

Aurora Cannabis, Inc.

Fourth Quarter Fiscal 2019 Results

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PRESENTATION

Operator

Good morning everyone. Welcome to the Aurora Cannabis Fourth Quarter Fiscal 2019 Conference Call for the three months ending June 30, 2019. During today's call, Aurora will be referring to an earnings presentation which listeners are encouraged to download from the Financial Report section of the Company's investor website, investor.auroramja.com. 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, 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, September 12, 2019.

I would now like to introduce Mr. Cam Battley, Chief Corporate Officer of Aurora Cannabis. Please go ahead, Mr. Battley.

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

Thanks very much, Operator. Good morning, everyone and thank you for joining today's call. With me today are our Chief Executive Officer, Terry Booth, our Chief Financial Officer, Glen Ibbott, and our Executive Chairman, Michael Singer.

For today's call, I will start by discussing some of our operational highlights and then Glen will discuss our financial results. I'll then briefly return to present our outlook for the rest of the year and beyond. Then we'll take your questions.

As we do every quarter, we will start with a few initial framing comments before shifting into the formal comments. As mentioned by the Operator, I'd like to draw everyone's attention to the dashboard of key performance indicators that we provided, once again, viewable on our investor website at investor.auroramj.com. This is a really useful tool. One of our innovations, essentially a green light, yellow light, and red light tool to help track the Company's performance. As you'll see, most of the KPIs are in the green and we've highlighted two that we've identified as yellow. We will speak to each of these in more detail, but for now I'd like to focus on the big picture for Aurora in our Fiscal Q4, the quarter ending this past June 2019.

It was yet another strong quarter for ACD (phon). Among the highlights included continued growth across all our distribution channels—Canadian medical, Canadian consumer, and international medical; a massive increase in kilograms produced, increasing 86 percent quarter-over-quarter; a further 20 percent decrease in our cash cost to produce, now reaching \$1.14 per gram. I should note that at our flagship highly automated Aurora Sky facility at Edmonton International Airport, we are producing at about \$1.00 a gram with further improvements anticipated. In addition, our gross margin improved by a further 3 percent, reaching 58 percent.

The two KPIs that we've designated as yellow are average net selling price per gram and our SG&A. We wanted to call them out as a matter of transparency. The reasons for this are as follows: our

average net selling price per gram, which we will get into in more detail a little bit later, came down as a result of actually increased sales in the consumer market, as well as some bulk wholesale sales that we actually managed to achieve a very attractive margin on, higher than our overall gross margin. Then our SG&A obviously is increasing a little bit at 9 percent. It's higher than it was in the last quarter at 1 percent growth, but I think that's explainable in large part because we are heading into essentially Cannabis 2.0 with the new product forms coming onboard toward the end of this year.

I also want to acknowledge that we slightly missed our guidance on our overall net revenue. We projected \$100 million to \$107 million in overall net revenue. We came in 1 percent below that at approximately \$99 million. Now, that should not have happened. The reason why it happened, we will discuss a little bit more, but it's essentially these things. One, these were not our core cannabis revenues. On our core cannabis revenues, we came in right at the top of our guidance at \$95 million; by the way, the largest revenue figure in a quarter that any cannabis company has ever recorded for cannabis revenues. On the overall net revenues, we missed slightly based on our ancillary or non-cannabis revenue. A couple of reasons for that; one, those are more variable than our cannabis revenues. We also have a little bit less visibility into the performance of our non-cannabis units that are independent, that have a separate governance structure. Then, finally, we actually required a lot of some of our ancillary companies and operations, specifically with respect to our analytical testing and our patient counseling. We can't record revenue internally for intracompany transfers.

Now, the big picture, most important takeaways here before we get into the formal comments, I'd emphasize the fact that we've established at Aurora leadership in this sector with respect to not just production but also revenues on a global basis in terms of innovation. This is the biggest quarter, the

biggest revenue that any company in this sector has ever recorded, so we're very pleased at the progress that we've made and now we will shift into the formal comments.

Now, the past year has been transformational for the cannabis industry overall. It's rapidly maturing into an established operating industry. At Aurora we've prudently built a business that is efficient, scalable and highly adaptable. We are a leader in markets around the world. We are committed to defining the future of cannabis globally and that commitment underpins everything we do.

In the quarter, Aurora continued to be a strong performer in the Canadian consumer market with leading market share and brand awareness. We achieved 52 percent growth in consolidated revenue compared to Q3, driven by a strong increase in production, particularly at Aurora Sky. While retail distribution in key provinces has been a constraint in Fiscal 2019, we will see retail infrastructure expand in 2020 through the launch of new brick-and-mortar stores across Canada. With more stores we expect to see further consumer engagement.

Providing safe and reliable access to medical cannabis remains at the core of Aurora's business and our revenues from this market increased 10 percent compared to Q3. Domestically, our patient roster increased by 10 percent to over 84,000 patients. Driving this growth are continued referrals from our cannabis RX clinics and a network of over 60 clinic partners. Internationally, Aurora continues to be the leader in working closely with Government regulators and policymakers to implement medical cannabis programs and open new markets. In Italy we were selected as the only winner of a public tender to supply that market with medical cannabis for a period of two years. While the initial quantities

are small, this is an important opportunity to build our connection with patients, doctors and pharmacies who have come to know and appreciate our products over the past two years. This also underscores our ability to open new global markets by engaging with local governments and acting as a trusted partner as we continue to work to ensure patients have access to the high-quality medicine that they need.

As well, in addition to the two EU GMPs, that's European Union Good Manufacturing Practices, certified facilities we currently operate, we are in the final stages of certification for our Aurora River and Aurora Vie facilities, one in Ontario and one in Québec. This will bring our EU GMP certified facilities count to four, making us the licensed producer with the most EU GMP certifications, something that's rapidly becoming a global standard and ensuring our continued access to international markets where this certification is going to be a requirement.

We recently announced our first major partnership in the United States market, our science-driven partnership with the UFC, the mixed martial arts organization, to study the effectiveness of CBD cannabidiol as a treatment for pain and recovery in high performance athletes. This ground-breaking research will generate the data required to establish CBD as an accepted therapeutic ingredient. The intellectual property from this research will lead to the creation of science-backed hemp-derived CBD products that will combat the rapidly growing market of untested CBD treatments.

We're excited about the opportunities ahead for us in the U.S. market and will continue to take a measured but strategic approach to how we enter this space.

Furthering our scientific leadership, we also announced that we've begun cultivating cannabis outdoors. The new sites at Aurora Eau in Québec and Aurora Valley in British Columbia will be used for cultivation research to develop new technologies, genetics and intellectual property to gain further efficiencies in our indoor grow facilities and advanced learnings about cannabis cultivation. This is important work that needs to be done to ensure sustainable cannabis agricultural practices that are developed to safeguard both our environment and global consumers.

The first harvest of our outdoor grown cannabis is expected to occur later next week at Aurora Eau in Québec. This cannabis will be sent for extraction and further testing, and we look forward to applying the learnings from these test sites to next year's crops. We're committed to defining the future of cannabis on a global basis and we are well on our way. While we may still be in the early innings of the cannabis industry, the work that we've accomplished to date has created a Company that is uniquely positioned to lead.

That concludes my opening remarks. I'd to turn the call over to Glen now who will discuss the financial highlights of the fourth quarter.

Glen Ibbott — Chief Financial Officer, Aurora Cannabis, Inc.

Thanks, Cam, and good morning, everyone. My comments here today reflect the success that Aurora has achieved as we continue our focus on the execution of our business plan. The figures I will be going over can be found in our financial statements and MD&A and all are in Canadian dollars.

As Cam mentioned, our fourth quarter Fiscal 2019 results showcased the drivers of our continued strong quarter-over-quarter growth. We reported total net revenue of \$99 million, a 52

percent increase over the \$65 million in the third quarter. Our Cannabis net revenue was \$95 million, representing 61 percent sequential growth. This growth was predominantly fueled by additional production capacity and available supply from our Aurora Sky and Aurora River, formerly MedReleaf Bradford facilities which drove a \$15 million increase in consumer cannabis net revenues, as well as an \$18 million increase in the Wholesale Bulk Cannabis trim sales.

For the full 2019 fiscal year ending June 30, net revenue was \$248 million. Of this, \$226 million was Cannabis net revenue, an increase of over 427 percent compared to the prior year. Our fourth quarter 2019 Canadian Medical Cannabis sales increased 9 percent to \$25 million, driven by our continued success in growing our patient base which currently stands just shy of 90,000 clients. International Medical Cannabis revenue for the quarter was \$4.5 million, up 12 percent over the prior quarter.

For the year ended June 30, 2019, overall Medical Cannabis net revenue increased by 150 percent to \$107 million. This increase was primarily due to the addition of revenue from MedReleaf and CanniMed acquisitions, increased European sales, as well as a ramp-up in production across our production facilities.

During the fourth quarter, our growth in the consumer cannabis market continued with net revenue of \$45 million, an increase of 52 percent over the prior quarter. We finished the full fiscal year with \$97 million in Consumer Cannabis revenue.

As you will note, our fiscal Q4 included approximately \$20 million in Wholesale Bulk Cannabis revenue. We sold cannabis trim for an average price of \$3.61 and a margin 61 percent. In the future we

expect to sell into the wholesale channel opportunistically and when pricing and terms are appropriate. I would caution against expecting bulk sales of the magnitude we achieved in Q4 2019 to be consistent or repeatable. However, we do maintain a focus on the bulk sale of market and we do believe there will be further opportunities there in the future.

Given our patient-first commitment and belief that medical cannabis should not be subject to outsized tax, we continue to absorb the cost of these excise taxes on behalf of our Medical Cannabis patients. As a result, excise taxes negatively impacted our Canadian Medical Cannabis net revenue and gross margin by \$3.3 million and 4 percent respectively.

Let me address our reported revenue as compared to our updated outlook in August in a bit more detail. We reported at the top end of the range for our Cannabis revenue at \$95 million. This is our core business and we are proud to have delivered such a strong quarter. However, revenues from our ancillary businesses, particularly those that are purposely managed independently at arm's length, were lower than expected. We had expected relative consistency from quarter-to-quarter, but when they reported into us, we needed to eliminate significantly more revenue than expected for intracompany work. While we do not have day-to-day visibility of these businesses, we do need to improve our ability to forecast these businesses. However, because of the lumpiness of these revenues and their relative financial immateriality, we will not be including them in future guidance.

Now, continuing further down the P&L, our gross margin on cannabis net revenue increased to 58 percent in Q4 2019 compared to 55 percent in the prior quarter. The increase in gross margin is primarily due to ongoing improvement in our production cash cost per gram. As Cam mentioned, our

cash cost to produce per gram dried cannabis decreased to \$1.14 per gram, down by \$0.28 or 20 percent during the quarter as compared to the last quarter. This is primarily attributable to the positive impact of the greater economies of scale and manufacturing efficiencies achieved from the increase in production in the period, particularly at our Aurora Sky facility. On a standalone basis, our Sky facility is now in around \$1.00 per gram and we expect further improvements in the coming quarters, with the resulting increases to our overall gross margin.

We see our strength in highly efficient production and the resulting industry leading gross margins as core to our future success. It allows us the opportunity to continue to invest heavily in the future growth of our business at the same time as progressing towards positive EBITDA.

During Q4 2019, Aurora produced just over 29,000 kilograms of dried cannabis as compared to 15,590 kilograms in Q3. The production from our higher volume facility increasing through the quarters we expect to see a further increase in production in Q1 2020. We've also ramped up our internal extraction capacity and now have enough to meet our current and future needs.

In Q4 we continued to invest in the corporate infrastructure and talent required for expansion and growth of market share globally. The increase in SG&A expense compared to prior periods was primarily attributable to increased shipping and fulfillment costs related to higher revenues and preparation for the launch of new products, including product development and branding development which includes our UFC research initiative. Reflecting the year-end audit adjustments that Cam mentioned earlier, our Q4 SG&A would've been about \$88 million, an increase of approximately \$20 million over the prior quarter.

We have developed a diversified and vertically integrated Company, currently capitalizing on the tremendous opportunity of the global cannabis markets. In Q4, our reported Adjusted EBITDA loss decreased to \$11.7 million as compared to \$36.6 million in the prior quarter. Considering the impact of year-end audit adjustments, we estimate our delivered EBITDA loss to be approximately \$25 million, an improvement of over 32 percent from the previous quarter.

I'm extremely happy with the underlying achievements we've made in the last nine months and driving towards our EBITDA target. We have more work to do, but I'd highlight that nearly all of our KPIs are showing sequential improvements. We solved previously identified production bottlenecks and we're seeing strong sell through on our products at the retail level. There are remaining constraints to face the growth in the Canadian market that we would like to see resolved, including the timing of currently approved and future retail stores. The resolution of these constraints will impact the timing of our EBITDA positive target, but we do expect these constraints to become less of an issue over the next several quarters.

As we continue to execute on our strategy, the Company expects Adjusted EBITDA to improve in the future due to higher sales, improved gross margins and prudent SG&A growth.

As at June 30, 2019, we had \$218 million in cash and cash equivalents compared to \$89 million last year. In August, we announced the upsizing of our secured term debt facility to \$360 million with an accordion feature for an additional \$40 million of capacity. Further, and as I'm sure many of you have seen on September 3, we announced the disposition of our remaining equity investment in the Green Organic Dutchman, generating approximately \$86 million in gross proceeds. With these two transactions

now closed, we believe we have more than adequate financial resources in the near term to execute our growth plans.

I should also note that we continue to evaluate our global capacity expansion. We have identified opportunities to defer certain CAPEX as we rebalance the growth of demand with our increasing supply. We are continuing to build out our full production facility pipeline, but in concert with the growth of the total global cannabis market.

As I conclude my remarks, I would like to note that I'm proud to be a part of the best performing LP in the Canadian industry. Aurora delivered strong revenues and patient numbers, improved on already robust and LG margins, produced a consistent and meaningful supply of high-quality cannabis, and is well-positioned to continue to keep the gas pedal down for growth while also moving to EBITDA positive in the short-term, not the long-term. This makes Aurora unique in the Canadian industry.

I'm very pleased with how the Aurora team is focused on solid execution and our operational improvements this past year. We are in a good financial position and we have numerous opportunities at our disposal to execute on our growth strategy. I'll now pass the call back to Cam.

Glen Ibbott — Chief Financial Officer, Aurora Cannabis, Inc.

Thanks, Glen. As you heard today, we have built a solid platform for growth that's generating continued positive results. Before I open the call for questions, I wanted to provide an update for our outlook for Fiscal 2020. The opportunity in the global cannabis and hemp markets is tremendous and Aurora will continue to make the necessary investments today to build long-term value for shareholders.

However, Aurora will take a balanced approach to these investments with a focus on operating a sustainable and profitable business.

(Inaudible) establishing a substantial operating footprint in the U.S. As part of the U.S. market strategy, the Company is considering its shareholders and how various state and federal regulations will affect its business prospects. A number of alternatives to grow Aurora's presence in the U.S. market are under evaluation right now and the Company is committed to only engage in activities which are permissible under both state and federal laws. There are market opportunities that are legal at both state and federal levels that could add operating cash flows and be critical pillars of Aurora's strategy and long-term success.

The introduction of new product formats to the Canadian consumer market this fall represents a significant opportunity for the Company. We are very excited to introduce a line of new high-quality products across the country in a variety of product categories. We have invested the time to study consumer habits in legal U.S. markets which have driven the development of product that consumers will desire and that are compliant with Health Canada's regulations here in Canada.

As we previously discussed, our initial focus in the derivative product market will initially be on vapes and edibles. To support these new product formats, we've invested significant capital to staff up and scale our operations in terms of both our cultivation and extraction capacity, and in developing new production hubs to ensure that sufficient product is on store shelves for December 17. On that front, both of our Aurora Air and Polaris facilities are progressing very well, and I can say that as of today, we

are in commercial production of vape pens, mints, gummies, and chocolates, and in the late-stage development in other product categories.

As I said off the top of the call, while many in the industry are trying to decide how they will build their cannabis business, we already have built a solid growing business, integrated across all value chains, in fact, the global leader.

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

Q & A

Operator

If you would like to ask a question at this time, please press star, then the number one on your telephone keypad. If you would like to withdraw your question, please press the pound key. Please limit yourself to one question and one follow-up question, after which you can return to the queue.

Your first question comes from Tamy Chen with BMO Capital Markets.

Tamy Chen – Analyst, BMO Capital Markets

Yes. Thanks. Hi. First question is, Glen, could you talk a bit about—in the EBITDA reconciliation you've got for the quarter from net income to Adjusted EBITDA, there was a note there about, I think there was some change in accounting where it reduced the operating expenses in the quarter by about \$15 million. Can you just talk about what was that accounting change there?

Glen Ibbott — Chief Financial Officer, Aurora Cannabis, Inc.

Yes. Hi, Tamy. It wasn't a change. It was our year-end audit adjustments. As we went through our year-end and scrubbed our financials, we identified some adjustments from prior periods that we needed to correct in order to satisfy our audit and get our full-year financial statements in good shape. Effectively, what happened there is we did record some adjustments in Q4 that possibly should have occurred in previous quarters. Our previous quarters, the results should have looked slightly better and we recorded those through in Q4. Overall, nonmaterial adjustments but part of the audit cleanup. They fall into a couple of buckets, one, and mainly driven by the level of acquisitions and integrations we did as we scrubbed through some of those acquisitions, find some costs that have been recorded that have been over-accrued. Then we also identified some costs that should have been capitalized earlier in the year. We made those corrections as part of our audit.

Tamy Chen — Analyst, BMO Capital Markets

Okay. Thanks. My follow-up is just wanted to understand the CAPEX spend in the quarter. I think it increased quite a bit sequentially. How should we think about that? I mean, what was the capital deployed into during the quarter? Is this the go-forward rate? Just kind of commentary about that would be helpful.

Glen Ibbott — Chief Financial Officer, Aurora Cannabis, Inc.

Sure. Yes, Cam, I can start on that.

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

Yes.

Glen Ibbott — Chief Financial Officer, Aurora Cannabis, Inc.

Tamy, you know a couple of the major facilities that are under construction—Sun and Nordic, and we've mentioned a couple of others. You also are aware that we've got Polaris and Air and an innovation centre in Comox for our R&D, for our research. There is a lot of work going on in Aurora right now as we scale up, not only for international but within Canada to make sure we're efficient distributors, so distribution centres across the country, and manufacturing for the new products, things like that. So, the CAPEX, let's say, Q4 and spilling into Q1 a little bit would be a peak CAPEX for us. We are over \$100 million dollars into our Aurora Sun build. It's progressing quite nicely. As we indicated a little bit earlier in our comments, we are looking at the timing of CAPEX and matching our supply to the demand.

As you saw when we launched Sky, we were able to get certain bays licensed and in operation for the entire facility was built in a phased approach and we're certainly taking that approach to some of the larger production facilities. We've just got an awful lot going on. As you know, we're heavily into technology, automation and things like that, so these are long-term investments that have paid off in our operating costs, reduced operating costs, reduced production costs over the long-term.

That's where we're at right now, Tamy. I think you would expect in Q1 to still see a significant CAPEX spend and it'll start to reduce over future quarters, particularly most of these facilities are nearing completion and then we'll just have a couple of larger production facilities still ongoing.

Operator

Next question comes from Matt Bottomley with Canaccord Genuity.

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

Hi, Matt.

Matt Bottomley — Analyst, Canaccord Genuity

Hi. Thanks for taking the questions. I just wanted to—two items, one on some of the commentary on potential volatility going forward and then again on the EBITDA commentary. So, on the volatility side, given that you had a good Wholesale bump in the quarter and then within your Recreational Consumer revenue there could be some speedbump there depending on how retail is rolled out, what's the best way for, I guess, analysts to look at this considering that the Wholesale may not be repeatable—obviously you can tell me if that's different—and the Recreational revenues could still see potential headwinds. Just trying to anticipate the potential magnitude of the lumpiness going forward.

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

Yes. I'll take the first crack of this and then hand off to Glen. The first thing is the demand is actually there for Wholesale product. You'll notice that we got an extremely attractive price for trim, \$3.61 a gram, and that the margins were even better than our overall gross margin. If we have opportunities, and it's likely that they will, we will proceed with additional Bulk Wholesale. But the bigger question you're asking is with respect to volatility and I think what we are signaling here is just to be aware as a lot of observers have suggested. We're anticipating that there may be a bit of a plateau between now and the advent of the cannabis legalization 2.0 products anticipated somewhere around

the end of the year. I think that's really what we are anticipating, that there's likely to be across the sector a little bit of a plateau between now and then.

Glen, did you want to add to that?

Glen Ibbott — Chief Financial Officer, Aurora Cannabis, Inc.

Yes. Matt, what we are signaling there—and you know Aurora and you know how consistently our revenue continues to ramp quarter-to-quarter-to-quarter. The revenue curve is a nice, smooth continuously increasing curve and we, specifically for us, just want to call out the fact that there are constraints on the consumer system right now and the provinces are starting to show that as well, as seen in July and August, where they're trying to work through some of the inventories that they have and have slowed their buying, and we expect it to pick up and to continue to pick up through the next quarter.

But we did want to kind of signal that our continued sort of 40 percent quarter-to-quarter growth may take a bit of a pause just due to industry dynamics. That being said, we still expect to see growth in the core businesses and, as Cam said, the Bulk opportunities may be there, but if the pricing is right we will execute on those as well.

One of the things that heartens me (inaudible) to look forward is from the data we see from the provinces is we are number-one in the country in sell through rates, so our products—we're delivering the right product, the right qualities that consumers are preferring. As long as we continue to sell through at healthier rates, then as the bumps kind of even themselves out and the retail stores roll out, then we'll benefit disproportionately, I think, from that increased market size.

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

(Inaudible) from what Glen was talking about on retail. A good example would be Alberta. Alberta lifted more (inaudible) on retail stores, stocked up a considerable amount of cannabis, and the stores have been granted licenses but they're not yet open; they are doing their buildouts. Remember that overproviding right now are tinctures, joints, bud and gel caps. We have another cannabis 2.0 coming into Canada which we think is going to significantly drive revenues for value add.

Matt Bottomley — Analyst, Canaccord Genuity

Got it. That's very helpful. Then maybe just tying that into some of the comments you made on EBITDA, so in prior quarters and discussions you'd kind of been hoping to reach that inflection point in calendar Q4 of this year. Now the wording is more sounding like short-term which to me sort of sounds similar point in time. Is the reason for that bright change just given that plateau you were talking about until the December cannabis 2.0 comes on and then it is a bit of a reset with respect to that inflection point towards EBITDA positive?

Glen Ibbott — Chief Financial Officer, Aurora Cannabis, Inc.

Yes. Sure. (Inaudible).

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

I'll take the first crack at this. Glen, maybe I can just sort of frame this for a second and then hand off to you for the details. We put our guidance at the beginning of the year that we were targeting positive EBITDA and that created a seachange in our behavior and I think people have noticed. We went

from a period of very rapid M&A to shifting gears to a period of really focused and disciplined execution and I think that's been reflected in our results.

Now, would we have liked to be at positive EBITDA at this point? Sure. Part of the reason that we are still working towards that is, as Glen mentioned earlier, we would've liked to have seen greater retail infrastructure in Canada. More stores obviously is better for the whole sector and it's disproportionately beneficial to us as the leaders in the consumer market. We still are focusing on that and I think it distinguishes us a little bit from our peers, some of whom have not emphasized that pathway to profitability as much as we have. This is something where we have listened to what institutions have told us about the importance of having a credible pathway to profitability and we're sticking to that.

Glen?

Glen Ibbott — Chief Financial Officer, Aurora Cannabis, Inc.

Yes. Matt, I think Cam has done a great job of describing that. In terms of our language, all we're doing is we are still at the mercy, I think, of the timing of the retail footprint rollout. We're excited that Ontario's licensed a number of new stores, but you know they should be licensing hundreds of new stores, so there's still a lot of room to go and the timing of that will dictate exactly how large the market grows over what period of time. Certainly, we don't yet know exactly when the provinces will start loading in for the new products for consumer 2.0, so will they start buying in advance in December or will they wait until towards the end of the year? There's some timing there quarter-to-quarter that we are a little uncomfortable with and we'll have to wait to see how that rolls out specifically.

Operator

Next question comes from Vivien Azer with Cowen and Company.

Steven Schneiderman — Analyst, Cowen and Company

Hi. This is Steve Schneiderman pinch-hitting for Vivien today. How are you guys doing?

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

Great, Steve.

Glen Ibbott — Chief Financial Officer, Aurora Cannabis, Inc.

Hi, Steve. How's it going?

Steven Schneiderman — Analyst, Cowen and Company

Great. In reference to some of the performance in oil, I mean, some of the commentary that we've heard from some of the other LPs have been that there's been a little bit of a destocking across the board. I'm questioning how much has that impacted you and are you seeing a similar trend in your oil and extract of sales?

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

Glen?

Glen Ibbott — Chief Financial Officer, Aurora Cannabis, Inc.

Yes, I can tackle that. Steve, yes, for sure the consumer market—okay, let me start with Medical. Our Medical market is still running at roughly the two-thirds dried flower, one-third extract-based that it

has for a number of quarters now, relatively. We had a small increase I think 37 percent in Q4 in terms of extract-based products. But that's relatively consistent.

Definitely the consumer market seems to be a heavy preference right now with the product that they have to choose from for regarding cannabis; they prefer to smoke the cannabis right now until they get new product form launched in 2.0. Our quarter Q4 was over 90 percent dried flower, so I think we've seen a few of our peers that (inaudible) didn't have one on their extract-based products of that recognized in returns in the recent past. We don't have that issue. We haven't had that issue. But for sure the consumer market right now is heavily dominated by dried flower and not in a lot of extract-based sales.

Steven Schneiderman — Analyst, Cowen and Company

Great. Thanks, Glen. Just a follow-up to your earlier point about what we are seeing in the channel which seems to be a little bit fuller than we previously would've expected, how do we reconcile that with the narrative that the market has been grossly undersupplied in the past? Has that now caught up to the point where we've received balance or are there other factors that are weighing in on that?

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

Yes, Glen?

Glen Ibbott — Chief Financial Officer, Aurora Cannabis, Inc.

Yes. I can take that initially. When we talked in the past, Steve, and certainly we've been fairly consistent, is that we expect that this is such a new market; we're truly at the launch of a new market. In

fact, we haven't launched even most of the products which should be in this market. There is going to be I think month-to-month and quarter-to-quarter, there will be a continuing sort of mismatch, I think, of demand and supply.

Certainly, I think, what we're seeing is that several months ago, there wasn't enough supply in the market and the provinces would buy whenever they could. Now in certain SKUs, I think they've overloaded. That's to say, I said earlier, our strong sell through is important for us and an indicator that our products are moving, but they have kind of overshot it, I think, in terms of inventory build on some SKUs and they're going to have to work that out as we wait for retail.

Terry Booth — Chief Executive Officer, Aurora Cannabis, Inc.

Steve, it's Terry here. Just to add to Glen's comments, if you look at the statistics on our retail sales of adult usage, again, we're limited in the number of products that we supply them, but Alberta outpaced Ontario and British Columbia, and that is not statistically, historically, rather, correct, right? It'd be British Columbia and Ontario have a lot more cannabis people and I think it's a reflection of the number of retail stores that are open in those two provinces. They both are a little bit of a slow roll, but they both had Government changes on the roll out October 17. They're a little bit behind the eight ball in getting retail rolling, but we're starting to see a significant uptick in British Columbia and certainly we expect the same in Ontario.

As they start selling as much cannabis per capita as Alberta, you're going to see quite a bump there. We don't know when that's going to happen. We know it's going to happen in the next six months, but it may not be next week.

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

Steve, this is Cam. Let me add to that. Further to Glen's comments, we are seeing some interesting developments beyond street supply and demand for product in the Canadian consumer market, and that is discrimination by consumers towards higher quality products. We're seeing the result of that. If you take a look at how some companies in the sector have had to deal with significant returns in a quarter, and that's not an issue that we are facing. There is some increase in discrimination where consumers are—they're voting with their dollars as to which products they want, and we anticipate that that will continue on a go-forward basis. Once again, we think that that militates towards over Aurora because we have this reputation for producing particularly high-quality cannabis products.

Operator

Next question comes from Doug Miehm with RBC Capital Markets.

Douglas Miehm — Analyst, RBC Capital Markets

Thank you. This question is for Terry and Michael, and it has to do more with strategy. I know that you've slowed down sort of the acquisition pace, but I was wondering if you could elaborate a little bit further on what you're thinking. I know everything is going to be approached fully legally, federally at the state level, but what you're thinking about in the U.S.; if you could give us a little bit more information about your approach and perhaps timing, that'd be great. Thanks.

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

Michael, you want to start this off?

Terry Booth — Chief Executive Officer, Aurora Cannabis, Inc.

I'm actually going to start off, Cam. It's Terry.

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

Okay. Fair enough.

Terry Booth — Chief Executive Officer, Aurora Cannabis, Inc.

You wouldn't think that our M&A activity has slowed if you sat in my chair and the amount of work that we're doing with the amount of opportunities that we have in the United States. We started out into the United States with our little brother, Australis Capital, which we have some backing (phon) rights. They're traded out of CSEASUA (phon). They've done nine deals themselves; smaller deals, but they've set a footprint and actually really teed up some good people to help us with the different regulatory issues in the various provinces. We've gotten a significant MSO review tour of the States. I think that's common knowledge out there in the markets, and we are laser-focused on CBD derived from hemp and the various opportunities that exist in that.

When USA passed the Farm Act, they leapfrogged across the rest of the world or over the rest of the world in CBD-derived from hemp. Some call it the CBD frenzy, but I don't believe it is because we know that it works, and having it be scheduled in the U.S. is a tremendous boom to the CBD industry and our strategic partners in Trian Capital are helping us talk to some of the top companies in the world with respect to that in itself. There're a couple of more hurdles with the CBD industry, including the FDA ruling on ingestibles, and we have a good idea on how that's going to go. But to say that we slowed our

M&A activity, we've not closed a bunch recently, but I'm very busy in that regard from being 90 percent of my time is dealt on new opportunities.

Michael Singer — Executive Chairman, Aurora Cannabis, Inc.

It's Michael. I'll just add that we see the U.S. market as a tremendous opportunity and I could tell you that this is now a key objective for us in Fiscal 2020. We expect, based on what Terry just described, that we will have a significant footprint in the U.S. in the coming quarters and our USC is an example of a great first step in that direction. We're certainly encouraged with the progress that we are making and stay tuned because we are excited about our opportunities.

Douglas Miehm — Analyst, RBC Capital Markets

Okay. Great. Then just a follow-up for Cam; again, just looking at a couple of quarters with 2.0, I know you talked about the fact that you're going to be launching vapes and some edible etc., etc. Maybe just on the vaping side you could give us your thoughts on this whole situation that we're starting to see on the safety side with respect to vaping and e-cigarettes and what your approach is going to be to mitigate any concerns around that. That'll be it for me. Thank you.

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

Sure. I mean, the first thing to remember is we've got the benefit of a little bit of time before we have to launch the vapes in Canada, the vape pens. In that period of time obviously we'll be monitoring very closely what comes out of the FDA and the CDC, and hoping that we get a finer point as to the suspicions as to where this came from. You've seen the same media reports that I have where the suspicion is focusing on black market products. Of course, I would immediately draw your attention to

the fact that everything that we produce and everything that we sell to either patients or consumers goes through very, very rigorous regulation under Health Canada. In fact, we already have I think the only vape cartridge that's on the market right now, our CBD vape cartridges that we call Aurora Cloud. That is very specifically consistent with Health Canada regulations, and in fact, tested before it hits the market.

We've got the time. Let's see how this plays out and if initial suspicions are correct that this is something that is coming out of black market illegal vape. But we've got a very highly regulated system in Canada and nothing is going out to either patients or consumers that hasn't passed Health Canada.

Operator

Next question comes from Chris Carey with Bank of America.

Christopher Carey — Analyst, Bank of America Merrill Lynch

Hi. Good morning.

Glen Ibbott — Chief Financial Officer, Aurora Cannabis, Inc.

Good morning, Chris.

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

Hi, Chris.

Christopher Carey — Analyst, Bank of America Merrill Lynch

Hi. How are you? I hear you on slowing CAPEX, but it sounds like September quarter is still going to be elevated. Even if I tape together your credit facility raise and (inaudible), it seems to me like you might need a bit more capital going into 2020. That's especially the case, I suppose, if the U.S. is going to be a big focus in 2020. Can you just help me think about not just the September quarter but how you think about your cash needs and the potential for additional financing as you think about growth opportunities into next year?

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

Glen?

Glen Ibbott — Chief Financial Officer, Aurora Cannabis, Inc.

Yes, Cam. Hey, Chris. Yes. Listen. I've read your notes and I wouldn't disagree with most of your analysis. I mean, we do have major opportunities ahead of us. We expect over a period of time measured in short quarters to become cash flow positive from our operating business, but we are investing heavily in the future, both on the facilities, the production and distribution and manufacturing and research, as well as looking at some of the opportunities, as Terry and Michael outlined, internationally, including the U.S.

Now, I have to say, one of the ones that we're looking at are actually positive and incrementally EBITDA positive and nice revenues. So, I do like those opportunities, but for us to take a business like that and really accelerate it to the Aurora standard and with the aggressiveness that we are known for, we'd probably take more capital. We'll cross that bridge as it becomes clearer on what the capital need

is, but we have the tremendous opportunity to continue to be global leaders. If the decision to continue that leadership requires more capital, then we will access that capital at that time.

As we do have non-dilutive sources that we have (inaudible) we'll continue to look at those sources going forward. I think we're uniquely positioned to be able to look to those sources and I think that upsizing of our debt, including three of the major Canadian banks now participating in that and it sort of bodes well for the future and we'll look at those non-dilutive sources of financing and we will be creative as usual.

Christopher Carey — Analyst, Bank of America Merrill Lynch

Okay. Thanks very much. Then just a follow-up, you mentioned having an idea of how FDA might regulate ingestibles. I wonder if you can elaborate.

Terry Booth — Chief Executive Officer, Aurora Cannabis, Inc.

Sure. I think I might've said before what keeps me up at night is the supply cannabis. That's no longer an issue with Aurora now that Sky is almost at full production. What keeps me up at night now is the FDA's decision. It's not the decision that they'll make to the negative, but which way they will go with respect to isolates versus broad-spectrum.

We are anticipating that the isolate will be the first step from the FDA as an ingestible mainly because the other 112 or 113 cannabinoids in cannabis and in hemp have not been tested by the World Health Organization. The WHO has come out and said that CBD is safe as ingestible, but they've put brackets around that sentence and said this is only for pure CBD. I think that phrase that's commonly

misused of broad-spectrum CBD. There's no such thing. It's broad-spectrum cannabinoids minus the THC derived from hemp and/or cannabis.

We're hoping the broad-spectrum is something that is approved for ingestibles as we feel it's more effective, but the first step in those ingestibles may indeed be an isolate, so we're making sure both of those bases are covered in our review of companies that participate in that industry in the United States.

Operator

Next question comes from Brett Hundley with Seaport Global.

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

Hey, Brett.

Brett Hundley — Analyst, Seaport Global Securities, LLC

Thank you so much. Hey. Good morning. I just wanted to go back to the CAPEX question if I can. Glen, what might be helpful, at least for me personally, is can you share with us an assumption on where not maintenance CAPEX but where longer-term CAPEX might be able to shake out so that some of us on the street can kind of do the math on using Q4/Q1 as a top (phon) and then working down towards that target?

Glen Ibbott — Chief Financial Officer, Aurora Cannabis, Inc.

Yes. I hope I can help you with that a little bit. As I said, we're kind of at a peak CAPEX spend right now with the major facilities underway. A lot of the construction going on right now will be complete over the next quarter or two on our manufacturing and distribution facilities across Canada. What we're then starting to look that is just the timing of the CAPEX on our major production facilities, Nordic and Sun.

As it stands right now, our current plans are to bring those in and phase them in as demand requires, and that you can consider that to be over the next year or two as we phase those in. Hopefully, ideally in my world, we need to phase them in earlier because the demand is there. But those are really the drivers.

Now, I need to caution you that that's our current—as we stand right now, that's our CAPEX plans should we decide part of our move into the U.S. required more CAPEX, then we'll reset and recalibrate at that point. That's really how I kind of characterize the CAPEX over the next, say, eight quarters is continue to spend this quarter and start to see it trailing off then over the next couple of quarters and then you're really just looking at the timing of Sun and Nordic.

Brett Hundley — Analyst, Seaport Global Securities, LLC

Okay. I appreciate that. Then just my follow-up question is actually coming back to a prior one as well surrounding vapes. I appreciate your answer to that question insofar as taking a latency and having the value of time here. But for all of us that need to look forward and try and make guesses about the forward (phon) market, can you give us a sense of what your overall capital investment in 2.0 products has been to this point and what percentage might be vapes? I guess what I'm trying to tie into this

discussion too is do you have any concern whatsoever that the Canadian Government might overreact in the interim and put a pause on vapes while things get figured out in the United States? Thank you so much.

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

Okay. I'll take the first crack at that. I'm not sure that we actually want to break down percentagewise how much of our investment is in each of our priority products that we intend to launch with cannabis legalization 2.0, but we have consistently indicated that we are looking at vapes, we're looking at certain edibles, including mints and chocolates and other forms. We do intend to proceed with each of those.

Now, your next question as to what the Canadian Government might do, that's pure speculation and we try not to engage in that business. But I will add this, thus far according to the best information we have today, these illnesses have not popped up in Canada and that may be instructive. We have to abide by what regulators say. We're going to watch these developments. We will be responsible about the whole thing, but I want to be careful not to speculate.

Terry Booth — Chief Executive Officer, Aurora Cannabis, Inc.

Yes. Just to add to that, Cam, when someone says the word vapes, that's got a lot of information in it, doesn't it? What the U.S. Government are pulling off the shelves right now are flavored e-cigarettes. We don't ever tend to sell flavored e-cigarettes as far as I know; we're not in that business. The cutting agent of those flavored e-cigarettes and flavored single pit (phon) thread or five-thread (phon) vapes is largely expected to be the cause of these issues. I'm not going to try to make a

prediction, but that's what we're hearing and normally what you hear comes through. The chemical that's been largely accused of being involved in that is something called vitamin E acetate. Okay. We would never even consider using something like that for a cutting agent in Canada or anywhere, or unless it's been tested.

I think that the vapes are getting lumped into a one big basket and it's really a focused set of vapes largely suspect coming through the black market that cutting agents are being used to add more robust flavor and a bigger pluma (phon), if you will. And that's what these kids are all about, is the hot-box look in the car with—and you've seen it driving by when someone takes a big rip and there's a massive cloud coming off their vape. That is nothing that we would consider in manufacturing.

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

Is that helpful?

Operator

Next question comes from Michael Avery with Piper Jaffray.

Michael Lavery — Analyst, Piper Jaffray

Good morning. Thank you.

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

Hi, Michael.

Michael Lavery — Analyst, Piper Jaffray

Can you give us a sense for your outlook for industry capacity which obviously has projections to rise pretty rapidly, and just how that balance, how that compares to demand and how that evolves over the next, say, 12 to 18 month?

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

You're talking in Canada alone?

Michael Lavery — Analyst, Piper Jaffray

Right. Exactly.

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

Okay. We don't have official figures for the industry, but here's what I can tell you. We do see capacity increasing, but, once again, as we mentioned earlier, there's discrimination based on quality, right? Some produces will be seen as higher quality producers than others. As we discussed on previous occasions, one of the things that we've done to make sure that we are winners in whatever scenario emerges, is to be a low-cost producer. With our further improvements in our per gram cost to produce on a cash basis, that puts us, I think, further in the lead as the mass producer able to produce cannabis consistently at the lowest cost. That's the Canadian situation. We don't know exactly when there's going to be sufficient supply to meet all demand. Also, that calculation changes significantly with the advent of the cannabis legalization 2.0 product coming towards the end of the year.

Now, on a global basis, it's a very different story. Because of the very small number of licensed regulated producers of cannabis in the whole world, we see a long-term, like multiyear situation where

there will be a massive excess of demand oversupply for legal regulated cannabis. That's one of the reasons why we have put so much effort into being first or second mover into international markets and establishing the biggest global footprint of any cannabis company, and we are now operating in 25 countries.

Terry Booth — Chief Executive Officer, Aurora Cannabis, Inc.

I'd like to add to that that a bit, Cam. I mentioned earlier the cannabis per capita. You analysts, I believe, have to look at the fact that the Alberta numbers are higher than anywhere else, mainly because of the retail availability. And as to other provinces that's anything—Quebec as well—bring more retail you will see an increase in supply and you can probably do some math on that.

I'd like to make an example of Australia which will be an export market for some time from Canada, until they get their production underway, has gone to over 12,000 patients. I think month-over-month it's growing by 30 percent, Cam, or 25 percent?

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

Yes.

Terry Booth — Chief Executive Officer, Aurora Cannabis, Inc.

Very similar to what happened in Canada under the MMP. We're seeing countries that put Canadian-type regulations in place have significant uptick in demand. Australia, until a couple rules, before a couple of pieces of red tape were cut, were very slow growth. They then cut the restriction on

doctors and improved the application process and now it's growing at a rapid pace and we see other countries taking that same sort of approach.

The German market you'll see that we didn't have a big increase—it was decent increase in European sales or outside sales, but we didn't have the capacity to supply it up until now. We're seeing the boots on the ground in Germany now to educate physicians and demand for cannabis will go up as the number of physicians are prescribing. But it's all a matter of math. It's still a medical entry into countries outside of Canada and the U.S., and there's no better medical cannabis company in the world than Aurora.

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

I want to add to what Terry said. Everybody knows that we identify ourselves primarily as a medical cannabis company and that's on a global basis; albeit, a medical cannabis company that happens to be killing it in the Canadian consumer market with leading share. But, I want to emphasize that everywhere we go in the world, our reputation precedes us. Our reputation as a serious pharmaceutical-grade, medically-oriented, research-investing company precedes us. That's really important to us. It opens doors for us with policymakers and regulators, and allows us to have important conversations with respect to how new medical cannabis systems should evolve and to be able to speak to the need for well-regulated systems that actually have real access and proper access for patients. That reputation of ours, our positioning, has been incredibly valuable. It's been an asset for the Company.

Michael Lavery — Analyst, Piper Jaffray

That's all very helpful. Just to follow up, you mentioned being a low-cost provider. Is your operating assumption that there is price compression coming and that you are well-positioned because of the cost advantage? Maybe how do you think about that in the context of your price points on the Italy tender that seems to have been lower than some of the other prices we see in Europe? How do you think about some of the competitive dynamics?

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

I'll take the first crack and then hand this over to Glen and perhaps Terry if he wants to weigh-in as well. The predictions for a long time have been that we would see too much supply in Canada. That hasn't happened yet. As a matter of fact, with the troubles at one of the leading producers in the country taking a heck of a lot of product off the market, that's been further delayed. But, as responsible operators, we felt like we needed to scenario plan for if and when that happened. Glen very specifically has done that and has looked at various scenarios with various possibilities of future price compression. Each of those scenarios has us generating significant margin because of the fact that we are a low cost type quality producer.

Now, Glen, did you want to pick up from there?

Glen Ibbott — Chief Financial Officer, Aurora Cannabis, Inc.

All right. Cam, you've done a good job of describing it, but, yes. I mean, this is critically important and underpins—a lot of our strategic advantages are purpose-built, highly efficient production facilities. As I mentioned in my comments with Sky delivering currently around \$1.00 a gram and expected to continue to improve on that, I think we've set ourselves up in a position where we don't think we have

competition at that level. There is a floor that prices cannot drop beyond and that's really the operating cost of our major peers. Nobody including the authorities want to put major producers out of business. There's a minimum that prices can drop, so even when we model out where we expect just an absolute sort of nightmare scenario in terms of pricing, we still have extremely healthy margins. That, again, I think there're so many advantages to being such a highly efficient, low-cost producer that brings—and this is yet another one—we win in whatever market conditions there are.

I hope that helps (inaudible).

Terry Booth — Chief Executive Officer, Aurora Cannabis, Inc.

Yes. I want to add to that as well. I don't see price compression around the corner. I see more revenue per gram with the high-value products coming on-stream. We wouldn't be extracting and making pens and cookies and bonbons for less of a margin on our budget, right. That would be crazy. I see the revenue per gram going up in Canada. It has continued to go up by the way in the medical system.

You mentioned Italy and the low price. It's the Italian contract, which is very small amount of cannabis. The thought behind Italy and certainly the (inaudible) was not based on our price, but we wanted to make sure we got it because the Italian Government—Army, rather—presently grows it. In our opinion, it's not the quality that they need for a decent medical system. Getting decent medical cannabis in Italy was very pretty important to us and that's what we've accomplished with that task. I don't see that as being the standard for pricing in Europe, certainly that was a bit of a different tender. We keep forgetting that we also won 1 of 73 opportunities or sorry 10 opportunities in Germany to

produce and there're other tenders in Europe that are coming onboard. They're not price-driven. They're quality-driven, they're EU GMP-driven, and those are the criteria that will win those tenders, not necessarily the pricing.

Operator

Next question comes from Glenn Mattson with Ladenburg Thalmann.

Glenn Mattson — Analyst, Ladenburg Thalmann

Hi. Appreciate you taking the call. I realize it's getting late in the process here so I'll just be quick. I wanted to touch on Wholesale one more time. You guys talked about tapping the wholesale market opportunistically. I just wonder, like, what are the parameters around what's going to make you decide when to tap it or not; and is there a range you can give us, maybe is there maybe a couple of hundred basis points of gross margin range of when you will tap that market? Then being that we're well into the first quarter here, are the conditions currently in line with the conditions you would want to be when you tap the wholesale market?

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

Glen?

Glen Ibbott — Chief Financial Officer, Aurora Cannabis, Inc.

Yes. Hi, Glenn. We're just trying to be cautious here. We do see a need for that type of sale in the Canadian market. There is demand. As I said in my comments, I think—or, I might have said earlier. There are a number of LPs that are looking for product as well. The trend that we sold was to a couple of

major extraction companies in Canada looking for input products of a high quality. There are other LPs that are looking for product as well, but I don't—because this has been an ongoing relationship right now, I'm not going to count on those revenues until we have a signature and a contract, and in fact obviously we see the cash in the bank. We're being a little cautious, I think, looking forward here. The current market dynamics that do lead you to believe that there will be more opportunities, but we don't want you to try to build that into a forecast until we start to see how sustainable and kind of regular that business is.

We do have teams internally that are working on this and now also are looking at other opportunities to take advantage of our capacity for production and extraction and bottling and all the manufacturing aspects. There's potential to create more business for those in the industry that aren't necessarily interested in producing or, in fact, can't produce at the quality and the levels that they'd like. I expect more business to come out of that segment. It's just right now it's early and a little less predictable than I would like before we put a statement in the sand (phon) on that.

Glenn Mattson — Analyst, Ladenburg Thalmann

Great. Thanks for the colour. That's it for me.

Glen Ibbott — Chief Financial Officer, Aurora Cannabis, Inc.

All right.

Operator

Next question comes from Graeme Kreindler with Eight Capital.

Graeme Kreindler — Analyst, Eight Capital

Hi. Good morning.

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

Hi, Graeme.

Graeme Kreindler — Analyst, Eight Capital

Hi. Good morning. Just wanted to get a quick follow up here with respect to the comments on the U.S. market, particularly on the CBD side of things. There's been some commentary about the FDA giving some more clarity on regulations, really being a catalyst to unlock a lot of value in that market and make the operating environment really de-risk that. My question is, is the entrance into that market in terms of an opportunity that will have a big commercial impact, is that something where you are going to be awaiting more clarity from the FDA, or you could potentially be advancing ahead of that on a state-by-state basis? Thank you.

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

Terry?

Terry Booth — Chief Executive Officer, Aurora Cannabis, Inc.

I expect we will advance ahead of that.

Graeme Kreindler — Analyst, Eight Capital

Are there any particular states that you've highlighted or you think are making strides faster than others that could allow that environment to take rate (phon)?

Terry Booth — Chief Executive Officer, Aurora Cannabis, Inc.

I've got to be very careful. I narrow the (inaudible) tremendously when I name the states on the companies that we're looking at, so I'll leave that one alone. But it's obviously the states where this is allowed ahead (inaudible).

Operator

Next question comes from Andrew Carter with Stifel.

Andrew Carter — Analyst, Stifel Financial Group

Hi. Good morning. Thanks for the question. Just wanted to quickly ask—I guess I wanted to ask about your Canadian Medical business. You're the leader in Canada right now and it's a pretty significant portion of your revenue. The sales did flatten out this quarter. I guess what I wanted to understand is your outlook for that business. Kind of given your visibility and your patient base how sustainable is that number right now and what are the opportunities to do (phon) these for a truly differentiated Canadian medical offering as you see it?

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

I'll take a first crack at that. Yes. We actually saw double-digit growth so we had over 10 percent growth in that market, and then subsequent to the quarter we've reached almost 90,000 registered patients which is, makes us by far the leader in Canadian medical. We are obviously seeing continued

demand differentiated from the consumer system for medical cannabis and there are a couple of good reasons for that. Currently in Canada, medical patients can write off the cost of medical cannabis as a prescription product on their Federal taxes, and we're also seeing an increase in insurance coverage, so more and more people in the country who have prescriptions for medical cannabis are able to gain insurance reimbursement for it. There're some good reasons to do that.

Let me add to that. We always emphasize to patients that if you're using medical cannabis, it should be under the care of a physician. If you're using medical cannabis to manage the symptoms of a healthcare condition, it should be under the guidance and the supervision of a physician just like any other prescription product. We do anticipate that that medical market will continue and certainly we are seeing patients come over to us from some of the other licensed producers, so we expect that that will remain a healthy portion of the business for us, and frankly, one of our defining features.

Andrew Carter — Analyst, Stifel Financial Group

Sure. Then separate on that topic, going globally and nice growth on exports this quarter, but still only just about, I guess, CAD\$4 million of your total sales. Do you have an outlook for where the pace of commercial opportunities will evolve for you to where that's a more significant portion of your business developing a real critical mass? Then separately, kind of an outlook for when some of your lower cost cultivation is going to be available to you so you can be even more cost competitive versus shipping from Canada?

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

Yes. Sure. The first thing that I want to remind you of is that what we're talking about right now is the June quarter. We're kind of looking back in time, and so I want you to think about the fact that, as we've mentioned before, our production ramped up kind of backend loaded in that quarter right in June, probably in the last six weeks of the quarter. That's when we had a massive increase in production that allowed us to ship additional products over to Europe. Can I tell you obviously what we want to do? We want to ship more product to Europe, and why not; we get a premium price not just for our flower but for our derivative products and we now have the ability to continue to do so.

In addition, we also, as mentioned earlier, we have two additional facilities in Canada, one in Ontario, one in Québec, that we anticipate achieving EU GMP certification. Once again, that will make it easier for us to shift more product to Europe. Remind me what was the second part of your question?

Terry Booth — Chief Executive Officer, Aurora Cannabis, Inc.

I think he's...

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

I think the Operator cut him off. Does anybody remember the second part of the question?

Terry Booth — Chief Executive Officer, Aurora Cannabis, Inc.

We'll get back to him on that.

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

Yes.

Operator

Our last question comes from John Chu with Desjardins Capital.

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

Hey, John.

John Chu — Analyst, Desjardins Capital

Hi. Good morning. Just a couple of quick questions. Just on the path to positive EBITDA, obviously with 2.0 coming online, that will be a higher margin business, but I have to assume that in the early days it's going to be a drag on margins. If it goes according to how you think it's going to go in terms of the rollout, how quickly do you think that business 2.0 can become positive EBITDA? Then tied into that, you're increasing your extraction capacity so I'm just curious how much of a boost can that be to the path towards positive EBITDA? Thank you.

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

Glen?

Glen Ibbott — Chief Financial Officer, Aurora Cannabis, Inc.

Cam, I'll start with that. John, good morning. I guess I'd dispute your proposition that this would be a drag. Right out of the gate we're a manufacturer of commercial scale of our products right now. Our pricing is set and we believe it's sustainable pricing at levels that will produce margins that are higher than our current products. I see no reason why that would be a drag on earnings.

Of course, it's going to be highly dependent on how much the provinces load in and at what point in time they load it in. In terms of timing, we'll wait and see on that, but we don't expect—we've made the investments necessary and we have the operating and manufacturing facilities already efficient and relatively optimized so that we are delivering efficiently produced products. So, no, I don't see that as a declaration for us.

In terms of extraction, we have been ramping up our internal extraction capacity and we're now at a point where we can extract every bit of material that we need. When we look forward, it's not necessarily a—what we've done is removed a constraint that we had previously, but it doesn't necessarily deflect our future revenues. It's just part of the puzzle for producing this new generation of product. That's just part of the manufacturing process that exists for us and isn't a constraint anymore.

I understand your question, but I think it's just part of the version or the generation 2.0 products that are coming out and we're well-prepared for those.

Operator

At this time, we have no further questions. I will turn the call over to the presenters.

Cam Battley — Chief Corporate Officer, Aurora Cannabis, Inc.

Hi. Well, listen. Thank you for everybody who joined this call. Once again, we are very proud of the quarter that we delivered, and I also want to emphasize one more thing. In addition to the positives that we've achieved, it's also fairly significant what didn't happen at Aurora. I'm speaking about some of the tumultuous developments that have occurred in the sector. At Aurora we've had no crisis, no

scandals, no regulatory problems, no changes in Senior Management, no production problems, and no crop loss. We're going to continue executing with that same discipline that we've demonstrated throughout calendar 2019 and we're going to carry that over into our 2020 fiscal year.

Thanks again to everybody.

Terry Booth — Chief Executive Officer, Aurora Cannabis, Inc.

Just a final note for everybody, I'm very, very proud of the team at Aurora. We've crossed over 3,000 employees now across the globe and all of those positives that Cam had mentioned is attributable to the key teams and key members becoming the partner and the employer of choice is a very powerful position to be in, and thank all the team for an excellent quarter.

Operator

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