



## **Flower One's First Quarter 2020 Highlighted by Continued Revenue Growth and Execution of Brand Partnership Strategy**

*Flower One's June sales grew 144% over May and 78% over April with the re-opening of Las Vegas on June 4<sup>th</sup>*

**Toronto, Ontario, July 15, 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 first quarter ended March 31, 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.

### **First Quarter Highlights**

- Delivered revenue of \$8.8 million, representing sequential quarterly growth of 52%;
- Achieved record monthly sales in March of \$3.9 million;
- Maintained industry-leading cultivation performance levels with an average harvested cash cost of \$0.49 per gram; and,
- Received Nevada state approval to launch three vape brands, including The Clear, Old Pal, and Heavy Hitters.

"Revenues of \$8.8 million in Q1 2020 were just shy of our total revenues for the full year 2019, and March revenues set a record for our company," said Ken Villazor, President and Chief Executive Officer of Flower One. "Coinciding with our strong revenue growth, we continued to cultivate flower at industry-leading levels with a cash cost per gram of \$0.49 for the first quarter, with substantial improvements in overall quality. If the events of 2020 to-date have demonstrated anything, they show that the depth and overall cannabis competencies of the Flower One team are amongst the best in the industry. Our ability to optimize our operations to continue to support all our leading brands and retail partners without interruption shows just how flexible and efficient we are as a company. With the recent launches of Cookies and 22Red, we could not be more excited about the opportunities that lie ahead for Flower One."

## Highlights Subsequent to Quarter-End

### A. Market and Revenue Highlights

- In June, signed Lift Tickets Laboratories, premium California brand and pre-roll innovator, as 16<sup>th</sup> brand partner. Lift Tickets is expected to launch in Q3 2020;
- In July, successfully launched premium brands Cookies and 22Red into the Nevada market. Launch inventory for both brands, including Cookies' entire line of products – the namesake Cookies brand, along with Lemonnade, Powerzzup, Grandiflora, Runtz and Minntz – and 22Red's full selection of dry flower, pre-roll, vape cartridges and CBD selections, have essentially been pre-sold;
- As of the date of this news release, the Company continued to achieve sales growth from recently launched vaping products, such as Old Pal, and is looking forward to broadening its vape product SKUs with the launch of Heavy Hitters in Q4 2020;
- Successfully closed two non-brokered private placements on May 4, 2020, and June 29, 2020, totaling \$13.9 million;
- Eliminated CDN\$26.6 million of corporate debt by way of partial conversions of November 2019 and March 2019 convertible debenture issues; and
- As of the date of this news release, the Company's pace of sales continued to improve. Following a 78-day closure of casinos in Las Vegas, and with the reopening of the Strip on June 4, 2020, Flower One's June sales grew 144% over May and 78% over April.

### B. Operational Highlights

- The Company's production facility is now delivering more than 100 SKUs to the market, remaining an industry-leader in producing the widest and deepest range of high-market finished product derivatives;
- In Q2 2020, the Company successfully validated its optimized Fresh Frozen harvest process allowing Flower One to expand its product offerings while also continuing to provide best-in-class concentrates to the market;
- Through continued improvements in efficiencies in the Company's upstream extraction processes, Flower One's first-pass distillate are now achieving an average of 92% THC across all lots; and,
- The Company previously announced that effective today Geoff Miachika will be stepping down as Chief Financial Officer. David Kane has been appointed Interim CFO, effective July 16, 2020. Mr. Miachika will continue to work with Flower One in an advisory capacity to ensure a smooth transition. Mr. Kane, a certified public accountant, joins Flower One with more than three decades of capital markets, accounting and operations experience. Most recently, Mr. Kane was CFO at Xtreme Cubes Corporation, a manufacturer of high-end modular structures, and at Tryke Companies, a vertically integrated cannabis cultivator, manufacturer and retailer in Nevada.

## **First Quarter 2020 Financial Results**

### **Revenues**

Revenue for Q1 2020 was \$8.8 million, an increase of 52% on a sequential quarterly basis. The increase is primarily from the benefit of a full three months of flower sales out of the Company's greenhouse, which did not commence until August 2019, and cannabis-derived products out of the greenhouse, which did not commence until September 2019.

### **Expenses**

Cost of sales was \$6.3 million for the quarter. The increase in cost of sales over the prior quarter is in line with the higher sales volumes in Q4 2019 combined with increased costs on a per gram basis of inventory sold during the period. The cost per gram is in line with Q3 2019, but represents an increase in per gram cost from Q4 2019. The increase in per gram cost is a result of lower production in Q1 2020 versus Q4 2019 of flower and extracted products out of the lab, resulting in an increased costs basis for those products sold. As sales of branded products expand, driving higher production for flower and extraction products, the Company expects to realize higher margins going forward.

General and administrative expenses for the quarter totaled \$6.2 million, a decrease of \$0.6 million over Q4 2019. The Company continues to identify ways to manage expenses and reduce overhead costs.

### **Profitability Measures**

Net loss for the quarter was \$6.4 million, driven mainly by a one-time non-cash write-down of inventory totaling \$10.6 million. The Company's sales declined in Q2 2020 as a result of the COVID-19 pandemic. As a result, certain flower grown by the Company was set to expire beginning in late Q2 2020 through the end of Q4 2020. As such, management determined that a portion of inventory carried on the books will be sold as distillate or related products, instead of flower. This strategic decision to take a one-time non-cash write-down in Q1 2020 allows Flower One to extend the shelf life of this inventory and positions the Company strongly for the opportunities presented by its newest brand partners and strains.

This write-down, along with general and administrative expenses of \$6.2 million and finance expenses of \$6.7 million, were partially offset by \$7.5 million in fair value gains on biological assets, \$7.5 million in gains on fair value of derivatives and \$3.1 million in foreign exchange gains as a result of the convertible debentures.

Gross margin amounted to \$2.5 million, or 28% of revenue, for Q1 2020, compared to \$2.6 million, or 44% of revenue, in Q4 2019. The lower gross margin as a percentage of revenue in Q1 2020 was attributable to the increased cost basis on flower and extracted products due to decreased production in Q1 2020. The recent brand launches combined with increased production are expected to drive an improvement in gross margins.

Flower One's Q1 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 July 15, 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).

## **Second Quarter 2020 Guidance**

As previously announced on June 8, 2020, Flower One continues to expect revenue of approximately \$3.8 million for Q2 2020, ahead of the original company guidance of \$3.25 million to \$3.75 million for the quarter.

Guidance expectations for Q2 2020 are based on the following:

- COVID-19-related decisions by the State of Nevada resulted in a notable constriction of its cannabis market during the months of April and May. As a result, the Company's sales declined to approximately \$1.9 million during the first two months of Q2 2020;
- The re-opening of dispensaries in early May to in-person sales, combined with the re-opening of casinos and the Las Vegas Strip in early June, appears to be having a positive impact on inventory levels at cannabis retailers. The Company has seen a notable increase in its weekly orders through its retail accounts since early June. As previously noted, sales in June following the reopening of the casinos grew 144% over May, to \$1.9 million; and,
- During Q2 2020, the Company added 11 new bulk and retail accounts to continue to broaden its overall customer base and maintain its retail penetration of over 90%.

Flower One also anticipates that entering Q3 2020, the Company will continue to reduce its variable operating costs as a result of continued operational efficiencies and a right-sized crop management plan through the upcoming quarter.

## **Notice of Conference Call**

Management of Flower One will host a conference call at 8:30 a.m. ET on July 16, 2020 to review Q1 2020 financial results. To join the conference call, please dial 647-427-7450 or 1-888-231-8191. A live audio webcast of the call will be available at <http://bit.ly/FONE-Q1-2020>. 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.

For those unable to join the live call, a replay will be available until July 30, 2020. To access the archived conference call, please dial 1-855-859-2056 and enter the conference code 2884538. An archived replay of the webcast will be available online for 90 days.

## **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 and beverage 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, beverages, 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 Company's Q2 2020 revenues and gross margins; future opportunities; potential growth including sales growth; future operating costs and optimization; potential new brand partners; the timing of the launch of Lift Tickets and Heavy Hitters in Nevada; tourism levels in Nevada; business continuity as a result of COVID-19; 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 fulfillment 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, including COVID-19, 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; risks associated with COVID-19 and other infectious diseases presenting as major health issues; fluctuations in general macroeconomic conditions; fluctuations in securities markets; expectations regarding the size of the Nevada cannabis market and changing consumer habits; 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.