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Aurora Cannabis, Inc. (ACB.CA)

Q3 2024 Earnings Call

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to the Aurora Cannabis Third Quarter 2024 Results Conference Call. All participants will be in a listen-only mode, and a question-and-answer session will follow the formal presentation. This conference call is being recorded today, Thursday, February 8, 2024.

I would now like to turn the conference over to your host, Ananth Krishnan, Vice President, Corporate Development & Strategy. Please go ahead.

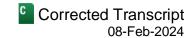
Ananth Krishnan

Vice President-Strategy and Corporate Development & Investor Relations, Aurora Cannabis, Inc.

Thank you, operator. Hello, everyone, and thank you for joining us today. On the line with me are Miguel Martin, CEO; and Glen Ibbott, CFO. This morning, Aurora issued a news release announcing our fiscal 2024 third quarter financial results, and a separate news release announcing the acquisition of MedReleaf Australia. The separate news releases and our fiscal Q3 2024 financial statements and MD&A are available on our IR website and can also be accessed via SEDAR+ and EDGAR. In addition, you will find the supplemental information deck on our IR website.

Listeners are reminded that certain matters on today's conference call could constitute forward-looking statements that are subject to risks and uncertainties related to our future financial or business performance. Actual results could differ materially from those anticipated in these forward-looking statements. The risk factors that may affect actual results are detailed in our annual information forms and other periodic filings and registration statements. These documents may similarly be accessed via SEDAR+ and EDGAR.

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Following prepared remarks by Miguel and Glen, we will conduct a question-and-answer session with our covering analysts.

With that, I will turn the call over now to Miguel. Please go ahead.

Miguel Martin

Chief Executive Officer & Director, Aurora Cannabis, Inc.

Thank you, Ananth. Our quarterly performance demonstrated not only the strength of Aurora's business model, built primarily upon global leadership in high margin medical cannabis, but also our financial discipline. Our highlights include, first, strong revenue of over CAD 64 million, up several percentage points, inclusive of 41% growth in our international medical cannabis segment; second, industry-leading adjusted gross margin of 50%, also up from the year-ago period; third, a record adjusted EBITDA, representing our fifth consecutive quarter of positive adjusted EBITDA; fourth, recall that we've also one of the strongest balance sheets of any Canadian LP and our global cannabis business will be debt-free later this month. All of these items move us closer towards our goal of generating positive free cash flow in calendar 2024.

But before delving into Q3 into greater detail, I first want to review our announcement today regarding the acquisition of the remaining 90% equity interest in MedReleaf Australia that Aurora does not currently own. They are a leading distributor of medical cannabis products in Australia. The company was acquired at a total enterprise value of CAD 44 million, of which CAD 8.3 million was paid in cash and the remainder satisfied by the issuance of Aurora shares. This transaction was thoughtfully structured to preserve the strength of Aurora's balance sheet and represents a strategic milestone in Aurora's global cannabis leadership, as we have now become the largest platform in the nationally legal cannabis industry in the world.

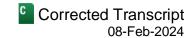
Acquiring MedReleaf Australia positions us to deliver double-digit increases to the profitability of our Australian business model through higher revenue contributions and higher gross margins. It further aligns this business with our other key profitable international markets, most notably Germany, Poland and the UK. It is immediately accretive to our adjusted EBITDA and accelerates our path to positive free cash flow generation before the end of the calendar year.

We first partnered with MedReleaf Australia back in 2017, and since that time we've been an active contributor to its growth by leveraging our pharmaceutical-grade cultivation and science-driven approach to product innovation. Like Germany, the Australian market is characterized by clinician-led traditional pharma-like product distribution model that closely aligns with Aurora's operational success. The high regulatory standards of the Therapeutic Goods Authority (sic) [Therapeutic Goods Administration] (00:04:37) makes Australia a challenging market for new entrants, while providing an advantage to companies like Aurora who are able to meet them.

MedReleaf Australia already holds the number two position in medical cannabis in Australia, having already invested in clinician education while leveraging Aurora's comprehensive product portfolio to provide best-in-class medicine and support for this rapidly growing patient base. We are extremely excited about our opportunity within the rapidly growing AUD 400 million market. This would make it the largest medical market in the world outside of North America. We welcome MedReleaf Australia fully into the Aurora fold and know that we'll be able to do great things together.

Now, let's look more deeply into our business. In Canada, we maintained our number one position in the medical market and continue to grow our market share through our broad and attractive product assortment, positive sales mix and, most importantly, product innovation. Amid a continuous disruption in this market, we know that our commitment to launching a steady stream of exciting new products is critical to holding and growing our domestic

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medical share. Our next generation cultivars can and often are made available across Europe and Australia, providing patients with some of the highest potency and most appealing offerings in these international markets.

Of course, our ability to offer pharma-grade products to global patients is only made possible by our competitive advantage of having built a production network of indoor EU GMP-certified facilities that are managed by teams who have deep experience in pharmaceutical production.

As we already discussed Australia earlier, let's now delve into our European operations as we generated sales in a record seven European countries: Germany, Poland, the UK, France, Switzerland, Malta and the Czech Republic. In Germany, our largest European market where we've been operating since 2017, we're one of only three companies with a domestic production facility. We have the number two market share for flowers, according to latest data, and the number one market share for self-payers. We also have three of the top 10 cultivars in the country by volume sales.

We are supportive of the legislative process that is moving towards the de-scheduling of medical cannabis and the potential wider legalization of adult use cannabis. We are very supportive of this effort and uniquely well-positioned to benefit as the number one supplier of flower to patients outside of the public insurance system.

In Poland, our second largest European market, Aurora earned the number two cultivar and the number two market position by volume. We are excited about the opportunities that this growing market presents.

In the UK, patients are responding favorably to the launches of our next-generation cultivars, which has led to significant increase in sales in Q3 compared to Q2.

In Switzerland, we are building on a successful launch in Q2, becoming the trusted favorite for patients and are currently widening distribution channels in the country.

All in all, medical cannabis adjusted gross margin remains strong at 62%, as we benefit from sustainable cost reductions and improved efficiency and production operations.

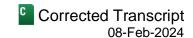
Turning back to Canada, our decision to strategically allocate product to higher margin medical markets resulted in a modest and expected year-over-year revenue decline in the consumer cannabis business. Still, our adjusted gross margin improved substantially versus the year-ago period because of our higher efficiency in production operations and a more favorable product mix.

Finally, we exhibited the inherent benefits of a diversified model as we are expanding our reach in the controlled environment agricultural industry through Bevo. Their team is currently leveraging our cannabis facilities to move into the profitable cultivated orchids market, while their current vegetable and plant propagation business already generates a steady, predictable financial performance, albeit on a seasonal cadence.

In the upcoming two to three years, we think that our shareholders will benefit from the value creation coming from this segment as we expect the acceleration of Bevo's business plan to continue to drive revenue and EBITDA growth. All of our strategic progress over the past few years will move us towards our goal of positive free cash flow in calendar 2024.

With that, I'd now like to turn the call over to Glen for a detailed financial overview.

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Glen Ibbott

Chief Financial Officer, Aurora Cannabis, Inc.

Thank you, Miguel, and good morning, everyone. Q3 is representative of our success in executing our business transformation, and the tangible and positive results that is brought to our company. Our cash balance was over CAD 200 million as of quarter close. And later this month, we will repay the remaining convertible senior notes with cash for approximately CAD 7.3 million, and that completes the repayment of nearly CAD 540 million of debt over the last three years and will leave our cannabis business debt-free.

Now, looking to Q3, big picture, we delivered revenue growth of 5.5% over the comparable year-ago period, including a significant increase in sales from our high-margin global medical Cannabis segment. On profitability, consolidated adjusted gross margin rose to 50% and adjusted EBITDA rose to a record CAD 4.3 million, reflecting a CAD 1.4 million improvement from last year and our highest quarterly result for adjusted EBITDA. Q3 also marked our fifth consecutive quarter of positive adjusted EBITDA.

Now, let's go into greater depth on our results. In Q3, net revenue rose to CAD 64.4 million, up CAD 3.3 million from CAD 61.1 million in the year-ago period. Overall, medical cannabis generated CAD 45.1 million of net revenue, up CAD 6.2 million compared to last year. By segment, international medical revenue was CAD 19.3 million, up 41% from last year; and Canadian medical cannabis was CAD 25.8 million, up 2.3% year-over-year.

Our performance in our medical channels was largely due to the positive market reaction to our Canadian-grown high-potency cultivars in key European markets, and to the continued rapid growth of the Australian medical market. Adjusted gross margin for medical cannabis was 62% in Q3, down 1% versus the year-ago period. The consistently high margin is the result of sustainable cost reductions and improved efficiency in our production operations, with our shift to supplying Europe from Canada as the impact of closing our Nordic production facility begins to flow through our financials.

As usual, driven by our focus and leadership in global medical markets, medical cannabis represented about 90% of our total cannabis adjusted gross profit dollars and increased 15% to CAD 28 million in Q3 compared to CAD 24.4 million in the year-ago period. Consumer cannabis net revenue was CAD 11.6 million, down from CAD 14.6 million a year ago. The change was the expected result of our decision to reallocate product to the higher margin markets.

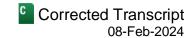
Adjusted gross margin for consumer cannabis was 26% compared to 20% in the prior-year period. This significant increase in margins is coming from higher cultivar yields and continued efficiency improvements in production that are driving lower unit costs. In plant propagation, revenue of CAD 7.3 million grew 10% from CAD 6.6 million in the year-ago period. You'll recall that the seasonality of this business delivers higher revenue in the late winter and spring months, which should result in about 65% to 75% of revenue and up to 80% of EBITDA in the first half of the calendar year, so our fiscal Q4 and Q1 periods.

Plant propagation adjusted gross margins were 18%, up from 15% in the year-ago period. The increase was due to product mix between vegetable and ornamental plant sales.

Our consolidated adjusted SG&A was well controlled at approximately CAD 27.5 million and continues to reflect our ongoing commitment to keeping SG&A below CAD 30 million in the current business.

Turning now to cash flow, we made significant progress in Q3 towards our goal of positive free cash flow in calendar year 2024, and remain firmly on track to achieve that goal as our operations used only CAD 5.3 million in

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the quarter, inclusive of working capital investment. This is down sequentially from CAD 30.9 million and considerably down from the CAD 60.6 million used in the year-ago period.

As planned, our target of CAD 40 million in annualized expense reduction is being realized mainly in Q3 and Q4. This is driven by the continued operational efficiency initiatives, including the shutdown of our Nordic production site and the sale of our Dutch assets, with the remaining expense reductions flowing through in Q4.

As we manage working capital during the company's shift forward into growth opportunities, we have been successful in balancing the working capital needs of both investing in growth and executing disciplined financial management. For CapEx, we invested approximately CAD 2.8 million this quarter, split evenly between maintenance and growth initiatives.

Now, looking forward to our next quarter, fiscal Q4 2024. Canadian medical and consumer segments are expected to be steady quarter-over-quarter, while Europe and Australia should both provide growth in their regions. The acquisition of MedReleaf Australia should provide both incremental revenue for each gram of cannabis sold and deliver the commensurate improvement in gross margins in that region.

By Q1 of our next fiscal year, we expect all three of our global medical regions: Canada, Europe and Australia, to be delivering adjusted gross margins that exceed our target of 60%. For plant propagation, we expect to see seasonally higher revenues and gross profit that will be in line with historical performance in the comparable prior-year period. Total revenue growth, combined with ongoing cost control, are expected to result in continued positive adjusted EBITDA in Q4 2024.

To wrap up, our strengthened financial condition is due entirely to the commitment to operational excellence and strategic focus of our team. We are positioning our diversified global cannabis business to deliver dependable revenue growth over the long-term.

Thanks very much for your interest. I'll now turn the call back to Miguel.

Miguel Martin

Chief Executive Officer & Director, Aurora Cannabis, Inc.

Thanks, Glen. If there's one takeaway for our investors, it will be that strategically and financially, we are in the best shape ever. It's all thanks to our team accomplishing what we set out for them to do. We fully intend to make good in our commitments for top line growth and continued and sustainable adjusted EBITDA generation. With CAD 200 million of cash on hand, we're in a strong position as we work towards our goal of generating positive free cash flow this calendar year.

Operator, please open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Our first question comes from Frederico Gomes from ATB Capital Markets. Please proceed.

Frederico Gomes

Analyst, ATB Capital Markets, Inc.

Hi, good morning and thank you for taking my questions. My first question is on your acquisition in Australia. You mentioned it's a market worth about AUD 400 million and that it's rapidly growing. So, can you just give us an idea of how fast that market is growing, what are the drivers there behind that growth, as well as what sort of assets you have in place there with that acquisition, and the opportunity Australia represents? Thank you.

Miguel Martin

Chief Executive Officer & Director, Aurora Cannabis, Inc.

You got it. Well, good morning, Fred. Yeah, listen, we are incredibly excited about this acquisition. As I said in my comments, this is a business that we've been partnered with since 2017. We own 10% of it, great operators, expharmacists, wonderful piece of business there. So, first and foremost, the AUD 400 million a year of Australian revenue market sizing is coming from a report published by the Pennington Institute. And they really leveraged the number of units sold represented by – reported by the TGA, which is the key regulatory unit, and then they multiply that by an average selling price per unit.

So, listen, it's not Nielsen or IRI, but that's the key piece of it. The TGA is the primary regulatory body in Australia and they're the ones who publish the units sold on a six-month basis. So, just in terms of growth, if you look back to 2022, the market size was estimated to be at about AUD 234 million and that grew in the first six months and we've seen steady growth. The number of approvals, which is a key indicator on prescriptions, also continues to grow. In the first half of 2023, we saw close to 320,000 new approvals and this represents a significant increase since July of, I would say, 2016. When you compare that to, say, Canada, where we've seen some improvement, it's a significant growth. So, that's that piece.

The company that we're buying is number two in the market, and that market data comes from a different data source, which is called NostraData, which is Australia's leading pharmacy data partner. It is important to know that it's a representative sample and not all pharmacies are signed up for it. But we've had great success in this market on multiple brands and really excited about it.

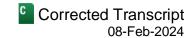
As I mentioned, the TGA has done a wonderful job being regulatory-forward and science-based. And so, we think this is a market that clearly advantages regulatory-forward, TGA-approved suppliers, of which we are. And so, we're thrilled about having a foothold and having such a great acquisition that will be margin accretive day one in that key market.

Frederico Gomes

Analyst, ATB Capital Markets, Inc.

Thank you for that color. My second question here, just about Germany. We have the [ph] vote (00:20:47) there expected to happen soon. I'm just curious how you think that – that deal that, if it passes, how do you think that could impact the medical market and the opportunities there in Germany? Thank you.

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Miguel Martin

Chief Executive Officer & Director, Aurora Cannabis, Inc.

Yeah, appreciate that. So, Germany is obviously a key market for us. As I said, we're one of three companies that have domestic production, which is a significant advantage. We're hopeful that we're going to hear something in late spring, particularly around the de-scheduling or the removal of cannabis with a narcotic designation that, in itself, will have a massive impact to that market because it will allow both the pharmacists that prescribe it as well as the patients to have greater access to that product.

Now, the actual timing and how this is going to manifest itself, we'll have to see in the regulations. We are very supportive, though, of these actions and have found that the German regulators, whether it's been the approval process, the testing process, the certification process, have all done a really good job with this. And these things take time. But we think that that legislation is going to have a really significant impact for those companies like us that participate in the medical portion of that, and obviously will have a tagalong impact as we see how other markets around them such as Poland, Czech Republic, France, and others look. So, momentum – build momentum, particularly in that part of the world. And we're thrilled about that progress and looking forward to seeing the regulations when they come out.

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Analyst, ATB Capital Markets, Inc.

Thank you very much.

Miguel Martin

Chief Executive Officer & Director, Aurora Cannabis, Inc.

You're welcome, Fred. Appreciate it.

Operator: Our next question comes from Matt Bottomley from Canaccord. Please proceed.

Matt Bottomley

Analyst, Canaccord Genuity Corp.

Hi, good morning, everyone. Thanks for the color so far. Just wanted to pivot back to more domestically in the Canadian medical side of things, not something that gets talked about a lot in general, just given that it's a pretty immaterial portion of most other LP's strategy at this point. So, it seems like it's been at this CAD 25 million a quarter, CAD 100 million revenue business for some time. And I was just wondering if you can maybe explain or give some more color on the dynamics of – is the overall market TAM of medical slowly shrinking, given that retail is not hard to find particularly in provinces like Ontario, and then just strategies maybe in order to increase that share, whether it's through other LPs kind of closing up shop or other strategic initiatives in order to get increased registrations into Aurora?

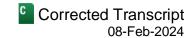
Miguel Martin

Chief Executive Officer & Director, Aurora Cannabis, Inc.

Well, Matt, good morning. And listen, it's a great question. I think there's two parts to that question. So, let me take the question as you laid it out and then I'll add a little color to it.

So, yes, we believe that the roughly [ph] CAD 400 million [00:23:39] a year of Canadian revenue is declining slightly. We've been able to offset that by growing our market share. That being said, we do think there's opportunities to grow that pie.

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Now, the impacts initially due to the growth of the rec business and the availability of rec products did have an impact. But because of the reimbursement aspect that you wouldn't get in a recreational environment, we see those patients that are in that system, particularly the veteran patients, getting great value and great service that they would not get in the rec business, mostly because of the reimbursed model. And so, there's that.

Secondly, we do see an opportunity for that Canadian medical business to grow. We are seeing interest in unions and other sort of entities looking at cannabis, as a benefit, getting bigger. And I will mention that we're now starting to see more and more clinical trials and the traditional medical establishment doing work on cannabinoids that would open up. Today, it is only 1% of the Canadian adult population that is in the medical cannabis system. So, there is plenty of opportunity. Now, the medical cannabis business is the highest margin portion of all cannabis globally. So, it's an incredibly compelling piece.

The other thing that's very important to understand is that, having excellence in Canada, which is such a critical federal legal medical cannabis market, allows you to learn and become adept at navigating other federally legal cannabis markets, of which we're now the largest. And so, our leadership that we have in Germany and Poland, in other of these key markets comes directly from what we've learned in Canada, and we are able to leverage similar products and similar executions because of world-class production in Canada and shipping those EU GMP products around the world. So, listen, we are thrilled about our leadership in the Canadian market and being a Canadian medical cannabis company, but clearly, we got great advantages of – out of leveraging that exact same system all around the world.

Matt Bottomley

Analyst, Canaccord Genuity Corp.

Great. Appreciate all that. Just one more for me on general sort of philosophy or strategy when you kind of look at a number of these international markets. I'm just wondering, in terms of the timing of allocation and deployment of capital or M&A dollars into certain markets, particularly in Europe, what are some of the key things that maybe you look at? You had one of your US counterparts earlier this week announced the deal into Poland. I know Poland's a market you guys have talked about a little bit. I think they had mentioned there's a huge amount of investment in lag time into getting products registered, which if you get in the market now, obviously can be a benefit in terms of first mover. But are there other things you look at it? Is it the scarcity of licenses? Just overall regulatory landscape with respect to how things are written up versus timing of when you expect maybe markets to launch? It's something that gets talked about a lot in this sector, but I think a lot of investors have been – more or less, have seen the can get kicked down the road with when markets outside of the US and Canada actually have really started to gain acceleration?

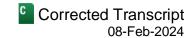
Miguel Martin

Chief Executive Officer & Director, Aurora Cannabis, Inc.

Yeah, it's a great question. And I think it's one that we spend a lot of time on. And I would argue that we're one of the best at. So, we have pretty significant modeling work that's done on each of these markets. We also spent a significant amount of money in the local markets, having people in the local markets, particularly on the GR/GA side.

So, I would tell you, when you boil it down, the calculations really are based on three core segments. The first is our assessment of the regulatory environment. Is it going to be science-based? Is it going to be EU GMP? What is the testing system going to be? What is the registration system going to be that you just mentioned? And what we've found is that there are some markets, like Germany, like Poland, like a lot of the markets that we're in, that are very rigorous in these processes. They're science-based. They do their own testing. It's very formal. In some

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cases, it takes longer than people would like, but usually they do not go backwards. And so, you can have predictability in terms of those investments.

The second aspect would be the size of the opportunity, is it going to be self-pay or is it going to be reimbursed? What's the size of the population? What are the overall economics that allow us to make a thoughtful investment thesis about where we're going to go?

And then, third is, how are we going to play that market? And we've demonstrated great flexibility. Whereas in some markets, we are both the manufacturer and the wholesaler and a sales organization. And in other markets, we will just be the manufacturer and partner with world-class wholesalers and sales organizations.

And so, in all of that, I think we've done an excellent job. And as I mentioned, one of the benefits is, you're seeing the same companies and particularly Aurora being successful in all of these markets. And unlike, say, Canada, usually, the top five companies will account for two-thirds or three quarters of the overall business in these European markets. Whereas in Canada, it might take you 20 or 30 companies.

So, the benefits are there. And as I said, the same execution and the same infrastructure, EU GMP products, GR registration, all of the work that we do on the science side, allows us to sell the same products in Poland, in Germany, in the UK and develop great efficiencies for us. So, it's difficult. It's something that we spend a lot of time on, but it's definitely paid dividends for us, as you see from our results.

Matt Bottomley Analyst, Canaccord Genuity Corp.	Q
Okay, great. I'll get back in queue, and appreciate all the details on that, Miguel.	
Miguel Martin Chief Executive Officer & Director, Aurora Cannabis, Inc.	А
You got it. Thank you.	
Operator: Our next question comes from Tamy Chen from BMO Capital Markets. Please proce	eed.
Tamy Chen Analyst, BMO Capital Markets Corp. (Canada)	Q

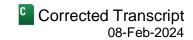
Great. Thanks. First question is, going back to Australia, so, Miguel, you talked about how the number of approvals continues to grow, a significant increase compared to 2016. I just wanted to revisit this part. Like, what has really caused the Australia market to experience such rapid growth? Like, we see some other medical markets that legalize, but the growth just isn't as significant. Like, has there been some further regulatory changes over these last few years that have really increased or – yeah, increased the acceptance of medical cannabis amongst physicians there? Just curious what is driving this quite rapid growth.

Miguel Martin

Chief Executive Officer & Director, Aurora Cannabis, Inc.

Yeah, Tamy, it's a great question. I think, I would tell you there's probably three key aspects to this. First is that the TGA, which is the primary regulatory agency, has done a exceptional job at rolling out regulations and having it be easier for all steps of the process. And so, what do I mean by that? The process in which physicians and clinicians can sign up to be a prescribing physician, the ease in which pharmacies can be registered and be allowed to service the patients, the patients' ability to register through.

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As I mentioned, it is a very large reimbursement market. So, the economics works well. They have a compassionate care program for those that are economically challenged to have access to medical cannabis through that. So, that would be the first part.

The second part is, they've also been very thoughtful at the local level. So, there's – sometimes there's tension between the federal legalization and what happens at the state level. We have not seen that in Australia. And so, you've seen a very specific sort of cadence and move forward.

And then, I think third, culturally, cannabis has been accepted in this market. And I think that those companies that have operated there have done a really good job, which is why we've seen such consolidation in market share. The largest market share company in that market has over a 30 share. We're number two in the low 20s and then there's one right below us.

So, all of that, I think, has come together, [indiscernible] (00:32:31). Now, unlike some other markets we've seen because the TGA is being so rigorous with their authorizations and their review of acceptable products, we don't — we think this will continue to be a market that advantages those companies that have that type of rigor to their production, to their certification. And this is all happening in the absence of other formats that we see being larger in other markets, particularly ingestibles and vapor products. And so, those will be coming online and can only grow this overall market. So, we're excited about it. It's a part of the world that — where this is sort of a important piece. And we're really, really excited about this acquisition.

Tamy Chen

Analyst, BMO Capital Markets Corp. (Canada)

Great. That's helpful. Well, sticking with that, I was curious to understand why now for timing of acquiring the rest of the stake in MedReleaf Australia. Is it just, as we see in the market, you experienced tremendous growth and it felt like now was the right time. And lastly, did you say that this business, MedReleaf Australia, has a higher gross margin than your current international business? Thanks.

Miguel Martin

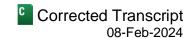
Chief Executive Officer & Director, Aurora Cannabis, Inc.

Yeah. So, I'll be taking the second one first and then I'll take the first one. So, currently, we are the supplier, we are the manufacturer for MedReleaf Australia. They have their own sales organization, they have their own clinic connection organization. And so, our margins were lower. So, my statement was that, upon acquisition, it would be similar from a margin standpoint to other markets that we have, say, in Western Europe or Eastern Europe, which are some of the highest margins you see in cannabis globally, as those margins today are in the low-60s.

In terms of why now, I would say, there are a couple things. One is, as I talked to you about earlier, I mentioned earlier about our analysis about regulations, market size and our ability to sort of leverage that. And we felt that we were in an inflection point, because of the size of the market, because of where the regulations were and because of our ability to leverage innovation in some of these new formats coming on.

Clearly, the other side, the owners of the business also had to be aligned that this was the right time. And I can only say great things about what they've done to build this business. Like I said, the founder is an ex-pharmacist and that team has done just a superb job building this business. And we collectively thought this was the right time to take the next step. And with the products that we have online to be able to leverage in Australia with the cash position that we have and everything else going on, collectively, both Aurora management as well as the ownership of MedReleaf Australia felt this was exactly the right time for us to make this deal happen.

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Tamy Ch	en
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Analyst, BMO Capital Markets Corp. (Canada)

Okay, great. Thank you.

Miguel Martin

Chief Executive Officer & Director, Aurora Cannabis, Inc.

You're very welcome.

Operator: Our next question comes from Doug Miehm from RBC Capital Markets. Please proceed.

Douglas Miehm

Analyst, RBC Dominion Securities, Inc.

Yeah, good morning. My question just has to do with capital allocation. When you look at the Australian acquisition and the amount of cash used versus shares issued, can you walk through the decision-making process there and why you decided you needed so much dilution relative to the CAD 10 million or so, or CAD 8 million that you paid out, especially given that your balance sheet is so much better now and you're on the cusp of turning free cash flow positive? Thank you.

Miguel Martin

Chief Executive Officer & Director, Aurora Cannabis, Inc.

Sure. Well, Doug, I'll make a couple comments and then allow Glen to get there. I think we are — we've worked incredibly hard to take out the CAD 0.5 billion in the convertible debt, and really want to demonstrate that the company is being incredibly thoughtful with the financial decisions that we make. Now, that's not going to come at the expense of growth.

And so, it was our opinion that that was the right allocation to use that amount of stock versus the amount of cash in order to retain maximum flexibility with that cash position. And I think, I understand your point about dilution. But I think from a shareholder standpoint, if you look at that valuation and you look at their trailing 12-month revenue as of December 31 was about AUD 40 million. And the fact that it's accretive day one, we believe that is the – was the right allocation for this deal going forward. But listen, I understand the question, but all in all, if you look at where we are now, free cash flow positive by the end of the year, roughly CAD 200 million in cash on hand, no debt on the cannabis business, and now with this piece coming online, which may be as large as Canada, which would make it the largest federally legal medical cannabis market in the world, we feel really good about it, and that was the structure of the deal.

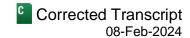
But Glen, anything you want to add to the allocation there?

Glen Ibbott

Chief Financial Officer, Aurora Cannabis, Inc.

No. It's pretty thorough, Miguel. Doug, I will note, we've been very consistent in our messaging over the last couple of years that the share issuance we really tried to refocus that on incremental creative new business. So, it's strategic focus as opposed to back a number of years ago, a number of cannabis companies used to fund our operations. So, this is not about funding operations. This is about adding that incremental revenue and margin that Miguel's talked about, very accretive, value is quite compelling. So, all the strategic reasons that Miguel laid out, but we see shares as a valuable tool when we are looking at it strategically. So, that's – that was part of the

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thinking on this as well, consistent with what we've told you in the market over the last couple of years of what we've reserved our shares for.

Douglas Miehm

Analyst, RBC Dominion Securities, Inc.

Okay. That's helpful. And then, just maybe as a follow-up there. Given that this group is going to be a reasonable-sized shareholder of the company, would you expect them to be long-term shareholders of the company?

Miguel Martin

Chief Executive Officer & Director, Aurora Cannabis, Inc.

I don't know. I mean, that's going to be up to the shareholders of it. We would hope everybody would be long-term shareholders of this company. But that's their decision. And I think it's not – it doesn't have any bearing in terms of how we run the company or the deal or anything going forward.

Douglas Miehm

Analyst, RBC Dominion Securities, Inc.

Okay, great. Thank you.

Miguel Martin

Chief Executive Officer & Director, Aurora Cannabis, Inc.

You got it. Thank you.

Operator: Our next question comes from Pablo Zuanic from Zuanic & Associates. Please proceed.

Pablo Zuanic

Analyst, Zuanic & Associates LLC

Good morning, everyone. Miguel, just thinking about the potential acquisitions you need to make in Germany, following what you did in Australia, maybe explain the difference of your on-the-ground business model. In the case of Australia, you were shipping from Canada, right, and pretty much MedReleaf Australia was taking care of everything else. In the case of Germany, it seems to me that you have more assets on the ground, more feet on the ground. But once we have a change in the narcotics law and other changes, do you think you will need to make acquisitions in Germany or pretty much it's about investing on what you have already? Thanks.

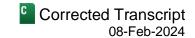
Miguel Martin

Chief Executive Officer & Director, Aurora Cannabis, Inc.

You got it. I mean, Pablo, I think for Australia, we found such a great partner that we were comfortable with not going all the way through and, obviously, it impacted the margin when you're just the manufacturer. That's the trigger to buy the rest of it, so that we could experience the same margins that we see in other parts of the world.

Germany was different. And, obviously, you know that, you've been covering it for us. We, very early on, again, to go back to those three criteria, we got very comfortable with the regulators and the regulatory process. We got very comfortable with the size of the market and the fact that it was going to be a reimbursed market with also a large self-payer. And we also got comfortable with the unique proposition that they offer there to have in-country manufacturing and be aligned with the government and first mover status. It was for that reason that you're right that we have quite a significant amount of head count and infrastructure both in Berlin, where we have sales, marketing, finance, back office and, very importantly, government relations work there, as well as the production

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team that we have at Leuna. And I think that shows our flexibility. And if you go East and you look at a country like Poland, we've got sales and marketing in Poland, but we don't do any production in Poland because we can bring product in at a very efficient way with our new genetics coming in from Canada.

If you look at, say, a market like the Czech Republic, we work with partners, same thing we do in Switzerland and with Austria. And so, I think you have to be flexible. But at the core, you have to have the products that patients and clinicians want, and we're able to do that incredibly efficiently out of Canada. But as markets get there, we're going to continue to make investments and we're thrilled to have that opportunity now to be completely integrated in Australia, which will look a lot like we have in Germany.

Pablo Zuanic

Analyst, Zuanic & Associates LLC

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Great. And just a quick follow-up. In the case of Australia, so they don't have production there, your – the company you acquire. Is that something you would look at down the road, especially when you see the case of Israel, with dumping claims and the market in Israel shutting down every now and then. Is there a risk in Australia? Would you need to have local production there? And if you can expand on the argument you made about various trends in Australia to other players? Thanks.

Miguel Martin

Chief Executive Officer & Director, Aurora Cannabis, Inc.



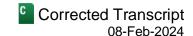
Sure. I'll be happy to. Just on Israel, we haven't shipped to Israel in a year. But we are not – we've had production, as you well know, in other parts of the world. And what we have found, which is really important, is that, in all of these environments, they allow for the importation of registered or certified product. In most cases, that's EU GMP. In Australia, they've been very thoughtful. They have their own registration process and certification process, and we've worked with them on that.

And so, because the economics and the efficiencies of being able to do that in a centralized place like Canada, which is such an incredible place for us to grow, we can leverage the same genetics, the same process, at very low energy cost and production cost and ship it around the world. That's a significant advantage for us. And we've not heard anything in Australia or none of those markets that would restrict the ability of Canadian-grown, EU GMP, or TGA-authorized flower to come into those markets. Now, if we found something locally in any market, we've got a long history of managing a variety of different facilities. And so, we definitely could do that, but we have not seen that in Australia.

Now, in terms of your point about restrictions, the TGA, the primary regulatory authority in Australia, is incredibly rigorous in what they allow. So, first and foremost, the registration process is very rigorous and their requirements are consistent with what we see in Europe, but take anywhere between 8 and 12 months for every new product to be brought in and they review that. They do their own testing, which they're reviewing the actual COAs or certificates of assurance for all of these key products, you have to have vigilance and precision in your production. They review every aspect of the labeling and the packaging as well as have certification for wholesale delivery and the pharmacies. It's a high bar, which is why you see concentration. And I don't think you're going to see actions in Australia that maybe you've seen in other markets. And for that reason, you see good margins. And so, we're excited about that. We love working with the TGA.

And like I said, people can get a little frustrated about the pace sometimes of progress. But when you have great markets like Australia or Germany or others, they don't go backwards. And that's very important from an asset allocation. And I think that's why we're so excited about it and I think why we do so well there.

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Pablo Zuanic

Analyst, Zuanic & Associates LLC

Very welcome, Pablo.

Right. Thank you.

Miguel Martin

Chief Executive Officer & Director, Aurora Cannabis, Inc.

Operator: This concludes our question-and-answer session. I would like to turn the floor back over to Miguel

Martin for closing comments.

Miguel Martin

Chief Executive Officer & Director, Aurora Cannabis, Inc.

Well, first and foremost, we thank everybody for your interest in Aurora. We are so excited about where we are. And as I said earlier, we've never been in better shape. Today was a great day to announce the progress that we've made in the core business but, as importantly, announce the acquisition of a great asset in one of the fastest growing and largest medical cannabis markets in the world. We continue to believe medical cannabis is the best place to be in cannabis globally, and we've demonstrated our leadership there. So, we thank everybody again and we look forward to speaking to you soon. All the best. Bye.

Operator: This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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