Flower One Announces Changes to the Board of Directors and Executive Management, Initial Debt Restructuring and the Initial Closing of over US$10 million and up to US$25 million in Convertible Debenture Financing

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LAS VEGAS & TORONTO--(BUSINESS WIRE)--January 27, 2021--Flower One Holdings Inc. ("Flower One" or the "Company") (CSE: FONE) (OTCQX: FLOOF) (FSE: F11), a leading cannabis cultivator, producer and innovator in Nevada, today announced: changes and additions to its Board of Directors (the "**Board**") and executive management team; the completion of its initial debt restructuring; the agreement by the Southlands and Yaletown Trusts to retire 20,000,000 common shares of the Company (the "**Retired Common Shares**") each, and the initial closing of US$10,100,000 of a non-brokered convertible debenture offering of up to US$25,000,000 convertible debenture units (the "**Offering**").

A. Changes to the Board of Directors

Flower One is pleased to announce 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.

Mitchell Kahn co-founded Grassroots Cannabis, the largest private, vertically-integrated, multi-state operator in the United States at the time of its sale in July, 2020 to Curaleaf for approximately US$830,000,000. Mr. Kahn has more than 20 years of senior executive experience in areas including real estate and cannabis. He currently serves on the Board of Curaleaf and is Principal and CEO of Frontline Real Estate Partners, for which he is also a Founder, and previously served as President and CEO of Hilco Real Estate. Mr. Kahn is a CPA, as well as an attorney who formerly practiced real estate law. He is a graduate of the University of Wisconsin, School of Business and Northwestern University, School of Law.

Eliza Gairard is a Partner at Richmond Hill Investments, an investment management firm located in New York City that opportunistically deploys capital across a wide variety of industries and asset classes. Richmond Hill is the capital partner to Mammoth Distribution, California's leading cannabis distribution platform and owner of an iconic cannabis brand portfolio including Heavy Hitters, Almora Farms and Lift Tickets, where Mrs. Gairard serves as an Observer on the Board of Directors. Prior to joining Richmond Hill in 2010, Mrs. Gairard spent several years at Wand Partners, a private equity firm with a focus on specialty financial services, where she was involved in all aspects of the deal process. Mrs. Gairard began her career in private equity as an Associate in the Aerospace & Defense Group at The Carlyle Group and, prior to Carlyle, she worked in investment banking at Greenhill & Co. Mrs. Gairard holds an

M.B.A. from Columbia Business School and graduated *magna cum laude* from Colby College with a B.A. in Economics with a concentration in financial markets.

"I am excited about the opportunity to join Kellen and the team at Flower One to help them navigate the challenges of this dynamic business," said Mitchell Kahn. "The Company has one of the premier cultivation assets in the country and the team has taken the first steps to address the structural challenges it has faced in the past. I look forward to being able to combine my extensive cannabis and restructuring experience at Flower One."

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. Mr. O'Keefe has been responsible for rebuilding the Company's brand partner program and directing a number of significant operational improvements in his time with the Company thus far. Mr. O'Keefe has over a decade of cannabis industry experience and a demonstrated history of success in fundraising, strategic partnerships and brand development with several of the industry's most iconic brands. 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. Ms. Boyajian is the founder of North Las Vegas Organics, Inc. (NLVO), which is among the Company's top performing in-house brands and has been named Nevada's #1 selling flower cannabis brand in Q3 2020 (Source: BDS Analytics).

"Today marks a transformational moment in Flower One's history as we welcome prominent, industry-leaders to our Board of Directors as well as further strengthening our management team," said Kellen O'Keefe. "We have taken the first steps towards properly capitalizing the business, restructuring our debt, and better positioning the Company for long term success. We are excited about the future for cannabis in Nevada and are committed to our promise to deliver exceptional quality cannabis at accessible prices."

C. Convertible Debenture Financing

The Company is also pleased to announce the initial closing (the "**Initial Closing**") of US$10,100,000 of a non-brokered Convertible Debenture Offering of up to US$25,000,000 of the "**Debenture Units**". The Company expects to close the second tranche of 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 (the "**Offering Price**").

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 (a "**Warrant Share**") at an exercise price of C$0.39 (the "**Exercise Price**") 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 (each a "**Conversion Share**" and collectively, the "**Conversion 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 (the "**RB Term Debt**") and with RB Loan Portfolio 1, LP, its secured lender in respect of its existing US$16.9 million equipment financing (the "**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 26, 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 ("**North Las Vegas 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 ($347,142.75 for January, $345,347.41 for February and $343,534.12 for March), with monthly payments thereafter at the rate of $555,676.87/month; an Exit Fee of $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 (the "**Loan 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 CDN$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 $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 North Las Vegas 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 North Las Vegas Greenhouse facility.

"Coupled with the Board and Management changes, the combination of the cash infusion, debt conversions and debt and lease restructurings better positions the Company's Balance Sheet and debt service obligation," said Interim CFO Richard Groberg. "With these steps, as well as recent cost rationalizations, Flower One has more flexibility to further its evolving cultivation, production and sales strategies to serve the expanding Nevada market for cannabis consumption."

This press release shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Units in the Offering in any jurisdiction in which such offer, solicitation or sale would be unlawful.

As a result of the transactions described below, the Company has a total of 302,020,695 Common Shares issued and outstanding on a non-diluted basis and 503,666,714 on a fully diluted basis.

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 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.

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 closing of the Offering; the ability of the Company to close any further tranches; the size of the Offering; the use of proceeds from the Offering; the ability of the Company to properly capitalizing the business, restructure its debt, and better positioning itself for long term success and 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 its brand partners; and the production of the nation's top-performing edibles 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 Shelf Prospectus dated September 27, 2019 and the Prospectus Supplement dated November 8, 2019 (collectively, the "Prospectus") 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 Prospectus. 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 Prospectus.

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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