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PRESENTATION

Operator

Good morning, everyone, and welcome to the Aurora Cannabis Second Quarter Fiscal 2020 Conference Call for the 3 Months Ending in December 31, 2019.

Listeners are reminded that certain matters discussed in today's conference call or answers that may be given to questions asked could constitute forward-looking statements that are subject to the risks and uncertainties relating to Aurora's future financial or business performance. Actual results could differ materially from those anticipated in these forward-looking statements. The risk factors that may affect results are detailed in Aurora's annual information form and other periodic filings and registration statements. These documents may be accessed via SEDAR and EDGAR databases. I'd like to remind everyone that this call is being recorded today, Thursday, February 13, 2020.

I would now like to introduce Mr. Michael Singer, Interim Chief Executive Officer and Executive Chairman of Aurora Cannabis. Please go ahead, Mr. Singer.

Michael Singer - *Aurora Cannabis Inc. - Executive Chairman & Interim CEO*

Good morning, everyone, and thank you for joining today's call. With me today is Glen Ibbott, our Chief Financial Officer. Given that we just addressed the market last week with a very fulsome call on our succession plans, Board expansion, business rationalization and prerelease of certain Q2 financial information, I think this call will be a bit shorter than normal. I'll do a quick review of the quarter, including operational highlights, then Glen will discuss our financial results in greater detail, followed by a question-and-answer session.

To start things off, I'd like to address the current state of the market, which I briefly summarized on last week's call. First, the past year has been challenging for the broader cannabis industry with issues of retail constraints, evolving consumer demand and provincial distributor inventory management adjustments. As we said in our first quarter conference call, it's important to remind ourselves that the Canadian consumer market is just over a year old and will take time to develop, but we remain extremely bullish on the long-term potential of the Canadian medical and consumer markets as well as established international medical markets. We firmly believe cannabis is a secular growth story. But as is the case with all growth industries, we need to be patient as the markets evolve.

With that as a backdrop and consistent with what we told you last week, our total net revenue, excluding provisions totaled $67 million for Q2. We did not record some product return and price reduction provisions that Glen will address shortly. It's worth highlighting that our core consumer revenue actually saw a modest growth quarter-over-quarter before the impact of these returns and price reductions. We are proud of our strong cultivation capability highlighted by over 30,000 kilograms of production in fiscal Q2. Our Q2 2020 gross margins on cannabis net revenue of 44% were impacted by the provision for returns and price reductions we took in the quarter. I'm also proud to report that our high-tech cultivation facilities continue to deliver leading indoor cash costs to produce below $1 a gram and, in this quarter, came in at $0.88 per gram on the heels of $0.85 per gram in Q1.

While we continue to leverage our coast-to-coast supply agreements to offer a broad range of premium consumer products across Canada, Aurora also remains focused on supplying medical patients with consistent premium products. In Q2 2020, the number of total active registered patients of 90,307 was relatively steady compared to Q1, which, in the face of market challenges, demonstrates the value of Aurora's products and patient loyalty to the Aurora family of brands.

We are a few weeks into the second wave of legalization of Cannabis 2.0 products, and I'm very proud of the Aurora team, particularly their focus and energy around the 2.0 launch at the end of 2019. We began loading in small volumes in Q2 2020 with positive market feedback from distributors and retail customers about our product quality. Those products include vapes, concentrates, gummies, chocolates, mints and cookies, and they are available in markets across the country. We have selectively partnered with a variety of organizations, prioritized our resources and built the inventory to ensure that our consumers across Canada will have access to our high-quality derivative products. Our assumption is that the 2.0 market will also develop slowly, with previously discussed market constraints affecting the rollout. But the good news is we're managing the business accordingly and feel very confident about our prospects.

I'd now like to turn the call over to Glen who will discuss the financial highlights of the second quarter, and then we'll open up the line to questions. Glen?

Glen Ibbott - *Aurora Cannabis Inc. - CFO*

Thanks, Michael, and good morning, everyone. The figures I'll be going over today can be found in our financial statements and MD&A and are all in Canadian dollars.

For our second quarter of fiscal 2020, the period from October 1 to December 31, 2019, we saw our net revenue, excluding provisions of $10.6 million, came in at $67 million. Our total cannabis net revenue, excluding provisions, came in at $63 million for the quarter. A bit more specifically, our medical cannabis revenues in Canada remained steady quarter-over-quarter at $26 million, our Canadian consumer cannabis delivered $33.5 million and our international medical dropped to $1.8 million.

To get into a bit more detail, as I just noted, during Q2 2020, our Canadian medical cannabis net revenue came in at $26 million. Our patient base continues to exceed 90,000 clients, which, although being relatively flat quarter-over-quarter, is indicative of our strong medical position as that market also faces headwinds mainly from cannibalization into the consumer market. We continue to work at maintaining and growing our leading position and are making certain internal operational changes that are designed to maximize the lifetime value of our key patients.

International medical sales declined from $5 million in Q1 to $1.8 million in Q2 as a temporary sales restriction due to a permitting issue impacted our sales in Europe. As we announced early last week, that issue has now been resolved. I'm pleased to note that our products are once again available for sale as we fill back-orders and return to growing European medical from the previous run rate. Similar to the Canadian market, we expect our European business, particularly our German business, to grow sequentially but, in the short term, slower than originally anticipated. A recent EU GMP certification of our Aurora River facility with a run rate of approximately 30,000 kilograms annually will allow us to allocate significantly more products for our export markets as they develop.

Consumer cannabis net revenue, excluding provisions, was $33.5 million, up 11% from the prior quarter. In Q2, we recorded a provision of $10.6 million against revenue, which captured the impact of returns from provinces and price reductions that we'd agreed to. This included our assessment across the provincial ordering system for products still deemed at risk. The significant majority of this provision was related to products sold much earlier in calendar 2019.

In Q2, we saw a pickup in ordering of 1.0 products late in the quarter and also had a good launch into the 2.0 system with approximately $3 million in deliveries to provinces in late December. However, during the quarter, we did see a drop-off in our market share in flower as the market shifted significantly towards value brands, which we define as retailing for less than $9 per gram.

Last week, we launched our competitive brand in this category, Daily Special, at a price point and an average potency that we think is a very compelling proposition for the consumer. In fact, we believe it will compete strongly with the gray market and help grow the overall size of the legal segment. We'll clearly be monitoring our performance here closely.

During Q2 2020, the company generated $2.4 million in wholesale bulk revenue as compared to $10.3 million in the prior quarter. As we've said before, we are opportunistic with wholesale and do not attempt to predict quarter-to-quarter revenue levels. Our average Q2 net selling price for cannabis of $5.54 per gram represented a slight decrease from the $5.68 reported in the prior quarter. This decrease is primarily attributable to the previously mentioned returns and lower per gram selling prices for wholesale cannabis.

We produced over 30,000 kilograms of cannabis in Q2 as compared to 41,000 kilograms in the prior quarter. In Q2, we took decisions at the cultivation level to prioritize planting of higher potency but slightly lower yield in cultivars at our major facilities, and we also took the opportunity to conduct some R&D with potential new high-THC cultivars. In Q3 and Q4 2020, we expect our continued refinement of yields and operational efficiencies deliver production at a quarterly rate that averages 150,000 kilograms annually.

Our cash cost to produce per gram of dried cannabis increased slightly to $0.88 per gram, up $0.03 from the prior quarter. We are pleased that we continue to deliver on a very important KPI for our operations: sub-$1 cost to produce. This is the leverage that allows us to launch such a powerful new entry into the value market while maintaining strong, healthy and sustainable margins.

Shifting now to SG&A. For Q2 2020, we reported just shy of $100 million for SG&A versus $81 million the last quarter. The increase was primarily due to an increase in salaries and benefits from targeted corporate head count additions and annual merit increases, an investment in consumer education for the 2.0 product rollout and campaign expenses related to the launch of the Aurora Drift brand. I want to stress that we recognize the importance of reducing our cost structure. And as reported last week, we have taken a decisive action to make change immediately.

Consequently, as we discussed last week, we expect to manage our business to an SG&A target range of $40 million to $45 million per quarter, which we plan to achieve as we exit fiscal Q4 2020. Clearly, this represents a substantial decrease from today's reported number. To achieve this, we are focusing on our core operations in the Canadian consumer market, the Canadian and established international markets and certain U.S. initiatives. An important part of this initiative is to reduce the complexity of our business and to instill a culture of financial discipline across all of our operations. As such, we believe there may be further opportunities to find additional medium-term cost efficiencies.

Turning to our balance sheet. I'd like to highlight once again the amendments to our credit facility that were announced last week. These amendments include: the complete removal of all EBITDA ratio covenants that had originally been set to commence in the period ending September 30, 2020; the complete removal of the fixed charge coverage ratio covenant; adjustment of the total funded debt-to-equity covenant of 0.2:1, commencing in our fiscal third quarter 2020, from the 0.25:1, and they've been in place till now; the introduction of a new minimum liquidity covenant of $35 million; and the introduction of a covenant requiring Aurora to achieve positive EBITDA thresholds beginning in fiscal Q1 2021 that we believe are consistent with our announced changes. These thresholds are mid-single digits for the first couple of quarters of fiscal 2021, increasing the back -- in the back half of the year, for a total of $51 million cumulative for the entire fiscal year.

We also used $45 million in restricted cash to pay down our debt and thereby reduced debt servicing costs. And finally, we downsized the total facility by $96.5 million through the elimination of Facility D, which have been earmarked specifically for the construction of Aurora Sun. When we reduced the scope of Aurora Sun significantly, Facility D was no longer available nor necessary. I should emphasize that we saw both actions as net positives for the company's financial position.

Staying with the balance sheet, you'll note that we finalized the goodwill and intangible and PP&E asset impairments in our Q2 financial statements, totaling $762 million for goodwill and $210 million for intangible and PP&E asset impairments, both within our previously disclosed ranges.

Turning to liquidity. As at December 31, 2019, our consolidated cash position was $156 million, excluding the $45 million of restricted cash. We had used our at-the-market financing program and had raised gross proceeds of $325 million in the period from July to December 2019. We have roughly $200 million remaining under the existing ATM program.

Our announced reduction in CapEx and SG&A costs should provide comfort to our investors that we are laser-focused on the health of our income statement and balance sheet. We expect the utilization of the remaining ATM capacity should be sufficient to fund operations and the remaining capital expenditures to the points where positive EBITDA and free cash flow were achieved.

Driving Aurora to be a profitable and robust global cannabis company is extremely important to our team as our call last week demonstrated. Our goal is to manage the business with a high degree of fiscal discipline, and we look forward to sharing further developments and progress with you in the coming quarters.

I'll now turn the call back to Michael.

Michael Singer - *Aurora Cannabis Inc. - Executive Chairman & Interim CEO*

In conclusion, we continue to focus on what we can control in an evolving market: consistent execution, operational excellence and our focus on operating a sustainable business. And in turn, that short-term focus will allow Aurora to be a leader as the global cannabis trend takes hold and numerous exciting markets develop. I have no doubt that we have the right team and the right plan to execute against that opportunity and position our shareholders for value creation, especially from these levels.

I'd now like to ask the operator to open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from Vivien Azer of Cowen.

Vivien Nicole Azer - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

So I just wanted to touch on your comment around the rollout of 2.0. It makes perfect sense that the provincial boards are taking a more cautious approach and so are you as you collaborate with them in terms of inventory load given some of the write-downs that we've seen from you as well as the industry. But I think it would be helpful to understand what your current capacity run rate is because it's pretty striking to me that edible seem to be fairly consistently out of stock, where they are in stock, it seems to be that you guys have chocolates available, but it's kind of few and far between when we've been both on the website as well as in brick-and-mortar. So where are you from a capacity standpoint on edible specifically from a 2.0 standpoint? And how would you anticipate that run rate evolving?

Glen Ibbott - *Aurora Cannabis Inc. - CFO*

Sure, Vivien. Yes. In terms of where is the run rate going, we haven't found the upper limit on the gummy demand yet, but I do have to say that it is constrained somewhat by the provincial ordering. There have been a couple of, I'll say, hiccups as we've gone through this. We had one fairly minor short-term extraction issue. That line is back on. We've also run into a few issues of packaging, et cetera, et cetera, just the usual kind of scaling up types of items. So those are behind us. It looks like we're kind of in full production right now. But Vivien, the gummies, we are selling out as soon as we can get them to the provinces. Provinces are ordering in a very, I'd say, prudent way, I think. They'd rather stock out as opposed to supposed to being overstocked. So it's a little bit early to figure out exactly how -- where the upper limits are there.

We don't have constraints on our lines per se, I mean at least at the anticipated levels. We do have plans -- there are larger-scale lines that are in place at our new Polaris building as needed, so we'll introduce that higher capacity as the market develops. What we're trying to do, as we've talked about before, is be more prudent with our capital, make sure that we spend it as we see the demand. I don't see any constraints in our production capacity for the next number of quarters. And by the time we get to that point, we'll have introduced higher capacity if we need it.

Vivien Nicole Azer - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Well, that's helpful. But maybe if you could just quantify that a little bit. So in terms of like what you're able to produce versus what you're able to ship, are you guys like running at an 8-hour shift full utilization and you're building inventory and then you're only shipping 10% of what you produce? I'm just trying to get my head around that.

Glen Ibbott - *Aurora Cannabis Inc. - CFO*

I don't have exact numbers for you, Vivien. I will track them down in terms of percentages that are shipping versus what we're producing. I know we've had -- this is -- some of the ordering is -- it's interesting to watch the week-by-week ordering. There'd be weeks that are 100% above the previous week, and they'll drop down again, back to 50%, a very -- I don't want to use the word volatile but very early stage, and [I think everybody] (inaudible) which products are moving. So we can follow-up with specific sort of utilization rates of the lines right now for you.

Operator

The next question is from Chris Carey of Bank of America Merrill Lynch.

Christopher Michael Carey - *BofA Merrill Lynch, Research Division - Research Analyst*

So I guess for my first question, I'm just trying to understand why $45 million in SG&A is the right number or, more specifically, how you're thinking about the ability to flex down that cost structure if needed. And I guess underlying that question is, if gross margins stay at this current level -- and I understand excluding the provisions, but even then, the gross margins have been coming down, which seems to be the trend if the category is increasingly going into value, which would imply that you're going to need pretty significant acceleration in revenue to kind of hit that EBITDA positive for fiscal Q1 '21. And so just really simply put, I guess what I'm trying to get at is this concept of you might need to actually flex down that cost even more and maybe just how you're thinking about your capacity to actually make those changes to hit that fiscal Q1 '21 EBITDA covenant, if indeed you have to do something like that? Then I have a follow-up.

Glen Ibbott - *Aurora Cannabis Inc. - CFO*

Yes, Chris. I think you've asked a key question, and we've been spending a lot of time on that. The targeted rate that we put out there in terms of coming out of Q4 and into Q1 is a point in time, we have targets for Q4 itself, and we have further targets past into Q1 and, in fact, into Q2. So there are some changes we can make to business that we made immediately. There are some that require negotiation with other parties, we think we're going to have in place for Q4. And then there are other actions that we can take that will impact the company's cost structure in the fall. I don't want to get into specifics because they all require -- well, most will require negotiation with other folks but -- or it require us repositioning some of our assets.

I think the key, when we look at the company, is about reducing complexity. And if I can decode that a little bit, what we're really talking about is that the fundamental -- what drives the cash flow and the profits of this company in the future are what we described to gain core Canadian cannabis in medical and consumer and certainly international markets that have sort of near-term potential. But as it stands right now with this group of assets, that's what we need to focus on. As you know, for various reasons, just in terms of building the company, the industry and developing a lot of [orders type] today, we do have a lot of complexity in the business and lots of noncore parts of the business that we're looking at, how do we rationalize that, how do we streamline this business and just spend our time, our energy and our focus on that core business that's going to drive the cash flow and profit. So to your point, do we see further opportunity? Yes, we do. But again, it's a matter of timing. And that's why when we work with our syndicate of banks, we set EBITDA covenants that kicked in, in fiscal Q1, our EBITDA threshold, and started off modestly and moved forward.

The other part of your question, and I think this is important. I don't want to go on too long, but this is an important part, we are being prudent with our revenue projections here and constructing the company to meet those prudent revenue projections. But listen, there are upside opportunities here. We just want to make sure we've got a cost structure that those upside opportunities, should they arrive, fall to the bottom line instead of getting consumed by SG&A. So that's what we're doing there, it's continuing to drive cost. So I hope you don't think for a moment that we don't believe in this market.

And we believe that there will be some good news. We've gone through a year with a lot of certain negative moves in the industry, but we believe there will be good news, whether it's Alberta approving vapes last week or just being a stronger cadence of retail stores or Ontario's consultation on vape allowances and things like that. That's upside. We want to build the company where that's upside and we're not depending on it to it not showing up to be EBITDA positive. If it shows up excellent, if it's more EBITDA, it's not getting consumed in corporate overhead.

Christopher Michael Carey - *BofA Merrill Lynch, Research Division - Research Analyst*

Okay. And then I guess for -- shifting gears a little bit. So over the past couple of quarters, so you've produced about 50,000 kilograms more than you sold, right? And I guess, with the expectation for cannabis revenue, excluding provisions to be flat quarter-over-quarter, there's still slow store rollout in Canada, it's progressing but slowly, I mean it seems like this dynamic of producing well above what you're selling is going to sustain. And I think that leads to an important question, not just for Aurora but for this entire industry. And I guess that question really is when would you consider maybe shuttering capacity or at least slowing the rate of volume that's coming off your production line because you're still, if I understand your comments in your prepared remarks correctly, looking for about 38,000 kilos of quarterly production, which will continue to materially outpace what you're selling. And I just wonder when we see the individual companies or the industry starting to take a closer look at just how much volume they're bringing into this market relative to how much the market can actually withstand.

Glen Ibbott - *Aurora Cannabis Inc. - CFO*

Yes, absolutely a critical question for us and the rest of the industry. Now we're actively -- we've got some -- probably a [center] way to really evaluate the impact under a number of different scenarios. And also on the new product launches, don't forget, I mean we haven't launched all the products that we can under 2.0 legislation. And as those come out over the next several months or several quarters, we're looking at the consumption there. Some of them are higher consumers of, say, trim and things like that. So we will evaluate. We are evaluating, but differently. And we'll update you if we come to a conclusion where we need to reduce the level of production within the company.

The point that Michael has emphasized, because a lot is fiscal discipline. We certainly, we had a view at one point several years ago that the market would have developed to a point where we could -- and certainly out of our existing assets we would sell whatever we're producing. So now in the short term, that's not necessarily true, but we'll see as we introduce some of these new products, we'd see what the demand for these new products are. But rest assured, something we're paying really closely -- close attention to, and we're definitely looking at everything in this continent for fiscal win, so we won't allow that situation to persist if it doesn't -- if we don't see our ability to consume that inventory.

Operator

The next question is from Owen Bennett of Jefferies.

Owen Michael Bennett - *Jefferies LLC, Research Division - Equity Analyst*

Yes. A couple of questions, please. First of all, don't want to lay with the points on SG&A, but it seems quite an aggressive target. I was just wondering which will be helpful from our perspective, if you could put those different buckets you identified, you could quantify that in terms of how much savings do you see coming from each? And then my follow-up is just around the Daily Special launch, what price point that's coming in at? And in your, like, internal projections, are you assuming any cannibalization of the mid-priced brands with Daily Special when that's launched?

Glen Ibbott - *Aurora Cannabis Inc. - CFO*

Yes. Owen, thanks. So I guess when we look at SG&A, it's probably worth remembering that just several quarters ago, we were running in the $60 million range. We ramped up significantly as we -- as I say, as we took on a lot more activities within the company and tried, in fact, to accelerate the development of a number of things, whether it's the internal IT projects or around some of the marketing initiatives. So we ramped up from a rate that, say, Q4 or Q3 of last year, was in the $60 million range. So it's not inconceivable to get back down to that range relatively easy. And then the next steps are basically reducing complexity, which means saying no to a number of things. We've been a very aggressive company so we tend to work to achieve an awful lot in a short period of time. And again, that just drives costs up as opposed to maybe prioritizing the stuff that's focused on the core of the business and, certainly, deferring some projects.

So I understand from the sort of current levels now, it is an aggressive target, it's an important target, and say, most of the changes that we made last week get us significantly closer to that target we've taken. It may not be evident. But if you remember last week, we said we -- our corporate head count, we reduced it by about 25%. So they're out of $100 million. And you can see where we're driving costs out right there plus a number of initiatives. I don't want to get into the details on how much on IT or HR or marketing that we've taken out, but we definitely have taken out a lot there and have significantly reduced the burden of some of our subsidiaries as well.

In terms of the Daily Special pricing, we've analyzed all the entries in the market, and it's the lowest pricing per gram. And it's also when you look at an important metric, which seems to have developed in that market, it's THC per dollar, THC per dollar, basically what you take for high-potency products. Again, it's the best metric of the competitive products. So it depends. Depending on pack size, that may go up to -- currently, up to 15-gram packs. That depends on the province, exactly what the pricing is. But I'll leave it there. So as it stands right now, we believe it's the sharpest pricing in the -- amongst all the competitive offerings.

Operator

The next question is from Michael Lavery of Piper Sandler.

Jeffrey Larsen Kratky - *Piper Sandler & Co., Research Division - Research Analyst*

This is Jeff Kratky on for Michael. Just one question from me. As you resume sales in Germany, have you seen any impact to distribution after having sales paused?

Glen Ibbott - *Aurora Cannabis Inc. - CFO*

Well, there actually was a backlog -- or a set of back-orders, the -- and we were continuing to ship those. So just to be clear, this was a -- I'm going to characterize it. Although it impacted us in the quarter as a relatively minor issue, we continued to ship to Germany and build up the inventory there, and we're building up back-orders. And then we'd start fulfilling those as soon as we have the permit to actually ship to the pharmacies with that product. So yes, of course, there's a little bit of catch-up to be done here. But we don't think that we've lost much ground there. We'll regain it fairly quickly. And quite frankly, like the story with the rest of Europe, it's not -- there's not strong competition there right now. So we should be back on track shortly, as I said, fulfilling back-orders and then getting back into the regular cadence.

Operator

The next question is from Pablo Zuanic of Cantor Fitzgerald.

Pablo Ernesto Zuanic - *Cantor Fitzgerald & Co., Research Division - Research Analyst*

Just my first question is more like a comment. I mean obviously, you are telling us all the right things in terms of you restructured covenants, you're cutting costs, you're adapting the company to a new reality, but there's no guidance, right? So if you provided more specific guidance and almost a guidance bridge, I think you would help curtail this crisis of confidence that the stock reflects, okay? You're giving us numbers. We are trying to put them together. But the market doesn't buy that. So hopefully, at some point, you can provide a bridge because without it, I don't know how they stop sliding until, of course, you showed results. But that's just a general comment.

I have 2 questions. One, from a -- if you can just talk about 2.0 because it is relevant for us to think in terms of how your sales will project over the next few quarters. You said that sales in the March quarter would be flat. So what does that mean in terms of 2.0? Is 2.0 like 5%, 10%? You have to have some visibility. And then how do you see the market progressing? There are -- other companies, so they are saying 2.0 could be a $1 billion market in a year's time, do you believe that? So just -- and describe your competitive position in 2.0. So that's the first question, just more color in terms of how 2.0 can contribute to the company this quarter and going forward in a context from your guidance, it doesn't seem to be contributing, if you can just give more color on that. And then I have a follow-up.

Glen Ibbott - *Aurora Cannabis Inc. - CFO*

Yes. So okay. Listen, I'll just state that we may disagree with some of your comments. I think you laid a position out there. We think we've been pretty directive and provided clarity of our targets on those things within our control. And as you all know, the last couple of years, the challenge for anybody putting guidance out on the revenue line is, by and large, thick and long. And that's even -- I'm not just talking about Aurora, I'm talking about across the industry, and they've had to rescind guidance as the development of the market has kind of taking its pivots and turns, and it's kind of a bit of a choppy road on the way from here to there.

We are bullish on the long term. So I'm not going to comment on these analysts' projections for the size of the market, but we definitely haven't seen, and we aren't backing off where we think this market can be, but the question is, the road from here to there and how long will that take. So we're getting back to being prudent with our cost structure that will allow us to be profitable on the entire journey as opposed to hoping for a doubling of revenues to become profitable or not. We don't want to be in that position.

So listen, I don't want to get into this, me trying to project revenues in a brand-new market, in the 2.0 market. What's happening in Q3 where we're starting a fairly modest growth is, as I mentioned in my comments, the market on the 1.0 product has taken a hard turn to the value side. It was at 2% of the market in the summer and 17% of the market in December. Meanwhile, what we characterize as premium went from mid-30s in the summer down to 17% of the market in December, so a hard turn. We launched our product that I just described, Daily Special, last week, and we've shipping to the provinces. I think BC got their first batch yesterday, so it's underway. But in terms of this quarter, we're suffering by not being in that market for January and the first week or 2 of February, meaning half a quarter there of being in the market that seems to have the most momentum.

As we look at Q3, we think that approximately 20% of our sales will come from 2.0 products. But again, trying to be prudent because it's awfully hard to extrapolate from a week-to-week projection I had mentioned to Vivien when she asked the question. I look at weekly sales in 2.0 products, and they'll double from 1 week and then they'll drop off the next, and then they'll pop up again. So way too early to project there. So we're really just trying to be prudent and make sure that if there is additional revenue coming in, that drops to the bottom line. So I hear you on the lack of visibility on revenue, but I have to tell you, we're trying to learn from the experiences of the last year or 2 in this industry that seems a bit pretty risky to be trying to predict the market that is just in the early stages of development.

Pablo Ernesto Zuanic - *Cantor Fitzgerald & Co., Research Division - Research Analyst*

Understood. That's very helpful, Glen. Look, just a very quick follow-up. And I know this is more medium, long-term and maybe not relevant today, but when I compare the Canadian market with a lot of the reg state -- reg markets in the U.S., obviously, as we all know, the Canadian market has significant restrictions that have prevented this growth or have curtailed the growth. Do you see any room to lobby the government over the next few months or even a year to be able to make some changes that will help the market, whether it's in terms of marketing, the way things are communicated online, retailing, distribution? I'm not just talking about opening more stores but just in terms of the restrictions, which, I think, have hurt the market compared to what we see in some parts of the U.S.

Glen Ibbott - *Aurora Cannabis Inc. - CFO*

Sure. So listen, we'd all love to do that, of course, right? It's difficult, the people in your Canadian cannabis store, it's hard to distinguish sometimes between the different products, and that's why the in-store marketing and education of the budtenders and staff is important to us to make sure that they understand our products and that they're being able to talk intelligently to consumers that want to come in and find the product that meets their needs. Yes, it will be delightful. I have to tell you, I mean I don't think that we're -- that's in the near-term cards in Canada. Again, it's the beginning of the industry, and they're focused on the, I'll call it, safety first side and then seeing how it plays out.

There are promising indications when you see some of the provinces starting to consult about things like the vape lounges and lounges where you consume cannabis. That's a nice step forward to more sort of a rational, almost a model that you see in Canada with either alcohol or something like that. So Michael mentioned that we're only a year into legalization, a little past a year into legalization, just a month past 2.0 legalization. So I think the focus right now is on getting the kind of the base foundation right. And then I guess we'll see where it can go, but we're certainly not banking on that in the near term.

Michael Singer - *Aurora Cannabis Inc. - Executive Chairman & Interim CEO*

And I'll just add that our government relations group are working very hard with the provincial distributors and governments because the purpose here is to try to remove as much as we can out of the black market into the regulated market. And the last numbers I've seen says that the black market is still a $5 billion annual opportunity, and the regulated market is somewhere just below $1 billion -- approximately $1.5 billion. So you could see the potential there. And the provinces do want to sort of shift that over from -- to the regulated markets. So our team are working hard. There is an appetite certainly to try to do this as quickly as possible. And we are working as quickly or as efficiently as we can with the provinces to make this happen as quickly as possible.

Operator

The next question is from Matt Bottomley of Canaccord.

Matt Bottomley - *Canaccord Genuity Corp., Research Division - Analyst*

I wanted to touch base -- this isn't necessarily a new phenomenon we've been seeing, but my guess is that we'll start seeing the impacts in subsequent quarters for dried cannabis buds. So can you give any color on how you look at your current inventory balance which I think, for just the dried cannabis stock, is about $130 million versus the surge in what we've been seeing in dried cannabis that's in various wholesale channels right now? And what should the analyst community, as a whole, be considering right now with respect to what could occur, whether it's commoditization of pricing versus a lot of this product going into cannabis 2.0 production? It just seems like it's been this lingering potential disaster for a couple of months or quarters now. And I'm just curious if you could touch on that a bit.

Glen Ibbott - *Aurora Cannabis Inc. - CFO*

Yes. I think I started on that. Well, yes, it's been an issue since the sort of the middle of last year, I guess, like people look to price inventories in the industry and try to figure out what are they comprised of, how much is at risk. There's definitely a differentiation between the quality. People say that it is -- that's defined by the consumer's experience or the levels of THC, whatever, quality cannabis and just think what is a significant amount of lower-quality cannabis destined for extraction in the industry. That's a bit of a challenge.

When we look at our inventories at the end of December 31, definitely, even under, I'd say, relatively pessimistic scenarios, we will be consuming all of that over the next several quarters. So we're not concerned about our inventory as it sits. There was a question earlier about levels of production, it's certainly something that we're watching, so it will depend on how demand plan develops. But we don't have to take any particular issues in our inventory as it stands at December 31. So I can't really comment on the rest of the industry, but I do take your point that it's a developing issue, if we were not able to move that or if they're not producing the quality that consumers is looking for. Now that's really clear that if you're selling flower -- so it's not going into extract, if it's going to flower, then it better have a high level of THC for the most part or it's not going to move very quickly.

Matt Bottomley - *Canaccord Genuity Corp., Research Division - Analyst*

Understood. And if I could just dovetail that into another question, just on the international side of things. So what a lot of LPs have been saying, certainly over the last year or so is that any sort of excess in capacity for domestic consumption when it comes to inventory could eventually go into international channels. So outside of Germany, I'm just curious if you have any allocation of your product pegged for international export? And given the quantity of the goodwill write-offs that we saw in a couple of those assets, I'm just curious how much capital is going to be allocated internationally going forward, if there's some sort of range for that, and what regions do you think are more promising than not?

Glen Ibbott - *Aurora Cannabis Inc. - CFO*

Yes, I'll let Michael address the capital allocation. But no, listen, with our 3 facilities, particularly with our River facility just being certified EU GMP, we've got plenty of capacity to serve the international markets for the next while. I wouldn't want to tell you that we can -- that the international market can consume all of that capacity by any means in the short term. There are developing markets in Europe. We're seeing some though that are looking for domestic production, and some of the Dutch tenders are kind of going that way. But I think that's -- as we said, it's a great long-term opportunity but it's developing a little slower than we might have anticipated a couple of years ago. There are other bigger markets that are putting in systems, Brazil, for instance, putting in a medical system. Regulations, I think, over the next several months, should be clear and in place. It looks like it we'll mainly be a sort of CBD-type system, but it's possible that we may supply that from our current facilities or maybe some other, but we'll be careful. Maybe Michael, you want to talk about capital allocation and international opportunities.

Michael Singer - *Aurora Cannabis Inc. - Executive Chairman & Interim CEO*

Sure. So I think part of what we announced last week and the important discipline that we've now sort of instilled in our businesses is we're going to be very cautious about how we allocate capital. And that capital allocation has to provide us with a near-term return that we think is going to be impactful to our business and beneficial to our investors. So with regards to international markets, we're obviously going to focus on key markets that generate revenue today but always look at opportunities and investing capital in additional markets where we see that near-term value translating directly to our P&L and, of course, our balance sheet. So we'll be very careful and methodical about how we allocate that capital to ensure that we see that immediate value to our story.

Operator

The next question is from John Zamparo at CIBC World Markets.

John Zamparo - *CIBC Capital Markets, Research Division - Associate*

My question is on pricing and gross margin. So even after adjusting for the provisions, gross margins are down across the board, including on consumer. And granted, you've talked about the market's pivot towards value and the launch of Daily Special, but when we see average price per gram coming down, is it more a function of mix or price deflation? And I guess what I'm getting at is, are you seeing price compression even on your premium products?

Glen Ibbott - *Aurora Cannabis Inc. - CFO*

Okay. So quickly, no, not on the premium products, by and large, I think Scientus, Bedrocan and a few of the others are holding up really nicely. We were impacted. Although it doesn't seem like a significant amount of revenue in the overall picture, the revenue in Europe that we didn't pull in this quarter is pretty much all gray, we're actually positive getting the product over there, not as significant as you might expect. And as you know, we get approximately, well, 2 or better times pricing in Germany as we do for comparable products in Canada. So that did impact some of the average pricing. I think we break this out in our MD&A, you even see the wholesale bulk was down significantly, so it's something I might characterize as lower-potency product there. So the prices seem to be holding up actually fairly well. We did have to take some price reductions on the -- on some of the inventory that was out in the system that was lower THC, but we're not producing those cultivars anymore. We are producing stuff that's in demand in the market.

So yes, looking forward, for sure, the pricing that we're offering on the Daily Special, as I mentioned before, is extremely competitive. We are taking advantage of our ability to produce at a very low cost. That will impact average pricing, but we would expect them to see a significant or a strong uptick in volumes. And we're just being cautious about it. That's what that looks like until we get to that point, but we, internally, are very excited to take advantage of this.

There's a reason why we put a lot of capital into our facilities over the last several years. And some of it is scale, for sure. But we've said for well over a year that with these facilities in automation on low level -- the ultra-low level cost of production of the quality cannabis, so delivering the 18-plus percent THC cannabis it's going to sell at a very low cost. It was meant to allow us to thrive in any market conditions. As usual, in the cannabis market, those market conditions arrive quickly. So just take, the launch of Daily Special as our first sort of value brand and it will be a very important plus for us -- of that. We're see extreme price elasticity down in that market.

And if you can offer -- if you can meet the consumers' needs with the higher THC levels on a consistent basis and offer them the best price, then the product's in the move. I'm sure you've seen that in your analysis of the market. When the entrants came in at lower prices and grabbed a quite a material piece of the market very quickly simply based on pricing and minimum acceptable level of potency.

John Zamparo - *CIBC Capital Markets, Research Division - Associate*

Okay. That's helpful. And then my second question is more housekeeping. What are your expectations on working capital investments for Q3 and Q4? Is it fair to think that there are incremental investments to be made given the launch of derivative products and now presumably a ramp-up in vape products in Alberta?

Glen Ibbott - *Aurora Cannabis Inc. - CFO*

Yes, I think that is true, by and large, as I mentioned earlier, we do need to keep a very close eye on how demand is developing, and what we're putting into our production side of the house. So in terms of the inventory, continue to build certain inventory types. But I think Vivien mentioned earlier, there are a number of our product lines that are selling out fairly quickly. So that's not -- we definitely need to continue to invest there. So there may be some incremental working capital build over the next while. We will, of course, be driving costs out of the SG&A side. So I think overall, I think we should be in pretty good shape in terms of our investment and working capital.

Operator

The next question is from Graeme Kreindler of Eight Capital.

Graeme Kreindler - *Eight Capital, Research Division - Principal*

I wanted to ask a question regarding the search for a full-time CEO. Michael, you mentioned in the prepared remarks the difficult period that the industry as a whole has been going through. And in light of that, I was wondering if there -- if that gives you any concerns about finding the right type of candidate, attracting the right type of talent, has that given anyone any sort of pause in terms of entering the industry at this point of its life cycle versus what the expectation is and what we've seen in terms of migration of talent, 6, 12 months ago?

Michael Singer - *Aurora Cannabis Inc. - Executive Chairman & Interim CEO*

Sure, Graeme, and a good question. And yes, it is something that we initiated, obviously, prior to the announcement last week. We had very active discussions going into last week's announcement, and we were confident that with last week's announcement, we would get additional inbound interest, which we've actually seen this week. So we're encouraged about the status of those ongoing discussions. We're not committing to any time. These discussions do take time, but we're very encouraged by the level of interest that we're seeing, and we're very confident that we're going to be able to find the right long-term, permanent CEO that certainly is going to be impactful for our business going forward. And we're -- and obviously, we'll update the market and our investors as we show tangible progress with regards to that search.

Graeme Kreindler - *Eight Capital, Research Division - Principal*

Okay. And just a follow-up quickly. Do you have any sort of hard and fast criteria that you're looking for? And with that, is there a separate committee, a search committee, that's been established? How is that decision-making process being held?

Michael Singer - *Aurora Cannabis Inc. - Executive Chairman & Interim CEO*

So the answer to those 2 questions are, yes. We -- a number of our independent directors are playing a very active role in this process. And so we have a lot of hands on deck at the Board level to make sure that we certainly attract and secure the right talent going forward. We're taking a good look at our business today and where we anticipate our business to go into the future. And so what we're looking for is a skill set and, obviously, an ability to lead this organization into the next generation of products. We see this moving towards more cannabinoids, CPG sort of focus. So you're going to probably see somebody that has experience in all of those areas and be able to sort of to support the business in its -- as we look at it going forward.

Operator

This concludes the time allocated for the question-and-answer session. I would like to turn the call back over to Michael Singer for closing comments.

Michael Singer - *Aurora Cannabis Inc. - Executive Chairman & Interim CEO*

I would like to thank everyone for joining our call. We look forward, of course, to speaking to you in the next quarter and providing you with more updates. Have a great day. Thank you.

Operator

This concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.