



## Flower One Reports Second Quarter 2020 Results

*With the re-emergence of Nevada's cannabis market, the Company is on track for third quarter 2020 to be its highest recorded quarterly revenue and is anticipating revenue in the range of \$9.8M to \$10.8M*

**Toronto, Ontario, September 8, 2020** – Flower One Holdings Inc. (the “Company”) (CSE: FONE) (OTCQX: FLOOF), a leading cannabis cultivator, producer and innovator in Nevada, today reported its financial and operating results for the second quarter ended June 30, 2020. The Company also provided a corporate update including preliminary financial and operational highlights subsequent to quarter end. All amounts are expressed in U.S. dollars unless indicated otherwise.

### Second Quarter Highlights

- Quarterly revenue of \$3.9 million, with sales in June increasing 144% over May and 78% over April;
- Gross margins of 46%, up significantly from 28% in Q1 2020;
- Launched new products for several brands, including The Clear, Old Pal, and 22Red, and signed Lift Tickets Laboratories as 16<sup>th</sup> brand partner;
- Provided manufacturing inputs for 4 of the top 10 edibles brands and 2 of the top 10 vape brands in Nevada (Source: Headset, August 2020);
- Produced 3 of the top 20 edible brands in Nevada, including Kiva's Camino Gummies (Source: BDS Analytics, July 2020); and
- Old Pal, which remains the number-one flower brand based on total units sold, has now secured 2 of the top 10 places for vape products in Nevada (Source: BDS Analytics, August 2020).

“Since the reopening of Nevada dispensaries to in-person purchases, Flower One’s sales have quickly rebounded to pre-COVID-19 levels,” said Ken Villazor, President and Chief Executive Officer of Flower One. “Recently, the State of Nevada reported retail cannabis revenue for the month ending June 30, 2020, of \$61.4 million, up from \$57.9 for the same month last year, despite businesses in Nevada being only partially reopened in June of this year. Our proactive efforts to recalibrate our cultivation strategy and revise our crop management plan to meet changing market demand early in the quarter positioned our Company very strongly for the re-emerging cannabis market in Nevada. We would like to thank our experienced Operations Team for their commitment during this unprecedented time in preserving the quality of all of our existing live plant inventory and growing some of the highest quality flower our

Company has cultivated to-date, including the launch inventory for our premium brands partners Cookies and 22Red.”

Mr. Villazor continued, “The value and power of working with Flower One has never been stronger or better understood by the market as is evident by our recent pace of sales in the third quarter. July gross sales numbers of \$3.2 million improved 64% over June and represent the second highest monthly sales recorded in our Company’s history. We expect this progression to continue throughout Q3 as we leverage our scale and sales distribution connectivity across Nevada’s 70 cannabis retailers state-wide.”

## **Highlights Subsequent to Quarter-End**

### **A. Market and Revenue Highlights**

- July preliminary average weekly gross sales of approximately \$0.73 million were an increase of 60% over June average weekly sales of approximately \$0.46 million and an increase of 8% over Q1 2020 average weekly sales of approximately \$0.68 million;
- Launch inventory for both Cookies and 22Red were essentially pre-sold;
- In July, the Company launched The Clear’s premium vape line The Clear Reserve, which follows the brand’s other SKU launches in the second quarter. Flower One is looking forward to further broadening its vape product SKUs in Nevada with the launch of Heavy Hitters in Q4 2020; and
- On August 6, 2020, Flower One celebrated the anniversary of the Company’s first official sale from its flagship 400,000 square foot greenhouse. Old Pal received Flower One’s inaugural inventory and thus represented the Company’s first sale.

### **B. Operational Highlights**

- Through continued improvements in efficiencies in upstream extraction processes, Flower One’s first-pass distillate are now achieving an average of 92% THC across all lots;
- As previously announced, effective July 16, 2020, David Kane assumed the role of Interim Chief Financial Officer. Mr. Kane, a certified public accountant, joined Flower One with more than three decades of capital markets, accounting and operations experience;
- As previously announced, effective August 17, 2020, Salpy Boyajian was appointed to Flower One’s Board of Directors. Ms. Boyajian officially joined Flower One in October of 2018 following the acquisition of NLV Organics, which she co-founded in 2014. She currently serves as Flower One’s Chief Operating Officer, Nevada Operations; and
- On August 21, 2020, the Company entered a short-term loan with a third-party lender (“Lender”). The Lender agreed to provide the Company with a CDN \$1.5M loan for a 9-month term at an annualized interest rate of 11%. In addition, the Company has issued 811,475 share purchase warrants to the Lender, each of which is exercisable into one common share at an exercise price of CDN \$0.61 per share for 36 months. The Company may accelerate the expiry of the warrants if the volume weighted average price on the CSE is equal to or greater than CDN \$1.22 for a period of 20 consecutive trading days.

## **Second Quarter 2020 Financial Results**

### **Revenues**

Revenue for Q2 2020 was \$3.9 million. As a result of COVID-19 there was a notable constriction of Nevada's cannabis market during the months of April and May 2020. With the re-opening of dispensaries to in-person purchases, sales rebounded to pre-COVID-19 levels. June revenues improved 144% over May and 78% over April.

### **Expenses**

Cost of sales was \$2.1 million for Q2 2020, as compared to \$6.3 million in the prior quarter. The decrease in cost of sales is in line with the lower sales volumes. Cost per harvested gram increased to \$1.04 in Q2 2020 from \$0.49 in Q1 2020. This increase is due to a greater reduction in the Company's output in Q2 2020 than the reduction in the Company's non-variable production costs over the same time period. Historically, cost per harvested gram has been between \$0.40 and \$0.49 per quarter.

Most of the inventory harvested and produced in Q2 2020 remains in inventory as of June 30, 2020 and is therefore expected to have a negative impact on margins when the product is sold in future periods. However, as sales of branded products with higher revenue per gram for flower and extractions expand through the remainder of the third quarter and further, the Company expects to realize increased margins that will offset the greater cost per harvested gram in prior quarters.

General and administrative expenses for the quarter totaled \$5.5 million, a decrease of \$0.7 million over Q1 2020 as a result of lower cannabis taxes, selling costs and wages, partially offset by increased accounting and legal costs during the quarter. The Company continues to identify ways to manage expenses and reduce overhead costs.

### **Profitability Measures**

Net loss for the quarter was \$21.3 million, driven in part by a one-time non-cash write-down of intangible assets and goodwill totaling \$9.3 million. Given current market conditions and lower sales growth in the second quarter as a result of COVID-19, the Company determined that the value of certain assets and goodwill carried on the books at June 30, 2020 exceeded their fair-market valuations. Flower One therefore took an \$8.5 million provision for the impairment of licenses and a \$0.8 million provision for the impairment of goodwill in the second quarter 2020.

In addition to the one-time non-cash impairment charge, expenses for the quarter included finance expenses of \$6.5 million, a loss on the fair value of derivatives of \$0.6 million and \$1.1 million in foreign exchange losses.

Gross margin amounted to \$1.8 million, or 46% of revenue, for Q2 2020, compared to \$2.5 million, or 28% of revenue, in Q1 2020. The higher gross margin as a percentage of revenue in Q2 2020 was attributable to the sale of flower and extracted products with a lower cost basis than in previous quarters. Recent brand launches combined with increased production in Q3 2020 are expected to drive further improvement in gross margins.

Flower One's Q2 2020 financial statements and management's discussion and analysis will be issued and

filed on SEDAR at [www.sedar.com](http://www.sedar.com) on September 8, 2020 and available on the same day on Flower One's website at [www.flowerone.com/investors/financial-reports](http://www.flowerone.com/investors/financial-reports).

### **Third Quarter 2020 Guidance**

Flower One currently expects revenue in the range of \$9.8 million to \$10.8 million and corresponding gross margins in the range of 30% to 35% for Q3 2020.

Guidance expectations for Q3 2020 are based on the following:

- The re-opening of dispensaries in early May to in-person sales appears to be having a positive impact on inventory levels at cannabis retailers. As a result, the Company has seen a notable increase in revenue since the final month of Q2 2020;
- Since the beginning of Q2 2020, the Company added 14 new bulk and retail accounts for a total of 93 accounts. The Company retail penetration now totals over 95%; and
- Flower One has modestly increased operations in the third quarter to serve the anticipated growth in demand. Beginning in Q3 2020, the Company has dedicated more of its greenhouse footprint to premium brands, which are expected to generate higher revenue per gram than non-premium brands, bulk and white label products. This increase in gross margin is expected to be partially offset by aggressive pricing to reduce inventory levels. Flower One has modestly increased operations in the third quarter to serve anticipated demand.

### **Notice of Conference Call**

Management of Flower One will host a conference call at 8:30 a.m. ET on September 9, 2020 to review Q2 2020 financial results. To join the conference call, please dial 647-427-7450 or 1-888-231-8191 (international). A live audio webcast of the call will be available at <http://bit.ly/FONE-Q2-2020>. Please connect at least 15 minutes prior to the conference call to ensure adequate time for any software download that may be required to join the webcast. An archived replay of the webcast will be available online for 90 days.

For those unable to join the live call, a replay will be available until 11:59 p.m. ET on Wednesday, September 23, 2020. To access the archived conference call, please dial 1-855-859-2056 and enter the conference code 2172848.

### **About Flower One Holdings Inc.**

Flower One is the largest cannabis cultivator, producer, and full-service brand fulfillment partner in the state of Nevada. By combining more than 20 years of greenhouse operational excellence with best-in-class cannabis operators, Flower One offers consistent, reliable, and scalable fulfillment to a growing number of industry-leading cannabis brands. Flower One's flagship 400,000 square-foot greenhouse and 55,000 square-foot production facility is used for large scale cannabis cultivation, processing, and manufacturing. Flower One also owns and operates a second production facility in Las Vegas, with 25,000 square-feet of indoor cultivation and a commercial kitchen that will produce several of the nation's top-performing edible brands. Flower One produces a wide range of products ranging from wholesale flower, full-spectrum oils, and distillates to finished consumer packaged goods including flower, pre-rolls, concentrates, edibles, and topicals for the top-performing brands in cannabis.

The Company's common shares are traded on the Canadian Securities Exchange under the Company's symbol "FONE", in the United States on the OTCQX Best Market under the symbol "FLOOF" and on the Frankfurt Stock Exchange under the symbol "F11". For more information, visit: <https://flowerone.com>.

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**Forward Looking Statements**

Statements in this press release that are not statements of historical or current fact constitute "forward-looking information" within the meaning of Canadian securities laws and "forward-looking statements" within the meaning of United States securities laws (collectively, "forward-looking statements"). Such forward-looking statements involve known and unknown risks, uncertainties, and other unknown factors that could cause the actual results of the Company to be materially different from historical results or from any future actual results expressed or implied by such forward-looking statements. In addition to statements which explicitly describe such risks and uncertainties, readers are urged to consider statements labeled with the terms "believes," "belief," "expects," "intends," "anticipates," "potential," "should," "may," "will," "plans," "continue" or other similar expressions to be uncertain and forward-looking.

Forward-looking statements may include, without limitation, statements relating to the value provided to Flower One's brand and retail partners; the delivery of exceptional product to the Nevada cannabis market; the Company's average weekly gross sales; expected revenues and gross margins for the third quarter of 2020; business continuity as a result of COVID-19; the Company's retail penetration in Nevada; the anticipated growth in demand; the Company's leadership as a cannabis cultivator, producer, innovator and full-service brand fulfillment partner; the Company's ability to offer consistent, reliable and scalable fulfilment to a growing number of industry-leading brand partners; and the production of a wide range of products for the nation's top-performing brands.

The Company is indirectly involved in the manufacture, possession, use, sale and distribution of cannabis in the recreational and medicinal cannabis marketplaces in the United States through its subsidiary Cana Nevada Corp. Local state laws where Cana Nevada Corp. operates permit such activities; however, these activities are currently illegal under United States federal law. Additional information regarding this and other risks and uncertainties relating to the Company's business are contained under the heading "Risk Factors" in the Company's Annual Information Form dated June 23, 2020 (the "Annual Information Form") filed on its issuer profile on SEDAR at [www.sedar.com](http://www.sedar.com).

The forward-looking statements contained in this press release are expressly qualified in their entirety by this cautionary statement, the "Cautionary Statement regarding Forward-Looking Information" section contained in the Annual Information Form. All forward-looking statements in this press release are made as of the date of this press release. The forward-looking statements contained herein are also subject generally to assumptions and risks and uncertainties that are described from time to time in the Company's public securities filings with the Canadian securities commissions, including the Company's Annual Information Form.

Although Flower One has attempted to identify important factors that could cause actual results, performance or achievements to differ materially from those contained in the forward-looking statements, there can be other factors that cause results, performance or achievements not to be as anticipated, estimated or intended, including, but not limited to: dependence on obtaining regulatory approvals; investing in target companies or projects that are engaged in activities currently considered illegal under United States federal law; changes in laws; limited operating history; reliance on management; requirements for additional financing; competition; hindering market growth and state adoption due to inconsistent public opinion and perception of the medical-use and adult-use marijuana industry and; regulatory or political change.

Accordingly, readers should not place undue reliance on forward-looking statements. The forward-looking statements in this news release are made as of the date of this release. Flower One Holdings disclaims and does not undertake any intention or obligation to update or revise any such forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

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