Court File No. CV-22-00688966-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF THE FLOWR CORPORATION, THE FLOWR CANADA HOLDINGS ULC, THE FLOWR GROUP (OKANAGAN) INC., AND TERRACE GLOBAL INC.
(each an **"Applicant"** and collectively, the **"Applicants")**

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DATED OCTOBER 27, 2022

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INTRODUCTION

1. On October 20, 2022, the Applicants brought an application (the "**Initial Application**") before the Ontario Superior Court of Justice (Commercial List) (the "**Court**") under the *Companies' Creditors Arrangement Act,* R.S.C. 1985, c. C-36, as amended (the "**CCAA**") to, among other things, obtain a stay of proceedings to allow them an opportunity to restructure their business and affairs.

2. On that same day, the Court granted an Initial Order (the "**Initial Order**") in these CCAA proceedings (the "**CCAA Proceedings**") that, among other things, appointed Ernst & Young Inc. as monitor of the Applicants (in such capacity, the "**Monitor**"), ordered a stay of proceedings in favour of the Applicants through to October 30, 2022 (the "**Stay Period**"), granted certain Court-ordered charges, and approved an interim financing facility (the "**DIP Facility**") provided by 1000343100 Ontario Inc. (the "**DIP Lender**").

3. The comeback motion is scheduled to be heard on October 28, 2022.

PURPOSE

4. The purpose of this First Report of the Monitor (the "**First Report**") is to provide information to the Court on:

    a. the Applicants' operations and communications with stakeholders since the granting of the Initial Order;

    b. the Monitor's activities since its appointment;

    c. the Applicants' motion for an order (the "**SISP Order**") authorizing the Monitor to conduct the proposed sale and investment solicitation process (the "**SISP**") in respect of the Applicants;

    d. the Applicants' motion for an amended and restated Initial Order (the "**ARIO**") substantially in the form attached to the Applicants' Notice of Motion dated October 25, 2022, among other things:

        i. approving the Key Employee Retention Plan (the "**KERP**") and granting a charge in respect of the beneficiaries of the KERP (the "**KERP Charge**");

        ii. increasing certain of the Court-ordered charges granted pursuant to the Initial Order;

        iii. permitting the Applicants to make certain payments to third party suppliers that are critical to the Applicants operations, with the prior consent of the Monitor; and

        iv. extending the Stay Period to January 13, 2023.

TERMS OF REFERENCE

5. In preparing this First Report and making the comments herein, the Monitor has been provided with, and has relied upon, audited and unaudited financial information, books and records prepared by the Applicants, discussions with management of the Applicants

("**Management**"), and information from other third-party sources (collectively, the "**Information**").

6. The Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of such information in a manner that would wholly or partially comply with Canadian Auditing Standards ("**CAS**") pursuant to the Chartered Professional Accountants Canada Handbook and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under CAS in respect of the Information.

7. Some of the information referred to in the First Report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in the Chartered Professional Accountants Canada Handbook, has not been performed.

8. Future oriented financial information referred to in the First Report was prepared based on Management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

9. Unless otherwise indicated, the Monitor's understanding of factual matters expressed in the First Report concerning the Applicants and their business is based on the Information, and not independent factual determinations made by the Monitor.

10. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

11. Capitalized terms not otherwise defined herein have the meanings attributed to them in the Initial Order.

BACKGROUND INFORMATION WITH RESPECT TO THE APPLICANTS

Overview

12. This First Report should be read in conjunction with the Affidavit of Darren Karasiuk sworn October 20, 2022 (the "**Karasiuk Affidavit**") filed in support of the Initial Application.

13. The Flowr Corporation ("**Flowr**"), a public entity listed on the TSX Venture Exchange under the ticker symbol "FLWR", was incorporated under the *Business Corporations Act* (Alberta) on June 1, 2016 and continued under the *Business Corporations Act* (Ontario) on September 25, 2018.

14. Flowr is a holding company. The Applicants' operations are conducted substantially through Flowr's indirect subsidiary, Flowr Group (Okanagan) Inc. ("**Flowr Okanagan**"), which is the main operating entity that holds the necessary licenses and certifications to operate its cannabis business. Flowr Okanagan leases a cultivation facility (the "**K1 Facility**") in Kelowna, British Columbia as further described below.

15. There are four Applicants in these CCAA proceedings: in addition to Flowr and Flowr Okanagan, the other two Applicants are Flowr Canada Holdings ULC ("**Flowr Holdings**") and Terrace Global Inc. ("**Terrace**"), as summarized below:

    a. Flowr Holdings is a holding company and is a majority-owned subsidiary (76.6%) of Flowr that was incorporated under the laws of British Columbia. Core Flow Canada Holdings Inc. owns the remaining 23.4% of Flowr Holdings; and

    b. Terrace is a wholly owned subsidiary of Flowr that was incorporated under the laws of the Province of Ontario. Terrace is a shell corporation with minimal assets and approximately $700,000 in liabilities.

Business and Operations

16. As described in detail in the Karasiuk Affidavit, the K1 Facility is an 85,000 square foot indoor cultivation facility designed to meet the International Council for Harmonisation's good manufacturing practices standards. The K1 Facility has a total of 20 separate and distinct

grow rooms, a purpose-built irrigation system, and an automated packaging line that was commissioned in 2020.

17. The Applicants market and sell their cannabis products through the following channels:

a. authorized distributors and retailers through provincial agencies in British Columbia, Alberta, Ontario and Quebec under supply agreements. The adult-use recreational products are sold under the Applicants' principal brand, "Flowr";

b. wholesale to other cannabis licence holders across Canada; and

c. two international supply agreements, one for the EU markets and the other for the Israeli market.

UPDATE ON THE APPLICANTS' ACTIVITIES AND COMMUNICATIONS

18. Since the issuance of the Initial Order, the Applicants have been focusing on stabilizing operations. Management, with the assistance of the Monitor, has engaged in active discussions with stakeholders, including suppliers, customers, and employees. The Applicants have maintained their business operations without significant disruption.

19. The Monitor has reviewed certain of the Applicants' communications with stakeholder groups, and found such communications to be fair and transparent, including:

a. outreach with suppliers, customers and other stakeholders, updating them on the effect of these CCAA Proceedings;

b. holding a town hall meeting with employees; and

c. providing a list of frequently asked questions, along with answers to such questions, to employees.

THE MONITOR'S ACTIVITIES SINCE ITS APPOINTMENT

20. Since the Initial Order was granted, the Monitor has:

a. held discussions with the Applicants with respect to their suppliers and operations;

b. assisted with certain discussions with suppliers and service providers;

c. responded to inquiries received from creditors and other parties with respect to these CCAA Proceedings; and

d. reviewed the Applicants' disbursements.

21. The Monitor has established a case website at www.ey.com/ca/flowr (the "**Monitor's Website**") to disseminate information to stakeholders. Pursuant to the Initial Order:

a. the Monitor posted copies of the Initial Order, the Pre-filing Report of the Monitor dated October 20, 2022 (the "**Pre-Filing Report**") and the Service List on the Monitor's Website;

b. on or around October 25, 2022, the Monitor mailed a notice of these CCAA Proceedings to creditors with claims greater than $1,000 appearing in the Applicants' books and records as at the date of the Initial Order (collectively, the "**Known Creditors**");

c. on or around October 25, 2022, the Monitor posted on the Monitor's Website a list showing the Known Creditors and the estimated amount of their claims; and

d. the Monitor arranged for notice of these CCAA Proceedings to be published in The Globe and Mail (National Edition) on October 26, 2022.

22. In addition to the Monitor's Website and the communications noted above, the Monitor has set up an email address (flowr.monitor@ca.ey.com) and hotline phone number (416-932-4923 / 1-833-681-0537) that are specific to these CCAA Proceedings in order to respond to inquiries from creditors and other stakeholders.

THE PROPOSED SALE AND INVESTMENT SOLICITATION PROCESS

Pre-filing solicitation efforts

23. Prior to the commencement of these CCAA proceedings, the Applicants, with the assistance of an experienced and reputable financial advisor, Hyperion Capital Inc. (the "**FA**"), explored potential merger and acquisitions ("**M&A**") and other financing transaction opportunities

(collectively, the "**Pre-filing Solicitation Efforts**"). The Applicants and/or the FA canvassed a selected target list of cannabis industry players who were believed to have the financial capacity to fund a transaction and would have a strategic interest in the Applicants' assets and operations. The canvassing of the market took place primarily in the first half of 2022. No transaction came out of these efforts. Subsequent to the FA completing its mandate in or about the end of Q2 2022, Mr. Darren Karasiuk was hired as the CEO of Flowr. After his appointment, Mr. Karasiuk continued to explore funding and transaction opportunities. The Monitor had a call with the FA and Mr. Karasiuk to further understand the details of the Pre-filing Solicitation Efforts, as summarized below.

24. Starting in or about January 2022, the Applicants and/or the FA contacted potential targets known to be interested in similar transaction opportunities and engaged in discussions with a number of these parties. The FA has provided the Monitor with a list of the parties contacted and the rationale as to the composition of the target list. Although there were limited indications of interest by certain of the targets, ultimately no proposals surfaced from these discussions that Flowr was prepared to transact on. After Q1 2022, the capital market conditions for cannabis companies worsened generally, resulting in a more challenging transaction environment for the cannabis sector in Canada. As a result, the Applicants' paused their Pre-filing Solicitation Efforts near the end of Q2 2022.

25. As the Applicants' financial and liquidity situation continued to deteriorate, starting in the summer of 2022, Flowr's executive management made further efforts to explore transaction and funding opportunities, including continuing discussions with certain of the parties that were previously contacted in early 2022. However, none of these efforts came to fruition.

Summary of the Proposed SISP

26. As mentioned in the Karasiuk Affidavit, the Applicants intend to seek approval of the SISP to canvass the market again with the Monitor's assistance for an investment in, or sale of, all or substantially all of the Applicants' Property (as defined herein). In the context of the Applicants' limited liquidity, and the fact that the Pre-filing Solicitation Efforts were already undertaken, the SISP will be conducted in an accelerated timeline, as summarized further below.

27. Below is a summary of the proposed SISP. Reference should be made to the complete text of the proposed SISP attached as **Appendix "A"** to this First Report. Terms not otherwise defined in the below section have the meanings attributed to them in the SISP.

Timeline of the Proposed SISP

28. The timeline of events of the proposed SISP are as follows:

Milestone	Deadline
The Monitor will: (a) arrange for the notice of the SISP (the "**Notice**") to be published in The Globe and Mail (National Edition); (b) issue a press release with Canada Newswire or comparable newswire entity containing similar information as the Notice; and (c) in consultation with the Applicants, prepare and send a Teaser Letter and an NDA to all Known Potential Bidders (as such terms are defined herein).	No later than November 7, 2022
Bid Deadline	November 25, 2022 (5:00 p.m. Eastern Time)
Auction Date	December 1, 2022
Hearing of the Sale Approval Motion	No later than December 16, 2022, subject to the availability of the Court

Key Aspects of the Proposed SISP

29. The Applicants have proposed a flexible SISP to identify opportunities for sale of, or investment in, all or part of the Applicants' assets and business operations (the "**Opportunity**"). The Opportunity may include one or more of a restructuring, recapitalization or other form or reorganization of the business and affairs of the Applicants as a going concern or a sale of all, substantially all or one or more components of the Applicants' assets (the "**Property**") and business operations (the "**Business**") as a going concern or otherwise.

30. The Monitor, in consultation with the Applicants, will develop a list of potential bidders (the "**Known Potential Bidders**"). This list will be comprised of those that have previously shown interest in transacting with the Applicants or the Monitor and local and international strategic and financial parties who the Applicants, in consultation with the Monitor, believe may be interested in the Opportunity.

31. The Monitor, with the assistance of the Applicants, will also prepare (i) a process summary (the "**Teaser Letter**") describing the Opportunity, outlining the process under the SISP and inviting recipients of the Teaser Letter to express their interest pursuant to the SISP; and (ii) a non-disclosure agreement ("**NDA**") in form and substance satisfactory to the Applicants and the Monitor. The Applicants will send the Teaser Letter and NDA to all Known Potential Bidders no later than November 7, 2022.

32. Similarly, to attract other potential bidders, the Monitor will, by no later than November 7, 2022: (i) send out a press release through Canada Newswire or comparable newswire entity, (ii) arrange for the Notice to be posted in The Globe and Mail (National Edition), and (iii) post the Notice on the Monitor's Website.

33. Each party that wishes to participate in the SISP (a "**Potential Bidder**"), other than the Stalking Horse Bidder (defined herein), will be required to submit an executed NDA and provide information to the Monitor as to their financial wherewithal to close a transaction ("**Financial Information**").

34. Once an executed NDA and the Financial Information is received from a Potential Bidder, and subject to the Monitor satisfying itself that the Potential Bidder has the wherewithal to close a transaction, the Monitor will grant access to additional documents and information through a data room (the "**Data Room**") to allow the Potential Bidders the ability to perform their own independent review, investigation and/or inspection as required in their due diligence review.

35. The Monitor will designate a representative to manage the Data Room and coordinate all requests for information to be included into the Data Room, and will place reasonable and relevant information, if available, into the Data Room.

36. Other due diligence requests, such as on-site visits and other reasonable requests by a Potential Bidder, may be agreed to by the Applicants, in their reasonable business judgment and after consulting with the Monitor.

37. The deadline for Potential Bidders to submit a formal offer to purchase or make an investment in the Applicants or their Property or Business (a "**Bidder**") is November 25, 2022 (5:00 p.m. Eastern Time), which must be submitted in the form of a binding offer (a "**Bid**") and contain all of the prescribed and required details as outlined in the SISP.

38. The proposed SISP provides that if the DIP Lender, as purchaser, submits a stalking horse agreement (the "**Stalking Horse Bid**"), then the Monitor or the Applicants shall seek an Order from the Court approving the Stalking Horse Bid. The Stalking Horse Bid, if approved by the Court, shall automatically be considered a Qualified Bid (as defined below).

39. In the event that a Stalking Horse Bid is approved by the Court, the Monitor may only designate a Bid as a Qualified Bid where the proposed purchase price is equal to or greater than that contained in the Stalking Horse Bid, if one is entered into, and must include a cash purchase price in an amount equal to or greater than the Stalking Horse Bid, plus the amount of any break fee contained in the Stalking Horse Bid and approved by the Court, plus $50,000.

40. Bids will be reviewed by the Monitor, in consultation with the Applicants, and determined if they should be deemed as "**Qualified Bid**". Various factors, as described in the SISP, will be considered by the Monitor in determining whether a Bid should be deemed a Qualified Bid. Any Bid that is deemed not to be a Qualified Bid by the Applicants shall require the approval of the Monitor.

41. All Bidders that have submitted a Bid by the Bid Deadline will receive notice in writing as to whether or not they have been deemed to have a Qualified Bid within two (2) business days of the Bid Deadline.

42. If the Monitor receives:

   a. at least one other Qualified Bid where there is a Court-approved Stalking Horse Bid; or

b. two or more Qualified Bids,

The Monitor will conduct and administer an auction (the "**Auction**") in accordance with the SISP.

43. The Monitor will notify the parties that provided a Qualified Bid, plus the Stalking Horse Bidder, if applicable, (each, a "**Qualified Party**") of the Auction instructions, process and details, including the details of the Initial Bid (as defined below) by 5:00 P.M. (Eastern Time) two (2) Business Days after the Bid Deadline.

44. Subject to the terms in the SISP, the Auction will commence with the highest, or otherwise best Qualified Bid as determined by the Monitor, in consultation with the Applicants (the "**Initial Bid**"), and any bid made at the Auction by a Qualified Party subsequent to the Monitor's announcement of the Initial Bid (each, an "**Overbid**"), must proceed in minimum additional cash increments of $100,000. There will be one or more rounds to allow each participating Qualified Party to Overbid.

45. Before the conclusion of the Auction, the Monitor, in consultation with the Applicants, will review each Qualified Bid, including the Initial Bid and Overbids, to determine the highest or otherwise best bid (the "**Successful Bid(s)**") from the "**Successful Bidder(s)**" based on the factors indicated in the SISP, including amount of consideration, likelihood of the Qualified Party's ability to close a transaction by January 31, 2023, and the assets and liabilities included or excluded from the Bid.

46. The proposed closing date for any definitive agreement is on or before January 31, 2023. The Monitor notes that this is outside of the Forecast Period (as defined below), however, pursuant to the SISP, a Qualified Bid must include confirmation that, if the Bid is the Successful Bid and the Applicants have cash requirements in excess of the amounts available to them under the DIP Facility to get to a closing of the transaction, then the Bidder will advance funds to the Applicants to allow them to fund their cash requirements by way of non-revolving facility in a manner that does not impart the priority of the DIP Facility or otherwise is satisfactory to the DIP Lender.

47. All agreements as a result of a Successful Bid will be subject to approval from the Court. All other Qualified Bids other than the Successful Bid, if any, shall be deemed rejected by the Applicants on and as at the date of approval of the Successful Bid by the Court, if the Court sees fit to grant such relief.

Monitor's Involvement in the Proposed SISP

48. The Monitor has been working with the Applicants to develop the proposed SISP with a view to seek the best alternatives for the benefit of the Applicants and their stakeholders generally, while at the same time ensuring a fair and transparent process for bidders, and in the context of the Applicants' limited liquidity resources.

49. Further, the proposed SISP provides that the Monitor shall oversee and conduct the SISP, in all aspects, to ensure the effectiveness and fairness of the process. All discussions regarding a Bid shall be directed through the Monitor. There are also certain key decision points under the proposed SISP that cannot be made without the approval of the Monitor.

50. The Applicants will have the right to modify the SISP with the prior written approval of the Monitor, and in consultation with the DIP Lender if, in their reasonable business judgment, such modification will enhance the process or better achieve the objectives of the SISP; provided that the CCAA service list will be advised of any substantive modification. The Monitor is of the view that this flexibility is appropriate to ensure the best possible outcome from the SISP.

Monitor's Comments on the Proposed SISP

51. The Applicants indicated their intent to pursue a SISP in these CCAA Proceedings in their press release issued on October 20, 2022. Although the timelines in the proposed SISP are somewhat truncated, in consideration of the Applicants' tight liquidity constraints and the Pre-filing Solicitation Efforts, the Monitor is of the view that the proposed SISP is well-structured and will provide for a reasonable canvassing of sale, restructuring and recapitalization options for the benefit of the Applicants and their stakeholders in the circumstances. Some of the key benefits of the proposed SISP can be summarized as follows:

a. the proposed SISP provides sufficient notice of the Opportunity through canvassing known bidders as well as publishing the Notice in a major daily newspaper and a press release to generate interest amongst a broad base of potential bidders and interested parties;

b. the proposed SISP timelines are driven by the Applicants' liquidity constraints;

c. the Applicants have previously conducted the Pre-filing Solicitation Efforts with the assistance of a well-experienced FA;

d. the Auction, if applicable, provides for a quicker second round of negotiations among Qualified Parties;

e. the Monitor will oversee and conduct the proposed SISP under the ultimate oversight and supervision of the Court; and

f. the factors to be considered in arriving at a Successful Bid are reasonable and appropriate in the circumstances.

PROPOSED AMENDED AND RESTATED INITIAL ORDER

52. The proposed ARIO proposes certain amendments to the Initial Order to grant broader relief. Some of these details are highlighted below.

KERP

53. As set out in the Karasiuk Affidavit, the Applicants seek Court approval of the proposed KERP. The Applicants developed the proposed KERP, with input from the Monitor, in order to retain certain key management employees that have been identified and considered essential to the stability of the operations, the implementation of the proposed SISP, and to facilitate a successful restructuring of the Applicants (the "**KERP Participants**").

54. The Applicants selected the KERP Participants based on the Applicants' assessment, with input from the board of directors of Flowr and approval of the Monitor and DIP Lender.

55. The KERP contemplates two milestone payments: the first based on continuing employment for a period of time, and the second based on a going concern outcome such as a successful sale of the business or recapitalization. The maximum amount of the KERP payments is $800,000. A schedule that sets out each of the KERP Participants with their roles and proposed payment information is attached hereto as **Confidential Appendix "B".** The Applicants are also seeking an order sealing Confidential Appendix "B" as it contains personal and confidential information in respect of the Applicants' employees.

56. The Applicants are seeking, among other things, the Court's approval of the KERP Charge, which is proposed to rank immediately behind the Director's Charge. The ranking of the various priority charges is summarized further herein, should the proposed KERP Charge be approved by this Court.

57. The Monitor provided input to the Applicants in formulating the KERP. The Monitor was also invited to the meeting of Flowr's board of directors where the KERP was considered and discussed in detail and has had independent discussions with the Chair of the Board regarding the KERP.

58. The Monitor is satisfied with the basis on which the KERP was formulated, how the amounts payable to KERP Participants were determined, and by the corporate governance process that was followed before the Applicants exercised their business judgment to seek the Court's approval of the KERP. The Monitor is also of the view that the structure of the KERP and the quantum of the amounts payable to KERP participants are reasonable in these circumstances. Accordingly, the Monitor recommends that this Court approve the proposed KERP and the KERP Charge as discussed above.

Amendment to Court-approved Charges

59. Certain Court-ordered charges were granted pursuant to the Initial Order. The proposed ARIO amends certain such charges and incorporates certain new charges (collectively, the "**Charges**"). The proposed ARIO provides that the Charges granted thereunder shall have the following priorities:

   a. First - The Administration Charge (to the maximum amount of $500,000);

b. Second - The DIP Lender's Charge;

c. Third - The Directors' Charge (to the maximum amount of $800,000); and

d. Fourth - The KERP Charge (the maximum aggregate amount of $800,000).

Administration Charge

60. Pursuant to the Initial Order, this Court granted the Administration Charge in the amount of up to $350,000 in favour of counsel to the Applicants, counsel to the board of directors, if any, the Monitor and the Monitor's counsel (collectively, the "**Secured Professionals**") as security for their professional fees incurred by the foregoing professionals prior to and during the initial 10-day Stay Period prior to the comeback hearing.

61. The Applicants seek to increase the quantum of the Administration Charge from $350,000 to $500,000. This increase in quantum reflects the estimated fees of the Secured Professionals incurred to be incurred during the proposed extended Stay Period.

62. The increased quantum of the Administration Charge has been established based on the various professionals' previous history and experience with restructurings of similar scope and complexity. The Monitor believes that such a charge is required and reasonable in the circumstances.

DIP Lender's Charge

63. Pursuant to the Initial Order, this Court approved the DIP Facility with the maximum borrowing amount limited to $500,000 and granted the DIP Lender's Charge in favour of the DIP Lender to secure actual advances under the DIP Facility.

64. The Applicants seek to increase the borrowing limit to $2 million under the DIP Facility. The Updated Cash Flow Forecast (as defined below) reflects that full access to the $2 million DIP Facility is crucial for the Applicants to maintain liquidity and fund operations during the proposed extended Stay Period. Accordingly, the Monitor recommends the approval of the increased borrowing limit under the DIP Facility.

Directors' Charge

65. Pursuant to the Initial Order, this Court granted the Directors' Charge to secure an indemnity in favour of the current directors and officers of the Applicants against obligations and liabilities that they may incur as director or officer of the Applicants after the commencement of the CCAA Proceedings, except to the extent that the obligation or liability is incurred as a result of such director's or officer's gross negligence or willful misconduct. The directors and officers are only entitled to the benefit of the Directors' Charge to the extent that they do not have coverage under any directors' and officers' insurance policy, to the extent that such coverage is insufficient to pay an indemnified amount, or to the extent that such coverage is denied by the insurance provider.

66. The Applicants seek to increase the quantum of the Directors' Charge from $600,000 to $800,000. This increase in quantum reflects the estimated directors' and officers' exposure in respect of accrued payroll costs, vacation pay and sales taxes and excise duty obligations during the proposed extended Stay Period.

Authority to Make Certain Pre-filing Payments

67. In order to allow for continued operation of the business and minimize business disruptions, the Applicants seek the ability to pay certain pre-filing amounts owing to critical suppliers in respect of goods and services provided prior to the initiation of these CCAA Proceedings. These pre-filing payments are only to be paid where necessary and are subject to prior consent of the Monitor.

68. Given the importance of securing a sufficient and continuing supply of goods and services, the Monitor is of the view that this relief is appropriate in the circumstances.

OVERVIEW OF APPLICANTS' UPDATED CASH FLOW FORECAST

69. The Applicants, with the assistance of the Monitor, have further updated the cash flow forecast (the "**Updated Cash Flow Forecast**") for the period from October 17, 2022 to January 15, 2023 (the "**Forecast Period**"). A copy of the Updated Cash Flow Forecast is attached as **Appendix "C"** to this First Report.

70. The Updated Cash Flow Forecast reflects cash collections of approximately $3.3 million and estimated total combined disbursements of approximately $6.1 million. Following the receipt of an initial advance of $500,000 on or about October 26, 2022, the Applicants anticipate the need to fully draw the remaining balance of the DIP Facility (being $1.5 million) during the Forecast Period in order to maintain sufficient liquidity.

71. The Applicants' cash balance is projected to drop to approximately $13,000 at the end of the Forecast Period, representing an unfavourable variance of approximately $324,000 compared to the cash flow forecast attached as Appendix "B" to the Pre-filing Report of the Monitor. This unfavourable variance is primarily due to certain updated assumptions relating to lower anticipated collections and additional sales tax remittance in the Forecast Period. The Monitor notes that the proposed KERP payments are not reflected in the Updated Cash Flow Forecast as the payment milestones fall outside of the Forecast Period.

72. The Applicants' tight liquidity, coupled with the challenges facing the cannabis sector generally, has compelled an accelerated timeframe to pursue a transaction through the proposed SISP.

EXTENSION TO THE STAY PERIOD

73. The Stay Period is currently set to expire on October 30, 2022. The Applicants are requesting an extension of the Stay Period until January 13, 2023.

74. The Monitor is of the view that the requested stay extension is appropriate for the following reasons: (i) the Applicants require the extension in order to pursue the proposed SISP; (ii) the Monitor will work closely with the Applicants with respect to the proposed SISP; and (iii) the Applicants have continued to operate in good faith and with due diligence since the date of the Initial Order.

75. Based on the Updated Cash Flow Forecast and the availability of advances under the DIP Facility, the Monitor believes that the Applicants will have sufficient liquidity for the duration of the extended Stay Period.

CONCLUSIONS AND RECOMMENDATIONS

76. The Monitor supports the relief sought by the Applicants in the ARIO with regard to:

    a. approving the KERP and granting the KERP Charge;

    b. amending certain of the Charges;

    c. permitting the Applicants to make certain pre-filing payments with the prior consent of the Monitor; and

    d. extending the Stay Period to January 13, 2023.

77. The Monitor also supports the relief sought by the Applicants with regard to the SISP Order, for the reasons stated herein.

All of which is respectfully submitted this 27th day of October 2022.

ERNST & YOUNG INC., in its capacity as Proposed Monitor of the Applicants, and not in its corporate or personal capacity.

per:

Alex Morrison, CPA, CA
Senior Vice-President

Karen Fung, CPA, CA
Senior Vice-President

Allen Yao, CPA, CA
Vice-President

APPENDIX “A”

Sale and Investment Solicitation Process

Introduction

1. On October 20, 2022, The Flowr Corporation ("**Flowr**") and certain of its subsidiaries (collectively, the "**Applicants**") were granted an initial order (as amended or amended and restated from time to time, the "**Initial Order**") under the *Companies' Creditors Arrangement Act* (the "**CCAA**" and the "**CCAA Proceedings**") by the Ontario Superior Court of Justice (the "**Court**"). The Initial Order (which was amended and restated on **[October 28, 2022]**), among other things:

   (a) stayed all proceedings against the Applicants, their assets and their respective directors and officers;

   (b) appointed Ernst & Young Inc. as the monitor of the Applicants (in such capacity, the "**Monitor**");

   (c) authorized the Applicants to enter into a debtor-in-possession financing facility (the "**DIP Facility**") with 1000343100 Ontario Inc. ("**DIP Lender**") pursuant to a Commitment Letter dated October 20, 2022 (the "**DIP Commitment Letter**"), as well as the related charge in favour of the DIP Lender (the "**DIP Charge**") over all of the Applicants' present and future assets, property and undertakings of every nature and kind whatsoever, and wherever situate including all proceeds thereof to secure the amounts outstanding under or in connection with the DIP Facility; and

   (d) authorized the Applicants to pursue all avenues of sale or investment of their assets or business, in whole or in part, subject to prior approval of the Court before any material sale or refinancing.

2. Further to the Applicants' restructuring efforts and the terms of the DIP Facility, the Monitor will conduct the sale and investment solicitation process (the "**SISP**") described herein, with the assistance of the Applicants, and pursuant to a Court order dated **[October 28, 2022]** (the "**SISP Order**"). The SISP is intended to solicit interest in an acquisition or refinancing of the business or a sale of the assets and/or the business of the Applicants by way of merger, reorganization, recapitalization, primary equity issuance or other similar transaction. The Applicants intend to provide all qualified interested parties with an opportunity to participate in the SISP.

3. In accordance with the terms of the DIP Facility, the DIP Lender has the exclusive option to submit a Stalking Horse Agreement (when referring to the bid, the "**Stalking Horse Bid**" and in referring to the DIP Lender, as purchaser, the "**Stalking Horse Bidder**") in order to provide certainty in the marketplace for the Applicants. Where the Stalking Horse Bidder submits its Stalking Horse Bid, the Monitor or the Applicants shall bring a motion before the Court seeking the approval of the Stalking Horse Bid. In the event the Stalking Horse Bid is approved by the Court, the Stalking Horse Bid shall automatically be considered as a Qualified Bid (as defined herein) for the purposes of the Auction (as defined herein).

Opportunity

4. The SISP is intended to solicit interest in, and opportunities for, a sale of, or investment in, all or part of the Applicants' assets and business operations (the "**Opportunity**"). The Opportunity may include one or more of a restructuring, recapitalization or other form or reorganization of the business and affairs of the Applicants as a going concern or a sale of all, substantially all or one or more components of the Applicants' assets (the "**Property**") and business operations (the "**Business**") as a going concern or otherwise.

5. Except to the extent otherwise set forth in a definitive sale or investment agreement with a successful bidder, any sale of the Property or investment in the Business will be on an "as is, where is" basis and without surviving representations or warranties of any kind, nature, or description by the Monitor, the Applicants, or any of their respective agents, advisors or estates, and, in the event of a sale, all of the right, title and interest of the Applicants in and to the Property to be acquired will be sold free and clear of all pledges, liens, security interests, encumbrances, claims, charges, options, and interests therein and thereon pursuant to Court orders, to the extent that the Court deems it appropriate to grant such relief and except as otherwise provided in such Court orders.

Timeline

6. The following table sets out the key milestones under the SISP:

Milestone	**Deadline**
Deadline to publish notice of SISP and deliver Teaser Letter and NDA to Known Potential Bidders	November 7, 2022
Bid Deadline	November 25, 2022
Auction Date	December 1, 2022
Hearing of the Sale Approval Motion (as defined below)	No later than December 16, 2022, subject to the availability of the Court

7. Subject to any order of the Court, the dates set out in the SISP may be extended by the Monitor with the consent and approval of the Applicants and after consultation with the DIP Lender.

Solicitation of Interest: Notice of the SISP

8. As soon as reasonably practicable, but in any event by no later than November 7, 2022:

(a) the Monitor, in consultation with the Applicants, will prepare a list of potential bidders, including (i) parties that have approached the Applicants or the Monitor indicating an interest in the Opportunity, and (ii) local and international strategic and financial parties who the Applicants, in consultation with the Monitor, believe may be interested in purchasing all or part of the Business and Property or investing in the Applicants pursuant to the SISP, in each case whether or not such party has submitted a letter of intent or similar document (collectively, "**Known Potential Bidders**");

(b) the Monitor will arrange for a notice of the SISP (and such other relevant information which the Monitor, in consultation with the Applicants, considers appropriate) (the "**Notice**") to be published in The Globe and Mail (National Edition), and any other newspaper or journal as the Applicants, in consultation with the Monitor, consider appropriate, if any;

(c) the Monitor will issue a press release with Canada Newswire or comparable newswire entity setting out the information contained in the Notice and such other relevant information which the Monitor, in consultation with the Applicants, consider appropriate, designating dissemination in Canada; and

(d) the Monitor, in consultation with the Applicants, will prepare: (i) a process summary (the "**Teaser Letter**") describing the Opportunity, outlining the process under the SISP and inviting recipients of the Teaser Letter to express their interest pursuant to the SISP; and (ii) a non-disclosure agreement in form and substance satisfactory to the Applicants and the Monitor, and their respective counsel, and substantially in the form of the NDA executed by the DIP Lender (an "**NDA**").

9. The Monitor will send the Teaser Letter and NDA to each Known Potential Bidder by no later than November 7, 2022 and to any other party who requests a copy of the Teaser Letter and NDA or who is identified to the Applicants or the Monitor as a potential bidder as soon as reasonably practicable after such request or identification, as applicable.

Potential Bidders and Due Diligence Materials

10. Any party who wishes to participate in the SISP (a "**Potential Bidder**"), other than the Stalking Horse Bidder, must provide to the Applicants and the Monitor an NDA executed by it, and which shall inure to the benefit of any purchaser of the Business or Property, or any portion thereof, and a letter setting forth the identity of the Potential Bidder, the contact information for such Potential Bidder and full disclosure of the direct and indirect principals of the Potential Bidder.

11. The Monitor, in consultation with the Applicants, shall in their reasonable business judgment and subject to competitive and other business considerations, afford each Potential Bidder who has signed and delivered a NDA to the Monitor and provided information as to their financial wherewithal to close a transaction such access to due diligence material and information relating to the Property and Business as the Applicants or the Monitor deem appropriate. Due diligence shall include access to an electronic data room containing information about the Applicants and the Business, and may also include management presentations, on-site inspections, and other matters which a Potential Bidder may reasonably request and as to which the Applicants, in their reasonable business judgment and after consulting with the Monitor, may agree. The Monitor will designate a

representative to coordinate all reasonable requests for additional information and due diligence access from Potential Bidders and the manner in which such requests must be communicated. Neither the Applicants nor the Monitor will be obligated to furnish any information relating to the Property or Business to any person other than to Potential Bidders. Furthermore and for the avoidance of doubt, selected due diligence materials may be withheld from certain Potential Bidders if the Applicants, in consultation with and with the approval of the Monitor, determine such information to represent proprietary or sensitive competitive information. Neither the Applicants nor the Monitor is responsible for, and will bear no liability with respect to, any information obtained by any party in connection with the Sale of the Property and the Business.

12. Potential Bidders must rely solely on their own independent review, investigation and/or inspection of all information and of the Property and Business in connection with their participation in the SISP and any transaction they enter into with the Applicants.

Formal Binding Offers

13. Potential Bidders that wish to make a formal offer to purchase or make an investment in the Applicants or their Property or Business (a "**Bidder**") shall submit a binding offer (a "**Bid**") that complies with all of the following requirements to the Monitor at the address specified in Schedule "1" hereto (including by e-mail), so as to be received by them not later than **5:00 PM (Eastern Time) on November 25, 2022** or as may be modified in the Bid process letter that may be circulate by the Monitor to Potential Bidders, with the approval of the Applicants and in consultation with the DIP Lender (the "**Bid Deadline**"):

(a) the Bid must be either a binding offer to:

(i) acquire all, substantially all or a portion of the Property (a "**Sale Proposal**"); and/or

(ii) make an investment in, restructure, reorganize or refinance the Business or the Applicants (an "**Investment Proposal**");

(b) the Bid (either individually or in combination with other bids that make up one bid) is an offer to purchase or make an investment in some or all of the Applicants or their Property or Business and is consistent with any necessary terms and conditions established by the Applicants and the Monitor and communicated to Bidders;

(c) the Bid includes a letter stating that the Bidder's offer is irrevocable until the selection of the Successful Bidder (as defined below), provided that if such Bidder is selected as the Successful Bidder, its offer shall remain irrevocable until the closing of the transaction with the Successful Bidder;

(d) the Bid includes duly authorized and executed transaction agreements, including the purchase price, investment amount and any other key economic terms expressed in Canadian dollars (the "**Purchase Price**"), together with all exhibits and schedules thereto;

(e) the Bid includes written evidence of a firm, irrevocable commitment for financing or other evidence of ability to consummate the proposed transaction, that will allow the Applicants and the Monitor to make a determination as to the Bidder's financial and other capabilities to consummate the proposed transaction;

(f) the Bid is not conditioned on (i) the outcome of unperformed due diligence by the Bidder, or (ii) obtaining financing, but may be conditioned upon the Applicants receiving the required approvals or amendments relating to the licences required to operate the business, if necessary;

(g) the Bid fully discloses the identity of each entity that will be entering into the transaction or the financing, or that is otherwise participating or benefiting from such bid;

(h) for a Sale Proposal, the Bid includes:

  (i) the purchase price in Canadian dollars and a description of any non-cash consideration, including details of any liabilities to be assumed by the Bidder and key assumptions supporting the valuation;

  (ii) a description of the Property that is expected to be subject to the transaction and any of the Property expected to be excluded;

  (iii) a specific indication of the financial capability of the Bidder and the expected structure and financing of the transaction;

  (iv) a description of the conditions and approvals required to complete the closing of the transaction;

  (v) a description of those liabilities and obligations (including operating liabilities) which the Bidder intends to assume and which such liabilities and obligations it does not intend to assume;

  (vi) any other terms or conditions of the Sale Proposal that the Bidder believes are material to the transaction; and

  (vii) a commitment by the Bidder to provide a non-refundable deposit in the amount of not less than 10% of the Purchase Price offered upon the Bidder being selected as the Successful Bidder;

(i) for an Investment Proposal, the Bid includes:

  (i) a description of how the Bidder proposes to structure the proposed investment, restructuring, recapitalization, refinancing or reorganization, and a description of any non-cash consideration;

  (ii) the aggregate amount of the equity and/or debt investment to be made in the Business or the Applicants in Canadian dollars;

  (iii) the underlying assumptions regarding the pro forma capital structure;

  (iv) a specific indication of the sources of capital for the Bidder and the structure and financing of the transaction;

  (v) a description of the conditions and approvals required for to complete the closing of the transaction;

(vi) a description of those liabilities and obligations (including operating liabilities) which the Bidder intends to assume and which such liabilities and obligations it does not intend to assume;

(vii) any other terms or conditions of the Investment Proposal; and

(viii) a commitment by the Bidder to provide a non-refundable deposit in the amount of not less than 10% of the total new investment contemplated in the bid upon the Bidder being selected as the Successful Bidder;

(j) the Bid includes acknowledgements and representations of the Bidder that the Bidder:

(i) has had an opportunity to conduct any and all due diligence regarding the Property, the Business and the Applicants prior to making its offer;

(ii) it has relied solely upon its own independent review, investigation and/or inspection of any documents and/or the Property in making its bid; and

(iii) it did not rely upon any written or oral statements, representations, warranties, or guarantees whatsoever, whether express, implied, statutory or otherwise, regarding the Business, the Property, or the Applicants or the completeness of any information provided in connection therewith, except as expressly stated in the definitive transaction agreement(s) signed by the Applicants;

(k) the Bid is received by the Bid Deadline;

(l) the Bid includes confirmation that, if the Bid is the Successful Bid and the Flowr Group has cash requirements in excess of the amounts available to them under the DIP Facility to get to a closing of the transaction then the Bidder will advance funds to the Flowr Group to allow them to fund their cash requirements by way of non-revolving facility in a manner that does not impart the priority of the DIP Facility or otherwise is satisfactory to the DIP Lender; and

(m) the Bid contemplates closing the transaction set out therein on or before January 31, 2023.

14. Following the Bid Deadline, the Applicants and the Monitor will assess the Bids received. The Monitor, in consultation with the Applicants, and with the approval of the Applicants, will designate the most competitive bids that comply with the foregoing requirements to be "**Qualified Bids**". No Bids received shall be deemed not to be Qualified Bids without the approval of the Monitor. Only Bidders whose bids have been designed as Qualified Bids are eligible to become the Successful Bidder(s).

15. In the event that a Stalking Horse Agreement is approved by the Court, the Monitor may only designate a Bid as a Qualified Bid where the proposed purchase price is equal to or greater than that contained in any Stalking Horse Bid, and includes a cash purchase price in an amount equal to or greater than the Stalking Horse Bid, *plus* the amount of any break fee *plus* $50,000.

16. The Monitor, in consultation with the Applicants and with the approval of the Applicants, may waive strict compliance with any one or more of the requirements specified above and deem such non-compliant Bids to be a Qualified Bid; provided, however, that the Monitor shall not waive compliance with paragraph 14 above without the consent of the DIP Lender.

17. The Monitor shall notify each Bidder in writing as to whether its Bid constituted a Qualified Bid within two (2) business days of the Bid Deadline, or at such later time as the Monitor deems appropriate.

18. In the event that there is not a Stalking Horse Bid, if the Monitor, in consultation with the Applicants, are not satisfied with the number or terms of the Qualified Bids, the Monitor may, in consultation with the Applicants and with the approval of the Applicants, extend the Bid Deadline, or the Monitor may seek Court approval of an amendment to the SISP, in each case after consultation with the DIP Lender.

19. The Monitor may, in consultation with the Applicants and with the approval of the Applicants, aggregate separate Bids from unaffiliated Bidders to create one Qualified Bid.

Evaluation of Competing Bids

20. A Qualified Bid will be evaluated based upon several factors including, without limitation: (i) the Purchase Price and the net value provided by such bid, (ii) the identity, circumstances and ability of the Bidder to successfully complete such transactions, (iii) the proposed transaction documents, (iv) factors affecting the speed, certainty and value of the transaction, (v) the assets included or excluded from the bid, (vi) any related restructuring costs, and (vii) the likelihood and timing of consummating such transaction, each as determined by the Applicants and the Monitor.

Auction

21. If the Monitor receives at least one additional Qualified Bid where there is a court approved Stalking Horse Bid, or two Qualified Bids where there is no court approved Stalking Horse Bid, the Monitor will conduct and administer an Auction in accordance with the terms of this SISP (the "**Auction**"). Instructions to participate in the Auction, which will take place via video conferencing, will be provided to Qualified Parties (as defined below) not less than 24 hours prior to the Auction.

22. Only parties that provided a Qualified Bid by the Bid Deadline, as confirmed by the Monitor, including the Stalking Horse Bid, if any (collectively, the "**Qualified Parties**"), shall be eligible to participate in the Auction. No later than 5:00 p.m. Eastern Daylight Time on the day prior to the Auction, each Qualified Party must inform the Monitor whether it intends to participate in the Auction. The Monitor will promptly thereafter inform in writing each Qualified Party who has expressed its intent to participate in the Auction of the identity of all other Qualified Parties that have indicated their intent to participate in the Auction. If no Qualified Party provides such expression of intent, the Stalking Horse Bidder, if any, shall be the Successful Bid (as defined below).

Auction Procedure

23. The Auction shall be governed by the following procedures:

(a) **Participation at the Auction.** Only the Applicants, the Qualified Parties, the Monitor and each of their respective advisors will be entitled to attend the Auction, and only the Qualified Parties will be entitled to make any subsequent Overbids (as defined below) at the Auction. The Monitor shall provide all Qualified Bidders with the details of the lead bid by 5:00 PM (Eastern Time) two (2) Business Days after the Bid Deadline;

(b) **No Collusion.** Each Qualified Party participating at the Auction shall be required to confirm on the record at the Auction that: (i) it has not engaged in any collusion with respect to the Auction and the bid process; and (ii) its bid is a good-faith *bona fide* offer and it intends to consummate the proposed transaction if selected as the Successful Bid;

(c) **Minimum Overbid.** The Auction shall begin with the Qualified Bid that represents the highest or otherwise best Qualified Bid as determined by the Monitor, in consultation with the Applicants (the "**Initial Bid**"), and any bid made at the Auction by a Qualified Party subsequent to the Monitors announcement of the Initial Bid (each, an "**Overbid**"), must proceed in minimum additional cash increments of $100,000;

(d) **Bidding Disclosure.** The Auction shall be conducted such that all bids will be made and received in one group video-conference, on an open basis, and all Qualified Parties will be entitled to be present for all bidding with the understanding that the true identity of each Qualified Party will be fully disclosed to all other Qualified Parties and that all material terms of each subsequent bid will be fully disclosed to all other Qualified Parties throughout the entire Auction; provided, however, that the Monitor, in its discretion, may establish separate video conference rooms to permit interim discussions between the Monitor and individual Qualified Parties with the understanding that all formal bids will be delivered in one group video conference, on an open basis;

(e) **Bidding Conclusion.** The Auction shall continue in one or more rounds and will conclude after each participating Qualified Party has had the opportunity to submit one or more additional bids with full knowledge and written confirmation of the then-existing highest bid(s); and

(f) **No Post-Auction Bids.** No bids will be considered for any purpose after the Auction has concluded.

(g) **Auction Procedures.** The Monitor shall be at liberty to set additional procedural rules as the Auction as it sees fit.

Selection of Successful Bid

24. Before the conclusion of the Auction, the Monitor, in consultation with the Applicants, will:

(a) review each Qualified Bid, considering the factors set out in paragraph 13 and, among others things:

(i) the amount of consideration being offered, and, if applicable, the proposed form, composition and allocation of same;

(ii) the value of any assumption of liabilities or waiver of liabilities not otherwise accounted for in paragraph 26(a)(i);

(iii) the likelihood of the Qualified Party's ability to close a transaction by January 31, 2023, after completion of the Auction and timing thereof (including factors such as the transaction structure and execution risk, including conditions to, timing of, and certainty of closing; termination provisions; availability of financing and financial wherewithal to meet all commitments and required governmental or other approvals); the likelihood of the Court's approval of the Successful Bid; the net benefit to the Applicants; and

(iv) any other factors the Applicants may, consistent with its fiduciary duties, reasonably deem relevant; and

(b) identify the highest or otherwise best bid received at the Auction (the "**Successful Bid**" and the Qualified Party making such bid, the "**Successful Party**").

25. The Successful Party shall complete and execute all agreements, contracts, instruments or other documents evidencing and containing the terms and conditions upon which the Successful Bid was made within one business day of the Successful Bid being selected as such, unless extended by the Monitor, in consultation with and Approval from the Applicants, subject to the milestones set forth in paragraph 6.

Sale Approval Motion Hearing

26. At the hearing of the motion to approve any transaction with a Successful Party (the "**Sale Approval Motion**"), the Monitor or the Applicants shall seek, among other things, approval from the Court to consummate any Successful Bid. All the Qualified Bids other than the Successful Bid, if any, shall be deemed to be rejected by the Monitor and the Applicants on and as of the date of approval of the Successful Bid by the Court.

Confidentiality and Access to Information

27. All discussions regarding a Sale Proposal, Investment Proposal, or Bid should be directed through the Monitor. Under no circumstances should the management of the Applicants be contacted directly without the prior consent of the Monitor. Any such unauthorized contact or communication could result in exclusion of the interested party from the SISP process.

28. Participants and prospective participants in the SISP shall not be permitted to receive any information that is not made generally available to all participants relating to the number or identity of Potential Bidders, Bidders, Qualified Bids, the details of any bids submitted or the details of any confidential discussions or correspondence between the Applicants, the Monitor and such other bidders or Potential Bidders in connection with the SISP, except

to the extent the Applicants, with the approval of the Monitor and consent of the applicable participants, are seeking to combine separate bids from Potential Bidders or Bidders.

Supervision of the SISP

29. The Monitor shall oversee and conduct the SISP, in all respects, and, without limitation to that supervisory role, the Monitor will participate in the SISP in the manner set out in this SISP Procedure, the SISP Order, the Initial Order and any other orders of the Court, and is entitled to receive all information in relation to the SISP.

30. This SISP does not, and will not be interpreted to create any contractual or other legal relationship between the Applicants or the Monitor and any Potential Bidder, any Bidder or any other party, other than as specifically set forth in a definitive agreement that may be entered into with the Applicants.

31. Without limiting the preceding paragraph, the Monitor shall not have any liability whatsoever to any person or party, including without limitation any Potential Bidder, Bidder, the Successful Bidder, the Applicants, the DIP Lender or any other creditor or other stakeholder of the Applicants, for any act or omission related to the process contemplated by this SISP Procedure, except to the extent such act or omission is the result from gross negligence or wilful misconduct of the Monitor. By submitting a bid, each Bidder, or Successful Bidder shall be deemed to have agreed that it has no claim against the Monitor for any reason whatsoever, except to the extent that such claim is the result of gross negligence or wilful misconduct of the Monitor.

32. Participants in the SISP are responsible for all costs, expenses and liabilities incurred by them in connection with the submission of any Bid, due diligence activities, the Auction and any further negotiations or other actions whether or not they lead to the consummation of a transaction.

33. Without limiting in any way the intent and effect of the applicable provisions of the DIP Facility in respect of the SISP, the Applicants and the Monitor shall have the right to modify the SISP (including, without limitation, pursuant to the Bid process letter) with the prior written approval of the Applicants and consultation with the DIP Lender if, in their reasonable business judgment, such modification will enhance the process or better achieve the objectives of the SISP; provided that the Service List in these CCAA proceedings shall be advised of any substantive modification to the procedures set forth herein.

Schedule "1"

Address of Monitor

To the Monitor:

Ernst and Young Inc.
EY Tower, 100 Adelaide Street West
PO Box 1
Toronto, ON M5H 0B3

Attention: Alex Morrison, Karen Fung and Allen Yao

Email: alex.f.morrison@parthenon.ey.com
karen.k.fung@parthenon.ey.com
allen.yao@parthenon.ey.com

CONFIDENTIAL APPENDIX “B”

APPENDIX “C”

The Flowr Corporation and Certain Affiliated CCAA Filing Entities (collectively, the "Applicants")
Cash Flow Forecast for the Period October 17, 2022 to January 15, 2023
$CDN in Thousands

Week		1	2	3	4	5	6	7	8	9	10	11	12	13	
Ending	Notes	23-Oct-2022	30-Oct-2022	6-Nov-2022	13-Nov-2022	20-Nov-2022	27-Nov-2022	4-Dec-2022	11-Dec-2022	18-Dec-2022	25-Dec-2022	1-Jan-2023	8-Jan-2023	15-Jan-2023	Total
Receipts															
Sales collections	2	$ 267	$ 211	$ 190	$ 250	$ 200	$ 250	$ 250	$ 250	$ 250	$ 250	$ 250	$ 250	$ 250	$ 3,118
Other receipts	3	-	-	-	-	-	210	-	-	-	-	-	-	-	210
Total Receipts		**267**	**211**	**190**	**250**	**200**	**460**	**250**	**250**	**250**	**250**	**250**	**250**	**250**	**3,328**
Disbursements															
Payroll and Benefits	4	(2)	(238)	(10)	(238)	-	(70)	(178)	(70)	(168)	(70)	(178)	(70)	(168)	(1,458)
Operating Expenses	5	(98)	(15)	(226)	(15)	(130)	(15)	(329)	(15)	(130)	(15)	(329)	(15)	(128)	(1,460)
Other SG&A and Taxes	6	(307)	(169)	(201)	(40)	(51)	-	(177)	(76)	(35)	(14)	(790)	(207)	(35)	(2,104)
Restructuring Costs	7	(80)	(226)	(96)	(102)	(102)	(11)	(107)	(68)	(73)	(68)	(68)	(57)	(57)	(1,114)
Total Disbursements		**(488)**	**(648)**	**(533)**	**(395)**	**(283)**	**(96)**	**(791)**	**(229)**	**(406)**	**(167)**	**(1,364)**	**(349)**	**(387)**	**(6,136)**
Net cash receipts/(disbursements)		**$ (221)**	**$ (437)**	**$ (343)**	**$ (145)**	**$ (83)**	**$ 364**	**$ (541)**	**$ 21**	**$ (156)**	**$ 83**	**$ (1,114)**	**$ (99)**	**$ (137)**	**$ (2,808)**
Cash Balance															
Beginning Balance	1	$ 820	$ 599	$ 663	$ 320	$ 675	$ 593	$ 956	$ 415	$ 936	$ 780	$ 863	$ 249	$ 150	$ 820
Net Cash Receipts/(disbursements)		(221)	(437)	(343)	(145)	(83)	364	(541)	21	(156)	83	(1,114)	(99)	(137)	(2,808)
DIP draws/(repayment)		-	500	-	500	-	-	-	500	-	-	500	-	-	2,000
Ending Cash Balance		**$ 599**	**$ 663**	**$ 320**	**$ 675**	**$ 593**	**$ 956**	**$ 415**	**$ 936**	**$ 780**	**$ 863**	**$ 249**	**$ 150**	**$ 13**	**$ 13**
DIP Facility															
Opening Balance		$ -	$ -	$ 500	$ 500	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,500	$ 1,500	$ 1,500	$ 2,000	$ 2,000	$ -
DIP draws/(repayment)	8	-	500	-	500	-	-	-	500	-	-	500	-	-	2,000
Closing Balance		**$ -**	**$ 500**	**$ 500**	**$ 1,000**	**$ 1,000**	**$ 1,000**	**$ 1,000**	**$ 1,500**	**$ 1,500**	**$ 1,500**	**$ 2,000**	**$ 2,000**	**$ 2,000**	**$ 2,000**

In the Matter of the CCAA of The Flowr Corporation, The Flowr Canada Holdings ULC, The Flowr Group (Okanagan) Inc., and Terrace Global Inc. (collectively, the "Applicants")

Notes to the Unaudited Cash Flow Forecast of the Applicants

Disclaimer:

In preparing this cash flow forecast (the "**Cash Flow Forecast**"), the Applicants with the assistance of their financial advisor and Ernst & Young Inc., in its capacity as the monitor of the Applicants (the "**Monitor**") have relied upon unaudited financial information and the Applicants have not attempted to further verify the accuracy or completeness of such information. The Cash Flow Forecast includes estimates concerning the operations of the Applicants and additional assumptions discussed below with respect to the requirements and impact of a *Companies' Creditors Arrangement Act* ("**CCAA**") filing (the "**Probable and Hypothetical Assumptions**" or the "**Assumptions**"). Since the Cash Flow Forecast is based on Assumptions about future events and conditions that are not ascertainable, the actual results achieved during the Cash Flow Forecast period will vary from the Cash Flow Forecast, even if the Assumptions materialize, and such variation may be material. There is no representation, warranty or other assurance that any of the estimates, forecasts or projections will be realized.

The Monitor has reviewed the Cash Flow Forecast to the standard required of a Court appointed Monitor pursuant to section 23(1)(b) of the CCAA, which requires a Monitor to review the debtor's cash flow statements as to its reasonableness and to file a report with the Court on the Monitor's findings.

Pursuant to this standard, the Monitor's review of the Cash Flow Forecast consisted of inquiries, analytical procedures and discussions related to information supplied to it by certain key members of the Applicants and other employees of the Applicants. Since the Probable and Hypothetical Assumptions need not be supported, the Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Forecast. The Monitor also reviewed the support provided by the Applicants for the Probable and Hypothetical Assumptions and the preparation and presentation of the Cash Flow Forecast.

Based on the Monitor's review, nothing has come to the Monitor's attention that causes the Monitor to believe, in any material respect, that:

(a) The Probable and Hypothetical Assumptions are not consistent with the purpose of the Cash Flow Forecast;
(b) As at the date of this report, the Probable and Hypothetical Assumptions are not suitably supported and consistent with the plans of the Applicants or do not provide a reasonable basis for the Cash Flow Forecast, given the Probable and Hypothetical Assumptions; or
(c) The Cash Flow Forecast does not reflect the Probable and Hypothetical Assumptions.

Overview:

The Cash Flow Forecast includes the receipts and disbursements of the Applicants during the Cash Flow Forecast period. The Applicants, with the assistance of their financial advisor and Ernst & Young Inc., in its capacity as the monitor of the Applicants (the "**Monitor**"), have prepared the Cash Flow Forecast based primarily on estimated receipts and disbursements related to the ongoing operations and the CCAA proceedings

The Cash Flow Forecast does not reflect the impact of a potential sale transaction in respect of the Applicants.

Assumptions:

1. **Opening Balance**
   Represents the opening cash balance at the commencement of the CCAA proceedings.

2. **Sales Receipts**
   The Applicants sell primarily dry cannabis flower products to authorized distributors and retailers through provincial agencies and to other licence holders. Receipts from the Applicants' sales are based on forecast collections from opening accounts receivable and projected sales during the forecast period.

3. **Other Receipts**
   The Applicants anticipate certain property insurance refunds and HST refunds in the forecast period; however, the timing and quantum of these refunds are uncertain.

4. **Payroll and Benefits**
   Payroll and benefits for salaried and hourly employees are forecast based on historical run rates and anticipated staffing levels. Salaried employees receive semi-monthly pay, while hourly employees get paid bi-weekly. The Applicants fund the payroll through a third-party service provider.

   The Company intends to seek Court approval of a charge in respect of key employee retention payments based upon achieving certain milestones. The Cash Flow Forecast does not reflect these payments.

5. **Operating Expenses**
   These disbursements include vendor payments, leases and utilities in connection with the production and sale of cannabis products based on expected production.

6. **Other Selling, General & Administrative Expense and Taxes ("Other SG&A")**
   This includes primarily insurance payments, consulting fees, HST and Excise duty payables, and other general and administrative costs that are not included in the Operating Expenses.

7. **Restructuring Costs**
   Restructuring costs include primarily professional fee payments and expenses to the Applicants' legal counsel, the Monitor and its counsel in connection with the Applicants' restructuring proceedings.

8. **Debt in Possession Facility ("DIP") Draws and Repayments**
   Reflects projected draws and repayments under the DIP facility.

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c.C-36 AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF THE FLOWR CORPORATION, THE FLOWR CANADA HOLDINGS ULC, THE FLOWR GROUP (OKANAGAN) INC., AND TERRACE GLOBAL INC. (collectively, the "**Applicants**")

Court File No.: CV-22-00688966-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceedings commenced at Toronto

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