

FORM 7

MONTHLY PROGRESS REPORT

Name of Listed Issuer: Flower One Holdings Inc. (the “Flower One”, the “Issuer” or the “Company”).

Trading Symbol: FONE

Number of Outstanding Listed Securities: 302,020,327

Date: February 4, 2021

This Monthly Progress Report must be posted before the opening of trading on the fifth trading day of each month. This report is not intended to replace the Issuer’s obligation to separately report material information forthwith upon the information becoming known to management or to post the forms required by Exchange Policies. If material information became known and was reported during the preceding month to which this report relates, this report should refer to the material information, the news release date and the posting date on the Exchange website.

This report is intended to keep investors and the market informed of the Issuer’s ongoing business and management activities that occurred during the preceding month. Do not discuss goals or future plans unless they have crystallized to the point that they are "material information" as defined in the Policies. The discussion in this report must be factual, balanced and non-promotional.

General Instructions

- (a) Prepare this Monthly Progress Report using the format set out below. The sequence of questions must not be altered nor should questions be omitted or left unanswered. The answers to the items must be in narrative form. State when the answer to any item is negative or not applicable to the Issuer. The title to each item must precede the answer.
- (b) The term “Issuer” includes the Issuer and any of its subsidiaries.
- (c) Terms used and not defined in this form are defined or interpreted in Policy 1 – Interpretation and General Provisions.

Report on Business

1. Provide a general overview and discussion of the development of the Issuer’s business and operations over the previous month. Where the Issuer was inactive disclose this fact.

On January 4, 2021, the Company announced that Richard Groberg was appointed as Interim Chief Financial Officer, replacing David Kane in this role.

On January 15, 2021, the Company announced that it received payment default notices from RB Loan Portfolio II, LLC in respect of interests in the amount of \$262,500 due on January 1, 2021 in connection with a loan from RB Loan Portfolio I, LLC to the Company in the amount of US\$30,000,000, and from RB Loan Portfolio I, LLC in respect to lease payments in the amount of US\$526,677 due on January 5, 2021 in connection with the Company's lease of the greenhouse facility located at 3950 North Bruce Street in North Las Vegas.

The Company noted in that release, that it had also not paid: (i) the January lease payment of US\$248,268 in connection with the lease of its cultivation and production facility at 343 Neeham Road in North Las Vegas, and (ii) interest payments due on two other loans (totalling US\$152,306 and US\$27,575), all of which were due January 1, 2021. No default notices have been received in respect to these payments.

On January 27, 2021, Flower One announced changes in its: Executive Management and Board of Directors; the consummation of a convertible debt financing; the conversion of some of its existing debt to equity; the return to the Company of 20,000,000 of its common shares, and modification of one of its loan and leases.

As noted in the Company's press release dated January 27, 2021:

A. Changes to the Board

Flower One announced the newest additions to its Board: Mitchell Kahn, Eliza Gairard and Kellen O'Keefe, effective January 26, 2021. Mr. Kahn, Mrs. Gairard, and Mr. O'Keefe will join the Board in addition to current Directors, Salpy Boyajian and Nitin Kaushal. Nitin Kaushal, who was recently appointed to the board, will serve as the Chair of the Company's Audit, Risk and Finance Committee. Effective January 26, 2021, Amit Varma, David Wesley and Ken Villazor have stepped down from the Board.

B. Changes to the Executive Management Team

Kellen O'Keefe, in addition to joining the Company's Board, has been appointed from his previous position of Chief Strategy Officer to Flower One's President and Interim Chief Executive Officer. Mr. O'Keefe will continue to perform the duties of his former role as Chief Strategy Officer, and the Company has no plans to otherwise fill the position at this time. Effective January 26, 2021, Ken Villazor stepped

down as Flower One's Chief Executive Officer, President and Chairman of the Board, positions he has held since January 1, 2018. Mr. Villazor will continue to work with Flower One in an advisory capacity to ensure a smooth transition between himself and Mr. O'Keefe.

Salpy Boyajian has been appointed to Executive Vice President, from her previous position of COO of Nevada Operations, and also has been appointed as Chairman of the Board. With the recent appointments, Ms. Boyajian will continue to be an integral member of Flower One's executive and governance team.

C. Convertible Debenture Financing

The Company also announced the initial closing (the "Initial Closing") of US\$10,100,000 of a non-brokered Convertible Debenture Offering (the "Offering") of up to US\$25,000,000 of the "Debenture Units". The Company expects to close the second tranche the Offering on or about the end of February 2021 (the "Closing Date"). The net proceeds received by the Company from the Offering are intended to be used for working capital, previous debt obligations and general corporate purposes. In connection with the Initial Closing under the Offering, the Company issued a total of 12,824 Debenture Units at a price of C\$1,000 per Debenture Unit.

Each Debenture Unit consists of one 9.0% unsecured convertible debenture of the Company (each a "Convertible Debenture") having a maturity date of three years from the date of issuance (the "Maturity Date") and 1,923 common share purchase warrants (each a "Warrant" and collectively, the "Warrants"), representing a 50% warrant coverage, with each whole Warrant entitling the holder to purchase one common share of the Company at an exercise price of C\$0.39 at any time up to 36 months from the Closing Date of the Offering; provided, however in the event that the common shares of the Company (each, a "Common Share" and collectively, the "Common Shares") trade on the Canadian Securities Exchange (the "CSE") at a closing price equal to or greater than C\$0.90 for a period of twenty (20) consecutive trading days, the Company may implement an accelerated expiry date of the Warrants by giving notice to the holders of the Warrants of the accelerated expiry date and, thereafter, the Warrants will expire on the date that is ninety (90) days following the delivery of such notice.

The principal amount of each Convertible Debenture (the "Principal Amount") will be convertible, for no additional consideration, into Common Shares at the option of the holder at any time prior to the earlier of: (i) the close of business on the Maturity Date, and (ii) the business day immediately preceding the date specified by the

Company for conversion of the Convertible Debentures upon the Common Shares trading on the CSE at a price greater than C\$0.50 for a period of twenty (20) consecutive trading days at a conversion price equal to C\$0.26 (the “Conversion Price”).

The Company may force the conversion of the principal amount of the then outstanding Convertible Debentures at the Conversion Price should the trading price of the Common Shares on the CSE be greater than \$0.50 for a period of ten (10) consecutive trading days. The Principal Amount and the interest accrued thereon will otherwise be payable in cash on the Maturity Date, and have a default interest rate of 3% on top of the 9%.

The Warrants provide for customary anti-dilution adjustments to protect their economic value, including corporate actions of the Company such as share splits or consolidations, reclassifications, non-cash distributions, and business combination transactions.

In connection with the Offering, the Company will pay finder’s fee as follows: (i) payment in cash in an amount equal to 2% of the aggregate gross proceeds from investors introduced to the Company by the finder; and (ii) finder units (each a “Finder Unit” and collectively, the “Finder Units”). Each Finder Unit consists of one Common Share and one-half common share purchase warrant under the same terms and conditions as the Warrants.

In connection with the Offering and under request of certain investors, the following transactions have occurred:

- a. The wholly-owned subsidiaries of the Company signed and delivered a guarantee of the obligations under the Convertible Debentures;
- b. The Southlands Family Trust and the Yaletown Family Trust (the “Trusts”) have returned to treasury 20,000,000 common shares of the Company each, and
- c. The Trusts have entered into non-compete and lock-up agreements with the Company.

D. Initial Debt Restructuring: Modified Agreements with Secured Lender

The Company has reached modification agreements with its secured lender, RB Loan Portfolio II, LLC in respect of its existing US\$30 million term debt and with its RB Loan Portfolio 1, LP, its secured lender in respect of its existing US\$16.9 million equipment financing. Each modification agreement provides that the lender thereunder will forbear from exercising any of its respective rights and remedies for certain considerations and on certain terms and conditions.

The Company and its various subsidiaries have entered into a Loan Modification Agreement with RB Loan Portfolio II, LLC, a Delaware limited liability company (the “Term Lender”) dated January 25, 2021 (“Term Loan Modification Agreement”) in regard to the RB Term Loan secured by the facility at 3950 N. Bruce St., North Las Vegas, NV (“NLV Greenhouse”), pursuant to which the Term Lender has agreed to forbear existing events of default under, and to make certain modifications to, the existing Term Loan documents, including: extension of the maturity date from June 27, 2021 to December 21, 2021; modification of the interest rate to 14%, with 12% paid monthly and 2% paid at maturity, and the addition of an “Exit Fee” of US\$1,000,000 payable upon payment in full of the Term Loan on the Maturity Date. The Term Loan Modification Agreement also provides for establishment of an interest reserve payable when the Company completes at least US\$10,000,000 in convertible debt financing (discussed above in this press release) (the “Initial New Equity”) and additional convertible debt financing by March 5, 2021 (the “Subsequent New Equity in an amount sufficient to make the total of the Initial New Equity and Subsequent New Equity equal to or greater than US\$15,000,000 (collectively, the “New Equity Condition”). The conditions precedent to the Term Loan Modification Agreement include: the requirement that the Company pay certain previously defaulted obligations, and that the Company complete of at least the Initial New Equity and the Subsequent New Equity by March 5, 2021. Additional consideration for the Term Loan Modification Agreement includes: a Loan Modification Fee equal to 3% per annum on the outstanding principal of the Term Loan from May 19, 2020 until the “Effective Date” of the Term Loan Modification (January 25, 2021); Flower One common shares in an amount equal to US\$1,200,000 (with such common shares is subject to a six month lock-up agreement); the grant of one half warrant for each share granted, such warrants being exercisable for three years at a price of C\$0.31, and reimbursement of Lender expenses.

The Company through its various subsidiaries also has entered into a Lease Modification Agreement with regard to that certain Master Lease Modification Agreement dated January 26, 2021 with RB Loan Portfolio I, LP, a Delaware limited partnership (“Lessor”) in regard to that certain Master Lease Agreement dated February 1, 2019 regarding equipment lease financing of certain equipment at the Bruce St. Facility, pursuant to which the Lessor has agreed to forbear existing events of default and make certain modifications to the Master Lease, including: an amended payment schedule allowing for reduced monthly lease payments for three (3) months (US\$347,142.75 for January, US\$345,347.41 for February and US\$343,534.12 for March), with monthly payments thereafter at the rate of US\$555,676.87/month; an Exit Fee of US\$500,000 due at the end of

the term of the Master Lease; the release of a current third party guarantor, and grant of a new parent company guarantee by the Company. Among the conditions precedent to the Lease Modification Agreement is the same New Equity Condition as set forth in the Term Loan Modification Agreement. Additional consideration for the Lease Modification Agreement includes: an Initial Lease Modification Fee of 6% of the outstanding principal of the Master Lease calculated from May 19, 2020 through the Effective Date of the Lease Modification Agreement, and an additional one-time fee of \$500,000 payable in monthly installments (which amount is reflected in the aforementioned adjusted monthly payment amounts), and reimbursement of Lessor expenses.

In connection with the Loan Modification Agreement, the Company has issued US\$1,200,000 worth of equity units. Each Loan Unit consists of one Common Share and one-half common share purchase warrant (each a “Loan Warrant” and collectively, the “Loan Warrants”). Each Loan Warrant has been issued under the same terms and conditions as the warrants, but with an exercise price of C\$0.2065, representing the 20-day VWAP of the Common Shares trading on the CSE at the time of issuance.

E. Initial Debt Restructuring: Reduction in Short-Term Debt

In addition, the Company has reduced its debt by a total of approximately US\$5,934,000 through the conversion of debt to equity from two of the Company’s other lenders as follows:

- A secured term loan in the principal amount of US\$11,000,000 has been reduced to US\$6,000,000 with the remaining amount of US\$5 million converted into 30,748,668 Common Shares of the Company at C\$0.2065 per common share, representing the 20-day VWAP of the Common Shares trading on the CSE at the time of the issuance. In addition, the interest on the remaining principal of US\$6 million has been reduced from 15% to 10% per annum, and the maturity date has been extended from February 25, 2021 to July 24, 2022. The Company also retains the ability to pre-pay the outstanding debt with no prepayment penalty.
- A short-term loan with a principal balance of US\$850,701 (originally US\$1,000,000) and accrued interest totaling US\$83,485 owing to a private lender has been converted to equity at C\$0.2065 per common share for a total of 5,744,998 Common Shares.

F. Initial Debt Restructuring: Update on Transaction with Subversive Real Estate REIT LP

As previously announced on October 7, 2020, the Company entered into an agreement with Subversive Real Estate LP (“Subversive”) for the provision of a US\$39 million of secured term loan to the Company (the “Subversive Loan”), which included an option to enter a sale-leaseback purchase agreement for the Company’s NLV Greenhouse Facility (together with the Subversive Loan, the “Subversive Transaction”). One of Subversive’s conditions to the funding of the Subversive Loan was that Subversive complete a qualifying transaction, which qualifying transaction was not related 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. On November 26, 2020, Subversive announced that it had determined not to proceed with its previously announced qualifying transaction. At this stage, the Company has decided to not proceed with the Subversive Transaction. With the Company’s initial debt restructuring complete (as described above), it intends to begin to re-engage in discussions with potential third parties with respect to a sale and leaseback of the NLV Greenhouse facility.

Additionally, on February 1, 2020, the Company issued a press release noted that that it made the interest payments that were due on December 31, 2020 related to its unsecured convertible debentures issued in March 2019 and November 2019. Payments of C\$2,017,375.50 and C\$440,610.00, respectively, were made by the Company before the end of the 30-day grace periods in accordance with the applicable indentures. On December 31, 2020, the Company had announced that it had not made that payment.

2. Provide a general overview and discussion of the activities of management.

The Company continues to operate its facilities in North Las Vegas amidst the continuing, COVID 19-related partial shutdowns. The Company’s customers (dispensaries) are also continuing to operate as tourism has partially rebounded and casinos remain partially re-opened in the State of Nevada. Please see also # 1 above.

3. Describe and provide details of any new products or services developed or offered. For resource companies, provide details of new drilling, exploration or production programs and acquisitions of any new properties and attach any mineral or oil and gas or other reports required under Ontario securities law.

N/A – none noted

4. Describe and provide details of any products or services that were discontinued. For resource companies, provide details of any drilling, exploration or production programs that have been amended or abandoned.

N/A – none noted

5. Describe any new business relationships entered into between the Issuer, the Issuer's affiliates or third parties including contracts to supply products or services, joint venture agreements and licensing agreements etc. State whether the relationship is with a Related Person of the Issuer and provide details of the relationship.

N/A – none noted

6. Describe the expiry or termination of any contracts or agreements between the Issuer, the Issuer's affiliates or third parties or cancellation of any financing arrangements that have been previously announced.

N/A

7. Describe any acquisitions by the Issuer or dispositions of the Issuer's assets that occurred during the preceding month. Provide details of the nature of the assets acquired or disposed of and provide details of the consideration paid or payable together with a schedule of payments if applicable, and of any valuation. State how the consideration was determined and whether the acquisition was from or the disposition was to a Related Person of the Issuer and provide details of the relationship.

N/A – none noted

8. Describe the acquisition of new customers or loss of customers.

N/A – none noted

9. Describe any new developments or effects on intangible products such as brand names, circulation lists, copyrights, franchises, licenses, patents, software, subscription lists and trade-marks.

N/A – none noted

10. Report on any employee hirings, terminations or lay-offs with details of anticipated length of lay-offs.

The Company during January of 2021, reduced employee and third party labour – with the expectation of reduced overhead costs but no decrease in cultivation or production productivity.

11. Report on any labour disputes and resolutions of those disputes if applicable.

N/A – none noted

12. Describe and provide details of legal proceedings to which the Issuer became a party, including the name of the court or agency, the date instituted, the principal parties to the proceedings, the nature of the claim, the amount claimed, if any, if the proceedings are being contested, and the present status of the proceedings.

On September 6, 2019, certain Plaintiffs filed a complaint against the Nevada Department of Taxation (“NDOT”) regarding the dispensary licensing decisions issued in December 2018. The complaint is against the NDOT; however, the Plaintiffs are asking for a judicial review of the process undertaken by the NDOT in the making of decisions regarding the granting of dispensary licenses in December 2018, and the Plaintiffs are therefore

required to include the names of all entities who applied for a dispensary license in connection with the decision issued in December 2018 in order to preserve jurisdiction to bring such claim. The Company had applied for, and was denied, a dispensary license pursuant to the December 2018 decision and has therefore been named as a defendant/respondent. The Company has filed a notice of non-participation and request for dismissal with NDOT.

13. Provide details of any indebtedness incurred or repaid by the Issuer together with the terms of such indebtedness.

See # 1 above. As noted in # 1 above, the Company:

- issued new Convertible Notes;
- had certain existing debt holders convert debt into common stock, and
- negotiated restricted terms associated with certain other debts and leases.

14. Provide details of any securities issued and options or warrants granted.

Security	Number Issued	Details of Issuance	Use of Proceeds⁽¹⁾
Common shares	46,668,728	See # 1 above	See # 1 above
Warrants	29,097,913	See # 1 above	N/A
Options	0	0	N/A

(1) State aggregate proceeds and intended allocation of proceeds.

15. Provide details of any loans to or by Related Persons.

\$5,000,000 of the convertible note financing detailed in #1 above was from a relative of an Officer and Director of the Company.

16. Provide details of any changes in directors, officers or committee members.

Please see # 1 above.

17. Discuss any trends which are likely to impact the Issuer including trends in the Issuer's market(s) or political/regulatory trends.

Details and discussions on trends can be found in the Company's Interim Financial Statements and Interim MD&A - both for the Financial Period Ended 9/30/2020, which were filed on November 30, 2020. These documents can be found on SEDAR.

Certificate Of Compliance

The undersigned hereby certifies that:

1. The undersigned is a director and/or senior officer of the Issuer and has been duly authorized by a resolution of the board of directors of the Issuer to sign this Certificate of Compliance.
2. As of the date hereof there were is no material information concerning the Issuer which has not been publicly disclosed.
3. The undersigned hereby certifies to the Exchange that the Issuer is in compliance with the requirements of applicable securities legislation (as such term is defined in National Instrument 14-101) and all Exchange Requirements (as defined in CNSX Policy 1).
4. All of the information in this Form 7 Monthly Progress Report is true.

Dated February 4, 2021.

Name of Director or Senior Officer

(s) "Richard S. Groberg"
Signature
R.S. Groberg

Acting Chief Financial Officer
Official Capacity

Issuer Details Name of Issuer Flower One Holdings Inc.	For Month End December 2020	Date of Report YY/MM/DD 21/01/04
Issuer Address Suite 600 – 20 Richmond St. East		
City/Province/Postal Code Toronto, ON, M5C 2R9	Issuer Fax No. (416) 840-5528	Issuer Telephone No. (416) 913-9642
Contact Name Richard Groberg	Contact Position Acting CFO	Contact Telephone No. (416) 913-9642 ext. 102
Contact Email Address rgroberg@flowerone.com	Web Site Address www.flowerone.com	