many decades. Pivoting from the top greenhouse-grown produce



business in North America, taking everything we know, all of our capabilities and deeply experienced people and extending that beyond produce to become a new vertical, CBD. We have a strategy in place to grow from our produce business and returning it to its long-term sustainable positive EBITDA generation.

We continue to make steady progress in the transition of production displaced for cannabis and hemp production to third-party growing partners.

This allows us to drive revenue higher while maintaining cost and mitigating the agriculture risk that can negatively impact our produce results. We have recently added 125 acres in this regard, 75 in Mexico and 50 in Canada, to bring our total partner acreage to just under 300 acres.

During this period of transition, we will continue to experience some impact on our financial results, more so in some quarters than others, which in the third quarter contributed to a net loss in the produce business of approximately \$5 million. So as much as I am excited for the growth that will be driven by cannabis and CBD, I'm also thrilled for the potential of our legacy produce business. I'd like to turn the call over to Steve to walk through the financial results in detail. Steve, go ahead.

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

Thanks, Mike. I'll break my comments down by business line and touch on some corporate matters rather than just regurgitate the statutory figures, which everyone can read on their own.

First, cannabis is the subject that everyone wants to hear about. Pure Sunfarms continues to demonstrate strong financial results for the fourth quarter in a row. Pure Sunfarms sold approximately 12,000 kilograms in Q3 of bud and trim, with net sales of CAD 24 million, for an average price of around \$2 per gram, combining flower and trim for what was, in the second quarter of 2019, a \$4 per gram wholesale flower market.

Q3 did have more trim sales than Q2. Those sales were to [extraction] customers at attractive prices. Sales to provincial governments started very late in Q3 and were roughly 10% of the quarterly sales for Q3. Pure Sunfarms generated a 69% gross margin in Q3 as it continues to lower its cost of production. As Mike mentioned, an all-in cost of CAD 0.63 per gram, USD 0.47 per gram. Pure Sunfarms produced approximately [17,000] kilos in the quarter. With the last few grow rooms not starting till mid- late July, it is producing at the expected annual run rate of 75,000 kilos per annum. Note, this is not -- this is farming. This is not a linear figure. It is farming, so light levels, planning cycles, varieties grown will fluctuate our production between quarters. The -- As Mike had said in prior comments, we look at these greenhouses on an annual basis, but we're very confident with their 75,000 kilos annual run rate for Delta 3.

As reported previously, the cost of production of Pure Sunfarms in all greenhouse producers in Canada will increase in the winter months due to the use of artificial lights systems versus summer production. But as we've also previously stated, economies of scale matter, Pure Sunfarms expects its all-in production cost to be 20% to 25% higher this winter versus the last 2 summer quarters, where we had 65% and 63% -- I'm sorry, \$0.65 and \$0.63 per gram, which will be substantially lower than last winter when we reported in Q1 of this year a cost per gram of \$1.35 per gram. This is driven not only by the economies of scale since we're growing in all our 16 growers this winter. And we're essentially growing 3 or 4 last winter but also an application of our years of years of growing experience and applying that to learnings on our new crop cannabis. We're experiencing year-on-year better results in our nursery, better yield in our grow rooms and improved labor efficiencies already.

The reason Pure Sunfarms is showing a net loss of CAD 2.4 million or USD 1.8 million for the quarter is solely due to the IFRS accounting treatment of -- involving bio asset, which most of you have heard me talk about before, it is a required accounting estimate for all companies with Ag assets. I want to stress Pure Sunfarms has not experienced any inventory price concessions, no return products or written down any inventory. While IFRS is accounting treatment of bio asset, may make sense for a wine grower who has a multiyear crop in the form of a -- like a grapevine. It makes no sense for growers of annual crops like (inaudible) has said for years on our tomatoes and really makes no sense for a cannabis grower who essentially has a crop cycle of less than one quarter. All this is really doing from an accounting perspective is moving around the gross profit or gross loss of an Ag company between reporting quarters. Unfortunately, IFRS is not optional. Or the treatment -- I should say, the treatment of a bio asset under IFRS is not optional. For example, Pure Sunfarms reported a bio asset on June 30 of over CAD 36 million based on what it had growing in the greenhouse at that time and the market's gross margin at that time.

Pure Sunfarms reported a bio asset of CAD 24 million on September 30. As such, the net income impact between quarters is significant. In Q2, Pure Sunfarms picked up income of CAD 20 million on its change of bio asset from Q1. In Q3, Pure Sunfarms had to take an accounting charge of \$13 million for a whopping difference between quarters of CAD 33 million quarter-on-quarter. If one were to break that down into U.S. dollars, tax effect it and take half of it, which is Village Farms' 50%, result in a quarter-on-quarter's swing in impact on earnings per share of over \$0.30 per share, all due to essentially debits and credits. The best indication of Pure Sunfarms' positive results or its positive EBITDA for each quarter.

Pure Sunfarms reported an EBITDA of CAD 13.3 million, USD \$10.1 million for a 56% EBITDA margin for Q3 and the year-to-date EBITDA of CAD 47.1 million, USD 35.5 million for an EBITDA margin of 67%.

Fortunately for Village Farms, with its required switch to U.S. GAAP, which I'll discuss in a bit, the change to bio asset is a thing of the past. We will -- in all future years and all future quarters, we'll be reporting pursuant to U.S. GAAP. Management's estimate of Pure Sunfarms' U.S. GAAP is positive net income for every quarter in 2019. Note that EBITDA under IFRS or U.S. GAAP is the same as neither Village Farms or Pure Sunfarms include the accounting swings of its change in bio asset in EBITDA as it is a noncash item.

Mike has covered hemp. There's really -- from an accounting perspective, there's nothing in our financials with respect to hemp. There are some bio assets in that asset as well, but they're fairly immaterial information that is in our MD&A.

Moving on to produce. Village Farms' traditional launch in business that no one likes to talk or hear about, but it's important to discuss in this call. As Mike mentioned, produce is in a transition period both due to our pivot in alternative crops in Canada and the preparation, hopefully, at some point in time, for new crops in Texas as well as some production issues at our Texas facilities. We have experienced lower than historical yields at our Texas facilities which creates a double whammy on our produce gross margin, particularly in this quarter as less yield hits our top line revenues as well as less tomatoes means higher cost per pound as most of our greenhouse costs are fixed. So we're spreading those costs over fewer pounds produced. The third quarter was particularly challenging as we made the top decision to end one of our Texas crops early and start a new crop in a narrow window of time this late summer so we could have a strong crop going into the winter months, when tomato pricing is historically stronger.

Management is keenly aware of our produce issues and is actively lowering input cost, changing crop mixes to improve operating efficiencies and returning our Texas crops to historical levels. And as Mike mentioned, significantly increasing our third-party produce volumes, which will improve capacity usage throughout our company. We continue to deliver top quality produce to all our big box retail customers in the U.S. and Canada.

Moving on to a few corporate matters. Our SG&A, excluding stock comp, which is solely driven by stock option accounting. Our SG&A increased by just under \$300,000 in Q3 2019 over Q3 of 2018 or for a 9% increase due to our listing on NASDAQ and our loss of reform private issuer status in 2019. Effective on January 1, 2020, we have to be fully compliant with all SEC rules and regulations, like the infamous SOX. As such, our back office has been rather busy as we all -- as well as external legal counsel and accounting firms, reviewing our bylaws, charters, operating SOPs and policies to ensure we are full -- in full compliance and adherence with our new U.S. SEC world of reporting starting in 2020.

I'm happy to report that all is going well, and we expect to be fully compliant on or before January 1, 2020, but unfortunately, all of this transition costs some money, hence we have had an increase in our year-on-year professional fees as noted in our footnotes in MD&A.

Village Farms will file a Form 10-K in mid-March, and along with that, we will refile all of our 2018 and 2019 historical results reconfigured to U.S. GAAP from our current IFRS.

One last point on the corporate matters, our cash position is in good shape. We did an equity raise in October of CAD 28 million, roughly USD 22 million. With no [sufferances] large CapEx in the foreseeable future, we're in good standing from a cash basis going forward, especially with Pure Sunfarms generating its own cash flow.

With that, I'll turn the call back over to Mike.

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

Thanks, Steve. So in closing, let me just say that we appreciate that this is a volatile period for the Canadian cannabis industry. We knew the market challenges would come. We clearly knew it from day 1. They perhaps come a little sooner than expected, but we built Pure Sunfarm (sic) [Pure Sunfarms] for good times but plan for the tough times. And Pure Sunfarms continues to execute exceptionally well on what is under its control: low-cost production alongside powerful brand positioning, high-quality safe products that are in demand at an attractive price point.

This has and will continue to serve us very well as we navigate the choppy waters in the Canadian market. And now went to the U.S. CBD market, which may experience similar growing pains in the coming years. It's not anything we haven't seen before, and it's not anything we haven't done before. Another benefit of our more than 30 years of experience. We are moving forward but remain prudent and thoughtful as we pursue all of our opportunities, mindful of long-term sustainable profitability as the market develops and matures into a multibillion-dollar industry and likely takes on the illicit market.

With Pure Sunfarms' self-sufficient and self-funding situation, Village Farms' management team is focused on its next opportunity, which is the CBD market in the U.S. and beyond. We're off to a great start and look forward to reporting on our progress, which we will not only expect to drive shareholder value for years to come but also firmly position ourselves for the holy grail, which we consider the federal legalization of cannabis in the U.S. in the future.

So with that, I'd like to open it up to a few questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your first question here comes from the line of Doug Cooper with Beacon Securities.

Doug Cooper - *Beacon Securities Limited, Research Division - MD and Head of Research*

Mike and Steve, congratulations on a tough environment, good quarter. Couple of things, first coming to mind. What's the dispute mechanism with Emerald for that \$7.2 million?

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

Doug, everything we have to say in the Emerald subject is in the press release, and we're just going to leave it at this point.

Doug Cooper - *Beacon Securities Limited, Research Division - MD and Head of Research*

Okay. Second question, just I guess looking into Q4, can you talk a little bit about the expectations in volume and pricing both in Canada and then maybe, Mike, you can touch upon the current biomass pricing for the hemp in the U.S.?

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

Well, in Q4, I think on the retail side, segregating the retail side, I think we've just established that price point last month. And I think that will pretty well continue through the fourth quarter. On the wholesale side, I think that's yet to be determined because what appears to be happening more and more is that it's very weighted towards the end of the quarter as far as purchasing goes. So I think probably similar, in my opinion, to what we saw in the third quarter, and I think that will start revealing itself sometime in December. Obviously, it's a race between the buyers and the sellers, and they all know that everybody wants to make their quarterly numbers. So wait till the last result and then see who flinches, and that will set the

pace, at least through weathering these choppy waters. And I think, eventually, 2020, we'll get through that and find balance. But I think we're looking at another quarter similar to the third quarter.

On the CBD side -- So on the CBD side, there has been price compression very rapidly. I mean, for this year since legalization last December, everyone and his brother sort of jumped in the market, people who've never grown an agriculture crop before. There's so many growers out there that don't even know they had to dry. So it's just sort of a gold rush, and we've seen price compressions since April through October depending on quantities upwards of 40%, 45%. So I think there'll be some significant price compression into the new year on the CBD side.

Operator

And your next question here comes from the line of Andrew Partheniou from JMP Securities.

Andrew Partheniou - *GMP Securities L.P., Research Division - Analyst*

Congrats on the impressive performance so far in rec. I wanted to ask a little bit about your post harvesting area. You mentioned that you're going to be launching pre-rolls very soon, and I think you've already launched a new strain in the market as well recently. What can we expect in terms of new strains or potentially differently processed products, hand-trimmed products that may carry different pricing?

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

Well, I think -- Andrew, thank you for your comments. And I mentioned in the call that we're going to be somewhat tight-lipped on what our innovation is. But innovation clearly is part of going forward. There's been a lot accomplished this year, including this build-out of this certified [-- to-be GMP] certified extraction area, and we have a lot of plans also on Delta 2 to do some very unique things there that we're not ready to put out. So I think the innovation is going to drive it, but I think the prudent approach that the Pure Sunfarms' leadership is taking is not to rush into it. As I mentioned looking more second, third quarter, but strain development is a huge undertaking, and I think, personally, I'm impressed with what they've accomplished with the amount of strains, not only putting strains out there, but strains that people want, and that's evident by the market share dominance that they've shown early on. So I think that will continue.

Andrew Partheniou - *GMP Securities L.P., Research Division - Analyst*

And on another note, I believe your JV partner still requires some capital to contribute in Delta 2, building it out. As of Q2, I think that was somewhere around \$17 million, just wondering if you could provide an update on that.

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

That is an ongoing equity contribution on Emerald's part, and that's -- we'll just leave it at that at this moment.

Operator

Your next question here comes from the line of Scott Fortune with Roth Capital.

Scott Thomas Fortune - *Roth Capital Partners, LLC, Research Division - Director & Research Analyst*

Real quick follow-up on the Emerald Health allocation moving forward so -- 4Q. You don't expect Emerald Health to take any further allocation here?

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

I don't think so. They haven't taken any at all in the second quarter to speak of -- I'm sorry, in the third quarter. So, so far in the fourth quarter, 0. So I think I can't speak for them, but I think just based on what we've seen, it doesn't appear they'll take any of the allocation.

Scott Thomas Fortune - *Roth Capital Partners, LLC, Research Division - Director & Research Analyst*

Okay. And then follow-up on category segmentation at the province side of things. They're selling at a good, better or kind of a best price level. Where are the strengths? And where you're -- some of the competitors are now announcing more value offerings at the provincial brand side of things. Where is -- where do you think your strength on the Ontario in October that you highlighted there as far as the EV segmentation from the category side of things?

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

Well, I think as we said, it's sort of the -- a 4-legged stool in a way. It's a value proposition that the management team coined. Their strategy was affordable luxury, but it doesn't matter what the price is if you don't have what consumers want. So I think this 4-pronged approach of clearly high-quality product that's safe and strains that the market wants. And we're talking about the customer that's been a user of adult use for many, many years, very knowledgeable customer base and having strains that they want. And then finally, at a price point that resonates well with them. And I think that is -- that whole package of that value proposition is where you really need to be, and pricing plays into that because the pricing has, more or less, been established for decades on the illicit trade. And the illicit trade is a very large market, it's an existing large market. So I don't think it's all about building the market, it's just cannibalizing it from the illicit side to the legal side. And that -- and pricing plays into that. And I think the management team of Pure Sunfarms is very clear and steadfast in what they need to do going forward. And again, that's why we always talk being a low cost producer but not at the sake of quality or brand. That all plays into equally. You have to have the whole program. But pricing will determine how quick -- along with the rollout of additional stores and so on, but pricing plays that role because the illicit trade, as I said, has set that bar already.

Operator

Your next question here comes from the line of Aaron Grey with Alliance Global Partners.

Aaron Thomas Grey - *Alliance Global Partners, Research Division - MD & Head of Consumer Research*

First question I have is just on the wholesale market and pricing. Can you dig a little bit deeper in terms of [your] price program in the quarter? Are you seeing different kind of pricing between the trim and then also within the flower, whether or not high or low THC? So if you can kind of give a breakdown kind of between those, also in terms of mix? And how to expect that kind of range in going forward?

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

Thanks for the question, Aaron. For commercial reasons, obviously, we're not going to break -- we don't break that down. But yes, there is a range. This is -- there's a wide range of the tomato pricing, there's a wide range with the cannabis pricing based on demand, based on contractual agreements with provincial governments. And it does vary by variety, based on THC or -- Pure Sunfarms also has a high-CBD strain that is doing well. And there is a difference between flower pricing and trim pricing. But we are knowingly not going to break that down because that's commercially sensitive information.

Aaron Thomas Grey - *Alliance Global Partners, Research Division - MD & Head of Consumer Research*

Okay. Great. I appreciate that. And then just on volume, 12,000 kilograms for the quarter, you mentioned also whole flower and trim, a little bit more trim this quarter. How best to think about, I guess, that volume as we go forward? Do you feel like at least that mix between flower and trim will hold, or it can get more increased towards flower? And how best to think about overall volume sales relative to nudge up the full run rate of 75,000 annual for the year for the [adult] facility that's now in full production?

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

Predominantly, our production is flower, in that figure that I gave you, strong predominance of that. With respect to trim sales, it was opportunistic extraction companies like trim. And ultimately, some of it will change, and obviously we'll start taking that trim ourselves, putting it through our own extraction on a go-forward basis. So the mix of flower and trim, certainly, in 2020, we'll have a mixture of flower, trim, oils, pre-rolls will start this quarter. So it'll all get mixed in.

Operator

And your next question here comes from the line of Eric Des Lauriers with Craig-Hallum.

Eric Des Lauriers - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

I wanted to try one more on the wholesale pricing. So clearly, looking like you're expecting similar results in Q4 compared to Q3 as it relates to wholesale pricing. I'm wondering as we look out to maybe 2020 and beyond, where you guys see spot prices, maybe finding equilibrium already below cost of a number of other LPs. Would just love to hear your thoughts as we look out beyond Q4.

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

Well, I think a lot of not just other LPs but extractors at some point will decide more who they want to buy from based on quality of strains that are there. I think today, there's so much -- there's a lot of choppy water out there. So everybody's negotiating without necessarily indicating who their preferred supplier is based on the strains and the quality that they have. But I think that's going to start to separate in 2020. As I said, the fourth quarter may be reminiscent of the third quarter. But I think there is that breakout. And there's a lot of quality out there that other LPs really don't want and certainly extract itself, but I think they all use that in a negotiation of pricing right now because of the way the market is, the rollout is just too slow on the retail side. So there's a backup on that. But I think that's going to separate. And it may even eventually firm up wholesale pricing going into 2020. So it's just a matter of getting through this time, and I think there's going to be compression of the amount of suppliers in the marketplace. I think that's inevitable going forward. And we'll see who emerges as the dominant suppliers in the marketplace. So excited to look forward to 2020. As I said, we've always planned for the best, hope -- we hope for the best and plan for the worse. And we always look that there would be price compression, did not think it would happen quite this quick, but it is what it is, and that's why being a low-cost producer is very important, among the other attributes you have, you have to weather the storm. And that's why we shot for profitability day 1 to have positive cash flow to weather times like this. So we'll see what the wholesale shakes up in 2020. But I think it's yet to be determined for the fourth quarter. I think if you look at cash flow generation on the quarter-to-quarter, you see it's very weighted towards the end of the quarter. So that's where a lot of sales start to occur, and that will happen here in December.

Eric Des Lauriers - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

All right. That make sense. I appreciate the color there. And then maybe just one follow-up. Wondering if you could provide some -- maybe some anecdotal commentary on the willingness of provinces to sign more supply agreements given the elevated inventory levels introduction of Cannabis 2.0 products. And any comments on Alberta specifically would be great.

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

I think that's forthcoming, stand by on that. And as we said, the team there has surgically decided where they want to go first, second, third. I think that you're right on with that guess. And it's just really being run by population and the amount of penetration that's available through the retail side. And I think Alberta, clearly, is way up there on top of the echelon. So -- but I think there's a lot of -- I think the -- like any other customer, it's what strains can I get that the consumers they have want because they want to drive sales as well. And I think that's where Pure Sunfarms has already demonstrated success with 2 of the initial provinces. And again, this just all started basically in September. So pretty massive. So I think stand by on that. I think you'll see some news coming.

Operator

And your next question here comes from the line of Rahul Farugaser (sic) [Rahul Sarugaser] from Raymond James.

Rahul Sarugaser - Raymond James Ltd., Research Division - MD and Equity Analyst of Healthcare, Biotechnology & Cannabis

Congratulations on the quarter. Yes, I mean, just kind of reiterate my counterparts, it is -- it's the rough waters out there. So coming back to the wholesale market and the -- particularly the outdoor grow that's starting to come online. How are you sort of positioning yourself to compete in that market, particularly as outdoor grow, which is being -- which we're starting to see numbers of sort of the \$0.05 to \$0.10 per gram level coming onto market?

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

Are you talking specifically in Canada?

Rahul Sarugaser - Raymond James Ltd., Research Division - MD and Equity Analyst of Healthcare, Biotechnology & Cannabis

Correct.

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

Well, I haven't seen anybody document \$0.05 a gram yet. I think most of the outdoor grows I've heard of have not been successful, maybe I'm missing something there. But I'm really not that concerned with it. I -- Based on my experience, outdoor grow, I think, in Canada as the latitude they're at, they've had a place in the illicit trade. But I think, ultimately, technology -- Ag technology will be the dividing force. And I think where we are today on our value proposition, which includes pricing, and you're looking at our cost, we think we can continue to drive that cost down. So it's just not about cost out of the field. And honestly, the amount of -- without having any tools available in this industry in terms of what you can do to steer the crop and mitigate infection virus and vectors from insects that cause disease, the pressures and the stresses on a plant in an outdoor environment. I'm not sure those numbers are realistic at all. And honestly, I'm not just not that concerned with it long term.

Rahul Sarugaser - Raymond James Ltd., Research Division - MD and Equity Analyst of Healthcare, Biotechnology & Cannabis

Okay, fair enough. And then just a follow-up question then. In terms of the cost of goods, you've been talking about USD \$0.48, CAD 0.63, plus you recognize that, that will vary based on seasonality. And also, I recognize that, Steve, in particular, you always make sure to put in depreciation, whereas a lot of the market is also -- is publishing numbers that illustrate cash cost reduction. Are you planning on at any point disclosing those numbers?

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

Well, our cash cost is lower, we'll say that. But excluding depreciation, it's just fundamentally wrong in our view. I mean the cost of capital in high-tech agriculture growing should be included in one's cost of goods sold and not buried below some income line or in SG&A or something like that. It is a cost of production, and it should be included. Yes, our cash cost are higher. And that is indicated -- obviously, one can figure out [its] depreciation charges if you want by looking at our cash flow statement, which -- it does describe depreciation and amortization. So you can figure it out if you want to. But fundamentally, we think it should be included, and that's why we stated our all-in costs includes depreciation at CAD 0.63 per gram for the quarter.

Operator

And your next question here comes from the line of Stefan Mykytiuk with Grays Lane Capital.

Stefan Mykytiuk

2 questions, I guess. First off, the \$2 a gram of average price, that's obviously being dinged by the \$7.2 million of revenue you couldn't recognize. Do I have that right?

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

Well, we take the gram sold, the 12,000 kilograms divided into the 24. And yes, we could not recognize the \$7.2 million.

Stefan Mykytiuk

Right. So it's roughly \$2.60 if that had been recognized as revenue, I just want to make sure I got that right.

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

Yes.

Stefan Mykytiuk

And then Steve, you said -- I think you said roughly 10% of volume in Q3 was sold direct. And it was only a couple of weeks. Just given the success that you're having in BC and in Ontario, what do you think that direct mix could be in Q4 then?

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

Well, my answer to that question, which I asked -- you tell me how many stores are going to be open, and I can back into the number. We are starting to get -- Ontario, in particular, does give us good sell-through data. So you can start doing the math, which will be helpful going forward. But the fundamental issue that everyone's facing is just the number of stores. So I know there's plans to open -- I think BC right now has 15 stores active, plus or minus and has issued 90 retail licenses. So depending on how fast those stores get up, obviously, I expect it to be improved in a higher percentage in Q4 versus Q3. But what the final percentage is? I just don't know because I just don't know the number of stores. Nobody does.



Operator

And I'm showing no further questions in queue at this time. I will now turn the call back over to Michael DeGiglio for any closing remarks.

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

Well, thank you everybody for participating. As I said, it's choppy waters right now in Canada. But we're bullish as ever long term, and we look forward to transitioning to GAAP starting January 1, reporting in March, going forward on our progress both in Canada and the U.S. And thank you for sharing in the time with Village Farms. Look forward to talking to you next time. Bye.

Operator

And ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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