

Flower One Reports Third Quarter 2020 Results

The re-emergence of Nevada's cannabis market propelled the Company to post record quarterly revenue of \$11.9 million and strong performance of its Brand Partners

TORONTO--(BUSINESS WIRE)--November 30, 2020--Flower One Holdings Inc. (the "Company") (CSE: FONE) (OTCQX: FLOOF) (FSE: F11), a leading cannabis cultivator, producer and innovator in Nevada, today reported its financial and operating results for the third quarter ended September 30, 2020. All amounts are expressed in U.S. dollars unless indicated otherwise.

Third Quarter Highlights

- The Company reported Q3 2020 revenue of \$11.9 million, its strongest quarter to date and up significantly from both Q2 2020 revenue of \$3.9 million and Q3 2019 revenue of \$2.5 million;
- Q3 2020 revenue was ahead of the Company's guidance range of \$9.8M-10.8M;
- The Company recorded a Q3 2020 gross margin of 25%, compared to 46% in Q2 2020, with the decline resulting from the Company reducing production during Q2 2020, due to the COVID-19 pandemic, while incurring the same level of overhead - and also as a result of discounted sales of aging product from its facilities' early harvests;
- The Company recently launched the Cookies brand and its portfolio of premium flower strains, pre-rolls, concentrates and vapes, and continues to sell out all available packaged inventory;
- The Company continued to increase the crop allotment of premium flower brands like Cookies, which we expect to result in stronger margins and increased top line revenue. These adjustments are also expected to increase total revenue per plant among other efficiency metrics;
- Performance of many of the Company's Brand Partners remained strong during the quarter according to BDS Analytics, a leading provider of cannabis industry market intelligence and insights:
 - the Company's NLVO brand ranked #1 of the top 10 flower brands in Nevada;
 - the Company's products represented 13 of the top 20 flower SKUs sold in Nevada dispensaries;
 - Flower One currently provides manufacturing inputs for 17 of the top 20 vape SKUs in Nevada; and
 - Old Pal, which remains the #1 flower brand based on total units sold and remains ranked #2 of the top 10 flower brands in Nevada.
- In mid-September, Kiva launched Blackberry Blitz, a brand-new Camino flavor inspired by the Las Vegas Raiders.

"The Flower One team has been working diligently to elevate the quality of our flower and products," said Kellen O'Keefe, Flower One's Chief Strategy Officer. "This focus on quality has allowed us to continue to shift our product mix more towards premium brand partners such as Cookies, 22Red, Lift Tickets and Heavy Hitters with several other premium partners coming online in 2021."

“Q3 reflected a strong revenue rebound for Flower One and the overall Nevada cannabis market,” said Ken Villazor, Flower One’s President and CEO. “In addition, the overall Nevada cannabis market showed resiliency and momentum through Q3 as demonstrated by Nevada’s most recently reported monthly sales of \$79.5M in August 2020 - a 27% increase year-over-year and its strongest month of recorded cannabis retail sales.”

Third Quarter 2020 Financial Results

Revenues

For the three-month and nine-month period ended September 30, 2020, the Company earned revenue of \$11.9 million and \$24.6 million, respectively, up significantly from Q2 2020 revenue of \$3.9 million and the respective periods in 2019: \$2.5 million for the three-month period and \$3.7 million for the nine month period. The increase was a result of the Company’s increased sales volumes generated from the Company’s flagship 455,000 square foot cultivation and manufacturing facility (the “NLV Greenhouse”). Cannabis flower sales out of the NLV Greenhouse commenced in August 2019 and cannabis-derivative products out of the NLV Greenhouse extraction facility commenced in late September 2019.

Expenses

Cost of sales was \$8.9 million for Q3 2020, as compared to \$6.3 million in the prior quarter. The increase in cost of revenues was in line with the increased revenue volumes. Cost per harvested gram from the NLV Greenhouse was \$0.69 in Q3 2020, a decrease from \$1.04 in Q2 2020. The increased cost of sales, as a percentage of sales in Q3 2020 vs Q2 2020, was due to the greater output in Q3 2020 vs Q2 2020 absorbing non-variable production costs over increased output. During the Q2 2020 shutdowns, overhead remained relatively the same as in Q1, thus resulting in higher inventory costs per gram produced. Most of the inventory harvested and produced in Q2 2020 remained in inventory as of June 30, 2020, which had a negative impact on margins when the product was sold in Q3 2020. This was partially offset by revenues from higher-margin branded products.

General and administrative expenses for the quarter totaled \$5.6 million, a decrease of \$0.1 million over Q2 2020, as a result of lower accounting and legal costs, insurance, consulting and other costs during the quarter offsetting higher cannabis taxes related to higher sales. The Company continues to identify ways to manage expenses and reduce overhead costs.

Profitability Measures

Gross profit in Q3 2020 amounted to \$3.0 million or 25% of revenue, compared to \$1.8 million, or 46% of revenue, for Q2 2020.

The net loss for the quarter of \$17.2 million was driven in part by a one-time non-cash write-down of provision of inventory totaling \$17 million. The inventory write-down was due the Company's assessment that certain inventory on hand, from 2019 harvests, would not be profitability sold as flower or distillate. This write-down offset \$8.9 million of non-cash adjustments upward to the value of the Company's biological assets.

In addition to the one-time, non-cash impairment charge, expenses for the quarter included: finance expenses of \$6.2 million, a gain on the fair value of derivatives of \$4.8 million and \$0.4 million in foreign exchange losses.

Cash Flow

Cash flow used by operations for the nine-months ending September 30, 2020 was \$23.2 million. Cash provided from financing activities was \$22.8 million which was comprised of debt raises of \$11.9 million and equity raises of \$19.5 million, which were partially offset by repayments of debt totalling \$8.6 million. Cash used in investing activities equaled \$1.7 million and represented purchases of property, plant and equipment. As of September 30, 2020, the Company had negative working capital of \$28.3 million.

The Company historically has funded its operations from debt and equity raises. The Company currently is actively seeking capital. However, there can be no assurance that Company will be successful in raising enough capital to meet its short or long-term obligations until such time that it reaches positive cash flow net of debt and operational obligations.

Flower One's Q3 2020 financial statements and management's discussion and analysis will be issued and filed on SEDAR at www.sedar.com on November 30, 2020 and will be available on Flower One's website at www.flowerone.com/investors/financial-reports.

Highlights Subsequent to Quarter-End

- The re-opening of dispensaries in early May to in-person revenues continues to have a positive impact on sales and inventory levels at cannabis retailers, despite only partial resurgence of tourism to Las Vegas;
- Beginning in Q3 2020 and continuing through Q4 to-date, the Company has dedicated more of its greenhouse footprint to premium brands;
- During Q3 2020, the cultivation team began replanting the NLV Greenhouse (following the Q2 2020 operational reduction due to the COVID-19 pandemic) and as of Q3 2020 the NLV Greenhouse is fully planted and on a regular harvest cycle, and
- During Q4, the Company also announced the achievement of certain operational milestones including:
 - the implementation of Brand Partner Lift Ticket's proprietary pre-roll technology and processes, and
 - the signing of Nature's Lab, an award-winning concentrate producer, as both a brand partner and consultant to further increase and accelerate both quality and capabilities of Flower One's production lab.

Update of Term Debt Loan and Subversive Transaction

Subsequent to the quarter end, the Company entered into an agreement with Subversive Real Estate LP (“Subversive”) for a new \$39 million term loan (the “Subversive Loan”), which included an option to enter a sale-leaseback purchase agreement for the Company’s greenhouse facility (together with the Subversive Loan, the “Subversive Transaction”). One of Subversive’s conditions under the Subversive Loan was that Subversive complete a qualifying transaction, a transaction unrelated to the Company. Subversive initially advised the Company that it expected to close the qualifying transaction in early November 2020 and shortly thereafter close the Subversive Loan. In October 2020, subsequent to the Company’s announcement of the Subversive Loan, RB Loan Portfolio II, LLC (“RB II”), the Company’s existing term debt lender advised that it considered certain liens filed by third parties against certain assets of the Company to be a breach of the existing \$30 million term debt (the “Term Debt”). As a result of cross default provision between the Term Debt and the Company’s existing \$17.5 million equipment financing (the “Equipment Financing”), RB Loan Portfolio I, LP (“RB I”), the Equipment Financing lender, considered the Company to be in breach of the Equipment Financing. In October 2020, the Company entered into a payout agreement with RB II and a forbearance agreement with RB I, under which RB II and RB I agreed, among other things, to forebear their rights until November 18, 2020 (a date after which the Company expected the Subversive Loan to close). The Company intended to use part of the Subversive Loan proceeds to repay the Term Debt and remove the outstanding liens. The Company also agreed to pay RB II a fee equal to incremental interest of 3% on the balance of the Term Debt 2020 and to pay RB I incremental interest of 6% on the balance of the Equipment Financing.

On November 26, 2020, Subversive announced that it has determined not to proceed with its previously announced qualifying transaction and therefore the company believes it is unlikely to close the Subversive loan. Nonetheless, the Company continues to work with Subversive to explore options to close the Subversive Transaction. The Company is currently negotiating with RB II to extend and amend the terms of the Term Debt and with RB I to extend and amend the terms of the Equipment Financing. There can be no assurance that the Company will be successful in negotiating successful amendments to the Term Debt and the Equipment Financing.

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 are used for large scale cannabis cultivation, processing and manufacturing. Flower One also operates a second cultivation and production facility with 25,000 square-feet of indoor cultivation and a commercial kitchen that 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-roll, 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>.

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 Company's expected stronger margins and revenue; value provided to Flower One's brand and retail partners; potential delivery of products to the Nevada cannabis market; business continuity as a result of COVID-19; the Nevada's cannabis market; 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.

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.

NEITHER THE CANADIAN SECURITIES EXCHANGE NOR THEIR REGULATIONS SERVICES PROVIDER HAVE REVIEWED OR ACCEPT RESPONSIBILITY FOR THE ADEQUACY OR ACCURACY OF THIS RELEASE.

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