

4FRONT VENTURES CORP.

CSE LISTING STATEMENT - FORM 2A

April 25, 2019

CAUTIONARY NOTE REGARDING THIS LISTING STATEMENT:

Terms used but not defined in this Cautionary Note have the meanings ascribed thereto in the Listing Statement.

This Listing Statement has been prepared as if the Business Combination described in the Listing Statement has been completed and 4Front Ventures Corp. exists as the Resulting Issuer. The Business Combination has not yet been completed and 4Front Ventures Corp. does not exist as at the date hereof.

Readers are cautioned that the Business Combination remains subject to the satisfaction or waiver of certain conditions. These conditions include: obtaining approval to complete the Business Combination under the HSR Act, the receipt of the Final Order, the completion of the Pre-Arrangement Transactions, the approval of the Nevada Holdco Business Combination Resolution, the approval of the Business Combination by third parties (including creditors of Cannex), the completion of the Business Combination on or before May 31, 2019 unless such outside date is extended by the parties to the Business Combination Agreement, along with other conditions as set out in the Listing Statement.

Even if the Business Combination is completed, there is no assurance that it will be completed on substantially the same terms to those described in this Listing Statement. See also “Cautionary Note Regarding Forward-Looking Statements”, “Risk Factors” and “The Business Combination Agreement; Required Regulatory Approvals” in this Listing Statement.

4Front Ventures Corp. (as defined herein) derives a substantial portion of its revenues from the cannabis industry in certain states of the United States, which industry is illegal under United States federal law. 4Front Ventures Corp. is indirectly involved (through its licensed Subsidiaries and through contractual arrangements with third parties) in the cannabis industry in the United States where local state laws permit such activities. Currently, 4Front Venture Corp.’s Subsidiaries or third parties with whom it has contractual arrangement are directly engaged in the manufacture, production, processing, possession, use, sale or distribution of cannabis in the adult-use and/or medicinal cannabis marketplace in the States of Illinois, Maryland, Massachusetts, Pennsylvania, Arizona, Nevada, Michigan, Arkansas, New Jersey, Rhode Island, Ohio, Washington and California.

The United States federal government regulates drugs through the Controlled Substances Act (21 U.S.C. § 811), which places controlled substances, including cannabis, in a schedule. Cannabis is classified as a Schedule I drug. Under United States federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. With the limited exception of the FDA (as defined herein) approving the use of marijuana-derived CBD (as defined herein) to treat specific forms of epilepsy, the FDA has not approved marijuana as a safe and effective drug for any indication.

In the United States, marijuana is largely regulated at the state level. State laws regulating cannabis are in direct conflict with the federal CSA, which makes cannabis use and possession federally illegal. In the United States, thirty-three states, two territories and the District of Columbia have legalized medical cannabis, while ten states including Alaska, California, Colorado, Maine, Massachusetts, Michigan, Nevada, Oregon, Vermont and Washington, and the District of Columbia have also legalized adult-use cannabis. Although certain states authorize medical or adult-use cannabis production and distribution by licensed or registered entities, under U.S. federal law, the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal and any such acts are criminal acts under federal law. The Supremacy Clause of the United States Constitution establishes that the United States Constitution and federal laws made pursuant to it are paramount and in case of conflict between federal and state law, the federal law shall apply.

On January 4, 2018, then U.S. Attorney General Jeff Sessions issued a memorandum to U.S. district attorneys which rescinded previous guidance from the U.S. Department of Justice specific to cannabis enforcement in the United States, including the Cole Memorandum (as defined herein). With the Cole Memorandum rescinded, U.S. federal prosecutors have been given discretion in determining whether to prosecute cannabis related violations of U.S. federal law, including in jurisdictions in which the production, distribution and use of cannabis is permitted under state law. If the Department of Justice pursues prosecutions, 4 Front Ventures Corp. or its Subsidiaries could face (i) seizure of its cash and other assets used to support or derived from cannabis activities in the United States; (ii) the arrest of its employees, directors, officers, managers and investors, and charges of ancillary criminal violations of the CSA for aiding and abetting and conspiring to violate the CSA by virtue of providing financial support to cannabis companies in the United States; and (iii) lifetime bans of its employees, directors, officers and investors who are not U.S. citizens from entry into the United States.

There is no guarantee that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. Unless and until the United States Congress amends the CSA with respect to medical and/or adult-use cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current federal law. If the federal government begins to enforce federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing applicable state laws are repealed or curtailed, 4Front Ventures Corp.'s business, results of operations, financial condition and prospects would be materially adversely affected. See Section 17 "*Risk Factors*" of this Listing Statement for additional information on this risk.

In light of the political and regulatory uncertainty surrounding the treatment of U.S. cannabis-related activities, including the rescission of the Cole Memorandum discussed above, on February 8, 2018 the Canadian Securities Administrators published a staff notice (Staff Notice 51-352 (Revised) – *Issuers with U.S. Marijuana-Related Activities*) setting out the Canadian Securities Administrator's disclosure expectations for specific risks facing issuers with cannabis-related activities in the United States. Staff Notice 51-352 confirms that a disclosure-based approach remains appropriate for issuers with U.S. cannabis-related activities. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide goods and services to third parties involved in the U.S. cannabis industry.

Please see the table of concordance under Section 3.3 "*Trends, Commitments, Events or Uncertainties*" for further information on the material facts, risks and uncertainties related to U.S. issuers with marijuana-related activities.

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Cautionary Note Regarding Forward-Looking Statements

The information provided in this Listing Statement (as defined herein), including information incorporated by reference, may contain “forward-looking statements” about Cannex (as defined herein), 4Front (as defined herein), BC Newco (as defined herein), Nevada Holdco (as defined herein), and the Resulting Issuer (as defined herein). In addition, Cannex, 4Front or the Resulting Issuer may make or approve certain statements in future filings with Canadian securities regulatory authorities, in press releases, or in oral or written presentations by representatives of Cannex, 4Front or the Resulting Issuer that are not statements of historical fact and may also constitute forward-looking statements. All statements, other than statements of historical fact, made by Cannex, 4Front or the Resulting Issuer that address activities, events or developments that Cannex, 4Front or the Resulting Issuer expects or anticipates will or may occur in the future are forward-looking statements, including, but not limited to, statements preceded by, followed by or that include words such as “may”, “will”, “would”, “could”, “should”, “believes”, “estimates”, “projects”, “potential”, “expects”, “plans”, “intends”, “anticipates”, “targeted”, “continues”, “forecasts”, “designed”, “goal”, or the negative of those words or other similar or comparable words.

Forward-looking statements may relate to future financial conditions, results of operations, plans, objectives, performance or business developments. These statements speak only as at the date they are made and are based on information currently available and on the then current expectations of the party making the statement and assumptions concerning future events, which are subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from that which was expressed or implied by such forward-looking statements, including, but not limited to, risks and uncertainties related to:

The United States Regulatory System:

- The federal government has not legalized marijuana for medical or adult-use;
- There is a substantial risk of regulatory or political change;
- In addition to the Resulting Issuer’s ownership and investment in the business being conducted by Advisors (as defined herein), the Resulting Issuer intends to continue to invest in businesses with little or no operating history and that are engaged in activities considered illegal under U.S. federal law;
- Banks often refuse to provide banking services to businesses involved in the marijuana industry due to the present state of the laws and regulations governing financial institutions in the United States;
- With the exception of the limited operating history of the Subsidiaries (as defined herein), the Resulting Issuer has limited operating history;
- Lack of access to U.S. bankruptcy protections; other bankruptcy risks;
- Resulting Issuer maybe subject to heightened scrutiny by Canadian authorities;
- Foreign Private Issuer (as defined herein) status;
- Loss of Foreign Private Issuer status;
- There may be unknown additional regulatory fees and taxes that may be assessed in the future;
- The Resulting Issuer likely will not be able to secure its payment and other contractual rights with liens on the inventory or licenses of its clients and contracting parties;
- Delays in enactment of new state or federal regulations could restrict the ability of the Resulting Issuer to reach strategic growth targets and lower return on investor capital;
- FDA regulation of cannabis and industrial hemp;
- The Resulting Issuer will be subject to applicable anti-money laundering laws and regulations;
- Limited trademark protection;
- There is a risk of high bonding and insurance costs;
- The inability of the Resulting Issuer to respond to the changing regulatory landscape could harm its business;
- Reliable data on the medical and adult-use marijuana industry is not available;
- There are general regulatory risks that may have a material effect on the Resulting Issuer and its Subsidiaries; and
- Inconsistent public opinion and perception of the medical and adult-use use marijuana industry hinders market growth and state adoption.

Business and Operations:

- Dependence on performance of Subsidiaries;
- Projections;

- The marijuana industry presents substantial risks and uncertainty;
- 4Front is currently involved in litigation, and there may be additional litigation that the Resulting Issuer will be involved in in the future;
- Future acquisitions or dispositions;
- Ability to manage future growth;
- Lending activities;
- Enforceability of contracts;
- Operation permits and authorizations;
- The Resulting Issuer will rely to a great extent on the expertise of the Resulting Issuer Board and officers, and any departures may impair the Resulting Issuer's businesses and investments;
- Security risks;
- Synthetic products may compete with medical marijuana use and products;
- There are risks associated with well-capitalized entrants developing large-scale operations;
- 4Front is fairly described as an early stage business enterprise;
- Talent pool;
- Risks inherent in an agricultural business;
- The Resulting Issuer may be subject to significant competition;
- Internal controls;
- Potential disclosure of personal information to government or regulatory entities;
- Promoting and maintaining brands;
- Certain remedies and rights to indemnification may be limited;
- Proposed acquisitions;
- The uncertain and fragmented nature of the medical and adult-use marijuana industry often results in an unconventional due diligence process and acquisition terms that could result in unknown and materially detrimental consequences to the Resulting Issuer;
- Disparate state-by-state regulatory landscapes and the constraints related to holding cannabis licenses in various states results in operational and legal structures for realizing the benefit from cannabis licenses that could result in materially detrimental consequences to the Resulting Issuer.
- There may be material delays in identifying and acquiring assets;
- Currency fluctuations;
- Investments maybe pre-revenue;
- Enforceability of judgments against foreign Subsidiaries;
- Results of future clinical research;
- Environmental risk and regulation;
- Product liability;
- Product recalls;
- Reliance on key inputs;
- Reliance on key employees including Key Members (as defined herein) and senior management;
- Management of growth;
- Fraudulent or illegal activity by employees, contractors and consultants;
- Intellectual property;
- Operational risks;
- Lack of control over operations of investments;
- The Resulting Issuer will not have a highly diversified portfolio of assets;
- Many of the Resulting Issuer's assets will be subject to a substantial risk of default, and payment of obligations owing to the Resulting Issuer will generally not be guaranteed by any other third party;
- The Resulting Issuer's assets may be purchased with limited representations and warranties from the sellers of those assets;
- Information technology systems and cyber security risk; and
- The Resulting Issuer may be subject to risks associated with financial leverage.

Market, Securities and Other Risk:

- Holders of Multiple Voting Shares (as defined herein) will have voting control of the Resulting Issuer;
- Additional financing;
- Conversion limitations on the Subordinate Proportionate Voting Shares (as defined herein);
- The Resulting Issuer faces potential conflicts of interest;

- Shareholders will not be represented by the Resulting Issuer’s legal counsel;
- Price volatility of publicly traded securities;
- Shareholders will have little or no rights to participate in the Resulting Issuer’s affairs;
- Dividends;
- Costs of maintaining a public listing; and
- Canada-United States border risks.

Certain Tax Risk:

- United States tax classification of the Resulting Issuer;
- The application of Section 280E of the Code (as defined herein) substantially limits the Resulting Issuer’s ability to deduct certain expenses;
- Changes in tax laws may affect the operations of the Resulting Issuer and the taxation of the interest to shareholders; and
- Investment in the Resulting Issuer is not intended to provide any material tax benefits to shareholders.

Additional risk factors are disclosed on the cover page of this Listing Statement.

The forward-looking statements contained herein are based on certain key expectations and assumptions, including, but not limited to, with respect to expectations and assumptions concerning:

- the timely receipt of all necessary consents and approvals (including, without limitation, CSE (as defined herein), regulatory and shareholder) for the Business Combination (as defined herein);
- the ability of the Resulting Issuer and its Subsidiaries to obtain regulatory approval in all states of operation for the commercial arrangements described herein;
- the ability of the Resulting Issuer to obtain necessary financing to pursue its business plans;
- operational results and other further conditions of the Resulting Issuer;
- the achievement of goals, the obtaining of all necessary permits and governmental approvals;
- availability of equipment, skilled labour and services needed for cannabis operations;
- intellectual property rights, development, operating or regulatory risks, trends, demand and developments in the cannabis industry;
- business strategy and outlook, expansion and growth of business and operations;
- the timing and completion of acquisitions and other transactions discussed in this Listing Statement;
- the timing and amount of capital expenditures;
- future exchange rates;
- the granting, renewal and/or timing of a state or local cannabis license;
- the impact of increasing competition;
- conditions in general economic and financial markets;
- access to capital;
- future operating costs;
- government regulations, including future legislative and regulatory developments involving medical and recreational cannabis and the timing thereto;
- the effects of regulation by governmental agencies;
- the anticipated changes to laws regarding the recreational use of cannabis;
- the demand for cannabis products and corresponding forecasted increase in revenues; and
- the size of the medical cannabis market and the recreational cannabis market.

Although the Resulting Issuer believes that the expectations and assumptions on which such forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements, because no assurance can be given that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to: the availability of sources of income to generate cash flow and revenue; the dependence on management and directors; risks relating to the receipt of the required licenses, risks relating to additional funding requirements; due diligence risks; exchange rate risks; potential transaction and legal risks; risks relating to laws and regulations applicable to the production and sale of marijuana; and other factors beyond the Resulting Issuer’s control, as more particularly described under the heading “*Risk Factors*” in this Listing Statement.

Consequently, all forward-looking statements made in this Listing Statement and other documents regarding Cannex, 4Front or the Resulting Issuer, as applicable, are qualified by such cautionary statements and there can be no assurance that the anticipated results or developments will actually be realized or, even if realized, that they will have the expected consequences to or effects on Cannex, 4Front or the Resulting Issuer. The cautionary statements contained or referred to in this section should be considered in connection with any subsequent written or oral forward-looking statements that Cannex, 4Front or the Resulting Issuer, and/or persons acting on their behalf may issue. None of Cannex, 4Front or the Resulting Issuer undertakes any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required under securities legislation.

Status of the Business Combination

This Listing Statement has been prepared as if the Business Combination described in this Listing Statement has been completed and 4Front Ventures Corp. exists as the Resulting Issuer. The Business Combination has not yet been completed and 4Front Ventures Corp. does not exist as at the date hereof. Readers are cautioned that the Business Combination may not be completed or, if completed, may be completed on terms different from the terms described herein.

The completion of the Business Combination remains subject to the satisfaction or waiver of certain conditions. These conditions include: obtaining HSR Clearance, the receipt of a Final Order, the completion of the Pre-Arrangement Transactions, the approval of the Nevada Holdco Business Combination Resolution, the approval of the Business Combination by third parties (including creditors of Cannex), the absence of any Law that would make the transactions described in the Business Combination Agreement illegal or would otherwise prevent or prohibit consummation of such transactions, and that there are no actions pending or threatened by any Person that might result in prohibitions on such transactions or the business of the Resulting Issuer, certain other corporate events, or certain intended tax treatments not coming to fruition. In addition, if the Business Combination has not occurred on or before May 31, 2019, and such outside closing date has not been extended by the parties to the Business Combination Agreement, the Business Combination Agreement may be terminated by Cannex or 4Front. If these conditions are not met or the Business Combination is not completed by May 31, 2019, the parties to the Business Combination Agreement may choose not to proceed with the Business Combination. In that case, neither Cannex nor 4Front would realize any anticipated benefits from the Business Combination, which could have a material adverse effect on the each of Cannex and 4Front's business, financial condition, and results of operations, and the value of the securities of each of Cannex and 4Front.

Even if the Business Combination is completed, there is no assurance that it will be completed on substantially the same or similar terms to those described in this Listing Statement. In addition, the ongoing business of each of Cannex and 4Front may be adversely affected as a result of the costs (including opportunity costs) incurred in respect of pursuing the Business Combination, and each of Cannex and 4Front could experience negative reactions from the financial markets, which could cause a decrease in the value the securities of such entities. Each of Cannex and 4Front may also experience negative reactions from its customers and employees and there could be negative impact on the each of Cannex and 4Front's ability to attract future acquisition or opportunities. Failure to complete the Business Combination or a change in the terms of the Business Combination could each have a material adverse effect on the business, financial condition and results of operations and the value of the securities of each of Cannex and 4Front.

Market and Industry Data

This Listing Statement includes market and industry data that has been obtained from third-party sources, including industry publications. Each of Cannex and 4Front believes that the industry data is accurate and that its estimates and assumptions are reasonable, but there is no assurance as to the accuracy or completeness of this data. Third party sources generally state that the information contained therein has been obtained from sources believed to be reliable, but there is no assurance as to the accuracy or completeness of included information. Although the data is believed to be reliable, neither Cannex nor 4Front has independently verified any of the data from third-party sources referred to in this Listing Statement or ascertained the underlying economic assumptions relied upon by such sources.

Trademarks

This Listing Statement includes references to trademarks which are protected under applicable intellectual property laws and are the property of 4Front, the Subsidiaries or their respective affiliates or licensors. Solely for convenience, the trademarks of 4Front, the Subsidiaries, their respective affiliates and/or their respective licensors referred to in this Listing Statement may appear with or without the ® or ™ symbol, but such references or the absence thereof are not intended to indicate, in any way, that 4Front, the Subsidiaries, or their respective affiliates or licensors will not assert, to the fullest extent under applicable law, their respective rights to these trademarks. Any other trademarks used in this Listing Statement are the property of their respective owners.

Currency

Unless otherwise indicated, all references to “\$” or “US\$” in this Listing Statement refer to United States dollars and all references to “C\$” in this Listing Statement refer to Canadian dollars.

1. GLOSSARY OF TERMS

The following is a glossary of certain general terms used in this Listing Statement including in the summary hereof. Terms and abbreviations used in the financial statements appended to this Listing Statement are defined separately and the terms and abbreviations defined below are not used therein, except where otherwise indicated. Words importing the singular, where the context requires, include the plural and vice versa and words importing any gender include all genders.

“**4Front**” means 4Front Holdings LLC, a limited liability company existing under the Laws of the State of Delaware.

“**4Front Contribution Agreement**” means the contribution agreement to be entered into between Nevada Holdco, 4Front and the Key Members, pursuant to which all of the issued and outstanding 4Front Membership Interests held by Key Members will be contributed to Nevada Holdco in exchange for Nevada Holdco Multiple Voting Shares and Nevada Holdco Subordinate Proportionate Voting Shares.

“**4Front Disclosure Letter**” means the disclosure letter executed by 4Front and delivered to Cannex concurrently with the execution of the Business Combination Agreement.

“**4Front Liquidity Warrants**” means (i) the liquidity warrants issued by 4Front to U.S. Blocker on October 23, 2018, exercisable into 2,495.1 Class F Units of 4Front, and (ii) the liquidity warrants issued by 4Front to certain U.S. holders on October 23, 2018, exercisable into 5,504.6 Class F Units of 4Front, in each case in the event that a Liquidity Event has not occurred prior to April 23, 2019.

“**4Front Locked-up Members**” means those holders of 4Front Membership Interests, as set forth in Section 1.1 of the 4Front Disclosure Letter, each of whom has signed a 4Front Voting Agreement.

“**4Front Members**” means the holders of the 4Front Membership Interests.

“**4Front Membership Interests**” means the limited liability company equity interests authorized under the 4Front Operating Agreement.

“**4Front Operating Agreement**” means the second amended and restated limited liability company agreement of 4Front dated October 23, 2018.

“**4Front Ventures**” means 4Front Ventures, Inc., a corporation existing under the Laws of the State of Delaware.

“**4Front Ventures Asset Transfer and Reorganization Agreement**” means the asset transfer and reorganization agreement to be entered into between Nevada Holdco and 4Front Ventures, pursuant to which all of the assets of 4Front Ventures will be transferred to Nevada Holdco in exchange for Nevada Holdco Subordinate Proportionate Voting Shares.

“**4Front Voting Agreement**” means the voting agreement (including all amendments thereto) signed by the 4Front Locked-up Members setting forth the terms and conditions upon which they have agreed, among other things, to vote their Nevada Holdco Shares in favour of the Business Combination.

“**7 Point Holdings**” means 7Point Holdings LLC, a Washington limited liability corporation and licensed cannabis producer and processor.

“**Adroit Consulting Group**” means Adroit Consulting Group, LLC, a Illinois limited liability company and majority-owned Subsidiary of Mission (65.4%).

“**Advisors**” means 4Front Advisors, LLC, an Arizona limited liability company and wholly-owned Subsidiary of 4Front.

“**Affiliate**” or “**affiliate**” means, with respect to any two Persons, one Person is a Subsidiary of the other or each of the two Persons is controlled by the same Person.

“**Ag Grow**” means Ag Grow Imports LLC.

“**Agent Warrants**” means the agent warrants to acquire 1,652,279 Cannex Common Shares issued by Cannex by private placement on March 13, 2018.

“**Arco**” means Arco Resources Corp.

“**ArcoSub**” has the meaning ascribed thereto in Section 3.1 entitled “*General Development of the Business – Cannex – Reverse Takeover*”.

“**Arkansas Natural Products**” means Arkansas Natural Products, LLC, an Arkansas limited liability company.

“**Arkansas Natural Products Management**” means Arkansas Natural Products I Management, LLC, an Arkansas limited liability company and minority-owned Subsidiary of Mission (40%).

“**Arkansas Patient Services Co.**” means Arkansas Patient Services Company, LLC, an Arkansas limited liability company.

“**Arkansas Patient Services Co. Management**” means Arkansas Patient Services Company Group Management, LLC, an Arkansas limited liability company and minority-owned Subsidiary of Mission (40%).

“**Associate**” has the meaning ascribed thereto in Rule 12b-2 under the U.S. Exchange Act.

“**ATC**” has the meaning ascribed thereto in Section 3.3 entitled “*General Development of the Business – Trends, Commitments, Events or Uncertainties – The Regulatory Landscape on a U.S. State Level – New Jersey – Legislative History*”.

“**AUMA**” has the meaning ascribed thereto in Section 3.3 entitled “*General Development of the Business – Trends, Commitments, Events or Uncertainties – The Regulatory Landscape on a U.S. State Level – California – Legislative History*”.

“**Bank Secrecy Act**” has the meaning ascribed thereto in Section 17 entitled “*Risk Factors – Risks Specifically Related to the United States Regulatory System – The Resulting Issuer will be subject to applicable anti-money laundering laws and regulations*”.

“**BC Amalgamation**” means the statutory amalgamation of Nevada Holdco and BC Newco pursuant to the provisions of the BCBCA and the Plan of Arrangement, with the Resulting Issuer as the successor corporation.

“**BC Newco**” means 1196260 B.C. Ltd., a corporation existing under the Laws of the Province of British Columbia.

“**BC Newco Shares**” means the common shares in the capital of BC Newco.

“**BCBCA**” means the *Business Corporations Act* (British Columbia), and the regulations made thereunder, as now in effect and as such act and regulations may be promulgated or amended from time to time.

“**Board Nominees**” means Joshua Rosen, Leonid Gontmakher, Anthony Dutton, Eric Rey and David Daily.

“**BrightLeaf**” means BrightLeaf Development LLC, a Washington limited liability corporation under common control with CCGI.

“**BrightLeaf Acquisition**” has the meaning ascribed thereto in Section 4.1(1) entitled “*Narrative Description of the Business – General Business of the Resulting Issuer – General Business of Cannex*”.

“Brightleaf Contribution Agreement” has the meaning ascribed thereto in Section 3.1 entitled *“General Development of the Business – Cannex – Reverse Takeover”*.

“Business Combination” means the arrangement of Nevada Holdco, BC Newco and Cannex under the provisions of Section 288 of the BCBCA, on the terms and subject to the conditions set out in the Plan of Arrangement, subject to any amendments or variations thereto made in accordance with the Plan of Arrangement or made at the direction of the Court in the Final Order (provided that any such amendment or variation is acceptable to the Transacting Parties, each acting reasonably).

“Business Combination Agreement” means the business combination agreement dated March 1, 2019 between 4Front, Nevada Holdco, BC Newco and Cannex together with the schedules attached thereto, as amended or supplemented from time to time.

“Cannabis Act” has the meaning ascribed thereto in Section 3.3 entitled *“General Development of the Business – Trends, Commitments, Events or Uncertainties – Regulation of Cannabis in the United States Federally”*.

“Cannabis Regulations” has the meaning ascribed thereto in Section 3.3 entitled *“General Development of the Business – Trends, Commitments, Events or Uncertainties – Regulation of Cannabis in the United States Federally”*.

“Cannex” means Cannex Capital Holdings Inc., a corporation existing under the Laws of the Province of British Columbia.

“Cannex-Arco RTO Amalgamation” has the meaning ascribed thereto in Section 2.2 entitled *“Corporate Structure – Jurisdiction of Incorporation – Cannex”*.

“Cannex Class A Share Option Plan” means the stock option plan of Cannex for the purchase of Cannex Class A Shares, approved by Cannex Shareholders on January 30, 2018.

“Cannex Class A Share Options” means the options to purchase Cannex Class A Shares pursuant to the Cannex Class A Share Option Plan.

“Cannex Class A Shares” means the class A convertible restricted voting shares in the capital of Cannex.

“Cannex Common Share Option Plan” means the stock option plan of Cannex for the purchase of Cannex Common Shares, approved by Cannex Shareholders on January 30, 2018.

“Cannex Common Share Options” means the options to purchase Cannex Common Shares pursuant to the Cannex Common Share Option Plan.

“Cannex Common Shares” means the common shares in the capital of Cannex.

“Cannex Component of the Business Combination” means the part of the Plan of Arrangement that entails the Cannex Share Exchange, the Cannex Warrant Exchange, the Cannex Note Exchange, the Cannex Option Exchange, the Cannex Windup and the CCGI Windup.

“Cannex Dissent Rights” means the rights of dissent exercisable by the Cannex Shareholders in respect of the Cannex Component of the Business Combination pursuant to Section 238 of the BCBCA, as modified by Article 4 of the Plan of Arrangement and the Interim Order.

“Cannex Dissenting Shareholder” means a registered Cannex Shareholder who duly exercises its Cannex Dissent Rights with respect to the Cannex Component of the Business Combination, and who has not withdrawn or been deemed to have withdrawn such exercise of Cannex Dissent Rights.

“Cannex Dissenting Shares” means Cannex Shares held by a Cannex Dissenting Shareholder who has demanded and perfected Cannex Dissent Rights in respect of its Cannex Shares in accordance with Article 4 of the Plan of

Arrangement and the Interim Order and who, as of the Effective Time, has not effectively withdrawn or lost such Cannex Dissent Rights.

“**Cannex GGP Notes**” means the senior secured convertible notes issued by Cannex on November 21, 2018 to GGP in the aggregate principal amount of \$32,000,000.

“**Cannex GGP Warrants**” means the warrants, collectively, GGP Note Warrants A, GGP Note Warrants B, and GGP Note Warrants C, to acquire Cannex Shares issued by Cannex to GGP on November 21, 2018.

“**Cannex Holdings**” means Cannex Holdings (Nevada) Inc., a Nevada corporation and a wholly-owned Subsidiary of Cannex.

“**Cannex Locked-up Shareholders**” means those holders of Cannex Shares as set forth in Section 1.1 of the Cannex Disclosure Letter, each of whom has signed a Cannex Shareholder Voting Agreement.

“**Cannex Meeting**” means the special meeting of Cannex Shareholders, including any adjournment or postponement thereof, to be called and held for the purpose of obtaining the approval of the Cannex Component of the Business Combination Resolution, the Resulting Issuer Equity Incentive Plans, and other related matters, in accordance with the Interim Order as applicable.

“**Cannex Note Exchange**” means the issuance of Resulting Issuer Notes to GGP in exchange for the Cannex GGP Notes.

“**Cannex Option Exchange**” means the exchange of Cannex Common Share Options for Resulting Issuer Replacement Options for Subordinate Voting Shares and Cannex Class A Share Options for Resulting Issuer Replacement Options for Subordinate Proportionate Voting Shares in accordance with the Cannex Option Exchange Ratio.

“**Cannex Option Exchange Ratio**” means one Resulting Issuer Replacement Option for Subordinate Voting Share for each Cannex Common Share Option and one Resulting Issuer Replacement Option for Subordinate Proportionate Voting Shares for each Cannex Class A Share Option.

“**Cannex Option Plans**” means the Cannex Class A Share Option Plan and the Cannex Common Share Option Plan.

“**Cannex Optionholders**” means the holders of Cannex Options.

“**Cannex Options**” means the Cannex Common Share Options and the Cannex Class A Share Options.

“**Cannex PP Warrantholders**” means the holders of the PP Warrants and the Agent Warrants

“**Cannex PP Warrants**” means the PP Warrants and the Agent Warrants.

“**Cannex Private Placement**” has the meaning ascribed thereto in Section 3.1 entitled “*General Development of the Business – Cannex – Reverse Takeover*”.

“**Cannex Private Placement Escrow Release Conditions**” has the meaning ascribed thereto in Section 3.1 entitled “*General Development of the Business – Cannex – Reverse Takeover*”.

“**Cannex Share Exchange**” means the exchange of Cannex Common Shares and Cannex Class A Shares for Subordinate Voting Shares and Subordinate Proportionate Voting Shares, respectively, in accordance with the Cannex Share Exchange Ratio.

“**Cannex Share Exchange Ratio**” means one Subordinate Voting Share for each Cannex Common Share and one Subordinate Proportionate Voting Share for each 80 Cannex Class A Shares.

“**Cannex Shareholder Voting Agreements**” means the voting agreements (including all amendments thereto) signed by the Cannex Locked-up Shareholders setting forth the terms and conditions upon which they have agreed, among other things, to vote their Cannex Shares in favour of the Business Combination.

“**Cannex Shareholders**” means the holders of Cannex Shares.

“**Cannex Shares**” means, collectively, the Cannex Class A Shares and Cannex Common Shares.

“**Cannex USA**” means Cannex Capital Holdings (Nevada) Inc., a wholly-owned Subsidiary of Cannex.

“**Cannex Warrant Exchange**” means the issuance to each Cannex PP Warrantholder of one Resulting Issuer PP Warrant for each PP Warrant held thereby and the issuance to each GGP Warrantholder of one Resulting Issuer GGP Warrant for each Cannex GGP Warrant held thereby.

“**Cannex Windup**” means the conveyance of the assets of Cannex to the Resulting Issuer and the assumption of the liabilities of Cannex by the Resulting Issuer in connection with the winding up of Cannex, done in accordance with subsection 88(1) of the Tax Act.

“**CARERS Act**” has the meaning ascribed thereto in Section 17 entitled “*Risk Factors – Risks Specifically Related to the United States Regulatory System – The federal government has not legalized marijuana for medical or adult-use*”.

“**CBD**” means Cannabidiol.

“**CBP**” means U.S. Customs and Border Protection.

“**CCGI**” means Cannex Capital Group Inc., a British Columbia corporation and the wholly-owned Subsidiary of Cannex.

“**CCGI Security Holders**” has the meaning ascribed thereto in Section 2.2 entitled “*Corporate Structure – Jurisdiction of Incorporation – Cannex*”.

“**CCGI Windup**” means the conveyance of the assets of CCGI to Cannex and the assumption of the liabilities of CCGI by Cannex in connection with the winding up of CCGI, done in accordance with subsection 88(1) of the Tax Act.

“**CDS**” means Clearing and Depository Services Inc.

“**Class A Units**” means the Class A units of 4Front.

“**Class B Units**” means the Class B units of 4Front.

“**Class C Units**” means the Class C units of 4Front

“**Class D Units**” means the Class D units of 4Front

“**Class E Units**” means the Class E units of 4Front

“**Class F Units**” means the Class F units of 4Front.

“**Code**” means the United States Internal Revenue Code of 1986, as amended.

“**Cole Memorandum**” has the meaning ascribed thereto in Section 17 entitled “*Risk Factors – Risks Specifically Related to the United States Regulatory System – The federal government has not legalized marijuana for medical or adult-use*”.

“**Community Host Agreement**” has the meaning ascribed thereto in Section 4.1(1) entitled “*Narrative Description of the Business – General Business of the Resulting Issuer – General Business of 4Front – Mission State-By-State – Massachusetts – Summary of Licenses Owned*”.

“**Consideration Shares**” has the meaning ascribed thereto in Section 2.4 entitled “*Corporate Structure – Post-Business Combination – Brief Overview of the Business Combination*”.

“**Contemporaneous Agreements**” means the Cannex Shareholder Voting Agreements and the 4Front Voting Agreements.

“**Continuance**” means the continuance of Nevada Holdco from the jurisdiction of the State of Nevada to the Province of British Columbia pursuant to Section 302 of the BCBCA and Sections 92A.105 and 92A.195 of the NRS.

“**Court**” means the Supreme Court of British Columbia.

“**CSA**” means the United States Federal Controlled Substances Act 21 USC § 811, as amended from time to time.

“**CSE**” means the Canadian Securities Exchange.

“**DBR**” has the meaning ascribed thereto in Section 3.3 entitled “*General Development of the Business – Trends, Commitments, Events or Uncertainties – The Regulatory Landscape on a U.S. State Level – Rhode Island – Licenses*”.

“**DEA**” means the United States Drug Enforcement Administration.

“**Disability**” means such holder (i) has been declared legally incompetent by a final court decree (the date of such decree being deemed to be the date on which the disability occurred), or (ii) has been found to be mentally disabled pursuant to a Disability Determination.

“**Disability Determination**” means a finding that the holder, because of a mental disability, is unable to perform substantially all of such holder’s regular duties to the Company and that such mental disability is determined or reasonably expected to continue for at least 12 months. Any Disability Determination shall be initiated by the Company and shall be based on the written opinion of the physician regularly attending the holder whose ability is in question (which expense shall be borne by the Company). If the Initial Holders holding a majority of the Multiple Voting Shares not held by the individual holder in question disagree with the opinion of this physician (the “**First Physician**”), they may, at their own expense, engage another physician (the “**Second Physician**”) to examine the holder. If the First Physician and the Second Physician agree in writing that the holder is or is not disabled, their written opinion shall, except as otherwise set forth herein, be conclusive on the issue of ability. If the First Physician and the Second Physician disagree on the disability of the Shareholder, they shall choose a third consulting physician (whose expense shall be borne by the Company), and the written opinion of a majority of these three physicians, shall, except as otherwise provided below, be conclusive as to the holder’s ability. The date of any written opinion conclusively finding the holder to be Disabled is the date on which the disability shall be deemed to have occurred. If there is a conclusive finding that the holder is not Disabled, the holders holding a majority of the Multiple Voting Shares not held by the individual holder in question shall have the right to request additional Disability Determinations, provided they agree to pay all expenses of the Disability Determinations and do not request an additional Disability Determination more frequently than once every 12 months. In conjunction with a Disability Determination, each Initial Holder consents to, and agrees to cooperate with, any required medical examination, and agrees to furnish any medical information requested by any examining physician and to waive any applicable physician-patient privilege that may arise because of such examination. All physicians except the First Physician must be board-certified in the specialty most closely related to the nature of the disability alleged to exist.

“**DOJ**” means the United States Department of Justice.

“**DOT**” has the meaning ascribed thereto in Section 3.3 entitled “*General Development of the Business – Trends, Commitments, Events or Uncertainties – The Regulatory Landscape on a U.S. State Level – Nevada – Legislative History*”.

“**Effective Date**” has the meaning ascribed to such term in the Plan of Arrangement.

“**Effective Time**” has the meaning ascribed to such term in the Plan of Arrangement.

“**Elma Grow Facility**” has the meaning ascribed thereto in Section 4.1(1) entitled “*Narrative Description of the Business – General Business of the Resulting Issuer – General Business of Cannex – Leasing*”.

“**ERISA**” means the U.S. Employee Retirement Income Security Act of 1974.

“**EVG**” means EVG Farms, LLC, a Massachusetts limited liability company.

“**Exchange Ratio**” has the meaning ascribed thereto in Section 2.4 entitled “*Corporate Structure – Post-Business Combination – Brief Overview of the Business Combination*”.

“**FBI**” means the United States Federal Bureau of Investigation.

“**FDA**” means the United States Food and Drug Administration.

“**FDCA**” has the meaning ascribed thereto in Section 17 entitled “*Risk Factors – Risks Specifically Related to the United States Regulatory System – FDA regulation of cannabis and industrial hemp*”.

“**FHD**” means Fuller Hill Development Co. LLC, a limited liability company formed under the laws of the State of Washington.

“**Final Order**” means the final order of the Court to be applied for by the Resulting Issuer and made by the Court and granted to the Resulting Issuer pursuant to Section 291 of the BCBCA, in a form acceptable to 4Front, Nevada Holdco, BC Newco and Cannex, each acting reasonably, approving the Business Combination, as such order may be amended by the Court (with the consent of 4Front, Nevada Holdco, BC Newco and Cannex) at any time prior to the Effective Date or, if appealed, then, unless such appeal is withdrawn or denied, as affirmed or as amended (provided that any such amendment is acceptable to 4Front, Nevada Holdco, BC Newco and Cannex, each acting reasonably) on appeal.

“**FinCEN**” has the meaning ascribed thereto in Section 17 entitled “*Risk Factors – Risks Specifically Related to the United States Regulatory System – The Resulting Issuer will be subject to applicable anti-money laundering laws and regulations*”.

“**FinCEN Memorandum**” has the meaning ascribed thereto in Section 17 entitled “*Risk Factors – Risks Specifically Related to the United States Regulatory System – The Resulting Issuer will be subject to applicable anti-money laundering laws and regulations*”.

“**Foreign Private Issuer**” has the meaning ascribed thereto in Section 17 entitled “*Risk Factors – Risks Specifically Related to the United States Regulatory System – Foreign Private Issuer status*”.

“**FTC**” means the U.S. Federal Trade Commission.

“**GGP**” means, collectively, Gotham Green Fund 1, L.P., Gotham Green Fund 1 (Q), L.P., and Gotham Green Credit Partners SPV 2, L.P.

“**GGP Note Warrants A**” has the meaning ascribed thereto in Section 10.4 entitled “*Description of the Securities – Other Securities – Resulting Issuer GGP Warrants*”.

“**GGP Note Warrants B**” has the meaning ascribed thereto in Section 10.4 entitled “*Description of the Securities – Other Securities – Resulting Issuer GGP Warrants*”.

“**GGP Note Warrants C**” has the meaning ascribed thereto in Section 10.4 entitled “*Description of the Securities – Other Securities – Resulting Issuer GGP Warrants*”.

“**GGP SPA**” has the meaning ascribed thereto in Section 3.1 entitled “*General Development of the Business – Cannex – Financing Activities of Cannex*”.

“**Governmental Entity**” means: (a) any multinational, federal, provincial, territorial, state, regional, municipal, local or other government, governmental or public department, court, tribunal, arbitral body, commission, board, bureau or agency, domestic or foreign; (b) any stock exchange, including the CSE; (c) any subdivision, agent, commission, board or authority of any of the foregoing; or (d) any quasi-governmental body, including any tribunal, commission, regulatory agency or self-regulatory organization, exercising any jurisdiction, regulatory, expropriation or taxing authority under or for the account of any of the foregoing.

“**Governmental Orders**” means any order, writ, judgment, injunction, decree, stipulation, determination or award entered by or with any Governmental Entity.

“**Greens Goddess**” means Greens Goddess Products, Inc. (dba Herb’N), an Arizona corporation.

“**Healthy Pharms**” means Healthy Pharms, Inc., a Massachusetts corporation and wholly-owned Subsidiary of Mission.

“**HSR Act**” means the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and the regulations made thereunder, as now in effect and as they may be promulgated or amended from time to time.

“**HSR Clearance**” means the expiration or termination of the applicable waiting period under the HSR Act.

“**IFRS**” means International Financial Reporting Standards as issued by the International Accounting Standards Board.

“**IL Act**” has the meaning ascribed thereto in Section 3.3 entitled “*General Development of the Business – Trends, Commitments, Events or Uncertainties – The Regulatory Landscape on a U.S. State Level – Illinois – Legislative History*”.

“**IL DA**” has the meaning ascribed thereto in Section 3.3 entitled “*General Development of the Business – Trends, Commitments, Events or Uncertainties – The Regulatory Landscape on a U.S. State Level – Illinois – Licenses*”.

“**IL DFPR**” has the meaning ascribed thereto in Section 3.3 entitled “*General Development of the Business – Trends, Commitments, Events or Uncertainties – The Regulatory Landscape on a U.S. State Level – Illinois – Licenses*”.

“**IL DPH**” has the meaning ascribed thereto in Section 3.3 entitled “*General Development of the Business – Trends, Commitments, Events or Uncertainties – The Regulatory Landscape on a U.S. State Level – Illinois – Licenses*”.

“**Illinois Grown Medicine**” means IL Grown Medicine, LLC, an Illinois limited liability company wholly owned by an executive and unit holder of 4Front.

“**Initial BC Newco Shareholder**” means the initial holder of the issued and outstanding BC Newco Shares.

“**Initial Conversion Date**” means the later of the date (i) the aggregate number of Subordinate Proportionate Voting Shares and Multiple Voting Shares held by the Initial Holders are reduced to a number which is less than 50% of the aggregate number of Subordinate Proportionate Voting Shares and Multiple Voting Shares held by the Initial Holders on the date of completion of the Business Combination, and (ii) is three years following the date of completion of the Business Combination.

“**Initial Holder**” means the holders of Multiple Voting Shares as of the date of initial issuance of Multiple Voting Shares and as further described hereto in Section 10.1 entitled “*Description of the Securities – General Description of the Share Capital of the Resulting Issuer – Multiple Voting Shares*”.

“**Interim Order**” means the interim order of the Court contemplated by Section 2.2 of the Business Combination Agreement and made pursuant to Section 291 of the BCBCA, in a form acceptable to Cannex and 4Front, each acting reasonably, providing for, among other things, the calling and holding of the Nevada Holdco Meeting and the Cannex

Meeting and, as the same may be amended by the Court (with the consent of Cannex and 4Front, each acting reasonably).

“In-The-Money Amount” in respect of a stock option means the amount, if any, by which the aggregate fair market value at that time of the securities subject to the option exceeds the aggregate exercise price of the option.

“Involuntary Transfer Event” means an event that occurs if an Initial Holder (a) files a voluntary petition under any bankruptcy or insolvency law or a petition for the appointment of a receiver or makes an assignment for the benefit of creditors, (b) is subjected involuntarily to such a petition or assignment or to an attachment or other legal or equitable interest with respect to such holder’s Multiple Voting Shares or Subordinate Proportionate Voting Shares and such involuntary petition, assignment or attachment is not discharged within 30 days after its effective date, or (c) is subjected to any other possible involuntary Transfer of such Initial Holder’s Multiple Voting Shares or Subordinate Proportionate Voting Shares by legal process including, without limitation, an assignment or Transfer pursuant to a marital dissolution or divorce decree.

“IRS” means the United States Internal Revenue Service.

“Key Members” means Joshua Rosen, Andrew Thut, Kris Krane, Karl Chowscano and Trevor Pratte.

“LARA” has the meaning ascribed thereto in Section 3.3 entitled *“General Development of the Business – Trends, Commitments, Events or Uncertainties – The Regulatory Landscape on a U.S. State Level – Michigan – Legislative History”*.

“Law” or **“Laws”** means all laws (including common law), by-laws, statutes, rules, regulations, principles of law and equity, rulings, ordinances, Governmental Orders or other requirements, whether domestic or foreign, including but not limited to, all applicable requirements of federal, state, provincial and municipal, city, county or other local government laws, rules and regulations and guidelines regarding regulated medical and adult use cannabis businesses and activities, and the terms and conditions of any Permit of or from any Governmental Entity or self-regulatory authority (including the CSE), but excluding provisions of any U.S. federal laws or regulations applicable to cannabis, including the CSA, 21 U.S.C. 801 et. seq., or related federal law that prohibit the cultivation, processing, sale or possession of cannabis and provisions of U.S. federal law that may be violated due to the federal illegality of cannabis including, but not limited to U.S. federal money laundering laws (Title 18 U.S.C. § 1956 and § 1957), and the term “applicable” with respect to such Laws and in a context that refers to a Party, means such Laws as are applicable to such Party and/or its Subsidiaries or their business, undertaking, property or securities and emanate from a Person having jurisdiction over the Party and/or its Subsidiaries or its or their business, undertaking, property or securities.

“Licensor Option” means, together, the option agreement among Cannex, Cannex USA and 7Point dated December 21, 2017, and the option agreement among Cannex, Cannex USA and Superior Gardens dated December 21, 2017, pursuant to which Cannex and Cannex USA have the right to purchase from 7Point and Superior Gardens, for a maximum aggregate purchase price of \$6,000,000 (subject to adjustment), certain property of those entities, including certain Washington State cannabis licenses issued by the WSLCB, which, as of the date of this Listing Statement, can only be owned by residents of Washington State.

“Liens” means any hypothecs, mortgages, pledges, assignments, liens, charges, security interests, encumbrances and adverse rights or claims, other third party interest or encumbrance of any kind, whether contingent or absolute, and any agreement, option, right or privilege (whether by Law, contract or otherwise) capable of becoming any of the foregoing.

“Linchpin” means Linchpin Investors, LLC, a Delaware limited liability company and wholly-owned Subsidiary of 4Front.

“Liquidity Event” means (i) a transaction with a company that is a reporting issuer in at least one jurisdiction of Canada which is acceptable to 4Front, by way of plan of arrangement, amalgamation, reverse take-over, qualifying transaction, or any other business combination or other similar transaction pursuant to which its common shares (or the common shares of the resulting issuer) are listed on the CSE or any other exchange as agreed upon by 4Front, or (ii) a transaction or series of transactions whereby all or substantially all of the assets of 4Front are acquired, or the completion of a tender bid or plan of arrangement whereby the holders of securities in 4Front and/or 4Front Can/Am Investco Inc., a company formed under the

laws of the State of Delaware, receive cash, shares or cash and shares of a company listed on a recognized stock exchange in North America for their securities in 4Front and/or 4Front Can/Am Investco Inc.

“**Listing Statement**” means this listing statement dated April 25, 2019.

“**Mandatory Conversion Event**” has the meaning ascribed thereto in Section 10.1 entitled “*Description of the Securities – General Description of the Share Capital of the Resulting Issuer – Multiple Voting Shares*”.

“**MA Act**” has the meaning ascribed thereto in Section 3.3 entitled “*General Development of the Business – Trends, Commitments, Events or Uncertainties – The Regulatory Landscape on a U.S. State Level – Massachusetts – Legislative History*”.

“**MA CCC**” has the meaning ascribed thereto in Section 3.3 entitled “*General Development of Business – Trends, Commitments, Events or Uncertainties – The Regulatory Landscape on a U.S. State Level – Massachusetts – Legislative History*”.

“**MA Program**” has the meaning ascribed thereto in Section 3.3 entitled “*General Development of the Business – Trends, Commitments, Events or Uncertainties – The Regulatory Landscape on a U.S. State Level – Massachusetts – Legislative History*”.

“**Management Agreement**” has the meaning ascribed thereto in Section 4.1(1) “*Narrative Description of the Business – General Business of the Resulting Issuer – General Business of 4Front – Mission – Nominee Agreements and Management Agreements*”.

“**MARI**” means Maryland Alternative Relief, LLC, a Maryland limited liability company.

“**MAUCRSA**” Section 3.3 entitled “*General Development of the Business – Trends, Commitments, Events or Uncertainties – The Regulatory Landscape on a U.S. State Level – California – Legislative History*”.

“**METRC**” has the meaning ascribed thereto in Section 3.3 entitled “*General Development of the Business – Trends, Commitments, Events or Uncertainties – The Regulatory Landscape on a U.S. State Level – Maryland – Record-keeping/Reporting*”.

“**Mission**” means Mission Partners USA, LLC, a Delaware limited liability company and wholly-owned Subsidiary of 4Front.

“**Mission Allentown**” means Mission Pennsylvania II, LLC, a Pennsylvania limited liability company wholly controlled by Mission through its Nominee Agreement with Mission Mercury.

“**Mission Catonsville**” means Mission Maryland, LLC, a Maryland limited liability company and majority-owned Subsidiary of Mission (90%).

“**Mission Glenmont**” means Premium Medicine of Maryland, LLC, a Maryland limited liability company.

“**Mission Hampden**” means Chesapeake Integrated Health Institute, LLC, a Maryland limited liability company.

“**Mission Illinois**” means Harborside Illinois Grown Medicine, Inc., an Illinois limited liability company wholly owned by an executive and unit holder of 4Front.

“**Mission IP**” means Mission Partners IP, LLC, a Delaware limited liability company and wholly-owned Subsidiary of Mission.

“**Mission MA**” means Mission MA, Inc., a Massachusetts corporation, and majority-owned Subsidiary of Mission (76%).

“**Mission Mercury**” means Mission Mercury, LLC, a Pennsylvania limited liability company owned jointly by Andrew Thut and Kris Krane.

“**MMA**” means MMA Capital, LLC, a Massachusetts limited liability company and majority-owned Subsidiary of Mission (76%).

“**MMCC**” has the meaning ascribed thereto in Section 3.3 entitled “*General Development of the Business – Trends, Commitments, Events or Uncertainties – The Regulatory Landscape on a U.S. State Level – Maryland – Legislative History*”.

“**MMM Act**” has the meaning ascribed thereto in Section 3.3 entitled “*General Development of the Business – Trends, Commitments, Events or Uncertainties – The Regulatory Landscape on a U.S. State Level – Michigan – Legislative History*”.

“**MMMP**” has the meaning ascribed thereto in Section 3.3 entitled “*General Development of the Business – Trends, Commitments, Events or Uncertainties – The Regulatory Landscape on a U.S. State Level – Maryland – Legislative History*”.

“**MP Illinois**” means MP Illinois, LLC, an Illinois limited liability company.

“**Multiple Voting Shares**” means the class C multiple voting shares in the capital of the Resulting Issuer, with the rights and restrictions as set forth in Schedule “K” to the Business Combination Agreement.

“**MVS Offer**” has the meaning ascribed thereto in Section 10.1 entitled “*Description of the Securities – General Description of the Share Capital of the Resulting Issuer – Multiple Voting Shares*”.

“**NEO**” means a Named Executive Officer as such term is defined in Form 51-102F6 – *Statement of Executive Compensation* under NI 51-102.

“**Nevada Holdco**” means 4Front Corp, a corporation existing under the Laws of the State of Nevada.

“**Nevada Holdco Business Combination Resolution**” means collectively: (i) the special resolution of the Nevada Holdco Shareholders approving the Business Combination and the Plan of Arrangement which is to be considered at the Nevada Holdco Meeting; and (ii) the resolution of the Nevada Holdco Shareholders providing minority approval as defined in and contemplated by OSC Rule 56-501 and NI 41-101 approving the Business Combination and the Plan of Arrangement which is to be considered at the Nevada Holdco Meeting.

“**Nevada Holdco Continuance Resolution**” means the special resolution of Nevada Holdco Shareholders approving the Continuance which is to be considered at the Nevada Holdco Meeting.

“**Nevada Holdco Dissent Rights**” means the rights of dissent exercisable by the Nevada Holdco Shareholders in respect of the Continuance in the Nevada Holdco Agreement and Plan of Conversion in a manner consistent with Sections 92A.300 through 92A.500 of the NRS and the Business Combination pursuant to Section 238 of the BCBCA, as modified by Article 4 of the Plan of Arrangement and the Interim Order.

“**Nevada Holdco Dissenting Shareholder**” means a registered Nevada Holdco Shareholder who duly exercises its Nevada Holdco Dissent Rights with respect to the Continuance and Business Combination, and who has not withdrawn or been deemed to have withdrawn such exercise of Nevada Holdco Dissent Rights.

“**Nevada Holdco Dissenting Shares**” means Nevada Holdco Shares held by a Nevada Holdco Dissenting Shareholder who has demanded and perfected Nevada Holdco Dissent Rights in respect of its Nevada Holdco Shares in accordance with Article 4 of the Plan of Arrangement and the Interim Order and who, as of the Effective Time, has not effectively withdrawn or lost such Nevada Holdco Dissent Rights.

“**Nevada Holdco Meeting**” means the special meeting of Nevada Holdco Shareholders, including any adjournment thereof, to be called and held for the purpose of obtaining the approval of the Continuance, the Nevada Holdco

Business Combination Resolution, the Resulting Issuer Equity Incentive Plans, and other related matters, in accordance with the Interim Order as applicable.

“**Nevada Holdco Multiple Voting Shares**” means the class C multiple voting shares in the capital of Nevada Holdco, with substantially the same rights and restrictions as the Multiple Voting Shares.

“**Nevada Holdco Option**” means the options to acquire Nevada Holdco Subordinate Proportionate Voting Shares which will be assumed by Nevada Holdco in connection with the Pre-Arrangement Transactions.

“**Nevada Holdco Plan of Conversion**” means the agreement and plan of conversion to be entered into among of Nevada Holdco, 4Front, 4Front Ventures and U.S. Blocker, pursuant to which Nevada Holdco will continue as a corporation from the jurisdiction of Nevada to the jurisdiction of British Columbia pursuant to a conversion under Sections 92A.105, 105 and 92A.195 of the NRS and Section 302 of the BCBCA.

“**Nevada Holdco Subordinate Proportionate Voting Shares**” means the Class B proportionate voting shares in the capital of Nevada Holdco, with substantially the same rights and restrictions as the Subordinate Proportionate Voting Shares.

“**Nevada Holdco Shareholders**” means the (i) holder of Nevada Holdco common stock and (ii) the holders of 4Front Membership Interests, shares of 4Front Ventures and shares of U.S. Blocker that will be exchanged for Nevada Holdco Subordinate Voting Shares, Nevada Holdco Subordinate Proportionate Voting Shares, and Nevada Holdco Multiple Voting Shares, as applicable, and which have been granted voting rights pursuant to the Nevada Holdco Plan of Conversion to vote as holders of Nevada Holdco Shares at the Nevada Holdco Meeting.

“**Nevada Holdco Shares**” means, collectively, at the applicable time, the issued and outstanding Nevada Holdco Subordinate Voting Shares, Nevada Holdco Subordinate Proportionate Voting Shares and Nevada Holdco Multiple Voting Shares.

“**Nevada Holdco Subordinate Voting Shares**” means the class A subordinate voting shares in the capital of Nevada Holdco, with substantially the same rights and restrictions as the Subordinate Voting Shares.

“**Nevada Holdco Warrantholders**” means the holders of Nevada Holdco Warrants.

“**Nevada Holdco Warrants**” means the warrants to acquire Nevada Holdco Subordinate Voting Shares which will be assumed by Nevada Holdco in connection with the Pre-Arrangement Transactions.

“**New LLC**” means 4Front Merger LLC, a limited liability company existing under the Laws of the State of Delaware and a wholly-owned Subsidiary of Nevada Holdco.

“**New LLC Merger**” means the merger of New LLC with and into 4Front with 4Front surviving such merger and the separate legal existence of New LLC ceasing for all purposes pursuant to which holders of 4Front Membership Interests other than Nevada Holdco will receive Nevada Holdco Subordinate Proportionate Voting Shares, as provided in the New LLC Merger Agreement.

“**New LLC Merger Agreement**” means the agreement and plan of merger to be entered into among Nevada Holdco, 4Front and New LLC providing for the New LLC Merger.

“**NI 14-101**” means National Instrument 14-101 – *Definitions*, as amended.

“**NI 41-101**” means National Instrument 41-101 - *General Prospectus Requirements*, as amended.

“**NI 45-106**” means National Instrument 41-106 – *Prospectus Exemptions*, as amended.

“**NI 51-102**” means National Instrument 51-102 – *Continuous Disclosure Obligations*, as amended.

“**NI 52-110**” means National Instrument 52-110 – *Audit Committees*, as amended.

“**NJ Act**” has the meaning ascribed thereto in Section 3.3 entitled “*General Development of the Business – Trends, Commitments, Events or Uncertainties – The Regulatory Landscape on a U.S. State Level – New Jersey – Legislative History*”.

“**NJDH**” has the meaning ascribed thereto in Section 3.3 entitled “*General Development of the Business – Trends, Commitments, Events or Uncertainties – The Regulatory Landscape on a U.S. State Level – New Jersey – Legislative History*”.

“**Nominee Agreement**” has the meaning ascribed thereto in Section 4.1(1) “*Narrative Description of the Business – General Business of the Resulting Issuer – General Business of 4Front – Mission – Nominee Agreements and Management Agreements*”.

“**Nominee Holder**” has the meaning ascribed thereto in Section 4.1(1) “*Narrative Description of the Business – General Business of the Resulting Issuer – General Business of 4Front – Mission – Nominee Agreements and Management Agreements*”.

“**Northwest Cannabis Solutions**” means Superior Gardens, LLC, a Washington limited liability corporation and licensed cannabis producer and processor.

“**Note**” has the meaning ascribed thereto in Section 10.1 entitled “*Description of the Securities – General Description of the Share Capital of the Resulting Issuer – Multiple Voting Shares*”.

“**NRS**” means the Nevada Revised Statutes and the regulations made thereunder, as now in effect and as they may be promulgated or amended from time to time.

“**Offer**” has the meaning ascribed thereto in Section 10.1 entitled “*Description of the Securities – General Description of the Share Capital of the Resulting Issuer – Subordinate Voting Shares*”.

“**Om**” means Om of Medicine, LLC, a Michigan limited liability company.

“**OMMCP**” has the meaning ascribed thereto in Section 3.3 entitled “*General Development of the Business – Trends, Commitments, Events or Uncertainties – The Regulatory Landscape on a U.S. State Level – Ohio – Legislative History*”.

“**OSC Rule 56-501**” means Ontario Securities Commission Rule 56-501 - *Restricted Shares*, as it may be amended or re-enacted from time to time.

“**PA Act**” has the meaning ascribed thereto in Section 3.3 entitled “*General Development of Business – Trends, Commitments, Events or Uncertainties – The Regulatory Landscape on a U.S. State Level – Pennsylvania – Legislative History*”.

“**PA Program**” has the meaning ascribed thereto in Section 3.3 entitled “*General Development of Business – Trends, Commitments, Events or Uncertainties – The Regulatory Landscape on a U.S. State Level – Pennsylvania – Legislative History*”.

“**PADOH**” has the meaning ascribed thereto in Section 3.3 entitled “*General Development of Business – Trends, Commitments, Events or Uncertainties – The Regulatory Landscape on a U.S. State Level – Pennsylvania – Legislative History*”.

“**Person**” includes an individual, firm, trust, partnership, association, body corporate, unlimited liability corporation, joint venture, trustee, executor, administrator, legal representative, government (including any Governmental Entity) or any other entity or group of Persons, whether or not having legal status.

“**Pine Bluff Agriceuticals**” means Pine Bluff Agriceuticals I, LLC, an Arkansas limited liability company.

“**Pine Bluff Agriceuticals Management**” means Pine Bluff Agriceuticals Management I, LLC, an Arkansas limited liability company and minority-owned Subsidiary of Mission (40%).

“**Plan of Arrangement**” means the plan of arrangement of Nevada Holdco, BC Newco and Cannex, and any amendments or variations thereto made in accordance with the Plan of Arrangement or upon the direction of the Court in the Final Order with the consent of Nevada Holdco, BC Newco, Cannex and 4Front, each acting reasonably.

“**Pledged Value**” per Subordinate Proportionate Voting Share means the closing price of the Subordinate Voting Shares on the principal trading market for such shares on the trading day immediately preceding the Valuation Date, multiplied by 80; and “**Pledged Value**” per Subordinate Voting Share means the closing price of the Subordinate Voting Shares on the principal trading market for such shares on the trading day immediately preceding the Valuation Date. Pledged Value of any other assets shall be valued at fair market value of such assets.

“**PP Warrants**” means the private placement warrants to acquire 24,109,936 Cannex Common Shares issued by Cannex by private placement on March 13, 2018, as further described in Section 10.4 entitled “*Description of the Securities – Other Securities- Private Placement Subscriber Warrants and Agent Warrants*”.

“**Pre-Approval Letter**” has the meaning ascribed thereto in Section 3.3 entitled “*General Development of Business – Trends, Commitments, Events or Uncertainties – The Regulatory Landscape on a U.S. State Level – Maryland– Summary of Licenses Owned*”.

“**Pre-Arrangement Transactions**” means, collectively, the 4Front Contribution Agreement, the 4Front Ventures Asset Transfer and Reorganization Agreement, the U.S. Blocker Contribution Agreement, the New LLC Merger Agreement, the U.S. Co Contribution Agreement and the Nevada Holdco Plan of Conversion.

“**Prime**” has the meaning ascribed thereto in Section 3.1 entitled “*General Development of Business – 4Front – Financing Activities of 4Front*”.

“**Subordinate Proportionate Voting Shares**” means the Class B proportionate voting shares in the capital of the Resulting Issuer, with the rights and restrictions as set forth in Schedule “K” to the Business Combination Agreement.

“**Purchase Obligation**” has the meaning ascribed thereto in Section 10.1 entitled “*Description of the Securities – General Description of the Share Capital of the Resulting Issuer – Multiple Voting Shares*”.

“**Purchase Obligation Notice**” has the meaning ascribed thereto in Section 10.1 entitled “*Description of the Securities – General Description of the Share Capital of the Resulting Issuer – Multiple Voting Shares*”.

“**REP**” means Real Estate Properties, LLC, a limited liability company formed under the laws of the State of Washington.

“**Restricted Conversion Period**” means the period prior to the date that is six months following the closing of the Business Combination.

“**Resulting Issuer**” means 4Front Ventures Corp., a corporation amalgamated under the Laws of British Columbia and the successor corporation under the BC Amalgamation following the completion of the transactions contemplated by the Business Combination and the Plan of Arrangement, with such corporation being the indirect parent entity of 4Front.

“**Resulting Issuer Agent Warrants**” has the meaning ascribed thereto in Section 10.4 entitled “*Description of the Securities - Other Securities - Private Placement Subscriber Warrants and Agent Warrants*”.

“**Resulting Issuer Board**” means the board of directors of the Resulting Issuer.

“**Resulting Issuer Equity Incentive Plans**” means Resulting Issuer Subordinate Proportionate Voting Share Equity Incentive Plan and the Resulting Issuer Subordinate Voting Share Equity Incentive Plan, as described hereto in Section 9 entitled “*Options to Purchase Securities – Summary of Equity Incentive Plans*”.

“Resulting Issuer GGP Warrants” means the Resulting Issuer GGP Warrants A, the Resulting Issuer GGP Warrants B, and the Resulting Issuer GGP Warrants C.

“Resulting Issuer NH Replacement Options” means the options to acquire Subordinate Proportionate Voting Shares to be issued to holders of Nevada Holdco Options.

“Resulting Issuer NH Warrants” means the private placement compensation warrants to acquire Subordinate Voting Shares to be issued by the Resulting Issuer to the Nevada Holdco Warrantholders.

“Resulting Issuer GGP Warrants A” means a warrant to purchase Subordinate Proportionate Voting Shares at an exercise price of \$80.00.

“Resulting Issuer GGP Warrants B” means a warrant to purchase Subordinate Proportionate Voting Shares at an exercise price of \$106.40.

“Resulting Issuer GGP Warrants C” means a warrant to purchase Subordinate Proportionate Voting Shares at an exercise price of \$159.20.

“Resulting Issuer Notes” means the senior secured convertible notes of the Resulting Issuer issued in exchange for the Cannex GGP Notes.

“Resulting Issuer PP Warrants” means the warrants to acquire Subordinate Voting Shares to be issued by the Resulting Issuer to the Cannex PP Warrantholders.

“Resulting Issuer PP Subscriber Warrants” has the meaning ascribed thereto in Section 10.4 entitled *“Description of the Securities - Other Securities - Private Placement Subscriber Warrants and Agent Warrants”*.

“Resulting Issuer Subordinate Proportionate Voting Share Equity Incentive Plan” means the equity incentive plan of the Resulting Issuer for Resulting Issuer Proportionate Shares, the form of which is to be agreed upon between the Transacting Parties, each acting reasonably, and acceptable to the CSE and which is to be approved at each of the Nevada Holdco Meeting and the Cannex Meeting.

“Resulting Issuer Replacement Options” means the Resulting Issuer Replacement Options for Subordinate Proportionate Voting Shares and the Resulting Issuer Replacement Options for Subordinate Voting Shares.

“Resulting Issuer Replacement Options for Subordinate Proportionate Voting Shares” means the options to acquire Subordinate Proportionate Voting Shares to be issued by the Resulting Issuer pursuant to the Resulting Issuer Subordinate Proportionate Voting Share Equity Incentive Plan to (i) former holders of Cannex Class A Share Options by the Resulting Issuer pursuant to the Resulting Issuer Equity Incentive Plans, each of which options will reflect an adjustment to the number of shares underlying each option in accordance with the Cannex Share Exchange Ratio, and (ii) the holders of Nevada Holdco Options, and, for certainty, where applicable, includes the Resulting Issuer NH Replacement Options.

“Resulting Issuer Replacement Options for Subordinate Voting Shares” means the options to acquire Subordinate Voting Shares to be issued to former holders of Cannex Common Share Options by the Resulting Issuer pursuant to the Resulting Issuer Subordinate Voting Share Equity Incentive Plan.

“Resulting Issuer Shares” means the Subordinate Voting Shares, the Subordinate Proportionate Voting Shares and the Multiple Voting Shares, as the case may be.

“Resulting Issuer Subordinate Voting Share Equity Incentive Plan” means the equity incentive plan of the Resulting Issuer for Subordinate Voting Shares, the form of which is to be agreed upon between the Transacting Parties, each acting reasonably, and acceptable to the CSE and which is to be approved at each of the Nevada Holdco Meeting and the Cannex Meeting.

“Resulting Issuer Warrants” means the Resulting Issuer GGP Warrants, the Resulting Issuer PP Warrants and the Resulting Issuer NH Warrants.

“**RIDOH**” has the meaning ascribed thereto in Section 3.3 entitled “*General Development of the Business – Trends, Commitments, Events or Uncertainties – The Regulatory Landscape on a U.S. State Level – Rhode Island – Licences*”.

“**RIMMP**” has the meaning ascribed thereto in Section 3.3 entitled “*General Development of the Business – Trends, Commitments, Events or Uncertainties – The Regulatory Landscape on a U.S. State Level – Rhode Island – Legislative History*”.

“**RMD**” has the meaning ascribed thereto in Section 3.3 entitled “*Trends, Commitments, Events or Uncertainties – The Regulatory Landscape on a U.S. State Level – Massachusetts – Legislative History*”.

“**Rohrabacher-Farr Amendment**” has the meaning ascribed thereto in Section 17 entitled “*Risk Factors – Risks Specifically Related to the United States Regulatory System – The federal government has not legalized marijuana for medical or adult-use*”.

“**Sale Leaseback Transactions**” has the meaning ascribed thereto in Section 4.1(1) entitled “*Narrative Description of the Business – General Business of the Resulting Issuer – General Business of 4Front – Mission State-By-State – Arkansas – Summary of Licenses Managed – Projected Source of Funds*”.

“**SEC**” means the United States Securities and Exchange Commission.

“**Securities Act**” means the *Securities Act* (British Columbia), as now in effect and as they may be promulgated or amended from time to time.

“**Sessions Memorandum**” has the meaning ascribed thereto in Section 17 entitled “*Risk Factors – Risks Specifically Related to the United States Regulatory System – The federal government has not legalized marijuana for medical or adult-use*”.

“**Silver Spring Consulting**” means Silver Spring Consulting, LLC, a Maryland limited liability company.

“**SOPs**” means standard operating procedures.

“**Staff Notice 51-352**” means Canadian Securities Administrators’ Staff Notice 51-352 (Revised) – *Issuers with U.S. Marijuana-Related Activities*.

“**Subject Multiple Voting Share**” has the meaning ascribed thereto in Section 10.1 entitled “*Description of the Securities – General Description of the Share Capital of the Resulting Issuer – Multiple Voting Shares*”.

“**Subordinate Voting Share Conversion Right**” has the meaning ascribed thereto in Section 10.1 entitled “*Description of the Securities – General Description of the Share Capital of the Resulting Issuer – Subordinate Voting Shares*”.

“**Subordinate Voting Shares**” means the subordinate voting shares in the capital of the Resulting Issuer, with the rights and restrictions as set forth in Schedule “K” to the Business Combination Agreement.

“**Subsidiaries**” means the direct and indirect Subsidiaries of 4Front, Cannex, the Resulting Issuer or the predecessor entities of any of the foregoing, as applicable, or the operating companies in which 4Front, Cannex or the Resulting Issuer, as applicable, have an ownership interest and “**Subsidiary**” means any one of them.

“**T&T**” means the track and trace system as described hereto in Section 3.3 entitled “*General Development of Business – Trends, Commitments, Events or Uncertainties – The Regulatory Landscape on a U.S. State Level – Illinois – Record-keeping/Reporting*”.

“**Tax Act**” means the *Income Tax Act* (Canada) and the regulations made thereunder, as now in effect and as they may be promulgated or amended from time to time.

“**TMX MOU**” has the meaning ascribed thereto in Section 17 entitled “*Risk Factors – Risks Specifically Related to the United States Regulatory System – The Resulting Issuer may be subject to heightened scrutiny by Canadian authorities*”.

“**Transacting Parties**” means Cannex and 4Front, and “**Transacting Party**” means either of them.

“**Tumwater Facility**” has the meaning ascribed thereto in Section 4.1(1) entitled “*Narrative Description of the Business – General Business of the Resulting Issuer – General Business of Cannex*”.

“**Tumwater Grow**” has the meaning ascribed thereto in Section 4.1(1) entitled “*Narrative Description of the Business – General Business of the Resulting Issuer – General Business of Cannex*”.

“**Tumwater Processing**” has the meaning ascribed thereto in Section 4.1(1) entitled “*Narrative Description of the Business – General Business of the Resulting Issuer – General Business of Cannex*”.

“**UID**” has the meaning ascribed thereto in Section 3.3 entitled “*General Development of the Business – Trends, Commitments, Events or Uncertainties – The Regulatory Landscape on a U.S. State Level – Washington – Record-keeping/Reporting*”.

“**U.S. Blocker**” means 4Front Can/Am Investco Inc., a corporation organized under the Laws of the State of Delaware as further described in Section 3.1 entitled “*General Development of Business – 4Front – Financing Activities of 4Front*”.

“**U.S. Blocker Contribution Agreement**” means the contribution agreement to be entered into between U.S. Blocker, Nevada Holdco and the U.S. Blocker Shareholders pursuant to which all of the issued and outstanding U.S. Blocker Shares will be contributed to Nevada Holdco in exchange for Nevada Holdco Subordinate Voting Shares.

“**U.S. Blocker Shareholder**” means a holder of one or more U.S. Blocker Shares.

“**U.S. Blocker Shares**” means issued and outstanding shares of common stock of U.S. Blocker.

“**U.S. Blocker Stock**” has the meaning ascribed thereto in Section 3.1 entitled “*General Development of Business – 4Front – Financing Activities of 4Front*”.

“**U.S. Co**” means 4Front U.S. Holdings, Inc., a corporation organized under the Laws of the State of Delaware.

“**U.S. Co Common Shares**” means 5,000 shares of common stock in the capital of U.S. Co.

“**U.S. Co Contribution Agreement**” means the contribution agreement to be entered into between Nevada Holdco and U.S. Co pursuant to which Nevada Holdco will contribute all of the issued and outstanding 4Front Membership Interests to U.S. Co.

“**U.S. Exchange Act**” means the United States *Securities Exchange Act of 1934*, as amended and the rules and regulations promulgated thereunder.

“**U.S. Patriot Act**” has the meaning ascribed thereto in Section 17 entitled “*Risk Factors – Risks Specifically Related to the United States Regulatory System – The Resulting Issuer will be subject to applicable anti-money laundering laws and regulations*”.

“**U.S. Securities Act**” means the United States *Securities Act of 1933*, as amended and the rules and regulations promulgated thereunder.

“**Units**” means, collectively, the Class A Units, Class B Units, Class C Units, Class D Units, Class E Units and Class F Units.

“**Valuation Date**” means the date prior to the date of the event triggering the Purchase Obligation.

“**WSLCB**” has the meaning ascribed thereto in Section 3.3 entitled “*General Development of the Business – Trends, Commitments, Events or Uncertainties – The Regulatory Landscape on a U.S. State Level – Washington – Legislative History*”.

2. CORPORATE STRUCTURE

2.1 Corporate Name & Head and Registered Office

This Listing Statement has been prepared in connection with the Business Combination and proposed listing on the CSE of the Resulting Issuer.

The head and registered office of 4Front is located at 5060 North 40th Street, Suite 120, Phoenix, Arizona, 85018.

The head and registered office of Cannex is located at 1241 Alberni Street, Vancouver, British Columbia, V6E 4R4.

Upon completion of the Business Combination, the head office of the Resulting Issuer will be located at 5060 North 40th Street, Suite 120, Phoenix, Arizona, 85018 and the registered office of the Resulting Issuer will be located at 550 Burrard Street, Suite 2900, Vancouver, British Columbia, V6C 0A3.

2.2 Jurisdiction of Incorporation

4Front

4Front was formed as a Delaware limited liability company on August 29, 2016. On September 15, 2016, 4Front acquired assets from 4Front Ventures, a Delaware corporation, in exchange for the issuance to 4Front Ventures of 500,000 Class A Units of 4Front and the issuance of Class B Units to the shareholders of 4Front Ventures. The assets acquired by 4Front from 4Front Ventures consisted of substantially all of the assets and liabilities of 4Front Ventures, including, without limitation, all of the equity membership interests of Advisors, Mission and Linchpin.

Advisors was formed as an Arizona limited liability company in 2011. Advisors has been in operation since its formation, has not operated at a profit or generated positive operating cash flow, and is fairly described as an early stage business enterprise. Mission was formed as a Delaware limited liability company in 2016. Mission has been in operation since its formation, has not operated at a profit or generated positive operating cash flow, and is fairly described as an early stage start-up business enterprise. Linchpin was formed as a Delaware limited liability company in 2016. Linchpin has been in operation since its formation, has not operated at a profit or generated positive operating cash flow, and is fairly described as an early stage start-up business enterprise.

Cannex

Cannex was incorporated under the laws of British Columbia on March 13, 2006 under the name “Atomic Minerals Ltd.”. On May 11, 2009, the company changed its name to “Arco Resources Corp.”

On March 13, 2018, CCGI, a corporation under the laws of British Columbia, and its security holders (the “**CCGI Security Holders**”) completed an amalgamation with Arco, pursuant to which the CCGI Security Holders transferred all of their common shares of CCGI in exchange for common shares of Arco on a 1:1 ratio. The transaction resulted in the former CCGI Security Holders obtaining control of the resulting issuer, and therefore constituted a reverse takeover (the “**Cannex-Arco RTO Amalgamation**”) under the policies of the CSE. Upon the completion of the Cannex-Arco RTO Amalgamation, Cannex changed its name to “Cannex Capital Holdings Inc.”.

Subsequent to the Cannex-Arco RTO Amalgamation, Cannex completed an acquisition of 100% of the membership units of BrightLeaf, a Washington limited liability corporation. BrightLeaf, through Subsidiaries, holds real estate assets, leasehold improvements, brands and other intellectual property, and material supply agreements with Northwest Cannabis Solutions and 7Point Holdings.

Cannex, through its wholly owned Subsidiaries, provides a range of comprehensive and flexible growth options for licensed cannabis cultivators, processors and dispensaries in the United States, including provision of: (1) turn-key real estate with operational infrastructure; (2) cannabis growing-related consulting services; (3) purchasing agent services; and (4) sales of packaging and other non-cannabis product inputs, such as soil, indoor lighting and packaging. Cannex has operations in Washington State, a corporate head office in Vancouver, BC, Canada, and is currently seeking cannabis licensure in California.

Cannex is a reporting issuer in the provinces of British Columbia, Alberta and Ontario.

The Resulting Issuer expects to be a reporting issuer in the Provinces of British Columbia, Alberta and Ontario. The Resulting Issuer will be subject to the provisions of the BCBCA.

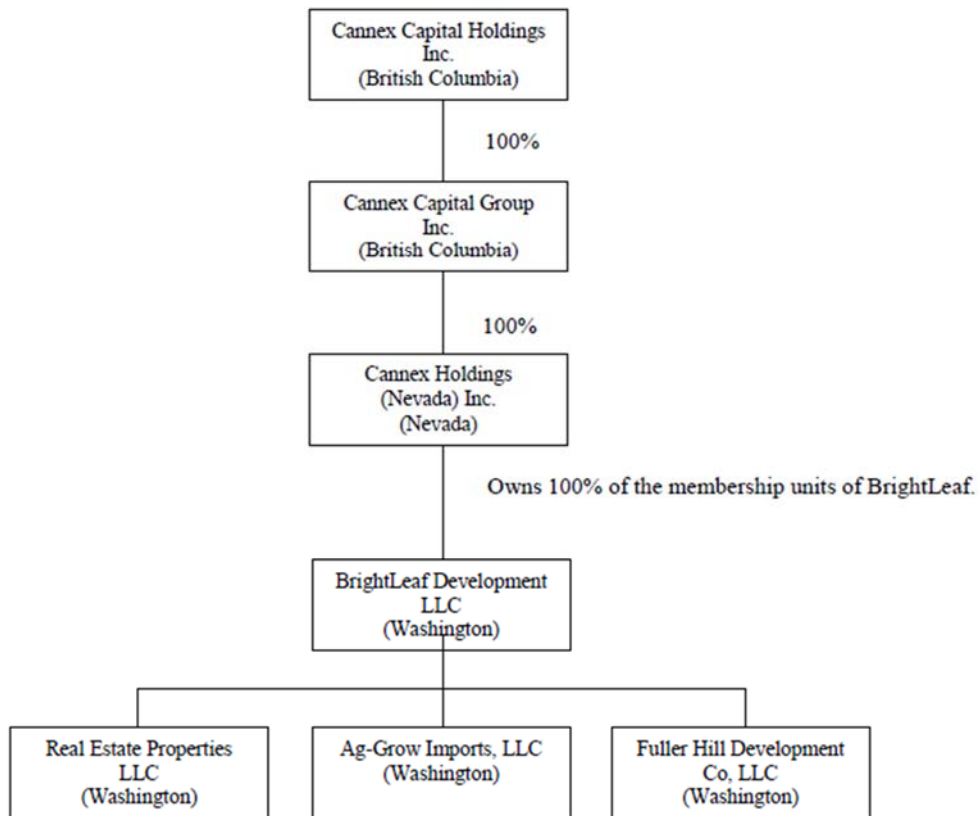
2.3 Inter-corporate Relationships

The Resulting Issuer will focus on the businesses of 4Front and the former business of Cannex.

Cannex

The following chart illustrates Cannex's corporate structure prior to the completion of the Pre-Arrangement Transactions and the Business Combination, together with the place of incorporation/governing law of its Subsidiaries and the percentage of voting securities beneficially owned by Cannex.

Cannex Corporate Structure

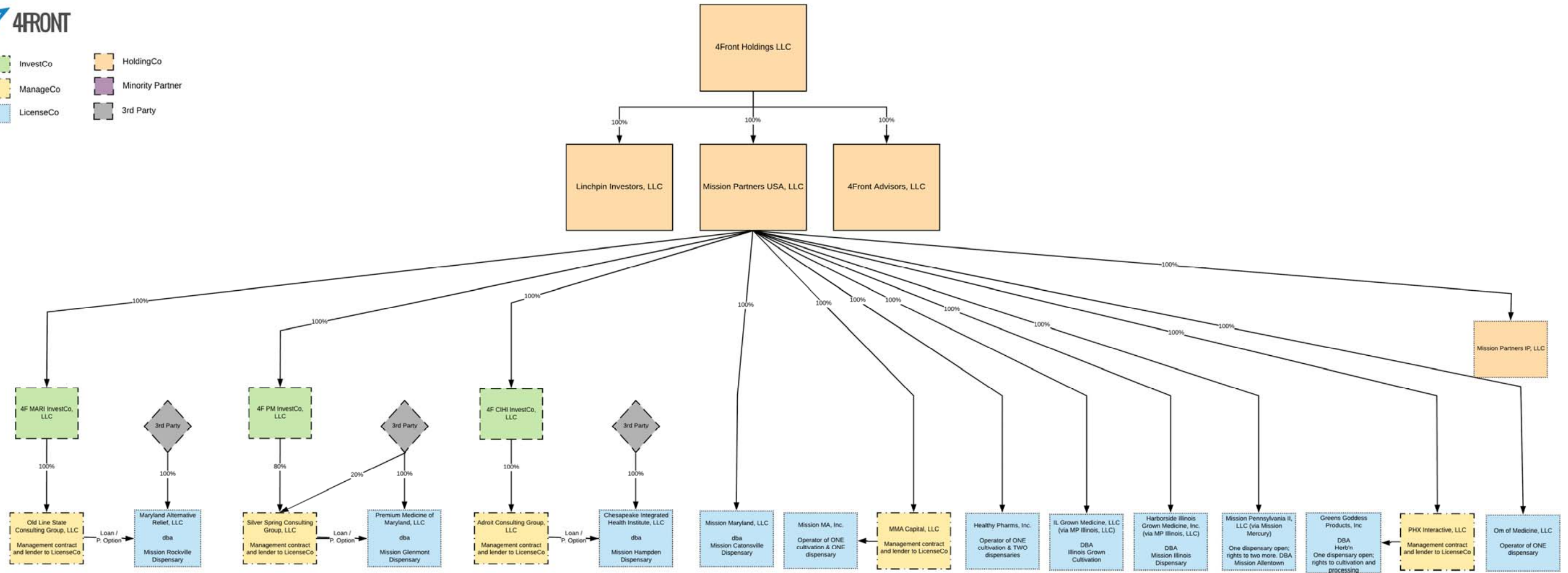


Each of Real Estate Properties LLC, Ag-Grow Imports, LLC and Fuller Hill Development Co, LLC are 100% owned by BrightLeaf.

4Front**Pre-Business Combination**

The following chart illustrates 4Front's corporate structure prior to the completion of the Pre Arrangement Transactions and the Business Combination, together with the place of incorporation/governing law of its Subsidiaries and the percentage of voting securities beneficially owned by 4Front:

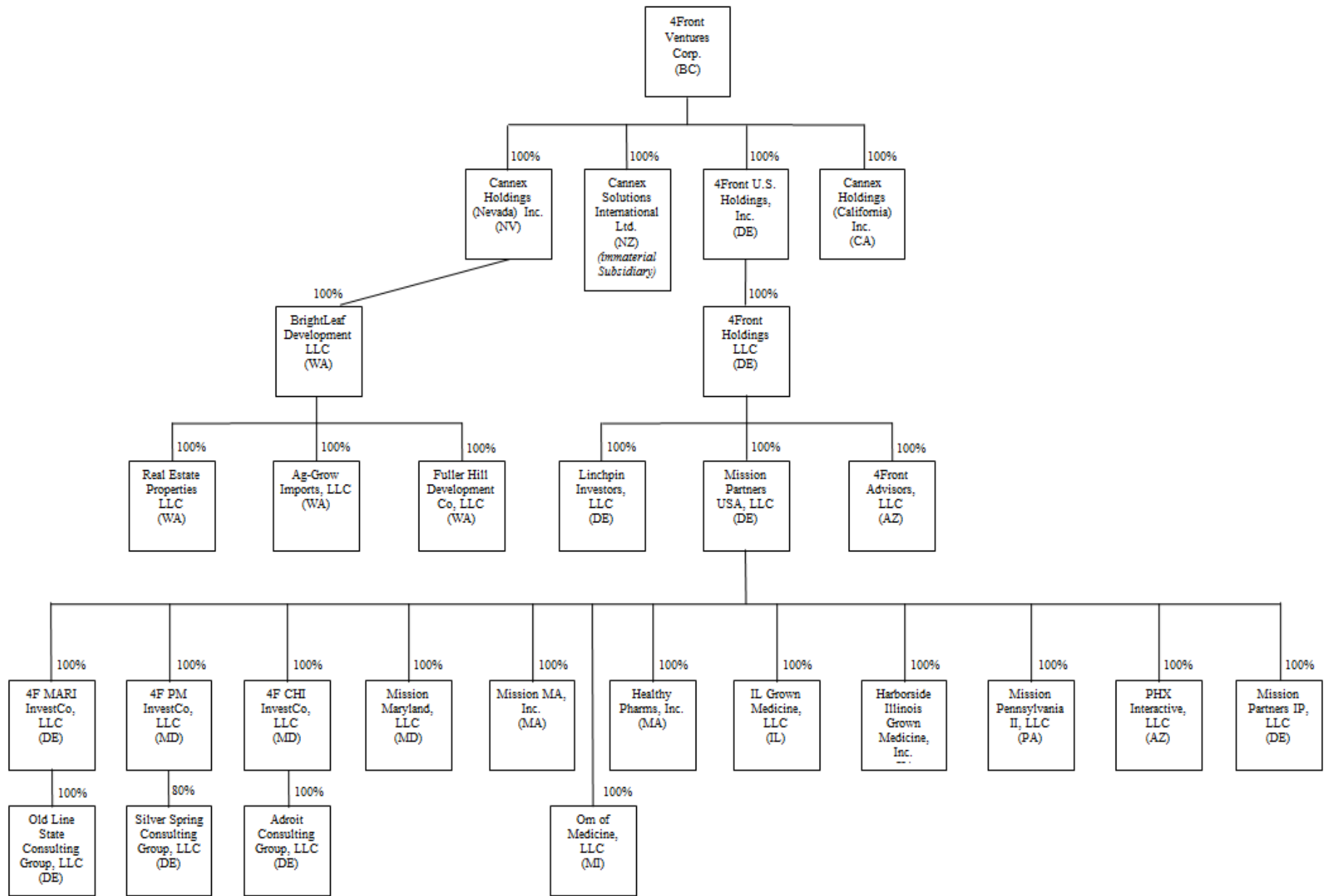
4Front Corporate Structure



Note: In Maryland, ManageCos (where applicable) have loan agreement, management services agreement as well as purchase option for LicenseCo

2.4 Post-Business Combination

The Business Combination constitutes a “fundamental change” within the meaning of CSE Policy 8 - Fundamental Changes & Changes of Business. Management of the Resulting Issuer has determined that the Business Combination will be accounted for as a reverse takeover from an accounting perspective. The following chart illustrates the Resulting Issuer’s corporate structure following the completion of the Business Combination, together with the place of incorporation/governing law of each Subsidiary and the percentage of voting securities beneficially owned by the Resulting Issuer.



Brief Overview of the Business Combination

The Business Combination was carried out by way of a plan of arrangement under the BCBCA. 4Front Members, through a series of transactions, exchanged their 4Front Membership Interests for 327.4 million shares in the Resulting Issuer on an as converted basis (the “**Consideration Shares**”). The number of Consideration Shares was determined such that the shareholder ratio equals 1:1.75 former Cannex shareholders to former 4Front Members (the “**Exchange Ratio**”), which was calculated using a Cannex share price of C\$1.125 per share at November 25, 2018, the date of the binding letter agreement between Cannex and 4Front. Former holders of Cannex Common Shares received Subordinate Voting Shares on a 1:1 basis. Former holders of Cannex Class A Shares received Subordinate Proportionate Voting Shares on an 80:1 basis. On closing, former 4Front Members own 63.6% of the Resulting Issuer and Cannex Shareholders own 36.4%.

Each Subordinate Proportionate Voting Share carries 80 votes and each Subordinate Voting Share carries one vote. The Subordinate Proportionate Voting Shares will not be listed for trading on the CSE but may be exchanged for Subordinate Voting Shares in certain circumstances. Pursuant to the Business Combination, the Key Members received Multiple Voting Shares. Each Multiple Voting Share carries 800 votes. The Multiple Voting Shares will not be listed for trading on the CSE and may only be transferred or converted into Subordinate Proportionate Voting Shares in certain circumstances. The Multiple Voting Shares are intended to provide voting control to the Key Members.

Background to the Business Combination

The provisions of the Business Combination Agreement are the result of arm’s length negotiations conducted among representatives of 4Front and Cannex with the assistance of their respective legal and financial advisors.

Prior to the Cannex Meeting and the Nevada Holdco Meeting, the Pre-Arrangement Transactions were completed. Specifically:

- (a) as contemplated by the 4Front Contribution Agreement, all of the issued and outstanding 4Front Membership Interests held by Key Members were contributed to Nevada Holdco in exchange for Nevada Holdco Multiple Voting Shares and Nevada Holdco Subordinate Proportionate Voting Shares;
- (b) as contemplated by the 4Front Ventures Asset Transfer and Reorganization Agreement, all of the assets of 4Front Ventures were transferred to Nevada Holdco in exchange for Nevada Holdco Subordinate Proportionate Voting Shares;
- (c) as contemplated by the U.S. Blocker Contribution Agreement, all of the issued and outstanding U.S. Blocker Shares were contributed to Nevada Holdco in exchange for Nevada Holdco Subordinate Voting Shares;
- (d) as contemplated by the New LLC Merger Agreement, New LLC merged with and into 4Front, with 4Front surviving such merger and the separate legal existence of New LLC ceasing for all purposes, and holders of 4Front Membership Interests other than Nevada Holdco received Nevada Holdco Subordinate Proportionate Voting Shares;
- (e) as contemplated by the U.S. Co Contribution Agreement, Nevada Holdco contributed all of the issued and outstanding 4Front Membership Interests to U.S. Co; and
- (f) as contemplated by the Nevada Holdco Plan of Conversion, Nevada Holdco continued as a corporation from the jurisdiction of Nevada to the jurisdiction of British Columbia.

Following the completion of the Pre-Arrangement Transactions and the receipt of the Interim Order, the Nevada Holdco Shareholders were asked at the Nevada Holdco Meeting to approve, among other things, the Nevada Holdco Continuance Resolution and the Nevada Holdco Business Combination Resolution, and the Cannex Shareholders were asked at the Cannex Meeting to approve, among other things, the Cannex Component of the Business Combination

Resolution. Following approval of the Nevada Holdco Continuance Resolution, the Nevada Holdco Business Combination Resolution, and the Cannex Component of the Business Combination Resolution and following receipt of the Final Order, the parties effected the Business Combination pursuant to the terms of the Business Combination Agreement and the Plan of Arrangement.

Overview of the Business Combination

The Business Combination was effected pursuant to the terms of the Business Combination Agreement which was entered into by 4Front, Nevada Holdco, BC Newco and Cannex on March 1, 2019.

Under the Business Combination, after completion of the Continuance:

- (a) each Nevada Holdco Dissenting Share held by a Nevada Holdco Dissenting Shareholder in respect of which a Nevada Holdco Shareholder validly exercised his, her or its Nevada Holdco Dissent Right was deemed to be transferred by such Nevada Holdco Dissenting Shareholder to Nevada Holdco (free and clear of any Liens of any nature whatsoever) in accordance with and for the consideration set forth in the Plan of Arrangement, and such Nevada Holdco Dissenting Shareholder ceased to be a holder of such Nevada Holdco Share and his, her or its name was removed from the central securities register of Nevada Holdco as a holder of a Nevada Holdco Dissenting Share. Such Nevada Holdco Dissenting Shareholder was deemed to have executed and delivered all consents, releases, assignments and waivers, statutory or otherwise, required to transfer such Nevada Holdco Dissenting Shares to Nevada Holdco in accordance with the Plan of Arrangement. Nevada Holdco was the holder of all of the Nevada Holdco Dissenting Shares transferred in accordance with the Plan of Arrangement prior to such Nevada Holdco Shares being cancelled and the central securities register of Nevada Holdco being revised accordingly;
- (b) one minute after (a) above, each Cannex Dissenting Share held by a Cannex Dissenting Shareholder in respect of which a Cannex Shareholder validly exercised his, her or its Cannex Dissent Right was deemed to be transferred by such Cannex Dissenting Shareholder to Cannex (free and clear of any Liens of any nature whatsoever) in accordance with and for the consideration set forth in Article 4 of the Plan of Arrangement, and such Cannex Dissenting Shareholder ceased to be a holder of such Cannex Share and his, her or its name was removed from the central securities register of Cannex as a holder of a Cannex Dissenting Share. Such Cannex Dissenting Shareholder was deemed to have executed and delivered all consents, releases, assignments and waivers, statutory or otherwise, required to transfer such Cannex Dissenting Shares to Cannex in accordance with the Plan of Arrangement. Cannex was the holder of all of the Cannex Dissenting Shares transferred in accordance with the Plan of Arrangement prior to such Cannex Shares being cancelled and the central securities register of Cannex being revised accordingly;
- (c) one minute after (b) above, BC Newco and Nevada Holdco amalgamated to form the Resulting Issuer, with the same effect as if they had amalgamated under Section 269 of the BCBCA;
 - (i) without limiting the generality of (c) above, BC Newco and Nevada Holdco amalgamated and continue as one company, the Resulting Issuer, under the terms and conditions prescribed in the Plan of Arrangement;
 - (ii) the property, rights and interests of each of BC Newco and Nevada Holdco continues to be the property, rights and interests of the Resulting Issuer;
 - (iii) the Resulting Issuer continues to be liable for the obligations of each of BC Newco and Nevada Holdco;
 - (iv) the Resulting Issuer will be deemed to be the party plaintiff or the party defendant, as the case may be, in any civil action commenced by or against either BC Newco or Nevada Holdco before the BC Amalgamation became effective;

- (v) a conviction against, or a ruling, order or judgment in favour of or against, either BC Newco or Nevada Holdco may be enforced by or against the Resulting Issuer;
- (vi) the board of directors of the Resulting Issuer is comprised of a minimum of three and a maximum of 10 directors and the initial five directors of the Resulting Issuer are Josh Rosen, Leo Gontmakher, Anthony Dutton, Eric Rey and David Daily;
- (vii) the notice of articles and articles of the Resulting Issuer are substantially in the form of the notice of articles and articles of Nevada Holdco following the Continuance and the registered office of the Resulting Issuer is the registered office of Nevada Holdco following the Continuance;
- (viii) each BC Newco Share held by a holder thereof was cancelled and the holder's name was removed from the register of holders of such BC Newco Shares, and in consideration therefor, the holder thereof received a fully paid and non-assessable Subordinate Voting Share on the basis of one Subordinate Voting Share for each BC Newco Share and the registered holder thereof was deemed to have executed and delivered all consents, releases, assignments and waivers, statutory or otherwise, required to exchange such BC Newco Share in accordance with the Plan of Arrangement;
- (ix) each Nevada Holdco Subordinate Voting Share, Nevada Holdco Subordinate Proportionate Voting Share and Nevada Holdco Multiple Voting Share held by a Nevada Holdco Shareholder was cancelled and the holder's name was removed from the register of holders of such Nevada Holdco Subordinate Voting Share, Nevada Holdco Subordinate Proportionate Voting Share and Nevada Holdco Multiple Voting Share, respectively, and in consideration therefor, the holder thereof received a Subordinate Voting Share, Subordinate Proportionate Voting Share or Multiple Voting Share, as the case may be, upon the BC Amalgamation on the basis of one Subordinate Voting Share, Subordinate Proportionate Voting Share and Multiple Voting Share for each Nevada Holdco Subordinate Voting Share, Nevada Holdco Subordinate Proportionate Voting Share and Nevada Holdco Multiple Voting Share, respectively, and the registered holder of the Nevada Holdco Shares was deemed to have executed and delivered all consents, releases, assignments and waivers, statutory or otherwise, required to exchange such Nevada Holdco Shares in accordance with the Plan of Arrangement;
- (x) the amounts added to the stated capital of the Subordinate Voting Shares, Subordinate Proportionate Voting Shares and Multiple Voting Shares are amounts equal to the paid-up capital (as that term is used for purposes of the Tax Act) of the corresponding class of Nevada Holdco Shares (other than the Nevada Holdco Shares held by Nevada Holdco Dissenting Shareholders and the Initial BC Newco Shareholder) immediately prior to the Effective Time, and an additional amount equal to the paid-up capital of the BC Newco Shares immediately prior to the Effective Time was added to the stated capital of the Subordinate Voting Shares;
- (xi) each Nevada Holdco Warrant was and was deemed to be terminated and cancelled and each holder of Nevada Holdco Warrants became entitled to receive, from the Resulting Issuer, a Resulting Issuer NH Warrant in exchange for the termination of the rights and release of claims in respect of each Nevada Holdco NH Warrant terminated and cancelled. Each Resulting Issuer NH Warrant is exercisable for a Subordinate Voting Share and the exercise price per Resulting Issuer NH Warrant was adjusted accordingly, and any document evidencing a Nevada Holdco Warrant thereafter evidences and is deemed to evidence such Resulting Issuer NH Warrant. Except as explicitly provided in the Plan of Arrangement, all terms and conditions of a Resulting Issuer NH Warrant, including the term to expiry, conditions to and manner of exercising, are the same as those of the corresponding Nevada Holdco Warrant for which it was exchanged, and are governed by the terms of the Resulting Issuer NH Warrant and the former holder of such Nevada Holdco

Warrants ceased to be the holder thereof or to have any rights as a holder of such Nevada Holdco Warrants; and

- (xii) each Nevada Holdco Option was terminated and cancelled and each holder of Nevada Holdco Options became entitled to receive, from the Resulting Issuer, Resulting Issuer NH Replacement Options in exchange for the termination of the rights and release of claims in respect of each Nevada Holdco Option terminated and cancelled. Each Resulting Issuer NH Replacement Option is exercisable for a Subordinate Proportionate Voting Share. Such Resulting Issuer NH Replacement Options provides for an exercise price per Resulting Issuer NH Replacement Option (rounded up to the nearest whole cent) equal to the exercise price per Nevada Holdco Option, and any document evidencing a Nevada Holdco Option thereafter evidences and is deemed to evidence such Resulting Issuer NH Replacement Option for Subordinate Proportionate Voting Shares. Except as explicitly provided in the Plan of Arrangement, all terms and conditions of a Resulting Issuer NH Replacement Option, including the term to expiry, conditions to and manner of exercising, are the same as those of the corresponding Nevada Holdco Option for which it was exchanged, and are governed by the terms of the Resulting Issuer Equity Incentive Plans, the former holder of such Nevada Holdco Options ceased to be the holder thereof or to have any rights as a holder of such Nevada Holdco Options, and the exchange did not provide any optionee with any additional benefits as compared to those under his or her original Nevada Holdco Option. It was intended that subsection 7(1.4) of Tax Act and U.S. Treas. Reg. Secs. 1.424-1(a)(5) and 1.409A-1(b)(5)(v)(D), as applicable, apply to such exchange of Nevada Holdco Options. Accordingly, and notwithstanding the foregoing, as required, the exercise price of a Resulting Issuer NH Replacement Option was increased such that the In-The-Money Amount of the Resulting Issuer NH Replacement Option immediately after the exchange did not exceed the In-The-Money Amount of the Nevada Holdco Option (or a fraction thereof) exchanged for such Resulting Issuer NH Replacement Option immediately before the exchange;
- (d) one minute after (c) above, each Resulting Issuer Share held by the Initial BC Newco Shareholder was, without any further action by or on behalf of the Initial BC Newco Shareholder, and was deemed to be, canceled and the holder's name was removed from the register of holders of such Resulting Issuer Share, and in consideration therefor, the holder thereof received a cash payment for such Resulting Issuer Share equal to \$1.00;
- (e) one minute after (d) above, the CCGI Windup was, and was deemed to be, effected;
- (f) one minute after (e) above, each Cannex Common Share and Cannex Class A Share outstanding immediately prior to the Effective Time, was and was deemed to be transferred to the Resulting Issuer by the applicable Cannex Shareholder, and the holder's name was removed from the register of holders of such Cannex Share, and in consideration therefor, the holder thereof received fully paid and non-assessable Subordinate Voting Shares and Subordinate Proportionate Voting Shares, respectively, on the basis of the Cannex Share Exchange Ratio (rounded down to the nearest whole number); and
 - (i) each Cannex Shareholder ceased to be the holder of such Cannex Shares and to have any rights as a holder of such Cannex Shares other than the right to the Resulting Issuers Shares as set out in paragraph (f);
 - (ii) the Resulting Issuer was, and was deemed to be, the transferee of such Cannex Shares; and
 - (iii) the Resulting Issuer and Cannex made the appropriate entries in their securities registers to reflect the matters referred to in paragraph (f);
- (g) concurrently with (f) above, each Cannex PP Warrant was and was deemed to be terminated and cancelled and each holder of Cannex PP Warrants became entitled to receive, from the Resulting Issuer, a Resulting Issuer PP Warrant in exchange for the termination of the rights and release of

claims in respect of each Cannex PP Warrant terminated and cancelled. Each Resulting Issuer PP Warrant is exercisable for Subordinate Voting Shares based on the Cannex Share Exchange Ratio (such that, upon exercise, in lieu of each Cannex Share to which such holder was theretofore entitled upon such exercise and for the same aggregate consideration payable therefor, the holder will receive Subordinate Voting Shares based on the Cannex Share Exchange Ratio). The Resulting Issuer PP Warrants provides for an exercise price per Resulting Issuer Warrant equal to the exercise price per Cannex PP Warrant, and any document evidencing a Cannex PP Warrant thereafter evidences and is deemed to evidence such Resulting Issuer PP Warrant. Except as explicitly provided in the Plan of Arrangement, all terms and conditions of a Resulting Issuer PP Warrant to be issued in exchange for a Cannex PP Warrant, including the term to expiry, conditions to and manner of exercising, are the same as those of the corresponding Cannex PP Warrant for which it was exchanged, and are governed by the terms of the Resulting Issuer PP Warrant and the former holder of such Cannex PP Warrants ceased to be the holder thereof or to have any rights as a holder of such Cannex PP Warrants;

- (h) concurrently with (f) above, the Cannex PP Warrants exchanged pursuant to Subsection (g) were cancelled without payment;
- (i) concurrently with (f) above, each Cannex GGP Warrant was and was deemed to be terminated and cancelled and each holder of Cannex GGP Warrants became entitled to receive, from the Resulting Issuer, a Resulting Issuer GGP Warrant in exchange for the termination of the rights and release of claims in respect of each Cannex GGP Warrant terminated and cancelled. Each Resulting Issuer GGP Warrant is exercisable for Subordinate Proportionate Voting Shares based on the Cannex Share Exchange Ratio and the exercise price per Resulting Issuer GGP Warrant was adjusted accordingly (such that, upon exercise, in lieu of each Cannex Share to which such holder was theretofore entitled upon such exercise and for the same aggregate consideration payable therefor, the holder will receive Subordinate Proportionate Voting Shares based on the Cannex Share Exchange Ratio). All terms and conditions of the Resulting Issuer GGP Warrant to be issued in exchange for a Cannex GGP Warrant are governed by the terms of the certificate evidencing the Resulting Issuer GGP Warrant and, upon exchange, the former holder of such Cannex GGP Warrants ceased to be the holder thereof or to have any rights as a holder of such Cannex GGP Warrants;
- (j) concurrently with (f) above, the Cannex GGP Warrants exchanged pursuant to Subsection (i) were cancelled without payment;
- (k) concurrently with (f) above, each Cannex GGP Note was and was deemed to be terminated and cancelled and each holder of Cannex GGP Notes became entitled to receive, from the Resulting Issuer, a Resulting Issuer Note in exchange for the termination of the rights and release of claims in respect of each Cannex GGP Note terminated and cancelled. Each Resulting Issuer Note is convertible into Subordinate Proportionate Voting Shares in accordance with the Cannex Share Exchange Ratio (such that, upon conversion, in lieu of each Cannex Share to which such holder was theretofore entitled upon such conversion, the holder will receive Subordinate Proportionate Voting Shares based on the Cannex Share Exchange Ratio) and any document evidencing a Cannex GGP Note thereafter ceased and was terminated and was replaced by a Resulting Issuer Note. All terms and conditions of a Resulting Issuer Note, are governed by the terms of the certificate evidencing the Resulting Issuer Note, and the former holder of such Cannex GGP Note ceased to be the holder thereof or to have any rights as a holder of such Cannex GGP Note;
- (l) concurrently with (f) above, the Cannex GGP Notes exchanged pursuant to Subsection (k) were cancelled without payment;
- (m) concurrently with (f) above, each Cannex Option was terminated and cancelled and each holder of Cannex Options became entitled to receive, from the Resulting Issuer, Resulting Issuer Replacement Options in exchange for the termination of the rights and release of claims in respect of each Cannex Option terminated and cancelled, on the basis of the Cannex Option Exchange Ratio (provided that if the foregoing would result in the issuance of a fraction of a Resulting Issuer Replacement Option, then the number of Resulting Issuer Replacement Options otherwise issued was rounded down to

the nearest whole number). Such Resulting Issuer Replacement Options provide for an exercise price per Resulting Issuer Replacement Option (rounded up to the nearest whole cent) equal to the quotient obtained when: (i) the exercise price per Cannex Share that would otherwise be payable pursuant to the Cannex Option it replaced is divided by (ii) the Cannex Share Exchange Ratio, and any document evidencing a Cannex Option will thereafter evidence and be deemed to evidence such Resulting Issuer Replacement Options. Except as explicitly provided in the Plan of Arrangement, all terms and conditions of a Resulting Issuer Replacement Option, including the term to expiry, conditions to and manner of exercising, are the same as those of the corresponding Cannex Option for which it was exchanged, and are governed by the terms of the applicable Resulting Issuer Equity Incentive Plan and the former holder of such Cannex Options ceased to be the holder thereof or to have any rights as a holder of such Cannex Options and the exchange did not provide any optionee with any additional benefits as compared to those under his or her original Cannex Option. It was intended that subsection 7(1.4) of Tax Act and U.S. Treas. Reg. Secs. 1.424-1(a)(5) and 1.409A-1(b)(5)(v)(D), as applicable, apply to such exchange of Cannex Options. Accordingly, and notwithstanding the foregoing, as required, the exercise price of a Resulting Issuer Replacement Option was increased such that the In-The-Money Amount of the Resulting Issuer Replacement Option immediately after the exchange did not exceed the In-The-Money Amount of the Cannex Option (or a fraction thereof) exchanged for such Resulting Issuer Replacement Option immediately before the exchange;

- (n) concurrently with (f) above, the Cannex Options exchanged pursuant to Subsection (m) were cancelled without payment; and
- (o) one minute after (f) above, the Cannex Windup was, and was deemed to be, effected.

As of the effective date, each Nevada Holdco Share (other than Nevada Holdco Shares held immediately prior to such time by Nevada Holdco Dissenting Shareholders and the Initial BC Newco Shareholder), and any certificates deemed to represent such Nevada Holdco Shares, represent only the right to receive in exchange therefor the corresponding Subordinate Proportionate Voting Shares that the holder is entitled to receive in accordance with the Plan of Arrangement. Each Cannex Share (other than Cannex Shares held immediately prior to such time by Cannex Dissenting Shareholders) and any certificates deemed to represent such Cannex Shares represent only the right to receive in exchange therefor the corresponding the Subordinate Voting Shares and/or the Subordinate Proportionate Voting Shares that the holder is entitled to receive in accordance with the Plan of Arrangement.

The Business Combination Agreement; Required Regulatory Approvals

On March 1, 2019, 4Front, Nevada Holdco, BC Newco and Cannex entered into the Business Combination Agreement, pursuant to which, subject to the terms and conditions set forth in the Business Combination Agreement, among other things, 4Front completed a corporate reorganization pursuant to the Pre-Arrangement Agreements, Nevada Holdco and BC Newco amalgamated, the securities of each of Nevada Holdco and Cannex were exchanged for securities of the Resulting Issuer, Cannex and CCGI were wound up, and the business of 4Front was combined with the business of Cannex as part of the Plan of Arrangement. See “*Background to the Business Combination*” and “*Overview of the Business Combination*”.

Completion of the Business Combination is subject to the condition precedent contained in the Business Combination Agreement relating to Regulatory Approvals having been fulfilled.

The parties have identified HSR Clearance as a required Regulatory Approval.

Under the HSR Act, certain transactions exceeding prescribed thresholds may not be completed until each party has filed a Notification and Report Form with the DOJ and with the FTC and applicable statutory waiting period requirements have been satisfied. The Business Combination exceeds the prescribed thresholds and therefore is subject to the applicable statutory waiting period requirements of the HSR Act. Each of 4Front and Cannex filed their respective Notification and Report Forms under the HSR Act on March 19, 2019.

On April 18, 2019, the DOJ issued a request for additional information (commonly referred to as a “Second Request”) to both parties. The statutory waiting period with respect to the Business Combination was therefore extended until 30 days following substantial compliance with the Second Request (unless the FTC or the DOJ terminates the waiting period prior to its expiration). As at the date hereof, the parties have not filed the additional information requested by the DOJ in the Second Request.

At any time before or after the termination of the statutory waiting periods under the HSR Act, or before or after the Business Combination is consummated, the DOJ and others may take action under U.S. antitrust laws, including seeking to enjoin the completion of the Business Combination, to rescind or otherwise unwind the Business Combination, or to conditionally permit completion of the Business Combination subject to regulatory conditions or other remedies. Although neither of the parties believes that the Business Combination will violate U.S. antitrust laws, there can be no assurance that a challenge to the Business Combination on antitrust grounds will not be made or, if such a challenge is made, that it would not be successful. Private parties may also seek to take legal action under U.S. antitrust laws under certain circumstances.

The parties are entitled to complete the Business Combination at the end of the statutory waiting period, provided that the DOJ has not taken action that results in a court order enjoining the Business Combination. The expiration or termination of the statutory waiting period does not bar the DOJ from subsequently challenging the Business Combination, as noted above. It is a condition to closing of the Business Combination that HSR Clearance be obtained (as it is a Regulatory Approval).

The Business Combination Agreement contains certain other conditions precedent, representations and warranties, covenants, and waiver provisions. You should refer to the Business Combination Agreement and the Plan of Arrangement for complete details of those documents. The Business Combination Agreement and Plan of Arrangement are available on the Resulting Issuer’s SEDAR profile at www.sedar.com and from the Resulting Issuer at joefeltham@4frontventures.com or 602-633-3067. You are encouraged to read the Business Combination Agreement and the Plan of Arrangement carefully and in their entirety, as the rights and obligations of 4Front and Cannex are governed by the express terms of the Business Combination Agreement and the Plan of Arrangement and not by this summary or any other information contained in this Listing Statement.

2.5 Non-corporate Corporations and Corporations Incorporated Outside of Canada

This section is not applicable to the Resulting Issuer.

3. GENERAL DEVELOPMENT OF THE BUSINESS

3.1 General Development of the Business

4Front

4Front was formed as a Delaware limited liability company on August 29, 2016. On September 15, 2016, 4Front acquired assets from 4Front Ventures, in exchange for the issuance to 4Front Ventures of 500,000 Class A Units of 4Front and the issuance of Class B Units of 4Front to the shareholders of 4Front Ventures. The assets acquired by 4Front from 4Front Ventures consisted of substantially all of the assets and liabilities of 4Front Ventures, including, without limitation, all of the equity membership interests of Advisors, Mission and Linchpin.

Advisors was formed in 2011, has been in operation since its formation, has not operated at a profit or generated positive operating cash flow, and is fairly described as an early stage business enterprise. Mission was formed in 2016, has been in operation since its formation, has not operated at a profit or generated positive operating cash flow, and is fairly described as an early stage start-up business enterprise. Linchpin was formed in 2016, has been in operation since its formation, has not operated at a profit or generated positive operating cash flow, and is fairly described as an early stage start-up business enterprise.

Details regarding the Business Combination, including the background to, reasons for, details of, conditions to, and effect of the Business Combination are set forth in this Listing Statement and the Schedules hereto. Readers are urged to carefully read the information in this Listing Statement and the Schedules hereto.

Financing Activities of 4Front

December 2015 – Mr. Chowscano, 4Front’s chief strategy officer, invested into 4Front Ventures \$3.33 million at a \$30 million pre-money valuation. With this equity investment, all of 4Front Ventures’ convertible note holders converted their debt into equity.

May 2016 – An existing investor loaned 4Front Ventures \$3 million at 5% interest rate per annum.

September 2016 – 4Front acquired the assets of 4Front Ventures. In exchange, 4Front Ventures received 500,000 non-convertible Class A Units of 4Front. The Class A Units carried a 6% preferred return at a principal value of \$33.333 million. Additionally, existing 4Front Ventures’ shareholders received Class B Units of 4Front proportionate to their investment in 4Front Ventures.

December 2016 – Certain officers of 4Front loaned \$500,000 to 4Front at 10% interest per annum in exchange for 125 Class C Units each.

March 2017 – 4Front raised another friends and family round led by an existing investor who invested another \$1 million. This investment was a convertible note that converted at a 20% discount to the next equity raise with a valuation cap approximating \$50 million (\$305 per Class D Unit). The total funds raised were \$4.02 million.

October 2017 – 4Front raised another friends and family round on similar terms to the March 2017 capital raise. This convertible note also converted at a 20% discount to the next equity raise with a modestly higher valuation cap approximating \$60 million (\$330 per Class D Unit). The total funds raised were \$6.1 million.

June 2018 – 4Front raised an equity round of Class D Units at a price of \$442.50 per unit. The March 2017 and October 2017 convertible note holders all chose to convert their notes at the respective valuation caps. The May 2016 loan was converted, with interest, into Class D Units at a price of \$442.50 per unit. All Class D Units carry a 5% preferred return through December 2018. The preferred return increased to 8% after December 2018. The total funds raised were approximately \$13.4 million.

August 2018 – 4Front borrowed \$3 million from an institutional investor. The note carried a four-month term at an interest rate of 20% per annum compounded monthly. The note was repaid in full in December 2018.

October 2018 – On October 23, 2018, 4Front completed a private placement of 64,218 Class F Units at a price of US\$486.75 per Class F Unit for gross proceeds of \$31,258,329, on a “best efforts” agency basis through a syndicate of agents led by Eight Capital. In addition, 4Front issued the 4Front Liquidity Warrants. Can/Am Investco Inc. (the “**U.S. Blocker**”) also completed a private placement of 24,951 shares of common stock, par value of 0.001 per share, of the U.S. Blocker (the “**U.S. Blocker Stock**”) for gross proceeds of approximately \$12,000,000, on a “best efforts” agency basis through a syndicate of agents led by Eight Capital. To mirror the 4Front Liquidity Warrants, the U.S. Blocker similarly issued one U.S. Blocker liquidity warrant for each U.S. Blocker Stock issued and sold in the private placement entitling the holder thereof to receive an additional 0.1 of a U.S. Blocker Stock in the event that a Liquidity Event does not occur by April 23, 2019.

November 2018 – The December 2016 officer loans of \$500,000 in aggregate were either repaid in cash (\$299,678) or converted with interest into Class F Units (615 units).

December 2018 – On December 24, 2018 (as amended February 25, 2019), Cannex issued 4Front a demand unsecured promissory note which allows 4Front to draw-down up to US\$8,000,000. The note bears interest at the published prime rate (“**Prime**”) of 5.5% as of December 20, 2018. All principal and accrued interest under the promissory note, and any other amounts owing under the promissory note, are due and payable on December 24, 2019.

Pipeline Transactions

4Front is actively pursuing growth opportunities to expand its portfolio in the medical and adult-use marijuana industry.

Cannex

Cannex was incorporated pursuant to the provisions of the BCBCA on February 27, 2017 under the name “Cannex Capital Group Inc.”. Since its formation, Cannex has sought to invest in cannabis-related assets and companies for the purpose of taking advantage of the growing cannabis industry.

Reverse Takeover

On December 7, 2017, CCGI entered into an amalgamation agreement with Arco, a junior mining exploration stage company trading on NEX board of the TSX Venture Exchange under the symbol “ARR.H,” and a newly-created Subsidiary of Arco (“**ArcoSub**”), to effect a three-cornered amalgamation under the provisions of the British Columbia Business Corporations Act whereby CCGI and ArcoSub amalgamated, CCGI became a wholly-owned Subsidiary of Arco, and CCGI’s shareholders would receive one share of Arco stock in exchange for each share of CCGI stock which they held. Additionally, Cannex applied to list its shares on the CSE.

On December 7, 2017, Cannex entered into a contribution and redemption agreement with Brightleaf, pursuant to which Cannex, through its wholly-owned Subsidiary, Cannex USA, agreed to acquire 36,000,000 membership units of BrightLeaf, with such closing to occur concurrently with the redemption of all other membership units of BrightLeaf held by GREP, FSA, and VEC, resulting in Cannex USA owning 100% of outstanding membership units of BrightLeaf, in exchange for a subscription purchase price of US\$36,000,000 payable in cash and/or notes payable (the “**Brightleaf Contribution Agreement**”).

In October 2017, Cannex announced that, concurrent and subject to the Cannex-Arco RTO Amalgamation, concurrent private placement offering (the “**Cannex Private Placement**”) of up to 25,000,000 subscription receipts, for gross proceeds of up to \$25,000,000, which amounts were amended to be up to 50,000,000 subscription receipts for gross proceeds of up to \$50,000,000. Each subscription receipt, upon release from escrow in accordance with the Cannex Private Placement escrow release conditions (the “**Cannex Private Placement Escrow Release Conditions**”), automatically converted into one Cannex Common Share (or one common share of Arco or one common share of the resulting issuer, as applicable, and one-half of one Cannex warrant (or one-half of one Arco warrant or one-half of one resulting issuer warrant), as applicable, with each such whole warrant of Cannex (or Arco warrant or resulting issuer warrant), as applicable, exercisable to purchase one Cannex Common Share (or one common share of Arco or one common share of the resulting issuer), as applicable, for \$1.50 for a period of 24 months (subject to the warrant acceleration) following the satisfaction of the Cannex Private Placement Escrow Release Conditions. The gross proceeds from the Cannex Private Placement (less 50% of the agents’ fee and the fees and expenses of the agents) were placed in escrow with an escrow agent and were released upon satisfaction of the Cannex Private Placement Escrow Release Conditions, which occurred immediately prior to the closing of the Cannex-Arco RTO Amalgamation.

The Cannex-Arco RTO Amalgamation closed in March 2018, and the Brightleaf Contribution Agreement closed thereafter.

Financing Activities of Cannex

Between June 2017 and November 2017, Cannex, through seed capital private placements, issued 133,494,062 Cannex Shares for gross proceeds of \$2,466,374.24.

In November 2018, Cannex entered into a securities purchase agreement (“**GGP SPA**”) with GGP to issue Cannex GGP Notes. Subsequently, Cannex paid all remaining notes payable related to the Brightleaf Contribution Agreement.

Pipeline Transactions

Cannex was actively seeking to purchase and/or acquire cannabis licenses in states such as California, which efforts will be continued by the Resulting Issuer. In connection with the foregoing, Cannex executed a binding letter agreement with Pure Ratios Holdings, Inc., pursuant to which the Resulting Issuer may acquire 100% of Pure Ratios Holdings, Inc. in exchange for a total maximum consideration of \$8,000,000. Such consideration will consist of \$2,000,000 in cash, 3,500,000 shares of Cannex (expected to be satisfied by Resulting Issuer Shares of equivalent value), \$2,500,000 of contingent cash consideration and the assumption of \$500,000 of Pure Ratios Holdings, Inc.’s

existing debt. In addition to the transaction, the Resulting Issuer will extend Accucanna LLC, a 90% owned Subsidiary of Pure Ratios Holdings, Inc. which owns a cannabis dispensary in Desert Hot Springs, California that is expected to be operational in the near future, a loan of up to \$1,500,000 by way of a secured convertible promissory note bearing interest at a rate of 10% for the first six months and subsequently bearing 18% interest until maturity.

3.2 Significant Acquisitions and Dispositions

4Front

Significant Acquisitions

Healthy Pharms

Healthy Pharms is a vertically integrated cultivator, producer and retailer in Massachusetts. In November 2018, 4Front acquired all of the outstanding shares of Healthy Pharms for \$27 million, of which \$20 million was paid in cash, \$3.5 million of Class E Units and \$3.5 million in a promissory note of 4Front due in November 2019 bearing interest at 15% per annum. As part of the acquisition, 4Front is required to remain in good standing under the Community Host Agreements with the municipalities of Georgetown, MA and Cambridge, MA.

Greens Goddess

On February 22, 2019, 4Front acquired 100% of the management company of Greens Goddess, being PHX Interactive, LLC, for \$6 million, of which \$3.5 million was paid in cash, and \$2.5 million was paid in 4Front in Class F Units.

Om

On April 15, 2019, 4Front acquired 100% of the membership interests of Om. 4Front's ability to operate the entity is still subject to regulatory approval. 4Front acquired the membership interests for \$6,000,000; \$1,500,000 in cash and \$4,500,000 in Class F Units. 4Front may pay up to an additional \$6,000,000 if performance hurdles are achieved from 2019 to 2021.

Significant Dispositions

4Front has not made any significant dispositions.

Cannex

Significant Acquisitions

See Section 4.1(1) "*Narrative Description of the Business – General Business of the Resulting Issuer – General Business of Cannex*".

Significant Dispositions

Cannex has not made any significant dispositions.

3.3 Trends, Commitments, Events or Uncertainties

In accordance with the Canadian Securities Administrators' Staff Notice 51-352, below is a table of concordance that is intended to assist readers in identifying those parts of this Listing Statement that address the disclosure expectations outlined in Staff Notice 51-352.

Industry Involvement	Specific Disclosure Necessary to Fairly Present all Material Facts, Risks and Uncertainties	Listing Statement Cross Reference
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<p>All Issuers with U.S. Marijuana-Related Activities</p>	<p>Describe the nature of the issuer’s involvement in the U.S. marijuana industry and include the disclosures indicated for at least one of the direct, indirect and ancillary industry involvement types noted in this table.</p>	<p><i>Section 3 - General Development of the Business</i></p> <p><i>Section 4 - Narrative Description of the Business</i></p>
	<p>Prominently state that marijuana is illegal under U.S. federal law and that enforcement of relevant laws is a significant risk.</p>	<p><i>Cover Page (disclosure in bold typeface)</i></p> <p><i>Section 3 - General Development of the Business – Regulatory Overview</i></p> <p><i>Section 17 - Risk Factors</i></p>
	<p>Discuss any statements and other available guidance made by federal authorities or prosecutors regarding the risk of enforcement action in any jurisdiction where the issuer conducts U.S. marijuana-related activities.</p>	<p><i>Cover Page (disclosure in bold typeface)</i></p> <p><i>Section 1.3 - Cautionary Statement Regarding the Business</i></p> <p><i>Section 3 - General Development of the Business – Regulatory Overview</i></p> <p><i>Section 4 - Narrative Description of the Business</i></p> <p><i>Section 17 - Risk Factors</i></p>
	<p>Outline related risks including, among others, the risk that third party service providers could suspend or withdraw services and the risk that regulatory bodies could impose certain restrictions on the issuer’s ability to operate in the U.S.</p>	<p><i>Section 17 - Risk Factors</i></p>
	<p>Given the illegality of marijuana under U.S. federal law, discuss the issuer’s ability to access both public and private capital and indicate what financing options are/are not available in order to support continuing operations.</p>	<p><i>Section 4 - Narrative Description of the Business</i></p> <p><i>Section 17 - Risk Factors</i></p>
	<p>Quantify the issuer’s balance sheet and operating statement exposure to U.S. marijuana-related activities.</p>	<p><i>Section 5 - Selected Consolidated Financial Information</i></p> <p><i>Schedules “A” “B” and “E” to the Listing Statement.</i></p>
	<p>Disclose if legal advice has not been obtained, either in the form of a legal opinion or otherwise, regarding (a) compliance with applicable state</p>	<p><i>Legal advice has been obtained.</i></p>

	regulatory frameworks and (b) potential exposure and implications arising from U.S. federal law.	
U.S. Marijuana Issuers with direct involvement in cultivation or distribution	Outline the regulations for U.S. states in which the issuer operates and confirm how the issuer complies with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state.	<i>Section 3 - General Development of the Business – Regulatory Overview</i> <i>Section 4 - Narrative Description of the Business</i>
	Discuss the issuer’s program for monitoring compliance with U.S. state law on an ongoing basis, outline internal compliance procedures and provide a positive statement indicating that the issuer is in compliance with U.S. state law and the related licensing framework. Promptly disclose any non-compliance, citations or notices of violation which may have an impact on the issuer’s licence, business activities or operations.	<i>Section 3 - General Development of the Business</i> <i>Section 4 - Narrative Description of the Business</i> <i>Section 17 - Risk Factors</i>
U.S. Marijuana Issuers with indirect involvement in cultivation or distribution	Outline the regulations for U.S. states in which the issuer’s investee(s) operate.	<i>Section 3 - General Development of the Business – Regulatory Overview</i> <i>Section 4 - Narrative Description of the Business</i>
	Provide reasonable assurance, through either positive or negative statements, that the investee’s business is in compliance with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state. Promptly disclose any non-compliance, citations or notices of violation, of which the issuer is aware, that may have an impact on the investee’s licence, business activities or operations.	<i>Section 3 - General Development of the Business</i> <i>Section 4 - Narrative Description of the Business</i>
U.S. Marijuana Issuers with material ancillary involvement	Provide reasonable assurance, through either positive or negative statements, that the applicable customer’s or investee’s business is in compliance with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state.	<i>Section 3 - General Development of the Business – Regulatory Overview</i>

U.S. Footprint of the Resulting Issuer

The following chart summarizes the U.S. states in which Cannex and 4Front had operations prior to the Business Combination, which will be continued by the Resulting Issuer upon completion of the Business Combination:

State	Entity with licence pre-Business Combination ⁽¹⁾	Active or Pipeline	Brief description of operations
Illinois	4Front	Active	Beneficial owner of 1 dispensary license and 1 cultivation/production license

Maryland	4Front	Active	Owner of 1 dispensary license and management services provider to 3 dispensary licensees
Massachusetts	4Front	Active and pipeline	Owner of license that allows for 3 dispensary locations and up to 3 cultivation and production facilities. Management services provider to additional licensees
Pennsylvania	4Front	Active and pipeline	Beneficial owner of one dispensary license that allows two additional locations
Michigan	4Front	Active and Pipeline	Owner of 1 dispensary license and pursuing new license and acquisition opportunities as they become available
Arizona	4Front	Active	Owner of 1 dispensary license with ability to open a cultivation/production facility
Arkansas	4Front	Active	Management services provider to 3 dispensary licensees ⁽²⁾
Washington	Cannex	Active	Landlord and packaging supplier to cultivation and production licensees.
California	Cannex	Pipeline	Acquisition of Pure Ratios Holdings, Inc. and pursuing new license and acquisition opportunities as they become available
New Jersey	4Front	Pipeline	Pursuing new license and acquisition opportunities as they become available
Nevada	4Front	Pipeline	Pursuing new license and acquisition opportunities as they become available
Ohio	4Front	Pipeline	Pursuing new license and acquisition opportunities as they become available
Rhode Island	4Front	Active	Applied for cultivation/production license and are awaiting regulatory approval (or denial)

Notes:

- (1) Upon completion of the Business Combination, all licenses will either be (a) held by the Resulting Issuer (or a Subsidiary); or (b) held by a third party subject to an agreement with the Resulting Issuer (or a Subsidiary) whereby the Resulting Issuer receives a benefit from such license.
- (2) 40% minority partner in management companies that service the Arkansas licenses.

Regulatory Overview

In accordance with Staff Notice 51-352, below is a discussion of the federal and state-level U.S. regulatory regimes in those jurisdictions where the Resulting Issuer is currently directly involved through its Subsidiaries or has the potential to become directly involved through its Subsidiaries due to the pipeline transactions as disclosed in the above chart. The Resulting Issuer's Subsidiaries are directly engaged, or plan to become directly engaged (if the above-noted pipeline transactions close), in the manufacture, possession, use, sale or distribution of cannabis in the recreational and/or medicinal cannabis marketplace in the states of Illinois, Maryland, Massachusetts, Pennsylvania, Michigan, Arizona, Arkansas, Washington, California, New Jersey, Nevada, Ohio and Rhode Island. In accordance with Staff Notice 51-352, the Resulting Issuer will evaluate, monitor and reassess this disclosure, and any related risks, on an ongoing basis and the same will be supplemented, amended and promptly disclosed to investors in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws or regulations regarding marijuana regulation.

Regulation of Cannabis in the United States Federally

The United States federal government regulates drugs through the CSA, 21 U.S.C. § 811, which places controlled substances, including cannabis, in a schedule. Cannabis is classified as a Schedule I drug. A Schedule I controlled substance is defined as a substance that has no currently accepted medical use in the United States, a lack of safety for use under medical supervision and a high potential for abuse. The U.S. Department of Justice defines Schedule I drugs,

substances or chemicals as “drugs with no currently accepted medical use and a high potential for abuse.” With the limited exception of the FDA approving the use of marijuana-derived CBD to treat specific forms of epilepsy, the FDA has not approved marijuana as a safe and effective drug for any indication.

Unlike in Canada which has federal legislation uniformly governing the cultivation, distribution, sale and possession of medical marijuana under the *Cannabis Regulations*, SOR/2018-144 (“**Cannabis Regulations**”) and the Cannabis Act S.C. 2018, c. 16 (the “**Cannabis Act**”), marijuana is largely regulated at the state level in the United States.

State laws regulating cannabis are in direct conflict with the federal CSA, which makes cannabis use and possession federally illegal. Although certain states and territories of the U.S. authorize medical or recreational cannabis production and distribution by licensed or registered entities, under U.S. federal law, the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal and any such acts are criminal acts under federal law under any and all circumstances under the CSA. Although 4Front’s activities are compliant with applicable United States state and local laws, strict compliance with state and local laws with respect to cannabis may neither absolve 4Front of liability under United States federal law, nor may it provide a defense to any federal proceeding which may be brought against 4Front.

The risk of federal enforcement and other risks associated with the Resulting Issuer’s business are described in *Section 17 – Risk Factors*.

Regulation of Industrial Hemp in the United States Federally

On December 20, 2018 the Agricultural Improvement Act of 2018 (commonly known as the “2018 Farm Bill”) was signed into law. The 2018 Farm Bill, among other things, removes industrial hemp and its cannabidiols, including CBD derived from industrial hemp, from the CSA and amends the Agricultural Marketing Act of 1946 to allow for industrial hemp production and sale in the United States. Under the Farm Bill, industrial hemp is defined as “the plant *Cannabis sativa* L. and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a delta-9 tetrahydrocannabinol concentration of not more than 0.3 percent on a dry weight basis.” The 2018 Farm Bill did not legalize CBD derived from “marihuana” (as such term is defined in the CSA), which is and remains a Schedule I controlled substance under the CSA.

Following the passage of the 2018 Farm Bill, the U.S. Department of Agriculture is responsible for promulgating regulations for the industrial hemp industry, the timing of which cannot be assured. The 2018 Farm Bill dictates that the U.S. Department of Agriculture must develop guidelines that states must use when developing their own commercial hemp programs. Further, all industrial hemp programs developed by a state or tribe must be approved by the U.S. Department of Agriculture prior to implementation in the state or by the tribe. The U.S. Department of Agriculture must also develop a federal production license that can be issued to those in states that do not independently develop a commercial hemp program.

The 2018 Farm Bill also preserved the U.S. Food and Drug Administration’s authority to regulate products containing cannabis or cannabis-derived compounds under the Federal Food, Drug and Cosmetics Act and the Public Health Service Act. On December 20, 2018, the U.S. Food and Drug Administration released a statement in which it affirmed its authority to regulate CBD derived from industrial hemp. The Administration stated, “we treat products containing cannabis or cannabis-derived compounds as we do any other FDA-regulated products — meaning they’re subject to the same authorities and requirements as FDA-regulated products containing any other substance. This is true regardless of the source of the substance, including whether the substance is derived from a plant that is classified as hemp under the [2018 Farm Bill].” It is expected that the U.S. Food and Drug Administration will develop its own framework for regulating CBD-based products, though the timing of such framework cannot be assured.

The Regulatory Landscape on a U.S. State Level

Illinois

The table below lists the licenses beneficially owned by Mission via nominee agreements with MP Illinois, LLC (each a “**Nominee Agreement**” (see Section 4 “*Narrative Description of the Business – General Business of the Resulting*

Issuer – General Business of 4Front – Mission – Nominee Agreements and Management Agreements” for description of the Nominee Agreement structure)):

Holding Entity	Percentage Owned	License Number	City	Expiration Date	Description
Illinois Grown Medicine	100%	1504160768	Elk Grove	04-16-2019	Cultivation
Million Illinois	100%	DISP.000053	Chicago	06-08-2019	Dispensary

Legislative History

The Compassionate Use of Medical Cannabis Pilot Program Act (the “**IL Act**”) was signed into law in August 2013 and took effect on January 1, 2014. The IL Act provides medical cannabis access to registered patients who suffer from a list of over 30 medical conditions including epilepsy, cancer, HIV/AIDS, Crohn’s disease and post-traumatic stress disorder. As of January 4, 2019, approximately 52,365 patients have been registered under the IL Act and are qualified to purchase cannabis and cannabis products from registered dispensaries. Senate Bill 336, the Alternative to Opioids Act, was signed into law August 28, 2018. Major provisions of the law included adding a temporary access for patients that are prescribed opioids, removing the requirement that patients undergo fingerprinting and FBI background checks to be approved, and allowing people being prescribed medical marijuana can now complete an online application with a doctor’s authorization to get a provisional registration to buy medical cannabis while they wait for the state to make a final review. These changes are expected to materially increase the number of patients enrolled after taking effect in 2019. The program is expected to remain in a pilot stage through July 2020, at which point the IL Act will be re-evaluated for future implementation. Illinois newly elected Democratic Governor J. B. Pritzker campaigned on a platform of legalizing recreational marijuana in the state, an issue the legislature is expected to consider in early 2019.

Licenses

Oversight and implementation under the IL Act are divided among three Illinois state departments: the Department of Public Health (the “**IL DPH**”), the Department of Agriculture (the “**IL DA**”), and the Department of Financial and Professional Regulation (the “**IL DFPR**”). The IL DPH oversees the following IL Act mandates: (a) establish and maintain a confidential registry of caregivers and qualifying patients authorized to engage in the medical use of cannabis, (b) distribute educational materials about the health risks associated with the abuse of cannabis and prescription medications, (c) adopt rules to administer the patient and caregiver registration program, and (d) adopt rules establishing food handling requirements for cannabis-infused products that are prepared for human consumption. It is the responsibility of the IL DA to enforce the provisions of the IL Act relating to the registration and oversight of cultivation centers. The IL DFPR enforces the provisions of the IL Act relating to the registration and oversight of dispensing organizations. The IL DPH, IL DA and IL DFPR may enter into intergovernmental agreements, as necessary, to carry out the provisions of the IL Act.

Illinois has issued a limited amount of dispensary, producer/grower, and production licenses. There are currently 55 licensed dispensaries and 22 licensed cultivators.

The IL Act requires prospective cannabis business license holders to adhere to a thorough application process. Applicants for cannabis business licenses must meet, among others, the following requirements: (a) the proposed location for a dispensary must be suitable for public access, (b) the proposed location must not pose a detrimental impact to the surrounding community, (c) demonstrate compliance with safety procedures for dispensary employees, patients, and caregivers, and safe delivery and storage of cannabis and currency, (d) provide an adequate plan for recordkeeping, tracking and monitoring inventory, quality control, destruction and disposal of cannabis, and procedures to discourage unlawful activity, (e) develop a business plan specifying products to be sold and, (f) demonstrate knowledge of, experience, and proven record of ensuring optimal safety and accuracy in the dispensing and sale of cannabis. Once a license is granted, licensees have a continuing obligation to ensure no cannabis is sold, delivered, transported, or distributed to a location outside of the state.

Under the IL Act, dispensary, grower, and production licenses are valid for one year. After the initial term, licensees are required to submit renewal applications. Pursuant to the IL Act, registration renewal applications must be received 45 days prior to expiration and may be denied if the licensee has a history of non-compliance and penalties.

Record-keeping/Reporting

Illinois uses THC BioTrack as the T&T system to manage the flow of reported data between each licensee and the state. Information processed through the T&T system must be maintained in a secure location at the dispensing organization for five years.

Dispensing licensees are mandated by the IL Act to maintain records electronically and make them available for inspection by the IL DFPR upon request. Records that must be maintained and made available, as described in the IL Act, include: (a) operating procedures, (b) inventory records, policies, and procedures, (c) security records, and (d) staffing plans. All dispensing organization records, including business records such as monetary transactions and bank statements, must be kept for a minimum of three years. Records of destruction and disposal of all cannabis not sold, including notification to the IL DFPR and State Police, shall be retained at the dispensary organization for a period of not less than five years.

Inventory/Storage

A dispensing organization's agent-in-charge has primary oversight of the dispensing organization's medical cannabis inventory control system. Under the IL Act, a dispensary's inventory control system must be real-time, web-based, and accessible by the IL DFPR 24 hours a day, seven days a week.

The inventory control system of a dispensing organization must record all cannabis sales, waste, and acquisitions. Specifically, the inventory system must track and reconcile through the T&T system each day's cannabis beginning inventory, acquisitions, sales, disposal and ending inventory. Tracked information must include (a) product descriptions including the quantity, strain, variety and batch number of each product received, (b) the name and registry identification number of the permitted cultivation center providing the medical cannabis, (c) the name and registry identification number of the permitted cultivation center agent delivering the medical cannabis, (d) the name and registry identification number of the dispensing organization agent receiving the medical cannabis, and (e) the date of acquisition. Dispensary managers are tasked with conducting and documenting monthly audits of the dispensing organization's daily inventory according to generally accepted accounting principles.

Storage of cannabis and cannabis product inventory is also regulated by the IL Act. Inventory must be stored on the dispensary's licensed premises in a restricted access area. Appropriate storage temperatures, containers, and lighting are required to ensure the quality and purity of cannabis inventory is not adversely affected.

Security

Under the IL Act, dispensaries must implement security measures to deter and prevent entry into and theft from restricted access areas containing either cannabis or currency. Mandated security measures include security systems, panic alarms, and locked doors or barriers between the facility's entrance and limited access areas. Admission to the limited access areas must be restricted to only registered qualifying patients, designated caregivers, principal officers, and agents conducting business with the dispensing organization. Visitors and persons conducting business with the dispensing organization in limited access areas must always wear identification badges and be escorted by a dispensary agent authorized to enter the restricted access area. A visitor's log must not only be kept on-site but must also be maintained for five years.

The IL Act states 24-hour video surveillance of both a dispensary's interior and exterior are required to be taken and kept for at least 90 days. Unless prohibited by law, video of all interior dispensary areas, including all points of entry and exit, safes, sales areas, and storage areas must be kept. Unobstructed video of the dispensary's exterior perimeter, including the storefront and the parking lot, must also be kept. Video surveillance cameras are required to be angled to allow for facial recognition and the capture of clear and certain identification of any person entering or exiting the dispensary area. Additionally, all video must be taken in lighting sufficient for clear viewing during all times of night or day. The IL Act also requires all security equipment to be inspected and tested within regular 30-day intervals.

Maryland

The table below lists the license owned directly by Mission:

Holding Entity	Percentage Owned	License Number	City	Expiration Date	Description
Mission Catonsville	100%	Currently in pre-approval phase	Catonsville	N/A	Dispensary

The table below lists the licenses controlled by Mission via management agreements (each a “**Management Agreement**” (see Section 4.1(1) “*Narrative Description of the Business – General Business of the Resulting Issuer – General Business of 4Front – Mission – Nominee Agreements and Management Agreements*” for description of the Management Agreement structure)):

Holding Entity	Managing Entity	Percentage Interest of Mission	License Number	City	Expiration Date	Description
Mission Hampden	Adroit Consulting Group	100%	Currently in pre-approval phase	Baltimore	N/A	Dispensary
Mission Glenmont	Silver Spring Consulting, LLC	80%	D-18-00044	Silver Spring	September 27, 2024	Dispensary
MARI	Old State Line Consulting Group, LLC	100%	Currently in pre-approval phase	Silver Spring	N/A	Dispensary

Legislative History

In May 2013, the then Governor of Maryland signed House Bill 1101, Chapter 403, which established the Natalie M. LaPrade Maryland Medical Cannabis Commission (“**MMCC**”). The MMCC is an independent commission that functions within the Department of Health and Mental Hygiene. The MMCC was created for investigational use of medical cannabis. MMCC develops policies, procedures, and regulations to implement programs that ensure medical cannabis is available to qualifying patients in a safe and effective manner.

On December 1, 2017, after close to a five-year delay, the Maryland Medical Marijuana program (“**MMMP**”) became operational and sales commenced. The program was written to allow access to medical marijuana for patients with conditions that are considered severe and for which other medical treatments have proven ineffective, including chronic pain, nausea, seizures, glaucoma and post-traumatic stress disorder. As of January 7, 2019, there were 54,236 certified patients that are registered and hold medical licenses allowing them to purchase cannabis and cannabis products from a dispensary. There are also approximately 23,660 patients awaiting medical licenses to be processed.

Licenses

The MMCC oversees all licensing, registration, inspection, and testing measures pertaining to the MMMP and provides relevant program information to patients, providers, caregivers, growers, processors, dispensaries and testing laboratories. A dispensary is licensed under Subtitle 33 Section § 13-3307 and a dispensary agent is registered under § 13-3308.

The MMCC has issued a limited number of dispensary, producer/growers and production licenses. As of December 10, 2018, there were 71 state licensed dispensaries, 14 growers and 14 processors throughout Maryland.

After the first expiration of the approved license, the dispensary, grower and production licensee is required to renew every two years. Licensees are required to submit a renewal application per the guidelines published by the MMCC. The MMCC, 90 days prior to the expiration of a license, notifies the licensee of the date on which the license expires, provides the instructions and fee required to renew the license and the consequences of failure to renew. At least 30 business days before a license expires, the licensee must submit the renewal application as provided by the MMCC. The license holders must ensure that no cannabis may be sold, delivered, transported or distributed by a producer from or to a location outside of Maryland.

Record-keeping/Reporting

Maryland uses Franwell Inc.'s Marijuana Enforcement Tracking Regulation and Compliance (“**METRC**”) system as the T&T system to track commercial cannabis activity. All cannabis products dispensed are documented at point of sale via the T&T system. Each dispensary must submit to the MMCC a quarterly report which includes (a) number of patients served, (b) county of residence of each patient served, (c) medical condition for which medical cannabis was recommended, (d) type and amount of medical cannabis dispensed, and (e) if available, a summary of clinical outcomes, including adverse events and any cases of suspected diversion.

A dispensary licensee shall maintain a secure, tamper-evident record of each purchase by a patient that contains the name and address of the patient, the quantity and name of the product purchased by the patient and specific identification number of the product. A dispensary licensee shall maintain a duplicate set of all records at a secure, off-site location. Unless otherwise specified, a licensee shall retain a record for a period of five years.

Inventory/Storage

The licensee must establish standard operating procedures for all aspects of the receipt, storage, packaging, labeling, handling, tracking and dispensing of products containing medical cannabis and waste. Upon receipt of a cannabis product, each product must be promptly cataloged into the T&T system. The licensee is required to train each registered dispensary agent on the standard operating procedure.

All medical cannabis inventory must be stored in a secure room which, among other requirements, is constructed of concrete or similar building material resilient enough to prevent and deter unauthorized entry.

Security

The licensee shall maintain a security alarm system that covers all perimeter entry points, windows and portals at the premises. Facilities must maintain a motion-activated video surveillance recording system at the premises that records all activity in images of high quality and high resolution and clearly reveals facial detail. The system must be able to operate 24 hours a day, seven days a week without interruption. Recordings are kept in a secure area with minimal access in an off-site location. The surveillance videos will be retained for a minimum of 30 calendar days.

Massachusetts

The table below lists the licenses owned by Mission:

Holding Entity	Percentage Owned	License Number	City	Expiration Date	Description
Healthy Pharms	100%	11	Georgetown	N/A	Colocated Cultivation/Production/Dispensary
Healthy Pharms	100%	24	Cambridge	N/A	Dispensary

The table below lists the licenses controlled by Mission via management agreements (see Section 4.1(1) “*Narrative Description of the Business – General Business of the Resulting Issuer – General Business of 4Front – Mission – Nominee Agreements and Management Agreements*” for description of the Management Agreement structure):

Holding Entity	Managing Entity	Percentage Interest of Mission	License Number	City	Expiration Date	Description
Mission MA	MMA Capital, LLC	100%	N/A ⁽¹⁾	Worcester	N/A	Colocated Cultivation/Production/Dispensary

EVG	Mission Brand Ambassador Group, LLC	100%	N/A	Boston	N/A	Pursuing medical and recreational dispensary license that will allow up to 3 locations
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Note:

(1) Mission MA was recommended for final license on April 6, 2019. To date, a final license has not been received.

Legislative History

The Massachusetts Medical Use of Marijuana Program (the “**MA Program**”) was established pursuant to the Act for the Humanitarian Medical Use of Marijuana (the “**MA ACT**”). The MA Program allows registered persons to purchase medical cannabis and applies to any patient, personal caregiver, Registered Marijuana Dispensary (each, a “**RMD**”), and RMD agent that qualifies and registers under the MA Program. To qualify, patients must suffer from a debilitating condition as defined by the MA Program. Currently there are eight conditions that allow a patient to acquire cannabis in Massachusetts, including AIDS/HIV, ALS, cancer and Crohn’s disease. As of November 2018, approximately 58,000 patients have been registered to purchase medical cannabis products in Massachusetts. As of November 2018, there were 47 Registered Medical Dispensaries approved to sell medical cannabis in the state. The MA Program was previously administrated by the Department of Public Health, Bureau of Health Care Safety and Quality. On December 23, 2018 administration of the MA Program was transferred to the Cannabis Control Commission (the “**MA CCC**”).

In November 2016, Massachusetts voted affirmatively on a ballot petition to legalize and regulate cannabis for adult recreational use. The Massachusetts legislature amended the law on December 28, 2016, delaying the date recreational cannabis sales would begin by six months. The delay allowed the legislature to clarify how municipal land-use regulations would treat the cultivation of cannabis and authorized a study of related issues. After further debate, the state House of Representatives and state Senate approved H.3818 which became Chapter 55 of the Acts of 2017, An Act to Ensure Safe Access to Marijuana, and established the MA CCC. The MA CCC consists of five commissioners and regulates the Massachusetts Recreational Marijuana Program. Adult recreational use of cannabis in Massachusetts was legalized in July 2018. As of January 11, 2019, there were 16 Marijuana Establishments authorized to commence operations for recreational marijuana, including 8 retailers.

Licenses

Under the MA Program, RMD’s are heavily regulated. Vertically integrated RMDs grow, process, and dispense their own cannabis. As such, each RMD is required to have a retail facility as well as cultivation and production operations, although retail operations may be separate from grow and cultivation operations. A RMD’s cultivation location may be in a different municipality or county than its retail facility.

The MA Program mandates a comprehensive application process for RMDs. Each RMD applicant must submit a Certificate of Good Standing, comprehensive financial statements, a character competency assessment, and employment and education histories of the senior partners and individuals responsible for the day-to-day security and operation of the RMD. Municipalities may individually determine what local permits or licenses are required if an RMD wishes to establish an operation within its boundaries.

Each Massachusetts dispensary, grower and processor license is valid for one year and must be renewed no later than 60 calendar days prior to expiration. As in other states where cannabis is legal, the MA CCC can deny or revoke licenses and renewals for multiple reasons, including (a) submission of materially inaccurate, incomplete, or fraudulent information, (b) failure to comply with any applicable law or regulation, including laws relating to taxes, child support, workers compensation and insurance coverage, (c) failure to submit or implement a plan of correction (d) attempting to assign registration to another entity, (e) insufficient financial resources, (f) committing, permitting, aiding, or abetting of any illegal practices in the operation of the RMD, (g) failure to cooperate or give information to relevant law enforcement related to any matter arising out of conduct at an RMD, and (h) lack of responsible RMD

operations, as evidenced by negligence, disorderly or unsanitary facilities or permitting a person to use a registration card belonging to another person. Additionally, license holders must ensure that no cannabis is sold, delivered, or distributed by a producer from or to a location outside of this state.

Record-keeping/Reporting

Massachusetts uses METRC as the T&T system. Individual licensees, whether directly or through a third-party application programming interface, are required to push data to the state to meet all reporting requirements.

The MA Program requires that RMD records be readily available for inspection by the Department of Health upon request. Among the records that are required to be maintained and made available are: (a) operating procedures, (b) inventory records, and (c) seed-to-sale tracking records for all cannabis and cannabis infused products.

Inventory/Storage

Through the T&T system, RMDs are required to record all actions related to each individual cannabis plant. This robust inventorying requirement includes tracking how each plant is handled and processed from seed and cultivation, through growth, harvest and preparation of cannabis infused products, if any, to final sale of finished products. This system must chronicle every step, ingredient, activity, transaction, and dispensary agent, registered qualifying patient, or personal caregiver who handles, obtains, or possesses the product. To meet this tracking requirement, the inventory tracking process is mandated to utilize unique plant and batch identification numbers. Besides capturing all processes associated with each cannabis plant, RMDs must also establish and abide by inventory controls and procedures for conducting inventory reviews and comprehensive inventories of cultivating, finished, and stored cannabis products. To ensure inventories are accurate, RMDs are not only required to conduct monthly inventories but also to compare monthly inventories to the T&T system records.

The MA Program requires all cannabis and cannabis infused products be securely stored. RMDs must ensure that all safes, vaults, and other equipment or areas used for the production, cultivation, harvesting, processing, or storage of marijuana and cannabis infused products are securely locked and protected against unauthorized entry. The MA Program also specifies that limited access areas, accessible only to authorized personnel, must be established in each dispensary. Furthermore, only the minimum number of employees essential to business operations may be given access to the limited access areas.

Security

Adequate security systems that prevent and detect diversion, theft, or loss of cannabis are required of each RMD under the MA Program. Such security systems must utilize commercial grade equipment and are required to include (a) a perimeter alarm on all entry and exit points and perimeter windows, (b) a failure notification system that provides an audible, text, or visual notification of any failure in the surveillance system, and (c) a duress alarm, panic alarm, or holdup alarm connected to local public safety or law enforcement authorities.

To ensure RMDs meet the rigorous security standards laid out by the MA Program, use of surveillance cameras is mandated. RMDs must install video cameras in the following areas: (a) all areas that may contain cannabis, (b) all points of entry and exit, and (c) in any parking lot. Video cameras must be appropriate for the lighting conditions of the area under surveillance. Interior video cameras must be directed at all safes, vaults, sales areas, and areas where cannabis is cultivated, harvested, processed, prepared, stored, handled, or dispensed. Video surveillance is required to be operational 24 hours a day, seven days a week and all recordings must be retained for at least 90 calendar days.

Transportation

The MA Program regulates the means and methods by which cannabis is transported. A RMD transporting cannabis must ensure the product is in a secure, locked storage compartment. If a cannabis establishment, pursuant to a cannabis transporter license is transporting cannabis products for more than one cannabis establishment at a time, the cannabis products for each cannabis establishment must be kept in separate locked storage compartments during transportation and separate manifests are required for each cannabis establishment. Vehicles transporting cannabis must be equipped with an approved alarm system and functioning heating and air conditioning systems appropriate for maintaining

correct temperatures for storage of cannabis products. Additionally, cannabis products may not be visible from outside the vehicle and RMDs must ensure that all transportation times and routes are randomized. Cannabis and cannabis infused products may not be transported outside Massachusetts.

Pennsylvania

The table below lists the license through which Mission has an economic interest via a Nominee Agreement¹ with Mission Mercury:

Holding Entity	Percentage of Economic Interest	License Number	City	Expiration Date	Description
Mission Allentown	100%	D-2006-17	Allentown	June 26, 2019	Dispensary

Legislative History

The Pennsylvania Medical Marijuana Program (the “**PA Program**”) was established by the Pennsylvania Medical Marijuana Act (the “**PA Act**”) on April 17, 2016. The PA Program provides access to medical cannabis for qualified state residents who suffer from any of 21 specific medical conditions including epilepsy, chronic pain, HIV, AIDS, cancer, and post-traumatic stress disorder. To qualify under the PA Program, medical cannabis patients must both register with the Pennsylvania Department of Health (the “**PADOH**”) and obtain either an identification card or authorization letter from the PADOH. As of October 2018, approximately 51,000 patients in Pennsylvania have been registered to purchase medical cannabis products. On February 15, 2018, dispensaries licensed under the PA Program began selling medical cannabis to qualified patients. Pennsylvania previously allowed the sale of medical cannabis to qualified patients only in the following forms: pill, oil, topical forms including gels, creams, or ointments, tincture, and liquids. On August 1, 2018, the Pennsylvania Health Secretary approved the sale of dry leaf cannabis.

Permits

The PA Act allows the PADOH to issue up to 25 grower/processor permits and 50 dispensary permits (each dispensary permit allows the holder to open up to three separate dispensary sites). On June 29, 2017, the PADOH issued 12 cultivation/production permits and 27 dispensary permits. Permits are granted to applicants who demonstrate, among other things: (a) the ability to implement and maintain effective security measures and controls to prevent diversion, (b) a clear criminal background free of illegal conduct, (c) compliance with municipality zoning requirements, (d) well-defined standard operating procedures, and (e) a verified diversity plan. Prior to awarding permits, the PA Program requires the PADOH to verify all applicant information including through interviews of principals, operators, financial backers, and employees engaged and to be engaged in the permit applicant’s cannabis operations.

In December 2018, the PADOH issued an additional 13 grower/processor permits and 23 dispensary permits.

Dispensary, grower, and production permits are valid for one year from the date of issuance and permit holders are required to submit renewal applications in accordance with the PA Act. The PADOH must renew a permit unless it determines the applicant is unlikely to maintain effective control against diversion of medical cannabis and the applicant is unlikely to comply with all laws as prescribed under the PA Act. Additionally, permit holders must ensure that no cannabis is sold, delivered, transported, or distributed outside of Pennsylvania.

Record keeping/Reporting

The PA Act requires each licensed medical cannabis grower/processor or dispensary to report information to the PADOH every three months including, but not limited to, (a) the amount of medical cannabis sold by the grower/processor, (b) the total value and amounts of medical cannabis sold by the grower/processor, (c) the amount of medical cannabis purchased by each dispensary, (d) the cost and amounts of medical cannabis sold to each dispensary, and (e) the total amount and dollar value of medical cannabis sold by each dispensary.

¹ See Section 4.1(1) “*Narrative Description of the Business – General Business of the Resulting Issuer – General Business of 4Front – Mission – Nominee Agreements and Management Agreements*”.

To monitor reporting requirements under the PA Act, the PADOH selected MJ Freeway as the T&T to implement a seed-to-sale electronic tracking.

Inventory/Storage

The PA Act requires each medical cannabis grower/processor to maintain inventory and storage data in an electronic format through MJ Freeway. The following information is tracked to ensure a compliant cannabis business operation: (a) the number, weight, and type of seeds used, (b) the number of immature medical cannabis plants, (c) the number of mature medical cannabis plants, (d) the number of medical cannabis products ready for sale, and (d) the number of damaged, defective, expired, or contaminated seeds, immature medical cannabis plants, medical cannabis plants and medical cannabis products awaiting disposal.

Robust physical inventory controls and procedures are required of each medical cannabis grower/processor under the PA Act. The following procedures are mandated to ensure physical inventory counts match electronic records: (a) monthly inventory counts of both medical cannabis plants in the process of growing and medical cannabis products that are stored for future sale, (b) comprehensive inventory counts of seeds, immature medical cannabis plants and medical cannabis plants, and (c) written or electronic records created and maintained for each inventory count conducted.

Additionally, each medical cannabis grower/processor must separately store in locked, limited access areas all seeds, immature medical cannabis plants, medical cannabis plants and medical cannabis that is expired, damaged, deteriorated, mislabeled or contaminated.

Security

The PA Act mandates each medical cannabis grower/processor must use security and surveillance systems including stringent video backup requirements to safeguard their medical cannabis and related products. Security requirements include: (a) alarm systems that cover all facility entrances, exits, areas that contain medical cannabis, safes, and the perimeter of the facility, and (b) professionally-monitored security and surveillance systems that operate 24 hours a day, seven days a week and record all activity in images capable of clearly revealing facial detail. All images captured by each surveillance camera must be stored for a minimum of four years in a format that may be easily accessed for investigative purposes. Furthermore, all recordings must be kept in a locked cabinet, closet or other secure place to protect them from tampering or theft.

The PA Act also specifies requirements for the alarm system. The alarm system must include: (a) a silent security alarm signal, (b) an audible security alarm signal generated by the manual activation of a device intended to signal a life-threatening or emergency situation requiring law enforcement response, and (c) an electrical, electronic, mechanical, or other device capable of being programmed to send a pre-recorded voice message requesting dispatch, when activated, over a telephone line, radio, or other communication system to a law enforcement, public safety, or emergency services agency.

Transportation

A medical cannabis grower/processor must transport and deliver medical cannabis to a medical cannabis organization or an approved laboratory within Pennsylvania in accordance with the following: (a) deliveries must be made between 7:00 a.m. and 9:00 p.m., (b) a global positioning system must be used to ensure safe and efficient delivery, (c) medical cannabis may not be visible from outside of the transport vehicle, (d) vehicles must be equipped with a secure cargo area, (e) each transport vehicle must be staffed with at least two individuals and at least one delivery team member must remain with the medical cannabis at all times and (f) a printed or electronic transport manifest must accompany every delivery.

Michigan

4Front is actively pursuing growth opportunities to expand its portfolio in the medical and adult-use marijuana industry. On April 15, 2019, 4Front acquired 100% of the membership interests in Om. Om is a Michigan limited

liability company and has a state licensed medical cannabis provisioning center in Ann Arbor, Michigan.

Holding Entity	Percentage of Economic Interest	License Number	City	Expiration Date	Description
Om of Medicine, LLC	100%	N536209	Ann Arbor	September 10, 2019	Dispensary

Legislative History

In 2008, the Michigan Compassionate Care Initiative established a medical cannabis program for serious and terminally ill patients, was approved by the House but not acted upon, and defaulted to a public initiative on the November ballot. Proposal 1 was approved by 63% of voters on November 8, 2008. Proposal 1 was then written into law and approved by Michigan’s lawmakers in December 2008. The resulting act, became the Michigan Medical Marihuana Act (“**MMM Act**”).

In 2016, the Michigan legislature passed two new acts and also amended the original MMM Act. The first act establishes a licensing and regulation framework for medical marihuana growers, processors, secure transporters, provisioning centers, and safety compliance facilities. The second act establishes a “seed-to-sale” system to track marihuana that is grown, processed, transferred, stored, or disposed of under the Medical Marihuana Facilities Licensing Act.

The Bureau of Medical Marihuana Regulation is responsible for the oversight of medical cannabis in Michigan and consists of the Medical Marihuana Facility Licensing Division and the Michigan Medical Marihuana Program Division. The MMM Act provides access to state residents to cannabis and cannabis related products under one of 11 debilitating conditions, including epilepsy, cancer, HIV/AIDS, cancer and PTSD. In July 2018 the Medical Marihuana Facility Licensing Division approved 11 additional conditions to the list of ailments to qualify for medical cannabis. The additional 11 include Chronic pain, colitis and spinal cord injury.

Recreational cannabis was legalized by ballot initiative in November, 2018. The initiative mandates that the Michigan Department of Licensing and Regulatory Affairs (“**LARA**”) begin accepting applications for retail stores no later than December 6, 2019. The initial application period will be limited to existing medical cannabis license holders.

Arizona

The table below lists the licenses controlled by Mission via management agreements (see Section 4.1(1) “*Narrative Description of the Business – General Business of the Resulting Issuer – General Business of 4Front – Mission – Nominee Agreements and Management Agreements*” for description of the Management Agreement structure):

Holding Entity	Managing Entity	Percentage Interest of Mission	License Number	City	Expiration Date	Description
Green Goddess	PHX Interactive	100%	00000106DCQ V00747138	Phoenix	10/5/19	Dispensary

Legislative History

Arizona’s medical cannabis market was introduced in November 2010 when voters approved the Proposition 203 “Arizona Medical Marijuana Initiative” ballot measure that legalized medical cannabis for patients with certain qualifying conditions. The first sales were made to patients in December 2012. In June 2018, an Arizona appeals court ruled that “hashish”, or the resin extracted from marijuana, is illegal, despite the fact that this class of product has been commonly sold in state dispensaries since the market first opened in 2012. Many dispensaries have continued to operate as normal, awaiting a final ruling by the Arizona Supreme Court which agreed to hear the case in January 2019.

Licenses

The Arizona Department of Health Services has allocated 130 medical cannabis dispensary certificates. Each dispensary certificate permits the license holder to open one dispensary, and also gives the license holder the option to open one cultivation facility and/or one production facility. Cultivation and production sites can be located anywhere in the State and are not restricted based on where the license holder's dispensary is located. Dispensaries are limited to their district (Community Health Analysis Area) for their first three years of operation. All dispensaries must be not-for profit.

Extracted oils, edibles, and flower products are permitted. Extracted products face the risk of being prohibited pending a decision by the Arizona Supreme Court, as outlined above.

Wholesale transactions are permitted.

Market Summary

As of May 2018, 114 dispensaries were operating across Arizona, which has approximately 7 million residents. Since cultivation and production licenses are bundled with dispensary licenses, and because the Arizona Department of Health Services does not publish data on the number of cultivators and processors that are operating in the State, it is not certain how many cultivators and processors are operating in Arizona. As of November 2018, there were 183,789 patients registered in the medical cannabis program.

Arkansas

The table below lists the licenses controlled by Mission via management agreements (see Section 4.1(1) “*Narrative Description of the Business – General Business of the Resulting Issuer – General Business of 4Front – Mission – Nominee Agreements and Management Agreements*” for description of the Management Agreement structure):

Holding Entity	Managing Entity	Percentage Interest of Mission	License Number	City	Expiration Date	Description
Pine Bluff Agriceuticals	Pine Bluff Agriceuticals Management	40%	N/A	Pine Bluff	N/A	Medical Dispensary
Arkansas Patient Services Co.	Arkansas Patient Services Co. Management	40%	N/A	Hazen	N/A	Medical Dispensary
Arkansas Natural Products	Arkansas Natural Products Management	40%	N/A	Clinton	N/A	Medical Dispensary

Legislative History

The rules and regulations governing the oversight of medical marijuana cultivation facilities and dispensaries in Arkansas were adopted and promulgated by the Arkansas Alcoholic Beverage Control Board pursuant to Amendment No. 98 of the Constitution of the State of Arkansas of 1874, The Medical Marijuana Amendment of 2016. The rules and regulations governing medical marijuana registration, testing, and labeling in Arkansas were adopted and promulgated by the Arkansas State Board of Health pursuant to the Department expressly conferred by the laws of the State of Arkansas including, without limitation, Amendment No. 98 of the Constitution of the State of Arkansas of 1874, The Medical Marijuana Amendment of 2016.

These rules govern the following: the requirements for record keeping, security, and personnel at cultivation facilities and dispensaries; the requirements for the manufacturing, processing, packaging, dispensing, disposing, advertising, and marketing of medical marijuana by cultivation facilities and dispensaries; the procedures for inspecting and

investigating cultivation facilities and dispensaries; and the procedures for sanctioning, suspending, and terminating cultivation facility and dispensary licenses for violations of the amendment or these rules.

Licenses

Arkansas state licenses expire one year after the date of issuance. The Arkansas Medical Marijuana Commission is required under the legislation to issue a renewal dispensary or a renewal cultivation facility license within ten days to any entity that complies with the requirements contained in the Medical Marijuana Amendment of 2016, including the payment of a renewal fee. While renewals are annual, there is no ultimate expiry after which no renewals are permitted. Additionally, in respect of the renewal process, provided that the requisite renewal fees are paid, the renewal application is submitted in a timely manner, and there are no material violations noted against the applicable licenses, the license holder would expect to receive the applicable renewed license in the ordinary course of business. While the license holder's compliance controls have been developed to mitigate the risk of any material violations of a license arising, there is no assurance that the license holder's licenses will be renewed in the future in a timely manner. Any unexpected delays or costs associated with the licensing renewal process could impede the ongoing or planned operations of the license holder and have a material adverse effect on the license holder's business, financial condition, results of operations or prospects.

Record keeping/Reporting

All medical marijuana cultivation facilities and dispensaries are required to utilize the Inventory Tracking System implemented by the State of Arkansas to track medical marijuana from seed to distribution to qualified patients and designated caregivers.

Washington

Each of Brightleaf and Ag Grow is a landlord, packaging and equipment supplier, and consultant to multiple Washington licensees. The Resulting Issuer will not have a direct ownership interest in any Washington licensees.

Legislative History

Washington has authorized the cultivation, possession, processing, wholesaling, and retail sale of marijuana by certain licensed Washington businesses. The Washington State Liquor and Cannabis Board ("**WSLCB**") regulates Washington's marijuana regulatory program. BrightLeaf is advised by legal counsel and/or other advisors in connection with Washington's marijuana regulatory program. BrightLeaf only engages in transactions with Washington marijuana businesses that hold licenses that are in good standing and in compliance with Washington's marijuana regulatory program. To the extent required by Washington's marijuana regulatory program, BrightLeaf has fully disclosed and/or registered its and/or its Subsidiaries relationships with Washington marijuana businesses. BrightLeaf and BrightLeaf's Subsidiaries, REP, FHD and Ag-Grow and the business licensees contracting with such Subsidiaries (including Northwest Cannabis Solutions and 7Point) are in substantial compliance with Washington's marijuana regulatory program.

Licenses

Every individual with an ownership or equity interest, with a right to receive a percentage of gross or net profits, or who exercises control over a licensed marijuana operator must apply for licensing with the WSLCB and be approved. Each applicant must be over 21 years of age and a Washington resident.

An applicant must provide the WSLCB with the applicant's organizational and operational documents, including the entity's operating agreement and a detailed operating plan, in order to verify that the proposed business meets the minimum requirements for licensing.

An applicant must provide the WSLCB the applicant's financial statements to verify the source of funds for the business, including any acquisition agreements and any agreements for the development of an operating marijuana business, as well as financial documents verifying the source of funds for all purchases of and material changes to the business. An applicant must disclose any financiers which are providing funds to be used by the marijuana business, and

such financiers, except banks and other financial institutions, are subject to a substantially similar application process through the WSLCB. An applicant must provide the WSLCB the applicant's and the applicant's spouse's personal and criminal history, including fingerprints for the submission of a criminal records background check with the Washington State Patrol and the U.S. Federal Bureau of Investigation. Conviction for certain serious crimes, or over a certain amount of convictions for more minor crimes, may disqualify an applicant from holding a marijuana license.

Any change in the initial ownership of a cannabis entity must receive prior approval through the WSLCB, and undergoes a review of the same rigor and breadth as an initial application.

Operations

An applicant must provide an operational plan that includes a detailed description of all applicable areas of: security; traceability; employee qualifications and training; transportation of product including packaging for transportation; destruction of waste product; description of growing operation including growing media, size of grow space allocated for plant production, space allocated for any other business activity, description of all equipment used in the production process, and a list of soil amendments, fertilizers, other crop production aids, or pesticides, utilized in the production process; description of the types of products to be processed with a complete description of all equipment including all marijuana-infused edible processing facility equipment and solvents, gases, chemicals and other compounds used to create extracts and for processing of marijuana-infused products; testing procedures and protocols; employee compensation and benefits data; description of packaging and labeling of products; and the array of products are to be sold and how are the products to be displayed to consumers.

Any significant change in the operational plan (e.g. adding volatiles, processing capabilities, expanding the floorplan of the marijuana business, etc.) of a licensed cannabis entity must receive prior approval through the WSLCB, and undergoes a review of the same rigor and breadth as an initial application.

Inspections

The WSLCB sends an enforcement officer to inspect each proposed marijuana facility prior to granting approval to be authorized to begin cultivation, processing, or dispensing. Licensed operators must permit Washington State Liquor and Cannabis Board enforcement officers to inspect the premises, vehicles, records, and marijuana products at any time, and random inspections are conducted frequently by enforcement officers.

Security

The WSLCB requires all licensed operators, employees, and non-employee visitors other than retail customers to display an identification badge at all times on the premises. Each licensed operator must keep a log of all visitors other than retail customers to the premises.

All premises must have a security alarm system on all perimeter entry points and perimeter windows. All premises must have a complete video surveillance system with minimum required camera resolution and a surveillance system storage device or internet protocol storage compatibility that: (a) records continuously for 24 hour per day, (b) has cameras in fixed places that allow for the clear identification of persons and activities in the controlled areas of the premises, including grow rooms, processing rooms, storage rooms, disposal rooms/areas and point of sale rooms, (c) has the capability of recording clear images and displays the time and date of the recording, and (d) demonstrates a plan for retention of recordings for at least 45 days; and (e) provides outdoor lighting for outdoor cultivation.

Record-keeping/Reporting

Washington requires use of a seed-to-sale tracking system. Licensed operators must use an inventory control system that identifies and tracks the plant from the time it reaches a height of six inches through harvest, processing, packaging, wholesale, and retail sale. Licensed operators must also manifest and quarantine all marijuana to be delivered to another licensed operator or destroyed as waste for a period of at least 24 hours in order to allow for inspection by Washington State Liquor and Cannabis Board enforcement officers. Vehicles transporting marijuana must have: (i) a vehicle security system, including separate, secure, locking compartment to store any marijuana product; and (ii) a transportation manifest reported through the seed-to-sale tracking system, including: (a) the departure time, (b)

name, location, address and license number of the originating licensed operator, (c) quantity and form of product to be delivered, (d) estimated time of arrival, and (e) name of the employee and identification of the vehicle delivering the product. Licensed operators must retain traceability records for three years and make records available upon request for inspection by the Washington State Liquor and Cannabis Board or other law enforcement.

On February 1, 2018, the WSLCB launched the Leaf Data Systems state reporting program. All licensed operators are now required to provide all traceability records to the WSLCB directly through the Leaf Data System or via an Application Programming Interface (API) through a third-party software integrator.

Pricing and Prohibited Practices

Marijuana products must be sold at a price indicative of true value. Licensed retailers may not sell marijuana products below the wholesale acquisition price of the product. Licensed marijuana producers and processors are prohibited from offering conditional sales, discounts, loans, rebates, free products, or any agreement that causes undue influence over another licensed operator. However, licensed producers and processors are allowed to provide licensed retailers certain promotional items of nominal value such as hats, mugs, etc.

Testing

The WSLCB requires quality assurance testing for of each lot of final marijuana product be conducted by an independent, state certified, third-party testing laboratory with a statistically significant number of samples using acceptable methodologies to ensure that all lots manufactured of each marijuana product are adequately assessed for contaminants and the cannabinoid profile is correctly labeled for consumers. The quality assurance tests required for marijuana flowers and infused products currently include moisture content, potency analysis, foreign matter inspection, microbiological screening, and residual solvent levels.

The results of the inspection and testing are submitted to the Washington State Liquor and Cannabis Board through the traceability system. In conjunction with the Washington State Department of Agriculture, the Washington State Liquor and Cannabis Board conducts random screening for pesticide residues. A lot of cannabis product may not move forward in processing, delivery, or sale without a passing test for that lot reported by the independent lab itself into the traceability system. All test results are required to be provided to retailers and/or end consumers upon request.

Packaging and Labelling

Each package containing marijuana or a marijuana product must have affixed a label including required warnings for all marijuana products and for the specific product type. The label must also include identifying information for the producer and retailer of the marijuana product. Each edible marijuana- infused product must be packaged in child-safe packaging and contain under 10 mg of active THC per serving. Licensed marijuana retailers must make testing results available to the customer upon request.

Advertising

The WSLCB restricts advertising by licensee marijuana operators. Advertising in any form is prohibited within 1,000 feet of school grounds, playgrounds, recreation centers or facilities, child care centers, public parks, libraries, or game arcades with unrestricted admission. Advertising is also prohibited on public transit vehicles or transit shelters, and on any publicly owned or operated property. Advertising visible from a public roadway may only contain the name, location, and nature of the business. No advertising may target youth or use objects likely to be appealing to youth. All advertising, including digital advertising, must include required warnings prescribed by regulation.

California

Cannex was actively seeking to purchase and/or acquire cannabis licenses in states such as California, which efforts will be continued by the Resulting Issuer. In connection with the foregoing, Cannex executed a binding letter agreement with Pure Ratios Holdings, Inc., pursuant to which the Resulting Issuer may acquire 100% of Pure Ratios Holdings, Inc. in exchange for a total maximum consideration of \$8,000,000. (See section 3.1 entitled “*General Development of the Business - Cannex - Pipeline Transactions*”).

Legislative History

In 1996, California voters passed Proposition 215, the Compassionate Use Act allowing physicians to legally recommend medical cannabis for patients who would benefit from cannabis. The Compassionate Use Act legalized the use, possession and cultivation of medical cannabis for a set of qualifying conditions including AIDS, anorexia, arthritis, cachexia, cancer and chronic pain. The law established a not-for-profit patient/caregiver system but there was no state licensing authority to oversee the businesses that emerged as a result.

In September 2015, the California legislature passed three bills, collectively known as the “Medical Marijuana Regulation and Safety Act”. The Medical Marijuana Regulation and Safety Act established a licensing and regulatory framework for the medical cannabis businesses in California. Multiple agencies oversee different aspects of the program and require businesses obtain a state license and local approval to operate.

In November 2016, voters in California passed Proposition 64, the Adult Use of Marijuana Act (“**AUMA**”) creating an adult-use cannabis program for individuals 21 years of age or older. AUMA contained conflicting provisions with the Medical Marijuana Regulation and Safety Act. Consequently, in June 2017, the California State Legislature passed Senate Bill No. 94, known as the Medicinal and Adult-Use Cannabis Regulation and Safety Act (“**MAUCRSA**”), which combined the Medical Marijuana Regulation and Safety Act and AUMA to provide a set of regulations to govern medical and adult-use licensing regime for cannabis businesses. The three agencies that regulate cannabis at the state level are: (a) the California Department of Food and Agriculture, via CalCannabis, which issues licenses to cannabis cultivators, (b) the California Department of Public Health, via the Manufactured Cannabis Safety Branch, which issues licenses to cannabis manufacturers and (c) the California Department of Consumer Affairs, via the Bureau of Cannabis Control, which issues licenses to cannabis distributors, testing laboratories, retailers, and micro-businesses. These agencies also oversee the various aspects of implementing and maintaining California’s cannabis landscape, including the statewide track and trace system. All three agencies released their emergency rulemakings at the end of 2017 and have started issuing temporary licenses.

To legally operate a medical or adult-use cannabis business in California, the operator must have both local approval and a state license. This requires license holders to operate in cities with cannabis licensing and approval programs. Municipalities in California are authorized to determine the number of licenses they will issue to cannabis operators, or can choose to outright ban the cultivation, manufacturing or the retail sale of cannabis. MAUCRSA went into effect on January 1, 2018.

On January 16, 2019, the California Department of Consumer Affairs, the California Department of Public Health and the California Department of Food and Agriculture approved the state regulations for cannabis businesses across the supply chain. These new regulations became effective immediately and superseded the emergency cannabis regulations that California had previously enacted.

Licenses (Pipeline)

Although vertical integration across multiple license types is allowed under the state regulations, it is not required.

The California dispensary, grower and processing state and local licenses are renewed annually from the date of issuance. Cannabis business owners who hold an annual commercial cannabis license can use the Cannabis T&T system, METRC to ensure they remain in compliance with the California licensing requirements. The license holders are required to submit a renewal application per the guidelines under Text of Emergency Rules section 8203. An application for renewal of a cultivation license shall be submitted to the state at least thirty (30) calendar days prior to the expiration date of the current license. A license holder that does not submit a completed license renewal application to the state within thirty (30) calendar days after the expiration of the current license forfeits their eligibility to apply for a license renewal and, instead, would be required to submit a new license application. The license holders must ensure that no cannabis may be sold, delivered, transported or distributed by a producer from or to a location outside of this state.

Record-keeping/Reporting

California has selected METRC as T&T system used to track commercial cannabis activity. As of November 9, 2018, the implementation of METRC state-wide is still in progress and not yet released.

Licensees are required to maintain records for at least seven years from the date a record is created. These records include: (a) a cultivation plan, (b) all supporting documentation for data or information input into the T&T system, (c) all unique identifiers (“**UID**”) assigned to product in inventory and all unassigned UIDs, (d) financial records related to the licensed commercial cannabis activity, including bank statements, tax records, sales invoices and receipts, and records of transport and transfer to other licensed facilities, (e) records related to employee training for the T&T system, and (f) permits, licenses, and other local authorizations to conduct the licensee’s commercial cannabis activity.

Inventory/Storage

Each licensee is required to assign an account manager to oversee the T&T system. The account manager is fully trained on the system and is accountable to record all commercial cannabis activities accurately and completely. The licensee is expected to correct any data that is entered into the T&T system in error within three (3) business days of discovery of the error.

The licensee is required to report information in the T&T system for each transfer of cannabis or non-manufactured cannabis products to, or cannabis or non-manufactured cannabis products received from, other licensed operators. Licensees must use the T&T system for all inventory tracking activities at a licensed premise, including, but not limited to, reconciling all on premise and in-transit cannabis or non-manufactured cannabis product inventories at least once every 14 business days. The licensee must store cannabis and cannabis products in a secure place with locked doors.

Security

A licensee is required to maintain an alarm system capable of detecting and signaling the presence of a threat requiring urgent attention and to which law enforcement are expected to respond. A licensee must also ensure a professionally qualified alarm company operator or one of its registered alarm agents installs, maintains, monitors, and responds to the alarm system.

The manufacturing and cultivation of cannabis must use a digital video surveillance system which runs 24 hours a day, seven days a week and effectively and clearly records images of the area under surveillance. Each camera must be placed in a location that clearly records activity occurring within 20 feet of all points of entry and exit on the licensed premises. The areas that will be recorded on the video surveillance system should include the following: (a) areas where cannabis goods are weighed, packed, stored, loaded, and unloaded for transportation, prepared, or moved within the premises, (b) limited-access areas, (c) security rooms and, (d) areas storing a surveillance-system storage device with at least one camera recording the access points to the secured surveillance recording area. Surveillance recordings must be kept for a minimum of 90 days.

Transportation

Transporting cannabis goods between licensees and a licensed facility may only be performed by persons holding a distributor license. The vehicle or trailer used must not contain any markings or features on the exterior which may indicate or identify the contents or purpose. All cannabis products must be locked in a box, container, or cage that is secured to the inside of the vehicle or trailer. When left unattended, vehicles must be locked and secured. At a minimum, the vehicle must be equipped with an alarm system, motion detectors, pressure switches, duress, panic, and hold-up alarms.

New Jersey

The Resulting Issuer does not have a direct ownership interest in any New Jersey licensees as of the date of the Listing Statement. The Resulting Issuer intends to pursue new licenses and acquisition opportunities as they become available in New Jersey.

Legislative history

On January 18, 2010, the governor of New Jersey signed into law S.119, the Compassionate Use Medical Marijuana Act (the “**NJ Act**”), permitting the use of medical cannabis for persons with debilitating conditions including cancer, HIV/AIDS, ALS, Crohn’s disease and any terminal illness. The law permits the New Jersey Department of Health (“**NJDH**”) to create rules to add other illnesses to the permitted conditions. In accordance with the provisions of the NJ Act, an Alternative Treatment Center (“**ATC**”) is authorized to grow and provide registered qualifying patients with medicinal marijuana and related paraphernalia. The New Jersey law does not permit patients to grow their own cannabis but rather mandates that cannabis must be acquired through ATCs licensed by the State.

Caregivers for patients are permitted to collect cannabis on behalf of the patient. Under the NJ Act, six ATCs received licenses from the State. The ATCs are nonprofit entities and have the exclusive right to produce and sell medical cannabis in New Jersey.

On March 27, 2018 through executive order No. 6 (2018), Governor Phil Murphy expanded the medical cannabis program, announcing the 20-plus recommendations presented by the NJDH on March 23, 2018. The NJDH’s recommendations and next steps included certain measures that took effect immediately (e.g. the addition of debilitating conditions and the reduction of registration fees) and other recommendations (e.g. the home delivery model) that require further regulatory or statutory enactment.

Licenses

The NJDH is responsible for administering the NJ Act to ensure qualifying patients’ access to safe cannabis for medical use in New Jersey. The NJDH is responsible for issuing permits to entities who will operate an ATC. New Jersey is a vertical state where the dispensary needs to be in the same location as the growing and processing facilities. One of the recommendations in executive order No. 6 is to allow existing license holders to have up to two additional dispensaries not attached to the growing facility. The NJDH has issued six licenses and are now accepting applications for up to six additional permits.

ATC permits expire annually on December 31. A permit renewal application must be submitted at least 60 days prior to the expiration date. An ATC that seeks to renew its permit shall submit to the permitting authority an application for renewal with all required documentation and the required fees. An ATC shall update and ensure the correctness of all information submitted in previous applications for a permit or otherwise on file with the NJDH. Prior to the issuance of any permit, every principal officer, owner, director and board member of an ATC must certify stating that he or she submits to the jurisdiction of the courts of the State of New Jersey and agrees to comply with all the requirements of the laws of New Jersey pertaining to New Jersey’s Medicinal Marijuana Program. Failure to provide correct and current up-to-date information is grounds for denial of the application for renewal of the permit.

As of March 2018, approximately 42,500 patients were registered and have medical licenses allowing them to purchase cannabis products from an ATC.

Record-keeping/Reporting

New Jersey does not have a unified T&T solution. All information is forwarded to the MMMP through email. The ATC collects and submits to the NJDH for each calendar year statistical data on (a) the number of registered qualified patients and registered primary caregivers, (b) the debilitating medical conditions of the qualified patients, (c) patient demographic data, (d) summary of the patient surveys and evaluation of services and (e) other information as the NJDH may require. The ATC must retain records for at least two years.

Inventory/Storage

The ATC will establish inventory controls and procedures for the conduct of inventory reviews and comprehensive inventories of cultivating, stored, usable and unusable cannabis. The ATC will conduct a monthly inventory of cultivating, stored, usable and unusable cannabis. Though a unified T&T system is not currently in place, an ATC is required to have a T&T for tracking inventory and dispensing cannabis products to patients. CCF uses MJ Freeway as its T&T system. An ATC is authorized to possess two ounces of usable cannabis per registered qualifying patient

plus an additional supply, not to exceed the amount needed to enable the alternative treatment center to meet the demand of newly registered qualifying patients.

Per regulatory requirements an ATC, at a minimum, must (a) establish inventory controls and procedures for the conduct of inventory reviews and comprehensive inventories of cultivating, stored, usable and unusable cannabis, (b) conduct a monthly inventory of cultivating, stored, usable and unusable cannabis, (c) perform a comprehensive inventory inspection at least once every year from the date of the previous comprehensive inventory, and (d) promptly transcribe inventories taken by use of an oral recording device. If cannabis is disposed of, the ATC must maintain a written record of the date, the quantity disposed of, the manner of disposal and the persons present during the disposal, with their signatures. ATCs must keep disposal records for at least two years. Results of the inventory inspection should document the date of the inventory review, a summary of the inventory findings and the name, signature and title of the individuals who conducted the inventory inspection.

An ATC shall limit access to medicinal cannabis storage areas to the absolute minimum number of specifically authorized employees. In the event non-employee maintenance personnel, business guests or visitors to be present in or pass through medicinal cannabis storage areas, the ATC must have a dedicated person who is specifically authorized by policy or job description to supervise the activity. The ATC must ensure that the storage of usable cannabis prepared for dispensing to patients is in a locked area with adequate security.

Security

An ATC is required to implement effective controls and procedures to guard against theft and diversion of cannabis including systems to protect against electronic records tampering. At a minimum, every ATC must (a) install, maintain in good working order and operate a safety and security alarm system that provides suitable protection 24 hours a day, seven days a week against theft and diversion, (b) immediately notifies the state or local police agencies of an unauthorized breach of security. An ATC must conduct maintenance inspections and tests of the security alarm system at intervals not to exceed 30 days from the previous inspection.

A video surveillance system must be installed and operated to clearly monitor all critical control activities of the ATC and must operate in good working order at all times. The ATC must provide two monitors for remote viewing via telephone lines to the NJDH offices. This security system must be approved by State of New Jersey's Medicinal Marijuana Program prior to permit issuance. The original tapes or digital pictures produced by the system must be stored in a safe place for a minimum of 30 days.

Ohio

The Resulting Issuer does not have a direct ownership interest in any Ohio licensees as of the date of the Listing Statement. The Resulting Issuer intends to pursue new licenses and acquisition opportunities as they become available in Ohio.

Legislative History

Effective September 8, 2016, House Bill 523 legalized the use of medical cannabis for 26 debilitating conditions as prescribed by a licensed physician. On implementation, the Ohio Medical Marijuana Control Program (“**OMMCP**”) will allow people with certain medical conditions including Alzheimer's disease, HIV/AIDS, ALS, cancer, and traumatic brain injury to legally purchase medical cannabis. Though Ohio was required to implement a fully operational OMMCP by September 8, 2018 with a controlled system for cultivation, laboratory-testing, physician/patient registration and dispensing, the timeline was delayed until November 2018. Regulatory oversight is shared between three offices; (a) the Ohio Department of Commerce with respect to overseeing cultivators, processors and testing laboratories; (b) the Ohio Board of Pharmacy with respect to overseeing retail dispensaries and the registration of patients and caregivers, and (c) the State Medical Board of Ohio with respect to certifying physicians to recommend medical cannabis. The OMMCP will permit limited product types including oils, tinctures, plant materials and edibles. Adult-use and the smoking of cannabis flower are prohibited.

Licenses

Prior to September 8, 2018, the Ohio Board of Pharmacy was permitted to issue up to 60 dispensary provisional licenses. After September 8, 2018, additional provisional licenses are permitted to be issued if the population, the number of patients seeking to use medical cannabis products and the availability of all forms of cannabis products support additional licenses. To be considered for approval of a provisional dispensary or a processing license, the applicant must complete all mandated requirements. To obtain a certificate of operation for a medical cannabis dispensary or processing facility, the prospective licensee must be capable of operating in accordance with Chapter 3796 of the Revised Code, the Medical Marijuana Control Program. Certificates of operation carry two year terms.

A certificate of operation will expire on the date identified on the certificate. A licensee will receive written or electronic notice 90 days before the expiration of its certificate of operation. The licensee must submit the renewal information at least 45 days prior to the date the existing certificate expires. The information required for the license renewal includes, but is not limited to, the following: (a) a roster that includes the dispensary's employees' names, (b) the history of compliance with regulations, and (c) the number and severity of any violations. If a licensee's renewal application is not filed prior to the expiration date of the certificate of operation, the certificate of operation will be suspended for a maximum of 30 days. After 30 days, if the dispensary has not successfully renewed the certificate of operation, including the payment of all applicable fees, the certificate of operations will be deemed expired. The original implementation deadline of September 8, 2018 was missed by Ohio, as noted above. The Resulting Issuer expects patients will begin to be able to purchase medicinal cannabis beginning in November 2018.

Record-keeping/Reporting

A holder of a processing license must maintain the following records: (a) samples sent for testing, (b) disposal of products, (c) tracking of inventory, (d) form and types of medical cannabis maintained at the processing facility on a daily basis, (e) production records, including extraction, refining, manufacturing, packaging and labeling, (f) financial records, and (g) purchase invoices, bills of lading, manifests, sales records, copies of bills of sale, and any supporting documents, including the items and/or services purchased, from whom the items were purchased, and the date of purchase.

A holder of a dispensary license must maintain the following records: (a) confidential storage and retrieval of patient information or other medical cannabis records, (b) records of all medical cannabis received, dispensed, sold, destroyed, or used, (c) dispensary operating procedures, (d) a third-party vendor list, (e) monetary transactions, and (f) journals and ledgers. All records relating to the purchase or return, dispensing, distribution, destruction, and sale of medical cannabis must be maintained under appropriate supervision and control to restrict unauthorized access on the licensed premises for a five-year period.

Inventory/Storage

Ohio has selected METRC as the T&T system. Individual licensees, whether directly or through third-party APIs, are required to push data to the state to meet all reporting requirements. A holder of a processing license must track and submit through the inventory tracking system any information the Ohio Department of Commerce determines necessary for maintaining and tracking medical cannabis extracts and products.

A holder of a processing license must conduct weekly inventory of medical cannabis which includes (a) the date of the inventory, (b) net weight of plant material and the net weight and volume of medical cannabis extract, (c) net weight and unit count of medical cannabis products prepared or packaged for sale to a dispensary, and (d) a summary of the inventory findings. On an annual basis and as a condition for renewal of a processing license, a holder of a processing license shall conduct a physical, manual inventory of plant material, medical cannabis extract, and medical cannabis products on hand at the processor and compare the findings to an annual inventory report generated using the inventory tracking system. A holder of a processing license must store plant material, medical cannabis extract, and medical cannabis product inventory on the premises in a designated, enclosed, locked area and accessible only by authorized individuals.

A holder of a dispensary license must use the METRC T&T system to push data to the Ohio Board of Pharmacy on a real-time basis. The following data must be transmitted: (a) each transaction and each day's beginning inventory,

acquisitions, sales, disposal and ending inventory, (b) acquisitions of medical cannabis from a licensed processor or cultivator holding a plant-only processor designation, (c) name and license number of the licensed dispensary employee receiving the medical cannabis and, (d) other information deemed appropriate by the Ohio State Board of Pharmacy. A dispensary's designated representative shall conduct the inventory at least once a week. Records of each day's beginning inventory, acquisitions, sales, disposal and ending inventory shall be kept for a period of three years.

The dispensary licensee must restrict access areas and keep stock of medical cannabis in secured area enclosed by a physical barrier with suitable locks and an alarm system capable of detecting entry at a time when licensed dispensary employees are not present. Medical cannabis must be stored at appropriate temperatures and under appropriate conditions to help ensure that its identity, strength, quality and purity are not adversely affected.

Security

All licensees must have a security system that remains operational at all times and that uses commercial grade equipment to prevent and detect diversion, theft or loss of medical cannabis, including (a) a perimeter alarm, (b) motion detectors, and (c) duress and panic alarms. A dispensary must also employ a holdup alarm, which means a silent alarm signal generated by the manual activation of a device intended to signal a robbery in progress. Video cameras at a dispensary must be positioned at each point of egress and each point of sale. The cameras must capture the sale, the individuals and the computer monitors used for the sale. Video surveillance recording must operate 24 hours a day, seven days a week. Recording from all video cameras during hours of operation must be made available for immediate viewing by the Ohio State Board of Pharmacy upon request and must be retained for at least six months.

Video cameras at a processing facility must be directed at all approved safes, approved vaults, cannabis sales areas, and any other area where plant material, medical cannabis extract, or medical cannabis products are being processed, stored or handled. Video surveillance must take place 24 hours a day, seven days a week. Recordings from all video cameras during hours of operation must be readily available for immediate viewing by the Ohio regulatory bodies upon request and must be retained for at least six months.

Rhode Island

4Front has applied for a cultivation/production license in Rhode Island, which will be continued by the Resulting Issuer or its Subsidiary upon completion of the Business Combination. The Resulting Issuer does not have a direct ownership interest in any Rhode Island licensees as of the date of the Listing Statement. The Resulting Issuer intends to pursue new licenses and acquisition opportunities as they become available in Rhode Island.

Legislative History

In 2006, Rhode Island legalized medical cannabis and enacted the Edward O. Hawkins and Thomas C. Slater Medical Marijuana Act. Rhode Island had approved six qualifying debilitating Medical Conditions including but are not limited to cancer, glaucoma, HIV/AIDS, hepatitis C and epilepsy/agitation. In 2009, lawmakers in Rhode Island approved an amendment to the medical cannabis law allowing state-licensed medical cannabis dispensaries (compassion centers) to dispense medical cannabis. In June 2016, the Rhode Island legislature approved an article that creates significant reforms to the state's medical cannabis program. The reforms included but were not limited to: (a) qualifying medical cannabis patients will no longer be required to designate compassion centers in order to enter and purchase products from those facilities, (b) the Department of Business Regulation will begin implementing additional regulations on compassion centers, such as stricter standards for product testing and requiring a government-accessible inventory tracking system, and (c) effective January 1, 2019, medical cannabis patients will be required to choose whether they wish to grow their own medicinal cannabis or appoint a natural person caregiver. They will no longer be able to cultivate their own medical cannabis and have a caregiver grow for them at the same time. Also in 2016, lawmakers approved legislation adding PTSD to the list of qualifying conditions for medical cannabis. As of March 31, 2018, there were 18,728 active patients certified to obtain cannabis through the states Rhode Island Medical Marijuana Program ("RIMMP").

Licenses

The Rhode Island Department of Health's ("RIDOH") Medical Marijuana Program administers the provisions of the state's Medical Marijuana Act and related regulations. The Rhode Island Department of Business Regulation ("DBR") is responsible for licensing and regulatory oversight of cultivators and the state's medical cannabis plant tracking system. The DBR also licenses and oversees compassion centers. To date, Rhode Island has awarded licenses for three compassion care centers and 36 cultivators. A compassion center license allows the licensee to grow, manufacture and dispense cannabis and cannabis infused products.

The Medical Marijuana Program allows a qualifying patient, authorized purchaser or caregiver who is registered with the Rhode Island Department of Health to purchase medical cannabis from a registered compassion center. Licensed cultivators may sell medical cannabis and medical cannabis products to registered compassion centers in accordance with state law.

In addition to providing a comprehensive business plan outlining scope of activities, budget, resource narratives, and timeline for initiating operations, an applicant must evidence compliance with the local zoning laws, provide a comprehensive diagram of the proposed facilities, including where within the facility the medical cannabis will be cultivated, stored, processed, packaged, manufactured and dispensed, and where security alarms and cameras and surveillance recording storage will be located. Principals of the management team must clear criminal background checks and are evaluated for their experience in managing a cannabis operation. Prior to granting the final license, the state will perform an inspection of the facility to ensure regulatory requirements are met.

Once the applicant has been authorized by the state, the applicant must take reasonable and documented efforts to launch compassion center activities with active medical cannabis cultivation, processing, packaging, manufacturing, authorized sales and/or other medical cannabis activities within a year. Compassion center registrations are issued for one-year terms. Registration renewal is based on whether the compassion center is adequately providing patients with access to medical cannabis at reasonable rates. To avoid potential conflicts, 'key persons' of the compassion center may not have any material financial interest or control in another compassion center, a cultivator, or a licensed cooperative cultivation or vice versa.

Security

Each compassion center must have a fully operational security alarm system at each authorized physical address that will provide suitable protection against theft and diversion, including alarms at all outside perimeter entry points and outside perimeter windows. A fully operational security alarm system should at a minimum include a combination of hard-wired systems and systems interconnected with a radio frequency method such as cellular or private radio signals that emit or transmit a remote or local audible, visual, or electronic signal; motion detectors, pressure switches, duress alarms, panic alarms and hold-up alarms (a silent system signal to indicate that a robbery is in progress). A fully operational security alarm system shall at a minimum provide for immediate automatic or electronic notification to alert municipal and/or state law enforcement agencies to an unauthorized breach or attempted unauthorized breach of security at the compassion center or any other authorized physical address and to any loss-of-electrical support backup system to the security alarm system. Each compassion center must test the security alarm system for each authorized location at intervals not to exceed thirty calendar days from the previous test.

Each compassion center must have a fully operational video surveillance and camera recording system which includes but is not limited to the following; all video surveillance systems must be equipped with a failure notification system that provides prompt notification of any surveillance interruption and/or the complete failure of the surveillance system, remote access to a continuous live feed video on a real time basis available at all times to the authorized compassion center personnel and the DBR upon request, and camera coverage set in all areas where cannabis and cannabis products are grown, cultivated, stored, weighed, packaged, processed, manufactured or sold, including all areas of ingress and egress thereto, point-of-sale areas, and security rooms.

Camera views of required coverage areas shall be continuously recorded 24 hours a day, seven days per week. All surveillance recordings must be kept for a minimum of 60 days. Surveillance recording equipment and all video surveillance records and recordings must be housed in a designated, locked and secured room or other enclosure with access limited to compassion center personnel specifically authorized by management.

Inventory Control

An authorized compassion center is required to utilize the state approved Medical Marijuana Program Tracking System, Agrisoft, to document and monitor compliance with seed to sales inventory tracking. This includes point of sales, dispensing limits, patient information privacy protections, inventory supply, restrictions on third party supply and sources of cannabis and cannabis products and transfers off the premises. A compassion center must limit its Inventory of seedlings, plants, and usable cannabis to reflect the projected needs of qualifying patients.

A compassion center should be equipped to conduct an initial comprehensive inventory of all medical cannabis, including usable cannabis, cannabis plants and seedlings, unusable cannabis, and wet cannabis, and perform subsequent comprehensive inventories at intervals at least every 24 months. On a monthly basis, a compassion center must be able to assess its inventory in these same categories.

All cannabis product must be tagged and assigned a unique identifier through each stage of cultivation from seed propagation to packaging via the Medical Marijuana Program Tracking System and marked with a registration number, barcodes and/or alphanumeric code, and registered premises location. Once assigned a unique identifier tag within the Medical Marijuana Program Tracking System, tags may not be altered or duplicated. An identifier tag is to be assigned only when affixed to cannabis plants, wet cannabis, or usable cannabis which is ready to be sold or transferred.

Record-keeping

The DBR requires compassion centers retain hard-copy and electronic records to document all cultivation and dispensing activities of the center. Records to be maintained for a period of at least 5 years include real-time logs of all acquisitions, dispensing, and sales of cannabis in the Medical Marijuana Program Tracking System, applicable limits applied to all dispensing and sales transactions, training procedures and training attendee logs, specifically, on use of the Medical

Marijuana Program Tracking System and any other tracking system used by the compassion center. Records pertaining to transaction activity occurring within the previous six months must be stored on the center premises. Records dating beyond six months may be stored off the premises with the state's approval.

Other records to be retained include personnel records, purchase orders with licensed cultivators, including any canceled or voided contracts or purchased orders, invoices and supporting documentation of all cannabis purchases, acquisitions, transfers, payments and third-party vendor contracts. Activity pertaining to security including the security alarm and video surveillance systems, testing, upgrades site inspections and visitor logs must be stored digitally on the premises for at least 24 months after the event.

Compassion centers must keep detailed records of any pesticide products used and application regiments, including video recording during pesticide applications which must cease if there is a failure or disruption of the video surveillance system. The record-keeping requirement is independent of that required of commercial pesticide applicators by the state's Department of Environmental Management.

Nevada

The Resulting Issuer does not have a direct ownership interest in any Nevada licensees as of the date of the Listing Statement. The Resulting Issuer intends to pursue new licenses and acquisition opportunities as they become available in Nevada.

Legislative History

In 1998, the Nevada Medical Marijuana Act (Question 9) was passed by ballot initiative. However, the initiative required approval in consecutive elections because it was an amendment to the state constitution. The legislation passed for a second time in 2000, with 65% of the vote. The Nevada Medical Marijuana act provided that patients may possess a maximum of 2.5 ounces of usable cannabis as well as an amount of edible or infused products which are the "equivalent" of 2 ½ ounces of usable marijuana and grow a maximum of 12 usable cannabis plants. Cannabis was being tested and used to treat conditions such as Post Traumatic Stress Disorder, Cancer, Auto Immune Diseases,

Parkinson's and Multiple Sclerosis. The Nevada Medical Marijuana act failed to address how one would legally obtain medical cannabis. In 2013, the Nevada legislature passed SB374, providing for state licensing of medical marijuana establishments. On November 8, 2016, Nevada voters passed NRS 435D by ballot initiative allowing for the sale of marijuana for adult use starting on July 1, 2017. There are currently 115 cultivators, 80 producers, and 61 dispensaries licensed for adult-use in the entire state. Approximately 75% of the state licensed marijuana operations exist within Clark County / Las Vegas city limits, representing an approximate 8,000 square mile area. The remaining 25% of licenses exist throughout the rest of the state.

In the first eight months of Nevada adult use sales, recreational retail sales have been reported at over \$260 million, averaging almost \$33 million per month and trending materially higher than forecasts submitted by the Nevada Department of Taxation (the "DOT").

All marijuana establishments must register with DOT. If applications contain all required information and after vetting by officers, establishments are issued a medical marijuana establishment registration certificate. In a local governmental jurisdiction that issues business licenses, the issuance by DOT of a medical marijuana establishment registration certificate is considered provisional until the local government has issued a business license for operation and the establishment is in compliance with all applicable local governmental ordinances. Final registration certificates are valid for a period of one year and are subject to annual renewals after required fees are paid and the business remains in good standing. Renewal requests are typically communicated through email from DOT and include a renewal form. The renewal periods serve as an update for DOT on the licensee's status toward active licensure.

Licenses

A cultivation license permits a licensee to acquire, possess, cultivate, deliver, transfer, have tested, transport, supply or sell marijuana and related supplies to medical marijuana dispensaries, facilities for the production of edible medical marijuana products and/or medical marijuana-infused products, or other medical marijuana cultivation facilities.

A product manufacturing license permits a licensee to acquire, possess, manufacture, deliver, transfer, transport, supply, or sell edible marijuana products or marijuana infused products to other medical marijuana production facilities or medical marijuana dispensaries.

Record-keeping

The state of Nevada uses METRC as the state's computerized T&T system for seed-to-sale. Individual licensees whether directly or through third-party integration systems are required to push data to the state to meet all reporting requirements.

Security

The DOT requires all marijuana establishments to have security equipment to deter and prevent unauthorized entrance into limited access area. Security equipment means a system of video cameras, monitors, recorders, video printers, motion detectors, exterior lighting, electronic monitoring and other ancillary equipment used for surveillance of a marijuana establishment. The DOT has strict requirements for electronic monitoring. These include: (a) At least one call-up monitor that is 19 inches or more; (b) A video printer capable of immediately producing a clear still photo from any video camera image, which photo must be provided to the Department for review upon request; (c) Video cameras with a recording resolution of at least 1920 x 1080, or the equivalent, at a rate of at least 15 frames per second which provide coverage of all entrances and exits of the building, any room or area that holds a vault and any point-of-sale location, areas of limited access, and with respect to cultivation facilities covers the entirety of the cultivation area and the perimeter and exterior area of the marijuana cultivation facility, which record 24 hours per day, which are capable of being accessed remotely by a law enforcement agency in real time upon request and which may record motion only. A video camera providing coverage of a point-of-sale location must allow for the identification of any person purchasing marijuana; (d) A method for storing video recordings from the video cameras for at least 30 calendar days in a secure on-site or off-site location or through a service or network that provides on-demand access to the recordings and providing copies of the recordings to the Department for review upon request and at the expense of the marijuana establishment; (e) A failure notification system that provides an audible and visual notification of any failure in the electronic monitoring system; and (f)

Sufficient battery backup for video cameras and recording equipment to support at least 5 minutes of recording in the event of a power outage.

The DOT also has strict requirements regarding the record keeping of security equipment maintenance. Each marijuana establishment shall maintain a log that documents each malfunction and repair of the security equipment of the marijuana establishment, which must state the date, time and nature of each malfunction, the efforts taken to repair the malfunction and the date of each effort, the reason for any delay in repairing the malfunction, the date the malfunction is repaired and, if applicable, any alternative security measures that were taken. The log must also list, by date and time, all communications with the Department concerning each malfunction and corrective action. The marijuana establishment shall maintain the log for at least 1 year after the date of last entry in the log.

There are also requirements for the employment of security personnel at a marijuana establishment. Each marijuana establishment must employ a security manager or director who must be responsible for: (a) conducting a semiannual audit of security measures to ensure compliance with the state procedures of the marijuana establishment and identify potential security issues; (b) training employees on security measures, emergency response and robbery prevention and response before hiring and on an annual basis; and (c) evaluating the credentials of any third party who intends to provide security to the marijuana establishment before the third party is hired by or enters into a contract with the marijuana establishment. Each marijuana establishment shall ensure that the security manager or director of the marijuana establishment, at least one employee of the marijuana establishment or the employees of any third party who provides security to the marijuana establishment has completed, or will complete within a period determined by the Department to be reasonable, the following training: (a) training in theft prevention or a related subject; (b) training in emergency response or a related subject; (c) training in the appropriate use of force or a related subject that covers when the use of force is and is not necessary; (d) training in the use and administration of first aid, including cardiopulmonary resuscitation; (e) training in the protection of a crime scene or a related subject; (f) training in the control of access to protected areas of a marijuana establishment or a related subject; (g) not less than 8 hours of on-site training in providing security services; and (h) not less than 8 hours of classroom training in providing security services.

Inventory Control

As part of the application process, each marijuana establishment applicant must provide a plan for the business which includes, without limitation, a description of the inventory control system of the proposed marijuana establishment to satisfy regulatory requirements. The DOT requires that each marijuana establishment designates in writing a marijuana establishment agent who has oversight of the inventory control system of the marijuana establishment. The “Inventory control system” means a process, device or other contrivance that may be used to monitor the chain of custody of marijuana from the point of cultivation to the end consumer. The system must maintain each day’s beginning inventory, acquisitions, harvests, sales, disbursements, disposal of unusable marijuana and ending inventory.

If a marijuana establishment identifies a reduction in the amount of marijuana in the inventory of the marijuana establishment which is not due to documented causes, the marijuana establishment shall determine where the loss has occurred and take and document corrective action. If the reduction in the amount of marijuana in the inventory of the marijuana establishment is due to suspected criminal activity by a marijuana establishment agent, the marijuana establishment shall report the marijuana establishment agent to the Department and to the appropriate law enforcement agencies within 24 hours. The Department may require the marijuana establishment to provide additional information as it determines necessary to conduct an investigation.

The information recorded in the inventory control system is required to be held by the marijuana establishment for at least 5 years after the date of the document. Marijuana establishments are required to produce these records to the DOT upon request.

4. NARRATIVE DESCRIPTION OF THE BUSINESS

4.1(1) General Business of the Resulting Issuer

The Resulting Issuer will be a cannabis company with cultivation, production and retail facilities spread across the United States.

The Resulting Issuer will focus on the businesses of 4Front and the former business of Cannex.

General Business of Cannex

Cannex, through its wholly-owned Subsidiaries, (i) leases developed real estate, (ii) sells non-cannabis input materials, and (iii) provides certain cannabis-growing related consulting services to Washington state-licensed cannabis businesses. Additionally, Cannex is actively seeking to purchase and/or organically acquire cannabis licenses in other states which would allow it to become an operating cannabis business, with a focus in California.

Cannex was formed by the Cannex-Arco RTO Amalgamation under the laws of British Columbia on March 13, 2018. Prior to the completion of the Business Combination, Cannex's common shares were listed on the CSE under the symbol "CNNX" and on the OTCQB market under "CNXXF". The company was a reporting issuer in the provinces of British Columbia, Alberta and Ontario, and the head office of the company is in Vancouver, British Columbia, Canada.

On December 7, 2017 Cannex, and its Subsidiary Cannex USA, entered into a Contribution Agreement, pursuant to which it acquired 36,000,000 units of membership interests in BrightLeaf, with such closing occurring concurrently with a redemption of all other units of BrightLeaf held by the other members of BrightLeaf, resulting in 100% ownership of BrightLeaf by Cannex USA (the "**BrightLeaf Acquisition**"). This transaction closed subsequent to the Cannex-Arco RTO Amalgamation on March 14, 2018.

Cannex USA

Cannex USA was incorporated for the purpose of effecting the BrightLeaf Acquisition.

BrightLeaf

BrightLeaf's business, conducted through its Subsidiaries, is composed of two primary segments: (1) leasing of turn-key facilities for the growing and/or processing of cannabis; and (2) provision of packaging, branding, non-cannabis input materials, associated consulting services, etc. to licensed cannabis entities in Washington State.

Leasing

BrightLeaf leases two facilities in Washington State: (1) the Tumwater Facility (through BrightLeaf Subsidiary REP) (the "**Tumwater Facility**") and (2) the Elma Grow (through BrightLeaf Subsidiary, FHD) (the "**Elma Grow Facility**").

The Tumwater Facility is made up of two buildings, with total interior area of approximately 116,500 square feet. 9631 Lathrop Industrial Drive is purely devoted to indoor cannabis cultivation (the "**Tumwater Grow**"), and 9603 Lathrop Industrial Drive is devoted to processing and distribution of cannabis (i.e., weighing, packaging, extracting, creation of edibles, and otherwise creating end products which are sold to licensed cannabis retailers by Northwest Cannabis Solutions ("**Tumwater Processing**"). The Tumwater Facility is currently leased to and operated by Northwest Cannabis Solutions, a leading Washington-State licensed cannabis producer/processor.

The Elma Grow Facility is an approximately 60,000 square foot warehouse located at 37 Enterprise Lane, Elma, WA, which is leased from the Port of Grays Harbor. The lease commenced on October 1, 2016, with an initial five year term expiring on September 30, 2021. The lease has nine extension options for five years each. After entering into this lease, BrightLeaf improved the existing warehouse into the Elma Grow Facility, which is a facility devoted only to indoor cannabis cultivation, like the Tumwater Grow. Management believes that the Elma Grow Facility is superior to the Tumwater Grow, because it implements multiple design/functionality improvements which management believes will increase operator yields and improve operator costs. The Elma Grow Facility is leased to and operated by 7Point, a Washington State-licensed cannabis producer and processor.

Packaging, Branding, Consulting Services, Etc.

BrightLeaf also earns revenue through its Subsidiary Ag Grow by, among other things: (1) providing cannabis growing-related consulting to both Northwest Cannabis Solutions and 7Point; (2) selling Northwest Cannabis Solutions cannabis packaging material, which contain protected intellectual property that BrightLeaf owns; (3) providing purchase agent services which assist 7Point and Northwest Cannabis Solutions in favorably sourcing non-cannabis production inputs such as lights, ballasts, plastics, etc.; and (4) selling and/or leasing cannabis processing and other equipment to Northwest Cannabis Solutions and 7Point.

BrightLeaf also actively develops intellectual property related to cannabis, such as new formulations, recipes, and brands. Management views developing intellectual property a prudent investment for the future, given what management believes to be a growing trend towards cannabis liberalization. Management plans to deploy BrightLeaf-created intellectual property through any cannabis businesses created or acquired by Cannex in other jurisdictions, and to potentially pursue licensing opportunities.

General Business of 4Front

4Front is a retail and brand development company in the U.S. cannabis industry. It has developed a national platform that consists of a multi-state footprint, including its network of Mission-branded retail operations and associated production facilities, and a far-reaching network of relationships developed during its long history in the industry, beginning with its founding in 2011 as one of the first professional consulting firms in the sector.

4Front is led by a group of professionals who bring outside expertise from the fields of finance, real estate, manufacturing, branding and marketing, and multi-location retail and hospitality operations. It has invested heavily in assembling a team with the management skills and hands-on operating expertise to support the rapid growth opportunity being afforded by the increased state legalization of cannabis across certain states in the United States, as well as internationally.

The company's primary operating Subsidiary is Mission, a Delaware limited liability company that owns, operates and manages medical cannabis dispensaries and adult-use retail stores. Mission owns the licenses or has Management Agreements or Nominee Agreements in place to operate 15 retail dispensaries and three cultivation/production facilities in five states, of which six such dispensaries and two cultivation/production facilities are currently operational. These operations are currently located in Illinois, Maryland, Massachusetts, Pennsylvania and Arizona. Most dispensaries operate under the Mission brand name, although Mission currently operates two dispensaries in Massachusetts under the Healthy Pharms brand and a cultivation facility in Illinois called Illinois Grown Medicine. Mission expects to open an additional nine retail locations and one production facility by the end of 2019.

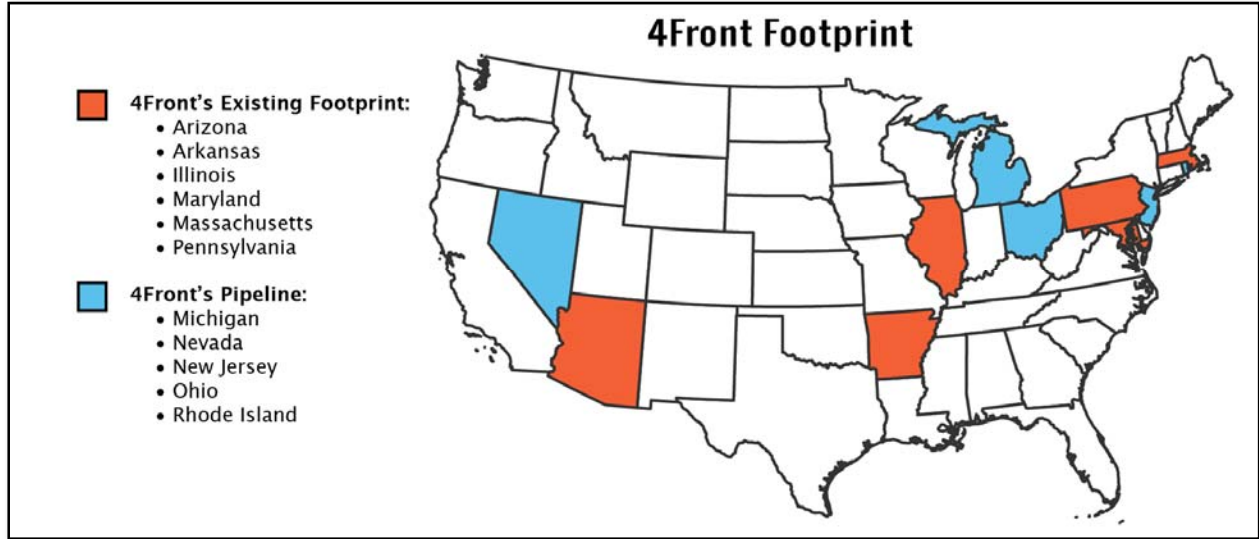
4Front continues to pursue new opportunities via applying for new state licenses and acquisitions. The company has an active M&A pipeline and is currently in negotiations with license-holders in markets such as Michigan and Nevada.

To date, 4Front has successfully closed strategic transactions that expand its operational footprint acquisitions, including:

- the acquisition of a dispensary and cultivation/production facility in Illinois;
- three licensing agreements that allow Mission to operate three dispensaries in Maryland;
- the acquisition of Healthy Pharms, a vertically integrated medical operator with a cultivation facility and two dispensaries in Massachusetts; and
- the acquisition of PHX Interactive, LLC, which manages the vertically-integrated license-holder, Greens Goddess.

4Front has invested substantial time and capital to develop a scalable retail model that includes best practices and SOPs, which are fully digitized for training and continuing education purposes. 4Front's training and continuing education program is a key part of supporting 4Front's commitment to a customer-driven retail environment and rapid growth trajectory.

This is in part due to 4Front's roots as one of the first professional consulting firms in the medical cannabis industry. The company was founded by Mr. Rosen and Mr. Krane in 2011 as Advisors, a consulting firm helping entrepreneurs navigate the complex regulatory frameworks states were developing as part of the widespread state legalization of medical cannabis. Advisors quickly earned a reputation for its professionalism and its team's ability to win licenses in competitive U.S. jurisdictions. Beginning in 2015, 4Front began to shift the focus of its licensing and advising efforts toward pursuit of ownership and control of operating licenses in state legal markets, with fewer resources being spent on acquiring new clients. It was at this time that 4Front formed Mission.



* Arkansas: 4Front is a 40% minority partner in management companies that service the Arkansas licenses.

Business Objectives

Over the course of the forthcoming 12-month period, 4Front's business objectives include (and such objectives are expected to be the business objectives of the Resulting Issuer):

Objective	Milestones	Time Period	Estimated Costs⁽¹⁾ and Assumptions⁽²⁾
Expand operations of the Mission Subsidiary in existing markets as permitted under current licenses: ⁽³⁾ Illinois, Maryland, Massachusetts, Pennsylvania and Arizona	PA: Open two additional Mission dispensaries MD: Open three additional Mission dispensaries MA: Open four additional Mission dispensaries and one additional cultivation/production facility. In addition, expand the current cultivation and production facility from ≈33,000 sq. ft. to ≈67,000 sq. ft. IL: expand the Elk Grove cultivation/production facility from its current footprint of ≈11,500 sq. ft. to ≈96,000 sq. ft. AZ: Secure real estate and begin construction for a cultivation/production facility	PA: 9-12 months MD: 3-9 months MA: 9-12 months IL: 9-12 months AZ: 6-12 months	PA: \$2,600,000 MD: \$1,100,000 MA: \$18,400,000 IL: \$9,000,000 AZ: \$2,000,000 These projections are based on historical construction and equipment costs in existing facilities.

Pursue expansion in existing markets via acquisition opportunities and the award of new licenses	Successfully be awarded licenses in Arkansas, New Jersey, Ohio and Rhode Island AZ: Identify suitable real estate for a cultivation and processing facility	3-12 months	AR: No additional costs NJ: \$250,000 - \$500,000 OH: No additional costs RI: No additional costs Acquisition costs based on non-binding letters of intent. Cost of New Jersey license based on previous application expenses.
Continue the development of proprietary brands and products, including the Mission retail brand and the Strata and r007 product brands, for distribution throughout Mission's footprint	1) Continue build out of a fully digitized team-member education and training program, as begun in 2017 2) Ongoing development of product portfolios in Massachusetts and Illinois 3) Build awareness of Mission	3-12 months	1) \$170,000 2) \$60,000 3) \$120,000 Costs based on contract for digitization, research and development expenses, design, packaging and labelling expenses and investor relations contracts
Attract top talent from within and outside the cannabis industry	1) Continue build out of a fully digitized team-member education and training program, as begun in 2017 2) Leverage strong reputation in the industry and diverse network of respected stakeholders and partners to recruit a minimum of two key executives with relevant leadership experience to 4Front 3) Continue efforts to create opportunities for developing a more diverse talent pipeline within 4Front and the industry at-large (e.g., Implicit Bias Training, Southern Illinois University certificate and internship programs)	3-12 months	1) \$170,000 2) \$75,000 - \$100,000 3) No additional costs Costs based on contract for digitization and historical cost paid to recruiters for executive hire

Notes:

- (1) All costs are approximate and based on management's best estimates.
- (2) Objectives being met depends on a number of factors, including completing additional financings. See Section 17 "Risk Factors" and "Risk Factors – Risks Specifically Market, Securities and Other Risks – Additional financing".
- (3) Over the next 12 months, the Resulting Issuer does not intend to expand operations in Arkansas.

The following is a more in-depth description of 4Front's two main wholly-owned Subsidiaries:

(1) Advisors

Mr. Krane and Mr. Rosen formed Advisors in 2011 as a management consulting business to build the capacity of professional operators in the emerging state-legal marijuana industry. Advisors quickly gained a reputation among its peers for its professionalism, experienced team, intimate knowledge of the regulatory environment, and most importantly, an ability to secure licenses in highly competitive jurisdictions. In the process, it has built one of the industry's most robust collections of standard operating procedures and staff and management training modules for primarily cannabis retail operations. These SOPs and training modules have been used extensively with former and current Advisors clients, and incrementally improved along the way.

The Advisors team has expertise in legal compliance, legislative policy development, retail/cultivation/production business operations, good manufacturing practices, facilities management, product development, project management, and retail training. The Advisors team has extensive experience interpreting local marijuana ordinances and complex permit requirements and works with partners through the entire permitting process. Navigating disparate regulatory environments is where Advisors gains its competitive advantage. Since 2011, the Advisors team has helped secure more than 50 operating licenses for both its affiliates and third parties across competitive medical marijuana jurisdictions in the United States.

However, following the decision by 4Front management in 2015 to shift focus to the Mission Subsidiary, Advisors has evolved into 4Front's internal consulting arm and holder of its intellectual property in the form of proprietary SOPs and training modules.

Business Model and Growth Strategy

Following an exhaustive evaluation of the marijuana industry in the United States in 2010 and 2011, Advisors saw an opportunity to gain low-cost access to burgeoning medical marijuana markets by deploying its operational expertise and industry knowledge in support of its clients in state-legal markets that were pursuing competitive licenses for highly regulated marijuana operations. With an unwavering commitment to professionalizing the industry, Advisors made a name for itself among operators who were looking for a partner that could provide a competitive edge based on sound operational policies and procedures, while maintaining a truly patient-centric operations philosophy.

Advisors' ongoing growth efforts have been focused on developing and augmenting its strong intellectual property catalogue, recruiting and developing its best-in-class team and industry network, and helping partners procure competitive licenses to cultivate and sell marijuana at an industry-leading scale. Its intellectual property includes an exhaustive collection of SOPs for operating professional medical cannabis dispensaries and training and continuing education programs for management and staff.

Over the past five years, Advisors has tailored its intellectual property for the Arizona, California, Illinois, Maryland, Massachusetts, Nevada, Pennsylvania, Michigan and Washington, D.C., markets domestically, and for Manitoba, Canada and Colombia internationally. Advisors successfully helped clients win licenses during the initial and provisional application processes in Massachusetts. In Nevada, Advisors' clients won 19 total licenses for cultivation, production (to make ancillary marijuana products), and dispensing. Advisors' clients won a total of seven dispensary licenses in Illinois out of only 54 granted in the state. Advisors is working with seven applicants in the ongoing second application round in Massachusetts, five of whom have already been granted provisional licenses. In Maryland, five of Advisors six clients were granted provisional dispensary licenses. In Pennsylvania, one of Advisors two clients was successful in obtaining a dispensary permit. In Colombia, Advisors helped one client secure a fabrication license and two cultivation licenses. In 2017, Advisors assisted clients in the Canadian province of Manitoba to successfully obtain a dispensing license. Advisors continues to help clients apply in both new medical marijuana markets and existing marijuana markets when new license application processes are opened.

Advisors Services and Operations

Advisors does not currently accept new outside clients but continues to service its existing outside client portfolio. Instead, it has transitioned to primarily serving as internal consultant for 4Front and its Mission Subsidiary, serving as the entity that navigates the merit-based license application processes around the country.

Advisors offers the Mission teams a robust platform to support the entire process, from license procurement through operational start up and ongoing regulatory compliance, and ultimately to a future as a growing operation engaging in best practices. Advisors has leveraged best practices found in the retail, service, and healthcare industries to help Mission deploy an industry-leading platform for facility design, staff training and education, scalable operational policies and procedures, market share maximization, and patient services. Advisors' patient services and manufacturing staff education programs are among the first in the country to receive Patient Focused Certification, a highly respected certification and standards program for medical cannabis companies offered by Americans for Safe Access.

Legacy Clients And Outstanding Payments

Prior to the creation of Mission, Advisors boasted a high rate of client retention through the application and startup phases of engagement. Its contracts were designed for Advisors to collect initial application fees and, once the operations were established and generating revenue, an ongoing fee based on total revenue. However, Advisors experienced significant challenges in collecting payment of license fees over the full term of Advisors' agreements with clients due to their competing business expense pressures and a misperception that license fees are proportionate to new Advisors service delivery, rather than reflective of value already provided.

Unpaid Advisors' fees have not been included in 4Front's consolidated financial statements. If collected, such fees will represent an opportunity for additional cash flow in the future. Advisors has won court judgements that in aggregate have been in excess of \$13,000,000, and Advisors estimates that it could pursue delinquent clients for additional damages in respect of other unpaid fees. While 4Front believes it may be successful in court judgments in respect of these fees, the probability of collecting such fees, even if successful, is low. See Section 17 "*Risk Factors – Business and Operational Risks – 4Front is currently involved in litigation, and there may be additional litigation that the Resulting Issuer will be involved in in the future*".

(2) Mission

In 2015, after spending five years building a defensible, scalable business platform through Advisors, supporting clients across several states, as well as expanded regulatory acceptance of the cannabis industry in certain U.S. states, 4Front began to move beyond consulting and instead pursue strategies and investments in areas such as cultivation, retail distribution, production, technology and ancillary services. It created Mission as a vehicle to pursue more direct interest in licenses in multiple markets and to capitalize on the team's existing expertise to aggressively expand its operating capabilities.

Mission is well positioned for business expansion in 2019 and beyond. It is deploying capital to scale up operations to enter new markets via application processes or acquisition (particularly in markets with limited licenses, which would increase the scarcity value of those licenses) and subsequently build out and operate the licensed businesses, expanding its growing multi-state operational platform.

Business Model and Growth Strategy

Mission is situated to take advantage of a limited window that exists for first movers to capitalize on opportunities in the cannabis industry, particularly when it comes to establishing operations in jurisdictions opening their cannabis markets, which often limit the number of available operating licenses. Mission is focused on pursuing licenses in multiple states. This strategy, coupled with the company's existing scalable retail platform, is the cornerstone of Mission's strategy. It is management's opinion that not only does this platform provide significant opportunity for well-timed economic growth, but it also provides a significant benefit of diversification.

4Front expects Mission to drive a significant portion of its enterprise value in the near and intermediate term as it pursues these opportunities to own, develop and operate dispensary, cultivation and production operations. Mission either owns, manages or is currently pursuing additional licenses in Massachusetts, Maryland, Illinois, Pennsylvania, Ohio, Arkansas, Rhode Island, Michigan, New Jersey, and Arizona domestically, as well as Colombia, Canada and Macedonia internationally. This footprint is shown and described in more detail below under the section entitled *Mission State-By-State* of this Listing Statement. Mission should benefit significantly from the experience and expertise the Advisors team has developed, and as a source of potential investment opportunities, investment diligence support and operational support. In addition, Mission has been able to acquire some of the operating licenses or Management Agreements from Advisors' legacy clients as business owners have looked to make exits.

Advisors continues to operate as an internal consultant to the Mission Subsidiary and as a holder of 4Front's intellectual property, which is in the form of policies and procedures for the efficient and legally compliant (based on a particular state's regulation of the cannabis industry) operation of dispensaries and production facilities, as well as extensive educational modules for management and staff training.

With the regulatory insight and intelligence gleaned from Advisors, Mission is selective and uses a variety of factors to seek out opportunities to expand its footprint in all aspects of the cannabis supply chain. This includes prioritizing cultivation and production in cannabis markets with both limited cultivation or production licenses and/or a significant retail presence or focusing more on retail and distribution in markets with more traditional supply chain dynamics.

Mission is both vertically integrated and a wholesale supplier and retailer in Illinois and Massachusetts, and a manager or owner of retail licenses in Pennsylvania and Maryland (one open dispensary in each market at the end of 2018). Mission develops “in-house” brands across the cannabis supply-chain spectrum, but it also distributes other cannabis products via its expanding dispensary footprint. With both the practical experience and the foundation built for expansion, Mission plans to continue to grow its license and operational footprint in various aspects of the cannabis supply depending on the opportunity.

Nominee Agreements and Management Agreements

4Front realizes the benefits from cannabis licenses pursuant to a number of different structures, depending on the regulatory requirements from state-to-state: (i) outright ownership of cannabis licenses; (ii) realizing the economic benefit of cannabis licenses through Nominee Agreements; or (iii) realizing the economic benefit of cannabis licenses through Management Agreements.

In some states, a Mission Subsidiary is the legal holder of the applicable cannabis license. Mission is the legal holder of cannabis licenses in Massachusetts and Maryland.

In certain other states, due to varying ownership requirements and the intention to maximize administrative and operational efficiencies, Mission realizes the economic benefits of cannabis licenses through a Nominee Agreement structure. Pursuant to a typical Nominee Agreement, an individual, individuals, or a limited liability company with a limited number of members identified by Mission (each, a “**Nominee Holder**”) has legal ownership of the state-granted dispensary and/or cultivation license. Such Nominee Holder transfers the economic interests associated with the license to Mission. Mission indemnifies the Nominee Holder for all liability associated with being a license holder. Pursuant to the Nominee Agreements, Nominee Holders are responsible for the executive management and oversight of the operations of the facility, including hiring employees, and Mission provides all capital requirements. All Nominee Holders are officers or employees of 4Front or a 4Front Subsidiary (or, in the case of Nominee Holders that are limited liability companies, the member or members of such LLC are officers or employees of 4Front or a 4Front Subsidiary). Mission uses a Nominee Agreement structure in Illinois and Pennsylvania.

In yet other states, due to restrictions on the number of cannabis licenses that can be held by one person, Mission realizes the economic benefits of cannabis licenses through a Management Agreement structure. In circumstances where such a structure is used, a new management company (generally organized as a limited liability company) is formed, which is generally majority-owned and controlled by Mission or one of the Subsidiaries. Pursuant to a typical Management Agreement, a third party who is the legal holder of a dispensary and/or cultivation license contracts with the applicable Mission Subsidiary for management services, financing, administrative and/or other services rendered in support of the management and operation of the dispensary and/or cultivation facility operated by the third party. In exchange for such services, Mission is paid a fee on a ‘cost plus’ basis. Such fee is subject to increase at Mission’s sole discretion (such that if the facility associated with the license earns revenue, Mission realizes in the gain). Each Management Agreement also contains an option in favour of Mission or a Mission Subsidiary to purchase the license if and when the applicable state allows a person to hold more than one license. Management Agreements may be terminated by the third party if any associated loan that Mission has provided to the third party is paid in full and the third party pays Mission a break fee. Mission uses a Management Agreement structure in Massachusetts, Maryland and Arkansas.

There is risk in these Nominee Agreement and Management Agreement structures which, if realized, could negatively impact the company, including without limitation, loss of a license or other rights (e.g., state regulators could determine that this ownership structure is in violation of a state’s regulatory requirements and impose penalties, including loss of a license). In addition, where a Nominee Agreement or Management Agreement structure is used, 4Front is not the owner of the applicable license and any economic benefit to 4Front is ultimately dependent on such third party adhering to the contractual covenants it has with 4Front. The company conducts due diligence prior to the creation of these structures to mitigate these and other such risks. See Section 17 “*Risk Factors – Business and*

Operational Risks – Disparate state-by-state regulatory landscapes and the constraints related to holding cannabis licenses in various states results in operational and legal structures for realizing the benefit from cannabis licenses that could result in materially detrimental consequences to the Resulting Issuer”.

Mission State-By-State

The following table summarizes Mission’s activities on a state-by-state basis as further set out in this section.

State	Licenses Owned & Managed	Leased Facilities	Business Development and Growth
Illinois	<ul style="list-style-type: none"> ▪ Mission controls 60% of the equity interest in Mission Illinois, which owns a dispensary permit. ▪ Mission controls 60% of the equity interest in Illinois Grown Medicine, which owns a cultivation permit. 	<ul style="list-style-type: none"> ▪ Mission Illinois operates a dispensary in Chicago, IL. ▪ Illinois Grown Medicine operates a cultivation/warehouse facility in Elk Grove, IL. 	<ul style="list-style-type: none"> ▪ Business Development Activities: May apply for additional dispensary licenses if and when available. ▪ Growth Opportunities: <ul style="list-style-type: none"> ▪ Mission Illinois: increase medical cannabis sales from increased customer visits to dispensary and higher transaction values per visit. ▪ Illinois Grown Medicine: increased efficiency from current operations; expansion of its cultivation and production areas; expansion of operating footprint within warehouse.

Massachusetts	<ul style="list-style-type: none"> ▪ Mission acquired 100% of the shares of Healthy Pharms, which has received the final certificates to operate cultivation, production and dispensary facilities. ▪ Mission entered into an agreement with Mission MA to be a landlord, lender, and to provide consulting services to the company. ▪ Mission has entered into an agreement with EVG to be a landlord, lender and to provide consulting services to the company. ▪ Mission owns 76% of the membership units of MMA. 	<ul style="list-style-type: none"> ▪ Healthy Pharms operates a medical marijuana cultivation/production facility and a dispensary in Georgetown, MA as well as a medical dispensary in Cambridge, MA. ▪ Mission MA leases two suites in Worcester, MA to Mission MA. ▪ Mission MA leases retail space for a planned recreational facility as well as a dispensary in Adams, MA. ▪ Mission MA entered into a lease for a dispensary in Adams, MA. 	<ul style="list-style-type: none"> ▪ Business Development Activities: In addition to the nine potential dispensaries across the three entities, Mission is pursuing another 5 dispensary locations. Mission also has an option to lease a dispensary location in Brookline, MA. <ul style="list-style-type: none"> ▪ Mission MA is pursuing a retail medical marijuana dispensary as well as cultivation and production facility. ▪ Mission MA is pursuing a cultivation and production license as well as a license for a recreational marijuana facility. ▪ EVG is pursuing a dispensary license to operate a medical and adult use dispensary. ▪ Growth Opportunities: <ul style="list-style-type: none"> ▪ Healthy Pharms anticipates increasing the monthly yield of the usable components of cannabis by 20% in 2019. ▪ Each of Healthy Pharms and Mission MA can own one additional dispensary facility and up to two additional cultivation and production facilities.
Maryland	<ul style="list-style-type: none"> ▪ Mission directly owns 90% of the equity interests of Mission Catonsville, which owns a dispensary permit. ▪ Mission entered into a Management Agreement and lending facility with Mission Glenmont, Mission Hampden and MARI. 	<ul style="list-style-type: none"> ▪ Mission Catonsville entered into a lease for a dispensary facility in Catonsville, MD. ▪ Mission Glenmont operates a medical cannabis dispensary in Silver Spring, MD. ▪ Mission Hampden entered into a lease for a dispensary facility in Baltimore, MD. ▪ MARI entered into a lease for a dispensary facility in Silver Spring, MD. 	<ul style="list-style-type: none"> ▪ Business Development Activities: May apply for additional dispensary licenses if and when available. ▪ Growth Opportunities: Focused on growing its retail presence in Maryland in 2019 by opening the three additional stores it either owns or manages.

Pennsylvania	<ul style="list-style-type: none"> Mission controls 100% of the equity interests of Mission Allentown, which owns a dispensary permit. 	<ul style="list-style-type: none"> Mission Allentown operates a medical cannabis retail facility in Allentown, PA. 	<ul style="list-style-type: none"> Business Development Activities: May apply for additional dispensary licenses. Growth Opportunities: Mission Allentown is focused on opening its second and third locations in Pennsylvania as well as growing its customer base at its currently open dispensary. 4Front anticipates that it will have purchased two additional parcels of land, completed construction, received the necessary regulatory approvals to operate, and will be serving medical cannabis patients in both facilities by the end of 2019 at both locations.
Arkansas	<ul style="list-style-type: none"> Mission, through its 40% ownership in Pine Bluff Agriceuticals Management, Arkansas Patient Services Co. Management, and Arkansas Natural Products Management, entered into Management Agreements with Pine Bluff Agriceuticals, Arkansas Patient Services Co., and Arkansas Natural Products, respectively. 	<ul style="list-style-type: none"> Pine Bluff Agriceuticals Arkansas Patient Services Co Arkansas Natural Products 	<ul style="list-style-type: none"> Business Development Activities: 4Front is evaluating business development and growth opportunities. Growth Opportunities: Pine Bluff Agriceuticals, Arkansas Patient Services Co., and Arkansas Natural Products received an “Intent-to-Award” letter to operate medical cannabis dispensaries from the.
Arizona	<ul style="list-style-type: none"> Mission acquired 100% of the membership interests of PHX Interactive LLC which has been providing services per its Management Services Agreement with Greens Goddess, which holds a license to operate Arizona medical marijuana dispensary. 	<ul style="list-style-type: none"> Greens Goddess leases a retail space for a dispensary facility in Phoenix, AZ. 	<ul style="list-style-type: none"> Business Development Activities: 4Front may apply for additional dispensary licenses if they become available and will continue to pursue additional dispensary acquisition opportunities. Growth Opportunities: Greens Goddess has the ability with its current license to operate a separately located cultivation and/or processing facility.
Michigan	<ul style="list-style-type: none"> Mission acquired 100% of the membership interests 	<ul style="list-style-type: none"> Om leases a retail space for a dispensary facility in Ann Arbor, MI. 	<ul style="list-style-type: none"> Business Development Activities: 4Front may apply for additional dispensary

	<p>of Om of Medicine, LLC, which holds a license to operate a Michigan medical marijuana provisioning center.</p>		<p>licenses if they become available and will continue to pursue additional dispensary acquisition opportunities.</p> <ul style="list-style-type: none"> ▪ Growth Opportunities: Mission, via Om, will seek an adult use license for the Ann Arbor location as those licenses become available
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A. Illinois

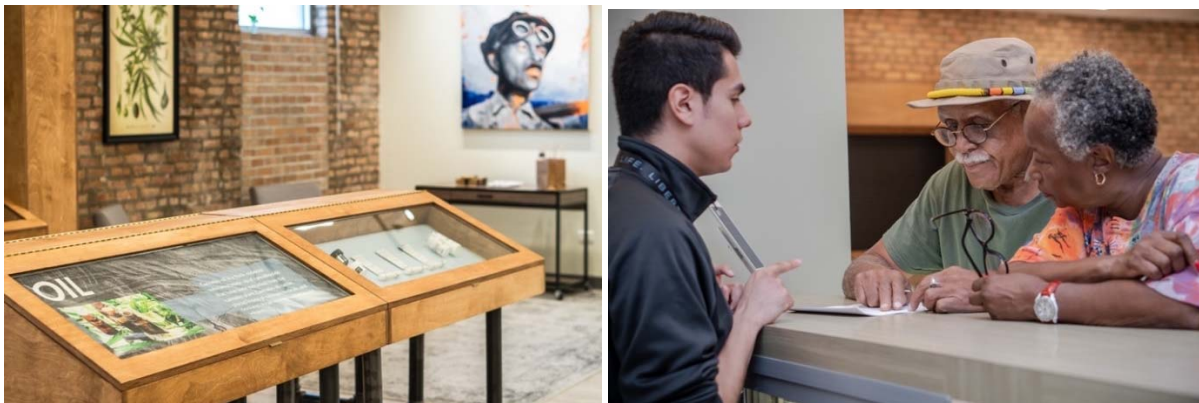
Summary of Licenses Subject to Nominee Agreements

Mission, via Nominee Agreements with MP Illinois, LLC, controls 100% of the equity interest in Mission Illinois and Illinois Grown Medicine. Mission Illinois operates a Dispensary Permit from the Illinois Department of Financial and Professional Regulation and Illinois Grown Medicine operates a Medical Cannabis Cultivation Operating Permit from the Illinois Department of Agriculture.

Summary of Operations

Mission Illinois is in the South Shore neighborhood of Chicago and opened for Illinois medical cannabis patients on July 5, 2017. It operates within a 4,200 square foot building, owned by Illinois Grown Medicine, in a commercial, retail area along Commercial Ave. Mission Illinois has 10 employees as of January 2019.

Photos of Mission’s South Shore dispensary:



Illinois Grown Medicine currently leases, from a third-party landlord, 11,400 square feet out of a 96,000 square foot warehouse with options to expand and occupy an additional 41,430 square feet of the warehouse. Current lease terms are \$10.93 per sq. ft. with 3% annual increases. The lease is in good standing and expires on August 31, 2035. It has no renewal options. Illinois Grown Medicine finished the buildout of its current footprint in February 2018 and began to produce medical cannabis in summer of 2018. Illinois Grown Medicine currently produces and packages medical cannabis flower, medical cannabis flower pre-rolls, kief, bubble hash, and rosin. Illinois Grown Medicine made its first sale to a licensed Illinois dispensary in December 2018. It sells its current product mix under the brand r007.

Photos of Illinois Grown Medicine’s facility in Elk Grove, Illinois:



Summary of Business Development Activities

Mission does not have any outstanding letters of intent or term sheets to acquire any Illinois operations. There are no open application opportunities currently in Illinois. Mission believes there is a moderate likelihood that new regulations for adult-use or new applications for additional medical licenses in Illinois will be made available in the upcoming 12-month period. If applications are made available, Mission may seek to apply for additional dispensary licenses at an estimated cost of \$100,000 per application. Mission continues to hold options on what management believes would be viable locations for a new license process.

Summary of Growth Opportunities

Mission Illinois' primary growth driver is to increase medical cannabis sales both from increased customer visits and higher transaction values per visit. It is anticipated that much of this growth will happen organically as the state expands the medical program to encompass additional qualifying conditions and the number of patients increases.

Illinois Grown Medicine's growth opportunities are categorized in two ways that Mission is pursuing in parallel: increased efficiency from current operations and expansion of its cultivation and production areas. Increased efficiency is anticipated to increase profits by both increasing the number and quality of products produced from the facility and reducing the expense incurred to create those products. Based on its experience from Mission's Massachusetts facility and from its knowledge of other cultivation facilities, Illinois Grown Medicine anticipates increasing the monthly yield of the usable components of cannabis by 33% in 2019 from its 3-month average for October, November, December 2018, assuming the fertigation plan used in other locations achieves the same results in Illinois. See Section 17 "*Risk Factors – Business and Operational Risks – Projections*". The additional usable cannabis can then be sold as flower and/or flower pre-rolls or to supply more raw product needed to the processing department to create cannabis concentrates. Illinois Grown Medicine spent considerable effort in 2018 phenotyping its genetic library of 30 strains of cannabis which resulted in 10 identified phenotypes that meet Illinois Grown Medicine's production requirements. By not repeating this process in 2019, Illinois Grown Medicine expects to decrease its labor cost per pound of usable marijuana by at least 10% for the upcoming 12-month period. This combination of increased yield for lower cost is the main driver of growth for Illinois Grown Medicine in 2019.

The other opportunity for growth for Illinois Grown Medicine is an expansion of its operating footprint within its leased warehouse location. Illinois Grown Medicine currently occupies 11,400 square feet of the warehouse, with an option to expand into 41,430 square feet. Illinois Grown Medicine forecasts that the construction for this buildout could take up to 18 months at a cost of approximately \$25,000,000. See Section 17 "*Risk Factors – Market, Securities and Other Risks – Additional financing*". Key milestones to meet this timeline are to engage engineering solutions to finalize the site plan (end of Q1 2019), provide notice to the landlord to exercise options within the current lease to occupy the additional space (end of Q2 2019), finalize construction contracts and begin to pull permits (end of Q3 2019), commence construction (Q4 2019), equipment provisioning (end of Q2 2020), and final certificate of occupancy (end of Q2 2020).

B. Massachusetts

Summary of Licenses Owned

Mission acquired 100% of the shares of Healthy Pharms on November 20, 2018. Healthy Pharms operates a medical marijuana cultivation and production facility in Georgetown, MA, a retail medical marijuana dispensary in Georgetown, MA and a retail marijuana dispensary in Cambridge, MA. Healthy Pharms received its Final Certificate of Registration from the Massachusetts Departments of Health to operate both Georgetown locations on October 11, 2016. It received its Final Certificate of Registration to operate the Cambridge location on December 20, 2017. With its current licenses, Healthy Pharms is able to own and operate up to one additional dispensary facility and up to two additional cultivation and production facilities. Healthy Pharms has submitted the necessary application materials to the MA CCC to be able to operate the Georgetown dispensary for adult-use customers as well as its current medical patients. Healthy Pharms is in discussions with the Board of Selectman in Cambridge, MA to amend its Community Host Agreement to allow for dispensary sales to adult use customers. Cambridge is still developing its zoning regulations for adult-use. A Community Host Agreement is an agreement cannabis establishments are required by state law to make with the host community that set forth the conditions required to locate a dispensary or production facility within the community. This is the last step to be able to submit to the MA CCC to receive state approval for adult-use marijuana sales in addition to medical sales. Healthy Pharms is anticipated to finalize negotiations and receive the amended Community Host Agreement with Cambridge by March 31, 2019, and receive final approval to operate from the MA CCC by June 30, 2019.

Summary of Licenses Managed

Mission has entered into a memorandum of understanding with Mission MA, pursuant to which MMA, Mission's majority-owned Subsidiary, will be landlord and lender, and to provide consulting services to Mission MA. Mission MA is pursuing a retail medical marijuana dispensary in Worcester, MA, a cultivation and production facility in Worcester, MA, a medical marijuana dispensary in Adams, MA and has the ability to own one additional dispensary location and up to two additional cultivation and production locations under its current licenses.

Mission owns 100% of the membership units of MMA. MMA leases 640 Lincoln Ave., Suite 200, Worcester, MA and 640 Lincoln Ave., Suite 200A, Worcester, MA to Mission MA. The current lease terms are \$5.92 per sq. ft. with 3% annual rent increases. The lease is currently in good standing and will expire on February 1, 2027. It includes an additional 10 and 5-year renewal option.

Additionally, Mission MA leases 5,400 square feet of retail space from a third party for a planned recreational marijuana facility in Adams, MA. The current lease terms are \$11.56 per sq. ft. with 5% increase every five years. The lease is in good standing and expires on June 30, 2023. It includes two five-year renewal options as well as a purchase option on the space. MMA lent \$7,282,021 out of a total \$8,000,0000 commitment pursuant to an unsecured promissory note as of December 31, 2018 to Mission MA to pay for subtenant improvements to the Worcester cultivation and production facility and as working capital for Mission MA. Both Worcester facilities have received the provisional certificate of registration from the Massachusetts Department of Health as part of the medical marijuana application process. The Final Certificate of Registration application materials and inspection request has been submitted to the Massachusetts Department of Health and it is anticipated that the Final Certificate of Registration, which is the last step needed to operate both sites, will be received by February 28, 2019.

Mission MA has entered into a long-term lease to rent an approximately 2,500 square foot facility in Adams, MA to operate a medical and adult use dispensary. Mission MA has secured the necessary approvals from the Board of Selectman in Adams to operate the dispensary. Mission MA has submitted for building improvements to Adams for tenant improvements needed for the dispensary buildout. Mission anticipates Mission MA to draw down an additional \$1,000,000 to pay for the tenant improvements and working capital needed for the Adams location. Construction is expected to be completed by August 31, 2019 and to be fully licensed from the MA CCC before December 31, 2019 to operate to both medical and adult use customers.

Mission has entered into a memorandum of understanding with EVG to be a landlord, lender and provide consulting services to the company. Mission, via a wholly-owned 4Front Subsidiary Linchpin, has entered into a purchase and sale agreement with individual third party sellers to acquire a standalone property located at 883-885 Hyde Park Ave.,

Boston, MA, for \$650,000. EVG is pursuing a dispensary license to operate a medical and adult use dispensary at the Hyde Park location. If it is successful in receiving the necessary approvals from the City of Boston required to operate in that location, Mission will complete the acquisition of the property and enter into a long-term lease agreement with EVG. The lease terms have not been determined, but it is anticipated that the lease will contain at least a \$750,000 tenant improvement allowance for EVG to complete the necessary improvements to operate a dispensary. In a parallel path to entering the lease, EVG will pursue the necessary approvals from the MA CCC to be able to operate the dispensary for medical and adult use customers. EVG is allowed to open up to two additional dispensary locations and up to two total cultivation and production facilities.

Summary of Operations

Healthy Pharms – Healthy Pharms leases a four-acre parcel of land on which sits an approximately 67,000 square foot building tall enough for two stories. Approximately 32,000 square feet of the facility received leasehold improvements in 2016 and 2017 to construct the currently operating cultivation, production, and dispensary areas. The remaining approximately 35,079 square feet is open warehouse area and there is the ability to build an additional approximately 10,000 square foot structure directly adjacent to the current structure to maximize the allowable building to land ratio allowed for the location. The lease is in good standing and expires on November 12, 2023, and includes two, five-year renewal options and purchase option for the property. Current lease terms are \$3.94 per sq. ft. with 3% annual increases. The facility current uses approximately 10,200 square feet for the cultivation of cannabis, which is capable of producing over 4,000 pounds of usable cannabis per year. The facility also contains approximately 4,000 square feet of laboratory space for the production of cannabis oil into concentrate and extracted products (see Section 4.1(2) “*Principal Products or Services*” for a more detailed description of the products produced). The cultivation and production facility had its first harvest in June 2017 and has been in continuous operation since.

The Georgetown cultivation and production areas, as described above under Section 3.3 “*Trends, Commitments, Events or Uncertainties – The Regulatory Landscape on a U.S. State Level – Massachusetts*”, are co-located with the Georgetown dispensary. The dispensary and security vestibule operate the “front” of the building directly adjacent to the parking lot and the remaining areas occupy the “rear” of the building. The dispensary and security vestibule are approximately 3,000 square feet.

Healthy Pharms’ medical dispensary in Cambridge, MA occupies approximately 1,455 square feet that it leased from a third party. The current lease terms are \$105.84 per sq. ft. with 3% annual increases. The lease is in good standing and expires on November 12, 2023. It includes two five-year renewal options.

In total, across all locations and departments, Healthy Pharms employs 44 full time employees as of December 31, 2018.

Mission MA – Mission MA’s Worcester facility for cultivation, production, and dispensary is anticipated to open by April 30, 2019. Mission MA does not have any currently operating facilities in Massachusetts.

EVG – EVG does not have any currently operating facilities in Massachusetts.

Summary of Business Development Activities

Mission is focused on maximizing its potential dispensary footprint allowed under the licenses it either owns via its acquisition of Healthy Pharms or expects to help manage and support such as Mission MA and EVG. Across these three entities, there is the total potential for nine dispensary locations that would serve both medical and adult-use customers. In addition to the open locations at Georgetown and Cambridge, and the almost fully licensed locations in Worcester and Adams, there are five other properties suitable for a dispensary that Mission is pursuing in concert with Healthy Pharms, Mission MA, or EVG. Mission’s typical approach is to enter into an option to lease or option to purchase contract with a landlord or seller of a property that meets all the zoning and setback requirements required by local and state law to operate a dispensary. Once the option contract is secured, Mission pursues the necessary local approvals to enter into a Community Host Agreement, along with the documentation required to pursue the state license. If a Community Host Agreement can be secured with a municipality, Mission would then seek to execute its option to purchase or lease the facility and begin pursuing whatever infrastructure improvements are needed to operate a dispensary while seeking the final approval to operate from the MA CCC in parallel. Consistent with this strategy,

Mission has secured the option to lease an approximately 3,000 square foot location suitable for a dispensary in Brookline, MA.

Mission constantly seeks to evaluate potential real estate opportunities to deploy this strategy but does not have any other locations under option other than the contracts not identified above. Mission's typical cost range is \$10,000 - \$50,000 for the option contract, \$50,000 - \$100,000 to secure all of the necessary municipal approvals, and \$500,000 - \$1,500,000 on infrastructure improvements needed to operate a dispensary facility. Mission would anticipate spending \$700,000 - \$2,000,000 per additional dispensary location it pursues.

Summary of Growth Opportunities

Healthy Pharms – Healthy Pharms growth opportunities can be summarized as: open the maximum number of dispensary locations allowed per license, receive final regulatory approval to commence adult-use sales in Georgetown and Cambridge, expand the cultivation and production areas, and improve the efficiency of its operations. Many of these opportunities are described in further detail above (see Section 3.3 “*Trends, Commitments, Events or Uncertainties – The Regulatory Landscape on a U.S. State Level – Massachusetts*”), but will also be summarized here.

Mission is deploying its real estate strategy, as outlined above (see Section 4.1(1) “*Narrative Description of the Business – General Business of the Resulting Issuer – General Business of 4Front – Mission State-By-State – Massachusetts – Summary of Business Development Activities*”) to secure a third dispensary location for Healthy Pharms as allowed by its license. It has yet to enter into an option contract but anticipates that it will do so within the next 12 months and that the total cost to secure the location, receive the necessary approvals, and complete the infrastructure improvements will be between \$1,500,000 - \$2,000,000, assuming an urban location.

Healthy Pharms is actively seeking the final approval from the MA CCC to commence adult-use sales in Georgetown and Cambridge. Both locations are expected to receive the necessary approval before the end of 2019 at an expense of \$25,000 or less.

Healthy Pharms has the ability to expand its cultivation and production operations at its leased Georgetown facility by up to an additional 45,000 square feet. Healthy Pharms forecasts that the construction for the complete expansion could take up to 18 months to complete at a cost of approximately \$15,000,000. Key milestones to meet this timeline are to engage engineering solutions to finalize the site plan (end of Q1 2019), finalize construction contracts and begin to pull permits (Q2 2019), commence construction (Q2 2019), equipment provisioning (end of Q4 2019), and final certificate of occupancy (Q1 or Q2 2020).

Based on its experience from Mission's Illinois facility and from its knowledge of other cultivation facilities, Healthy Pharms will seek to increase the monthly yield of the usable components of cannabis by 20% in 2019 from its three-month average for October, November, December 2018. It plans to achieve this increase yield by optimizing the dehumidification capacity and automating part of its fertilization program which will deliver a more consistent nutrient mix to the plants. The additional usable cannabis can then be sold as flower and/or flower pre-rolls or supply more “feedstock” to the processing department to create more cannabis concentrates. The additional yield from its current cultivation footprint will better position Healthy Pharms to maintain adequate supply of products in its dispensary for the anticipated increase in customers once either dispensary locations is able to commence adult-use sales.

C. Maryland

Summary of Licenses Owned

Mission directly owns 100% of the equity interests of Mission Catonsville. Mission Catonsville received its Pre-Approval Letter, which is a necessary pre-cursor to receiving a dispensary license, from the MMCC on December 9, 2016 (“**Pre-Approval Letter**”).

Summary of Licenses Managed

Mission, through its wholly-owned Subsidiary Adroit Consulting Group, entered into a Management Agreement with Mission Hampden to license the Mission brand (owned by Mission IP) and receive management services in exchange

for fees charged from Adroit Consulting Group to Mission Hampden. In addition Adroit Consulting Group has provided \$574,556 of debt capital to Mission Hampden in the form of a promissory note secured by all the assets of the company. The promissory note and Management Agreement were entered into on September 12, 2017.

Mission, through its majority-owned Subsidiary Silver Spring Consulting, entered into a Management Agreement with Mission Glenmont to license the Mission brand (owned by Mission IP) and receive management services in exchange for fees charged from Silver Spring Consulting to Mission Glenmont. In addition Silver Spring Consulting has provided \$500,000 of debt capital to Mission Glenmont in the form of a promissory note secured by all the assets of the company. The promissory note and Management Agreement were entered into on October 20, 2017.

Mission, through its wholly-owned Subsidiary Old Line Consulting Group entered into a Management Agreement with MARI to license the Mission brand (owned by Mission IP) and receive management services in exchange for fees charged from Silver Spring Consulting to MARI. In addition Silver Spring Consulting has provided \$3,000 of debt capital to MARI in the form of a promissory note secured by all the assets of the company. The promissory note and Management Agreement were entered into on May 31, 2018.

Summary of Operations

Mission Catonsville – Mission Catonsville leases a 3,500 square foot retail space located in Catonsville, MD, from a third-party landlord. The current lease terms are \$28.11 per sq. ft. with 3% annual increases. The lease is in good standing and expires on August 31, 2023. It includes three five-year renewal options. The facility is currently undergoing tenant improvements to complete construction of the dispensary space. 4Front anticipates spending less than \$50,000 to finish construction. This location is anticipated to open by April 30, 2019.

Mission Glenmont – Mission Glenmont leases approximately 2,000 square feet of retail space located in Silver Spring, MD and is the owner of a dispensary permit. The lease is with a third-party landlord. The current terms are \$30 per sq. ft. with 3% annual increases. The lease is in good standing and expires on August 31, 2022. It includes one five-year renewal option. Mission Glenmont completed tenant improvements of the leased space in September, 2018 and first opened for medical cannabis customers on October 19, 2018.



Mission Hampden – Mission Hampden operates a 2,544 square foot retail space in Baltimore, MD pursuant to an informal lease arrangement. The retail space is owned by Adroit Consulting Group, which is the management company to Mission Hampden. 4Front anticipates having a formal lease in place before opening. As of the end of January 2019, the facility is currently undergoing tenant improvements to complete construction of the dispensary space. Mission Hampden anticipates spending less than \$50,000 to finish construction. This location is anticipated to open by March 31, 2019.

MARI – MARI leases a 2,500 square foot retail space in Silver Spring, MD from a third-party landlord. The current lease terms are \$55 per sq. ft. with 3% annual increases. The lease is in good standing and expires on June 31, 2028. The lease includes three five-year renewal options. The facility is currently undergoing tenant improvements to complete construction of the dispensary space. MARI anticipates spending approximately \$450,000 to finish construction which is expected to be completed in June of 2019. This location is anticipated to open by August 31, 2019.

Summary of Business Development Activities

Mission does not have any outstanding letters of intent or term sheets to acquire any Maryland operations. The state will consider new applications for four cultivation and 10 processing licenses in April 2019. Mission believes there is a moderate likelihood that new regulations for adult use could advance in the upcoming 12-month period. Mission is actively considering these future licensing opportunities in Maryland at an estimated cost of \$100,000 per application.

Summary of Growth Opportunities

Mission is focused on growing its retail presence in Maryland in 2019 by operating the three additional stores it either owns or manages (see Section 4.1(1) “*Narrative Description of the Business – General Business of the Resulting Issuer – General Business of 4Front –Mission State-By-State – Maryland – Summary of Operations*”). Once all locations are open, Mission anticipates leveraging its significant presence and buying power in the market to lower operating costs and increase profit margins.

D. Pennsylvania

Summary of Licenses Subject to Nominee Agreements

Mission, through its Nominee Agreement with Mission Mercury, controls 100% of the equity interest in Mission Allentown. Mission Allentown operates a Dispensary Permit from the Pennsylvania Department of Health. This permit allows Mission Allentown to open two additional dispensaries that must be in the northeast quadrant of the state.

Summary of Operations

Mission Allentown is located in Allentown, PA and began serving medical cannabis patients on June 12, 2018. It leases a 3,278 square foot building in a commercial, retail area along Emmaus Ave. from a third-party landlord. The current terms of the lease are \$14 per sq. ft. with a 3% increase every five years. The lease is in good standing and expires on September 14, 2022. It includes two five-year renewal options. Mission Allentown received its approval to sell dried flower on August 4, 2018. Mission Allentown has 18 employees as of January 2019.

Photos from Mission Allentown:



Summary of Business Development Activities

Mission does not have any outstanding letters of intent or term sheets to acquire any Pennsylvania operations. There are no open license application opportunities currently in Pennsylvania. Mission believes there is a high likelihood that new regulations for adult-use will be made available in the upcoming 12-month period. If licenses are made available, Mission may apply for additional dispensary and/or cultivation licenses at an estimated cost of \$100,000 per application.

Summary of Growth Opportunities

Mission Allentown is focused on opening its second and third locations in the state as well as growing its customer base at its currently open dispensary. Mission Allentown has identified a parcel of land in East Stroudsburg, PA, that it is under contract to purchase for \$440,000. 4Front believes it will cost an additional \$1,100,000 in construction costs and working capital to open the location. 4Front has also identified a parcel of land in Wilkes-Barre, PA, that it is under contract to purchase for \$750,000. 4Front believes it will cost an additional approximate \$1,500,000 in construction costs and working capital to open the location. 4Front anticipates that it will have purchased the parcels, completed construction, received the necessary regulatory approvals to operate, and will be serving medical cannabis patients by the end of 2019 at both the East Stroudsburg and Wilkes-Barre locations. See Section 17 “*Risk Factors – Business and Operational Risks – Projections*”.

E. Arkansas

Summary of Business Development Activities

Due to the very recent announcement of dispensary licenses being awarded, 4Front is evaluating business development and growth opportunities in Arkansas.

Summary of Licenses Managed

Mission, supported with application content from Advisors, has provided application and consulting services to multiple groups in Arkansas to apply for cultivation, production and dispensary licenses. In exchange, Mission entered into Management Agreements to support these entities if they were awarded a medical cannabis license. On January 23, 2019, three of those entities received an “Intent-to-Award” letter to operate medical cannabis dispensaries from the Arkansas Medical Marijuana Board. As of the date of this Listing Statement, Mission is actively working with all three groups to meet all the regulatory requirements, as well as construction of the facilities, to support the opening of all three dispensaries.

Pine Bluff Agriceuticals – Mission, through its 40% ownership of Pine Bluff Agriceuticals Management, entered into a Management Agreement with Pine Bluff Agriceuticals to license the Mission brand (owned by Mission IP) and receive management services in exchange for fees charged from Pine Bluff Agriceuticals Management to the licensee. In addition, Pine Bluff Agriceuticals Management anticipates loaning up to \$1,500,000 of senior, secured debt capital to Pine Bluff Agriceuticals. The delayed draw promissory note and Management Agreement were entered into in September 2017. However, to date, no loan funds have been advanced.

Arkansas Patient Services Co. – Mission, through its 40% ownership of Arkansas Patient Services Co. Management, entered into a Management Agreement with Arkansas Patient Services Co. to license the Mission brand (owned by Mission IP) and receive management services in exchange for fees charged from Arkansas Patient Services Co. Management to the licensee. In addition, Arkansas Patient Services Co. Management anticipates loaning up to \$1,500,000 of senior, secured debt capital to Arkansas Patient Services Co. The delayed draw promissory note and Management Agreement were entered into in August 2017. However, to date, no loan funds have been advanced.

Arkansas Natural Products – Mission, through its 40% ownership of Arkansas Natural Products Management, entered into a Management Agreement with Arkansas Natural Products to license the Mission brand (owned by Mission IP) and receive management services in exchange for fees charged from Arkansas Natural Products Management to the licensee. In addition, Arkansas Natural Products Management anticipates loaning up to \$1,500,000 of senior, secured debt capital to Arkansas Natural Products. The delayed draw promissory note and Management Agreement were entered into in September 2017. However, to date, no loan funds have been advanced.

F. Arizona

Summary of Business Development Activities

Mission will continue to pursue additional opportunities to acquire more medical dispensary assets in Arizona; however, Mission does not have any outstanding offers at this time. If an opportunity does arise, Mission anticipates spending

between \$5,000,000 to \$15,000,000 to acquire additional Arizona medical dispensary assets. Mission believes there is a low likelihood that new regulations for adult use could advance in the upcoming 12-month period. Mission is actively considering these future licensing opportunities in Arizona at an estimated cost of \$75,000 per application.

Summary of Licenses Managed

Mission acquired 100% of the membership interests of PHX Interactive, LLC on February 22, 2019. PHX Interactive, LLC has been a management services provider to Greens Goddess by way of its Management Services Agreement dated January 1, 2018 with Greens Goddess. The agreement provides for PHX Interactive, LLC to provide all of the operational and management services needed to operate a medical cannabis dispensary in the state. Greens Goddess leases a 1,200 square foot retail space in Phoenix, Arizona from a third-party landlord. The current terms are \$22 per sq. ft. with 3% annual increases. The lease is in good standing and expires on April 20, 2020. Greens Goddess completed tenant improvements of the leased space in November 2017 and first opened for medical cannabis customers also in November 2017. Greens Goddess is required to annually appear before the City of Phoenix Planning and Development Department to renew its special use permit. This is an administrative hearing that does not require an annual application. Greens Goddess has renewed its special use permit historically with no issues.

G. Michigan

Summary of Operations

Mission directly owns 100% of the equity interests of Om of Medicine, LLC. Om operates a medical marijuana Provisioning Center (dispensary) in Ann Arbor, MI. Om has been serving medical marijuana patients in Michigan since 2011. Om leases a 5,400 square foot space in a commercial, retail area along Main St. from a third-party landlord. The current terms of the lease are \$33 per sq. ft. with a 3% annual increase. The lease is in good standing and expires on November 30th, 2022. Om has 12 employees as of April, 2019.

Summary of Business Development Activities

Mission does not have any outstanding letters of intent or term sheets to acquire any Michigan operations. Medical marijuana dispensary applications are being accepted on a rolling timeline. Mission intends to apply for dispensary, cultivation and processing licenses during the next 12 months.

Summary of Growth Opportunities

Michigan has recently passed legislation to allow for the sale and consumption of marijuana by adults over the age of 21. Rules for the adult-use program have not been promulgated at this time. It is anticipated that the rules will contain provisions to allow existing medical marijuana operators to apply for adult use licenses. Mission intends to pursue an adult use dispensary license, should Om meet the qualifications of the adult use program based on the rules when they come into force.

Total Funds Available

Following the close of the Business Combination, the pro forma working capital position of the Resulting Issuer as of January 31, 2019, after giving effect to the Business Combination, as if it had been completed on that date, was approximately \$35 million. This amount reflects the combined working capital of 4Front and Cannex as of January 31, 2019.

Projected Source of Funds

Across 4Front's real estate portfolio, multiple properties are candidates for sale leaseback financing with real estate investors (each, a "**Sale Leaseback Transaction**") that may provide additional funds for capital expenditures. The aforementioned 4Front portfolio consists of leases, leases with options to purchase and outright ownership. In a typical Sale Leaseback Transaction, a real estate investor would purchase the property from 4Front or the property owner, as applicable, and provide funds for capital expenditures earmarked specifically to that property. In return, such investors receive a percentage of annual return of their investment. 4Front has term sheets with investors with respect to three

properties that could, if Sale Leaseback Transactions are completed, generate gross proceeds in excess of \$25 million. In addition, 4Front believes that additional properties may be eligible for Sale Leaseback Transactions that could generate an additional \$25 million.

Purpose of Funds

Upon completion of the Business Combination, the Resulting Issuer expects to have approximately \$35 million available for the principal purposes of supporting ongoing mergers and acquisitions activities, capital expenditures, including lending in connection therewith, and general corporate purposes. Notwithstanding the foregoing, there may be circumstances where, for sound business reasons, a reallocation of funds may be necessary for the Resulting Issuer to achieve its objectives. The Resulting Issuer may also require additional funds in order to fulfill its expenditure requirements to meet existing and any new business objectives and expects to either issue additional securities or incur debt to do so. There can be no assurance that additional funding required by the Resulting Issuer will be available, if required. It is anticipated that the available funds will be sufficient to satisfy the Resulting Issuer's objectives for the forthcoming 12-month period. The amounts shown in the table below are estimates only and are based on the information available to the Resulting Issuer as of the date of this Listing Statement.

Forecast 12 Month Budget

Expected Funds Available to the Resulting Issuer	\$20,000,000 ⁽¹⁾
Proceeds from Sale Leaseback Transactions	\$50,000,000
Cost of Issuance	(\$1,500,000)
General and Administrative Expenses	(\$8,500,000)
Future Capital Expenditures	(\$35,000,000)
Excess Funds Available to the Resulting Issuer for General Working Capital	\$25,000,000

Note:

(1) This amount represents an expected positive cash from operations over the next 12 months to contribute to the Resulting Issuer funding its ongoing operations.

Ability to Access Public and Private Capital

Due to the present state of the laws and regulations governing financial institutions in the United States, certain banks refuse to provide banking services to businesses involved in the cannabis industry. Consequently, the Resulting Issuer may not be able to obtain bank financing in the United States or financing from other United States federally regulated entities.

4Front and Cannex have each historically, and continue to have, access to equity and debt financing from prospectus exempt (private placement) markets in the United States. The Resulting Issuer's executive team and board have extensive relationships with sources of private capital (such as funds and high net worth individuals).

In addition to the Resulting Issuer's working capital, the capital raised from 4Front's US\$31 million equity private placement in October 2018, and the capital raised from Cannex's US\$33 million convertible debt issuance in November 2018, the Resulting Issuer expects to generate adequate cash to fund its continuing operations. The Resulting Issuer's business plan includes aggressive growth, both in the form of additional acquisitions and through facility expansion and improvements. Accordingly, the Resulting Issuer expects to raise additional capital, both in the form of debt and new equity offerings, during the next fiscal year.

There can be no assurance that additional financing will be available to the Resulting Issuer when needed, that the Sale and Leaseback Transactions will be completed or that any such financing or transaction will be on terms which are acceptable. See Section 17 "Risk Factors – Risks Specifically Market, Securities and Other Risks – Additional Financing – Restricted access to banking and – Newly-established legal regime".

4.1(2) Principal Products or Services

Advisors

Advisors is mainly a consulting business advising clients on regulatory matters, application processes and also the licensing of the intellectual property that Advisors has developed that cover all aspects of the cannabis supply chain. To engage its services, Advisors typically requires a financial commitment from clients of (1) between \$15,000 and \$50,000 for the application process (per application), and (2) between \$50,000 and \$200,000 to commence the delivery of operational support (e.g., provision of training and intellectual property) after the applicable dispensary, cultivation or production license has been granted. Additionally, Advisors is entitled to an intellectual property license fee for the client's use of Advisors' operations platform in the amount of between 3% and 5% of gross sales for a period of ten years beginning on the initial engagement date. This pricing model is intended to create an inverse value proposition that allows prospective operators to minimize upfront expenses related to the use of Advisors' platform until such time as revenue is realized from operations. Specific pricing models are determined based on a mix of factors including the competitiveness of acquiring a new cannabis license in a given market, the complexity of the regulatory program governing ongoing operations, a client's existing capacity for operations, and the expected scale at which Advisors' platform will be deployed across a market.

Since 2011, Advisors' leadership team has explored alternatives to the pricing model described above in cases where deviation from this model could potentially expand Advisors' ability to work with the most capable, professional operators in optimal new markets. Despite evaluation of other models – including shifts between upfront engagement fees and implementation fees, equity positions in client operations, static license fees – Advisors continues to employ the basic tenets of its pricing model today. Advisors has observed that its application and implementation fees are in line with market rates and do not deter interest in its services from capable operators within new markets, allowing Advisors to select clients for ongoing operations with modest outbound marketing effort. See Section 17 “*Risk Factors – Business and Operational Risks – 4Front is currently involved in litigation, and there may be additional litigation that the Resulting Issuer will be involved in in the future.*”

Mission

Mission's products and services, through its Subsidiaries in various state jurisdictions, are broken into two categories: products and brands produced by Mission and sold to Mission dispensaries and third-party licensed dispensaries, and third-party products purchased by Mission and sold via its dispensary network. Mission currently operate two cultivation and processing facilities, one in Illinois and one in Massachusetts. It produces, packages, and distributes a wide range of cannabis products, including cannabis flower and cannabis concentrates, described in more detail below under *Cultivation*. These products are both sold through its dispensaries located in Illinois and Massachusetts and sold to other dispensaries across each of Illinois and Massachusetts. Third-party sales have historically been a small component of revenue, but are expected to grow in 2019 and beyond. These products are distributed under a variety of brands that Mission has curated to target different segments of the customer and patient markets. Mission maintains strict brand and quality assurance standards and implements SOPs across its cultivation and processing facilities to ensure product consistency and customer experience across all the jurisdictions within which it operates. This includes the centrally managed procurement of all equipment, packaging, and materials inputs.

Cultivation

Mission currently produces 35 different strains of cannabis. All cannabis produced by Mission is cultivated under strict quality-control procedures and samples are tested by third-party labs for cannabinoid, terpene, microbial, and heavy-metal content. All cannabis flower and pre-rolls, which are pre-rolled cannabis cigarettes, are packaged onsite at the respective location.

Production

Mission uses a wide variety of production equipment and techniques to produce a diverse mix of cannabis concentrates. This mix includes the major cannabis concentrate categories: kief, hashish, rosin, oil for vaporization, oil for syringes, “dab-able” products such as shatter and wax, and infused food and beverages. Mission makes these products using the dry-sift technique and proprietary methodology, ice-water hashish making technique and proprietary methodology,

industrial rosin press machines and proprietary methodology, supercritical CO2 extraction technique and proprietary methodology and subcritical CO2 technique and proprietary methodology. All cannabis concentrate produced by Mission is processed under strict quality control procedures and samples are tested by third-party labs for cannabinoid, terpene, microbial, and heavy metal content. All cannabis concentrates are packaged onsite at the respective location.

Brands

Mission distributes its products under a variety of different brands. Mission believes in the “House of Brands” approach to cannabis distribution and anticipates continuing to develop additional brands to add to its portfolio. The different brands correlate to both the products sold as well as a target customer population. Currently, this portfolio includes: r007, Strata, Pharm Phresh Flower, Weathervane Extracts, Pharm’s Apothecary and Pharm Kitchen Edibles.

Third-Party Cannabis Products sold through Mission’s dispensary network

In addition to distributing the above-mentioned products and brands, Mission dispensaries also sell cannabis flower, concentrates, and paraphernalia purchased from third-party distributors. This allows the dispensaries to appeal to the broadest swathe of cannabis customers and also quickly adapt to the rapidly developing and changing product mix. Samples of all batches of cannabis sold by Mission produced by other licensed producers are tested by third-party labs for cannabinoid, terpene, microbial, and heavy metal content. Mission will not purchase products from third-party producers without a sample testing report from a third party lab.

Research and Development

Mission’s research and development activities have been focused on increasing the efficiency of its cultivation and production operations and developing new products and brands.

Mission’s primary measures of cultivation efficiency are yield per square foot, cannabinoid and terpene content, and cost per pound. It experiments with plant spacing, light spectrums, soil media, nutrients, storage, and genetic breeding at each location and shares the knowledge and lessons learned across its two cultivation locations.

Mission’s primary measures of processing efficiency are yield of oil per pound of input material, cannabinoid and terpene content, and cost per pound of oil. It experiments with various extraction equipment, pressure, temperature, winterization, and storage techniques to increase both the yield and content of cannabinoids and terpenes. It also is focused on increasing the throughput of its packaging and fulfillment capabilities by constantly experimenting with new equipment and packaging.

Mission analyzes the consumption and sales patterns of consumers across a wide jurisdiction of cannabis markets. It uses this insight to improve the positioning and messaging of its current brands and to develop new brands to target specific segments of customers.

4.1(3) Production and Sales

Mission has the current cultivation capacity to produce 4,500 lbs. annually of usable cannabis to be sold both as flower and processed into pre-rolls or cannabis concentrates between both its Illinois and Massachusetts facilities (see Section 4.1(1) “*Narrative Description of the Business – General Business of the Resulting Issuer – General Business of 4Front – Mission State-By-State*”). As described in more detail above, this capacity is expected to increase to over 25,000 lbs. annually once the planned expansions in Massachusetts and Illinois are completed over the upcoming 18 months. Mission currently has the capability to process 1,000 lbs. of cannabis oil annually and infuse the cannabis oil across over 250 different SKUs.

Mission’s primary distribution of its products is through its brick-and-mortar dispensary network. These locations also handle the fulfillment of e-commerce transactions where allowed in the various jurisdictions it operates.

Linchpin

Linchpin was initially created as an investing and lending Subsidiary of 4Front intended to invest in and loan to third party cannabis companies across the supply chain. However, to date, Linchpin has only lent to Million Illinois and Illinois Medicine LLC. Management does not expect any additional material new loans or investments.

Mission IP

Mission IP is a wholly-owned Subsidiary of 4Front. Mission IP owns the majority of the branding trademarks associated with the business of 4Front (the remaining trademarks are owned by 4Front).

4.1(4) Competitive Conditions and Position

The Resulting Issuer competes with a variety of different operators across the states in which it currently operates. In the majority of such states, there are specific license caps that create high barriers to entry. However, Massachusetts has fewer caps on licenses, creating a more open marketplace. Management of the Resulting Issuer views multi-state operators that have vertical operations as the most direct competition, including Acreage Holdings, LLC, Curaleaf Holdings, Inc., Green Thumb Industries Inc., Harvest One Cannabis Inc., and iAnthus Capital Holdings, Inc.

Aside from this direct competition, out-of-state operators that are capitalized well enough to enter those markets through acquisitions are also considered part of the competitive landscape. Similarly, as the Resulting Issuer executes its national growth strategy, operators in future state markets will inevitably become direct competitors. Additionally, the Resulting Issuer, along with all legally operating competitors, face competition from the grey and black markets (see Section 17 “*Risk Factors – Business and Operational Risks – The Resulting Issuer may be subject to significant competition*”). However, as state and local regulators increase scrutiny on these markets, management of the Resulting Issuer believes this competitive threat will be meaningfully reduced.

Financing for companies in the cannabis sector is more difficult than other sectors, particularly in the United States, due to the fact that cannabis is still classified as a Schedule I drug and illegal at a Federal level. The changing regulatory environment at a state level further complicates financing for companies in this sector.

The fast growing market for legalized cannabis in both Canada and the U.S. has created a competitive environment for cannabis producers as well as other types of companies who provide goods and services to the cannabis industry. However, there remains a significant lack of traditional sources of bank lending and equity capital available to fund the operations of companies in the cannabis sector. The Resulting Issuer will continue to expand its cannabis-related holdings by providing tailored, state law compliant, and financially attractive sources of funding and/or equity investment to cannabis and cannabis-connected companies. Because of the rapid growth of the cannabis industry, the Resulting Issuer faces competition from other companies in the sector who are accessing the equity capital markets.

4.1(5) Lending and Investment Policies and Restrictions

4Front supports its affiliate businesses through lending and investment but does not participate in similar activities with respect to any third parties.

4.1(6) Bankruptcy and Receivership

Following completion of the Business Combination, neither the Resulting Issuer, nor any of its Subsidiaries, have been the subject of any bankruptcy or any receivership or similar proceedings or any voluntary bankruptcy, receivership or similar proceedings, within any of the three most recently completed financial years (as applicable) or the current financial year.

4.1(7) Material Restructuring

See Section 3.1 “*General Development of the Business – The Business Combination*”.

4.1(8) Fundamental Social and Environmental Policies

Following completion of the Business Combination, neither the Resulting Issuer has not implemented social or environmental policies that are fundamental to the Resulting Issuer's operations.

4.1 Asset Backed Securities

This information is not applicable to the Resulting Issuer.

4.2 Companies with Mineral Projects

This information is not applicable to the Resulting Issuer.

4.3 Companies with Oil and Gas Operations

This information is not applicable to the Resulting Issuer.

5. SELECTED CONSOLIDATED FINANCIAL INFORMATION

5.1 Annual Information

4Front's Annual Information

The following table sets forth selected financial information for 4Front for each of the two most recently completed years. Such information is derived from the financial statements of 4Front and should be read in conjunction with such financial statements.

	As at and for the year ended December 31, 2016 (audited) (\$)	As at and for the year ended December 31, 2017 (audited) (\$)
<i>Statement of operations</i>		
Total revenue	\$668,858	\$721,009
Net loss from operations	(\$4,305,542)	(\$4,656,765)
Net loss	(\$1,814,342)	(\$4,399,127)
Net loss per share (basic and diluted)	N/A	N/A
<i>Statement of financial position</i>		
Total assets	\$6,664,540	\$13,778,527
Total liabilities	\$4,698,309	\$14,335,483
Cash dividends declared per share	N/A	N/A

See Schedule "A" – Audited Consolidated Annual Financial Statements of 4Front as of and for the Years Ended December 31, 2017 and 2016.

Cannex's Annual Information

The following table sets forth selected financial information for Cannex as at and for the period from formation on February 23, 2017 to September 30, 2017 and for the seven months ended April 30, 2018. Such information is derived

from the audited consolidated financial statements of Cannex and should be read in conjunction with such financial statements.

	Formation on February 23, 2017 to September 30, 2017⁽¹⁾ (audited) (\$)	As at and for the seven months ended April 30, 2018⁽¹⁾ (audited) (\$)
<i>Statement of operations</i>		
Total revenue	3,339,014	6,940,168
Net loss from operations	701,715	(2,388,264)
Comprehensive net loss	(1,277,487)	(4,049,714)
Net loss per share (basic and diluted)	(0.09)	(0.03)
<i>Statement of financial position</i>		
Total assets	31,783,961	47,098,788
Total liabilities	30,523,407	16,071,984
Cash dividends declared per share	Nil	Nil

Note:

(1) Information is derived from the *Audited Consolidated Financial Statements of Cannex as of and for the period from Formation on February 23, 2017 to September 30, 2017 and for the seven months ended April 30, 2018*, which statements were required to be audited and issued pursuant to Section 4.9 of NI 51-102, due to a change of year-end of Cannex upon completion of the Cannex-Arco RTO Amalgamation in March, 2018.

See Schedule "C" – *Audited Consolidated Financial Statements of Cannex as of and for the period from Formation on February 23, 2017 to September 30, 2017 and for the seven months ended April 30, 2018*.

Selected Annual Financial Information

	4Front as at and for the year ended December 31, 2017 (audited) (\$)	Healthy Pharms as at and for the year ended December 31, 2017 (audited) (\$)	Cannex as at and for the seven months ended April 30, 2018 (audited) (\$)	Cannex as at and for the 12 month constructed period ended January 31, 2018¹ (unaudited) (\$)	Resulting Issuer Pro Forma as at and for the period ended of December 31, 2017 (unaudited) (\$)²
<i>Statement of operations</i>					
Total revenue	721,009	1,992,416	6,940,168	10,190,860	12,904,285
Net loss attributable to members or shareholders	(3,588,870)	(1,837,261)	(4,049,714)	(285,536)	(5,711,667)
<i>Statement of financial position</i>					
Total assets	13,778,527	6,564,686	47,098,788	43,486,875	63,830,088
Total liabilities	14,335,483	10,046,639	16,071,984	31,782,426	56,164,548

Members'/shareholders' equity	(556,956)	(3,481,953)	31,026,804	11,704,449	7,665,540
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Notes:

- (1) Information is derived from the *Audited Consolidated Financial Statements of Cannex as of and for the period from Formation on February 23, 2017 to September 30, 2017 and for the seven months ended April 30, 2018*, which statements were required to be audited and issued pursuant to Section 4.9 of NI 51-102, due to a change of year-end of Cannex upon completion of the Cannex-Arco RTO Amalgamation in March 2018. As the fiscal year ends of 4Front and Cannex are greater than 93 days apart, the pro forma financial information reflects a constructed period of Cannex beginning on February 23, 2017 and ending on January 31, 2018.
- (2) After giving effect to the Business Combination.

See Schedule "A" – Audited Consolidated Annual Financial Statements of 4Front as of and for the Years Ended December 31, 2017 and 2016, Schedule "C" – Audited Consolidated Financial Statements of Cannex as of and for the period from Formation on February 23, 2017 to September 30, 2017 and for the seven months ended April 30, 2018, Schedule "E" – *Audited Financial Statements of Healthy Pharms as of January 1, 2016 and as of and for the years ended December 31, 2017 and 2016* and Schedule "G" – *Consolidated Pro Forma Financial Statements of the Resulting Issuer as at December 31, 2018*.

5.2 Selected Interim Financial Information

The following tables set forth selected financial information for 4Front and Cannex and selected pro forma financial statements of the Resulting Issuer as at and for the twelve months ended December 31, 2018. Such information is derived from the financial statements of 4Front and Cannex and should be read in conjunction with such financial statements.

	4Front as of and for the twelve months ended December 31, 2018 (unaudited) (\$)	Healthy Pharms as of and for the period ended November 12⁽¹⁾, 2018 (unaudited) (\$)	Cannex as of and for the twelve months ended January 31, 2019 (unaudited) (\$)	Resulting Issuer Pro Forma as at and for the twelve months ended December 31⁽²⁾, 2018 (unaudited) (\$)
<i>Statement of operations</i>				
Net revenue	3,667,468	3,406,038	10,219,045	17,292,551
Gross profit (loss)	1,173,176	1,866,421	7,674,842	10,714,439
Net profit (loss) attributable to members/ shareholders	(11,021,488)	(862,081)	(8,432,209)	(20,315,778)
<i>Statement of financial position</i>				
Total assets	61,854,305	N/A	65,083,553	300,682,424
Total liabilities	12,837,436	N/A	29,937,113	42,774,549
Members'/shareholders' equity	49,016,869	N/A	35,146,440	257,907,875

Notes:

- (1) Represents the financial information for the period from January 1, 2018 to November 12, 2018. For the period beginning November 13, 2018 to December 31, 2018, Healthy Pharms' financials have been consolidated into the 4Front Holdings as reported for the period ending December 31, 2018.
- (2) As the fiscal year ends of 4Front and Cannex are greater than 93 days apart, the pro forma financial information reflects a constructed 9-month period of 4Front ending December 31, 2018.

See Schedule "B" – *Unaudited Condensed Consolidated Interim Financial Statements of 4Front as of and for the Three and Nine Months Ended September 30, 2018 and 2017*, Schedule "D" – *Unaudited Condensed Consolidated*

Interim Financial Statements of Cannex as of and for the Three and Nine Months Ended January 31, 2019, Schedule “F” – Unaudited Condensed Financial Statements of Healthy Pharms as of and for the Three and Nine Months Ended September 30, 2018 and Schedule “G” – Consolidated Pro Forma Financial Statements of the Resulting Issuer as at December 31, 2018.

5.3 Dividends

Neither Cannex nor 4Front has declared distributions in the past. The Resulting Issuer currently intends to reinvest all future earnings to finance the development and growth of its business. As a result, the Resulting Issuer does not intend to pay dividends in the foreseeable future. Any future determination to pay distributions will be at the discretion of the Resulting Issuer Board and will depend on the financial condition, business environment, operating results, capital requirements, any contractual restrictions on the payment of distributions and any other factors that the Resulting Issuer Board deems relevant. The Resulting Issuer is not bound or limited in any way to pay dividends in the event that the Resulting Issuer Board determined that a dividend was in the best interest of its shareholders.

5.4 Foreign GAAP

The financial statements included in this Listing Statement have been, and the future financial statements of the Resulting Issuer shall be, prepared in accordance with IFRS.

6. MANAGEMENT’S DISCUSSION AND ANALYSIS

4Front’s management’s discussion and analysis for the year ended December 31, 2017 and as of and for the three and nine month period ended September 30, 2018 is attached to this Listing Statement as Schedule “H” – *Annual and Interim Management Discussion and Analysis of 4Front.*

Cannex’s management’s discussion and analysis for the year ended April 30, 2018 and for the nine month period ended January 31, 2019 is attached to this Listing Statement as Schedule “I” – *Annual and Interim Management Discussion and Analysis of Cannex.*

Healthy Pharms’ management’s discussion and analysis for the year ended December 31, 2017 and for the three and nine month period ended September 30, 2018 is attached to this Listing Statement as Schedule “J” – *Annual and Interim Management Discussion and Analysis of Healthy Pharms.*

7. MARKET FOR SECURITIES

Prior to the closing of the transaction, the Cannex Common Shares had been listed on the CSE under the symbol “CNNX”. The Resulting Issuer intends to be traded on the CSE under the symbol “FFNT”.

8. CONSOLIDATED CAPITALIZATION

The following table summarizes the consolidated capitalization of share and loan capital of the Resulting Issuer as of the dates hereof giving effect to the Business Combination as though it had occurred on such date. The table should be read in conjunction with the financial statements of 4Front and Cannex, including the notes thereto, included elsewhere in this Listing Statement or filed on SEDAR, as applicable.

Security	After giving effect to the closing of the Business Combination
Subordinate Voting Shares	118,128,987
Subordinate Proportionate Voting Shares	5,115,644
Multiple Voting Shares	1,276,208
Resulting Issuer Warrants	
Resulting Issuer NH Warrants	3,413,416
Resulting Issuer Agent Warrants	1,652,279
Resulting Issuer PP Subscriber Warrants	24,109,936
Resulting Issuer GGP Warrants	
Resulting Issuer GGP Warrants A	87,500

Resulting Issuer GGP Warrants B	56,391
Resulting Issuer GGP Warrants C	25,126
Resulting Issuer Replacement Options	
Resulting Issuer Replacement Options for Subordinate Voting Shares ⁽¹⁾	7,125,000
Resulting Issuer Replacement Options for Subordinate Proportionate Voting Shares ⁽²⁾	84,964
Resulting Issuer Replacement Options for Subordinate Proportionate Voting Shares ⁽³⁾	78,750
Resulting Issuer Notes ⁽⁴⁾	
Convertible into Subordinate Proportionate Voting Shares (\$66.40) ⁽⁵⁾	481,928 (principal amount of \$32,000,000)

Notes:

- (1) Represents former Cannex Common Share Options. Each such Resulting Issuer Replacement Option for Subordinate Voting Shares is exercisable into one Subordinate Voting Share at an exercise price of C\$1.00 per share.
- (2) Represents former Nevada Holdco Options. Each such Resulting Issuer Replacement Option for Subordinate Proportionate Voting Shares is exercisable into one Subordinate Proportionate Voting Share at an exercise price of C\$8.00 per share.
- (3) Represents former Cannex Class A Share Options. Each such Resulting Issuer Replacement Option for Subordinate Proportionate Voting Shares is exercisable into one Subordinate Voting Share at an exercise price of C\$80.00 per share.
- (4) Principal amount of Resulting Issuer Notes. The Resulting Issuer Notes are convertible into Subordinate Proportionate Voting Shares at a conversion price of \$66.40 per share pursuant to the conversion right under the terms of such notes.
- (5) Principal amount outstanding.

9. OPTIONS TO PURCHASE SECURITIES

Other than as set out in the table below, following completion of the Business Combination, there are no options to purchase securities of the Resulting Issuer held by:

- (a) all executive officers and past executive officers of the Resulting Issuer as a group and all directors and past directors of the Resulting Issuer who are not also executive officers as a group;
- (b) all executive officers and past executive officers of all Subsidiaries of the Resulting Issuer as a group and all directors and past directors of those Subsidiaries who are not also executive officers of the Subsidiary as a group, excluding individuals referred to in subsection 9(a) above;
- (c) all other employees and past employees of the Resulting Issuer as a group;
- (d) all other employees and past employees of Subsidiaries of the Resulting Issuer as a group;
- (e) all consultants of the Resulting Issuer as a group; and
- (f) any other person or company, including the underwriter.

Category	Type of Securities Reserved under Option	Number of Securities Reserved under Option	Exercise Price per Security	Expiry Date
All present and past executive officers and directors of the Resulting Issuer	Proportionate Voting	4,028	C\$8.00	September 16, 2024
	Proportionate Voting	22,500	C\$80.00	Dec 11, 2022
	Proportionate Voting	7,500	C\$80.00	Oct 5, 2023
	Subordinated Voting	900,000	C\$1.00	Dec 11, 2022
All present and past executive officers and directors of the Resulting Issuer's Subsidiaries	Proportionate Voting	72,104	C\$8.00	September 16, 2024
	Proportionate Voting	28,750	C\$80.00	Dec 11, 2022
	Proportionate Voting	5,000	C\$80.00	Oct 5, 2023
	Subordinated Voting	1,400,000	C\$1.00	Dec 11, 2022

All other employees and past employees of the Resulting Issuer	N/A	N/A	N/A	N/A
All other employees and past employees of the Resulting Issuer's Subsidiaries	Proportionate Voting Subordinated Voting	8,728 300,000	C\$8.00 C\$1.00	September 16, 2024 Oct 5, 2023
All consultants of the Resulting Issuer	Proportionate Voting Subordinated Voting Subordinated Voting	15,000 675,000 3,850,000	C\$80.00 C\$1.00 C\$1.00	Dec 11, 2022 Oct 5, 2023 Dec 11, 2022
Any other person or company, including underwriters	N/A	N/A	N/A	N/A

On April 16, 2019 Nevada Holdco Shareholders and Cannex Shareholders approved the Resulting Issuer Equity Incentive Plans, the principal terms of which are described below.

Summary of the Resulting Issuer Equity Incentive Plans

The Resulting Issuer has two incentive stock option plans: the Resulting Issuer Subordinate Voting Share Equity Incentive Plan, which allows for the grant and exercise of options to purchase Subordinate Voting Shares, and the Resulting Issuer Subordinate Proportionate Voting Share Equity Incentive Plan, which allows for the grant and exercise of options to purchase Subordinate Proportionate Voting Shares. The following is a brief summary of the Resulting Issuer's Equity Incentive Plans:

- (a) the maximum number of shares which will be available for purchase pursuant to Options granted pursuant to Resulting Issuer Subordinate Voting Share Equity Incentive Plan and the Resulting Issuer Subordinate Proportionate Voting Share Equity Incentive Plan will not exceed 10% of the Subordinate Voting Shares, taken together with the number of Subordinate Voting Shares issuable on conversion of the Subordinate Proportionate Voting Shares and the Multiple Voting Shares measured at the time of grant, less the number of shares issuable upon outstanding options; if any option expires or otherwise terminates for any reason without having been exercised in full, the number of shares in respect of such expired or terminated option shall again be available for the purposes of granting options pursuant to the incentive plans;
- (b) the maximum number of Resulting Issuer Replacement Options which may be granted to any one Resulting Issuer Replacement Option holder under the Resulting Issuer Stock Option Plans within any 12-month period shall be 5% of the number of Subordinate Proportionate Voting Shares and Subordinate Voting Shares, taken together, that are outstanding (on a non-diluted basis) immediately prior to the grant of the Resulting Issuer Replacement Option in question (the "**Outstanding Issue**") (unless the Resulting Issuer has obtained disinterested shareholder approval);
- (c) if required under applicable regulatory laws, disinterested shareholder approval is required to the grant to insiders, within a 12-month period, of a number of Resulting Issuer Replacement Options which, when added to the number of outstanding incentive stock options granted to insiders within the previous 12 months, exceed 10% of the Outstanding Issue;
- (d) the expiry date of an Resulting Issuer Replacement Option shall be no later than the tenth anniversary of the grant date of such Resulting Issuer Replacement Option;
- (e) the maximum number of Resulting Issuer Replacement Options which may be granted to any one consultant within any 12-month period must not exceed 2% of the Outstanding Issue;

- (f) the maximum number of Resulting Issuer Replacement Options which may be granted within any 12-month period to employees or consultants engaged in investor relations activities must not exceed 2% of the Outstanding Issue and such options must vest in stages over 12 months with no more than 25% of the Resulting Issuer Replacement Options vesting in any three-month period;
- (g) with respect to “incentive stock options” within the meaning of Section 422(b) of the Code, the maximum number of Subordinate Voting Shares that can be issued under the Resulting Issuer Subordinate Voting Share Equity Incentive Plan is 50 million and the maximum number of Subordinate Proportionate Voting Shares that can be issued under the Resulting Issuer Subordinate Proportionate Voting Share Equity Incentive Plan is 625,000;
- (h) upon death or disability of an option holder, options will expire one year following death or termination or service as a result of disability, upon termination of service other than for cause, options generally expire 30 days following such termination of service;
- (i) officers, directors, employees and eligible consultants are eligible to receive option grants; and
- (j) the exercise price of any new grants of options to purchase Subordinate Voting Shares shall be no less than the closing trading price of the Subordinate Voting Shares on the day immediately preceding the grant date of such option, and the exercise price of any new grants of options to purchase Subordinate Proportionate Voting Shares shall be no less than the closing trading price of the Subordinate Voting Shares on the day immediately preceding the grant date of such option multiplied by 80.

The Resulting Issuer Equity Incentive Plans are designed to promote the long-term success of the Resulting Issuer by strengthening the ability of the Resulting Issuer to attract and retain highly competent employees and by promoting greater alignment of interests between executives and shareholders in the creation of long-term shareholder value.

The purpose of granting stock options is to assist the Resulting Issuer in compensating, attracting, retaining and motivating its executive officers and to closely align the personal interests of such persons to that of the shareholders.

The Resulting Issuer Board has the authority either to grant Resulting Issuer Replacement Options or has the authority to delegate to any board committee (the “**Committee**”) appointed for the purpose of compensating the Resulting Issuer’s directors, officers, employees and consultants the ability to grant Resulting Issuer Replacement Options to the Resulting Issuer’s directors, management, employees and consultants. Resulting Issuer Replacement Options can be granted, from time to time at the sole discretion of the Resulting Issuer Board or the Committee, to persons eligible to receive Resulting Issuer Replacement Options under the Stock Option Plans. Exercise prices are set in accordance with CSE policies.

In determining the number of Resulting Issuer Replacement Options to be granted to the executive officers, the Resulting Issuer Board considers a number of factors including the amount and term of Resulting Issuer Replacement Options previously granted, base salary and annual performance incentives awarded to the executives and commensurate with those offered by other companies in the Resulting Issuer’s industry; and the exercise price of any outstanding options to ensure that such grants are in accordance with CSE policies. Resulting Issuer Replacement Options vest on terms established by the Resulting Issuer Board at the time of grant.

10. DESCRIPTION OF THE SECURITIES

10.1 General Description of the Share Capital of the Resulting Issuer

The Resulting Issuer will be authorized to issue an unlimited number of Subordinate Voting Shares, an unlimited number of Subordinate Proportionate Voting Shares and an unlimited number of Multiple Voting Shares. Upon completion of the Business Combination, the Subordinate Voting Shares will represent approximately 9.3% of the voting rights attached to the outstanding securities of the Resulting Issuer, the Subordinate Proportionate Voting Shares will represent approximately 28.7% of the voting rights attached to the outstanding securities of the Resulting

Issuer and the Multiple Voting Shares will represent approximately 62.0% of the voting rights attached to the outstanding securities of the Resulting Issuer (in each case, on a fully-diluted basis).

The following is a summary of the rights, privileges, restrictions and conditions attached to the Subordinate Voting Shares, the Subordinate Proportionate Voting Shares and the Multiple Voting Shares.

Subordinate Voting Shares

Holders of Subordinate Voting Shares will be entitled to notice of and to attend and vote at any meeting of the shareholders of the Resulting Issuer, except a meeting of which only holders of another class or series of shares of the Resulting Issuer will have the right to vote. At each such meeting, holders of Subordinate Voting Shares will be entitled to one vote in respect of each Subordinate Voting Share held.

As long as any Subordinate Voting Shares remain outstanding, the Resulting Issuer will not, without the consent of the holders of the Subordinate Voting Shares by separate special resolution, alter or amend the articles of the Resulting Issuer if the result of such alteration or amendment would (i) prejudice or interfere with any right or special right attached to the Subordinate Voting Shares or (ii) affect the rights or special rights of the holders of Subordinate Voting Shares, Subordinate Proportionate Voting Shares or Multiple Voting Shares on a per share basis.

Holders of Subordinate Voting Shares will be entitled to receive as and when declared by the directors of the Resulting Issuer, dividends in cash or property of the Resulting Issuer. No dividend will be declared on the Subordinate Voting Shares unless the Resulting Issuer simultaneously declares equivalent dividends on (i) the Subordinate Proportionate Voting Shares in an amount per Subordinate Proportionate Voting Share equal to the amount of the dividend declared per Subordinate Voting Share, multiplied by 80, and (ii) the Multiple Voting Shares in an amount per Multiple Voting Share equal to the amount of the dividend declared per Subordinate Voting Share.

The Resulting Issuer Board may declare a stock dividend payable in Subordinate Voting Shares on the Subordinate Voting Shares, but only if the Resulting Issuer Board simultaneously declares a stock dividend payable in: (a) (i) Subordinate Proportionate Voting Shares on the Subordinate Proportionate Voting Shares, in a number of shares per Subordinate Proportionate Voting Share equal to the amount of the dividend declared per Subordinate Voting Share; or (ii) Subordinate Voting Shares on the Subordinate Proportionate Voting Shares, in a number of shares per Subordinate Proportionate Voting Share equal to the amount of the dividend declared per Subordinate Voting Share, multiplied by 80; and (b) (i) Multiple Voting Shares on the Multiple Voting Shares, in a number of shares per Multiple Voting Share equal to the amount of the dividend declared per Subordinate Voting Share, or (ii) Subordinate Voting Shares on the Multiple Voting Shares, in a number of shares per Multiple Voting Share equal to the amount of the dividend declared per Subordinate Voting Share.

Holders of fractional Subordinate Voting Shares will be entitled to receive any dividend declared on the Subordinate Voting Shares in an amount equal to the dividend per Subordinate Voting Share multiplied by the fraction thereof held by such holder.

In the event of the liquidation, dissolution or winding-up of the Resulting Issuer, whether voluntary or involuntary, or in the event of any other distribution of assets of the Resulting Issuer among its shareholders for the purpose of winding up its affairs, the holders of Subordinate Voting Shares will, subject to the prior rights of the holders of any shares of the Resulting Issuer ranking in priority to the Subordinate Voting Shares, be entitled to participate rateably along with all the holders of Subordinate Proportionate Voting Shares and Multiple Voting Shares, with the amount of such distribution per Subordinate Voting Share equal to each of: (i) the amount of such distribution per Subordinate Proportionate Voting Share divided by 80; and (ii) the amount of such distribution per Multiple Voting Share. Each fraction of a Subordinate Voting Share will be entitled to the amount calculated by multiplying the fraction by the amount payable per whole Subordinate Voting Share.

No subdivision or consolidation of the Subordinate Voting Shares will occur unless, simultaneously, the Subordinate Proportionate Voting Shares and the Multiple Voting Shares are subdivided or consolidated using the same divisor or multiplier.

If an offer is made to purchase Subordinate Proportionate Voting Shares, and such offer is required pursuant to applicable securities legislation, a condition of listing or the rules of any stock exchange on which the Subordinate Proportionate Voting Shares or the Subordinate Voting Shares which may be obtained upon conversion of the Subordinate Proportionate Voting Shares may then be listed, to be made to all or substantially all of the holders of Subordinate Proportionate Voting Shares in a province or territory of Canada to which the requirement applies (such offer to purchase, an “**Offer**”) and not made to the holders of Subordinate Voting Shares for consideration per Subordinate Voting Share equal to 0.0125 of the consideration offered per Subordinate Proportionate Voting Share, then each Subordinate Voting Share will become convertible at the option of the holder into Subordinate Proportionate Voting Shares on the basis of 80 Subordinate Voting Shares for one Subordinate Proportionate Voting Share, at any time while the Offer is in effect until one day after the time prescribed by applicable securities legislation or stock exchange rules for the offeror to take up and pay for such shares as are to be acquired pursuant to the Offer (the “**Subordinate Voting Share Conversion Right**”).

The Subordinate Voting Share Conversion Right may only be exercised for the purpose of depositing the Subordinate Proportionate Voting Shares acquired upon conversion under such Offer, and for no other reason. If the Subordinate Voting Share Conversion Right is exercised, the Resulting Issuer will procure that the transfer agent for the Subordinate Voting Shares will deposit under such Offer the Subordinate Proportionate Voting Shares acquired upon conversion, on behalf of the holder.

If Subordinate Proportionate Voting Shares issued upon such conversion and deposited under such Offer are withdrawn by such holder, or such Offer is abandoned, withdrawn or terminated by the offeror, or such Offer expires without the offeror taking up and paying for such Subordinate Proportionate Voting Shares, such Subordinate Proportionate Voting Shares and any fractions thereof issued will automatically, without further action on the part of the holder thereof, be reconverted into Subordinate Voting Shares on the basis of one Subordinate Proportionate Voting Share for 80 Subordinate Voting Shares, and the Resulting Issuer will procure that the transfer agent for the Subordinate Voting Shares will send to such holder a direct registration statement, certificate or certificates representing the Subordinate Voting Shares acquired upon such reconversion. If the offeror under such Offer takes up and pays for the Subordinate Proportionate Voting Shares acquired upon exercise of the Subordinate Voting Share Conversion Right, the Resulting Issuer will procure that the transfer agent for the Subordinate Voting Shares will deliver to the holders of such Subordinate Proportionate Voting Shares the consideration paid for such Subordinate Proportionate Voting Shares by such Offeror.

Subordinate Proportionate Voting Shares

Holders of Subordinate Proportionate Voting Shares will be entitled to notice of and to attend and vote at any meeting of the shareholders of the Resulting Issuer, except a meeting of which only holders of another class or series of shares of the Resulting Issuer will have the right to vote. Subject to the terms set out in the articles of the Resulting Issuer, at each such meeting, holders of Subordinate Proportionate Voting Shares will be entitled to 80 votes in respect of each Subordinate Proportionate Voting Share, and each fraction of a Subordinate Proportionate Voting Share shall entitle the holder to the number of votes calculated by multiplying the fraction by 80 and rounding the product down to the nearest whole number, at each such meeting.

As long as any Subordinate Proportionate Voting Shares remain outstanding, the Resulting Issuer will not, without the consent of the holders of the Subordinate Proportionate Voting Shares and Multiple Voting Shares, voting together, by separate special resolution, alter or amend the articles of the Resulting Issuer if the result of such alteration or amendment would (i) prejudice or interfere with any right or special right attached to the Subordinate Proportionate Voting Shares or (ii) affect the rights or special rights of the holders of Subordinate Voting Shares, Subordinate Proportionate Voting Shares or Multiple Voting Shares on a per share basis. Consent of the holders of a majority of the outstanding Subordinate Proportionate Voting Shares and Multiple Voting Shares, voting together, shall be required for any action that authorizes or creates shares of any class or series having preferences superior to or on a parity with the Subordinate Proportionate Voting Shares. In connection with the exercise of the voting rights in respect of any such approvals, each holder of Subordinate Proportionate Voting Shares will have one vote in respect of each Subordinate Proportionate Voting Share held. At any meeting of holders of Subordinate Proportionate Voting Shares and Multiple Voting Shares called to consider such a separate special resolution, each Subordinate Proportionate Voting Share and Multiple Voting Share will entitle the holder to one vote and each fraction of a Subordinate Proportionate Voting Share or Multiple Voting Share will entitle the holder to the corresponding fraction of one vote.

Holders of Subordinate Proportionate Voting Shares will be entitled to receive, as and when declared by the directors of the Resulting Issuer, dividends in cash or property of the Resulting Issuer. No dividend will be declared on the Subordinate Proportionate Voting Shares unless the Resulting Issuers simultaneously declares equivalent dividends on (i) the Subordinate Voting Shares, in an amount equal to the amount of the dividend declared per Subordinate Proportionate Voting Share divided by 80, and (ii) the Multiple Voting Shares, in an amount equal to the dividend declared per Subordinate Proportionate Voting Share divided by 80.

The Resulting Issuer Board may declare a stock dividend payable in Subordinate Proportionate Voting Shares on the Subordinate Proportionate Voting Shares, but only if the directors simultaneously declare a stock dividend payable in: (i) Subordinate Proportionate Voting Shares on the Subordinate Voting Shares, in a number of shares per Subordinate Voting Share equal to the amount of the dividend declared per Subordinate Proportionate Voting Share divided by 80; and (ii) Subordinate Proportionate Voting Shares on the Multiple Voting Shares, in a number of shares per Multiple Voting Share equal to the amount of the dividend declared per Subordinate Proportionate Voting Share divided by 80. The directors of the Resulting Issuer may declare a stock dividend payable in Subordinate Voting Shares on the Subordinate Proportionate Voting Shares, but only if the directors simultaneously declare a stock dividend payable in: (i) Subordinate Voting Shares on the Subordinate Voting Shares, in a number of shares per Subordinate Voting Share equal to the amount of the dividend declared per Subordinate Proportionate Voting Share divided by 80; and (ii) Subordinate Voting Shares on the Multiple Voting Shares, in a number of shares per Multiple Voting Shares equal to the amount of the dividend declared per Subordinate Proportionate Voting Share divided by 80.

In the event of the liquidation, dissolution or winding-up of the Resulting Issuer, whether voluntary or involuntary, or in the event of any other distribution of assets of the Resulting Issuer among its shareholders for the purpose of winding up its affairs, the holders of Subordinate Proportionate Voting Shares will be entitled to participate rateably along with the holders of Subordinate Voting Shares and Multiple Voting Shares, with the amount of such distribution per Subordinate Proportionate Voting Share equal to each of: (i) the amount of such distribution per Subordinate Voting Share multiplied by 80; and (ii) the amount of such distribution per Multiple Voting Share multiplied by 80; and each fraction of a Subordinate Proportionate Voting Share will be entitled to the amount calculated by multiplying the fraction by the amount payable per whole Subordinate Proportionate Voting Share.

No subdivision or consolidation of the Subordinate Proportionate Voting Shares may occur unless, simultaneously, the Subordinate Voting Shares and the Multiple Voting Shares are subdivided or consolidated using the same divisor or multiplier.

Each Subordinate Proportionate Voting Share shall be convertible, at the option of the holder thereof, at the head office of the Resulting Issuer or any transfer agent for such shares, into such number of fully paid and non-assessable Subordinate Voting Shares as is determined by multiplying the number of Subordinate Proportionate Voting Shares in respect of which the share conversion right is exercised by 80. The ability to convert the Subordinate Proportionate Voting Shares during the Restricted Conversion Period is subject to a restriction that, unless the Resulting Issuer Board determines otherwise, the aggregate number of Subordinate Voting Shares, Subordinate Proportionate Voting Shares and Multiple Voting Shares held of record, directly or indirectly, by residents of the United States (as determined in accordance with Rules 3b-4 and 12g3-2(a) under the U.S. Exchange Act), may not exceed 40% of the aggregate number of Subordinate Voting Shares, Subordinate Proportionate Voting Shares and Multiple Voting Shares issued and outstanding after giving effect to such conversions.

Multiple Voting Shares

Holders of Multiple Voting Shares are entitled to notice of and to attend and vote at any meeting of the shareholders of the Resulting Issuer, except a meeting of which only holders of another class or series of shares of the Resulting Issuer will have the right to vote. At each such meeting, holders of Multiple Voting Shares will be entitled to 800 votes in respect of each Multiple Voting Share held. Each fraction of a Multiple Voting Share shall entitle the holder to the number of votes calculated by multiplying the fraction by 800 and rounding the product down to the nearest whole number, at each such meeting.

Multiple Voting Shares are not convertible until the Initial Conversion Date. Each Multiple Voting Share shall automatically convert, without any action on the part of the holder thereof, into Subordinate Voting Shares on the basis of one Subordinate Voting Share for one Multiple Voting Share upon: (i) the death or disability of an Initial

Holder (as defined below) with respect to all Multiple Voting Shares held by an Initial Holder, (ii) an Involuntary Transfer Event with respect to the Multiple Voting Shares being transferred pursuant to the Involuntary Transfer Event, or (iii) any other transfer of Multiple Voting Shares to anyone other than another Initial Holder with respect to such Multiple Voting Shares being transferred.

Multiple Voting Shares are intended to provide voting control to Mr. Rosen, Mr. Pratte, Mr. Chowscano, Mr. Thut and Mr. Krane. As long as any Multiple Voting Shares remain outstanding, the Resulting Issuer will not, without the consent of the holders of the Multiple Voting Shares by separate special resolution, alter or amend the articles of the Resulting Issuer if the result of such alteration or amendment would (i) prejudice or interfere with any right or special right attached to the Multiple Voting Shares or (ii) affect the rights or special rights of the holders of Subordinate Voting Shares, Subordinate Proportionate Voting Shares or Multiple Voting Shares on a per share basis. Additionally, consent of the holders of a majority of the outstanding Multiple Voting Shares will be required for any action that authorizes or creates shares of any class or series having preferences superior to or on a parity with the Multiple Voting Shares. In connection with the exercise of the voting rights in respect of any such approvals, each holder of Multiple Voting Shares will have one vote in respect of each Multiple Voting Share held. At any meeting of holders of Multiple Voting Shares called to consider such a separate ordinary resolution, each Multiple Voting Share will entitle the holder to one vote and each fraction of a Multiple Voting Share shall entitle the holder to the number of votes calculated by multiplying the fraction by 80 and rounding the product down to the nearest whole number, at each such meeting.

Holders of Multiple Voting Shares will be entitled to receive, as and when declared by the directors of the Resulting Issuer, dividends in cash or property of the Resulting Issuer. No dividend will be declared on the Multiple Voting Shares unless the Resulting Issuer simultaneously declares equivalent dividends on (i) the Subordinate Voting Shares, in an amount equal to the amount of the dividend declared per Multiple Voting Share, and (ii) the Subordinate Proportionate Voting Shares, in an amount equal to the dividend declared per Multiple Voting Share multiplied by 80.

The Resulting Issuer Board may declare a stock dividend payable in Subordinate Proportionate Voting Shares on the Multiple Voting Shares, but only if the directors simultaneously declare a stock dividend payable in: (i) Subordinate Proportionate Voting Shares on the Subordinate Voting Shares, in a number of shares per Subordinate Voting Share equal to the amount of the dividend declared per Multiple Voting Share; and (ii) Subordinate Proportionate Voting Shares on the Subordinate Proportionate Voting Shares, in a number of shares per Subordinate Proportionate Voting Share equal to the amount of the dividend declared per Multiple Voting Share multiplied by 80. The directors of the Resulting Issuer may declare a stock dividend payable in Subordinate Voting Shares on the Multiple Voting Shares, but only if the directors simultaneously declare a stock dividend payable in: (i) Subordinate Voting Shares on the Subordinate Voting Shares, in a number of shares per Subordinate Voting Share equal to the amount of the dividend declared per Multiple Voting Share; and (ii) Subordinate Voting Shares on the Subordinate Proportionate Voting Shares, in a number of shares per Subordinate Proportionate Voting Shares equal to the amount of the dividend declared per Multiple Voting Share multiplied by 80.

In the event of the liquidation, dissolution or winding-up of the Resulting Issuer, whether voluntary or involuntary, or in the event of any other distribution of assets of the Resulting Issuer among its shareholders for the purpose of winding up its affairs, the holders of Multiple Voting Shares will be entitled to participate ratably along with the holders of Subordinate Proportionate Voting Shares and Subordinate Voting Shares, with the amount of such distribution per Multiple Voting Share equal to each of: (i) the amount of such distribution per Subordinate Voting Share; and (ii) the amount of such distribution per Subordinate Proportionate Voting Share divided by 80. Each fraction of a Multiple Voting Share will be entitled to the amount calculated by multiplying the fraction by the amount payable per whole Multiple Voting Share.

No Multiple Voting Share may be transferred by the holder thereof without the prior written consent of the Resulting Issuer Board, except a holder of Multiple Voting Shares as of the date of initial issuance of Multiple Voting Shares (the “**Initial Holder**”) is permitted to transfer Multiple Voting Shares prior to the Initial Conversion Date to another Initial Holder.

Prior to the Initial Conversion Date, upon: (i) the death or Disability of an Initial Holder, the other Initial Holders will have the obligation to purchase all of such Initial Holder’s Multiple Voting Shares; and (ii) an Involuntary Transfer Event, the other Initial Holders will have the obligation to purchase all of such Initial Holder’s Multiple Voting Shares which would otherwise be transferred pursuant to the Involuntary Transfer Event (each a “**Purchase Obligation**”).

Promptly following an event triggering a Purchase Obligation, the Transferring Initial Holder will send a written notice to the company and other Initial Holders setting forth the event triggering the Purchase Obligation (the “**Purchase Obligation Notice**”) as well as the number of Multiple Voting Shares subject to the Purchase Obligation (“**Subject Multiple Voting Shares**”). If the purchase price of any Subject Multiple Voting Shares are purchased by a promissory note (the “**Note**”) the following terms will apply:

- Principal and interest will be paid in no more than 12 equal quarterly installments (the first installment of which will be due 120 days after the Purchase Obligation Notice);
- Interest on the principal amount will be at the minimum rate established pursuant to IRS Code Sections 483 and 1274 and a five percent late penalty will apply to any payment not paid within five days of its due date;
- Right at any time to prepay without penalty all or any part of the balance due on the Note with interest to the date of prepayment;
- Secured by a pledge of such number of the purchasing Initial Holder’s Subordinate Proportionate Voting Shares or Subordinate Voting Shares or such other assets (excluding the Multiple Voting Shares being acquired) such that the Pledged Value equals the principal amount of the Note;
- Purchasing Initial Holder will be entitled to receive all dividends on such Multiple Voting Shares and to exercise all voting rights with respect to such Multiple Voting Shares, except if the note is in default; and
- Failure to make any payment required by a Note within 10 days after its due date will constitute a default and will cause the remaining unpaid balance to become immediately due and payable, at the holder’s option, and the Transferring Initial Holder, after delivering notice of default to the purchasing Initial Holder, will have all the rights and remedies to enforce payment of the unpaid balance authorized by law; provided, the payment in default is not paid in full within 10 days after the date the default notice is delivered.

No subdivision or consolidation of the Multiple Voting Shares shall occur unless, simultaneously, the Subordinate Voting Shares and the Subordinate Proportionate Voting Shares are subdivided or consolidated using the same divisor or multiplier.

In an offer is made to purchase Subordinate Voting Shares or Subordinate Proportionate Voting Shares, and such offer is required pursuant to applicable securities legislation, a condition of listing or the rules of any stock exchange on which the Subordinate Proportionate Voting Shares or Subordinate Voting Shares may then be listed, to be made to all or substantially all of the holders of Subordinate Proportionate Voting Shares or Subordinate Voting Shares in a province or territory of Canada to which the requirement applies (such offer to purchase, a “**MVS Offer**”), then such MVS Offer will be extended by the offeror to the holders of Multiple Voting Shares (which will not be required to convert in order to participate in the MVS Offer) for consideration per Multiple Voting Share equal to 0.0125 of the consideration offered per Subordinate Proportionate Voting Share or (ii) the consideration offered per Subordinate Voting Share, as applicable.

10.2 Debt Securities

On November 21, 2018, Cannex and Cannex Holdings entered into a securities purchase agreement (the “**GGP SPA**”) with GGP, pursuant to which Cannex issued to GGP the Cannex GGP Notes, and transferable share purchase warrants each of which is exchanged in connection with the Business Combination for Resulting Issuer Notes. The holders of the Resulting Issuer Notes are owed approximately \$32,000,000 in aggregate principal amount, plus any accrued and unpaid interest. The Resulting Issuer Notes each become due on November 21, 2021. See Section 17 “*Risk Factors – Risks Specifically Market, Securities and Other Risks – Additional financing*”.

The Resulting Issuer Notes have a maturity date of three years from November 21, 2018. The Resulting Issuer Notes have a coupon of LIBOR plus 11% in year one, LIBOR plus 10% in year two, and LIBOR plus 9.5% in year three, with agreed voluntary prepayment rights after the first anniversary of the November 21, 2018. The Resulting Issuer Notes are exchangeable into Subordinate Proportionate Voting Shares at a conversion price of C\$88.00 per share. The Resulting Issuer Notes are secured by a first priority interest in all the assets of the Resulting Issuer.

Upon conversion, the Resulting Issuer Notes will also be subject to customary adjustment provisions in the event of a subdivision or re-division of the outstanding Resulting Issuer Shares into a greater number of Subordinate Proportionate Voting Shares, a reduction or consolidation of the outstanding Resulting Issuer Shares into a smaller number of Subordinate Proportionate Voting Shares, the issuance of Resulting Issuer Shares, any reclassification, or other change in the outstanding Resulting Issuer Shares pursuant to a change of control transaction.

10.3 Miscellaneous Securities Provisions

See Section 10.1 “*General Description of the Share Capital of the Resulting Issuer*”.

10.4 Other Securities

Resulting Issuer GGP Warrants

In connection with the offering of the Cannex GGP Notes, Cannex also issued the Cannex GGP Warrants, which consisted of GGP warrants A (“**GGP Note Warrants A**”), B (“**GGP Note Warrants B**”) and C (“**GGP Note Warrants C**”) for a total of 13,521,328 warrants, each of which is exchanged in connection with the Business Combination for 1/80th of a Resulting Issuer GGP Warrant, such that 169,017 Resulting Issuer GGP Warrants are issued and outstanding.

Upon conversion, each Resulting Issuer GGP Warrant will be exercisable to acquire one Subordinate Proportionate Voting Share until November 21, 2021, at an exercise price per Subordinate Proportionate Voting Share equal to \$80.00 per share for Resulting Issuer GGP Warrants A, \$106.40 per share for Resulting Issuer GGP Warrants B, and \$159.20 per share for Resulting Issuer GGP Warrants C.

In the event that, on or prior to the expiry date of the Resulting Issuer GGP Warrants, and before the exercise of the Resulting Issuer GGP Warrants, a consolidation, amalgamation or merger of the Resulting Issuer occurs which results in a capital reorganization, then after the effective date of the capital reorganization GGP will receive, for the same aggregate consideration, upon exercising the Resulting Issuer GGP Warrants the kind and aggregate number of Subordinate Proportionate Voting Shares and other securities or property resulting from the capital reorganization which GGP would have been entitled to receive as a result of the capital reorganization if, on the effective date, GGP had been the registered holder of the number of Subordinate Proportionate Voting Shares to which the holder was theretofore entitled to purchase or receive upon the exercise of the Warrant.

The Resulting Issuer GGP Warrants are subject to customary adjustment provisions in the event of a reclassification or redesignation of the Resulting Issuer Shares, a consolidation, amalgamation, or merger of the Resulting Issuer with or into any other corporate body which results in a reclassification or redesignation of the Resulting Issuer Shares or a change of the Resulting Issuer Shares into other shares or securities, or the transfer of the undertaking or assets of the Resulting Issuer as an entirety or substantially as an entirety to another corporation or entity.

Resulting Issuer NH Warrants

As of the date hereof, 3,413,416 Resulting Issuer NH Warrants are issued and outstanding. Each such whole Resulting Issuer NH Warrant is exercisable to purchase one Subordinate Voting Share for C\$0.70 until October 23, 2020.

Resulting Issuer Replacement Options

As of the date hereof, 7,288,609 Resulting Issuer Replacement Options are issued and outstanding, of which (i) 7,125,000 are Resulting Issuer Replacement Options for Subordinate Voting Shares, with each such option exercisable into one Subordinate Voting Share for C\$1.00; (ii) 84,964 are Resulting Issuer Replacement Options for Subordinate Proportionate Voting Shares, with each such option exercisable into one Subordinate Proportionate Voting Share for C\$8.00; and (iii) 78,750 are Resulting Issuer Replacement Options for Subordinate Proportionate Voting Shares, with each such option exercisable into one Subordinate Proportionate Voting Share for C\$80.00. See “*Options to Purchase Securities - Summary of the Resulting Issuer Equity Incentive Plans.*”

Private Placement Subscriber Warrants and Agent Warrants

As of the date hereof, 25,762,215 Resulting Issuer PP Warrants are issued and outstanding, which represent, in the aggregate, (i) 24,109,936 private placement subscriber warrants of the Resulting Issuer (“**Resulting Issuer PP Subscriber Warrants**”) issued in connection with the Business Combination in exchange for the PP Warrants; and (ii) 1,652,279 agent warrants of the Resulting Issuer (“**Resulting Issuer Agent Warrants**”) issued in connection with the Business Combination in exchange for the Agent Warrants. Each such whole Resulting Issuer PP Subscriber Warrant is exercisable to purchase one Subordinate Voting Share for C\$1.50 until March 12, 2020. The Resulting Issuer Subscriber PP Warrants may be accelerated at the option of the Resulting Issuer if the volume-weighted average closing price of the Subordinate Voting Shares is over C\$2.25 for a period of 20 consecutive trading days. Each full Resulting Issuer Agent Warrant is exercisable to purchase one Subordinate Voting Share for C\$1.00 until March 12, 2020.

10.5 Modification of Terms

See Section 10.2 “*Debt Securities*” and 10.4 “*Other Securities*”.

10.6 Other Attributes

See Section 10.1 “*General Description of the Share Capital of the Resulting Issuer*”.

10.7 Prior Sales

4Front

In the 12 months preceding the date of this Listing Statement, 4Front has issued the following securities:

Date of Issue	Class of Security	Number of Securities Issued	Price per Security	Total Issue Price
April 2, 2018	Class C Units	3,650	\$442.50	N/A ⁽¹⁾
June 15, 2018	Class D Units	37,641 ⁽²⁾	\$442.50	\$13,355,078
July 9, 2018	Class C Units	900	\$442.50	N/A ⁽¹⁾
October 5, 2018	Class E Units	7,605 ⁽³⁾	\$460.20	\$3,499,821
October 28, 2018	Class F Units	63,562 ⁽⁴⁾	\$486.75	\$30,938,738
October 28, 2018	Resulting Issuer NH Warrants	3,748	\$486.75	\$1,824,339
November 11, 2018	Class F Units	693 ⁽⁵⁾	\$486.75	\$337,318
November 28, 2018	Class C Units	10,866	\$486.75	N/A ⁽⁶⁾
November 28, 2018	Class F Units	615 ⁽⁷⁾	\$486.75	\$299,351
February 25, 2019	Class F Units	9,030 ⁽⁸⁾	\$486.75	\$4,395,353
March 26, 2019	Class F Units	4,484 ⁽⁹⁾	\$486.75	\$2,182,587
April 15, 2019	Class F Units	20,772 ⁽¹⁰⁾	\$486.75	\$10,110,771

Notes:

- (1) Class C Units are profit interest units. Granted at a time when the fair market value of the units of 4Front were \$442.50.
- (2) Issued in connection with a private placement of Class D Units at a price of \$442.50 per unit and the conversion of the May 2016 loan, with interest, into Class D Units at a price of \$442.50 per unit. The total funds raised were approximately \$13.3 million.
- (3) Issued in connection with the acquisition by 4Front in November 2018 of all of the outstanding shares of Healthy Pharms for \$27 million, of which \$20 million was paid in cash, \$3.5 million of Class E Units and \$3.5 million in a promissory note of 4Front due in November 2019 bearing interest at 15% per annum.
- (4) Issued in connection with a private placement of Class F Units for gross proceeds of \$31,258,329. 4Front also issued one 4Front Liquidity Warrant for each Class F Unit issued and sold in the private placement.
- (5) Issued in connection with the acquisition by 4Front in November 2018 of all of the outstanding ownership interests of MavMax, LLC.
- (6) Class C Units are profit interest units. Granted at a time when the fair market value of the units of 4Front were \$486.75.
- (7) Issued in connection with the partial repayment of the principal and interest of the December 2016 officer loans.
- (8) Issued in connection with four acquisitions by 4Front in February 2019.
- (9) Issued in connection with three acquisitions by 4Front in March 2019.
- (10) Issued in connection with five acquisitions by 4Front in April 2019.

Cannex

In the 12 months preceding the date of this Listing Statement, Cannex has issued the following securities:

Date of Issue	Class of Security	Number of Securities Issued	Price per Security	Total Issue Price
March 12, 2018	Common Shares	36,972,328 ⁽¹⁾	C\$1.00	\$36,972,328
March 12, 2018	Common Shares	2,000,003 ⁽²⁾	C\$1.00	\$2,000,003
March 12, 2018	Class A Shares	96,521,734 ⁽³⁾	C\$1.00	\$96,521,734
March 12, 2018	Common Shares	48,219,872 ⁽⁴⁾	C\$1.00	\$48,219,872 ⁽⁴⁾
March 12, 2018	PP Warrants	24,109,936 ⁽⁴⁾	Nil ⁽⁴⁾	N/A ⁽⁴⁾
March 12, 2018	Agent Warrants	2,893,192 ⁽⁵⁾	Nil ⁽⁵⁾	N/A ⁽⁵⁾
March 12, 2018	Share Purchase Options	11,650,000 ⁽⁶⁾	Nil ⁽⁶⁾	N/A ⁽⁶⁾
October 5, 2018	Share Purchase Options	1,975,000 ⁽⁷⁾	Nil ⁽⁷⁾	N/A ⁽⁷⁾
November 21, 2018	Cannex GGP Notes	US\$32,000,000 ⁽⁸⁾	US\$66.40 ⁽⁸⁾	US\$32,000,000 ⁽⁸⁾
November 21, 2018	GGP Note Warrants A	7,000,000 ⁽⁹⁾	Nil ⁽⁹⁾	N/A ⁽⁹⁾
November 21, 2018	GGP Note Warrants B	4,511,278 ⁽¹⁰⁾	Nil ⁽¹⁰⁾	N/A ⁽¹⁰⁾
November 21, 2018	GGP Note Warrants C	2,010,050 ⁽¹¹⁾	Nil ⁽¹¹⁾	N/A ⁽¹¹⁾
February 1, 2019	Share Purchase Options	200,000 ⁽¹²⁾	Nil ⁽¹²⁾	N/A ⁽¹²⁾

Notes:

- (1) Issued to certain shareholders of Cannex pursuant to the Cannex-Arco RTO Amalgamation.
- (2) Issued to certain shareholders of Arco pursuant to the Cannex-Arco RTO Amalgamation.
- (3) Issued to certain shareholders of Cannex USA pursuant to the Cannex-Arco RTO Amalgamation. Each Class A Share will be exchanged for Subordinate Proportionate Voting Shares on a 1:1 basis.
- (4) Issued upon conversion of the subscription receipts sold pursuant to the Cannex Private Placement. Each Subscription Receipt was issued by Cannex at a price of \$1.00 each and entitles the holder thereof to acquire, upon satisfaction of the Cannex Private Placement Escrow Conditions (satisfied March 13, 2018), one Cannex Common Share and one-half of one PP Warrant, with each such whole PP Warrant exercisable to purchase one Cannex Common Share for C\$1.50 for a period of 24 months (subject to the warrant acceleration) following the satisfaction of the Cannex Private Placement Escrow Release Conditions.
- (5) Issued upon conversion of the Subscription Receipts sold pursuant to the Cannex Private Placement (see Section 10.4 “*Other Securities*”). Each Resulting Issuer Agent Warrant is exercisable for one Subordinate Voting Share at an exercise price of C\$1.00 until March 13, 2020.
- (6) Issued under the Cannex Option Plan. Includes 3,700,000 Cannex Class A Share Options exercisable into 3,700,000 Cannex Class A Shares. Upon completion of the Business Combination, such options will be exchanged for 46,250 Resulting Issuer Replacement Options for 46,250 Subordinate Proportionate Voting Shares.
- (7) Issued under the Cannex Option Plan. Expiry date is October 5, 2023.
- (8) Principal amount of senior secured convertible note issued by Cannex in connection with Cannex GGP Notes. On completion of the Business Combination, the Cannex GGP Notes will be exchanged for Resulting Issuer Notes. If the conversion right under the Resulting Issuer Notes is exercised, then the securities issued will be Subordinate Proportionate Voting Shares of the Resulting Issuer. The Resulting Issuer Notes are convertible into Subordinate Proportionate Voting Shares at a conversion price of \$66.40 per share pursuant to the conversion right.
- (9) Each GGP Note Warrant A is exercisable to purchase one share at the warrant exercise price of US\$1.00 for a period of 36 months from November 21, 2018. On completion of the Business Combination, each GGP Note Warrant A will be exchanged for Resulting Issuer GGP Warrants. When exercised the securities issued will be Subordinate Proportionate Voting Shares.
- (10) Each GGP Note Warrant B is exercisable to purchase one share at the warrant exercise price of US\$1.33 for a period of 36 months from November 21, 2018. On completion of the Business Combination, each GGP Note Warrant B will be exchanged for Resulting Issuer GGP Warrants. When exercised the securities issued will be Subordinate Proportionate Voting Shares.
- (11) Each GGP Note Warrant C is exercisable to purchase one share at the warrant exercise price of US\$1.99 for a period of 36 months from November 21, 2018. On completion of the Business Combination, each GGP Note Warrant C will be exchanged for Resulting Issuer GGP Warrants. When exercised the securities issued will be Subordinate Proportionate Voting Shares.

(12) Issued under the Cannex Option Plan. Expiry date is February 1, 2024.

10.8 Stock Exchange Price

None of the matters set out in sections 10.8 of CSE – Form 2A are applicable to the Subordinate Voting Shares.

11. ESCROWED SECURITIES

Pursuant to National Policy 46-201, the Resulting Issuer is an “exempt issuer” as defined therein and is thus not subject to escrow.

12. PRINCIPAL SHAREHOLDERS

12.1 Principal Shareholders

To the knowledge of the directors and officers of the Resulting Issuer, the following Persons are anticipated to beneficially own, directly or indirectly, or exercise control or direction over more than 10% of any class of voting securities of the Resulting Issuer upon completion of the Business Combination.

Name, Jurisdiction of Residence	Number of Shares	Class of Shares	Ownership ⁽¹⁾⁽²⁾	Percentage of Class
Josh Rosen Arizona, United States	309,290	Multiple Voting Shares	Certain shares held of Record and Beneficially; Certain shares held Beneficially	24.2%
	287,130	Subordinate Proportionate Voting Shares		5.6%
Trevor Pratte Arizona, United States	342,353	Multiple Voting Shares	Certain shares held of Record and Beneficially; Certain shares held Beneficially	26.8%
	317,823	Subordinate Proportionate Voting Shares		6.2%
Karl Chowscano Arizona, United States	338,685	Multiple Voting Shares	Certain shares held of Record and Beneficially; Certain shares held Beneficially	26.5%
	314,419	Subordinate Proportionate Voting Shares		6.1%
Andrew Thut Massachusetts, United States	147,914	Multiple Voting Shares	Of Record and Beneficially	11.6%
	137,316	Subordinate Proportionate Voting Shares		2.7%
Kris Krane Illinois, United States	137,966	Multiple Voting Shares	Of Record and Beneficially	10.8%
	128,081	Subordinate Proportionate Voting Shares		2.5%

Notes:

- (1) All Multiple Voting Shares are held directly by the individuals listed in the first column.
- (2) Certain of the Subordinate Proportionate Voting Shares of Josh Rosen and Karl Chowscano are held of record and beneficially by Mr. Rosen or Mr. Chowscano, as applicable. Certain of the Subordinate Proportionate Voting Shares of Mr. Rosen and Mr. Chowscano are held beneficially by Mr. Rosen or Mr. Chowscano, as applicable and of record by Persons controlled by Mr. Rosen or Mr. Chowscano, as applicable. Certain of the Subordinate Proportionate Voting Shares of Trevor Pratte are held of record and beneficially by Mr. Pratte. Certain of the Subordinate Proportionate Voting Shares of Trevor Pratte are held beneficially by Mr. Pratte and of record by Persons in which Mr. Pratte has a non-controlling ownership interest.

12.2 Voting Trusts

To the knowledge of the Resulting Issuer, no voting trust exists within the Resulting Issuer such that more than 10% of any class of voting securities of the Resulting Issuer are held, or are to be held, subject to any voting trust or other similar agreement.

12.3 Associates and Affiliates

To the knowledge of the Resulting Issuer none of the principal shareholders of is an Associate or Affiliate of any other principal shareholder.

13. DIRECTORS AND OFFICERS

13.1 Directors and Officers

The following table lists the names and municipalities of residence of the directors and officers of the Resulting Issuer, their positions and offices to be held with the Resulting Issuer, their principal occupations during the past five years and the number of securities of the Resulting Issuer that are beneficially owned, directly or indirectly, or over which control or direction will be exercised by each:

Name and Municipality of Residence	Position(s) with the Resulting Issuer	4Front Director and/or Officer Since	Principal Occupation for Past Five Years	Number, Class and Percentage of Resulting Issuer Shares Beneficially Owned or Controlled after the Business Combination	Number and Percentage of Subordinate Voting Shares, Subordinate Proportionate Voting Shares and Multiple Voting Shares Beneficially Owned or Controlled After the Business Combination on a Fully Diluted Basis
Josh Rosen ⁽¹⁾ Phoenix, Arizona, USA	Chief Executive Officer, Director	2016	CEO and Director of 4Front	309,290 Multiple Voting Shares – 24.2% 287,130 Subordinate Proportionate Voting Shares – 5.6%	596,419 – 0.4%
Anthony Dutton ⁽²⁾ Vancouver, British Columbia, Canada	Director	N/A	President, CEO and Director of Cannex (since 2018); President of Delu Corp.; President, CEO and Director of IBC Advanced Alloys Corp.	6,245,000 Subordinate Voting Shares - 4.1%	6,245,000 – 3.9%
Eric Rey ⁽¹⁾⁽²⁾ Berkeley, California, USA	Director	N/A	Director of Arcadia Biosciences Inc.; Director of	Nil	Nil

			Texas Crop Science LLC		
Leo Gontmakher ⁽²⁾ Dorado, Puerto Rico, United States	Chief Operating Officer and President, Production Division (Brightleaf), Director	N/A	COO and Director of Cannex; President of Maha Consulting Inc.; CEO and Co-founder Northwest Cannabis Solutions	320,080 Subordinate Proportionate Voting Shares – 5.5% 4,342,457 Subordinate Voting Shares – 2.8%	4,662,537 – 2.9%
David Croom Seattle, Washington, USA	Chief Financial Officer & Corporate Secretary	N/A	CFO of Cannex	Nil	Nil
David Daily ⁽¹⁾ Austin, Texas, USA	Director	N/A	CEO of GRAV, formerly GRAV Labs	Nil	Nil

Notes:

- (1) Member of the audit committee.
(2) Member of the compensation committee.

All of the directors of the Resulting Issuer will be appointed to hold office until the next annual general meeting of shareholders or until their successors are duly elected or appointed, unless their office is earlier vacated.

Board Committees

The Resulting Issuer currently has an audit committee and compensation committee. A brief description of each committee is set out below. Following the completion of the Business Combination, the directors of the Resulting Issuer intend to establish such committees of the board as determined to be appropriate in addition to the audit committee and compensation committee.

Audit Committee

The audit committee assists the Resulting Issuer Board in fulfilling its responsibilities for oversight of financial and accounting matters. The audit committee reviews the financial reports and other financial information provided by the Resulting Issuer to regulatory authorities and its shareholder and reviews the Resulting Issuer's system of internal controls regarding finance and accounting including auditing, accounting and financial reporting processes.

The members of the audit committee after completion of the Business Combination will include the following three directors. Also indicated is whether they are "independent" and "financially literate" within the meaning of NI 52-110.

Name of Member	Independent ⁽¹⁾	Financially Literate ⁽²⁾
Josh Rosen	No	Yes
Eric Rey (Chair)	Yes	Yes
David Daily	Yes	Yes

Notes:

- (1) A member of the audit committee is independent if he or she has no direct or indirect 'material relationship' with the Resulting Issuer. A material relationship is a relationship which could, in the view of the Resulting Issuer Board, reasonably interfere with the exercise of a member's independent judgment. An executive officer of the Resulting Issuer, such as the President or Secretary, is deemed to have a material relationship with the Resulting Issuer.
- (2) A member of the audit committee is financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Resulting Issuer's financial statements.

Compensation Committee

The compensation committee assists the Resulting Issuer Board in fulfilling its responsibilities for compensation philosophy and guidelines, and fixing compensation levels for the Resulting Issuer's executive officers. In addition, the compensation committee is charged with reviewing the employee stock option plan and proposing changes thereto, approving any awards of options under the employee stock option plan and recommending any other employee benefit plans, incentive awards and perquisites with respect to the Resulting Issuer's executive officers. The Compensation Committee is also responsible for reviewing, approving and reporting to the Resulting Issuer Board annually (or more frequently as required) on the Resulting Issuer's succession plans for its executive officers.

The members of the compensation committee after completion of the Business Combination will include the following three directors: Mr. Rey (chair), Mr. Gontmakher and Mr. Dutton.

13.2 Corporate Cease Trade Orders or Bankruptcies; Penalties or Sanctions; Personal Bankruptcies

Following completion of the Business Combination, no director or officer of the Resulting Issuer or a shareholder holding a sufficient number of securities of the Resulting Issuer to affect materially the control of the Resulting Issuer is, or within 10 years before the date of this Listing Statement has been, a director or officer of any other company that, while the person was acting in that capacity:

- (a) was the subject of a cease trade or similar order, or an order that denied the other company access to any exemptions under Ontario securities law, for a period of more than 30 consecutive days;
- (b) was the subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days;
- (c) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (d) within a year of that person ceasing to act in that capacity, because bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

No director or officer of the Resulting Issuer, or a shareholder holding sufficient securities of the Resulting Issuer to affect materially the control of the Resulting Issuer, has been subject to: (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor making an investment decision.

13.3 Conflicts of Interest

Following completion of the Business Combination, conflicts of interest may arise as a result of the directors, officers and promoters of the Resulting Issuer also holding positions as directors or officers of other companies. Some of the individuals that are directors and officers of the Resulting Issuer have been and will continue to be engaged in the

identification and evaluation of assets, businesses and companies on their own behalf and on behalf of other companies, and situations may arise where the directors and officers of the Resulting Issuer will be in direct competition with the Resulting Issuer. Conflicts, if any, will be subject to the procedures and remedies provided under BCBCA.

13.4 Management

Brief descriptions of the biographies for all of the officers and directors of the Resulting Issuer are set out below:

Joshua N. Rosen, 45, has served as the executive chairman of Advisors since March 2011, as the Chairman, President and CEO of 4Front Ventures since September 2014 and as Chief Executive Officer of 4Front since September 2016. After 13 years as an equity analyst and portfolio manager evaluating and investing in publicly traded companies, Mr. Rosen wanted to have a more meaningful impact on companies. He joined Southwest Solar Technologies in Phoenix in 2008, as Chief Financial Officer before assuming the role of President and Vice Chairman. Mr. Rosen then founded MC Advisors to provide consultative support and manage a venture capital fund for the family office for John Sperling. The first investment in the venture capital fund was the acquisition of intellectual property from CannBe, a marketing, lobbying and consulting firm focused on the medical marijuana industry in California and nationwide, which led to the subsequent formation of Advisors in 2011. Mr. Rosen is on the Board of Directors at Ninety Plus Coffee. Mr. Rosen was formerly a principal at Crystal Rock Capital Management and a director-level equity research analyst at Credit Suisse. Mr. Rosen earned a B.A. degree in economics and philosophy from Beloit College in 1995.

Karl Chowscano, 52, joined 4Front in 2015 as a major investor and board member. He is a former executive director of the Aquilini Investment Group in Vancouver, B.C., and former Chief Strategy Officer of Spear Education. Earlier in his career, Mr. Chowscano was a partner and international tax attorney at Thorsteinssons, the largest law firm in Canada focused exclusively on tax law.

Kris Krane, 40, is the President of 4Front Ventures and formerly the Managing Director of Advisors. Prior to forming Advisors in 2011, Mr. Krane served as director of client services for CannBe, where he helped develop many of the best practices that are central to Advisors' operations. Mr. Krane has dedicated his career to reforming the nation's drug policies and served as associate director of NORML from 2000 to 2005 and executive director of Students for Sensible Drug Policy from 2006 to 2009. During his tenure at Students for Sensible Drug Policy, the organization experienced rapid growth at the chapter, national, and international levels, scaled back the law that denies financial aid to students with drug convictions, and was featured in major news outlets, including The New York Times, USA Today, and Fox News. Mr. Krane currently serves on the national board of directors for the National Cannabis Industry Association, Common Sense for Drug Policy and Marijuana Majority, as well as the national advisory council for Students for Sensible Drug Policy. He earned a B.A. degree in political science from American University in 2000.

Andrew Thut, 45, is Chief Executive Officer of Mission Partners and Chief Financial Officer of 4Front. Mr. Thut was formerly Managing Director and Portfolio Manager of the BlackRock Small Cap Growth Fund at BlackRock Advisors, LLC. Prior to joining BlackRock Advisors, LLC, he was an equity analyst on the small and mid-cap growth team at MFS Investment Management. Prior to working in investment management, Mr. Thut worked in the Technology Investment Banking Group at BT Alex Brown. There, Mr. Thut executed equity financings and mergers and acquisitions in the communications, software, and semiconductor industries. He earned a B.A. degree in history from Dartmouth College in 1995.

Trevor Pratte, 40, is the Secretary and co-Chief Operating Officer of 4Front. Mr. Pratte was formerly a Principal at Pratte Construction and Pratte Design Build focused on real estate investing and general contracting for commercial and high-end residential properties in the Phoenix market. Prior to these entrepreneurial activities, Mr. Pratte managed the supply chain and logistics for one of the largest private homebuilders in the country, Pratte Building Systems, which sold to Pulte Homes in 2006. He earned a B.B.A. degree in finance and real estate finance from the Cox School of Business at Southern Methodist University in 2000.

Leise Rosman, 35, is Managing Partner of Advisors and co-Chief Operating Officer of 4Front. Ms. Rosman brings to this role more than a decade of experience managing strategy and operations for leading public policy organizations. Her prior work includes managing successful business development efforts to grow revenue and market share for several policy organizations, including her prior role as Vice President for Research and Development for the Corporation for a Skilled Workforce, a national policy advocacy organization. She has designed and implemented

significant social service initiatives within highly regulated industries through her work as a policy consultant to policymakers; business leaders and educators. She holds a MBA and a Master of Management in Nonprofit Administration from North Park University, as well as a bachelor's degree in management and organizational development from Spring Arbor University.

Glenn Backus, 49, is President of Mission. Mr. Backus oversees the strategic direction of the company as it continues to expand its retail footprint throughout the United States. He is an accomplished retail executive who brings a unique combination of operations as well as product development experience to the company. He spent his formative years supporting the rapid growth of Trader Joe's as its Vice President of Buying, after which he became President of Sunflower Markets (a Subsidiary of Supervalu), where he successfully grew the company's profitability by increasing sales, right-sizing underlying cost structures, optimizing product mix, driving innovation, and increasing customer and employee engagement. He's also held senior-level roles at HEB, a Texas-based grocery chain, and Topco, the country's largest retail food group purchasing organization. He's the founder of Revolution Brands, which creates and launches innovative new food and beverage brands, and is a faculty member at Lake Forest Graduate School of Management in Chicago, where he teaches MBA-level classes on innovation, business strategy, and leadership. He joined Mission in January 2019.

Eric Rey, 62, has managed agricultural research, product development and commercial programs for more than 35 years, with 29 years focused specifically on food, feed and industrial products from agricultural biotechnology. He served as the President and Chief Executive Officer of Arcadia Biosciences, Inc., a company he co-founded in 2003 and took public in 2015, from August 2003 to February 11, 2016. Prior to Arcadia Biosciences, he served as a Partner in the Rockridge Group, a management consulting firm focused on the agricultural biotechnology industry. Prior to Rockridge Group, Mr. Rey served as Vice President of Operations for Calgene Oils Division of the Monsanto Company. In his 17 years at Calgene, Mr. Rey was responsible for the establishment and management of its operational, plant breeding, product development and agricultural infrastructure. At Calgene, he managed the start-up of one operating Subsidiary that developed and marketed agricultural seed products. Throughout his career Mr. Rey has established and managed strategic relationships with major food and consumer product, food processing, industrial product, agricultural product, plant genetics and technology companies. He served as a Director of Arcadia Biosciences, Inc. (NASDAQ: RKDA) from 2003 to February 2016 and re-joined the Board of Directors on June 7, 2017. Mr. Rey has been a director of Phytelligence, Inc. since 2015. He serves as a Director of Texas Crop Science LLC. He also has been a Director of Micropep Technologies since 2018. Mr. Rey held positions involved in biological pest control with the California Department of Food and Agriculture. Mr. Rey holds a B.S. in Plant Science from University of California at Davis.

David Daily, 38, is Founder & CEO of Gravitron, LLC which he started in 2004. Commonly known as Grav.com, its original invention was the first all-glass gravity bong, the Gravitron. Since the Gravitron, Dave has designed or led the Grav design team to bring over 500 unique top-line products to the cannabis market. In 2018, Grav was named in the 50 best companies to work for in cannabis by MG magazine.

David (Dave) Croom: 51, is a seasoned CFO with over 25 years of experience in financial leadership at both public and private companies including Cray Supercomputers, Microsoft, Amazon and Chevron. His previous roles included responsibilities for capital markets, M&A, tax and finance, debt and equity. He is an innovative and experienced financial executive who has led revenue and profitability growth initiatives and has worked directly with senior management to deliver shareholder value. Most recently Mr. Croom has been CEO of Open Ocean Ventures, a Seattle-based company that provides project management, infrastructure, and business services solutions to a broad range of industry leaders. He previously held senior accounting and comptroller positions at Cray Supercomputers, Microsoft, Amazon, and Chevron. He has also been the owner of several Seattle businesses, including a Tier 2 Washington cannabis cultivation and processing facility. He is based in Seattle, Washington and has a B.A. in Accounting from Washington State University.

Leonid (Leo) Gontmakher: 33, was previously the Chief Operating Officer of Cannex. In that role, he focused on developing, implementing and leading all operational activities, with specific focus on facilities development and management as well as strategic cannabis industry related initiatives. Mr. Gontmakher has a record of success in the cannabis industry. He was a co-founder, and has acted as a key advisor to, Superior Gardens, LLC, Washington State's largest full line cannabis cultivator and processor. Previously, Mr. Gontmakher held senior management positions at one

of North America's largest importer/wholesalers of specialized frozen seafood products, Direct Source Seafood LLC. He is based in Dorado, Puerto Rico and has a B.A. in Business Management from Arizona State University.

Gerald (Jerry) Derevyanny: 35, is the current Executive Vice President of Corporate Development at Cannex. He is also the former COO and General Counsel of BrightLeaf, in addition to the being the owner of 7Point. Prior to that, Mr. Derevyanny was General Counsel of Superior Gardens and helped guide Superior Gardens from its pre-licensed phase to becoming a 200+ employee cannabis producer/processor. Mr. Derevyanny was also previously the head litigation partner at Adler Vermillion & Skocilich LLP after starting his career as a Complex Commercial Litigator at Kaye Scholer LLP in New York City (now absorbed into Arnold & Porter LLP). Mr. Derevyanny holds a BA in Business Administration with a focus in Entrepreneurship from the University of Washington and a JD from Boston University. Mr. Derevyanny is a licensed attorney in Washington and New York.

Anthony Dutton: 61, brings extensive experience in business development, strategic planning and capital markets expertise. Mr. Dutton was CEO, cofounder and a director of IBC Advanced Alloys (TSX.V:IB) from 2007 to 2017 and is a founding public director of Trakopolis Inc. (TSX.V:TRAK). Mr. Dutton holds a BA Econ. (Honours) from the University of British Columbia, an MA from Dalhousie University and an MBA from the Cranfield School of Management in the UK.

14. CAPITALIZATION

Each of the tables in this Section 14 pertain to the Resulting Issuer Shares only.

As at the date of this Listing Statement, the Resulting Issuer has the following issued and outstanding securities according to the below table.

14.1 Issued Capital

The following table sets out the number of the Subordinate Voting Shares available in the Resulting Issuer's Public Float and Freely-Tradeable Float on a diluted and non-diluted basis:

	Number of Subordinate Voting Shares (non-diluted)	Number of Subordinate Voting Shares (fully-diluted) ⁽¹⁾	% of Issued (non- diluted)	% of Issued (fully diluted)
Public Float				
Total outstanding (A)	118,128,987	630,130,004	100.0%	100.0%
Held by Related Persons or employees of the Resulting Issuer or Related Person of the Resulting Issuer, or by persons or companies who beneficially own or control, directly or indirectly, more than a 5% voting position in the Resulting Issuer (or who would beneficially own or control, directly or indirectly, more than a 5% voting position in the Resulting Issuer upon exercise or conversion of other securities held) (B)	10,587,457	183,300,076	9.0%	29.1%
Total Public Float (A-B)	107,541,530	446,829,928	91.0%	70.9%

	Number of Subordinate Voting Shares (non-diluted)	Number of Subordinate Voting Shares (fully-diluted) ⁽¹⁾	% of Issued (non- diluted)	% of Issued (fully diluted)
<u>Freely-Tradeable Float</u>				
Number of outstanding securities subject to resale restrictions, including restrictions imposed by pooling or other arrangements or in a shareholder agreement and securities held by control block holders (C) ⁽¹⁾	18,063,599	77,252,847	15.3%	12.3%
Total Tradeable Float (A-C)	100,065,388	552,877,130	84.7%	87.7%

Note:

(1) Subject to escrow agreement dated March 9, 2019 among Cannex, Alliance Trust Company and specified individuals.

Public Securityholders (Registered)

Class of Security - Subordinate Voting Shares

Size of Holding	Number of holders	Total number of securities
1 – 99 securities	3	65
100 – 499 securities	4	1,171
500 – 999 securities	2	1,374
1,000 – 1,999 securities	2	2,645
2,000 – 2,999 securities	1	2,455
3,000 – 3,999 securities	0	0
4,000 – 4,999 securities	1	4,487
5,000 or more securities	135	107,529,274
Total	148⁽¹⁾	107,541,530⁽²⁾

Notes:

(1) 4Front does not have information as to the breakdown of its beneficial owners. 4Front has a total of 41 registered owners.

(2) 4Front does not have information as to the beneficial ownership of securities held by its registered owners. The former registered holders of U.S. Blocker hold a total of 26,525,206 securities.

Public Securityholders (Beneficial)

Class of Security - Subordinate Voting Shares

Size of Holding	Number of holders	Total number of securities
1 – 99 securities	432	18,109
100 – 499 securities	922	200,530
500 – 999 securities	477	291,182
1,000 – 1,999 securities	561	665,237
2,000 – 2,999 securities	251	545,339
3,000 – 3,999 securities	127	407,630
4,000 – 4,999 securities	52	217,026
5,000 or more securities	473	105,196,476
Total	3,294⁽¹⁾	107,541,530⁽²⁾

Notes:

(1) 4Front does not have information as to the breakdown of its beneficial owners. 4Front has a total of 41 registered owners.

- (2) 4Front does not have information as to the beneficial ownership of securities held by its registered owners. The former registered holders of U.S. Blocker hold a total of 26,525,206 securities.

Non-Public Securityholders (Registered)

Class of Security - Subordinate Voting Shares

Size of Holding	Number of holders	Total number of securities
1 – 99 securities	0	0
100 – 499 securities	0	0
500 – 999 securities	0	0
1,000 – 1,999 securities	0	0
2,000 – 2,999 securities	0	0
3,000 – 3,999 securities	0	0
4,000 – 4,999 securities	0	0
5,000 or more securities	2	10,587,457
Total	2	10,587,457

14.2 Convertible/Exchangeable Securities

Following completion of the Business Combination, the Resulting Issuer will have the following convertible securities outstanding that are convertible into Subordinate Voting Shares:

See Section 8 entitled “*Consolidated Capitalization*”.

Description of Security (include conversion / exercise terms, including conversion / exercise price)	Number of convertible / exchangeable securities outstanding	Number of Subordinate Voting Shares issuable upon conversion / exercise
Resulting Issuer Warrants		
Resulting Issuer NH Warrants ⁽¹⁾	3,413,416	3,413,416
Resulting Issuer Agent Warrants ⁽²⁾	1,652,279	1,652,279
Resulting Issuer PP Subscriber Warrants ⁽³⁾	24,109,936	24,109,936
Resulting Issuer GGP Warrants		
Resulting Issuer GGP Warrants A ⁽⁴⁾	87,500	7,000,000
Resulting Issuer GGP Warrants B ⁽⁵⁾	56,391	4,511,278
Resulting Issuer GGP Warrants C ⁽⁶⁾	25,126	2,010,050
Resulting Issuer Replacement Options		
Resulting Issuer Replacement Options for Subordinate Voting Shares ⁽⁷⁾	7,125,000	7,125,000
Resulting Issuer Replacement Options for Subordinate Proportionate Voting Shares ⁽⁸⁾	84,964	6,794,939
Resulting Issuer Replacement Options for Subordinate Proportionate Voting Shares ⁽⁹⁾	78,750	6,300,000
Resulting Issuer Notes		
Resulting Issuer Notes (GGP Financing) ⁽¹⁰⁾	481,928	38,554,240

Notes:

- (1) Each Resulting Issuer NH Warrant is exercisable to purchase one Subordinate Voting Share for C\$0.70 until October 23, 2020.
- (2) Issued in connection with a private placement of Cannex that closed March 13, 2018. Each Agent’s Warrant is exercisable into a Subordinate Voting for C\$1.00 per share until March 12, 2020.
- (3) Issued in connection with a private placement of Cannex that closed March 13, 2018. Each Resulting Issuer PP Subscriber Warrant is exercisable to purchase one Subordinate Voting Share for C\$1.50 until March 12, 2020. The Resulting Issuer Subscriber PP Warrants may be accelerated at the option of the Resulting Issuer if the volume-weighted average closing price of the Subordinate Voting Shares is over C\$2.25 for a period of 20 consecutive trading days.

- (4) Exercisable to purchase 87,500 Subordinate Proportionate Voting Shares at an exercise price of \$80.00 per share. If exercised for Subordinate Proportionate Voting Shares, and such shares are then converted into Subordinate Voting Shares, 7,000,000 Subordinate Voting Shares will be issuable upon such conversion.
- (5) Exercisable to purchase 56,391 Subordinate Proportionate Voting Shares at an exercise price of \$106.40 per share. If exercised for Subordinate Proportionate Voting Shares, and such shares are then converted into Subordinate Voting Shares, 4,511,278 Subordinate Voting Shares will be issuable upon such conversion.
- (6) Exercisable to purchase 25,126 Subordinate Proportionate Voting Shares at an exercise price of \$159.20 per share. If exercised for Subordinate Proportionate Voting Shares, and such shares are then converted into Subordinate Voting Shares, 2,010,050 Subordinate Voting Shares will be issuable upon such conversion.
- (7) Each such Resulting Issuer Replacement Option for Subordinate Voting Shares is exercisable into one Subordinate Voting Share at an exercise price of C\$1.00 per share.
- (8) Each such Resulting Issuer Replacement Option for Subordinate Proportionate Voting Shares is exercisable into one Subordinate Proportionate Voting Share at an exercise price of C\$8.00 per share. If exercised for Subordinate Proportionate Voting Shares, and such shares are then converted into Subordinate Voting Shares, 6,794,939 Subordinate Voting Shares will be issuable upon such conversion.
- (9) Each such Resulting Issuer Replacement Option for Subordinate Proportionate Voting Shares is exercisable into one Subordinate Proportionate Voting Share at an exercise price of C\$80.00 per share. If exercised for Subordinate Proportionate Voting Shares, and such shares are then converted into Subordinate Voting Shares, 6,300,000 Subordinate Voting Shares will be issuable upon such conversion.
- (10) Convertible into Subordinate Proportionate Voting Shares at a conversion price of C\$88.00 per shares. If converted into Subordinate Proportionate Voting Shares, and such shares are then converted into Subordinate Voting Shares, 38,554,240 Subordinate Voting Shares will be issuable upon such conversion.

14.3 Other Listed Securities

The Resulting Issuer does not have any other listed securities reserved for issuance that are not included in Section 14.1 entitled “*Issued Capital*”.

15. EXECUTIVE COMPENSATION

The following table sets forth the compensation to be paid or awarded to each NEO and director of the Resulting Issuer.

Table of Compensation Excluding Compensation Securities							
Name & position	Year	Salary, Consulting Fee, Retainer or Commission (\$)	Bonus (\$)	Committee or meeting fees (\$)	Value of Perquisites (\$)	Value of all other compensation (\$)	Total compensation (\$)
Josh Rosen <i>CEO & Director</i>	2019	\$350,000	25% - 50% at board discretion	N/A	N/A	N/A	\$350,000
David Croom <i>CFO</i>	2019	\$175,000	Future bonuses at board discretion	N/A	N/A	N/A	\$175,000
Leo Gontmakher <i>COO</i>	2019	\$400,000	2018: \$100,000 Future bonuses at board discretion	N/A	N/A	N/A	\$400,000
Leise Rosman <i>Chief Administrative Officer</i>	2019	\$250,000	25% - 50% at board discretion	N/A	N/A	N/A	\$250,000

Table of Compensation Excluding Compensation Securities							
Name & position	Year	Salary, Consulting Fee, Retainer or Commission (\$)	Bonus (\$)	Committee or meeting fees (\$)	Value of Perquisites (\$)	Value of all other compensation (\$)	Total compensation (\$)
Karl Chowscano <i>Chief Strategy Officer</i>	2019	\$250,000	25% - 50% at board discretion	N/A	N/A	N/A	\$250,000
Gerald Y. Derevyanny <i>Executive VP of Corporate Development</i>	2019	\$200,000	2019: \$75,000. Future bonuses at board discretion	N/A	N/A	~\$15,000	\$290,000

Stock Options and Other Compensation Securities

Compensation Securities							
Name & position	Type of compensation security	Number of compensation securities, number of underlying securities, and percentage of class	Date of issue or grant	Issue, conversion or exercise price (\$)	Closing price of security or underlying security on date of grant (\$)	Closing price of security or underlying security at year end (\$)	Expiry Date (\$)
Josh Rosen <i>CEO & Director</i>	N/A	Nil	Nil	Nil	Nil	Nil	N/A
David Croom <i>CFO</i>	Share Purchase Options	600,000 (Exercisable to purchase 600,000 Subordinate Voting Shares/ Subordinate Proportionate Voting Shares, equivalent to 0.33% of outstanding stock)	October 5, 2018	1.00	0.84	\$.92	October 5, 2023
Leo Gontmakher <i>COO</i>	Share Purchase Options	1,800,000 (Exercisable to purchase	December 11, 2017	1.00	1.00	\$.92	December 11, 2022

Compensation Securities							
Name & position	Type of compensation security	Number of compensation securities, number of underlying securities, and percentage of class	Date of issue or grant	Issue, conversion or exercise price (\$)	Closing price of security or underlying security on date of grant (\$)	Closing price of security or underlying security at year end (\$)	Expiry Date (\$)
		1,800,000 Subordinate Voting Shares/ Subordinate Proportionate Voting Shares, equivalent to 0.97% of outstanding stock)					
Leise Rosman <i>Chief Administrative Officer</i>	N/A	Nil	Nil	Nil	Nil	Nil	N/A
Karl Chowscano <i>Chief Strategy Officer</i>	N/A	Nil	Nil	Nil	Nil	Nil	N/A
Gerald Y. Derevyanny <i>Executive V.P. of Corporate Development</i>	Share Purchase Options	800,000 (Exercisable to purchase 800,000 Subordinate Voting Shares/ Subordinate Proportionate Voting Shares, equivalent to 0.44% of outstanding stock) ¹	December 11, 2017	\$1.00	\$1.00	\$.92	December 11, 2022

Notes:

- (1) Per Mr. Derevyanny's employment contract with Cannex, Cannex committed to issuing a minimum of an additional 600,000 Share Purchase Options in the future.
- (2) Exercise of compensation securities by Directors and NEOs.

Exercise of Compensation Securities by Directors and NEOs							
Name & position	Type of compensation security	Number of underlying securities exercised	Exercise price per security (\$)	Date of exercise (\$)	Closing price per security on date of exercise (\$)	Difference between exercise price and closing price on date of exercise (\$)	Total value on exercise date (\$)
Josh Rosen <i>CEO & Director</i>	N/A	Nil	Nil	N/A	Nil	Nil	Nil
David Croom <i>CFO</i>	N/A	Nil	Nil	Nil	Nil	Nil	N/A
Leo Gontmakher <i>COO</i>	N/A	Nil	Nil	Nil	Nil	Nil	N/A
Leise Rosman <i>Chief Administrative Officer</i>	N/A	Nil	Nil	N/A	Nil	Nil	Nil
Karl Chowscano <i>Chief Strategy Officer</i>	N/A	Nil	Nil	N/A	Nil	Nil	Nil

Stock Option Plans and Other Incentive Plans

See Section 9 entitled “Options to Purchase Securities – Summary of Resulting Issuer Equity Incentive Plans”.

Employment, Consulting and Management Agreements

Other than as disclosed herein, the Resulting Issuer will not have any contracts, agreements, plans or arrangements that provide for payments to a NEO at, following or in connection with any termination (whether voluntary, involuntary or constructive), resignation, retirement, a change in control of the Resulting Issuer or a change in an NEO’s responsibilities.

Pursuant to Mr. Dutton’s employment agreement with Cannex, if Cannex terminates Mr. Dutton’s employment without cause or Mr. Dutton resigns for good reason following a change of control, Mr. Dutton will be paid: (a) an amount equal to 18 months’ salary, plus (b) an amount equal to the greater of 1.5 times: (i) his bonus for the last fiscal period; or (ii) the average of his bonuses for the last two fiscal periods. The change of control payment under Mr. Dutton’s employment agreement would amount to \$378,750 if, following a change of control, Mr. Dutton was terminated without cause or resigned for good reason.

Oversight and Description of Director and NEO Compensation

The Resulting Issuer Board will review the compensation of its executives following completion of the Business Combination and make such changes as it deems appropriate.

Pension Plan Benefits

This section is not applicable to the Resulting Issuer.

16. INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

Upon completion of the Business Combination, none of the directors or officers of the Resulting Issuer, nor any of their Associates, will be indebted to the Resulting Issuer, and neither will any indebtedness of any of these individuals

or Associates to another entity be the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Resulting Issuer.

17. **RISK FACTORS**

An investment in the Resulting Issuer Shares involves risks, certain of which are described in the risk factors set forth below. The occurrence of any one or more of these risks or uncertainties could have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer. Additional risks and uncertainties not presently known to the Resulting Issuer or that the Resulting Issuer currently deems immaterial may also impair the Resulting Issuer's business operations. The Resulting Issuer will face numerous challenges in the development of its business. Due to the nature of the Resulting Issuer and its business and present stage of the business, readers should carefully consider all such risks, including those set out in the discussion below.

Risks Specifically Related to the United States Regulatory System

The federal government has not legalized marijuana for medical or adult-use.

The federal government of the United States regulates drugs through the CSA, which places controlled substances on one of five schedules. Currently, cannabis is classified as a Schedule I controlled substance. This means it has a high potential for abuse and currently has no accepted medical use in treatment in the United States. Schedule I substances are subject to production quotas imposed by the DEA. Thus, the federal government of the United States has specifically reserved the right to enforce federal law in regards to the sale and disbursement of medical or adult-use marijuana even if such sale and disbursement is sanctioned by state law.

Currently, 33 U.S. states, the District of Columbia and the U.S. territories of Guam and Puerto Rico, allow the use of medical cannabis. Additionally, the states of Alaska, California, Colorado, Maine, Massachusetts, Nevada, Oregon, Vermont and Washington and the District of Columbia have legalized cannabis for adult recreational use. However, since cannabis is a Schedule I controlled substance, the development of a legal cannabis industry under the laws of these states is in conflict with the CSA. In light of this conflict between state and federal law, the United States Department of Justice ("DOJ") Deputy Attorney General of the Obama Administration, James Cole, issued a memorandum (the "**Cole Memorandum**"), dated August 29, 2013, providing updated guidance to federal prosecutors concerning cannabis enforcement under the CSA. The Cole Memorandum provided, in part, that when states have implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale, and possession of cannabis, conduct in compliance with those laws and regulations is less likely to threaten the federal priorities. Indeed, a robust system may affirmatively address those priorities by, for example, implementing effective measures to prevent diversion of cannabis outside of the regulated system and to other states, prohibiting access to marijuana by minors, and replacing an illicit cannabis trade that funds criminal enterprises with a tightly regulated market in which revenues are tracked and accounted for. In those circumstances, consistent with the traditional allocation of federal-state efforts in this area, the Cole Memorandum provided that enforcement of state law by state and local law enforcement and regulatory bodies should remain the primary means of addressing marijuana-related activity. In contrast, if the state enforcement efforts are not sufficient to protect against the harms set forth above, the federal government may seek to challenge the regulatory structure itself in addition to continuing to bring individual enforcement actions, including criminal prosecutions, focused on those harms.

In 2014, the United States House of Representatives passed an amendment (commonly known as the Rohrabacher-Blumenauer Amendment, the Rohrabacher-Leahy Amendment or the "**Rohrabacher-Farr Amendment**") to the Commerce, Justice, Science, and Related Agencies Appropriations Bill, which funds the DOJ. The Rohrabacher-Farr Amendment prohibits the DOJ from using funds to prevent states with medical cannabis laws from implementing such laws. In August 2016, the U.S. Court of Appeals for the Ninth Circuit ruled in *United States v. McIntosh* that the Rohrabacher-Farr Amendment bars the DOJ from spending funds on the prosecution of conduct that is allowed by state medical cannabis laws, provided that such conduct is in strict compliance with applicable state law. In March 2015, bipartisan legislation titled the Compassionate Access, Research Expansion, and Respect States Act (the "**CARERS Act**") was introduced, proposing to allow states to regulate the medical use of cannabis by changing applicable federal law, including by reclassifying cannabis under the CSA to a Schedule II controlled substance and thereby changing the plant from a federally-criminalized substance to one that has recognized medical uses. More recently, the Respect State Marijuana Laws Act of 2017 has been introduced in the U.S. House of Representatives, which proposes to exclude

persons who produce, possess, distribute, dispense, administer or deliver marijuana in compliance with state laws from the regulatory controls and administrative, civil and criminal penalties of the CSA.

Although these developments have been met with a certain amount of optimism in the cannabis industry, neither the CARERS Act nor the Respect State Marijuana Laws Act of 2017 have yet been adopted, and the Rohrabacher-Farr Amendment must be renewed annually and has currently been renewed until September 30, 2019. Furthermore, the ruling in *United States v. McIntosh* is only applicable in the Ninth Circuit, which includes the states of Alaska, Arizona, California, Hawaii, Idaho, Montana, Nevada, Oregon and Washington. Each of 4Front and Cannex has, and the Resulting Issuer plans to have, operations in states outside of the Ninth Circuit.

In early 2017, newly inaugurated President Donald J. Trump nominated Alabama Republican Jeff Sessions as the United States Attorney General. In addition to the election of President Trump, the Republican party retained control of United States Congress. On January 4, 2018, then Attorney General Sessions issued a written memorandum (the “**Sessions Memorandum**”) to all U.S. Attorneys stating that the Cole Memorandum was rescinded, effectively immediately. In particular, Attorney General Sessions stated that “prosecutors should follow the well-established principles that govern all federal prosecutions,” which require “federal prosecutors deciding which cases to prosecute to weigh all relevant considerations, including federal law enforcement priorities set by the Attorney General, the seriousness of the crime, the deterrent effect of criminal prosecution, and the cumulative impact of particular crimes on the community.” Attorney General Sessions went on to state in the Sessions Memorandum that given the Justice Department’s well-established general principles, “previous nationwide guidance specific to marijuana is unnecessary and is rescinded, effective immediately.” Attorney General Sessions reiterated that the cultivation, distribution and possession of marijuana continues to be a crime under the CSA.

On November 7, 2018, Mr. Sessions tendered his resignation as Attorney General at the request of President Donald Trump. Following Mr. Sessions’ resignation, William Barr was confirmed as the new Attorney General. Mr. Barr stated during his confirmation hearings in a response to a question from Senator Cory Booker, “I’m not going to go after companies that have relied on Cole memorandum.” Mr. Barr also reconfirmed this response in writing as part of the formal confirmation proceedings. It is unclear whether Attorney General Barr will seek to implement officially the Cole Memorandum as originally drafted or an updated version.

It is also unclear at this time whether the Sessions Memorandum indicates that the Trump administration will strongly enforce the federal laws applicable to cannabis or what types of activities will be targeted for enforcement. However, a significant change in the federal government’s enforcement policy with respect to current federal laws applicable to cannabis could have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer. As of the date of this Listing Statement, each of 4Front and Cannex has provided products and services to state-approved cannabis cultivators and dispensary facilities. As a result, each of 4Front and Cannex could be deemed to be aiding and abetting illegal activities, a violation of federal law.

There is a substantial risk of regulatory or political change.

The success of the business strategy of the Resulting Issuer, depends on the legality of the marijuana industry. The political environment surrounding the marijuana industry in the United States in general can be volatile and the regulatory framework in the United States remains in flux. As of the date of this Listing Statement, 33 states, Washington, D.C. and certain other U.S. territories have implemented laws and regulations to legalize and regulate the cultivation, sale, possession and use of marijuana, and additional states have pending legislation regarding the same, however, the risk remains that a shift in the regulatory or political realm could occur and have a drastic impact on the industry as a whole, adversely impacting the Resulting Issuer’s ability to successfully invest and/or participate in the selected business opportunities.

Further, there is no guarantee that at some future date, voters and/or the applicable legislative bodies will not repeal, overturn or limit any such legislation legalizing the sale, disbursement and consumption of medical or adult-use marijuana. It is also important to note that local and city ordinances may strictly limit and/or restrict disbursement of marijuana in a manner that will make it extremely difficult or impossible to transact business that is necessary for the continued operation of the marijuana industry.

Marijuana remains illegal under federal law, and the federal government could bring criminal and civil charges against the Resulting Issuer or its investments at any time. Federal actions against any individual or entity engaged in the marijuana industry or a substantial repeal of marijuana-related legislation could have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

In addition to the Resulting Issuer's ownership and investment in the business being conducted by Advisors, the Resulting Issuer intends to continue to invest in businesses with little or no operating history and that are engaged in activities considered illegal under U.S. federal law.

The Resulting Issuer will continue to invest in businesses that are directly or indirectly engaged in the medical and adult-use marijuana industry in the United States where local law permits such activities. Presently, the cultivation, possession, sale, and use of marijuana are illegal under federal statutes and the laws of other jurisdictions. Some of those laws, including the applicable federal laws of the United States, apply to the subject activities even though the subject activities may be permissible under local law.

The Resulting Issuer's funding of the activities of businesses engaged in the medical and adult-use marijuana industry, whether directly through the conduct of the business of Advisors or Mission or through direct loans or indirectly through other forms of investment, is illegal under the applicable federal laws of the United States and other applicable law. There can be no assurances the federal government of the United States or other jurisdictions will not seek to enforce the applicable laws against the Resulting Issuer. THE CONSEQUENCES OF SUCH ENFORCEMENT WOULD LIKELY BE MATERIALLY DETRIMENTAL TO THE RESULTING ISSUER, THE RESULTING ISSUER'S BUSINESS AND THE HOLDERS OF SUBORDINATE VOTING SHARES AND COULD RESULT IN THE FORFEITURE OR SEIZURE OF ALL OR SUBSTANTIALLY ALL OF THE RESULTING ISSUER'S ASSETS.

Banks often refuse to provide banking services to businesses involved in the marijuana industry due to the present state of the laws and regulations governing financial institutions in the United States.

The lack of banking and financial services presents unique and significant challenges to businesses in the marijuana industry. The lack of a secure place in which to deposit and store cash, the inability to pay creditors through the issuance of checks and the inability to secure traditional forms of operational financing, such as lines of credit, are some of the many challenges presented by the unavailability of traditional banking and financial services.

4Front has established banking relationships with 1st Bank in Colorado, Century Bank in Massachusetts, and Bank of Springfield in Illinois to provide the requisite banking services. No guarantee or assurances can be given by the Resulting Issuer that it will be able to secure and/or maintain stable banking services arrangements, nor can the Resulting Issuer guarantee or provide assurances that it will be able to secure an alternative to traditional banking services should the Resulting Issuer not be able to secure and maintain traditional banking services with a national or state chartered banking institution.

With the exception of the limited operating history of the Subsidiaries, the Resulting Issuer has limited operating history.

The Resulting Issuer has had limited operating history prior to the date of this Listing Statement other than the unprofitable operating history of Advisors, Mission and Linchpin. To date, neither Advisors, Mission nor Linchpin have operated at a profit, all three companies have negative cash flow, and all three companies are fairly described as early-stage enterprises. Similarly, prior to the Business Combination, Cannex had only just begun to generate revenue and would also be fairly described as an early-stage enterprise. Accordingly, neither the Resulting Issuer, its Subsidiaries, nor the Resulting Issuer Board have significant experience in operating marijuana businesses or making the investments in the medical and adult-use marijuana industry contemplated to be made by the Resulting Issuer. As a consequence, the nature and risks associated with the future investments by the Resulting Issuer may differ significantly from the prior experience of the Resulting Issuer and the Resulting Issuer Board.

Because the Resulting Issuer and its Subsidiaries has a limited operating history and a limited history of making investments in the medical and adult-use marijuana industry and related businesses, there is very limited information upon which to base any estimate of its future revenue and earnings prospects or to assist with an investment decision.

There can be no assurance that the Resulting Issuer will ultimately be successful or will have the ability to achieve a return on shareholders' investment. Likewise, there can be no assurances that the Resulting Issuer will become profitable or generate operating cash flow.

The prior investment performance of the persons associated with the Resulting Issuer or any other entity or person are provided for illustrative purposes only and may not be indicative of the Resulting Issuer's future investment results. The nature of, and risks associated with, the Resulting Issuer's future investments may differ substantially from those investments and strategies undertaken historically by such persons and entities. There can be no assurance that the Resulting Issuer's investments will perform as well as the past investments of any such persons or entities.

Lack of access to U.S. bankruptcy protections; other bankruptcy risks

Because the use of cannabis is illegal under federal law, many courts have denied cannabis businesses bankruptcy protections, thus making it very difficult for lenders to recoup their investments in the cannabis industry in the event of a bankruptcy. If the Resulting Issuer was to experience a bankruptcy, there is no guarantee that U.S. federal bankruptcy protections would be available, which would have a material adverse effect on any restructuring transaction.

Additionally, there is no guarantee that the Resulting Issuer will be able to effectively enforce any interests it may have in 4Front, Cannex or its other Subsidiaries and investments. A bankruptcy or other similar event related to an investment of the Resulting Issuer that precludes a party from performing its obligations under an agreement may have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer. Further, as an equity investor, should an investment have insufficient assets to pay its liabilities, it is possible that other liabilities will be satisfied prior to the liabilities or equity owed to 4Front. In addition, bankruptcy or other similar proceedings are often a complex and lengthy process, the outcome of which may be uncertain and could result in a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

Resulting Issuer maybe subject to heightened scrutiny by Canadian authorities.

For the reasons set forth above, the business, operations and investments of the Resulting Issuer in the U.S., and any future businesses, operations and investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Resulting Issuer may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Resulting Issuer's ability to invest or hold interests in other entities in the U.S. or any other jurisdiction, in addition to those described herein.

On February 8, 2018, the Canadian Securities Administrators published Staff Notice 51-352 describing the Canadian Securities Administrators' disclosure expectations for specific risks facing issuers with cannabis-related activities in the U.S. Staff Notice 51-352 confirms that a disclosure-based approach remains appropriate for issuers with U.S. cannabis-related activities. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide goods and services to third parties involved in the U.S. cannabis industry.

CDS is Canada's central securities depository, clearing and settling trades in the Canadian equity, fixed income and money markets. On February 8, 2018, following discussions with the Canadian Securities Administrators and recognized CSEs, the TMX Group, who is the owner and operator of CDS, announced the signing of a Memorandum of Understanding ("TMX MOU") with Aequitas NEO Exchange Inc., the CSE and the Toronto Stock Exchange confirming that it relies on such exchanges to review the conduct of listed issuers. The TSX MOU notes that securities regulation requires that the rules of each of the exchanges must not be contrary to the public interest and that the rules of each of the exchanges have been approved by the securities regulators. Pursuant to the TSX MOU, CDS will not ban accepting deposits of or transactions for clearing and settlement of securities of issuers with cannabis-related activities in the U.S.

Even though the TSX MOU indicated that there are no plans of banning the settlement of securities through the CDS, there can be no guarantee that the settlement of securities will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of Subordinate Voting Shares to make and settle trades. In particular, the Subordinate Voting Shares would become highly illiquid until an alternative was

implemented, and shareholders would have no ability to effect a trade of the Subordinate Voting Shares through the facilities of a stock exchange.

Foreign Private Issuer status

The Business Combination is being structured so that the Resulting Issuer will be a Foreign Private Issuer as defined in Rule 405 under the U.S. Securities Act and Rule 3b-4 under the U.S. Exchange Act, following the closing of the Business Combination. The term “Foreign Private Issuer” is defined as any non-U.S. corporation, other than a foreign government, except any issuer meeting the following conditions:

- (a) more than 50 percent of the outstanding voting securities of such issuer are, directly or indirectly, held of record by residents of the United States; and
- (b) any one of the following:
 - (i) the majority of the executive officers or directors are United States citizens or residents, or
 - (ii) more than 50 percent of the assets of the issuer are located in the United States, or
 - (iii) the business of the issuer is administered principally in the United States.

For purposes of determining whether more than 50% of its outstanding voting securities are held “of record” by U.S. residents, the Resulting Issuer must “look through” the record ownership of brokers, dealers, banks, or nominees holding securities for the accounts of their customers, and also consider any beneficial ownership reports or other information available to the issuer. It must conduct this “look through” in three jurisdictions: the United States; the Resulting Issuer’s home jurisdiction; and the primary trading market for the Resulting Issuer’s voting securities, if different from the Resulting Issuer’s home jurisdiction. Additionally, if the Resulting Issuer is not able to obtain information about the record holders’ accounts after reasonable inquiry, the Resulting Issuer may rely on the presumption that such accounts are held in the broker’s, dealer’s, bank’s, or nominee’s principal place of business.

In December 2016, the SEC issued a Compliance and Disclosure Interpretation to clarify that issuers with multiple classes of voting stock carrying different voting rights may, for the purposes of calculating compliance with this threshold, examine either (i) the combined voting power of its share classes or (ii) the number of voting securities, in each case held of record by U.S. residents. Based on this interpretation, each issued and outstanding Subordinate Proportionate Voting Share and each issued and outstanding Multiple Voting Share is counted as one voting security and each issued and outstanding Subordinate Voting Shares is counted as one voting security for the purposes of determining the 50 percent U.S. resident threshold. Accordingly, the Resulting Issuer is expected to be a “Foreign Private Issuer” upon completion of the Business Combination.

Should the SEC’s guidance and interpretation change, it is likely the Resulting Issuer will lose its Foreign Private Issuer status.

Loss of Foreign Private Issuer status

The Resulting Issuer is expected to be a Foreign Private Issuer. If, as of the last business day of the Resulting Issuer’s second fiscal quarter for any year, more than 50% of the Resulting Issuer’s outstanding voting securities (as determined under Rule 405 of the U.S. Securities Act) are directly or indirectly held of record by residents of the United States, the Resulting Issuer will no longer meet the definition of a Foreign Private Issuer, which may have adverse consequences on the Resulting Issuer’s ability to raise capital in private placements or Canadian prospectus offerings. In addition the loss of the Resulting Issuer’s Foreign Private Issuer status may likely result in increased reporting requirements and increased audit, legal and administration costs. Further, should the Resulting Issuer seek to list on a securities exchange in the United States, loss of Foreign Private Issuer status may increase the cost and time required for such a listing. These increased costs may have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer. The conversion terms of the Subordinate Proportionate Voting Shares will permit conversion into Subordinate Voting Shares six months following the closing of the Business

Combination. As a result, this ability to convert may result in the loss of Foreign Private Issuer status within a short period of time.

There may be unknown additional regulatory fees and taxes that may be assessed in the future.

The Resulting Issuer is aware that multiple states in the United States are considering special taxes or fees on businesses in the marijuana industry. It is a potential yet unknown risk at this time that other states are in the process of reviewing such additional fees and taxation. This could change the net income and return on the Resulting Issuer's investments and/or participation in the selected business opportunities.

The Resulting Issuer likely will not be able to secure its payment and other contractual rights with liens on the inventory or licenses of its clients and contracting parties.

In general, the laws of the various states that have legalized marijuana sale and cultivation do not expressly or impliedly allow for the pledge of inventory containing marijuana as collateral for the benefit of third parties, such as the Resulting Issuer and the Subsidiaries, that do not possess the requisite licenses and entitlements to cultivate, sell, or possess marijuana pursuant to the applicable state law. Likewise, the laws of those states generally do not allow for transfer of the licenses and entitlements to sell or cultivate marijuana to third parties that have not been granted such licenses and entitlements by the applicable state agency. The inability of the Resulting Issuer and the Subsidiaries to secure its payment and other contractual rights with liens on the inventory and licenses of its clients and contracting parties increases the risk of loss resulting from breaches of the applicable agreements by the contracting parties, which, in turn, could have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

Delays in enactment of new state or federal regulations could restrict the ability of the Resulting Issuer to reach strategic growth targets and lower return on investor capital.

The strategic growth strategy of the Resulting Issuer, is reliant upon certain federal and state regulations being enacted to facilitate the legalization of medical and adult-use marijuana. If such regulations are not enacted, or enacted but subsequently repealed or amended, or enacted with prolonged phase-in periods, the growth targets of the Resulting Issuer, and thus, the effect on the return of investor capital, could be detrimental. The Resulting Issuer is unable to predict with certainty when and how the outcome of these complex, legal, regulatory, and legislative proceedings will affect the business and growth of the Resulting Issuer.

FDA regulation of cannabis and industrial hemp

Cannabis remains a Schedule I controlled substance under U.S. federal law. If the federal government reclassifies cannabis to a Schedule II controlled substance, it is possible that the FDA would regulate it under the *Food, Drug and Cosmetics Act of 1938* ("FDCA"). The FDA is responsible for ensuring public health and safety through regulation of food, drugs, supplements and cosmetics, among other products, through its enforcement authority pursuant to the FDCA. FDA's responsibilities include regulating the ingredients as well as the marketing and labeling of drugs sold in interstate commerce. Because cannabis is federally illegal to produce and sell, and because it has no federally recognized medical uses, the FDA has historically deferred enforcement related to cannabis to the DEA; however, the FDA has enforced the FDCA with regard to industrial hemp-derived products, especially CBD derived from industrial hemp sold outside of state-regulated cannabis businesses. The FDA has recently affirmed its authority to regulate CBD derived from both cannabis and industrial hemp, and its intention to develop a framework for regulating the production and sale of CBD derived from industrial hemp.

Additionally, the FDA may issue rules and regulations including good manufacturing practices, related to the growth, cultivation, harvesting and processing of medical cannabis and/or industrial hemp. Clinical trials may be needed to verify efficacy and safety of both cannabis-derived products and industrial hemp-derived products. It is also possible that the FDA would require that facilities where medical-use cannabis is grown register with the FDA and comply with certain federally prescribed regulations. In the event that some or all of these regulations are imposed, the impact would be on the cannabis industry is unknown, including what costs, requirements and possible prohibitions may be enforced. If the Subsidiaries are unable to comply with the regulations or registration as prescribed by the FDA, it may have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

The Resulting Issuer will be subject to applicable anti-money laundering laws and regulations.

Each of 4Front and Cannex and their respective Subsidiaries is subject to a variety of laws and regulations domestically and in the U.S. that involve money laundering, financial record-keeping and proceeds of crime, including the *U.S. Currency and Foreign Transactions Reporting Act of 1970* (commonly known as the “**Bank Secrecy Act**”), as amended by Title III of the *Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001* (the “**USA Patriot Act**”), the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (Canada), as amended, and the rules and regulations thereunder, and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the U.S. and Canada. Further, under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering, aiding and abetting, or conspiracy.

The Financial Crimes Enforcement Network (“**FinCEN**”) of the U.S. Department of the Treasury issued a memorandum on February 14, 2014 outlining the pathways for financial institutions to bank cannabis businesses in compliance with federal enforcement priorities (the “**FinCEN Memorandum**”). The FinCEN Memorandum states that in some circumstances, it is permissible for banks to provide services to cannabis-related businesses without risking prosecution for violation of federal money laundering laws. It refers to supplementary guidance included in the Cole Memorandum.

Attorney General Sessions’ revocation of the Cole Memorandum has not yet affected the status of the FinCEN Memorandum, nor has the Department of the Treasury given any indication that it intends to rescind the FinCEN Memorandum itself.

Although the FinCEN Memorandum remains intact, it is unclear whether the current administration will continue to follow the guidelines of the FinCEN Memorandum. The DOJ continues to have the right and power to prosecute crimes committed by banks and financial institutions, such as money laundering and violations of the Bank Secrecy Act, that occur in any state including states that have in some form legalized the sale of cannabis. Further, the conduct of the DOJ’s enforcement priorities could change for any number of reasons. A change in the DOJ’s priorities could result in the DOJ’s prosecuting banks and financial institutions for crimes that were not previously prosecuted.

If any of the operations of 4Front, Cannex or their respective Subsidiaries, or any proceeds thereof, any dividend distributions or any profits or revenues derived from these operations were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds from a crime under one or more of the statutes noted above. This may restrict the ability of the Resulting Issuer to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada.

Limited trademark protection

The Subsidiaries will not be able to register any U.S. federal trademarks for their cannabis products. Because producing, manufacturing, processing, possessing, distributing, selling, and using cannabis is illegal under the CSA, the United States Patent and Trademark Office will not permit the registration of any trademark that identifies cannabis products. As a result, the Subsidiaries likely will be unable to protect their cannabis product trademarks beyond the geographic areas in which they conduct business. The use of their trademarks outside the states in which they operate by one or more other persons could have a material adverse effect on the value of such trademarks.

There is a risk of high bonding and insurance costs.

Although it will vary from state to state in the United States, there is risk that some or all of the state regulatory agencies will begin requiring entities and individuals engaged in certain aspects of the business or industry of legal marijuana to post a bond when applying for a dispensary license or renewal as a guarantee of payment of sales and franchise tax. This risk may not be relevant to all aspects of the business or industry of legal marijuana, however, as this industry is relatively new, the Resulting Issuer does not have definitive information or enough information to date to completely quantify what such a figure could or would be. It remains an unknown cost that could have a negative impact on the ultimate success of the Resulting Issuer and/or the Resulting Issuer’s participation in the business opportunities ultimately selected.

The inability of the Resulting Issuer to respond to the changing regulatory landscape could harm its business.

The medical and adult-use marijuana industry is subject to significant regulatory change at both the state and federal level in the United States. If the Resulting Issuer and the Subsidiaries are unable to respond appropriately to these changing federal and state regulations, it may not be successful in capturing significant market share.

Reliable data on the medical and adult-use marijuana industry is not available.

As a result of recent and ongoing regulatory and policy changes in the medical and adult-use marijuana industry, the market data available is limited and unreliable. Federal and state laws prevent widespread participation and hinder market research. Therefore, market research and projections by the Resulting Issuer of estimated total retail sales, demographics, demand, and similar consumer research, are based on assumptions from limited and unreliable market data, and generally represent the personal opinions of the Resulting Issuer's management team members as of the date of this Listing Statement.

There are general regulatory risks that may have a material effect on the Resulting Issuer and its Subsidiaries.

The operations of the businesses of the Resulting Issuer and the Subsidiaries, as well as the operations of the business enterprises in which the Resulting Issuer makes investments, may be subject to various U.S. federal, state and local statutes, ordinances, rules and regulations, including, among others, zoning and land use ordinances, building, plumbing and electrical codes, contractors' licensing laws and health and safety regulations and laws. Various localities have imposed (or may in the future impose) fees to fund, among other things, schools, road improvements and low and moderate income housing. Additionally, various localities have proposed or enacted additional initiatives restricting the growth and expansion of marijuana dispensaries and cultivation facilities. There are no assurances that these general regulatory issues will not have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

Inconsistent public opinion and perception of the medical and adult-use use marijuana industry hinders market growth and state adoption.

Public opinion and support for medical and adult-use marijuana has traditionally been inconsistent and varies from jurisdiction to jurisdiction. While public opinion and support appears to be rising for legalizing medical and adult-use marijuana, it remains a controversial issue subject to differing opinions surrounding the level of legalization (for example, medical marijuana as opposed to legalization in general). Inconsistent public opinion and perception of the medical and adult-use marijuana may hinder growth and state adoption which could have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

Investors in the Resulting Issuer and the Resulting Issuer's directors, officers and employees may be subject to entry bans into the United States

Because cannabis remains illegal under United States federal law, those who are not U.S. citizens employed at or investing in legal and licensed U.S. cannabis companies could face detention, denial of entry or lifetime bans from the United States for their business associations with cannabis U.S. businesses. Entry happens at the sole discretion of CBP officers on duty, and these officers have wide latitude to ask questions to determine the admissibility of a foreign national. The government of Canada has started warning travelers on its website that previous use of cannabis, or any substance prohibited by United States federal laws, could mean denial of entry to the United States. Business or financial involvement in the legal cannabis industry in Canada or in the United States could also be reason enough for United States border guards to deny entry. On September 21, 2018, CBP released a statement outlining its current position with respect to enforcement of the laws of the United States. It stated that Canada's legalization of cannabis will not change CBP enforcement of United States laws regarding controlled substances and because cannabis continues to be a controlled substance under United States law, working in or facilitating the proliferation of the legal marijuana industry in U.S. states where it is deemed legal or Canada may affect admissibility to the United States. As a result, CBP has affirmed that, employees, directors, officers, managers and investors of companies involved in business activities related to cannabis in the United States or Canada (such as the Resulting Issuer), who are not United States citizens face the risk of being barred from entry into the United States for life. As described above, on October 9, 2018, CBP released an additional statement regarding the admissibility of Canadian citizens working in the legal cannabis industry. CBP stated

that a Canadian citizen working in or facilitating the proliferation of the legal cannabis industry in Canada coming into the United States for reasons unrelated to the cannabis industry will generally be admissible to the United States; however, if such person is found to be coming into the United States for reasons related to the cannabis industry, such person may be deemed inadmissible.

Business and Operational Risks

Dependence on performance of Subsidiaries

The Resulting Issuer will be dependent on the operations, assets and financial health of the Subsidiaries. Accordingly, if the financial performance of any Subsidiary declines this will adversely affect the Resulting Issuer's investment in such Subsidiary and ability to realize a return on such investment. The Resulting Issuer will conduct due diligence on each of the Subsidiaries prior to making any investment and will be directly involved in the operations of each Subsidiary. Nonetheless, there is a risk that there may be some liabilities or other matters that are not identified through the due diligence or ongoing monitoring that may have an adverse effect on a Subsidiary's business, and this could have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

Projections

This Listing Statement contains projections about the operations of the Resulting Issuer, including projections regarding the cost and timelines to complete business objectives and the anticipated growth of the business and its products. Such projections include, but are not limited to: the costs and timelines to expand warehouse and production facilities, construction costs and timelines for completion of construction, the cost to open and operate dispensaries and the timelines for opening and operating, the costs to obtain cannabis licenses and timeline for receipt of approvals from particular states, expectations regarding the availability of additional applications for cannabis licenses from various states and expectations regarding yield of products. Projections in this Listing Statement are based on management's best estimates and the assumptions set out herein. Projections, by their nature, are subject to uncertainty and reliance should not be made on any projection. If projections are incorrect or the actual operations of the Resulting Issuer differ materially from management's estimates, it could have a material adverse effect on the business, financial condition and results of operations of the Resulting Issuer.

The marijuana industry presents substantial risks and uncertainty.

The business of the Resulting Issuer and the other businesses in which the Resulting Issuer will invest will be engaged directly or indirectly in business within the medical and adult-use marijuana industry in the United States. The relatively new development of the medical and adult-use marijuana industry nationally presents numerous and material risks. Many of these risks are not inherent in other developing or mature industries. Many of the risks are unknown and the consequences to the Resulting Issuer and the Subsidiaries in which the Resulting Issuer will invest.

The risks range from the potential catastrophic collapse of the medical and adult-use marijuana industry nationally or in the states in which the Resulting Issuer conducts business or makes investments that might result from changes in laws or the enforcement of existing laws to the failure of individual businesses that might result from volatile market conditions that sometime accompany the development of new markets and industries. Additionally, the medical and adult-use marijuana industry is characterized by fragmented markets, immature companies, inexperienced managers lacking conventional business and financial discipline, a lack of well-known brands, an absence of industry and product standards, ever-shifting legal landscapes with multiple frameworks (from state to state), rapidly shifting public opinion, and a scarcity of significant capital.

4Front is currently involved in litigation, and there may be additional litigation that the Resulting Issuer will be involved in in the future.

4Front is currently involved in litigation including between 4Front (on the one hand) and the following parties (on the other hand): CWNevada, LLC; Nuveda LLC; Clark NMSD LLC; and Nye NMSD LLC (collectively, the "**Respondents**"). 4Front initiated arbitration proceedings against the Respondents due to their failure to pay 4Front for fees for services under certain agreements between the parties. The Respondents filed a counterclaim against 4Front alleging that 4Front intentionally interfered with a purchase agreement between CWNevada, LLC and Nuveda,

LLC, and alleging that 4Front breached its obligations under certain agreements. On February 5, 2019, 4Front was awarded an arbitration award totalling \$8.7 million against the Respondents. 4Front has scheduled a motion to confirm the arbitration award and request to enter judgment on February 28, 2019, which will be heard in the eight judicial district court of Nevada.

While 4Front believes that the counterclaims asserted by the Respondents are without merit, 4Front cannot make any assurances that it will in fact prevail in the litigation. An adverse decision in the litigation could have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer. Furthermore, even if 4Front is successful in the litigation, 4Front will likely incur substantial legal fees in asserting its claims against the Respondents and in defending against the counterclaims and, thus, these legal fees could have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

Unpaid Advisors' fees have not been included in 4Front's consolidated financial statements. If collected, such fees will represent an opportunity for additional cash flow in the future (see Section 4.1(1) "*Narrative Description of the Business – General Business of the Resulting Issuer – General Business of 4Front – Advisors – Legacy Clients And Outstanding Payments*"). If the Resulting Issuer is not successful in collecting the amounts due, it may be required to pursue more aggressive collections efforts, including litigation. Litigation can be costly, and if ultimately unsuccessful, the Resulting Issuer may be negatively impacted and may result in an adverse effect on the financial condition of Advisors.

Future acquisitions or dispositions

Material acquisitions, dispositions and other strategic transactions involve a number of risks, including: (i) potential disruption of the Resulting Issuer's ongoing business, (ii) distraction of management, (iii) the Resulting Issuer may become more financially leveraged, (iv) the anticipated benefits and cost savings of those transactions may not be realized fully or at all or may take longer to realize than expected, (v) increasing the scope and complexity of the Resulting Issuer's operations, and (vi) loss or reduction of control over certain of the Resulting Issuer's assets. Additionally, the Resulting Issuer may issue additional equity interests in connection with such transactions, which would dilute a shareholder's holdings in the Resulting Issuer.

The presence of one or more material liabilities of an acquired company that are unknown to the Resulting Issuer at the time of acquisition could have a material adverse effect on the business, results of operations, prospects and financial condition of the Resulting Issuer. A strategic transaction may result in a significant change in the nature of the Resulting Issuer's business, operations and strategy. In addition, the Resulting Issuer may encounter unforeseen obstacles or costs in implementing a strategic transaction or integrating any acquired business into the Resulting Issuer's operations.

Ability to manage future growth

The ability to achieve desired growth will depend on the Resulting Issuer's ability to identify, evaluate and successfully negotiate investment opportunities with target companies. Achieving this objective in a cost-effective manner will be a product of the Resulting Issuer's sourcing capabilities, the management of the investment process, the ability to provide capital on terms that are attractive to target companies and the Resulting Issuer's access to financing on acceptable terms. Failure to effectively manage any future growth and successfully negotiate suitable investments could have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

Lending activities

In connection with its Management Agreements and Nominee Agreements with parties that hold cannabis licenses, 4Front may also act as lender to such parties. Certain of these loans are unsecured, which places 4Front at a greater risk of not receiving repayment or the equivalent value thereof. Even for loans that are secured, there is a risk that other lenders may have priority interest to 4Front or that the assets of the borrower may be insufficient to satisfy the loan. In addition, 4Front may have difficulty putting liens on the assets of a borrower, as the major asset is generally the cannabis licence which is not transferrable pursuant to state law. Any inability of a borrower to repay a loan or of 4Front to realize the value of secured assets could have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

Enforceability of contracts

Since cannabis is illegal at a federal level, judges in multiple U.S. states have on several occasions refused to enforce contracts for the repayment of money when the loan was used in connection with activities that violate federal law, even if there is no violation of state law. Therefore, there is uncertainty that the Resulting Issuer will be able to legally enforce its agreements, including agreements material to the Resulting Issuer.

Operation permits and authorizations

The Subsidiaries may not be able to obtain or maintain the necessary licenses, permits, certificates, authorizations or accreditations, or may only be able to do so at great cost, to operate their respective businesses. In addition, the Subsidiaries may not be able to comply fully with the wide variety of laws and regulations applicable to the cannabis industry. Failure to comply with or to obtain the necessary licenses, permits, certificates, authorizations or accreditations could result in restrictions on a Subsidiary's ability to operate in the cannabis industry, which could have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

The Resulting Issuer will rely to a great extent on the expertise of the Resulting Issuer Board and officers, and any departures may impair the Resulting Issuer's businesses and investments.

The successful ongoing operation of the Resulting Issuer requires substantial expertise. The Resulting Issuer Board will have exclusive authority to make decisions and to exercise investment acquisition discretion on behalf of the Resulting Issuer. The success of the Resulting Issuer will depend to a great extent upon the expertise of the Resulting Issuer Board and officers. The loss of the services of any member of the Resulting Issuer Board or one or more of the officers could have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

Security risks

The business premises of the Resulting Issuer's operating locations may be targets for theft. While the Subsidiaries have implemented security measures at each location and continue to monitor and improve their security measures, their cultivation, production and dispensary facilities could be subject to break-ins, robberies and other breaches in security. If there was a breach in security and a Subsidiary fell victim to a robbery or theft, the loss of cannabis plants, cannabis oils, cannabis flowers and cultivation and production equipment could have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

As the Subsidiaries' businesses involve the movement and transfer of cash which is collected from dispensaries or patients/customers and deposited into its bank, there is a risk of theft or robbery during the transport of cash. The Subsidiaries have engaged security firms to provide security in the transport and movement of large amounts of cash. Employees occasionally transport cash and/or products. Each of the Subsidiary's vehicles are equipped with a mounted safe as well as GPS tracking. While the Subsidiaries have taken steps to prevent theft or robbery of cash during transport, there can be no assurance that there will not be a security breach during the transport and the movement of cash involving the theft of product or cash.

Synthetic products may compete with medical marijuana use and products.

The pharmaceutical industry may attempt to dominate the marijuana industry, and in particular, legal marijuana, through the development and distribution of synthetic products which emulate the effects and treatment of organic marijuana. If they are successful, the widespread popularity of such synthetic products could change the demand, volume and profitability of the marijuana industry. This could adversely affect the ability of the Resulting Issuer and the Subsidiaries to secure long-term profitability and success through the sustainable and profitable operation of the anticipated businesses and investment targets, and could have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

There are risks associated with well-capitalized entrants developing large-scale operations.

Currently, the marijuana industry generally is comprised of individuals and small to medium-sized entities, however, the risk remains that large conglomerates and companies who also recognize the potential for financial success through investment in this industry could strategically purchase or assume control of larger dispensaries and cultivation facilities. In doing so, these larger competitors could establish price setting and cost controls which would effectively “price out” many of the individuals and small to medium-sized entities who currently make up the bulk of the participants in the varied businesses operating within and in support of the medical and adult-use marijuana industry. While the trend in most state laws and regulations seemingly deters this type of takeover, this industry remains quite nascent, so what the landscape will be in the future remains largely unknown, which in itself is a risk.

The Resulting Issuer is fairly described as an early stage business enterprise.

The Resulting Issuer is still in the start-up stage and has no historical revenues other than revenues from the limited and unprofitable operations of the Subsidiaries. The Resulting Issuer’s proposed business plan is subject to all business risks associated with new business enterprises, including the absence of any significant operating history upon which to evaluate an investment. The likelihood of the Resulting Issuer’s success must be considered in light of the problems, expenses, difficulties, complications and delays frequently encountered in connection with the formation of a new business, the development of new strategy and the competitive environment in which the Resulting Issuer and the Subsidiaries will operate. It is possible that the Resulting Issuer and the Subsidiaries will incur substantial losses in the future. There is no guarantee that the Resulting Issuer or the Subsidiaries will be profitable.

Talent pool

As the Resulting Issuer grows, it will need to hire additional human resources to continue to develop its businesses. However, experienced talent in the areas of medical cannabis research and development, growing cannabis and extraction, as well as senior management, are difficult to source, and there can be no assurance that the appropriate individuals will be available or affordable. Without adequate personnel and expertise, the growth of the business of the Resulting Issuer may suffer. There can be no assurance that any of the Resulting Issuer will be able to effectively manage growth, and any failure to do so could have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

Risks inherent in an agricultural business

Medical and adult-use cannabis is an agricultural product. There are risks inherent in the cultivation business, such as insects, plant diseases and similar agricultural risks. Although the products are usually grown indoors or in green houses under climate-controlled conditions, with conditions monitored, there can be no assurance that natural elements will not have a material adverse effect on the production of the Subsidiaries’ products and, consequentially, on the business, financial condition or results of operations of the Resulting Issuer.

The Resulting Issuer may be subject to significant competition.

A number of other companies engage in, and could engage in, a business similar to the business of the Resulting Issuer, operate businesses in competition with the Resulting Issuer and purchase assets or make investments that the Resulting Issuer also seeks to purchase or make. This competition may increase the price the Resulting Issuer must pay for the assets or make it more difficult for the Resulting Issuer to operate at a profit and to purchase assets. The inability to operate at a profit and acquire assets on terms favorable to the Resulting Issuer may adversely impact the revenue stream that the Resulting Issuer anticipates to receive and, thus, adversely impact the ability of the Resulting Issuer to pay distributions.

If the number of users of medical cannabis in Canada and the United States increases, the demand for products will increase and the Resulting Issuer expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. In addition, the Resulting Issuer expects to face competition from new entrants due to the early stage of the industry in which the Resulting Issuer operates. To be competitive, the Resulting Issuer will require a continued high level of investment in research and development, marketing, sales and client support. The Resulting Issuer may not have sufficient resources to maintain research and development, marketing,

sales and client support efforts on a competitive basis which could materially and could have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

The Resulting Issuer also faces competition from illegal dispensaries and the black market that are unlicensed and unregulated, and that are selling cannabis and cannabis products, including products with higher concentrations of active ingredients, and using delivery methods, including edibles and extract vaporizers, that the Resulting Issuer is prohibited from offering to individuals as they are not currently permitted by U.S. state law. Any inability or unwillingness of law enforcement authorities to enforce existing laws prohibiting the unlicensed cultivation and sale of cannabis and cannabis-based products could result in the perpetuation of the black market for cannabis and/or have a material adverse effect on the perception of cannabis use. Any or all these events could have a material adverse effect on the company's business, financial condition and results of operations.

Internal Controls

Effective internal controls are necessary for the Resulting Issuer to provide reliable financial reports and to help prevent fraud. Although the Resulting Issuer will undertake a number of procedures and will implement a number of safeguards, in each case, in order to help ensure the reliability of its financial reports, including those imposed on the Resulting Issuer under Canadian securities law, the Resulting Issuer cannot be certain that such measures will ensure that the Resulting Issuer will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Resulting Issuer's results of operations or cause it to fail to meet its reporting obligations. If the Resulting Issuer or its auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Resulting Issuer's consolidated financial statements and materially adversely affect the trading price of the Subordinate Voting Shares.

Potential disclosure of personal information to government or regulatory entities

The Resulting Issuer will own, manage, or provide services to various U.S. state licensed cannabis operations. Acquiring even a minimal and/or indirect interest in a U.S. state-licensed cannabis business can trigger requirements to disclose investors' personal information. While these requirements vary by jurisdiction, some require interest holders to apply for regulatory approval and to provide tax returns, compensation agreements, fingerprints for background checks, criminal history records and other documents and information. Some states require disclosures of directors, officers and holders of more than a certain percentage of equity of the applicant. While certain states include exceptions for investments in publicly traded entities, not all states do so, and some such exceptions are confined to companies traded on a U.S. securities exchange. If these regulations were to extend to the Resulting Issuer, investors would be required to comply with such regulations, or face the possibility that the relevant cannabis license could be revoked or cancelled by the state licensing authority.

Promoting and maintaining brands

The Resulting Issuer believes that establishing and maintaining the brand identities of products is a critical aspect of attracting and expanding a large customer base. Promotion and enhancement of brands will depend largely on success in providing high quality products. If customers and end users do not perceive the Resulting Issuer's products to be of high quality, or if the Resulting Issuer introduces new products or enters into new business ventures that are not favorably received by customers and end users, the Resulting Issuer will risk diluting brand identities and decreasing their attractiveness to existing and potential customers. Moreover, in order to attract and retain customers and to promote and maintain brand equity in response to competitive pressures, the Resulting Issuer may have to increase substantially financial commitment to creating and maintaining a distinct brand loyalty among customers. If the Resulting Issuer incurs significant expenses in an attempt to promote and maintain brands, this could be a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

Certain remedies and rights to indemnification may be limited

The Resulting Issuer's governing documents will provide that the liability of its board of directors and officers is eliminated to the fullest extent allowed under the laws of the Province of British Columbia and the federal laws of Canada applicable therein. Thus, the Resulting Issuer and the shareholders of the Resulting Issuer may be prevented from

recovering damages for alleged errors or omissions made by the members of the board of directors of the Resulting Issuer and its officers. The Resulting Issuer's governing documents will also provide that the Resulting Issuer will, to the fullest extent permitted by law, indemnify members of the board of directors of the Resulting Issuer and its officers for certain liabilities incurred by them by virtue of their acts on behalf of the Resulting Issuer.

Proposed acquisitions

The proposed acquisition of Om is subject to certain conditions, many of which are outside of the control of the Resulting Issuer, and there can be no assurance that it will be completed, on a timely basis or at all. As a consequence, there is a risk that the proposed acquisition will not close in a timely fashion or at all. If the proposed acquisition is not completed for any reason, the ongoing business of the Resulting Issuer may be adversely affected and, without realizing any of the benefits of having completed such transactions, the Resulting Issuer will be subject to a number of risks, including, without limitation, the Resulting Issuer may experience negative reactions from the financial markets, including negative impacts on the Resulting Issuer's stock price, in the case of a proposed acquisition, the Resulting Issuer will need to find an alternative use of any proceeds earmarked for such proposed acquisitions, in the case of a proposed disposition, the Resulting Issuer will not receive the anticipated proceeds of such disposition and accordingly may not be able to execute on other business opportunities for which such proceeds have been earmarked, and matters relating to the proposed acquisitions and dispositions will require substantial commitments of time and resources by management of the Resulting Issuer, which would otherwise have been devoted to day-to-day operations and other opportunities that may have been beneficial to the Resulting Issuer.

If the proposed acquisition is not completed, the risks described above may materialize and they may have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

The uncertain and fragmented nature of the medical and adult-use marijuana industry often results in an unconventional due diligence process and acquisition terms that could result in unknown and materially detrimental consequences to the Resulting Issuer.

The uncertainty inherent in various aspects of the medical and adult-use marijuana industry can result in what otherwise would be inadequate investment due diligence information and uncertain legal consequences relative to arrangements affecting a target investment. The reluctance of banks and other financial institutions to facilitate financial transactions in the medical and adult-use marijuana industry can result in inadequate and unverifiable financial information about target investments, as well as cash management practices that are vulnerable to theft and fraud. The lack of established, traditional sources of financing for industry participants can result in unusual and uncertain arrangements affecting the ownership and obligations of a target investment. The reluctance of lawyers to represent industry participants in furtherance of financing and other business transactions can result in the lack of documentation setting forth the terms of the transactions, inadequately documented transactions, and transactions that in whole or in part are illegal under applicable state law, among other detrimental consequences. The Resulting Issuer has invested in, and may in the future invest in, businesses and companies that are or may become party to legal proceedings, may have inadequate financial and other due diligence information, may employ vulnerable cash management practices, lack written or adequate legal documents governing significant transactions, and otherwise have known or unknown conditions that could be detrimental to its business and assets.

Disparate state-by-state regulatory landscapes and the constraints related to holding cannabis licenses in various states results in operational and legal structures for realizing the benefit from cannabis licenses that could result in materially detrimental consequences to the Resulting Issuer.

The Resulting Issuer realizes, and will continue to realize, the benefits from cannabis licenses pursuant to a number of different structures, depending on the regulatory requirements from state-to-state, including realizing the economic benefit of cannabis licenses through Nominee Agreements and Management Agreements. Such agreements are often required to comply with applicable laws and regulations or are in response to perceived risks that the Resulting Issuer determines warrant such arrangements. See Section 4.1(1) "Narrative Description of the Business – General Business of the Resulting Issuer – General Business of 4Front – Mission – Nominee Agreements and Management Agreements".

The foregoing structures present various risks to the Resulting Issuer and the Subsidiaries, including but not limited to the following risks, each of which could have a material adverse effect on the business, financial condition and results of operations of the Resulting Issuer:

- A governmental body or regulatory entity may determine that these structures are in violation of a legal or regulatory requirements or change such legal or regulatory requirements such that a Nominee Agreement or Management Agreement structure violates such requirements (where it had not in the past). The Resulting Issuer cannot provide any assurance that a license application submitted by a third party will be accepted, especially if the management and operation of the license is dependent on a Nominee Agreement or Management Agreement structure.
- There could be a material and adverse impact on the revenue stream the Resulting Issuer intends to receive from or on account of cannabis licenses (as the Resulting Issuer is not the license holder, and therefore any economic benefit is received pursuant to a contractual arrangement). If a Nominee Agreement or Management Agreement is terminated, the Resulting Issuer will no longer receive any economic benefit from the applicable dispensary and/or cultivation license.
- These structures could potentially result in the funds being invested by the Resulting Issuer being used for unintended purposes, such as to fund litigation.
- If a Management Agreement or Nominee Agreement structure is in place, the Resulting Issuer is not the license holder of the applicable state-issued cannabis license, and therefore, only has contractual rights in respect of any interest in any such license. If the license holder fails to adhere to its contractual agreement with the Resulting Issuer, or if the license holder makes, or omits to make, decisions in respect of the license that the Resulting Issuer disagrees with, the Resulting Issuer will only have contractual recourse and will not have recourse to any regulatory authority.
- The license holder may renege on its obligation to pay fees and other compensation pursuant to a Nominee Agreement or Management Agreement or violate other provisions of these agreements.
- The license holder's acts or omissions may violate the requirements applicable to it pursuant to the applicable dispensary and/or cultivation license, thus jeopardizing the status and economic value of the license holder (and, by extension, the Resulting Issuer).
- In the case of a Management Agreement, the license holder may terminate the agreement if any loan owing to the Resulting Issuer is paid back in full and the license holder is able to pay a break fee.
- In the case of a Nominee Agreement, the license holder is generally an employee or officer of 4Front or a Subsidiary (or an affiliate or associate of such individual or individuals); however, in a typical Management Agreement structure, the license is owned by a party or parties unrelated to 4Front or a Subsidiary.
- The license holder may attempt to terminate the Nominee Agreement or Management Agreement in violation of its express terms.

In any or all of the above situations, it would be difficult and expensive for the Resulting Issuer to protect its rights through litigation, arbitration, or similar proceedings.

There may be material delays in identifying and acquiring assets.

The Resulting Issuer and the Subsidiaries could suffer from delays in locating and acquiring suitable assets for investment and/or participation. Delays encountered in the identification and acquisition of such assets could adversely affect the investment returns of the shares of the Resulting Issuer.

Currency fluctuations

The Resulting Issuer's revenues and expenses are expected to be primarily denominated in U.S. dollars, and therefore may be exposed to significant currency exchange fluctuations. The Canadian dollar relative to the U.S. dollar or other foreign currencies is subject to fluctuations. Fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar may have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer. The Resulting Issuer may, in the future, establish a program to hedge a portion of its foreign currency exposure with the objective of minimizing the impact of adverse foreign currency exchange movements. However, even if the Resulting Issuer develops a hedging program, there can be no assurance that it will effectively mitigate currency risks. Failure to adequately manage foreign exchange risk could therefore have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

Investments may be pre-revenue

The Resulting Issuer may make investments in companies with no significant sources of operating cash flow and no revenue from operations. The Resulting Issuer's investments in such companies are subject to risks and uncertainties that new companies with no operating history may face. In particular, there is a risk that the Resulting Issuer's investment in these pre-revenue companies will not be able to meet anticipated revenue targets or generate no revenue at all. The risk is that underperforming pre-revenue companies may lead to these businesses failing which could have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

Enforceability of judgments against foreign Subsidiaries

Certain of the Subsidiaries are organized under the laws of various U.S. states. All of the assets of these entities are located outside of Canada and certain of the experts retained by the Resulting Issuer or its affiliates are residents of countries other than Canada. As a result, it may be difficult or impossible for shareholders of the Resulting Issuer to effect service within Canada upon such persons, or to realize against them in Canada upon judgments of courts of Canada predicated upon the civil liability provisions of applicable Canadian provincial securities laws or otherwise. There is some doubt as to the enforceability in the U.S. by a court in original actions, or in actions to enforce judgments of Canadian courts, of civil liabilities predicated upon such applicable Canadian provincial securities laws or otherwise. A court in the U.S. may refuse to hear a claim based on a violation of Canadian provincial securities laws or otherwise on the grounds that such jurisdiction is not the most appropriate forum to bring such a claim. Even if a court in the U.S. agrees to hear a claim, it may determine that the local law in the U.S., and not Canadian law, is applicable to the claim. If Canadian law is found to be applicable, the content of applicable Canadian law must be proven as a fact, which can be a time-consuming and costly process. Certain matters of procedure will also be governed by foreign law in such circumstances.

Results of future clinical research

Research in Canada, the U.S. and internationally regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis or isolated cannabinoids (such as CBD and THC) remains in early stages. There have been relatively few clinical trials on the benefits of cannabis or isolated cannabinoids (such as CBD and THC). Although the Resulting Issuer believes that the articles, reports and studies support its beliefs regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis, future research and clinical trials may prove such statements to be incorrect, or could raise concerns regarding, and perceptions relating to, cannabis. Further, the Resulting Issuer believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis produced. Consumer perception can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research or findings, regulatory investigations, litigation, media attention or other publicity will be favorable to the cannabis market or any particular product, or consistent with earlier publicity.

Future research studies and clinical trials may reach negative conclusions regarding the medical benefits, viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to cannabis, which could have a material adverse effect on the demand for the Resulting Issuer's products with the potential to lead to a material

adverse effect on the business, financial condition or results of operations of the Resulting Issuer. There is no assurance that such adverse publicity reports or other media attention will not arise.

Environmental risk and regulation

The operations of the Resulting Issuer are subject to environmental regulation in the various jurisdictions in which they operate. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors (or the equivalent thereof) and employees. There is no assurance that future changes in environmental regulation, if any, will not have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

If the products are approved, there is a risk that any federal, state, provincial and/or local jurisdiction may revoke its approval for such products based on changes in laws or regulations or based on its discretion or otherwise. If any of the Resulting Issuer's products are not approved or any existing approvals are rescinded, it may have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

Government approvals and permits are currently, and may in the future be, required in connection with the operations of the Resulting Issuer. To the extent such approvals are required and not obtained, the Resulting Issuer may be curtailed or prohibited from its proposed production of medical cannabis or from proceeding with the development of its operations as currently proposed.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. The Subsidiaries may be required to compensate those suffering loss or damage by reason of their operations and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing the production of medical cannabis, or more stringent implementation thereof, could cause increases in expenses, capital expenditures or production costs or reduction in levels of production or require abandonment or delays in development, and could have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

Product liability

Certain of the Subsidiaries manufacture, process and/or distribute products designed to be ingested by humans, and therefore face an inherent risk of exposure to product liability claims, regulatory action and litigation if products are alleged to have caused loss or injury. In addition, the manufacture and sale of cannabis products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of cannabis products alone or in combination with other medications or substances could occur. Although the Resulting Issuer has quality control procedures in place, the Resulting Issuer may be subject to various product liability claims, including, among others, that the products produced by the Resulting Issuer, or the products purchased by the Resulting Issuer from third party licensed producers, caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action could result in increased costs, could adversely affect the reputation of the Resulting Issuer, and could have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer. There can be no assurances that product liability insurance will be obtained or maintained on acceptable terms or with adequate coverage against potential liabilities.

Product recalls

Despite the Resulting Issuer's quality control procedures, cultivators, manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as

contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the products produced by the Subsidiaries, or any of the products purchased by the Resulting Issuer from a third party licensed producer, are recalled due to an alleged product defect or for any other reason, the Subsidiaries or the Resulting Issuer could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall and may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. Additionally, if one of the products produced by a Subsidiary, or one of the products purchased by the Resulting Issuer from a third party licensed producer, were subject to recall, the image of that product and the Subsidiary and potentially the Resulting Issuer could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for products produced by the Subsidiaries or purchased from a third party producer and could have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

Reliance on key inputs

The cultivation, extraction and production of cannabis and derivative products is dependent on a number of key inputs and their related costs including raw materials, electricity, water and other local utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer. Some of these inputs may only be available from a single supplier or a limited group of suppliers. If a sole source supplier was to go out of business, the relevant Subsidiary might be unable to find a replacement for such source in a timely manner or at all. Any inability to secure required supplies and services or to do so on appropriate terms could have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

In addition, medical cannabis growing operations consume considerable energy, making the Subsidiaries vulnerable to rising energy costs. Rising or volatile energy costs may adversely impact the business of the Subsidiaries and their ability to operate profitably which may, in turn, adversely impact the Resulting Issuer.

Reliance on key employees including Key Members and senior management

The success of the Resulting Issuer will depend on the abilities, experience, efforts and industry knowledge of senior management and other key employees of the Resulting Issuer including the Key Members. The Resulting Issuer is currently negotiating employment agreements with certain key employees, however, there can be no assurance that such agreements will be put in place. In addition, while employment agreements or management agreements are customarily used as a primary method of retaining the services of key employees and Key Members, these agreements cannot assure the continued services of such employees and the Key Members. If one or more of its executive officers or Key Members of the Resulting Issuer or the Subsidiaries were unable or unwilling to continue in their present positions, the Resulting Issuer might not be able to replace them easily or at all. The long-term loss of the services of any key personnel including the Key Members for any reason could have a material adverse effect on business, financial condition, results of operations or prospects. In addition, if any of the executive officers or Key Members of the Resulting Issuer joins a competitor or forms a competing company, the Resulting Issuer or the relevant Subsidiary may lose not only know-how, but other key professionals and staff members and such competition will gain an advantage.

Management of growth

As the Resulting Issuer grows, the Resulting Issuer will also be required to hire, train, supervise and manage new employees. The Resulting Issuer may experience a period of significant growth in the number of personnel that will place a strain upon its management systems and resources. Its future will depend in part on the ability of its officers and other key employees to implement and improve financial and management controls, reporting systems and procedures on a timely basis and to expand, train, motivate and manage the workforce. The Resulting Issuer's current and planned personnel, systems, procedures and controls may be inadequate to support its future operations. Failure to effectively manage any future growth could have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

Fraudulent or illegal activity by employees, contractors and consultants

The Resulting Issuer is exposed to the risk that any of their employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to the Resulting Issuer that violates, (i) government regulations, (ii) manufacturing standards, (iii) federal and provincial healthcare fraud and abuse laws and regulations, or (iv) laws that require the true, complete and accurate reporting of financial information or data. It may not always be possible for the Resulting Issuer to identify and deter misconduct by its employees and other third parties, and the precautions taken by the Resulting Issuer to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Resulting Issuer from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against the Resulting Issuer, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on the business of the Resulting Issuer, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of the operations of the Resulting Issuer, any of which could have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

Intellectual property

The success of the Resulting Issuer will depend, in part, on the ability of the Subsidiaries to maintain and enhance trade secret protection over their existing and potential proprietary techniques and processes. The Subsidiaries may be vulnerable to competitors who develop competing technology, whether independently or as a result of acquiring access to the proprietary products and trade secrets of the Subsidiaries. In addition, effective future patent, copyright and trade secret protection may be unavailable or limited in certain foreign countries and may be unenforceable under the laws of certain jurisdictions. Failure of the Subsidiaries to adequately maintain and enhance protection over their proprietary techniques and processes, as well as over 4Front's unregistered intellectual property, including the policies and procedures and training manuals of Advisors, could have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

Operational risks

The Resulting Issuer may be affected by a number of operational risks and may not be adequately insured for certain risks, including: labor disputes; catastrophic accidents; fires; blockades or other acts of social activism; equipment defects, malfunction and failures, changes in the regulatory environment; impact of non-compliance with laws and regulations; natural phenomena, such as inclement weather conditions, floods, earthquakes, ground movements, accidents and explosions that can cause personal injury, loss of life, suspension of operations, damage to facilities, business interruption and damage to or destruction of property, equipment and the environment. There is no assurance that the foregoing risks and hazards will not result in damage to, or destruction of, the Subsidiaries' properties, dispensary facilities, grow facilities and extraction facilities, personal injury or death, environmental damage, or have an adverse impact on the Subsidiaries' operations, costs, monetary losses, potential legal liability and adverse governmental action, any of which could have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer. This lack of insurance coverage could have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

The Resulting Issuer will continuously monitor its operations for quality control and safety. However, there are no assurances that the Resulting Issuer's safety procedures will always prevent such damages and the Resulting Issuer may be affected by liability or sustain loss in respect of certain risks and hazards. Although the Resulting Issuer will maintain insurance coverage that it believes to be adequate and customary in the industry, there can be no assurance that such insurance will be adequate to cover its liabilities. In addition, there can be no assurance that the Resulting Issuer will be able to maintain adequate insurance in the future at rates it considers reasonable and commercially justifiable. The Resulting Issuer may elect not to insure against certain risks due to cost of or ease of procuring such insurance. The occurrence of a significant uninsured claim, a claim in excess of the insurance coverage limits then maintained by the Resulting Issuer, or a claim at a time when it is not able to obtain liability insurance, could have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

Lack of control over operations of investments

Although it is the intent of the Resulting Issuer to maintain control or superior rights, at the time of the listing, 4Front holds a non-controlling interest in certain Subsidiaries and may co-invest in the future with certain strategic investors or third parties. In these circumstances, where 4Front does not have control over the operations of a Subsidiary, certain risks can arise. In these cases, 4Front relies on its investment partners to execute on their business plans and produce medical and/or recreational cannabis products. The operators of such Subsidiaries in which 4Front does not have a controlling interest may have a significant influence over the results of operations of 4Front's investments. Further, the interests of 4Front and the operators of such Subsidiaries in which 4Front does not have a controlling interest may not always be aligned. As a result, the cash flows of 4Front are dependent upon the activities of third parties which creates the risk that at any time those third parties may, (i) have business interests or targets that are inconsistent with those of 4Front, (ii) take action contrary to 4Front's policies or objectives, (iii) be unable or unwilling to fulfill their obligations under their agreements with 4Front, or (iv) experience financial, operational or other difficulties, including insolvency, which could limit or suspend a third party's ability to perform its obligations.

In addition, payments may flow through such Subsidiaries over which 4Front does not exercise control and there is a risk of delay and additional expense in receiving such revenues. Failure to receive payments in a timely fashion, or at all, under the agreements to which 4Front is entitled may have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer. In addition, 4Front must rely, in part, on the accuracy and timeliness of the information it receives from such Subsidiaries, and uses such information in its analyses, forecasts and assessments relating to its own business. If the information provided by such Subsidiaries over which 4Front does not exercise control to 4Front contains material inaccuracies or omissions, 4Front's ability to accurately forecast or achieve its stated objectives, or satisfy its reporting obligations, may be materially impaired.

The Resulting Issuer will not have a highly diversified portfolio of assets.

In addition to its ownership and investment in the Subsidiaries, the Resulting Issuer plans to acquire a portfolio of assets consisting primarily of investments, including, without limitation, direct and indirect investments in real estate, loans, investments in businesses and investments in assets associated with the medical and adult-use marijuana industry. The Resulting Issuer anticipates making such investments through Mission, with exceptions for loans and investments the Resulting Issuer causes to be made through Linchpin for regulatory or other business reasons. While the Resulting Issuer may purchase other assets and make other loans and investments not limited to the foregoing descriptions, the Resulting Issuer presently intends to purchase assets of the type described above. Thus, an investment in the Resulting Issuer will provide limited diversity as to asset type. Additionally, the assets held by the Resulting Issuer may be geographically concentrated from time to time. This lack of diversification could increase the risk associated with the revenue stream the Resulting Issuer expects to receive from the assets and, as a result, could have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

Many of the Resulting Issuer's assets will be subject to a substantial risk of default, and payment of obligations owing to the Resulting Issuer will generally not be guaranteed by any other third party.

The assets the Resulting Issuer intends to purchase will consist largely of equity interests and loans which may take the form of equity, debt, convertible debt or any combination thereof. Thus, the instruments will be supported only by the profitability and available cash of the obligor entity itself. While the Resulting Issuer intends to conduct due diligence with respect to the obligor and evaluate the risk of repayment, there can be no assurance that the Resulting Issuer will accurately evaluate the level of risk involved in the agreement or instrument, and defaults under the obligations may be substantially higher than expected. Such defaults would have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

The Resulting Issuer's assets may be purchased with limited representations and warranties from the sellers of those assets.

The Resulting Issuer will generally acquire assets, after conducting its due diligence, with only limited representations and warranties from the seller or borrower regarding the quality of the assets and the likelihood of payment. As a result, if defects in the assets or the payment of amounts owing on the assets are discovered, the Resulting Issuer may not be able to pursue a claim for damages against the owners of such seller or borrower, and may be limited to asserting

its claims against the seller or borrower. The extent of damages that the Resulting Issuer may incur as a result of such matters cannot be predicted, but potentially could have a significant adverse effect on the value of the Resulting Issuer's assets and revenue stream and, as a result, on the ability of the Resulting Issuer to pay distributions. Further, many of the Resulting Issuer's assets are anticipated to be obligations of dispensaries and cultivation operations, and the Resulting Issuer's remedies against such obligors may be limited if deemed unenforceable under federal laws or for other reasons.

Information technology systems and cyber security risks

The Subsidiaries' use of technology is critical in their respective continued operations. The Subsidiaries are susceptible to operational, financial and information security risks resulting from cyber-attacks and/or technological malfunctions. Successful cyber-attacks and/or technological malfunctions affecting the Subsidiaries or their service providers can result in, among other things, financial losses, the inability to process transactions, the unauthorized release of customer information or confidential information and reputational risk.

The Subsidiaries have not experienced any material losses to date relating to cybersecurity attacks, other information breaches or technological malfunctions. However, there can be no assurance that the Subsidiaries will not incur such losses in the future. As cybersecurity threats continue to evolve, the Subsidiaries may be required to use additional resources to continue to modify or enhance protective measures or to investigate security vulnerabilities.

The Resulting Issuer may be subject to risks associated with financial leverage.

The Resulting Issuer may incur debt, above and beyond any debt incurred to invest in the businesses of the Subsidiaries. As funds are borrowed, such financing will increase the risk of an investment in the Resulting Issuer Shares because debt service increases the expense of operation of the Resulting Issuer. In addition, lenders may require restrictions on future borrowing, distributions and operating policies. The Resulting Issuer's ability to meet its debt obligations will depend upon the Resulting Issuer's future performance and will be subject to financial, business and other factors affecting the Resulting Issuer's business and operations, including general economic conditions. There are no assurances that the Resulting Issuer will be able to meet its debt obligations.

Market, Securities and Other Risks

Holders of Multiple Voting Shares will have voting control of the Resulting Issuer

As the holders of Multiple Voting Shares and as holders of Subordinate Proportionate Voting Shares, Mr. Rosen, Mr. Pratte, Mr. Chowscano, Mr. Thut and Mr. Krane will exercise in the aggregate approximately 62.4% of the voting power in respect of the Resulting Issuer's outstanding shares. As a result, Mr. Rosen, Mr. Pratte, Mr. Chowscano, Mr. Thut and Mr. Krane are expected to have the ability to control the outcome of all matters submitted to the Resulting Issuer's shareholders for approval, including the election and removal of directors and any arrangement or sale of all or substantially all of the assets of the Resulting Issuer. If Mr. Rosen, Mr. Pratte, Mr. Chowscano, Mr. Thut or Mr. Krane's employment with the Resulting Issuer is terminated or any such individual resigns from his position with the Resulting Issuer, he will continue to have the ability to exercise the same significant voting power.

The concentrated control through the Multiple Voting Shares could delay, defer, or prevent a change of control of the Resulting Issuer, arrangement involving the Resulting Issuer or sale of all or substantially all of the assets of the Resulting Issuer that its other shareholders support. Conversely, this concentrated control could allow the holders of Multiple Voting Shares to consummate such a transaction that the Resulting Issuer's other shareholders do not support. In addition, the holders of Multiple Voting Shares may make long-term strategic investment decisions and take risks that may not be successful and may seriously harm the Resulting Issuer's business.

As directors and/or key employees of the Resulting Issuer, Mr. Rosen, Mr. Pratte, Mr. Chowscano, Mr. Thut and Mr. Krane are anticipated to have control over the day-to-day management and the implementation of major strategic decisions of the Resulting Issuer, subject to authorization and oversight by the Resulting Issuer Board. As a board member, Mr. Rosen will owe a fiduciary duty to the Resulting Issuer's shareholders and will be obligated to act honestly and in good faith with a view to the best interests of the Resulting Issuer. As shareholders, even controlling shareholders, Mr. Rosen, Mr. Pratte, Mr. Chowscano, Mr. Thut and Mr. Krane will be entitled to vote their shares,

and shares over which they have voting control, in their own interests, which may not always be in the interests of the Resulting Issuer or the other shareholders of the Resulting Issuer.

Additional Financing

The Resulting Issuer will require equity and/or debt financing and/or will be required to complete Sale Leaseback Transactions to undertake capital expenditures or to undertake acquisitions or other business combination transactions or for general operating purposes. If the Resulting Issuer is required to access capital markets to carry out its development objectives, the state of domestic and international capital markets and other financial systems could affect the Resulting Issuer's access to, and cost of, capital. There can be no assurance that additional financing will be available to the Resulting Issuer when needed or on terms that are commercially viable. The Resulting Issuer's inability to secure financing to fund capital expenditures or acquisitions could limit its growth and may have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

The Resulting Issuer may issue securities to finance its activities. If additional funds are raised through issuances of equity or convertible debt securities, the ownership interest of existing shareholders may be diluted and some or all of the Resulting Issuer's financial measures on a per share basis could be reduced, as the Resulting Issuer's intention to issue additional equity securities becomes publicly known, the Resulting Issuer's share price may be materially adversely affected. Any debt financing or financing pursuant to a Sale Leaseback Transaction secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Resulting Issuer to obtain additional capital and to pursue business opportunities, including potential acquisitions.

On November 21, 2018, Cannex and Cannex Holdings entered into the GGP SPA with GGP, pursuant to which Cannex issued to GGP the Cannex GGP Notes, and transferable share purchase warrants, which securities were exchanged for securities in the Resulting Issuer in connection with the completion of the Business Combination. The holders of the Resulting Issuer Notes currently are owed approximately \$32,000,000 in aggregate principal amount, plus any accrued and unpaid interest. The Resulting Issuer Notes each become due on November 21, 2021. There is no guarantee that the Resulting Issuer will have funds sufficient at that time to repay the such notes if the note holders elect not to convert the Resulting Issuer Notes in accordance with the procedures contained therein. If the Resulting Issuer is unable to repay its debts, it may need to file for bankruptcy protection, which will negatively impact the Resulting Issuer's ability to repay any capital to its shareholders, which could have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

Conversion Limitations on the Subordinate Proportionate Voting Shares

The Subordinate Proportionate Voting Shares are subject to conversion limitations, which prevent the holders of Subordinate Proportionate Voting Shares from converting such Subordinate Proportionate Voting Shares into Subordinate Voting Shares during the Restricted Conversion Period. These restrictions are based on the number of outstanding voting shares issued and outstanding and the number of such voting shares that are held by U.S. Residents. The Resulting Issuer shall not effect any conversion of Subordinate Proportionate Voting Shares, and the holders of such Subordinate Proportionate Voting Shares may not convert such Subordinate Proportionate Voting Shares into Subordinate Voting Shares, to the extent that, after giving effect to all permitted issuances after such conversions or exercises, as applicable, during the Restricted Conversion Period the aggregate number of voting shares held of record, directly or indirectly, by U.S. Residents would exceed 40% of the aggregate number of voting shares of the Resulting Issuer issued and outstanding after giving effect to such conversions. See Section 10.1 "*Description of the Securities - General Description of the Share Capital of the Resulting Issuer*" for more information about the conversion restrictions and the manner in which the restriction is calculated.

The restrictions on conversion of the Subordinate Proportionate Voting Shares will materially limit the timeframe in which a holder of Subordinate Proportionate Voting Shares could convert their Subordinate Proportionate Voting Shares into Subordinate Voting Shares, and accordingly the rate of such conversion and total number of Subordinate Voting Shares to be acquired each relevant fiscal quarter. Since only the Subordinate Voting Shares (and not the Subordinate Proportionate Voting Shares) are anticipated to be listed on the CSE, these restrictions on conversion will materially limit the liquidity of the Subordinate Proportionate Voting Shares and could adversely affect the value of Subordinate Proportionate Voting Shares.

The Resulting Issuer faces potential conflicts of interest

The Resulting Issuer's proposed operations may present potential conflicts of interest, including, but not limited to, the following:

- (1) Other Personal Investments. Certain members of the Resulting Issuer Board and certain officers serve in advisory capacities to businesses engaged in the marijuana industry and have equity interests in a business engaged in various aspects of the marijuana industry.
- (2) Time Commitment. The officers will be employed on a full-time basis with the Resulting Issuer and will devote substantially all of their business time to the Resulting Issuer's affairs. The Resulting Issuer Board and the officers may spend a portion of their personal time managing other business endeavors, subject to the condition that such personal time not interfere with their respective duties to the Resulting Issuer.

Shareholders will not be represented by the Resulting Issuer's legal counsel.

Counsel to the Resulting Issuer does not represent any member of the Resulting Issuer Board, any officer, any shareholder of the Resulting Issuer or any holder of the Subordinate Voting Shares in any respect in connection with this transaction. Shareholders should consult with their own legal counsel and other advisors when considering the transaction.

Price volatility of publicly traded securities

In recent years, the securities markets in the U.S. and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that fluctuations in price of the Subordinate Voting Shares will not occur. The market price of the Subordinate Voting Shares could be subject to significant fluctuations in response to variations in quarterly and annual operating results, the results of any public announcements the Resulting Issuer makes, general economic conditions, and other factors. Increased levels of volatility and resulting market turmoil may adversely impact the price of the Subordinate Voting Shares.

Shareholders will have little or no rights to participate in the Resulting Issuer's affairs.

With the exception of the limited rights of shareholders under applicable laws, the day-to-day decisions regarding the management of the Resulting Issuer's affairs will be made exclusively by the Resulting Issuer Board and its officers. Shareholders will have little or no control over the Resulting Issuer's business and investment decisions, its business, and its affairs, including, without limitation, the selection and investment in dispensaries, cultivation operations and real estate. The Resulting Issuer may also retain other officers and agents to provide various services to the Resulting Issuer, over which the shareholders will have no control. There can be no assurance that the Resulting Issuer Board, officers or its other agents will effectively manage and direct the affairs of the Resulting Issuer. Moreover, due to the fact that the holders of Multiple Voting Shares will have the power to elect the Resulting Issuer Board, other shareholders will not have the power to change the Resulting Issuer Board if they disagree with the decisions being made by the Resulting Issuer Board and management.

Dividends

Holders of the Resulting Issuer Shares will not have a right to dividends on such shares unless declared by the Resulting Issuer Board. 4Front has not paid dividends in the past, and it is not anticipated that the Resulting Issuer will pay any dividends in the foreseeable future. Dividends paid by the Resulting Issuer would be subject to tax and, potentially, withholdings. The declaration of dividends is at the discretion of the Resulting Issuer Board, even if the Resulting Issuer has sufficient funds, net of its liabilities, to pay such dividends, and the declaration of any dividend will depend on the Resulting Issuer's financial results, cash requirements, future prospects and other factors deemed relevant by the Resulting Issuer Board.

Costs of maintaining a public listing

As a public company, there are costs associated with legal, accounting and other expenses related to regulatory compliance. Securities legislation and the rules and policies of the CSE require listed companies to, among other things, adopt corporate governance and related practices, and to continuously prepare and disclose material information, all of which add to a company's legal and financial compliance costs. The Resulting Issuer may also elect to devote greater resources than it otherwise would have on communication and other activities typically considered important by publicly traded companies.

Canada-United States border risks

News media have reported that United States immigration authorities have increased scrutiny of Canadian citizens who are crossing the United States-Canada border with respect to persons involved in cannabis businesses in the United States. There have been a number of Canadians barred from entering the United States as a result of an investment in or act related to United States cannabis businesses. In some cases, entry has been barred for extended periods of time. This could adversely impact the ability of the Resulting Issuer from hiring Canadian citizens which could impact its operations.

Certain Tax Risks

THE FOLLOWING IS A DISCUSSION OF CERTAIN MATERIAL TAX RISKS ASSOCIATED WITH THE ACQUISITION AND OWNERSHIP OF SUBORDINATE VOTING SHARES. THIS LISTING STATEMENT DOES NOT DISCUSS RISKS ASSOCIATED WITH ANY APPLICABLE STATE, LOCAL, OR FOREIGN TAX LAWS. THE TAX RELATED INFORMATION IN THIS LISTING STATEMENT DOES NOT CONSTITUTE TAX ADVICE AND IS FOR INFORMATIONAL PURPOSES ONLY. FOR ADVICE ON TAX LAWS APPLICABLE TO A SHAREHOLDER'S INDIVIDUAL TAX SITUATIONS, SHAREHOLDERS SHOULD SEEK THE ADVICE OF THEIR TAX ADVISORS. NO REPRESENTATION OR WARRANTY OF ANY KIND IS MADE BY THE COMPANY OR ANY OF ITS SHAREHOLDERS OF THE RESULTING ISSUER BOARD, ITS OFFICERS, ITS LEGAL COUNSEL, OR ITS OTHER AGENTS AND AFFILIATES WITH RESPECT TO THE ACCEPTANCE BY THE IRS OF THE TAX TREATMENT OF THE SUBORDINATE VOTING SHARES BY THE COMPANY. EACH PROSPECTIVE SHAREHOLDER IS URGED TO CONSULT HIS OR HER OWN TAX ADVISOR WITH RESPECT TO THE FEDERAL, STATE AND LOCAL TAX CONSEQUENCES ARISING FROM THE PURCHASE OF THE SUBORDINATE VOTING SHARES OFFERED HEREBY.

NOTE: Any of these risks or uncertainties could have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer, and impair its ability to satisfy its obligations with respect to the Subordinate Voting Shares. The foregoing list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment in the Subordinate Voting Shares. Shareholders should read this entire Listing Statement and the accompanying documents and consult with their own advisors before deciding whether to invest in the Subordinate Voting Shares.

United States Tax classification of the Resulting Issuer

Although the Resulting Issuer is and will continue to be a Canadian corporation, the Resulting Issuer intends to be treated as a United States corporation for United States federal income tax purposes under section 7874 of the Code and is expected to be subject to United States federal income tax on its worldwide income. However, for Canadian tax purposes, the Resulting Issuer is expected, regardless of any application of section 7874 of the Code, to be treated as being resident of Canada under the Tax Act. As a result, the Resulting Issuer will be subject to taxation both in Canada and the United States which could have a material adverse effect on the business, financial condition or results of operations of the Resulting Issuer.

It is unlikely that the Resulting Issuer will pay any dividends on the Subordinate Voting Shares in the foreseeable future. However, dividends received by shareholders who are residents of Canada for purpose of the Tax Act will be subject to U.S. withholding tax. Any such dividends may not qualify for a reduced rate of withholding tax under the Canada-United States tax treaty. In addition, a foreign tax credit or a deduction in respect of foreign taxes may not be available.

Dividends received by U.S. shareholders will not be subject to U.S. withholding tax but will be subject to Canadian withholding tax. Dividends paid by the Resulting Issuer will be characterized as U.S. source income for purposes of the foreign tax credit rules under the Code. Accordingly, U.S. shareholders generally will not be able to claim a credit for any Canadian tax withheld unless, depending on the circumstances, they have an excess foreign tax credit limitation due to other foreign source income that is subject to a low or zero rate of foreign tax.

Dividends received by shareholders that are neither Canadian nor U.S. shareholders will be subject to U.S. withholding tax and will also be subject to Canadian withholding tax. These dividends may not qualify for a reduced rate of U.S. withholding tax under any income tax treaty otherwise applicable to a shareholder of the Resulting Issuer, subject to examination of the relevant treaty. These dividends may however qualify for a reduced rate of Canadian withholding tax under any income tax treaty otherwise applicable to a shareholder of the Resulting Issuer, subject to examination of the relevant treaty.

Because the Subordinate Voting Shares will be treated as shares of a U.S. domestic corporation, the U.S. gift, estate and generation-skipping transfer tax rules generally apply to a non-U.S. shareholder of Subordinate Voting Shares.

4Front is treated as a U.S. domestic corporation for U.S. federal income tax purposes under section 7874 of the Code. As a U.S. domestic corporation for U.S. federal income tax purposes, the taxation of the Resulting Issuer's non-U.S. holders of the Resulting Issuer Shares upon a disposition of Subordinate Voting Shares generally depends on whether the Resulting Issuer is classified as a United States real property holding corporation (a "USRPHC") under the Code. The Resulting Issuer believes that it is not currently, and has never been, a USRPHC. However, the Resulting Issuer has not sought and does not intend to seek formal confirmation of its status as a non-USRPHC from the IRS. If the Resulting Issuer ultimately is determined by the IRS to constitute a USRPHC, its non-U.S. holders of the Resulting Issuer Shares may be subject to U.S. federal income tax on any gain associated with the disposition of the Subordinate Voting Shares.

The application of Section 280E of the Code substantially limits the Resulting Issuer's ability to deduct certain expenses.

Pursuant to Section 280E of the Code, the ability of any business involved in any trade or business consisting of the trafficking in controlled substances within the meaning of Schedule I and II of the CSA which is prohibited by federal law to take certain deduction is severely limited. Marijuana is currently a controlled substance within the meaning of Schedule I of the CSA. As a result, the taxable income of the Resulting Issuer is likely to exceed its actual profits.

Changes in tax laws may affect the operations of the Resulting Issuer and the taxation of the interest to shareholders.

The U.S. federal income tax treatment presently in effect with respect to the ownership of an interest in an entity which is involved in a marijuana-related business is a factor in evaluating an investment in the Resulting Issuer. There can be no assurance that the U.S. federal income tax treatment of an investment in the Resulting Issuer will not be modified, prospectively or retroactively, by legislative, judicial or administrative action, in a manner adverse to the shareholders.

Investment in the Resulting Issuer is not intended to provide any material tax benefits to shareholders.

The Resulting Issuer is not designed to provide significant tax losses to shareholders or to shelter income from sources other than the Resulting Issuer. No material tax benefits are expected from an investment in the Resulting Issuer. Accordingly, you are urged to make your investment decision based on economic considerations, rather than tax considerations.

ERISA imposes additional obligations on certain investors.

In considering an investment in the Resulting Issuer Shares, trustees, custodians, investment managers, and fiduciaries of retirement and other plans subject to the fiduciary responsibility provisions of the ERISA and/or Section 4975 of the Code, should consider, among other things: (1) whether an investment in the Resulting Issuer Shares is in accordance with plan documents and satisfies the diversification requirements of Sections 404(a)(1)(C) and

404(a)(1)(D) of ERISA, if applicable; (2) whether an investment in the Resulting Issuer Shares will result in unrelated business taxable income to the plan; (3) whether an investment in the Securities is prudent under Section 404(a)(1)(B) of ERISA, if applicable, given the nature of an investment in, and the compensation structure of, the Company and the potential lack of liquidity of the Resulting Issuer Shares during the lock-up period following the Merger; (4) whether the Company or any of its affiliates is a fiduciary or party in interest to the plan, and (5) whether an investment in the Securities complies with the “indicia of ownership” requirement set forth in ERISA Section 404(b). Fiduciaries and other persons responsible for the investment of certain governmental and church plans that are subject to any provision of federal, state, or local law that is substantially similar to the fiduciary responsibility provisions of Title I of ERISA or Section 4975 of the Code that are considering the investment in the Securities should consider the applicability of the provisions of such similar law and whether the Securities would be an appropriate investment under such similar law. The responsible fiduciary must take into account all of the facts and circumstances of the plan and of the investment when determining if a particular investment is prudent.

18. PROMOTERS

This section is not applicable to the Resulting Issuer.

19. LEGAL PROCEEDINGS

19.1 Legal Proceedings

Other than as described below and under Section 17 “*Risk Factors – Business and Operational Risks – 4Front is currently involved in litigation, and there maybe additional litigation that the Resulting Issuer will be involved in in the future*”, there are no actual, pending or contemplated legal proceedings material to 4Front, Cannex, the Resulting Issuer or any Subsidiary or any of their respective properties.

19.2 Regulatory Actions

Other than as described below, there have been no penalties or sanctions imposed against 4Front, Cannex, the Resulting Issuer or any Subsidiary by a court or regulatory authority, and 4Front, Cannex, the Resulting Issuer or any Subsidiary has not entered into any settlement agreements before any court relating to provincial or territorial securities legislation or with any securities regulatory authority, in the three years prior to the date of this Listing Statement.

Illinois Grown Medicine

On February 10, 2017, the State of Illinois Department of Agriculture issued a notice of hearing and complaint against Illinois Grown Medicine. The complaint contained two violations of the Illinois Administrative Code, specifically:

- Ill. Admin. Code 1000.410 for failing to use security guards as outlined in Illinois Grown Medicine’s operations and management practices plan filed as required by 8 Ill. Admin Code 1000.410; and
- Ill. Admin. Code 1000.450(7) for failure to operate and maintain in good working order a 24-hour, seven days a week, closed circuit television surveillance system on the premises due to a power failure, which caused camera failure.

The Department of Agriculture requested a \$1,500 fine against Illinois Grown Medicine for each violation.

On March 31, 2017, Illinois Grown Medicine filed a written answer to the complaint with the Administrative Hearing Office of the Illinois Department of Agriculture. Illinois Grown Medicine’s request for an appeal was denied. Subsequently, Illinois Grown Medicine entered into an administrative hearing agreement with the Illinois Department of Agriculture and paid the requested fines totalling \$3,000, which resolve and settled the matter between the parties.

20. INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than disclosed in this Listing Statement, no director or executive officer of the Resulting Issuer or person or company that is the direct or indirect beneficial owner of, or who exercises control or direction over, more than 10

percent of any class or series of the outstanding voting securities of the Resulting Issuer, or any Associate or Affiliate of any of the foregoing has or had any material interest, direct or indirect, in any transaction within the three years before the date of this Listing Statement, or in any Business Combination, which has materially affected or will materially affect the Resulting Issuer or any of its Subsidiaries.

4Front

In two instances, 4Front maintains a contractual relationship with entities that are wholly-owned by 4Front officers. MP Illinois, a single-member LLC owned by Mr. Rosen, holds a nominee agreement with Mission, pledging MP Illinois' ownership interests in Mission Illinois and Illinois Grown Medicine to Mission. Mission Mercury, an LLC owned jointly by Mr. Thut and Mr. Krane, holds a nominee agreement with Mission, pledging Mission Mercury's ownership interests in Mission Allentown, PL Pennsylvania Dispensary, LLC and MavMax, LLC.

Cannex

Mr. Derevyanny, as the sole owner of 7Point, has a material interest in, among other things, the Licensor Option. Vlad Orlovskii, as an owner of Superior Gardens, has a material interest in, among other things, the Licensor Option.

21. AUDITORS, TRANSFER AGENTS AND REGISTRARS

21.1 Auditors

The auditors of 4Front are Macias Gini & O'Connell LLP located at 101 California Street, Suite 1225, San Francisco, California, 94111.

The auditors of Cannex are Davidson & Company LLP located at 1200-609 Granville Street, Vancouver, British Columbia V7Y 1G6.

The auditors of the Resulting Issuer are MNP LLP located at 111 Richmond Street West, Suite 300, Toronto, Ontario, M5H 2G4.

21.2 Transfer Agent and Registrar

The transfer agent and registrar of the Resulting Issuer's shares is Alliance Trust Company located at 407-2nd Street SW, Calgary, Alberta T2P 2Y3.

22. MATERIAL CONTRACTS

Other than contracts entered into in the ordinary course of business, the Resulting Issuer has not entered into any material contracts since its inception. During the course of the two years prior to the date of the Listing Statement, 4Front, Cannex and the Subsidiaries have entered into the following material contracts, other than contracts entered into in the ordinary course of business:

- (a) Business Combination Agreement;
- (b) Cannex GGP Notes;
- (c) Illinois Grown Medicine lease expiring August 31, 2035 (see Section 4.1(1) "*Narrative Description of the Business – General Business of the Resulting Issuer – General Business of 4Front – Mission State-By-State – Illinois – Summary of Operations*");⁽¹⁾
- (d) Loan and security agreement dated June 30, 2016 between Linchpin and Illinois Grown Medicine and Mission Illinois for an aggregate total of \$12,500,000. The first \$7,000,000 carry a 5% interest rate per annum and are due on May 31, 2021. The next \$3,000,000 carry a 10% interest rate per annum and are due on May 31, 2021. The final \$2,500,000 carry a 10% interest rate per annum and are due on December 31, 2019;

- (e) Share purchase agreement dated November 20, 2018 between Mission and Healthy Pharms (see Section 4.1(1) “*Narrative Description of the Business – General Business of the Resulting Issuer – General Business of 4Front – Mission State-By-State – Massachusetts – Summary of Operations*”); and
- (f) Multiple advance promissory note dated December 28, 2018 between 4Front and Cannex Holdings. The note carries an interest rate of Prime plus 500 basis points. In the event that the Business Combination does not occur, the full note, including principal and accrued interest of \$8,000,000, are due within 90 days.

Note:

- (1) The IL Grown Medicine lease is structured with a percentage rent clause based on the revenue generated from the facility. Since the Resulting Issuer plans to expand under the provisions of this lease, the Resulting Issuer anticipates the rent as a result of this clause to be in excess of a typical rent associated with the use.

23. INTEREST OF EXPERTS

No person or company whose profession or business gives authority to a statement made by the person or company and who is named as having prepared or certified a part of this Listing Statement or as having prepared or certified a report or valuation described or included in this Listing Statement holds any beneficial interest, direct or indirect, in any securities or property of the Resulting Issuer or of an Associate or Affiliate of the Resulting Issuer and no such person is expected to be elected, appointed or employed as a director, senior officer or employee of the Resulting Issuer or of an Associate or Affiliate of the Resulting Issuer and no such person is a promoter of the Resulting Issuer or an Associate or Affiliate of the Resulting Issuer. Macias Gini & O’Connell LLP and Davidson & Company LLP are independent of the Resulting Issuer, and have performed their services in accordance with the rules of professional conduct of International Auditing Standards.

24. OTHER MATERIAL FACTS

Other than as set out elsewhere in this Listing Statement, there are no other material facts about the Resulting Issuer, 4Front, Cannex or its respective securities which are necessary in order for this Listing Statement to contain full, true and plain disclosure of all material facts relating to the Resulting Issuer and its respective securities.

25. FINANCIAL STATEMENTS

Please see attached the following financial statements:

- the audited consolidated financial statements of 4Front as of and for the years ended December 31, 2017 and 2016, and related notes thereto attached hereto as Schedule “A”;
- the unaudited condensed consolidated interim financial statements of 4Front as of and for the three and nine months ended September 30, 2018 and 2017, and related notes thereto attached hereto as Schedule “B”;
- the audited consolidated financial statements of Cannex as of and for the period from Formation on February 23, 2017 to September 20, 2017 and for the seven months ended April 30, 2018, and related notes thereto attached hereto as Schedule “C”;
- the unaudited condensed consolidated interim financial statements of Cannex as of and for the three and nine months ended January 31, 2019, and related notes thereto attached hereto as Schedule “D”;
- the audited financial statements of Healthy Pharms as of January 1, 2016 and as of and for the years ended December 31, 2017 and 2016, and related notes thereto attached hereto as Schedule “E”;
- the unaudited condensed financial statements of Healthy Pharms as of December 31, 2017, and as of and for the three and nine months ended September 30, 2018 and 2017, and related notes thereto attached hereto as Schedule “F”;

- the pro-forma financial statements of the Resulting Issuer as at September 30, 2018 attached hereto as Schedule “G”;
- the annual and interim management discussion and analysis of 4Front attached hereto as Schedule “H”;
- the annual and interim management discussion and analysis of Cannex attached hereto as Schedule “I”; and
- the annual and interim management discussion and analysis of Healthy Pharms attached hereto as Schedule “J”.

CERTIFICATE OF 4FRONT HOLDINGS LLC

Pursuant to a resolution duly passed by its Board of Members, 4Front Holdings LLC hereby applies for the listing of the above mentioned securities on the Canadian Securities Exchange. The foregoing contains full, true and plain disclosure of all material information relating to 4Front Holdings LLC. It contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to prevent a statement that is made from being false or misleading in light of the circumstances in which it was made.

Dated at Phoenix, Arizona, this 25th day of April, 2019.

“Josh Rosen”

“Andrew Thut”

Josh Rosen
Chief Executive Officer

Andrew Thut
Chief Financial Officer

“Trevor Pratte”

Trevor Pratte
Member

CERTIFICATE OF CANNEX CAPITAL HOLDINGS INC.

Pursuant to a resolution duly passed by its Board of Directors, Cannex Capital Holdings Inc. hereby applies for the listing of the above mentioned securities on the Canadian Securities Exchange. The foregoing contains full, true and plain disclosure of all material information relating to Cannex Capital Holdings Inc. It contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to prevent a statement that is made from being false or misleading in light of the circumstances in which it was made.

Dated at Vancouver, BC, this 25th day of April, 2019.

“Anthony Dutton”

“David Croom”

Anthony Dutton
Chief Executive Officer

David (Dave) Croom
Chief Financial Officer

“Gerald Derevyanny”

Gerald (Jerry) Derevyanny
Director

SCHEDULE "A"
AUDITED CONSOLIDATED ANNUAL FINANCIAL STATEMENTS OF 4FRONT AS OF AND FOR THE
YEARS ENDED DECEMBER 31, 2017 AND 2016

(See attached)

4FRONT HOLDINGS LLC

CONSOLIDATED FINANCIAL STATEMENTS

**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND
2016 (IN US DOLLARS)**

4FRONT HOLDINGS LLC
Management’s Responsibility for Financial Reporting

To the Members of 4Front Holdings LLC:

The accompanying consolidated financial statements and other financial information in this annual report were prepared by management of 4Front Holdings LLC (“the Company”), reviewed by the Audit Committee and approved by the Board of Managers.

Management is responsible for the consolidated financial statements and believes that they fairly present the Company’s financial condition and results of operation in conformity with International Financial Reporting Standards. Management has included in the Company’s consolidated financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel and through the adoption and communication of financial and other relevant policies.

These financial statements have been audited by the Company’s auditors, Macias Gini & O’Connell, LLP, and their report is presented herein.

“Josh Rosen”

Board of Managers

“Karl Chowscano”

Board of Managers

March 19, 2019

4FRONT HOLDINGS LLC
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INDEPENDENT AUDITOR'S REPORT

To the Members
4Front Holdings LLC

We have audited the accompanying consolidated financial statements of 4Front Holdings LLC (the "Company"), which comprise the consolidated statements of financial position at December 31, 2017 and 2016, and the consolidated statements of operations, changes in members' equity (deficit) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of 4Front Holdings LLC at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 of the consolidated financial statements which describe matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about 4Front Holdings LLC's ability to continue as a going concern.

San Francisco, California
March 19, 2019

4FRONT HOLDINGS LLC
Consolidated Statements of Financial Position
At December 31, 2017 and 2016
(Amounts Expressed in United States Dollars Unless Otherwise Stated)

	<u>Note</u>	<u>2017</u>	<u>2016</u>
ASSETS			
Current Assets:			
Cash		\$ 3,608,506	\$ 2,062,423
Restricted Cash	Note 3	-	400,000
Accounts Receivable		18,576	9,461
Other Receivables		71,494	86,133
Inventory		19,172	-
Prepaid Expenses		125,014	60,291
Total Current Assets		<u>3,842,762</u>	<u>2,618,308</u>
Property and Equipment, Net	Note 6	5,506,006	1,327,011
Notes Receivable and Accrued Interest from Related Parties	Note 4	2,981,970	834,704
Intangible Assets	Note 8	1,141,003	1,141,003
Deposits	Note 5	306,786	690,082
Investment	Note 9	-	53,432
TOTAL ASSETS		<u>\$ 13,778,527</u>	<u>\$ 6,664,540</u>
LIABILITIES AND OWNERS' EQUITY			
LIABILITIES			
Current Liabilities:			
Accounts Payable		\$ 401,378	\$ 723,322
Accrued Expenses and Other Current Liabilities		154,802	91,859
Related Party Interest Payable	Note 10	290,041	91,007
Unearned Revenue		60,000	254,000
Deferred Rent	Note 17	120,638	88,690
Notes Payable to Related Parties	Note 10	3,505,000	3,262,031
Total Current Liabilities		<u>4,531,859</u>	<u>4,510,909</u>
Convertible Notes	Note 11	9,436,124	-
Unearned Revenue		367,500	187,400
Total Liabilities		<u>14,335,483</u>	<u>4,698,309</u>
MEMBERS' EQUITY (DEFICIT)			
Controlling Interest:			
Contributed Capital		11,102,364	10,063,571
Accumulated Earnings (deficit)		(11,450,567)	(7,861,697)
Non-Controlling Interest			
Members' Deficit	Note 14	(208,753)	(235,643)
TOTAL MEMBERS' EQUITY (DEFICIT)		<u>(556,956)</u>	<u>1,966,231</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY (DEFICIT)		<u>\$ 13,778,527</u>	<u>\$ 6,664,540</u>

Nature of Operations and Going Concern (Note 1)

Commitments and Contingencies (Note 17)

Subsequent Events (Note 21)

Approved and authorized by the Board of Managers on March 19, 2019

"Josh Rosen"

 Board of Managers

"Karl Chowscano"

 Board of Managers

4FRONT HOLDINGS LLC
Consolidated Statements of Operations
For the Years Ended December 31, 2017 and 2016
(Amounts Expressed in United States Dollars Unless Otherwise Stated)

	<u>Note</u>	<u>2017</u>	<u>2016</u>
REVENUE			
Application Services		\$ 310,000	\$ 160,000
Consulting Services		38,300	68,306
Implementation Services		260,200	383,988
Ongoing Fees and Other		65,700	56,564
Dispensary Sales		46,809	-
Total Gross Revenue		<u>721,009</u>	<u>668,858</u>
Cost of Goods Sold - to Grow and Manufacture Products		(920,512)	(74,143)
Cost of Goods Sold - Dispensary		(118,904)	-
Gross (Loss) Profit		(318,407)	594,715
OPERATING EXPENSES			
General and Administrative (Including Share-Based Compensation expense of \$167,581 and \$141,144)	<i>Note 12</i>	<u>4,338,358</u>	<u>4,900,257</u>
Loss from Operations		<u>(4,656,765)</u>	<u>(4,305,542)</u>
Other Income			
Interest Income		200,646	79,156
Interest Expense		(766,789)	(335,438)
Gain on Sale of Investment	<i>Note 9</i>	1,036,303	-
Gain on Settlement of Business Dispute	<i>Note 17</i>	-	3,000,000
Loss on Write-off of Loans to Related Parties	<i>Note 16</i>	(152,522)	(252,518)
Total Other Income		<u>317,638</u>	<u>2,491,200</u>
Net Loss		(4,339,127)	(1,814,342)
Net Loss Attributable To Non-Controlling Interest		<u>(750,257)</u>	<u>(314,051)</u>
Net Loss Attributable to 4Front Holdings LLC		<u>\$ (3,588,870)</u>	<u>\$ (1,500,291)</u>

The accompanying notes are an integral part of these consolidated financial statements

4FRONT HOLDINGS LLC
Consolidated Statement of Changes in Members' Equity (Deficit)
For the Years Ended December 31, 2017 and 2016
(Amounts Expressed in United States Dollars Unless Otherwise Stated)

	Note	Controlling				Non-Controlling	Total
		Preferred Units	Common Units	Contributed Capital	Accumulated Deficit	Interest Members' Equity (Deficit)	
Balance, January 1, 2016		-	-	\$ 9,515,005	\$ (6,361,406)	\$ 78,408	\$ 3,232,007
Units issued with conversion to LLC	<i>Note 13</i>	500,000	140,890	-	-	-	-
Share-based compensation	<i>Note 15</i>	-	500	141,144	-	-	141,144
Warrants to Camelback Ventures	<i>Note 10</i>	-	-	407,422	-	-	407,422
Net loss		-	-	-	(1,500,291)	(314,051)	(1,814,342)
Balance, December 31, 2016		<u>500,000</u>	<u>141,390</u>	<u>10,063,571</u>	<u>(7,861,697)</u>	<u>(235,643)</u>	<u>1,966,231</u>
Members' contributions	<i>Note 14</i>	-	-	-	-	777,147	777,147
Share-based compensation	<i>Note 15</i>	-	3,416	167,581	-	-	167,581
Equity Component of Convertible Debt	<i>Note 11</i>	-	-	871,212	-	-	871,212
Net loss		-	-	-	(3,588,870)	(750,257)	(4,339,127)
Balance, December 31, 2017		<u>500,000</u>	<u>144,806</u>	<u>\$ 11,102,364</u>	<u>\$ (11,450,567)</u>	<u>\$ (208,753)</u>	<u>(556,956)</u>

The accompanying notes are an integral part of these consolidated financial statements

4FRONT HOLDINGS LLC
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016
(Amounts Expressed in United States Dollars Unless Otherwise Stated)

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss attributable to controlling interest	\$ (3,588,870)	\$ (1,500,291)
Net loss attributable to non-controlling interest	(750,257)	(314,051)
Adjustments to reconcile change in net loss to net cash used by operating activities		
Depreciation and amortization	70,291	42,281
Equity based compensation	167,581	141,144
Accrued interest income on notes receivable from related parties	(174,984)	(60,648)
Accrued interest on notes payable to related parties	199,034	91,007
Amortization of loan discount on convertible notes	187,337	-
Amortization of loan discount on note payable to related party	162,969	244,453
Deferred rent expense	31,948	(4,782)
Gain on sale of investment in dispensary	(1,036,303)	-
Changes in operating assets and liabilities		
Restricted cash	400,000	-
Accounts receivable	(9,115)	40,481
Other receivables	14,639	(76,133)
Deposits - collateral for cultivation bond	450,000	(450,000)
Deposits - other	(66,704)	36,108
Inventory	(19,172)	-
Prepaid expenses	(64,723)	(60,291)
Accounts payable	(321,943)	(301,004)
Accrued expenses and other liabilities	62,943	4,313
Unearned revenue	(13,900)	(399,088)
	<u>(4,299,230)</u>	<u>(2,566,501)</u>
NET CASH USED IN OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Issuance of notes receivable to related parties	(2,390,471)	(374,975)
Issuance of notes to IL Grown and Harborside prior to control	-	(1,384,409)
Repayment of notes receivable from related parties	405,391	-
Sale of (investment in) a dispensary	1,102,532	(53,432)
Purchases of property and equipment	(4,249,286)	(708,363)
	<u>(5,131,834)</u>	<u>(2,521,179)</u>
NET CASH USED IN INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of long-term convertible debt	10,120,000	-
Issuance of notes payable to related parties	80,000	3,425,000
Non-controlling interest members' contributions	777,147	-
	<u>10,977,147</u>	<u>3,425,000</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH	1,546,083	(1,662,679)
CASH, BEGINNING OF YEAR	<u>2,062,423</u>	<u>3,725,103</u>
CASH, END OF YEAR	<u>\$ 3,608,506</u>	<u>\$ 2,062,423</u>

The accompanying notes are an integral part of these consolidated financial statements

4FRONT HOLDINGS LLC
Consolidated Statements of Cash Flows (Continued)
For the Years Ended December 31, 2017 and 2016
(Amounts Expressed in United States Dollars Unless Otherwise Stated)

	<u>2017</u>	<u>2016</u>
Cash paid for interest	<u>\$ 217,684</u>	<u>\$ -</u>
OTHER NONCASH INVESTING ACTIVITIES		
Initial consolidation of Illinois Entities		
Restricted cash	\$ -	\$ 400,000
Deposits	-	233,700
Property & equipment	-	611,263
Intangible assets - Licenses	-	1,141,003
Liabilities assumed	-	(2,385,966)
	<u>\$ -</u>	<u>\$ -</u>

4FRONT HOLDINGS LLC
Notes to Consolidated Financial Statements
For the Years Ended 2017 and 2016

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

1. GENERAL INFORMATION

Nature of Operations and Going Concern

4Front Holdings LLC (Holdings) is a Delaware limited liability company and was founded on September 15, 2016, with the contribution of the assets and liabilities of 4Front Ventures, Inc. (Ventures) (collectively the “Company”). Holdings operates licensed cannabis facilities in state-licensed markets in the United States. As of December 31, 2017, the Company operated a dispensary and a cultivation facility in Illinois. The Company owns dispensary/cultivation licenses in Massachusetts, and dispensary licenses in Pennsylvania and Maryland.

The Company operates a legacy consulting business that assists customers with acquiring cannabis licenses and operating cannabis facilities. The Company has tightened the focus of its professional services resources to more squarely support the advancement of its own license interests and those of its legacy clients in key markets, while providing more limited services to select new clients. Revenue from the consulting business will continue due to ongoing fees from existing contracts.

These consolidated financial statements have been prepared using accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. Due to losses during the Company’s startup phase, the Company has been required to secure sufficient financing to fund its working capital requirements.

When the Company made its decision to merge with Cannex Capital Holdings Inc. (Cannex) in November 2018, the Company elected to postpone its internal fundraising initiatives, which included a substantially negotiated secured promissory note exceeding \$10 million in proceeds. In place of this note, an \$8 million line of credit was obtained from Cannex. The Cannex loan is short-term, which results in the Company’s working capital deficit staying negative.

For the year ended December 31, 2017, the Company had a loss of \$4,339,127, had negative cash flow from operations, and had a working capital deficit at December 31, 2017. The possibility of the cancelation of the Cannex merger creates a material uncertainty and casts significant doubt as to the ability of the Company to meet its obligations as they come due unless it is able to raise sufficient funds to enable it to reach profitability, and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the going concern assumption was inappropriate, and these adjustments could be material.

Management believes that if the Cannex merger is cancelled, it will have time to execute existing fundraising initiatives and to repay any debt that comes due in the next year. Management has demonstrated its ability to raise capital and to secure loans in the past. Nevertheless, there is no assurance that these initiatives will be successful or sufficient.

4FRONT HOLDINGS LLC

Notes to Consolidated Financial Statements

For the Years Ended 2017 and 2016

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies for the Company, its subsidiaries, and its affiliates are as follows:

(a) Basis of Preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the IFRS Interpretations Committee (“IFRIC”) in effect for the years ended December 31, 2017 and 2016. The 2016 year includes combined activity for Ventures and Holdings.

These consolidated financial statements were approved and authorized for issue by the Board of Managers of the Company on March 19, 2019.

(b) Basis of Measurement

These consolidated financial statements have been prepared on the going concern basis, under the historical cost convention except for certain financial instruments and biological assets that are measured at fair value as described herein.

(c) Functional Currency

The Company and its affiliates’ functional currency is the United States (“U.S.”) dollar. These consolidated financial statements are presented in U.S. dollars.

(d) Basis of Consolidation

These consolidated financial statements incorporate the financial statements of the Company and its affiliates. Affiliates are entities controlled by the Company. Control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and is exposed to the variable returns from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accompanying consolidated financial statements include all of the Company’s affiliates in which the Company has control, most often because the Company holds a majority voting interest.

Illinois Grown Medicine LLC and Harborside Illinois Grown Medicine Inc. are consolidated affiliates because an executive of the Company owns 60% of the entities. The executive has assigned to the Company control over the financial and operating policies of the entities and has assigned to the Company a beneficial interest in 60% of the income or loss of the entities.

The Company reevaluates whether there is a controlling financial interest in these entities when the voting rights change.

4FRONT HOLDINGS LLC
Notes to Consolidated Financial Statements
For the Years Ended 2017 and 2016

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Basis of Consolidation (Continued)

The accompanying consolidated financial statements include the following subsidiaries and affiliates of 4Front Holdings LLC:

Business Name	Entity Type	State of Operations	2017 Ownership %	2016 Ownership %
4Front Ventures, Inc.	Holding Company	AZ	100%	100%
4Front Advisors, LLC	Professional Services	Various	100%	100%
Mission Partners USA, LLC	Investment Company	AZ	100%	100%
Linchpin Investors, LLC	Finance Company	AZ	100%	100%
4Front Management Associates, LLC	Management Company	MA	76%	76%
MMA Capital, LLC	Finance Company	MA	76%	76%
Illinois Grown Medicine, LLC	Cultivation Facility	IL	60%	60%
Harborside Illinois Grown Medicine Inc.	Dispensary	IL	60%	60%
Mission Maryland, LLC	Dispensary	MD	65%	65%
Mission Pennsylvania II, LLC	Dispensary	PA	50%	-
4Front CIHI Investco, LLC	Investment Company	MD	85%	-
4Front PM Investco, LLC	Investment Company	MD	83%	-
Silver Spring Consulting Group, LLC	Management Company	MD	66%	-
Adroit Consulting Group, LLC	Management Company	MD	56%	-

(e) Non-Controlling Interest

Non-controlling interests are separated from the members of the Company's interest in the consolidated financial statements.

(f) Cash

The Company considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

(g) Restricted Cash (Also see Note 3)

Restricted cash is funds held by third parties that are subject to withdrawal restrictions. The restricted cash at December 31, 2016, was held in an escrow account and with the landlord of the Illinois Grown Medicine, LLC cultivation facility building.

4FRONT HOLDINGS LLC

Notes to Consolidated Financial Statements

For the Years Ended 2017 and 2016

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Accounts Receivable

Accounts receivable are carried at the original invoiced amount. Management determines the need for an allowance for doubtful accounts by identifying any collection issues. Accounts receivable are written off when deemed uncollectible and recoveries of accounts receivable previously written off are recorded when received. No interest on past due accounts receivable is recognized in income until collected. As of December 31, 2017 and 2016, management has determined that no allowance for doubtful accounts is required to cover uncollectable balances.

(i) Biological Assets

The Company measures biological assets, which consists of medical cannabis plants, at fair value less costs to sell and complete up to the point of harvest. The Company determined that the value of the biological assets was zero at each year end and the write off was included in cost of goods sold since the Company's intent was to harvest and sell products that would be produced from the harvested biological assets.

(j) Inventory

The Illinois dispensary inventory consists of cannabis products for resale, supplies and consumables. Dispensary inventory includes the purchase price plus costs to purchase the inventory. Inventory is valued at the lower of cost or net realizable value.

(k) Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and impairment losses, if any. Expenditures that materially increase the life of the assets are capitalized. Ordinary repairs and maintenance are expensed as incurred. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset using the following terms and methods:

Buildings and improvements	39 years
Furniture and fixtures	7 years
Computer equipment	3 – 5 years
Other equipment	7 – 10 years
Leasehold improvements	Remaining life of lease
Assets under construction	Not depreciated

The assets' residual values, useful lives and methods of depreciation are reviewed at each year-end and adjusted prospectively if appropriate. An asset is derecognized upon disposal or when no future economic benefit is expected. Any gain or loss from derecognition of the asset (the difference between the net disposal proceeds and the carrying value) is included in the Statements of Operations in the years of derecognition.

4FRONT HOLDINGS LLC

Notes to Consolidated Financial Statements

For the Years Ended 2017 and 2016

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Intangible Assets

Intangible assets are recorded at cost, less accumulated amortization and impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Any amortization is recorded on a straight-line basis over the estimated useful lives, which do not exceed the contractual period. Cannabis licenses are intangible assets that have indefinite useful lives and are not subject to amortization. Intangible assets are tested annually for impairment, or more frequently, if events or changes in circumstances indicate that they might be impaired. The estimated useful lives, residual values, and amortization methods are reviewed at each year-end, and any changes in estimates are accounted for prospectively. At December 31, 2017 and 2016, the Company did not recognize any impairment losses.

(m) Revenue Recognition

Revenue is recognized at the fair value of consideration received or receivable. Revenue from the sale of goods is recognized when all the following conditions have been satisfied, which are generally met once the products are handed to customers:

- The Company has transferred the significant risks and rewards of ownership of the goods to the customer;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the customer; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

For the year ended December 31, 2017 and 2016, amounts recorded as revenue are net of discounts which were not separately tracked.

4FRONT HOLDINGS LLC

Notes to Consolidated Financial Statements

For the Years Ended 2017 and 2016

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Revenue Recognition (Continued)

Revenue from consulting contracts with customers is recognized when all of the following criteria are met:

- The contract has been approved in writing, orally, or in accordance with other customary business practices and the parties are committed to perform their obligations in the contract;
- Each party's rights regarding the services to be transferred can be identified;
- The payment terms for the services to be provided can be identified;
- The contract has commercial substance (i.e. the risk, timing or amount of the vendor's future cash flows is expected to change as a result of the contract);
- It is probable that the consideration for the services that the Company is entitled to will be collected. The Company has determined that for its customers this criteria is generally met only once payment is received unless there is persuasive evidence that the customer will pay.
- When (or as) performance obligations are satisfied to the customer.

Any fees that are collected prior to their recognition as revenue are recorded as deferred revenue on the accompanying consolidated balance sheet.

(n) Deferred Rent

Rent expense on non-cancellable leases containing known future scheduled rent increases is recorded on a straight-line basis over the terms of the respective leases. The difference between rent expense and rent paid is accounted for as deferred rent.

(o) Provision for Income Tax

Except for certain subsidiaries, the Company is treated as a partnership for federal and state income tax purposes and, accordingly, is generally not subject to company-level taxes. Taxable income or losses are allocated to the members in accordance with the limited liability company operating agreement. Therefore, there is no provision for federal or state income taxes in the accompanying consolidated financial statements.

For the corporate subsidiaries, deferred tax assets and liabilities and the related deferred tax expense or recovery are recognized for deferred tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

4FRONT HOLDINGS LLC

Notes to Consolidated Financial Statements

For the Years Ended 2017 and 2016

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Provision for Income Tax (Continued)

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the asset can be utilized. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current assets against current tax liabilities and when they relate to income taxes levied by the same taxing authority and the Company intends to settle its current tax assets and liabilities on a net basis. At December 31, 2017 and 2016, deferred tax assets and liabilities were immaterial.

Certain Holdings's subsidiaries are subject to U.S. Internal Revenue Code Section 280E. This section disallows deductions and credits attributable to a trade or business trafficking in controlled substances. Under U.S. law, marijuana is a Schedule I controlled substance. The Company has taken the position that any costs included in the cost of goods sold should not be treated as amounts subject to the Section 280E expense disallowance.

The Company would recognize any potential accrued interest and penalties related to unrecognized tax benefits as part of its tax provision as interest or penalty expense, as applicable. The Company had no penalties or interest related to income taxes for periods ended December 31, 2017 and 2016.

(p) Financial Instruments (Also see Note 19)

(i) *Financial Assets*

All financial assets (including assets designated at fair value through profit or loss) are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Company classifies its financial assets as loans and receivables. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) *Financial Liabilities*

All financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire. The Company classifies its financial liabilities as other liabilities. Subsequent to initial recognition other liabilities are measured at amortized cost using the effective interest method.

4FRONT HOLDINGS LLC

Notes to Consolidated Financial Statements

For the Years Ended 2017 and 2016

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Financial Instruments (Also see Note 19) (Continued)

(iii) Classification of Financial Instruments

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics, and management intent as outlined below:

	Classification
Cash	Loans and receivables
Restricted Cash	Loans and receivables
Accounts Receivable	Loans and receivables
Other Receivables	Loans and receivables
Accounts Payable and Accrued Liabilities	Other liabilities
Notes Payable	Other liabilities
Other Current Liabilities	Other liabilities
Convertible Notes	Other liabilities

Financial assets, other than those classified at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period or whenever circumstances dictate. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

(q) Significant Accounting Judgments, Estimates and Assumptions

The preparation of consolidated financial statements in conformity with IFRS accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods.

Significant judgements, estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described below.

(i) Estimated Useful Lives and Depreciation of Property and Equipment (Also see Note 6)

Depreciation of property and equipment is dependent upon estimates of useful lives which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

4FRONT HOLDINGS LLC

Notes to Consolidated Financial Statements

For the Years Ended 2017 and 2016

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Significant Accounting Judgments, Estimates and Assumptions (Continued)

(ii) *Estimated Useful Lives and Amortization of Intangible Assets (Also see Note 8)*

Amortization of intangible assets is recorded on a straight-line basis over the estimated useful life of the intangible asset. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

(iii) *Biological Assets*

Management is required to make estimates in calculating the fair value of biological assets and harvested cannabis inventory. These estimates include a number of assumptions, such as estimating the stages of growth of the cannabis, harvested costs, sales price and expected yields.

(iv) *Share-Based Compensation*

The fair value of share-based compensation expenses are estimated using the Black-Scholes pricing model and rely on a number of estimates, including the life of the grant, the volatility of the underlying unit price, the risk free rate of return, and the estimated rate of forfeiture of units granted.

(v) *Business Combinations (Also see Note 7)*

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. Contingent consideration is measured at its acquisition-date fair value and is included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The valuations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. Amortization of intangible assets is recorded on a straight-line basis over estimated useful lives.

4FRONT HOLDINGS LLC

Notes to Consolidated Financial Statements

For the Years Ended 2017 and 2016

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Recent Accounting Pronouncements

The following IFRS standards have been recently issued by the IASB. The Company is assessing the impact of these new standards on future consolidated financial statements. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

(i) *IFRS 7, Financial Instruments: Disclosure*

IFRS 7, *Financial Instruments: Disclosure*, was amended to require additional disclosures on transition from IAS 39 to IFRS 9. IFRS 7 is effective on adoption of IFRS 9, which is effective for annual periods commencing on or after January 1, 2018.

(ii) *IFRS 9, Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9, *Financial Instruments*, which reflects all phases of the financial instruments project and replaces IAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Company was not able to evaluate all impacts of this pronouncement, but will adopt the pronouncement in 2018. The Company does not expect a significant impact on its consolidated financial statements from the adoption of this new standard.

(iii) *IFRS 15, Revenue from Contracts with Customers*

The IASB replaced IAS 18, *Revenue*, in its entirety with IFRS 15, *Revenue from Contracts with Customers*. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Company was not able to evaluate all impacts of this pronouncement, but will adopt the pronouncement in 2018. The Company does not expect a significant impact on its consolidated financial statements from the adoption of this new standard.

4FRONT HOLDINGS LLC

Notes to Consolidated Financial Statements

For the Years Ended 2017 and 2016

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Recent Accounting Pronouncements (Continued)

(iv) IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, *Leases*, which will replace IAS 17, *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15, *Revenue from Contracts with Customers*, at or before the date of initial adoption of IFRS 16. The extent of the impact of adoption of the standard has not yet been determined.

3. RESTRICTED CASH

Restricted cash at December 31, 2016, consisted of \$400,000 that was held in escrow pursuant to an agreement to resolve a dispute with a contractor regarding the construction of the cultivation facility for Illinois Grown Medicine, LLC. In 2017, the dispute was resolved and \$350,000 of the restricted cash was distributed to the contractor to relieve a December 31, 2016, accounts payable liability. The remaining \$50,000 was distributed to the Company as unrestricted cash. As of December 31, 2017, restricted cash was \$0.

4. NOTES RECEIVABLE AND ACCRUED INTEREST FROM RELATED PARTIES

The Company held various notes receivable totaling \$2,981,970 and \$834,704 at December 31, 2017 and 2016, from related parties that hold cannabis licenses. The parties are related because a Company executive is a member of the Board of Managers or the Board of Directors of the party, or employees of the Company have a significant ownership of the party. The notes are due on demand or on June 4, 2019, and interest rates range from 0% to 18%. The notes require no payments prior to maturity or a demand, and the Company does not expect to demand repayment on any demand note prior to the dispensaries or cultivation facilities becoming operational. The notes are expected to be repaid from cash flows from the dispensaries and cultivation facilities once they open.

See Note 16 for additional information on the notes receivable.

4FRONT HOLDINGS LLC

Notes to Consolidated Financial Statements

For the Years Ended 2017 and 2016

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

5. DEPOSITS

As of December 31, 2017 and 2016, deposits totaled \$306,786 and \$690,082 respectively. Deposits at December 31, 2016, include \$450,000 for bond collateral that was held by an insurance company to secure a cultivation bond that was required by the state of Illinois for Illinois Grown Medicine LLC's cultivation license. This collateral did not earn interest and was returned to the Company in 2017 following the issuance of a replacement bond with another insurance company that does not require collateral.

The remaining deposits are for real estate leases and include a \$214,888 deposit for the lease of the Illinois cultivation facility building.

6. PROPERTY AND EQUIPMENT

The following is a summary of property and equipment, at cost less accumulated depreciation as of December 31:

	Buildings	Construction In Progress	Furniture and Equipment	Leasehold Improvements	Total
Cost					
Balance, January 1, 2016	\$ -	\$ -	\$ 35,598	\$ 70,000	\$ 105,598
Additions	312,189	233,301	128,640	34,233	708,363
Additions from Business Acquisitions	-	6,000	135,263	470,000	611,263
Disposals	-	-	-	(70,000)	(70,000)
Balance December 31, 2016	312,189	239,301	299,501	504,233	1,355,224
Additions	362,070	1,783,649	624,628	1,478,939	4,249,286
Balance December 31, 2017	\$ 674,259	\$ 2,022,950	\$ 924,129	\$ 1,983,172	\$ 5,604,510
Accumulated Depreciation					
Balance, January 1, 2016	\$ -	\$ -	\$ 8,963	\$ 46,969	\$ 55,932
Depreciation	-	-	19,250	23,031	42,281
Disposals	-	-	-	(70,000)	(70,000)
Balance December 31, 2016	-	-	28,213	-	28,213
Depreciation	-	-	30,988	39,303	70,291
Balance December 31, 2017	\$ -	\$ -	\$ 59,201	\$ 39,303	\$ 98,504
Net Book Value					
December 31, 2016	\$ 312,189	\$ 239,301	\$ 271,288	\$ 504,233	\$ 1,327,011
December 31, 2017	\$ 674,259	\$ 2,022,950	\$ 864,928	\$ 1,943,869	\$ 5,506,006

Depreciation of property and equipment is computed using the straight-line method over their estimated useful lives. Depreciation expense for the periods ended December 31, 2017 and 2016, were \$70,291 and \$42,281 respectively, of which \$28,093 is included in cost of goods sold in 2017.

4FRONT HOLDINGS LLC

Notes to Consolidated Financial Statements

For the Years Ended 2017 and 2016

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7. ACQUISITION OF SUBSIDIARY

On June 30, 2016, an executive and unit holder of the Company acquired a 60% interest in Illinois Grown Medicine, LLC and Harborside Illinois Grown Medicine, Inc. No cash was exchanged in the transaction, but the executive agreed to assume \$1,141,003 in net liabilities of the acquired entities. Concurrent with the acquisition, the Company through its wholly owned subsidiary, Linchpin Investors, LLC, agreed to lend to the entities \$4,000,000 through secured promissory notes. There were \$1,384,409 in outstanding loans due to the Company as of June 30, 2016, and the entire balance of these loans was repaid by drawing on the new loans.

The executive of the Company that owns 60% of the entities has assigned to the Company control over the financial and operating policies of the entities and has assigned to the Company a beneficial interest in 60% of the income or loss of the entities.

The transaction is accounted for by the Company as a business combination, with the results included in the Company's net loss from the date of acquisition. The assets acquired and the liabilities assumed have been recorded by the Company at fair value as determined by the Company.

The purchase price was \$nil and the following table summarizes the consideration for the acquisition:

Liabilities Assumed	\$2,385,966
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The following table summarizes the finalized purchase price allocation:

Restricted Cash	\$ 400,000
Deposits	233,700
Property and Equipment	611,263
Intangible Assets - Licenses	<u>1,141,003</u>
Total Assets	<u>\$2,385,966</u>

Acquisition costs, of \$126,086, were excluded from the consideration transferred, and were included in General and Administrative expenses in the period in which they were incurred.

8. INTANGIBLE ASSETS

At December 31, 2017 and 2016, the Company held intangible assets with a value of \$1,141,003, which consists of one Illinois cannabis dispensary license and one Illinois cannabis cultivation license. These licenses were acquired in connection with the acquisition of the Illinois entities on June 30, 2016. They have indefinite lives and are not amortized.

4FRONT HOLDINGS LLC

Notes to Consolidated Financial Statements

For the Years Ended 2017 and 2016

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

9. GAIN ON INVESTMENT

In 2016, the Company paid \$53,432 for an investment in a California cannabis dispensary license and concluded that the Company did not have significant influence on the entity because the majority partners ignored all input from the Company and made decisions that the Company disagreed with. The Company was also unable to obtain any financial or additional information on losses incurred by the entity. Due to a lack of significant influence, the investment was kept at cost.

In May 2017, the Company entered into an agreement to sell this interest to an unrelated party. The transaction closed in July 2017 and resulted in a \$1.04 million gain for the Company.

10. NOTES PAYABLE TO RELATED PARTIES

In 2016, the Company received \$3,000,000 in exchange for a note payable to an investor that is an owner of stock in Ventures and holds Class B units in Holdings. The note accrues interest at 5 percent per annum and requires no payments prior to maturity. In 2017, the maturity date of the note was extended from May 30, 2017 to December 31, 2018. The modification was not considered to be significant and no additional gain on loss was recognized. The note has senior status which prevents the Company from incurring indebtedness that is in parity with or in priority to this note without prior consent of the holder.

As part of the issuance of the note, the holder received fully vested warrants to purchase 2,258 shares of Ventures for \$0.01 per share. These warrants had not been exercised as of December 31, 2017. At the time of issuance, a loan discount was recorded for the \$407,422 value of the warrants, which was based on the value of Ventures. The loan discount balance is \$162,969 at December 31, 2016, and became fully amortized during 2017. The loan discount was amortized as interest expense during the original loan term, which resulted in interest expense of \$162,969 and \$244,454 for the years ended December 31, 2017 and 2016.

Subsequent to December 31, 2017, the balance of this note plus accrued interest were converted into Class D units of Holdings. See Note 21.

The Company had \$500,000 and \$425,000 as of December 31, 2017 and 2016, respectively, in notes outstanding with Company executives who are also owners. The notes pay interest at 10% per annum and require no payments prior to maturity. The maturity dates of the notes have been extended to December 31, 2018.

At December 31, notes payable consisted of the following:

	2017	2016
\$3 million note face value	\$ 3,000,000	\$ 3,000,000
Loan discount on \$3 million note	-	(162,969)
Notes from executives	500,000	425,000
Other	5,000	-
Total Notes Payable to Related Parties	<u>\$ 3,505,000</u>	<u>\$ 3,262,031</u>
Accrued interest on \$3 million note	\$ 232,877	\$ 82,877
Accrued interest on notes from executives	57,164	8,130
Total Related Party Interest Payable	<u>\$ 290,041</u>	<u>\$ 91,007</u>

4FRONT HOLDINGS LLC
Notes to Consolidated Financial Statements
For the Years Ended 2017 and 2016

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

11. CONVERTIBLE DEBT

During 2017, the Company issued \$10.12 million in convertible long-term debt. These notes accrue interest at an annual rate of 5% and mature in two years from issuance or are convertible upon an equity capital raise (Funding Event) of greater than \$10 million by the Company. If no Funding Event occurs, at maturity, the debt holders have the option of converting the debt to equity units at a fixed price that was considered fair value at the time the note was issued.

Since the rate of interest for a similar note without the conversion feature was 10%, at the time of issuance, a loan discount was recorded for the \$871,213 value of the equity component of the notes. The loan discount is amortized over the two year term of the notes which resulted in \$187,337 in interest expense during 2017 and a loan discount balance of \$683,876 at December 31, 2017.

Proceeds have been used to fund operations and for the construction of dispensaries and cultivation facilities for subsidiaries and affiliates. A Funding Event has occurred in June 2018 when a minimum of \$10 million of Class D units were sold. See Note 21 for additional information on the sale of Class D units.

12. GENERAL AND ADMINISTRATIVE EXPENSES

For the years ended December 31, general and administrative expenses were comprised of:

	<u>2017</u>	<u>2016</u>
Salaries & Benefits	\$ 2,079,446	\$ 1,913,574
Professional Fees	1,213,304	2,164,891
Other	539,761	375,096
Travel	171,348	112,356
Share-Based Compensation	167,581	141,144
Rent	166,918	193,196
Total	<u>\$ 4,338,358</u>	<u>\$ 4,900,257</u>

13. MEMBERS' EQUITY

Ventures was the holding company for the Company prior to September 15, 2016. Ventures has 80,000 Series A Preferred shares and 36,125 Series B Preferred shares outstanding during the two year period ended December 31, 2017.

On September 15, 2016, Ventures converted from a corporation to a limited liability company by transferring all of its assets and liabilities to newly formed Holdings in exchange for 500,000 Class A units (preferred units). The owners of Ventures continue to control Holdings through these Class A units. These units will receive a preferred distribution of \$33,333,000, plus a 6% per annum preferred return on \$33,333,000 with no maturity. After the preferred distribution and preferred return, the Class A units do not participate in any further distributions. The owners of Class A units were also issued 135,108 Class B units (common units) in Holdings that give the owner a profit interest. The Class A units and the Class B units are designed to put the holder in a similar economic position as they had prior to the formation of Holdings.

4FRONT HOLDINGS LLC
Notes to Consolidated Financial Statements
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13. MEMBERS' EQUITY (Continued)

Upon conversion 5,782 Class C units were granted and were fully vested to owners of Ventures stock options. These Class C units along with the existing stock options put option holders in a similar economic position as they had prior to the formation of Holdings.

Subsequent to the formation of Holdings, the Company has granted additional Class C units to certain employees and a member of the Board of Managers. At December 31, 2017, a total of 3,916 of these Class C units had vested, 3,416 and 500 for the years ended December 31, 2017 and 2016 respectively, bring the total number of common units (Class B and Class C units) to 144,806.

As long as Ventures owns any Class A units, the Board of Directors of Ventures shall be entitled to remove and replace all three members of the Board of Managers of Holdings. The Board of Managers have the exclusive right to manage the Company. Class B and Class C units (common units) do not have voting rights.

See Note 21 for information on the issuance of Class D, E, and F units (common units) subsequent to December 31, 2017.

14. NON-CONTROLLING INTEREST

Non-controlling interest is shown as a component of total members' equity (deficit) on the Consolidated Statements of Financial Position, and the share of loss attributable to non-controlling interest is shown as a component of net loss in the Consolidated Statements of Operations.

During 2017, non-controlling interests contributed \$777,147 in additional paid in capital for MMA Capital LLC, Mission Maryland LLC, CIHI Investco LLC, Premium Investco LLC, and Adroit Consulting Group LLC. There were no non-controlling interest contributions in 2016. These capital contributions were required per the operating agreements.

15. SHARE-BASED COMPENSATION

Ventures issued stock options to certain employees in 2014 and 2015. The Company granted 31,750 Class C units to those that held stock options and were still employed or were board member with vesting requirements that corresponded to the original stock options. The Ventures stock that will be issued upon exercise of the options, plus the Class C units are designed to put the stock option holder in the same economic position that they had prior to the reorganization. The Company recognizes the vesting of Ventures stock options by using the values of the stock options as determine when the stock options were granted. For the years ended December 31, 2017 and 2016, the Company recorded approximately \$34,000 and \$93,000, respectively in share-based compensation for stock options. No stock options in Ventures were exercised as of December 31, 2017. The Ventures stock options and corresponding Class C units, in general vest over a three year period from the grant date (at the anniversary date of the grant) and require continuous employment for vesting.

During the years ended December 31, 2017 and 2016, the Company granted 5,150 and 500 in new Class C units, respectively. The Company recognized share-based compensation of approximately \$134,000 and \$48,000 during the years ended December 31, 2017 and 2016, respectively, for these new Class C units.

4FRONT HOLDINGS LLC

Notes to Consolidated Financial Statements

For the Years Ended 2017 and 2016

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15. SHARE-BASED COMPENSATION (Continued)

The fair value of the Class C units granted in 2017 and 2016 was estimated using the Black-Scholes model, using various assumptions regarding (a) the expected holding period, (b) the risk-free rate of return, (c) expected dividend yield on the underlying units, (d) the expected volatility in the fair value of the Company's equity, and was calculated based on the grant agreement terms, which included a hurdle amount to be exceeded before participation in returns.

The expected holding period represents the period of time that the units are expected to be outstanding. The units were assumed to remain outstanding until the Company experienced a change in control of ownership (CIC) or an initial public offering (IPO). The units vest based on continued employment with the Company. The risk-free rate of return for periods approximating the expected holding period of the units was based on the U.S. constant maturity treasuries yield in effect at the grant date. A dividend yield was assumed based on the 6% preferred return for the Class A units. Because the Company's equity was privately held and was not traded in an active market, the Company used the historical volatility of the share values of publicly traded companies within similar industries as the Company as a surrogate for the expected volatility of equity.

The key assumptions used for grants awarded in 2017 and 2016, were as follows:

Expected holding period - 5 years

Risk-free rate of return - 1.2%

Expected dividend yield - 6.0%

Expected volatility - 70.0%

Share-based compensation cost is recognized by amortizing the grant-date fair value of the equity based awards, less estimated forfeitures, on a straight-line basis over the requisite service period of each award. Share-based compensation is included in general and administrative expenses in the accompanying consolidated statement of operations. As of December 31, 2017, there was approximately \$364,000 of unrecognized compensation cost related to outstanding equity-based awards which is expected to be recognized subsequent to December 31, 2017. Total unrecognized compensation cost will be adjusted for estimated forfeitures.

16. RELATED PARTIES

Key management personnel compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly. The key management personnel of the Company are the members of the Company's executive management team and Board of Managers, who control approximately 55% of the Class A, Class B and Class C units of the Company. Compensation provided to key management is as follows:

	December 31, 2017	December 31, 2016
Short-term employee benefits	\$ 1,009,000	\$ 934,000
Share-based compensation	<u>20,000</u>	<u>103,000</u>
	<u>\$ 1,029,000</u>	<u>\$ 1,037,000</u>

4FRONT HOLDINGS LLC

Notes to Consolidated Financial Statements

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16. RELATED PARTIES (Continued)

Related party transactions

The Company has issued notes receivable to certain related parties that hold or have applied for cannabis licenses or that have secured real estate that can be used for a cannabis facility. The Company's strategy is to provide financing and real estate to related parties that own cannabis licenses where the Company has an economic interest through contracts. When related party cannabis operations open, cash flow is expected to be used to repay the loans and accrued interest. The Company has evaluated the value of the net assets of these related parties, including the cannabis licenses, and has determined that the value of the net assets is in excess of the loans and accrued interest outstanding at December 31, 2017 and 2016. The details of these notes receivable to related parties are as follows:

The Company holds notes receivable from Mission Massachusetts Inc. which is related because executives of the Company sit on the Board of Directors. As of December 31, 2017 and 2016, notes receivables from Mission Massachusetts Inc. totaled \$1,702,678 and \$502,741, respectively. Interest income from the notes is \$159,867 and \$49,916 for 2017 and 2016 respectively. Mission Massachusetts Inc. has used the proceeds from the notes to build a cannabis dispensary and a cultivation facility in Worcester Massachusetts that are expected to open in the second quarter of 2019.

The Company holds a note receivable from Chesapeake Integrated Health Institute, LLC (CIHI). At December 31, 2017 and 2016, there were \$537,717 and \$0 in notes receivable from CIHI, respectively. Interest income from the note in 2017 is \$12,717. The dispensary is expected to open in the second quarter of 2019.

The Company holds a note receivable from Premium Medicine of Maryland, LLC (Premium). At December 31, 2017 and 2016, there were \$152,400 and \$0 in notes receivable from Premium, respectively. Interest income from the note in 2017 is \$2,400. Premium opened a cannabis dispensary in October 2018.

As of December 31, 2017 and 2016, the Company holds notes receivables of \$589,175 and \$331,963, respectively, from various other entities that hold cannabis licenses, have applied for cannabis licenses, or hold interests in real estate that can be used for cannabis operations. These entities are related parties because one or more employee of the Company has an ownership in the entity.

The Company held notes receivable from Natural Remedies, Inc. The Company stopped funding Natural Remedies, Inc. in 2017 and wrote-off costs and notes receivable resulting in a \$152,522 loss in 2017 and a \$252,518 loss in 2016 that is recorded as Other Income (Expense) in the accompanying Consolidating Statements of Operations.

These transactions are in the normal course of operations and are measured at the exchange amounts being the amounts agreed to by the parties.

4FRONT HOLDINGS LLC

Notes to Consolidated Financial Statements

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17. COMMITMENTS AND CONTINGENCIES

Lease Expense – The Company has five real estate leases that are classified as operating leases. Future minimum lease obligations under these leases as of December 31, 2017, and for each of the five succeeding years and thereafter are as follows:

2018	\$	316,611
2019		322,089
2020		287,624
2021		298,311
2022		303,094
Thereafter		<u>2,306,177</u>
	\$	<u>3,833,906</u>

Future lease commitments include approximately \$2.9 million pertaining to the cultivation facility in Elk Grove Village, Illinois. This lease has a 20 year term ending on August 31, 2035. The premises consist of 11,622 square feet and there are two options to rent additional space of 12,500 square feet and 28,930 square feet. The additional space can be occupied following the expiration of the landlord's lease with a third party on or before October 31, 2019. The Company has the right of first refusal for any sale of the property by the landlord. Escalating rent per the lease resulted in an increase to the deferred rent balance in 2017 as reflected in the consolidated statement of financial position.

Lease expense for the years ended December 31, 2017 and 2016 was \$304,982 and \$193,196 for the years ended December 31, 2017 and 2016 respectively, of which \$149,834 and \$0 is included in cost of goods sold in 2017 and 2016 respectively.

Other Contingencies – The Company's operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulation at December 31, 2017 and 2016, medical cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

Legal Matters – The Company is involved in certain disputes arising in the ordinary course of business. Such disputes, taken in the aggregate, are not expected to have a material adverse effect on the Company.

During 2017, the Company was in a legal dispute with two former consulting clients whom the Company performed services for since 2015. The parties agreed to arbitration, and a final decision by a Panel of the American Arbitration Association on November 27, 2018 has found that one of the consulting clients is liable to the Company in the amount of \$5.5 million and the other consulting client is liable to the Company in the amount of \$3.8 million. Because the award can be appealed, there is substantial doubt that the Company will be able to collect the award. Thus the Company has not recognized an asset for the damages for this decision.

In 2016, the Company settled a business dispute related to its consulting business and recorded a gain of \$3,000,000.

4FRONT HOLDINGS LLC

Notes to Consolidated Financial Statements

For the Years Ended 2017 and 2016

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

18. INCOME TAXES

At December 31, 2017 and 2016, the Company has gross deferred income tax assets before valuation allowance of approximately \$15,000 and \$0, respectively, which relate primarily to U.S. and state net operating loss carryforwards. Realization of these assets is dependent upon the Company's ability to generate sufficient future taxable income by 2029, the year in which these unused carryforwards begin to expire. Management has assessed the available positive and negative evidence to assess the Company's ability to generate such income and has determined that it is more likely than not that the deferred tax assets will not be realized.

Accordingly, valuation allowances have been recorded at December 31, 2017 and 2016 to reduce such deferred assets to \$0. The valuation allowance increased by approximately \$15,000 in 2017 as a result of continued losses. The significant items in the income tax expense as a dollar amount or as a percentage to pretax income based on statutory tax rates relates to the impact of valuation allowance, items not deductible for tax purposes, and the impact of the change in tax law.

Federal and state tax laws impose significant restrictions on the utilization of net operating loss carryforwards in the event of a change in ownership of the Company, as defined by Internal Revenue Code Section 382 (Section 382). The Company does not believe a change in ownership, as defined by Section 382, has occurred but a formal study has not been completed. The Company has net operating loss carryforwards for federal and state income tax purposes of approximately \$55,000 as of December 31, 2017. The federal and state net operating loss carryforwards, if not utilized, will expire beginning in 2037 and 2029, respectively. The tax return years 2016 through 2017 remain open to examination by the taxing jurisdictions to which the Company is subject. Net operating losses generated on a tax return basis by the Company for the years ended December 31, 2016 through 2017 remain open to examination by the taxing jurisdictions.

The Tax Cuts and Jobs Act (the "Tax Act"), enacted on December 22, 2017 by the U.S. government reduces the federal corporate tax rate from 34% to 21% effective January 1, 2018. As a result, the gross blended tax rate before valuation allowance applied to deferred tax assets and liabilities was reduced from 39% to 27%. Since the company maintains a full valuation allowance against the overall deferred tax asset, the Tax Act had no impact on the consolidated financial statements.

19. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company's financial instruments consist of cash, restricted cash, account receivable, notes receivable and accrued interest from related parties, accounts payable, other current liabilities, notes payable to related parties, and convertible notes. The carrying values of these financial instruments approximate their fair values as of December 31, 2017 and 2016.

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – Inputs for the asset or liability that are not based on observable market data.

There have been no transfers between fair value levels during the years ending December 31, 2017 and 2016.

4FRONT HOLDINGS LLC**Notes to Consolidated Financial Statements****For the Years Ended 2017 and 2016***(Amounts Expressed in United States Dollars Unless Otherwise Stated)***19. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)**

The following table summarizes the Company's financial instruments as of December 31, 2017:

	Loans and Receivables	Other Financial Liabilities	Total
Financial Assets:			
Cash	\$ 3,608,506	\$ -	\$ 3,608,506
Accounts Receivable	18,576	-	18,576
Other Receivables	71,494	-	71,494
Notes Receivable and Accrued Interest	2,981,970	-	2,981,970
Financial Liabilities:			
Accounts Payable	-	401,378	401,378
Other Current Liabilities	-	154,802	154,802
Notes Payable and Accrued Interest	-	3,795,041	3,795,041
Convertible Notes	-	9,436,124	9,436,124

The following table summarizes the Company's financial instruments as of December 31, 2016:

	Loans and Receivables	Other Financial Liabilities	Total
Financial Assets:			
Cash	\$ 2,062,423	\$ -	\$ 2,062,423
Restricted Cash	400,000	-	400,000
Accounts Receivable	9,461	-	9,461
Other Receivables	86,133	-	86,133
Notes Receivable and Accrued Interest	834,704	-	834,704
Financial Liabilities:			
Accounts Payable	-	723,322	723,322
Other current Liabilities	-	91,859	91,859
Notes Payable and Accrued Interest	-	3,353,038	3,353,038

Financial Risk Management

The Company is exposed in varying degrees to a variety of financial instruments related risks. The Board mitigates these risks by assessing, monitoring and approving the Company's risk management processes.

4FRONT HOLDINGS LLC

Notes to Consolidated Financial Statements

For the Years Ended 2017 and 2016

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

19. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit Risk

Credit risk is the risk of a potential loss to the Company if a third party or a related party to a financial instrument fails to meet its contractual obligations. As of December 31, 2017 and 2016, the maximum credit exposure related to the carrying amounts of Notes Receivable and Accrued Interest from Related Parties were \$3.0 million and \$0.8 million respectively.

The Company maintains cash with federally insured financial institutions. As of December 31, 2017 and 2016, the Company exceeded federally insured limits by approximately \$3.0 million and \$1.5 million respectively. The Company has historically not experienced any losses in such accounts.

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to raise sufficient capital to settle obligations and liabilities when due.

In addition to the commitments outlined in Note 17, the Company has the following contractual obligations:

	<1 Year	1 to 3 Years	3 to 5 Years	Greater than 5	Total
Accounts Payable and Accrued Liabilities	\$ 556,180	\$ -	\$ -	\$ -	\$ 556,180
Deferred Rent	83	909	640	119,006	120,638
Notes Payable to Related Parties and Accrued Interest	3,795,041	-	-	-	3,795,041
Convertible Notes	-	9,436,124	-	-	9,436,124

(c) Price Risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. The Company keeps cannabis inventory levels at their dispensaries low to manage the risk of falling inventory values.

20. SEGMENT INFORMATION

Operating segments are components of the Company that engages in business activities from which they earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the Company), the operations of which can be clearly distinguished, and the operating results of which are regularly reviewed by the chief operating decision maker ("CODM") for the purposes of resource allocation and assessing its performance.

4FRONT HOLDINGS LLC

Notes to Consolidated Financial Statements

For the Years Ended 2017 and 2016

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

20. SEGMENT INFORMATION (Continued)

Company's operating results are divided into two reportable operating segments plus corporate. The two reportable operating segments are medical cannabis and consulting. The Company primarily operates in the medical cannabis segment which includes building and operating dispensaries and cultivation facilities. The Consulting segment serves third parties and includes application services to help secure licenses, implementation services to assist license holders with opening dispensaries, and ongoing fees from existing contracts.

Significant Judgement

Operating segments are determined based on internal reports used in making strategic decisions that are reviewed by the CODMs. The Company's CODMs are the Chief Executive Officer, Chief Operating Officer and the Chief Financial Officer.

	<u>Medical Cannabis</u>	<u>Consulting</u>	<u>Corporate</u>	<u>Total</u>
Year ended December 31, 2017				
Revenue	\$ 46,809	\$ 674,200	\$ -	\$ 721,009
Gross profit (loss)	(992,607)	674,200	-	(318,407)
Net income (loss)	(2,704,329)	674,200	(2,308,998)	(4,339,127)

	<u>Medical Cannabis</u>	<u>Consulting</u>	<u>Corporate</u>	<u>Total</u>
Year ended December 31, 2016				
Revenue	\$ -	\$ 668,858	\$ -	\$ 668,858
Gross profit (loss)	(74,143)	668,858	-	594,715
Net income (loss)	(1,755,168)	2,384,706	(2,443,880)	(1,814,342)

21. SUBSEQUENT EVENTS

On April 4, 2018, Mission Massachusetts Inc., a related party to the Company, converted from a not-for-profit for state purposes, to a new entity, Mission MA, Inc., which is a for-profit entity for state purposes. The Company is evaluating the effect of this conversion for the 2018 year.

On June 12, 2018, the Company opened a cannabis dispensary in Allentown Pennsylvania.

From February 2018 through June 2018, the Company completed a financing of Class D units for proceeds of \$13.4 million. The price of all Class D units was \$442.50. The Class D units receive a preferred return of 5% that has a preference that is similar to the Class A units. After the Class A units and the Class D units receive their full preferred return, the Class D units participate with the Class B and the Class C units in any additional distributions except that the Class D units additional distributions are reduced by the value of the Class D preferred return. The Class D units have a right to elect one Manager who will sit on the Board of Managers.

Because more than \$10 million of Class D units were sold, the owners of convertible debt had the option of converting their debt into Class D units. All of the holders of the outstanding \$10.1 million in convertible debt converted their debt into Class D units as of June 2018.

4FRONT HOLDINGS LLC

Notes to Consolidated Financial Statements

For the Years Ended 2017 and 2016

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

21. SUBSEQUENT EVENTS (Continued)

The holder of a \$3,000,000 note payable agreed to convert the \$3,000,000 balance of the note plus \$301,096 in accrued interest into Class D units at \$442.50 each. This conversion was completed in June 2018. Stock warrants in Ventures that were held by the note holder were also exercised in exchange for 2,238 shares of Ventures' common stock. See Note 10.

On April 19, 2018 the Company, through an affiliate, purchased an additional 34.17% interest in Mission Pennsylvania II LLC from a non-controlling interest by issuing a \$2,000,000 note. On August 29, 2018, the Company exchanged the note for 4,520 Class E units with a value of \$2,000,100. The Class E units have similar rights to the Class D units. On November 13, 2018, the Company, through an affiliate, purchased the remaining 15.83% interest in Mission Pennsylvania II LLC for \$500,000 plus 693.27 Class F Units from a non-controlling interest.

On August 31, 2018, the Company borrowed \$3,000,000 through a note that matures on December 31, 2018, accrues interest at 20 percent per annum and requires no payments prior to maturity. The Company repaid the principle of \$3,000,000 plus accrued interest of \$184,027 in December 2018.

In September and October 2018, the Company sold approximately \$30 million in Class F units to investors at \$486.75 per unit. The proceeds were used to finance the Healthy Pharms Inc. acquisition and for general business purposes.

During November 2018, \$250,000 in related party debt plus accrued interest was settled with Class F units.

On November 13, 2018, the Company completed an acquisition of Healthy Pharms Inc., an entity that owns a cannabis license in Massachusetts and operates two dispensaries and one vertically integrated cultivation facility. The purchase price was \$27 million and was paid in cash of approximately \$20 million, the issuance of 7,605 Class E units of approximately \$3.5 million and the issuance of a \$3,500,000 note payable. The interest rate of the note is 15% per annum, requires quarterly interest only payments, and the principal is due on November 13, 2019. In addition, the Company agrees to pay up to \$6.06 million to the sellers for the value of the Healthy Pharms Inc. inventory. Payments are due on March 13, 2019 and July 13, 2019 (based on gross sales), with the final payment due on November 13, 2019. The final payment is subject to being reduced by up to \$2.43 million under certain circumstances.

Selected line items from the Company's pro-forma Consolidated Statements of Operations for the years ended December 31, 2017 and 2016, are presented below:

	Holdings		Healthy Pharms Inc.		Pro-forma Results	
	For the Year Ended		For the Year Ended		For the Year Ended	
	December	December	December	December	December	December
	<u>31, 2017</u>	<u>31, 2016</u>	<u>31, 2017</u>	<u>31, 2016</u>	<u>31, 2017</u>	<u>31, 2016</u>
Revenue, net	\$ 721,009	\$ 668,858	\$ 1,992,416	\$ -	\$ 2,713,425	\$ 668,858
Gross profit (loss)	(318,407)	594,715	1,942,087	-	1,623,680	594,715
Net operating loss	(4,656,765)	(4,305,542)	(336,561)	(642,502)	(4,993,326)	(4,948,044)
Net loss	(4,339,127)	(1,814,342)	(1,837,261)	(988,975)	(6,176,388)	(2,803,317)

4FRONT HOLDINGS LLC

Notes to Consolidated Financial Statements

For the Years Ended 2017 and 2016

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

21. SUBSEQUENT EVENTS (Continued)

On November 26, 2018, the Company announced a tentative agreement to merge with Cannex Capital Holdings Inc. with a planned completion date of April 18, 2019. Cannex leases real estate and provides consulting services to cannabis cultivation facilities in the state of Washington. The merger is subject to due diligence, the negotiation of a final merger agreement, shareholder and unit holder approval, and regulatory approval. Cannex and 4Front have agreed to a termination fee applicable under certain circumstances of \$10 million.

On December 24, 2018, the Company received an \$8 million line of credit from Cannex to be used prior to the merger. This line can be used for general corporate expenses and for acquisitions. If the merger is cancelled, the balance on the line of credit must be repaid within 90 days from the date of cancellation.

On February 22, 2019, the Company completed an acquisition of Greens Goddess Products, Inc., an entity that owns a cannabis license in Arizona and operates a dispensary in Phoenix. The purchase price was \$6 million and \$3.35 million was paid in cash and \$2.5 million was paid in kind by issuing 5,136.11 Class F units. The remaining \$150,000 will be used to pay income taxes for 2018 or will be paid to the seller. In March, the Company settled certain legal matters on behalf of Greens Goddess Products, Inc. for approximately \$350,000.

On March 1, 2019, the Company signed a definitive agreement with Cannex Capital Holdings, Inc. with respect to the business combination described above, whereby the former securityholders of Cannex and 4Front will become securityholders in the combined company (the Resulting Issuer). Cannex and 4Front are arm's length parties. In connection with the transaction, an application has been made to list the Resulting Issuer's subordinate voting shares for trading on the Canadian Security Exchange (CSE). The transaction is subject to CSE approval, approval of the 4Front members and approval of at least 66 2/3% of the votes cast by Cannex shareholders at a special meeting expected to take place on April 18, 2019. The issuance of Multiple Voting Shares of the Resulting Issuer will give 4Front key shareholders voting control of the Resulting Issuer. Cannex and 4Front have agreed to a termination fee described above.

SCHEDULE "B"
UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS OF 4FRONT AS
OF AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

(See attached)

4FRONT HOLDINGS LLC

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED

SEPTEMBER 30, 2018 AND 2017 (IN US DOLLARS)

4FRONT HOLDINGS LLC
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4FRONT HOLDINGS LLC
Condensed Interim Consolidated Statements of Financial Position
At September 30, 2018 and December 31, 2017
(Amounts Expressed in United States Dollars Unless Otherwise Stated)

ASSETS	Note	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS			
Current Assets:			
Cash		\$ 2,346,126	\$ 3,608,506
Accounts Receivable		-	18,576
Other Receivables		5,560	71,494
Inventory		115,753	19,172
Prepaid Expenses		139,252	125,014
Notes Receivable and Accrued Interest from Related Parties	<i>Note 3</i>	<u>1,765,000</u>	<u>-</u>
Total Current Assets		4,371,691	3,842,762
Property and Equipment, Net	<i>Note 6</i>	8,911,895	5,506,006
Notes Receivable and Accrued Interest from Related Parties	<i>Note 3</i>	9,444,617	2,981,970
Intangible Assets	<i>Note 5</i>	1,141,003	1,141,003
Deposits	<i>Note 4</i>	<u>426,757</u>	<u>306,786</u>
TOTAL ASSETS		<u>\$ 24,295,963</u>	<u>\$ 13,778,527</u>
LIABILITIES AND OWNERS' EQUITY			
LIABILITIES			
Current Liabilities:			
Accounts Payable		\$ 867,596	\$ 401,378
Accrued Expenses and Other Current Liabilities		477,100	154,802
Unearned Revenue		-	60,000
Deferred Rent		188,866	120,638
Note Payable and Accrued Interest, net of discount	<i>Note 7</i>	2,896,614	-
Notes Payable and Accrued Interest to Related Parties	<i>Note 8</i>	<u>594,562</u>	<u>3,795,041</u>
Total Current Liabilities		5,024,738	4,531,859
Convertible Notes	<i>Note 9</i>	-	9,436,124
Unearned Revenue		<u>557,500</u>	<u>367,500</u>
TOTAL LIABILITIES		<u>5,582,238</u>	<u>14,335,483</u>
MEMBERS' EQUITY (DEFICIT)			
Controlling Interest:			
Contributed Capital		38,350,121	11,102,364
Accumulated Deficit		(19,283,770)	(11,450,567)
Non-Controlling Interest			
Members' Deficit	<i>Note 12</i>	<u>(352,626)</u>	<u>(208,753)</u>
TOTAL MEMBERS' EQUITY (DEFICIT)		<u>18,713,725</u>	<u>(556,956)</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY (DEFICIT)		<u>\$ 24,295,963</u>	<u>\$ 13,778,527</u>

Nature of Operations and Going Concern (Note 1)
Commitments and Contingencies (Note 15)
Subsequent Events (Note 18)

Approved and authorized by the Board of Managers on March 19, 2019

"Josh Rosen"

Board of Managers

"Karl Chowscano"

Board of Managers

4FRONT HOLDINGS LLC
Condensed Interim Consolidated Statements of Operations
For the Three and Nine Months Ended September 30, 2018 and 2017
(Unaudited - Amounts Expressed in United States Dollars Unless Otherwise Stated)

	Note	Three Months Ended September 30,		Nine Months Ended September 30,	
		2018	2017	2018	2017
REVENUE					
Application Services		\$ -	\$ 162,500	\$ 90,000	\$ 300,000
Implementation Services		-	-	60,000	134,000
Ongoing Fees and Other		21,375	10,305	44,714	59,929
Dispensary Sales		575,144	14,341	776,485	14,341
Total Gross Revenue		<u>596,519</u>	<u>187,146</u>	<u>971,199</u>	<u>508,270</u>
Cost of Goods Sold - to Grow and Manufacture Products		(335,041)	(181,788)	(855,435)	(627,212)
Cost of Goods Sold - Dispensary		<u>(290,144)</u>	<u>(3,933)</u>	<u>(479,260)</u>	<u>(3,933)</u>
Gross (Loss) Profit		(28,666)	1,425	(363,496)	(122,875)
OPERATING EXPENSES					
Selling, General and Administrative Expenses	<i>Note 10</i>	<u>3,210,147</u>	<u>1,190,563</u>	<u>7,563,859</u>	<u>3,130,788</u>
Loss from Operations		<u>(3,238,813)</u>	<u>(1,189,138)</u>	<u>(7,927,355)</u>	<u>(3,253,663)</u>
Other Income (Expense)					
Interest Income		275,640	68,263	475,864	183,196
Interest Expense		(112,932)	(157,169)	(1,120,420)	(519,694)
Other Income		<u>(5,697)</u>	<u>(190,152)</u>	<u>(88,592)</u>	<u>846,132</u>
Total Other Income (Expense)		<u>157,011</u>	<u>(279,058)</u>	<u>(733,148)</u>	<u>509,634</u>
Net Loss		(3,081,802)	(1,468,196)	(8,660,503)	(2,744,029)
Net Loss Attributable To Non-Controlling Interest		<u>(309,556)</u>	<u>(224,941)</u>	<u>(827,300)</u>	<u>(585,423)</u>
Net Loss Attributable to 4Front Holdings LLC		<u>\$ (2,772,246)</u>	<u>\$ (1,243,255)</u>	<u>\$ (7,833,203)</u>	<u>\$ (2,158,606)</u>

4FRONT HOLDINGS LLC

Condensed Interim Consolidated Statement of Changes in Members' Equity

For the Nine Months Ended September 30, 2018 and 2017

(Unaudited - Amounts Expressed in United States Dollars Unless Otherwise Stated)

	Note	Preferred Units	Common Units	Contributed Capital	Accumulated Deficit	Non-Controlling Interest Members' Equity	Total Equity
Balance, January 1, 2017		<u>500,000</u>	<u>141,390</u>	<u>\$ 10,063,571</u>	<u>\$ (7,861,697)</u>	<u>\$ (235,643)</u>	<u>\$ 1,966,231</u>
Members' contributions	<i>Note 12</i>	-	-	-	-	565,823	565,823
Equity based compensation	<i>Note 13</i>	-	1,167	103,646	-	-	103,646
Convertible debt loan discount	<i>Note 9</i>	-	-	513,357	-	-	513,357
Net loss		-	-	-	(2,158,606)	(585,423)	(2,744,029)
Balance, September 30, 2017		<u>500,000</u>	<u>142,557</u>	<u>\$ 10,680,574</u>	<u>\$ (10,020,303)</u>	<u>\$ (255,243)</u>	<u>\$ 405,028</u>
Balance, January 1, 2018		<u>500,000</u>	<u>144,806</u>	<u>\$ 11,102,364</u>	<u>\$ (11,450,567)</u>	<u>\$ (208,753)</u>	<u>\$ (556,956)</u>
Members' contributions	<i>Note 12</i>	-	-	-	-	637,498	637,498
Conversion of debt to Class D	<i>Notes 8 & 9</i>	-	39,125	13,421,096	-	-	13,421,096
Sale of D and F units	<i>Note 11</i>	-	30,284	13,405,076	-	-	13,405,076
Issuance of Class E units for in-kind contributions	<i>Note 11</i>	-	4,520	2,000,100	-	-	2,000,100
Purchase of non-controlling interests	<i>Note 11</i>	-	-	(2,046,029)	-	45,929	(2,000,100)
Equity based compensation	<i>Note 13</i>	-	2,034	467,514	-	-	467,514
Net loss		-	-	-	(7,833,203)	(827,300)	(8,660,503)
Balance, September 30, 2018		<u>500,000</u>	<u>220,769</u>	<u>\$ 38,350,121</u>	<u>\$ (19,283,770)</u>	<u>\$ (352,626)</u>	<u>\$ 18,713,725</u>

The accompanying notes are an integral part of these condensed consolidated financial statements

4FRONT HOLDINGS LLC**Condensed Interim Consolidated Statements of Cash Flows****For the Nine Months Ended September 30, 2018 and 2017***(Unaudited - Amounts Expressed in United States Dollars Unless Otherwise Stated)*

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss attributable to controlling interest	\$ (7,833,203)	\$ (2,158,606)
Net loss attributable to non-controlling interest	(827,300)	(585,423)
Adjustments to reconcile change in net loss to net cash used by operating activities		
Depreciation and amortization	173,917	24,403
Loss on disposal of property and equipment	5,902	-
Equity based compensation	467,514	103,646
Accrued interest income on notes receivable from related parties	(475,864)	(90,708)
Accrued interest on notes payable to related parties	105,617	148,623
Accrued interest on convertible notes	-	111,500
Amortization of loan discount on convertible notes	683,876	95,955
Amortization of loan discount on note payable	50,052	-
Amortization of loan discount on note payable to related party	-	162,969
Deferred rent expense	68,228	22,121
Reclass gain on sale of investment in dispensary to investing activity	-	(1,036,303)
Changes in operating assets and liabilities		
Restricted cash	-	400,000
Accounts receivable	18,576	(53,039)
Other receivables	102,136	85,836
Deposits	(119,971)	(53,504)
Inventory	(96,581)	(11,368)
Prepaid expenses	(14,238)	7,596
Accounts payable	466,218	(460,150)
Accrued expenses and other liabilities	322,298	575,451
Unearned revenue	130,000	12,284
NET CASH USED IN OPERATING ACTIVITIES	<u>(6,772,823)</u>	<u>(2,698,717)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Issuance of notes receivable to related parties	(7,792,985)	(1,658,720)
Investment in dispensary	-	1,089,735
Purchases of property and equipment	(3,585,708)	(3,798,999)
NET CASH USED IN INVESTING ACTIVITIES	<u>(11,378,693)</u>	<u>(4,367,984)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Sale of D units	13,355,076	-
Sale of F units	50,000	-
Non-controlling interest members' contributions	637,498	565,823
Issuance of Convertible Debt	-	5,970,000
Issuance of Notes Payable	2,846,562	75,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>16,889,136</u>	<u>6,610,823</u>

The accompanying notes are an integral part of these condensed consolidated financial statements

4FRONT HOLDINGS LLC
Condensed Interim Consolidated Statements of Cash Flows (Continued)
For the Nine Months Ended September 30, 2018 and 2017
(Unaudited - Amounts Expressed in United States Dollars Unless Otherwise Stated)

	<u>2018</u>	<u>2017</u>
NET (DECREASE) IN CASH	(1,262,380)	(455,878)
CASH, BEGINNING OF YEAR	<u>3,608,506</u>	<u>2,062,423</u>
CASH, END OF YEAR	<u>\$ 2,346,126</u>	<u>\$ 1,606,545</u>
Cash paid for interest	<u>\$ 230,126</u>	<u>\$ -</u>
OTHER NONCASH INVESTING AND FINANCING ACTIVITIES		
Conversion of Debt into Class D Units	<u>\$ 13,421,096</u>	<u>\$ -</u>
Issuance of Class E units for purchase of non-controlling interests	<u>\$ 2,000,100</u>	<u>\$ -</u>

The accompanying notes are an integral part of these condensed consolidated financial statements

4FRONT HOLDINGS LLC

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2018 and 2017

(Unaudited - Amounts Expressed in United States Dollars Unless Otherwise Stated)

1. GENERAL INFORMATION

Nature of Operations and Going Concern

4Front Holdings LLC (Holdings) is a Delaware limited liability company and was founded on September 15, 2016, with the contribution of the assets and liabilities of 4Front Ventures, Inc. (Ventures) (collectively the “Company”). Holdings operates licensed cannabis facilities in state-licensed markets in the United States. As of September 30, 2018, the Company operated a dispensary and a cultivation facility in Illinois, a dispensary in Pennsylvania and manages a dispensary in Maryland. The Company owns dispensary/cultivation licenses in Massachusetts, and dispensary licenses in Pennsylvania and Maryland.

The Company operates a legacy consulting business that assists customers with acquiring cannabis licenses and operating cannabis facilities. The Company has tightened the focus of its professional services resources to more squarely support the advancement of its own license interests and those of its legacy clients in key markets, while providing more limited services to select new clients. Revenue from the consulting business will continue due to ongoing fees from existing contracts.

These consolidated financial statements have been prepared using accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. Due to losses during the Company’s startup phase, the Company has been required to secure sufficient financing to fund its working capital requirements.

When the Company made its decision to merge with Cannex Capital Holdings Inc. (Cannex) in November 2018, the Company elected to postpone its internal fundraising initiatives, which included a substantially negotiated secured promissory note exceeding \$10 million in proceeds. In place of this note, an \$8 million short-term line of credit was obtained from Cannex.

For the nine months ended September 30, 2018, the Company had a loss of \$8,660,503, negative cash flow from operations, and working capital deficit at September 30, 2018. The possibility of the cancelation of the Cannex merger creates a material uncertainty and casts significant doubt as to the ability of the Company to meet its obligations as they come due unless it is able to raise sufficient funds to enable it to reach profitability, and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the going concern assumption was inappropriate, and these adjustments could be material.

Management believes that if the Cannex merger is cancelled, that it will have time to execute existing fundraising initiatives and to repay any debt that comes due in the next year. Management has demonstrated its ability to raise capital and to secure loans in the past. Nevertheless, there is no assurance that these initiatives will be successful or sufficient.

4FRONT HOLDINGS LLC

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2018 and 2017

(Unaudited - Amounts Expressed in United States Dollars Unless Otherwise Stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies for the Company, its subsidiaries, and its affiliates are as follows:

(a) Basis of Preparation

The unaudited interim condensed and consolidated financial statements (the “financial statements”) of the Company have been prepared in accordance with International Accounting Standards 34, “Interim Financial Reporting” (“IAS 34”), using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (IASB) and interpretations of the IFRS Interpretations Committee (“IFRIC”).

The financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the audited financial statements of the Company for the year ended December 31, 2017, which have been prepared in accordance with IFRS as issued by the IASB and IFRIC. The accounting policies and critical estimates used in preparing these interim consolidated financial statements are the same as those applied in the Company’s annual consolidated financial statements as at and for the year ended December 31, 2017.

These interim financial statements were approved and authorized for issue by the Board of Managers of the Company on March 19, 2019.

(b) Basis of Measurement

These consolidated financial statements have been prepared on the going concern basis, under the historical cost convention except for certain financial instruments and biological assets that are measured at fair value as described herein.

(c) Functional Currency

The Company and its affiliates’ functional currency is the United States (“U.S.”) dollar. These consolidated financial statements are presented in U.S. dollars.

(d) Basis of Consolidation

These financial statements incorporate the financial statements of the Company and its affiliates. Affiliates are entities controlled by the Company. Control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and is exposed to the variable returns from its activities. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases.

The accompanying financial statements include all of the Company’s affiliates in which the Company has control, most often because the Company holds a majority voting interest.

4FRONT HOLDINGS LLC

Notes to Unaudited Interim Condensed Consolidated Financial Statements For the Nine Months Ended September 30, 2018 and 2017

(Unaudited - Amounts Expressed in United States Dollars Unless Otherwise Stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Basis of Consolidation (Continued)

Illinois Grown Medicine LLC and Harborside Illinois Grown Medicine Inc. are consolidated affiliates because an executive of the Company owns 60% of the entities. The executive has assigned to the Company control over the financial and operating policies of the entities and has assigned to the Company a beneficial interest in 60% of the income or loss of the entities.

The Company reevaluates whether there is a controlling financial interest in these entities when the voting rights change.

The accompanying financial statements include the following subsidiaries and affiliates of 4Front Holdings LLC:

Business Name	Entity Type	State of Operations	2018 Ownership %	2017 Ownership %
4Front Ventures, Inc.	Holding Company	Arizona	100%	100%
4Front Advisors, LLC	Professional Services	Various	100%	100%
Mission Partners USA, LLC	Investment Company	Arizona	100%	100%
Linchpin Investors, LLC	Finance Company	Arizona	100%	100%
4Front Management Associates, LLC	Management Company	Massachusetts	76%	76%
MMA Capital, LLC	Finance Company	Massachusetts	76%	76%
Illinois Grown Medicine, LLC	Cultivation Facility	Illinois	60%	60%
Harborside Illinois grown Medicine Inc.	Dispensary	Illinois	60%	60%
Mission Maryland, LLC	Dispensary	Maryland	65%	65%
Mission Pennsylvania II LLC	Dispensary	Pennsylvania	84%	50%
4Front CIHI Investco, LLC	Investment Company	Maryland	85%	85%
4Front PM Investco, LLC	Investment Company	Maryland	83%	83%
4Front MARI Investco, LLC	Investment Company	Maryland	90%	-
Silver Spring Consulting Group, LLC	Management Company	Maryland	66%	66%
Adroit Consulting Group, LLC	Management Company	Maryland	56%	56%
Old State Line Consulting Group, LLC	Management Company	Maryland	60%	-

Non-controlling interests are separated from the members of the Company's interest in the financial statements.

4FRONT HOLDINGS LLC

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2018 and 2017

(Unaudited - Amounts Expressed in United States Dollars Unless Otherwise Stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and impairment losses, if any. Expenditures that materially increase the life of the assets are capitalized. Ordinary repairs and maintenance are expensed as incurred. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset using the following terms and methods:

Buildings and improvements	39 years
Furniture and fixtures	7 years
Computer equipment	3 – 5 years
Other equipment	7 – 10 years
Leasehold improvements	Remaining life of lease
Assets under construction	Not depreciated

The assets' residual values, useful lives and methods of depreciation are reviewed at each year-end and adjusted prospectively, if appropriate. An asset is derecognized upon disposal or when no future economic benefit is expected. Any gain or loss from derecognition of the asset (the difference between the net disposal proceeds and the carrying value) is included in the Statements of Operations in the years of derecognition.

(f) Intangible Assets

Intangible assets are recorded at cost, less accumulated amortization and impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Any amortization is recorded on a straight-line basis over the estimated useful lives, which do not exceed the contractual period. Cannabis licenses are intangible assets that have indefinite useful lives and are not subject to amortization. Intangible assets are tested annually for impairment, or more frequently, if events or changes in circumstances indicate that they might be impaired. The estimated useful lives, residual values, and amortization methods are reviewed at each year-end, and any changes in estimates are accounted for prospectively. The Company had not recognized any impairment losses for the three and nine months ended September 30, 2018 and 2017.

(g) Financial Instruments (See also Note 16)

IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only three categories: amortized cost, fair value through other comprehensive income, and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. The effective date of this standard was January 1, 2018. The Company has adopted this new standard as of its effective date on a retrospective basis.

4FRONT HOLDINGS LLC

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2018 and 2017

(Unaudited - Amounts Expressed in United States Dollars Unless Otherwise Stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial Instruments (See also Note 16) (Continued)

(i) *Equity Instruments at Fair Value Through Other Comprehensive Income (“FVOCI”)*

This category only includes equity instruments, which the Company intends to hold for the foreseeable future and which the Company has irrevocably elected to so classify upon initial recognition or transition. There were no such instruments at September 30, 2018 or December 31, 2017. Equity instruments in this category are subsequently measured at fair value with changes recognized in other comprehensive income, with no recycling of gains or losses to profit or loss upon derecognition. Dividend income is recognized in earnings. Equity instruments at FVOCI are not subject to an impairment assessment under IFRS 9.

(ii) *Amortized Cost*

This category includes financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the solely principal and interest (“SPPI”) criterion. Financial assets classified in this category are carried at amortized cost using the effective interest method.

(iii) *Fair Value Through Profit or Loss*

This category includes derivative instruments as well as quoted equity instruments which the Company has not irrevocably elected, at initial recognition or transition, to classify at FOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Financial assets in this category are recorded at fair value with changes recognized in profit or loss.

The assessment of the Company’s business models was made as of the date of initial application, January 1, 2018.

	Classification
Cash and Cash Equivalents	Fair Value through Profit or Loss
Other Receivables	Amortized Cost
Notes Due from Related Parties	Amortized Cost
Accounts Payable and Accrued Liabilities	Amortized Cost
Notes Payable	Amortized Cost
Notes Payable to Related Parties	Amortized Cost

4FRONT HOLDINGS LLC

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2018 and 2017

(Unaudited - Amounts Expressed in United States Dollars Unless Otherwise Stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial Instruments (See also Note 16) (Continued)

(iv) Impairment of Financial Instruments

The adoption of IFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. IFRS 9 requires the Company to record an allowance for ECL's for all debt financial assets not held at fair value through profit or loss. ECL's are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at a rate approximating the asset's original effective interest rate.

(h) Significant Accounting Judgments, Estimates and Assumptions

The preparation of consolidated financial statements in conformity with IFRS accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods.

Significant judgements, estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described below.

(i) Estimated Useful Lives and Depreciation of Property and Equipment (Also see Note 6)

Depreciation of property and equipment is dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

(ii) Estimated Useful Lives and Amortization of Intangible Assets (Also see Note 5)

Amortization of intangible assets is recorded on a straight-line basis over the estimated useful life of the intangible asset. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

(iii) Biological Assets

Management is required to make estimates in calculating the fair value of biological assets and harvested cannabis inventory. These estimates include a number of assumptions, such as estimating the stages of growth of the cannabis, harvested costs, sales price and expected yields.

4FRONT HOLDINGS LLC

Notes to Unaudited Interim Condensed Consolidated Financial Statements For the Nine Months Ended September 30, 2018 and 2017

(Unaudited - Amounts Expressed in United States Dollars Unless Otherwise Stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Significant Accounting Judgments, Estimates and Assumptions (Continued)

(iv) *Share-Based Compensation*

The fair value of share-based compensation expenses are estimated using the Black-Scholes pricing model and rely on a number of estimates, including the life of the grant, the volatility of the underlying unit price, the risk free rate of return, and the estimated rate of forfeiture of units granted.

(v) *Business Combinations*

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. Contingent consideration is measured at its acquisition-date fair value and is included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. Amortization of intangible assets is recorded on a straight-line basis over estimated useful lives.

(i) Recent Accounting Pronouncements

The following IFRS standards have been recently issued by the IASB. The Company is assessing the impact of these new standards on future consolidated financial statements. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

4FRONT HOLDINGS LLC

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2018 and 2017

(Unaudited - Amounts Expressed in United States Dollars Unless Otherwise Stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Recent Accounting Pronouncements (Continued)

(ii) IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, *Leases*, which will replace IAS 17, *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15, *Revenue from Contracts with Customers*, at or before the date of initial adoption of IFRS 16. The extent of the impact of adoption of the standard has not yet been determined.

(j) Cash

The Company considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

(k) Accounts Receivable

Accounts receivable are carried at the original invoiced amount. Management determines the need for an allowance for doubtful accounts by identifying any collection issues. Accounts receivable are written off when deemed uncollectible and recoveries of accounts receivable previously written off are recorded when received. No interest on past due accounts receivable is recognized in income until collected. As of September 30, 2018, and December 31, 2017, management has determined that no allowance for doubtful accounts is required to cover uncollectable balances.

(l) Biological Assets

The Company measures biological assets, which consists of medical cannabis plants, at fair value less costs to sell and complete up to the point of harvest. The Company determined that the value of the biological assets was zero at each year end and the write off was included in cost of goods sold since the Company's intent was to harvest and sell products that would be produced from the harvested biological assets.

(m) Inventory

The Illinois and Pennsylvania dispensaries' inventory consists of cannabis products for resale, supplies and consumables. Dispensary inventory includes the purchase price plus costs to purchase the inventory. Inventory is valued at the lower of cost or net realizable value.

4FRONT HOLDINGS LLC

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2018 and 2017

(Unaudited - Amounts Expressed in United States Dollars Unless Otherwise Stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Revenue Recognition

The IASB replaced IAS 18 Revenue, in its entirety with IFRS 15, Revenue from Contracts with Customers. The Company adopted IFRS 15 under the modified retrospective approach where the cumulative impact of adoption is recognized in retained earnings as of January 1, 2018, and comparatives will not be restated.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue, at a point in time or over time, the assessment of which requires judgement. The model features the following contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized:

1. Identifying the contract with a customer;
2. Identifying the performance obligation(s) in the contract;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligation(s) in the contract; and
5. Recognizing revenue when or as the Company satisfies the performance obligations(s).

Under IFRS 15, revenue from consulting contracts that include customer training and other services upon the request of the customer is not recognized until the customer's dispensary is open and the obligation period ends. Revenue for contracts for application services is recognized when the application is sent to the regulator and all obligations have been fulfilled. No revenue is recognized on contracts until payment is received from the customer unless there is persuasive evidence that a customer will pay. The implementation of IFRS 15 had no effect on the recognition of revenue for customer contracts as compared to the Company's prior policy.

Under IFRS 15, revenue from the sale of cannabis at the Company's dispensaries is recognized at the point of sale when control over the goods have been transferred to the customer and the customer has paid for the merchandise. The implementation of IFRS 15 had no effect on the recognition of revenue for dispensary sales.

For the three and nine months ended September 30, 2018 and 2017, amounts recorded as revenue are net of discounts, which were not separately tracked.

Any fees that are collected prior to their recognition as revenue are recorded as deferred revenue on the accompanying consolidated interim balance sheet.

(o) Provision for Income Tax

Except for certain subsidiaries, the Company is treated as a partnership for federal and state income tax purposes and, accordingly, is generally not subject to company-level taxes. Taxable income or losses are allocated to the members in accordance with the limited liability company operating agreement. Therefore, there is no provision for federal or state income taxes in the accompanying consolidated financial statements.

4FRONT HOLDINGS LLC

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2018 and 2017

(Unaudited - Amounts Expressed in United States Dollars Unless Otherwise Stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Provision for Income Tax (Continued)

For the corporate subsidiaries, deferred tax assets and liabilities and the related deferred tax expense or recovery are recognized for deferred tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the asset can be utilized. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current assets against current tax liabilities and when they relate to income taxes levied by the same taxing authority and the Company intends to settle its current tax assets and liabilities on a net basis. At September 30, 2018 and December 31, 2017, deferred tax assets and liabilities were immaterial.

Certain Holdings's subsidiaries are subject to U.S. Internal Revenue Code Section 280E. This section disallows deductions and credits attributable to a trade or business trafficking in controlled substances. Under U.S. law, marijuana is a Schedule I controlled substance. The Company has taken the position that any costs included in the cost of goods sold should not be treated as amounts subject to the Section 280E expense disallowance.

The Company would recognize any potential accrued interest and penalties related to unrecognized tax benefits as part of its tax provision as interest or penalty expense, as applicable. The Company had no penalties or interest related to income taxes for periods ended September 30, 2018 and 2017.

3. NOTES RECEIVABLE AND ACCRUED INTEREST FROM RELATED PARTIES

The Company held various notes receivable totaling \$11,209,617 and \$2,981,970 at September 30, 2018, and December 31, 2017, respectively, from related parties that hold cannabis licenses. The parties are related because a Company executive is a member of the Board of Managers or the Board of Directors of the party, or employees of the Company have a significant ownership of the party. The notes are due on demand or on June 4, 2019, and interest rates range from 0% to 18%. The notes require no payments prior to maturity or a demand, and the Company does not expect to demand repayment on any demand note prior to the dispensaries or cultivation facilities becoming operational. The notes are expected to be repaid from cash flows from the dispensaries and cultivation facilities once they open. The current portion of these notes is \$1,765,000 as of September 30, 2018, which is the amount that is expected to be repaid from the cash flow of the dispensaries within the next year. See Note 14 for additional information on the notes receivable.

4FRONT HOLDINGS LLC

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2018 and 2017

(Unaudited - Amounts Expressed in United States Dollars Unless Otherwise Stated)

4. DEPOSITS

As of September 30, 2018, and December 31, 2017, deposits totaled \$426,757 and \$306,786, respectively. The deposits are for real estate leases and include a \$214,888 deposit for the lease on the Illinois cultivation facility building.

5. INTANGIBLE ASSETS

At September 30, 2018, and December 31, 2017, the Company held intangible assets with a value of \$1,141,003, which consists of one Illinois cannabis dispensary license and one Illinois cannabis cultivation license. These licenses were acquired in connection with the acquisition of the Illinois entities on June 30, 2016. They have indefinite lives and are not amortized.

6. PROPERTY AND EQUIPMENT

The following is a summary of property and equipment, at cost less accumulated depreciation as of September 30, 2018, and December 31, 2017:

	Buildings	Construction in Progress	Furniture, Equipment, And Other	Leasehold Improvements	Total
Cost					
Balance, January 1, 2017	\$ 312,189	\$ 239,301	\$ 299,501	\$ 504,233	\$ 1,355,224
Additions	362,070	1,783,649	624,628	1,478,939	4,249,286
Balance December 31, 2017	674,259	2,022,950	924,129	1,983,172	5,604,510
Additions	-	531,183	982,152	2,072,373	3,585,708
Disposals	-	-	(11,518)	-	(11,518)
Balance September 30, 2018	\$ 674,259	\$ 2,554,133	\$ 1,894,763	\$ 4,055,545	\$ 9,178,700
Accumulated Depreciation					
Balance, January 1, 2017	\$ -	\$ -	\$ 28,213	\$ -	\$ 28,213
Depreciation	-	-	30,988	39,303	70,291
Balance December 31, 2017	-	-	59,201	39,303	98,504
Depreciation	-	-	30,366	143,551	173,917
Disposals	-	-	(5,616)	-	(5,616)
Balance September 30, 2018	\$ -	\$ -	\$ 83,951	\$ 182,854	\$ 266,805
Net Book Value					
December 31, 2017	\$ 674,259	\$ 2,022,950	\$ 864,928	\$ 1,943,869	\$ 5,506,006
September 30, 2018	\$ 674,259	\$ 2,554,133	\$ 1,810,812	\$ 3,872,691	\$ 8,911,895

4FRONT HOLDINGS LLC

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2018 and 2017

(Unaudited - Amounts Expressed in United States Dollars Unless Otherwise Stated)

6. PROPERTY AND EQUIPMENT (Continued)

Depreciation of property and equipment is computed using the straight-line method over the asset's estimated useful life. Depreciation expense for the nine months ended September 30, 2018, and September 30, 2017, was \$173,917 and \$24,403, respectively, of which \$12,090 is included in cost of goods sold in 2017. Depreciation expense for the three months ended September 30, 2018, and September 30, 2017, was \$87,287 and \$22,270, respectively, of which \$4,030 is included in cost of goods sold in 2017. No depreciation expense was capitalized to inventory in 2018 as the Company is currently evaluating its inventory capitalization policy for depreciation expense.

7. NOTES PAYABLE

On August 31, 2018, the Company borrowed \$3,000,000 through a note that matures on December 31, 2018, accrues interest at 20 percent per annum and requires no payments prior to maturity. A \$150,000 original issue discount and \$53,472 in legal fees were capitalized as a loan discount. As of the nine months and the three months ended September 30, 2018, \$50,034 of the loan discount was amortized to interest expense and \$50,051 in interest had accrued. See Note 18.

8. NOTES PAYABLE TO RELATED PARTIES

In 2016, the Company received \$3,000,000 in exchange for a note payable to an investor that is an owner of stock in Ventures and holds Class B units in Holdings. The note accrues interest at 5 percent per annum and requires no payments prior to maturity. In 2017, the maturity date of the note was extended from May 30, 2017, to December 31, 2018. On June 15, 2018, the note plus accrued interest of \$301,096 was converted into Class D units of Holdings.

As part of the issuance of the note, the holder received fully vested warrants to purchase 2,258 shares of Ventures for \$0.01 per share. These warrants were exercised on June 15, 2018. The exercising of the warrants had no effect on the equity of Holdings. At the time of issuance, a loan discount was recorded for the \$407,422 value of the warrants, which was based on the value of 4Front Ventures, Inc. The loan discount balance became fully amortized by June, 2017. The loan discount was amortized as interest expense during the original loan term, which resulted in interest expense of \$162,969 for the nine months ended September 30, 2017. There was no related interest expense for the three months ended September 30, 2017.

The Company had \$500,000 at both September 30, 2018, and December 31, 2017 in notes outstanding with Company executives who are also owners. The notes pay interest at 10% per annum and require no payments prior to maturity, which is December 31, 2018. During November 2018, \$250,000 of these notes were repaid and \$250,000 of these notes were settled with Class F units with the noteholders. See Note 18.

4FRONT HOLDINGS LLC

Notes to Unaudited Interim Condensed Consolidated Financial Statements For the Nine Months Ended September 30, 2018 and 2017

(Unaudited - Amounts Expressed in United States Dollars Unless Otherwise Stated)

8. NOTES PAYABLE TO RELATED PARTIES (Continued)

The balances at September 30, 2018, and December 31, 2017, were as follows:

	2018 (Unaudited)	2017 (Audited)
\$3 million note face value from 2016	\$ -	\$ 3,000,000
Notes from executives	500,000	500,000
Other	<u>-</u>	<u>5,000</u>
Total Notes Payable to Related Parties	<u>\$ 500,000</u>	<u>\$ 3,505,000</u>
Accrued interest on \$3 million 2016 note	\$ -	\$ 232,877
Accrued interest on notes from executives	<u>94,562</u>	<u>57,164</u>
Total Related Party Interest Payable	<u>\$ 94,562</u>	<u>\$ 290,041</u>

9. CONVERTIBLE DEBT

During 2017, the Company issued \$10.12 million in convertible long-term debt. These notes accrue interest at an annual rate of 5% and mature in two years from issuance or are convertible upon an equity capital raise (Funding Event) of greater than \$10 million by the Company. If no Funding Event occurs, at maturity, the debt holders have the option of converting the debt to equity units at a fixed price that was considered fair value at the time the note was issued.

Since the rate of interest for a similar note without the warrants was 10%, at the time of issuance, a loan discount was recorded for the \$513,357 value of the equity component of the notes. The loan discount is amortized over the two-year term of the notes, which resulted in \$95,955 in interest expense for the nine months ended September 30, 2017 and \$51,343 in interest for the three months ended September 30, 2017. The loan discount balance was \$417,402 at September 30, 2017.

A Funding Event occurred in June 2018 when a minimum of \$10 million of Class D units were sold. Effective June 15, 2018, all noteholders made the election to convert their notes to Class D units per the terms of the notes. This resulted in the acceleration of the amortization of the loan discount and \$683,876 in interest expense for the nine months ended September 30, 2018 for the \$10.12 million in notes that were outstanding at June 15, 2018. There was no related interest expense for the three months ended September 30, 2018.

See Note 11 for additional information on the sale of Class D units.

4FRONT HOLDINGS LLC**Notes to Unaudited Interim Condensed Consolidated Financial Statements****For the Nine Months Ended September 30, 2018 and 2017***(Unaudited - Amounts Expressed in United States Dollars Unless Otherwise Stated)***10. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

For nine months ended September 30, general and administrative expenses were comprised of:

	<u>2018</u>	<u>2017</u>
Salaries & Benefits	\$ 2,728,420	\$ 1,666,454
Professional Fees	2,067,492	668,405
Other	1,335,727	386,728
Share-Based Compensation	467,514	103,646
Marketing and Advertising	385,435	58,242
Travel	291,316	131,183
Rent	287,955	116,130
Total	<u>\$ 7,563,859</u>	<u>\$ 3,130,788</u>

For three months ended September 30, general and administrative expenses were comprised of:

	<u>2018</u>	<u>2017</u>
Salaries & Benefits	\$ 1,145,274	\$ 561,693
Professional Fees	934,881	247,846
Other	474,876	213,716
Share-Based Compensation	168,681	55,001
Marketing and Advertising	227,437	13,163
Travel	147,452	49,816
Rent	111,546	49,328
Total	<u>\$ 3,210,147</u>	<u>\$ 1,190,563</u>

11. MEMBERS' EQUITY

Ventures was the holding company for the Company prior to September 15, 2016. Ventures has 80,000 Series A Preferred shares and 36,125 Series B Preferred shares outstanding at September 30, 2018 and December 31, 2017.

On September 15, 2016, Ventures converted from a corporation to a limited liability company by transferring all of its assets and liabilities to newly formed Holdings in exchange for 500,000 Class A units (preferred units). The owners of Ventures continue to control Holdings through these Class A units. These units will receive a preferred distribution of \$33,333,000, plus a 6% per annum preferred return on \$33,333,000 with no maturity. After the preferred distribution and preferred return, the Class A units do not participate in any further distributions. The owners of Class A units were also issued 135,108 Class B units (common units) in Holdings that give the owner a profit interest. The Class A units and the Class B units are designed to put the holder in a similar economic position as they had prior to the formation of Holdings.

4FRONT HOLDINGS LLC

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2018 and 2017

(Unaudited - Amounts Expressed in United States Dollars Unless Otherwise Stated)

11. MEMBERS' EQUITY (Continued)

Upon conversion 5,782 Class C units were granted and were fully vested to owners of Ventures stock options. These Class C units along with the existing stock options put option holders in a similar economic position as they had prior to the formation of Holdings.

Subsequent to the formation of Holdings, the Company has granted additional Class C units to certain employees and a member of the Board of Managers. At September 30, 2018, 5,934 of these Class C units had vested, bringing the total number of common units (Class B and Class C units) to 146,824.

As long as Ventures owns any Class A units, the Board of Directors of Ventures shall be entitled to remove and replace all three members of the Board of Managers of Holdings. The Board of Managers have the exclusive right to manage the Company. Class B and Class C units (common units) do not have voting rights.

From February 2018 through June 2018, the Company completed a financing of Class D units for proceeds of \$13.4 million. The price of all Class D units was \$442.50. The Class D units receive a preferred return of 5% that has a preference that is similar to the Class A units. After the Class A units and the Class D units receive their full preferred return, the Class D units participate with the Class B and the Class C units in any additional distributions except that the Class D units additional distributions are reduced by the value of the Class D preferred return. The Class D units have a right to elect one Manager who will sit on the Board of Managers.

Because more than \$10 million of Class D units were sold, the owners of convertible debt had the option of converting their debt into Class D units. All of the holders of the outstanding \$10.1 million in convertible debt converted their debt into Class D units as of June 2018.

The holder of a \$3,000,000 note payable agreed to convert the \$3,000,000 balance of the note plus \$301,096 in accrued interest into Class D units at \$442.50 each. This conversion was completed in June 2018. Stock warrants in Ventures that were held by the note holder were also exercised in exchange for 2,238 shares of Ventures' common stock. See Note 8.

On April 19, 2018 the Company, through an affiliate, purchased an additional 34.17% interest in Mission Pennsylvania II LLC from a non-controlling interest by issuing a \$2,000,000 note. On August 29, 2018, the Company exchanged the note for 4,520 Class E units with a value of \$2,000,100. The carrying value of the non-controlling interest on April 19, 2018 was a deficit of \$45,929, resulting in a decrease in Contributed Capital on the unaudited Consolidated Statements of Members' Equity of \$2,046,029. The Class E units have similar rights to the Class D units.

In September 2018 the Company sold \$50,000 in Class F units. The Class F units have similar rights to the Class D units.

See Note 18 for additional information on Class E and Class F units that were issued subsequent to September 30, 2018.

4FRONT HOLDINGS LLC

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2018 and 2017

(Unaudited - Amounts Expressed in United States Dollars Unless Otherwise Stated)

12. NON-CONTROLLING INTEREST

Non-controlling interest is shown as a component of total members' (deficit) on the Consolidated Statements of Financial Position, and the share of loss attributable to non-controlling interest is shown as a component of net loss in the Consolidated Statements of Operations.

During the nine months ended September 30, 2018 and 2017, non-controlling interests contributed \$637,498 and \$565,823 respectively in additional paid in capital for MMA Capital LLC, Mission Maryland LLC, CIHI Investco LLC, PM Investco LLC, and Old Line State Consulting Group, LLC. These capital contributions were required per the operating agreements.

13. SHARE-BASED COMPENSATION

Ventures issued stock options to certain employees in 2014 and 2015. The Company granted 31,750 Class C units to those that held stock options and were still employed or were board member with vesting requirements that corresponded to the original stock options. The Ventures stock that will be issued upon exercise of the options, plus the Class C units are designed to put the stock option holder in the same economic position that they had prior to the reorganization. The Company recognizes the vesting of Ventures stock options by using the values of the stock options as determined when the stock options were granted. For the nine months ended September 30, 2018 and 2017, the Company recorded approximately \$4,000 and \$31,000, respectively, in share-based compensation for stock options. For the three months ended September 30, 2018 and 2017, the Company recorded approximately \$1,000 and \$10,000, respectively, in share-based compensation for stock options. No stock options in Ventures were exercised as of September 30, 2018. The Ventures stock options and corresponding Class C units, in general vest over a three year period from the grant date (at the anniversary date of the grant) and require continuous employment for vesting.

During the nine months ended September 30, 2018 and 2017, the Company granted 3,650 and 3,800 in new Class C units, respectively and 0 and 1,700 during the three months ended September 30, 2018 and 2017, respectively. The Company recognized share-based compensation of approximately \$463,000 and \$72,000 during the nine months ended September 30, 2018 and 2017, respectively, for these new Class C units. The Company recognized share-based compensation of approximately \$167,000 and \$45,000 during the three months ended September 30, 2018 and 2017, respectively.

The fair value of the Class C units granted in 2018 and 2017 was estimated using the Black - Scholes model, using various assumptions regarding (a) the expected holding period, (b) the risk - free rate of return, (c) expected dividend yield on the underlying units, (d) the expected volatility in the fair value of the Company's equity, and was calculated based on the grant agreement terms, which included a hurdle amount to be exceeded before participation in returns.

4FRONT HOLDINGS LLC

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2018 and 2017

(Unaudited - Amounts Expressed in United States Dollars Unless Otherwise Stated)

13. SHARE-BASED COMPENSATION (Continued)

The expected holding period represents the period of time that the units are expected to be outstanding. The units were assumed to remain outstanding until the Company experienced a change in control of ownership (CIC) or an initial public offering (IPO). The units vest based on continued employment with the Company. The risk

-free rate of ret

the expected holding period of the units was based on the U.S. constant maturity treasuries yield in effect at the grant date. A dividend yield was assumed based on the 6% preferred return for the Class A units. Because the Company's equity was privately held and was not traded in an active market, the Company used the historical volatility of the share values of publicly traded companies within similar industries as the Company as a surrogate for the expected volatility of equity.

The key assumptions used for grants awarded in 2018 and 2017 were as follows:

Expected holding period - 5 years

Risk-free rate of return - 1.2%

Expected dividend yield - 6.0%

Expected volatility - 70.0%

Share-based compensation cost is recognized by amortizing the grant-date fair value of the share based awards, less estimated forfeitures, on a straight

-line basis over

of each award. Share-based compensation is included in general and administrative expenses in the accompanying consolidated statement of operations. As of September 30, 2018, there was approximately \$770,000 of unrecognized compensation cost related to outstanding share-based awards, which is expected to be recognized subsequent to September 30, 2018. Total unrecognized compensation cost will be adjusted for estimated forfeitures.

14. RELATED PARTIES

(a) Key management personnel compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly. The key management personnel of the Company are the members of the Company's executive management team and Board of Managers, who control approximately 55% of the Class A, Class B and Class C units of the Company. Compensation provided to key management is as follows:

	September 30, 2018	September 30, 2017
Short-term employee benefits	\$ 802,000	\$ 714,000
Share-based compensation	<u>7,000</u>	<u>18,000</u>
	<u>\$ 809,000</u>	<u>\$ 732,000</u>

4FRONT HOLDINGS LLC

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2018 and 2017

(Unaudited - Amounts Expressed in United States Dollars Unless Otherwise Stated)

14. RELATED PARTIES (Continued)

(b) Related party transactions

The Company has issued notes receivable to certain related parties that hold or have applied for cannabis licenses or that have secured real estate that can be used for a cannabis facility. The Company's strategy is to provide financing and real estate to parties that own cannabis licenses where the Company has an economic interest through contracts. When related party cannabis operations open, cash flow is expected to be used to repay the loans and accrued interest. The Company has evaluated the value of the net assets of these related parties, including the cannabis licenses, and has determined that the value of the net assets is in excess of the loans and the accrued interest outstanding at September 30, 2018 and December 31, 2017. The details of these notes receivable to related parties are as follows:

The Company holds notes receivable from Mission MA Inc. (formally Mission Massachusetts Inc.) which is related because executives of the Company sit on the board of directors. As of September 30, 2018 and December 31, 2017, principal on the notes receivable from Mission MA Inc. totaled \$7,262,022 and \$1,470,687, respectively, and accrued interest totaled \$656,330 and \$222,132, respectively. Mission MA Inc. has used the proceeds from the notes to build a cannabis dispensary and a cultivation facility in Worcester Massachusetts that are expected to open in the second quarter of 2019.

The Company holds notes receivable from Chesapeake Integrated Health Institute, LLC (CIHI). At September 30, 2018 and December 31, 2017, there was \$530,000 and \$525,000, respectively, in principal receivable for both years and \$44,567 and \$12,717, respectively for accrued interest from CIHI.

The Company holds notes receivable from Premium Medicine of Maryland, LLC. At September 30, 2018 and December 31, 2017, there was \$1,200,000 and \$150,000 in principal payable, respectively, and \$56,380 and \$2,400 in accrued interest, respectively.

The Company holds notes receivable from Evergreen Farms Inc. At September 30, 2018 and December 31, 2017, there was \$265,019 and \$96,590 in principal payable, respectively and interest was not charged.

The Company holds notes receivable from Regatta Partners LLC. At September 30, 2018 and December 31, 2017, there was \$260,850 and \$210,795 in principal payable, respectively and interest was not charged.

The Company holds notes receivable of \$139,231 from Healthy Pharms Inc. (HPI), as a loan to allow them to buy equipment prior to the Company's November 13, 2018 acquisition of HPI. HPI is a related party because there was an acquisition agreement at the time of the loan. The loan was repaid in December 2018.

As of September 30, 2018 and December 31, 2017, the Company holds notes receivables of \$882,895 and \$291,649, respectively, from various other entities that hold cannabis licenses, have applied for cannabis licenses, or hold interests in real estate that can be used for cannabis operations. These entities are related parties because one or more employee of the Company has an ownership in the entity.

4FRONT HOLDINGS LLC

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2018 and 2017

(Unaudited - Amounts Expressed in United States Dollars Unless Otherwise Stated)

14. RELATED PARTIES (Continued)

(b) Related party transactions (continued)

These transactions are in the normal course of operations and are measured at the exchange amounts being the amounts agreed to by the parties.

15. COMMITMENTS AND CONTINGENCIES

Lease Expense – The Company has five real estate leases that are classified as operating leases. Future minimum lease obligations under these leases as of September 30, 2018, and for each of the five succeeding years and thereafter are as follows:

2018 (three months)	\$ 114,284
2019	459,589
2020	425,124
2021	435,811
2022	440,594
2023	354,269
Thereafter	<u>2,673,782</u>
	\$ 4,903,453

Future lease commitments include approximately \$2,794,000 pertaining to the cultivation facility in Elk Grove Village, Illinois. This lease has a 20 year term ending on August 31, 2035. The premises consist of 11,622 square feet and there are two options to rent additional space of 12,500 square feet and 28,930 square feet. The additional space can be occupied following the expiration of the landlord's lease with a third party on or before October 31, 2019. The Company has the right of first refusal for any sale of the property by the landlord. Escalating rent per the lease resulted in an increase to the deferred rent balance in 2017 as reflected in the consolidated statement of financial position.

Lease expense for the nine months ended September 30, 2018 and 2017, was \$287,955 and \$116,130, respectively, of which \$126,250 and \$112,534 was included in cost of goods sold in 2018 and 2017, respectively. Lease expense for the three months ended September 30, 2018 and 2017 was \$111,546 and \$49,328, respectively, of which \$49,337 and \$37,300 was included in cost of goods sold in 2018 and 2017, respectively.

Other Contingencies – The Company's operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulation at September 30, 2018 and December 31, 2017, medical cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

4FRONT HOLDINGS LLC

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2018 and 2017

(Unaudited - Amounts Expressed in United States Dollars Unless Otherwise Stated)

15. COMMITMENTS AND CONTINGENCIES (Continued)

Legal Matters – The Company is involved in certain disputes arising in the ordinary course of business. Such disputes, taken in the aggregate, are not expected to have a material adverse effect on the Company.

During 2017, the Company was in a legal dispute with two former consulting clients whom the Company performed services for since 2015. The parties agreed to arbitration, and a final decision by a Panel of the American Arbitration Association on November 27, 2018, has found that one of the consulting clients is liable to the Company in the amount of \$5.5 million and the other consulting client is liable to the Company in the amount of \$3.8 million. Because the award can be appealed, there is substantial doubt that the Company will be able to collect the award. Thus the Company has not recognized an asset for the damages for this decision.

16. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company's financial instruments consist of cash, other receivables, notes receivable and accrued interest from related parties, accounts payable, other current liabilities, notes payable, notes payable to related parties, and convertible notes. The carrying values of these financial instruments approximate their fair values as of September 30, 2018, and December 31, 2017.

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – Inputs for the asset or liability that are not based on observable market data.

There have been no transfers between fair value levels during the nine months ending September 30, 2018, and September 30, 2017.

4FRONT HOLDINGS LLC**Notes to Unaudited Interim Condensed Consolidated Financial Statements****For the Nine Months Ended September 30, 2018 and 2017***(Unaudited - Amounts Expressed in United States Dollars Unless Otherwise Stated)***16. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)**

The following table summarizes the Company's financial instruments as of September 30, 2018:

	Loans and Receivables	Other Financial Liabilities	Total
Financial Assets:			
Cash	\$ 2,346,126	\$ -	\$ 2,346,126
Other Receivable	5,560	-	5,560
Notes Receivable and Accrued Interest	11,209,617	-	11,209,617
Financial Liabilities:			
Accounts Payable	-	867,596	867,596
Accrued Liabilities	-	477,100	477,100
Notes Payable and Accrued Interest	-	2,896,614	2,896,614
Notes Payable and Accrued Interest to Related Parties	-	594,562	594,562

The following table summarizes the Company's financial instruments as of December 31, 2017:

	Loans and Receivables	Other Financial Liabilities	Total
Financial Assets:			
Cash	\$ 3,608,506	\$ -	\$ 3,608,506
Accounts Receivable	18,576	-	18,576
Other Receivables	71,494	-	71,494
Notes Receivable and Accrued Interest	2,981,970	-	2,981,970
Financial Liabilities:			
Accounts Payable	-	401,378	401,378
Other Current Liabilities	-	154,802	154,802
Notes Payable and Accrued Interest to Related Parties	-	3,795,041	3,795,041
Convertible Notes	-	9,436,124	9,436,124

4FRONT HOLDINGS LLC

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2018 and 2017

(Unaudited - Amounts Expressed in United States Dollars Unless Otherwise Stated)

16. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial Risk Management

The Company is exposed in varying degrees to a variety of financial instruments related risks. The Board mitigates these risks by assessing, monitoring and approving the Company's risk management processes.

(b) Credit Risk

Credit risk is the risk of a potential loss to the Company if a third party or a related party to a financial instrument fails to meet its contractual obligations. As of September 30, 2018, and December 31, 2017, the maximum credit exposure related to the carrying amounts of Notes Receivable and Accrued Interest from Related Parties were \$11.3 million and \$3.1 million, respectively.

The Company maintains cash with federally insured financial institutions. As of September 30, 2018, and December 31, 2017, the Company exceeded federally insured limits by approximately \$1.7 million and \$3.0 million, respectively. The Company has historically not experienced any losses in such accounts.

(c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to raise sufficient capital to settle obligations and liabilities when due.

In addition to the commitments outlined in Note 15, the Company has the following contractual obligations:

	<1 Year	1 to 3 Years	3 to 5 Years	Greater than 5	Total
Accounts Payable and					
Accrued Liabilities	\$ 1,344,696	\$ -	\$ -	\$ -	\$ 1,344,696
Deferred Rent	827	165	507	187,367	188,866
Notes Payable and					
Accrued Interest to					
Related and					
Nonrelated Parties	3,491,176	-	-	-	3,491,176

(d) Price Risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. The Company keeps cannabis inventory levels at their dispensaries low to manage the risk of falling inventory values.

4FRONT HOLDINGS LLC

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2018 and 2017

(Unaudited - Amounts Expressed in United States Dollars Unless Otherwise Stated)

17. SEGMENT INFORMATION

Operating segments are components of the Company that engages in business activities from which they earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the Company), the operations of which can be clearly distinguished, and the operating results of which are regularly reviewed by the chief operating decision maker (“CODM”) for the purposes of resource allocation and assessing its performance.

Company’s operating results are divided into two reportable operating segments plus corporate. The two reportable operating segments are medical cannabis and consulting. The Company primarily operates in the medical cannabis segment which includes building and operating dispensaries and cultivation facilities. The Consulting segment serves third parties and includes application services to help secure licenses, implementation services to assist license holders with opening dispensaries, and ongoing fees from existing contracts.

Significant Judgement

Operating segments are determined based on internal reports used in making strategic decisions that are reviewed by the CODMs. The Company’s CODMs are the Chief Executive Officer, Chief Operating Officer and the Chief Financial Officer.

Nine months ended September 30, 2018	<u>Medical Cannabis</u>	<u>Consulting</u>	<u>Corporate</u>	<u>Total</u>
Revenue	\$ 776,485	\$ 194,714	\$ -	\$ 971,199
Gross profit (loss)	(558,210)	194,714	-	(363,496)
Net income (loss)	(2,095,870)	(439,003)	(6,125,630)	(8,660,503)

Nine months ended September 30, 2017	<u>Medical Cannabis</u>	<u>Consulting</u>	<u>Corporate</u>	<u>Total</u>
Revenue	\$ 14,341	\$ 493,929	\$ -	\$ 508,270
Gross profit (loss)	(616,804)	493,929	-	(122,875)
Net income (loss)	(1,468,970)	493,929	(1,768,988)	(2,744,029)

Three months ended September 30, 2018	<u>Medical Cannabis</u>	<u>Consulting</u>	<u>Corporate</u>	<u>Total</u>
Revenue	\$ 575,144	\$ 21,375	\$ -	\$ 596,519
Gross profit (loss)	(50,041)	21,375	-	(28,666)
Net income (loss)	(946,520)	(315,724)	(1,819,558)	(3,081,802)

Three months ended September 30, 2017	<u>Medical Cannabis</u>	<u>Consulting</u>	<u>Corporate</u>	<u>Total</u>
Revenue	\$ 14,341	\$ 172,805	\$ -	\$ 187,146
Gross profit (loss)	(171,380)	172,805	-	1,425
Net income (loss)	(451,272)	172,805	(1,189,729)	(1,468,196)

4FRONT HOLDINGS LLC

Notes to Unaudited Interim Condensed Consolidated Financial Statements For the Nine Months Ended September 30, 2018 and 2017

(Unaudited - Amounts Expressed in United States Dollars Unless Otherwise Stated)

18. SUBSEQUENT EVENTS

During October 2018, the Company sold approximately \$30 million in Class F units to investors at \$486.75 per unit. The proceeds were used to finance the Healthy Pharms Inc. acquisition and for general business purposes.

During November 2018, \$250,000 in related party debt plus accrued interest was settled with Class F units.

On November 13, 2018, the Company completed an acquisition of Healthy Pharms Inc., an entity that owns a cannabis license in Massachusetts and operates two dispensaries and one vertically integrated cultivation facility. The purchase price was \$27 million and was paid in cash of approximately \$20 million, the issuance of 7,605 Class E units of approximately \$3.5 million and the issuance of a \$3,500,000 note payable. The interest rate of the note is 15% per annum, requires quarterly interest only payments, and the principal is due on November 13, 2019. In addition, the Company agrees to pay up to \$6.06 million to the sellers for the value of the Healthy Pharms Inc. inventory. Payments are due on March 13, 2019, and July 13, 2019 (based on gross sales), with the final payment due on November 13, 2019. The final payment is subject to being reduced by up to \$2.43 million under certain circumstances.

Selected line items from the Company's pro-forma Consolidated Statements of Operations for the nine months ended September, 2018 and 2017, are presented below:

	Holdings		Healthy Pharms Inc.		Pro-forma Results	
	For the Nine Months		For the Nine Months		For the Nine Months	
	Ended		Ended		Ended	
	September	September	September	September	September	September
	<u>30, 2018</u>	<u>30, 2017</u>	<u>30, 2018</u>	<u>30, 2017</u>	<u>30, 2018</u>	<u>31, 2017</u>
Revenue, net	\$ 971,199	\$ 508,270	\$ 2,746,746	\$ 913,566	\$ 3,717,945	\$ 1,421,836
Gross profit (loss)	(363,496)	(122,875)	1,159,316	940,507	795,820	817,632
Net operating loss	(7,927,355)	(3,253,663)	1,799	651,866	(7,925,556)	(2,601,797)
Net loss	(8,660,503)	(2,744,029)	(1,448,489)	(158,553)	(10,108,992)	(2,902,582)

On November 13, 2018, the Company, through an affiliate, purchased the remaining 15.83% interest in Mission Pennsylvania II LLC for \$500,000 plus 693.27 Class F Units.

On November 26, 2018, the Company announced a tentative agreement to merge with Cannex Capital Holdings Inc. with a planned completion date of April 18, 2019. Cannex leases real estate and provides consulting services to cannabis cultivation facilities in the state of Washington. The merger is subject to due diligence, the negotiation of a final merger agreement, shareholder and unit holder approval, and regulatory approval. Cannex and 4Front have agreed to a termination fee applicable under certain circumstances of \$10 million.

On December 24, 2018, the Company received an \$8 million line of credit from Cannex to be used prior to the merger. This line can be used for general corporate expenses and for acquisitions. If the merger is cancelled, the balance on the line of credit must be repaid within 90 days from the date of cancellation.

4FRONT HOLDINGS LLC

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2018 and 2017

(Unaudited - Amounts Expressed in United States Dollars Unless Otherwise Stated)

18. SUBSEQUENT EVENTS (Continued)

On February 22, 2019, the Company completed an acquisition of Greens Goddess Products, Inc., an entity that owns a cannabis license in Arizona and operates a dispensary in Phoenix. The purchase price was \$6 million and \$3.35 million was paid in cash and \$2.5 million was paid in kind by issuing 5,136.11 Class F units. The remaining \$150,000 will be used to pay income taxes for 2018 or will be paid to the seller. In March, the Company settled certain legal matters on behalf of Greens Goddess Products, Inc. for approximately \$350,000.

On March 1, 2019, the Company signed a definitive agreement with Cannex Capital Holdings, Inc. with respect to the business combination described above, whereby the former securityholders of Cannex and 4Front will become securityholders in the combined company (the Resulting Issuer). Cannex and 4Front are arm's length parties. In connection with the transaction, an application has been made to list the Resulting Issuer's subordinate voting shares for trading on the Canadian Security Exchange (CSE). The transaction is subject to the CSE approval, approval of the 4Front members and approval of at least 66 2/3% of the votes cast by Cannex shareholders at a special meeting expected to take place on April 19, 2019. The issuance of Multiple Voting Shares of the Resulting Issuer will give 4Front key shareholders voting control of the Resulting Issuer. Cannex and 4Front have agreed to a termination fee described above.

SCHEDULE "C"
AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CANNEX AS OF AND FOR THE PERIOD
FROM FORMATION ON FEBRUARY 23, 2017 TO SEPTEMBER 20, 2017 AND FOR THE SEVEN
MONTHS ENDED APRIL 30, 2018

(See attached)

CANNEX CAPITAL HOLDINGS INC.
(Formerly Arco Resources Corp.)

CONSOLIDATED FINANCIAL STATEMENTS

Expressed in United States Dollars

April 30, 2018

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Cannex Capital Holdings Inc. (formerly Arco Resources Corp.)

We have audited the accompanying consolidated financial statements of Cannex Capital Holdings Inc. (formerly Arco Resources Corp.), which comprise the consolidated statements of financial position as at April 30, 2018 and September 30, 2017 and the consolidated statements of comprehensive loss, cash flow and equity for the period from formation on February 23, 2017 to September 30, 2017 and the seven months ended April 30, 2018, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Cannex Capital Holdings Inc. (formerly Arco Resources Corp.) as at April 30, 2018 and September 30, 2017, and its financial performance and its cash flows for the period from formation on February 23, 2017 to September 30, 2017 and the seven months ended April 30, 2018 in accordance with International Financial Reporting Standards.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

August 28, 2018



CANNEX CAPITAL HOLDINGS INC.
(formerly Arco Resources Corp.)
Consolidated Statements of Financial Position
(United States dollars)

	Note	April 30 2018 \$	September 30 2017 \$
ASSETS			
Current assets			
Cash and cash equivalents		11,862,715	279,040
Accounts receivable	7, 20	1,582,994	264,186
Current portion of notes receivable	14, 20	157,084	-
Inventory		147,705	107,014
Prepaid expenses		128,798	385,789
Total current assets		13,879,296	1,036,029
Non-current assets			
Deposits		59,456	33,126
Property, plant and equipment	9	30,277,769	30,714,806
Convertible note receivable and derivative asset	8	2,511,759	-
Notes receivable	14, 20	370,508	-
Total non-current assets		33,219,492	30,747,932
Total assets		47,098,788	31,783,961
LIABILITIES			
Current liabilities			
Revolving loans	12	-	3,251,062
Accounts payable and accrued liabilities	13, 20	2,377,155	2,833,857
Income taxes payable	22	75,000	-
Unearned revenue		-	44,972
Promissory notes due within 12 months	14	932,266	20,568,126
Convertible promissory notes due within 12 months	15	1,144,201	-
Derivative liability	15	5,077,000	-
Total current liabilities		9,605,622	26,698,017
Non-current liabilities			
Promissory notes	14	1,603,782	1,905,460
Convertible promissory notes	15	3,745,285	-
Deferred income taxes	22	1,117,295	1,919,930
Total non-current liabilities		6,466,362	3,825,390
Total liabilities		16,071,984	30,523,407
EQUITY			
Share capital - common	16	31,007,807	413,764
Share capital - Class A	16	1,462,329	-
Share subscriptions received		-	188,800
Members' equity		-	1,885,477
Reserves		3,475,788	(9,272)
Deficit		(4,919,120)	(1,218,215)
		31,026,804	1,260,554
Total liabilities and equity		47,098,788	31,783,961

Commitment (note 21)

Event after the reporting period (note 27)

On behalf of the directors:

"Leo Gontmakher"
Leo Gontmakher

Director

"Roman Tkachenko"
Roman Tkachenko

Director

See accompanying notes

CANNEX CAPITAL HOLDINGS INC.
(formerly Arco Resources Corp.)
Consolidated Statements of Comprehensive Loss
(United States dollars)

	Note	Seven Months Ended April 30 2018 \$	Formation on February 23, 2017 to September 30, 2017 \$
Product sales	20, 23	2,241,928	773,638
Cost of sales		(1,651,426)	(645,823)
Gross profit		590,502	127,815
Rental income	20, 23	4,698,240	2,565,376
		5,288,742	2,693,191
Operating expenses			
Consulting		244,106	103,090
Depreciation	9	1,398,025	627,880
Foreign exchange		(270,211)	-
General		282,570	28,938
Interest	20	869,961	792,805
Investor relations		131,206	7,608
Professional		411,853	130,952
Rent		128,952	14,105
Share-based compensation	16, 19	3,752,715	-
Shareholder and regulatory		42,442	-
Property taxes		165,354	179,154
Travel		197,568	-
Wages and salaries	20	272,465	106,944
		7,627,006	1,991,476
Income (loss) before other items		(2,338,264)	701,715
Other income (expense)			
Change in fair value of derivative liabilities	15	(488,000)	-
Listing expense	10	(1,671,184)	-
Interest income		68,908	-
Income (loss) before income taxes		(4,428,540)	701,715
Income taxes			
Current	22	(75,000)	-
Deferred	22	802,635	(1,919,930)
		727,635	(1,919,930)
Loss for the period		(3,700,905)	(1,218,215)
Translation loss		(348,809)	(9,272)
Comprehensive loss for the period		(4,049,714)	(1,227,487)
Basic and diluted loss per share	25	(0.03)	(0.09)
Weighted average number of shares outstanding	25	128,941,519	13,147,825

See accompanying notes

CANNEX CAPITAL HOLDINGS INC.
(formerly Arco Resources Corp.)
Consolidated Statements of Cash Flow
(United States dollars)

	Note	Seven Months Ended April 30 2018	Formation on February 23, 2017 to September 30, 2017
		\$	\$
Operating activities			
Loss for the period		(3,700,905)	(1,218,215)
Items not requiring cash:			
Depreciation	9	1,398,025	627,880
Share-based compensation	16, 19	3,752,715	-
Interest expense		869,961	792,805
Shares issued for payment of consulting services		-	103,094
Listing expense	10	1,671,184	-
Change in fair value of derivative liabilities	15	488,000	-
Loss on sale of equipment	9	141	-
Changes in working capital:			
Accounts receivables		(1,307,963)	966,915
Inventory		(40,691)	691,901
Prepaid expense		252,677	(226,494)
Notes receivable	14	(527,592)	-
Accounts payable		226,034	(2,109,665)
Taxes payable	22	(727,635)	1,919,930
Unearned revenue		(44,972)	44,972
		2,308,979	1,593,123
Income taxes		-	-
Net cash generated from operations		2,308,979	1,593,123
Investing activities			
Cash acquired from acquisitions	10	4,907	183,148
Deposits		(26,330)	(33,126)
Convertible note receivable	8	(2,500,000)	-
Purchase of property, plant and equipment	9	(974,129)	(1,297,739)
Proceeds on sale of property, plant and equipment	9	13,000	-
Net cash used in investing activities		(3,482,552)	(1,147,717)
Financing activities			
Issuance of common shares for cash, net of issuance costs		35,834,264	154,403
Shares subscriptions received		-	188,800
Capital contributed		-	2,308,380
Capital repaid		-	(499,999)
Revolving loan advances	12	(3,333,880)	725,000
Revolving loan proceeds	12	257,173	-
Loan proceeds	14	230,000	-
Loan repayments	14	(19,383,803)	(2,798,485)
Interest paid	12, 14	(490,322)	(236,911)
Net cash generated by (used in) financing activities		13,113,432	(158,812)
Effect of exchange rate movements on cash		(356,184)	(7,554)
Change in cash and cash equivalents		11,583,675	279,040
Cash and cash equivalents, beginning of period		279,040	-
Cash and cash equivalents, end of period		11,862,715	279,040
Cash and cash equivalents comprise			
Cash		11,583,675	279,040
Cash equivalents		279,040	-
		11,862,715	279,040

Supplemental disclosure with respect to cash flow (note 26)

See accompanying notes

CANNEX CAPITAL HOLDINGS INC.
(formerly Arco Resources Corp.)
Consolidated Statements of Equity
(United States dollars)

	Note	Number of Shares		Share capital		Share sub- scriptions received	Members' equity	Reserves	Deficit	Total
		Common	Class A	Common	Class A					
Formation on February 23, 2017		-	-	-	-	-	-	-	-	-
Private placements, net of share issue costs	16	19,350,355	-	152,003	-	-	-	-	-	152,003
Shares issued for payment of consulting services	16, 20	16,360,056	-	261,761	-	-	-	-	-	261,761
Shares subscriptions received	16	-	-	-	-	188,800	-	-	-	188,800
Cash contributed	16	-	-	-	-	-	2,308,380	-	-	2,308,380
Cash distributed	16	-	-	-	-	-	(499,999)	-	-	(499,999)
Loans converted to equity	16	-	-	-	-	-	1,706,120	-	-	1,706,120
Effect of acquisitions under common control	11	-	-	-	-	-	(1,629,024)	-	-	(1,629,024)
Foreign currency translation loss	17	-	-	-	-	-	-	(9,272)	-	(9,272)
Loss for the period		-	-	-	-	-	-	-	(1,218,215)	(1,218,215)
September 30, 2017		35,710,411	-	413,764	-	188,800	1,885,477	(9,272)	(1,218,215)	1,260,554
Loans converted to equity	16	-	-	-	-	-	892,265	-	-	892,265
Private placements, net of share issue costs	16	97,783,651	-	2,003,375	-	(188,800)	-	-	-	1,814,575
Reverse takeover of Arco	10	2,000,003	-	1,558,802	-	-	-	-	-	1,558,802
Reverse take-over amalgamation	1, 16	(96,521,734)	96,521,734	(7,717,612)	1,462,329	-	(2,777,742)	-	-	(9,033,025)
Private placement as part of RTO, net of issue costs	16	48,219,872	-	34,749,478	-	-	-	-	-	34,749,478
Agent warrants issued	18	-	-	-	-	-	-	554,933	-	554,933
Share-based compensation	19	-	-	-	-	-	-	3,278,936	-	3,278,936
Foreign currency translation loss		-	-	-	-	-	-	(348,809)	-	(348,809)
Loss for the period		-	-	-	-	-	-	-	(3,700,905)	(3,700,905)
April 30, 2018		87,192,203	96,521,734	31,007,807	1,462,329	-	-	3,475,788	(4,919,120)	31,026,804

See accompanying notes

CANNEX CAPITAL HOLDINGS INC.

(formerly Arco Resources Corp.)

Notes to the Consolidated Financial Statements

For the Seven Months Ended April 30, 2018

(United States dollars)

1. Corporate Information

Cannex Capital Holdings Inc. (formerly Arco Resources Corp.) ("Cannex" or the "Company") was incorporated as Atomic Minerals Ltd. on March 13, 2006 pursuant to the provisions of the British Columbia Business Corporations Act and was previously listed on the NEX board of the TSX Venture Exchange.

On March 13, 2018, Cannex Capital Group Inc. (the "Cannex Group") and its security holders (the "Cannex Group Security holders") completed an amalgamation with Arco Resources Corp. ("Arco"), a public company listed on the NEX board of the TSX Venture Exchange (the "Exchange") pursuant to which the Cannex Group Security holders transferred all of their common shares of Cannex Group in exchange for common shares of Arco on a 1:1 ratio. The transaction resulted in the former Cannex Group Security holders obtaining control of the resulting issuer, and therefore constituted a reverse takeover (the "RTO Amalgamation") under the policies of the Exchange.

Concurrently with the RTO Amalgamation Cannex Group completed the acquisition of 100% of the membership units of BrightLeaf, LLC ("BrightLeaf"), an entity under common control with Cannex Group, for cash of \$22,532,608, the issuance of convertible promissory notes of \$9,033,025 (note 15) and the assumed debts of \$4,434,370. Prior to the acquisition BrightLeaf debt of \$892,265 was converted to equity of BrightLeaf (note 16).

The ongoing entity, being the combined operations of Cannex Group and BrightLeaf, has adopted the name Cannex Capital Holdings Inc.. Cannex has been identified for accounting purposes as the acquirer, and accordingly the entity is considered to be a continuation of Cannex and the net assets of Arco at the date of the RTO Amalgamation are deemed to have been acquired by Cannex (note 10). These consolidated financial statements include the results of operations of Arco from March 13, 2018. The comparative figures are those of Cannex prior to the RTO Amalgamation.

In connection with the RTO Amalgamation, Cannex delisted its common shares from the NEX and relisted on the Canadian Securities Exchange and completed a private placement, net of issuance costs, for \$34,749,478 (note 16). The Company's common shares resumed trading on the Canadian Securities Exchange under the symbol "CNNX" on March 14, 2018.

The Company leases real estate and sells supplies to cannabis producers and is seeking to expand through investments in cannabis growers, processors and retailers. The head office and principal address of the Company is 1241 Alberni Street, Vancouver, British Columbia, V6E 4R4.

2. Basis of Presentation

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Company's board of directors approved the release of these consolidated financial statements on August 28, 2018.

b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are measured at fair value, as explained in the significant accounting policies set out in note 3. The consolidated financial statements are presented in United States dollars. The functional currency of the parent company, Cannex, is the Canadian dollar ("C\$") and the functional currency of its subsidiary companies is the United States dollar ("\$").

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 5.

c) Going concern

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to continue its operations for at least the next twelve months and will be able to realize its assets and discharge its liabilities in the normal course of business.

The Company indirectly derives its revenues from the cannabis industry in certain states of the United States, which industry is illegal under United States federal law. The Company is not directly engaged in the manufacture, importation, possession, use, sale or distribution of cannabis in the recreational cannabis marketplace in either Canada or the United States, nor is the Company directly engaged in the manufacture, importation, possession, use, sale or distribution of cannabis in the medical cannabis marketplace in Canada or the United States.

Almost half of the states in the United States have enacted legislation to regulate the sale and use of medical cannabis without limits on tetrahydrocannabinol ("THC"), while other states have regulated the sale and use of medical cannabis with strict limits on the levels of THC. Notwithstanding the permissive regulatory environment of adult-use recreational and medical cannabis at the state level, cannabis continues to be categorized as a controlled substance under the Controlled Substances Act (the "CSA") in the United States and as such, cannabis-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis are illegal under United States federal law. Strict compliance with state laws with respect to cannabis will neither absolve the Company of liability under United States federal law, nor provide a defense to any federal proceeding which may be brought against the Company. Any such proceedings brought against the Company may adversely affect the Company's operations and financial performance.

CANNEX CAPITAL HOLDINGS INC.
(formerly Arco Resources Corp.)
Notes to the Consolidated Financial Statements
For the Seven Months Ended April 30, 2018
(United States dollars)

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements unless otherwise indicated.

a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its wholly-owned subsidiaries. Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect these returns through the power to direct the relevant activities of the entity. To the extent that subsidiaries provide services that relate to the Company's activities, they are fully consolidated from the date control is transferred and are deconsolidated from the date control ceases. All intercompany balances and transactions have been eliminated.

Cannex's principal subsidiaries are:

Entity	Ownership Percentage	Principal Activity
BrightLeaf Development LLC ("BrightLeaf")	100%	Real estate holding
Real Estate Properties LLC ("REP")	100%	Real estate holding
Fuller Hill Development Co LLC ("Fuller")	100%	Leaseholds
Ag-Grow Imports LLC ("Ag-Grow")	100%	Sale of supplies
Cannex Capital Group Inc. ("Cannex Group")	100%	Holding
Cannex Holdings (Nevada) Inc. ("Cannex USA")	100%	Holding

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Business combinations under common control

Business combinations under common control are accounted for prospectively using the predecessor basis of accounting method. Under this method the assets and liabilities of the acquired business under common control are recognized upon consolidation at the carrying amounts recorded in the books of the acquired company.

3. Significant Accounting Policies (continued)

b) Foreign currency transactions

Foreign currency accounts are translated into each entity's functional currency as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into the entity's functional currency by the use of the exchange rate in effect at that date. At the period-end date, unsettled monetary assets and liabilities are translated into the functional currency by using the exchange rate in effect at the period-end date and the related translation differences are recognized in net income.

Exchange gains and losses arising on the retranslation of monetary available-for-sale financial assets are treated as a separate component of the change in fair value and recognized in loss for the period. Exchange gains and losses on non-monetary available-for-sale financial assets form part of the overall gain or loss recognized in respect of that financial instrument and are included in profit or loss.

Non-monetary assets and liabilities that are measured at historical cost are translated into the functional currency by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into the functional currency by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net income or other comprehensive loss consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

The results of operations which have a different functional currency than the United States dollar ("USD") are translated to USD at appropriate average rates of exchange during the year and are included in other comprehensive income (loss). The assets and liabilities of these operations are translated to USD at rates of exchange in effect at the end of the period. Gains or losses arising on translation of these operation's assets and liabilities to USD at period end are recognized in reserves as a foreign currency translation adjustment. When these operations are sold, such exchange differences are recognized in profit or loss as part of the gain or loss on sale.

3. Significant Accounting Policies (continued)

c) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value. For cash flow statement presentation purposes, cash and cash equivalents includes bank overdrafts.

d) Inventories

Inventories are valued at the lower of cost and net realizable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Finished goods:

- Weighted average cost

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Inventory as at April 30, 2018 consists entirely of finished goods.

e) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking in to account contractually defined terms of payment and excluding taxes or duty. The specific recognition criteria described below must also be met before revenue is recognized.

Rental income

The Company accounts for leases with its tenants as operating leases. Rental revenue includes all amounts earned from tenants related to lease agreements including property tax and operating cost recoveries. The Company reports rental revenue based on the periodic rent due under the terms of the lease.

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually when goods are transferred to the final purchaser.

3. Significant Accounting Policies (continued)

f) Property, plant and equipment

Recognition and measurement

On initial recognition, property, plant and equipment are valued at cost, being the purchase price and directly attributable costs of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company. Such costs include appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Property, plant and equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses, with the exception of land which is not depreciated.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized.

The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Major maintenance and repairs

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Gains and losses

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount, and are recognized on a net basis in profit or loss.

Depreciation

Depreciation is recognized in profit or loss and is provided on a straight-line basis over the estimated useful life of the assets as follows:

	Years
Buildings	30
Leasehold improvements	over lease period
Equipment and fixtures	5-7

Depreciation methods, useful lives and residual values are reviewed at each financial period end and adjusted if appropriate.

3. Significant Accounting Policies (continued)

g) Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the income statement in expense categories consistent with the function of the impaired asset, except for a property previously revalued, where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognized in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior periods. Such reversal is recognized in the income statement unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

CANNEX CAPITAL HOLDINGS INC.
(formerly Arco Resources Corp.)
Notes to the Consolidated Financial Statements
For the Seven Months Ended April 30, 2018
(United States dollars)

3. Significant Accounting Policies (continued)

h) Financial instruments

At April 30, 2018, the Company did not have available-for-sale or held-to maturity financial instruments.

The Company classifies its financial instruments as follows:

Loans and receivables, recorded at amortized cost	<ul style="list-style-type: none"> • Cash and cash equivalents • Accounts receivables • Deposits • Convertible note receivable • Notes receivable
Financial assets at fair value through profit or loss	<ul style="list-style-type: none"> • Derivative asset
Financial liabilities, recorded at amortized cost	<ul style="list-style-type: none"> • Revolving loans • Accounts payable and accrued liabilities • Promissory notes payable • Convertible promissory notes
Financial liabilities at fair value through profit or loss	<ul style="list-style-type: none"> • Derivative liability

Financial assets

Financial assets are classified as into one of the following categories based on the purpose for which the asset was acquired. All financial assets are initially recognized at fair value plus transaction costs, except FVTPL, and are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

Financial assets at Fair Value Through Profit or Loss (FVTPL)

Financial assets are classified as FVTPL when the asset is either:

- held for trading; or
- designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any resulting gain or loss recognized in profit or loss.

Held-to-maturity investments

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the consolidated statement of operations and comprehensive income.

3. Significant Accounting Policies (continued)

Available-for-sale

Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the consolidated statement of comprehensive income.

Loans and trade receivables

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the profit or loss when the loans and trade receivables are derecognized or impaired, as well as through the amortization process.

Impairment on financial assets

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Financial liabilities

The Company classifies its financial liabilities in the following categories: FVTPL and amortized cost.

FVTPL liabilities contain a host liability and an embedded equity conversion feature. These instruments, are initially measured by subtracting the fair value of the conversion feature from the face value and are subsequently measured at amortized cost. The fair value of the embedded liability component is remeasured in subsequent periods and any change charged to profit or loss.

Amortized cost liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit and loss over the period to maturity using the effective interest method. These financial liabilities are classified as current or non-current based on their maturity date.

The Company derecognizes financial liabilities when the Company's obligations are discharged, cancelled or they expire.

3. Significant Accounting Policies (continued)

Financial instruments

The Company provides information about its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than FVTPL, which are expensed as incurred, are included in the initial carrying value of such instruments.

i) Derivatives

Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met. Derivatives are initially measured at fair value; any directly attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes are recognized in profit or loss. The Company has convertible promissory notes payable and receivable for which the conversion feature is an embedded derivative (notes 8 and 15).

j) Provisions

Other provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

k) Share Capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, share options and warrants are classified as equity instruments. Incremental costs directly attributable to the issue of new shares, warrants or options are shown in equity as a deduction, net of tax, from the proceeds.

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the most easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The fair value of the common shares issued in private placements is determined to be the more easily measurable component and are valued at their fair value. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as warrant reserve. If the warrants are exercised, the related amount is reclassified as share capital. If the warrants expire unexercised, the related amount remains in the warrant reserve.

4. Adoption of New Accounting Pronouncements and Recent Developments

Certain pronouncements, issued by the IASB or the IFRS Interpretations Committee, were adopted during the period, or were mandatory for the Company's fiscal periods beginning on or after May 1, 2018 or are required to be adopted in future periods. The following pronouncements are relevant to the consolidated financial statements:

New standards, interpretations and amendments not yet effective

a) IFRS 9 – Financial Instruments

IFRS 9 Financial Instruments is part of the IASB's wider project to replace *IAS 39 – Financial Instruments: Recognition and Measurement*. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. On July 24, 2014, the IASB affirmed its proposal to defer the effective date of IFRS 9 to periods beginning after January 1, 2018. Earlier application of IFRS 9 continues to be permitted. The Company does not intend to early adopt this standard and is currently evaluating the impact of adopting this standard on the consolidated financial statements, but does not expect the impact to be material.

b) IFRS 15 – Revenue from Contracts with Customers

In May 2014, the International Accounting Standards Board issued IFRS 15, Revenue from Contracts with Customers, which provides a single, principles-based five-step model for revenue recognition to be applied to all customer contracts, and requires enhanced disclosures. This standard is effective January 1, 2017 and allows early adoption. On July 22, 2015, the IASB unanimously affirmed its proposal to defer the effective date of IFRS 15 to periods beginning after January 1, 2018. Earlier application of IFRS 15 continues to be permitted. The Company does not intend to early adopt this standard. This standard is not expected to materially affect the Company's Consolidated Statement of Comprehensive Income, but is expected to require additional disclosures.

c) IFRS – Leases

IFRS 16 - Leases specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring that lessees recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has an insignificant value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 was issued in January 2016 and will be applicable to the Company's fiscal period beginning May 1, 2019, although early adoption is permitted. The Company does not intend to early adopt this standard and is currently evaluating the impact of adopting this standard on the consolidated financial statements. The Company expects that it will recognize additional assets and liabilities as a result of the leasing arrangements currently entered or to be entered by its subsidiaries. The full extent of the impact of adoption of the standard has not yet been determined and management will continue to assess the impact as January 1, 2019 approaches.

There are no other pending IFRSs or IFRIC interpretations that are expected to be relevant to the Company's financial statements.

5. Critical Accounting Estimates and Judgments

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below.

Significant estimates made in the preparation of these consolidated financial statements include the following areas:

Useful lives of property, plant and equipment

Property, plant and equipment are amortized or depreciated over their useful lives. Useful lives are based on management's estimate of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the consolidated statement of loss and other comprehensive loss in specific periods.

Inventory

The Company reviews the net realizable value of, and demand for, its inventory quarterly to provide assurance that recorded inventory is stated at the lower of cost or net realizable value. Factors that could impact estimated demand and selling prices include competitor actions, supplier prices and economic trends.

Share-based compensation

Share-based payments expense is measured by reference to the fair value of the stock options at the date at which they are granted. Estimating fair value for granted stock options requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, dividend yield, and rate of forfeitures. The value of the share-based compensation for the seven months ended April 30, 2018 along with the assumptions and model used for estimating fair value for share-based compensation transactions, are disclosed in note 19.

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5. Critical Accounting Estimates and Judgments (continued)

Fair value of financial instruments

The individual fair values attributed to the different components of a financing transaction, notably investment in equity securities, derivative financial instruments, convertible debt and loans, are determined using valuation techniques. The Company uses judgment to select the methods used to make certain assumptions and in performing the fair value calculations in order to determine (a) the values attributed to each component of a transaction at the time of their issuance; (b) the fair value measurements for certain instruments that require subsequent measurement at fair value on a recurring basis; and (c) for disclosing the fair value of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market. The assumptions regarding the derivative assets/liabilities are disclosed in notes 8 and 15.

Impairment

Long-lived assets, including property, plant and equipment are reviewed for indicators of impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU). Judgments and estimates are required in defining a CGU and determining the indicators of impairment and the estimates required to measure an impairment, if any.

5. Critical Accounting Estimates and Judgments (continued)

Significant judgements made in the preparation of these consolidated financial statements include the following areas:

Combinations with entities under common control

Business combinations under common control are business combinations involving entities or businesses under common control, in which all of the combining entities or businesses are ultimately controlled by the same party both before and after the business combination. There is currently no guidance in IFRS on the accounting treatment for business combinations among entities under common control.

The application of the predecessor values method applies the concept of IAS 8 Accounting Policies, Changes in Estimates, and Errors whereby if no applicable standard or interpretation exists, then management must develop a policy that is relevant to the decision-making needs of the users, and that is reliable.

Segmented reporting

The Company must exercise judgement in defining its business segments (note 23) and allocating revenue, expenses and assets among the segments. The Company bases allocations on the groupings used to manage the business and report to senior management. From time to time, assets and personnel of one division may be used to benefit another division resulting in inaccuracies, but these are not material.

Income taxes

The Company must exercise judgment in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for expected tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

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6. Capital Management

The Company's primary objectives, when managing its capital, are to maintain adequate levels of funding to support the operations of the Company and to maintain corporate and administrative functions. The Company defines capital as revolving loans, promissory notes, convertible notes and equity, consisting of the issued units of the Company. The capital structure of the Company is managed to provide sufficient funding for planned operating activities of the Company. Funds are primarily secured through a combination of equity capital raised by way of private placements and debt. There can be no assurances that the Company will be able to continue raising equity capital and debt in this manner.

The Company invests all capital that is surplus to its immediate needs in short-term, liquid and highly rated financial instruments, such as cash and other short-term deposits, which are all held with major financial institutions.

There were no changes to the Company's approach to capital management during the period ended April 30, 2018. The Company is not subject to any externally imposed capital requirements.

7. Accounts Receivable

	April 30 2018	September 30 2017
	\$	\$
Trade accounts receivable	1,515,887	263,644
Allowance for doubtful debts	-	-
Net trade accounts receivable	1,515,887	263,644
Other receivables	67,107	542
	1,582,994	264,186

As at April 30, 2018, two customers accounted for 86% (2017 – 96%) of total accounts receivable (note 20).

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For the Seven Months Ended April 30, 2018

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8. Convertible Note Receivable and Derivative Asset

In April 2018, the Company subscribed for a promissory note with Ametrine Wellness dba Jetty Extracts ("Jetty"), a company which holds a 99.99% membership interest in Jetty Marketing, LLC a 50% membership interest in Jetty MindTricks, LLC, and a 5% membership interest in 57th Avenue LLC. Jetty is a California-based processor and distributor of cannabis products.

The Company agreed to advance up to \$5,000,000 to Jetty. Advances are secured by the assets of Jetty and bear interest at 8% annually, due on maturity; and the promissory note will mature on October 10, 2020. In April 2018, the Company advanced \$2,500,000 under the note and, subsequent to April 30, 2018, in August 2018, advanced a further \$1,000,000. The loan may be converted into class A common stock of Jetty at a price equal to the lesser of (a) a 20% discount to the share valuation of the next bona fide capital raise after April 2018 or (b) a \$30,000,000 valuation. The Company is not able to exert significant influence over the operations of Jetty.

The option to settle the promissory notes in common shares of Jetty represents an embedded derivative in the form of a call option to the Company. Jetty is a private company and its shares cannot be reliably valued using any market-derived indicators. Accordingly, the derivative asset was initially recognized by comparing a similar instrument without the conversion option and discounting the fair value of the host contract with the non-convertible instrument interest rate, which the Company estimates would be 15%. As at April 30, 2018, the fair value of the derivative asset remained the same.

	Convertible note receivable \$	Derivative asset \$	Total \$
September 30, 2017	-	-	-
Advance	2,067,000	433,000	2,500,000
Interest	11,759	-	11,759
April 30, 2018	2,078,759	433,000	2,511,759

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9. Property, Plant and Equipment

	Land	Buildings	Leasehold Improve- ments	Equipment and Fixtures	Assets not yet in service	Total
	\$	\$	\$	\$	\$	\$
Cost						
On formation, February 23, 2017	-	-	-	-	-	-
Property, plant and equipment of acquired companies (note 11).	1,000,000	3,919,453	15,442,221	531,753	9,032,864	29,926,291
Purchases	-	-	17,710	-	1,398,685	1,416,395
At September 30, 2017	1,000,000	3,919,453	15,459,931	531,753	10,431,549	31,342,686
Purchases	-	-	275,775	698,354	-	974,129
Disposal	-	-	-	(21,025)	-	(21,025)
Assets placed into service	-	-	10,431,549	-	(10,431,549)	-
At April 30, 2018	1,000,000	3,919,453	26,167,255	1,209,082	-	32,295,790
Accumulated depreciation						
On formation, February 23, 2017	-	-	-	-	-	-
Depreciation expense	-	47,009	535,300	45,571	-	627,880
At September 30, 2017	-	47,009	535,300	45,571	-	627,880
Depreciation expense	-	59,829	1,192,537	145,659	-	1,398,025
Disposal	-	-	-	(7,884)	-	(7,884)
At April 30, 2018	-	106,838	1,727,837	183,346	-	2,018,021
Net book value						
On formation, February 23, 2017	-	-	-	-	-	-
At September 30, 2017	1,000,000	3,872,444	14,924,631	486,182	10,431,549	30,714,806
At April 30, 2018	1,000,000	3,812,615	24,439,418	1,025,736	-	30,277,769

Assets not in service consist of real estate facilities under improvement prior to commencement of commercial operations.

In the period ended September 30, 2017, the Company capitalized interest of \$118,656 representing the cost of borrowing to fund property, plant and equipment additions. The loans bore interest at 8% per year.

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10. Reverse Takeover Transaction

As a result of the RTO Amalgamation described in note 1 between Arco and Cannex Group, Cannex Group acquired control of the Company. Accordingly, this is a reverse acquisition for accounting purposes.

For accounting purposes, Cannex Group is treated as the accounting parent (legal subsidiary) and the Company is treated as the accounting subsidiary (legal parent). As Cannex Group was deemed to be the acquirer for accounting purposes, its assets, liabilities and operations since incorporation are included in these consolidated financial statements at their historical carrying value, with the share capital, reserves and deficit of the Company being eliminated at the date of acquisition.

The cost of an acquisition should be based on the fair value of consideration given, except when the fair value of the consideration given is not clearly evident. In such a case, the fair value of the net assets acquired is used. The consideration of the acquisition is therefore C\$2,000,003, calculated as 2,000,003 common shares at C\$1.00 per share, which was equivalent to \$1,558,802 at the Amalgamation Date. This represents the fair value of the number of shares that Cannex would have had to issue to the shareholders of Arco to give the shareholders of Arco the same percentage equity interest in the combined entity that results from the reverse acquisition. The total purchase price of \$1,558,802 has been allocated as follows:

Cash	\$	4,907
Receivables		10,942
Accounts payable and accrued liabilities		(128,231)
Listing expense		1,671,184
Purchase price	\$	1,558,802

A listing expense of \$1,671,184 has been included in the statement of comprehensive loss to reflect the difference between the fair value of the amount paid and the fair value of the net assets received from Arco in accordance with *IFRS 2 – Share-based Payments*.

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11. BrightLeaf Acquisition of Subsidiaries

In April 2017, BrightLeaf acquired the members' equity of REP, Fuller and AG-Grow in exchange for members equity of BrightLeaf and notes payable of \$600,000. REP and Fuller lease cannabis facilities and AG-Grow sells supplies to cannabis producers. The transaction was between entities under common control and BrightLeaf assumed the net book values of the assets and liabilities of REP, Fuller and AG-Grow as follows:

	AG-Grow	Fuller	REP	Total
	\$	\$	\$	\$
Assets acquired				
Cash	17,026	18,354	147,768	183,148
Other current assets	1,623,894	-	-	1,623,894
Trade receivables	-	-	406,101	406,101
Property, plant and equipment	-	9,032,864	20,893,427	29,926,291
Due from Fuller	-	-	494,866	494,866
	<u>1,640,920</u>	<u>9,051,218</u>	<u>21,942,162</u>	<u>32,634,300</u>
Liabilities assumed				
Accounts payable and accrued liabilities	(405,515)	(4,457,666)	(75,574)	(4,938,755)
Due to REP	-	(494,866)	-	(494,866)
Loans (notes 12 and 14)	(1,337,800)	(4,098,686)	(22,793,217)	(28,229,703)
	<u>(1,743,315)</u>	<u>(9,051,218)</u>	<u>(22,868,791)</u>	<u>(33,663,324)</u>
Net deficiency assumed	(102,395)	-	(926,629)	(1,029,024)
Consideration paid – promissory notes (note 14)	(600,000)	-	-	(600,000)
	<u>(702,395)</u>	<u>-</u>	<u>(926,629)</u>	<u>(1,629,024)</u>

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12. Revolving Loans

	\$
Formation, February 23, 2017	-
Loans assumed (note 11)	2,425,885
Capitalized interest	22,548
Interest	77,629
Advances	725,000
September 30, 2017	3,251,062
Interest	43,608
Advances	257,173
Repayments (principal and interest)	(3,427,038)
Converted to equity (note 16)	(124,265)
April 30, 2018	-

	April 30 2018 \$	September 30 2017 \$
Unsecured revolving credit facility with Global Real Estate Properties, LLC, a related party, that allows it to borrow principal of up to \$2,500,000. The facility bears interest at 8%.	-	1,946,673
Unsecured revolving credit facility with Marine Phoenix LLC, a related party, that allows it to borrow principal of up to \$2,000,000. The facility bears interest at 8%.	-	1,304,389
	-	3,251,062

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13. Accounts Payable and Accrued Liabilities

	April 30 2018 \$	September 30 2017 \$
Trade accounts payable	2,016,867	2,695,994
Accrued liabilities	311,640	51,192
Sales taxes	48,648	86,671
Accounts payable and accrued liabilities	<u>2,377,155</u>	<u>2,833,857</u>

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14. Promissory Notes and Notes Receivable

a) Promissory Notes

		\$
Formation, February 23, 2017		-
Loans assumed (note 11)		26,403,818
Converted to equity (note 16)		(1,706,120)
Capitalized interest		96,108
Interest		715,176
Repayments (principal and interest)		(3,035,396)
September 30, 2017		22,473,586
Advances		230,000
Converted to equity (note 16)		(768,000)
Interest		381,429
Repayments (principal and interest)		(19,780,967)
April 30, 2018		2,536,048
	April 30	September 30
	2018	2017
	\$	\$
Financial statement presentation:		
Current liabilities	932,266	20,568,126
Non-current liabilities	1,603,782	1,905,460
	2,536,048	22,473,586

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14. Promissory Notes and Notes Receivable (continued)

The loan balances outstanding and significant loan terms at the financial statement dates were:

	April 30 2018 \$	September 30 2017 \$
Promissory note due to a related party. The note bears interest at 8.0% compounded semi-annually, with interest payable on maturity of the note on December 14, 2017.	-	2,973,895
The note bears interest at 8.5% annually, with monthly payments of \$82,066 including interest with the final payment due March 31, 2021, secured by property, plant and equipment of the Company.	2,536,048	2,890,252
Promissory notes due to related parties. The notes bear interest at 8.0% compounded semi-annually, with interest payable on maturity of the notes on January 1, 2018	-	15,844,889
Promissory note due to a related party. The note bears interest at 8.0% compounded semi-annually, with interest payable on maturity of the note on March 1, 2018.	-	157,000
Promissory notes due to related parties on the purchase of AG-Grow. The notes bear interest at 3.0% compounded semi-annually, with interest payable on maturity of the notes on April 24, 2018.	-	607,550
	<u>2,536,048</u>	<u>22,473,586</u>

All related party promissory notes are unsecured.

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14. Promissory Notes and Notes Receivable (continued)

a) Notes Receivable

		\$
September 30, 2017		-
Notes receivable		530,178
Interest		690
Repayments (principal and interest)		(3,276)
April 30, 2018		527,592
	April 30	September 30
	2018	2017
	\$	\$
Financial statement presentation:		
Current	157,084	-
Non-current	370,508	-
	527,592	-

In the February 2018 and April 2018, the Company issued notes receivable for a total of \$530,178 to a related party. The notes bear interest at 6% per year and are payable in 48 instalments aggregating \$12,451 per month.

15. Convertible Promissory Note

On March 13, 2018, the Company entered into convertible promissory notes for \$9,033,025 (note 1). The convertible promissory notes are secured by the units of BrightLeaf and pay 12% interest, calculated and paid monthly, and mature on March 15, 2020. The notes are convertible into common shares of the Company at the option of the subscriber at any time until maturity at a price of C\$1.00 per common share. The Company is to make monthly payments equal to the lesser of (1) interest for the previous month; and (2) 50% of the distributable cash of BrightLeaf, with distributable cash defined as cash received by BrightLeaf minus payments to lenders, cash expenses and expenditures and cash reserves. If the Company fails to make payments on time, the interest rate increases to 18% until the default is remedied, and an additional 50% late payment fee is charged.

The Company received a waiver from the holders of the notes described above, allowing it to defer required payments until August 2018 with no penalty. The Company requested this waiver as an accommodation to allow it to instead completely pay down a trade payable, which was interest bearing at 12% per year. As of August 2018, the trade payable was completely paid down, and the first required payment to the holders of the notes described above has been made.

The Company used the residual value method to allocate the principal amount between the liability and option components of the convertible promissory notes. The option component of the convertible promissory notes is a derivative liability as the ultimate number of common shares to be issued varies with the US\$/C\$ foreign exchange rate. The Company valued the derivative liability, that is the conversion option, by using the Black-Scholes option pricing model with the following assumptions:

	March 13 2018	April 30 2018
Annualized share price volatility	100%	100%
Risk-free interest rate	1.83%	2.11%
Expected lives	2.0 years	1.9 years
Dividend yield	0.0%	0.0%

The liability component at March 13, 2018 was \$4,444,022 and the derivative liability was \$4,589,000.

On April 30, 2018, the fair value of the derivative liability was estimated at \$5,077,000 with the result that the Company recorded a loss on the change in fair value of the derivative liability in the period ended April 30, 2018 of \$488,000. As at April 30, 2018, convertible promissory notes included interest accrued of \$445,464.

16. Share Capital and Members' Capital

Authorized capital

Unlimited number of common shares without par value; and

Unlimited Class A shares without par value.

The holders of the Class A shares are entitled to receive notice of and to attend all meetings of the shareholders or holders of Class A shares and to one vote per Class A share at any meeting of the shareholders of the Company provided that the holders of the Class A shares are not entitled to vote for the election or removal of the directors of the Company. Class A holders are entitled to receive dividends as and when declared by the board if also paid to holders of common shares. In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, holders of Class A shares are entitled to share rateably, together with holders of common shares, in such assets of the Company as are available for distribution.

Each Class A share shall be convertible into one common share, without payment of additional consideration, at the option of the holder thereof as follows:

- a) at any time that is not a restricted period;
- b) if the Company determines that it has ceased to be a "foreign issuer" (see below), as such term is defined in Rule 902(e) of the US Securities Act, and has notified the holders of the Class A shares of such determination;
- c) if there is an offer to purchase the common shares which must be made by reason of applicable securities legislation or the rules or policies of a stock exchange to all or substantially all of the holders of common shares any of whom are in, or whose last address as shown on the books of the Issuer is in, a province or territory of Canada to which the relevant requirement applies.

For these purposes, a "Restricted Period" means any time at which the board of directors of the Company reasonably believes that the Company is a "Domestic Issuer" under applicable United States securities laws – being a U.S. issuer or a non-U.S. issuer that has a majority (50.1% or more) of its outstanding voting securities held by U.S. residents and either the majority of the executive officers or directors are U.S. citizens or residents, a majority of the assets of the issuer are located in the U.S., or the business of the issuer is administered principally in the U.S. – or would become a Domestic Issuer as a result of the issuance of common shares upon the conversion of a Class A share.

In addition, each Class A share may be converted into one common share at any time and from time to time at the option of the Company upon notice to the holder.

CANNEX CAPITAL HOLDINGS INC.

(formerly Arco Resources Corp.)

Notes to the Consolidated Financial Statements

For the Seven Months Ended April 30, 2018

(United States dollars)

16. Share Capital and Members' Capital (continued)

Issued capital

87,192,203 common shares

96,521,734 Class A shares

Fiscal 2018

In the period ended April 30, 2018, BrightLeaf converted promissory notes of \$768,000 and revolving loans of \$124,265 to members' equity.

In March 2018, the Company undertook the RTO Amalgamation (note 1) that resulted in a net reduction of equity of \$9,033,025. The change in the legal structure resulted in the reclassification of \$2,777,742 of BrightLeaf members' equity to share capital and the reclassification of \$1,462,329 from common shares to Class A shares to reflect the value of 96,521,734 Class A shares issued in connection with the RTO Amalgamation.

In March 2018, in conjunction with the RTO Amalgamation (note 1), the Company issued 48,219,872 units at C\$1.00 per share for gross proceeds of C\$48,219,872 (\$37,582,568). Each unit consists of one common share and one-half common share purchase warrant. Each full warrant entitles the holder to acquire an additional common share at a price of C\$1.50 per common share for a period of two years from the date of issuance. The Company paid cash commissions of \$1,188,449, finders' fees of \$459,068, issued 1,652,279 share purchase warrants with a fair value of \$554,933 and incurred legal and other direct issuance costs of \$630,640.

The fair value of the warrants was determined using the Black Scholes option pricing model assuming volatility of 100%, a risk-free return of 2.11%, a dividend yield of 0% and a life of two years.

In October 2017, Cannex Group issued 30,000,000 common shares to certain individuals who held ownership interests in the members of BrightLeaf, Global Real Estate Properties LLC, 4Steps Ahead LLC, and Verde Cinco LLC at a price of C\$0.0001 per share for aggregate cash consideration of C\$3,000 (\$2,381). The Company recorded share based compensation of \$473,779, being the difference in the fair value of shares issued (\$476,160) and cash received (\$2,381).

In November 2017, Cannex Group issued 60,439,944 common shares at a price of C\$0.02 per share for aggregate cash consideration of C\$1,208,799 (\$949,630).

In November 2017, Cannex Group issued 7,343,707 common shares for aggregate cash consideration of C\$734,371 (\$577,585) of which C\$236,000 (\$188,800) had been received as subscription receipts as at September 30, 2017.

CANNEX CAPITAL HOLDINGS INC.
(formerly Arco Resources Corp.)
Notes to the Consolidated Financial Statements
For the Seven Months Ended April 30, 2018
(United States dollars)

16. Share Capital and Members' Capital (continued)

Fiscal 2017

During the period ending September 30, 2017, Cannex Group issued 12,933,571 common shares at a price of C\$0.005 for gross proceeds of C\$64,668 (\$50,990), and 6,416,784 common shares at a price of C\$0.02 per share for gross proceeds of C\$128,336 (\$101,013). In September 2017, Cannex Group issued 16,360,056 common shares at C\$0.02 per share as compensation for services provided or to be provided with a value of C\$327,201 (\$261,761). Of these shares, 14,875,056 were issued to members of BrightLeaf.

During the period ended September 30, 2017, members contributed net cash of \$1,808,381 (Cash contributions of \$2,308,380 and cash distributed of \$499,999). Certain members loans totaling \$1,706,120 were converted to members' equity (note 14).

CANNEX CAPITAL HOLDINGS INC.
(formerly Arco Resources Corp.)
Notes to the Consolidated Financial Statements
For the Seven Months Ended April 30, 2018
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17. Reserves

Reserves comprise the fair value of stock option grants and warrants prior to exercise and cumulative unrealized gains and losses on foreign exchange.

	Warrants	Share-based compensation reserve	Foreign currency translation reserve	Total
	\$	\$	\$	\$
Formation, February 23, 2017	-	-	-	-
Foreign currency translation reserve	-	-	(9,272)	(9,272)
September 30, 2017	-	-	(9,272)	(9,272)
Foreign currency translation reserve	-	-	(348,809)	(348,809)
Fair value of broker warrants issued	554,933	-	-	554,933
Share-based compensation	-	3,278,936	-	3,278,936
April 30, 2018	554,933	3,278,936	(358,081)	3,475,788

CANNEX CAPITAL HOLDINGS INC.**(formerly Arco Resources Corp.)****Notes to the Consolidated Financial Statements**

For the Seven Months Ended April 30, 2018

(United States dollars)

18. Warrants

	Financing Warrants		Broker Warrants	
	Warrants Outstanding	Weighted Average Exercise Price C\$	Warrants Outstanding	Weighted Average Exercise Price C\$
February 23, 2017 and September 30, 2017	-	-	-	-
Issued	24,109,936	1.50	1,652,279	1.00
At April 30, 2018	24,109,936	1.50	1,652,279	1.00

The Company did not have any warrants outstanding before September 30, 2017.

At April 30, 2018, warrants were outstanding enabling holders to acquire common shares or units as follows:

Number of Financing Warrants	Number of Broker Warrants	Exercise Price C\$	Expiry Date
24,109,936	-	1.50	March 13, 2020
-	1,652,279	1.00	March 14, 2020
24,109,936	1,652,279		

CANNEX CAPITAL HOLDINGS INC.
(formerly Arco Resources Corp.)
Notes to the Consolidated Financial Statements
For the Seven Months Ended April 30, 2018
(United States dollars)

19. Share-Based Compensation

Cannex's board of directors has adopted rolling stock option plans under which the Company is authorized to grant options to directors, employees and consultants to acquire up to 10% of the issued and outstanding common shares and 10% of the issued and outstanding Class A shares. The exercise price of each option is based on the market price of the Company's stock for a period preceding the date of grant. The options can be granted for a maximum term of ten years and vest as determined by the board of directors. The Company's shares trade in Canadian dollars and options granted to date have been denominated in Canadian funds.

The Company's practice is to issue share options with a term of five years that vest in increments over a three-year period.

Option Grants

In December 2017, the Company granted 11,650,000 options to directors, employees and consultants of the Company. The options are exercisable at C\$1.00 per share until December 2022. Options granted to directors, employees and consultants vest in three equal tranches: March 13, 2018; March 13, 2019 and March 13, 2020. Options granted for investor relations vest in four equal tranches on June 13, 2018, September 13, 2018, December 13, 2018 and March 13, 2019.

A summary of stock option activity to April 30, 2018 follows. The Company did not have any options outstanding before September 30, 2017:

	Stock Options Outstanding	Weighted Average Exercise Price C\$
February 23, 2017 and September 30, 2017	-	-
Granted	11,650,000	1.00
Forfeited	(250,000)	1.00
April 30, 2018	11,400,000	1.00

During the period ended April 30, 2018, the Company recognized share-based compensation of \$3,278,936 (September 30, 2017 - \$nil) in connection with stock options issued and vested.

CANNEX CAPITAL HOLDINGS INC.
(formerly Arco Resources Corp.)
Notes to the Consolidated Financial Statements
For the Seven Months Ended April 30, 2018
(United States dollars)

19. Share-Based Compensation (continued)

At April 30, 2018, the Company had outstanding and exercisable stock options as follows:

Exercise Price	Outstanding Options			Exercisable Options	
	Number	Weighted Average Remaining Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
C\$			C\$		C\$
\$1.00	11,400,000	4.6 years	1.00	3,700,000	1.00

The weighted average grant-date fair value of options awarded in the period ended April 30, 2018 was C\$0.75 (\$0.58). The Company employed the Black-Scholes option-pricing model using the following weighted average assumptions to determine share-based compensation:

	2018
Annualized share price volatility	100%
Risk-free interest rate	2.0%
Expected option lives	4.75 years
Dividend yield	0.0%

CANNEX CAPITAL HOLDINGS INC.**(formerly Arco Resources Corp.)****Notes to the Consolidated Financial Statements**

For the Seven Months Ended April 30, 2018

(United States dollars)

20. Related Party Transactions

The Company considers key management personnel to be those persons determined as having authority and responsibility for planning, directing and controlling the activities of the Company. Key management includes the Company's board of directors and executive officers.

Key management personnel compensation was:

	Seven Months Ended April 30 2018	Formation on February 23, 2017 to September 30, 2017
	\$	\$
Short-term employee benefits	105,326	72,917
Management fees (included in wages and salaries)	160,290	-
Finders' fees	411,369	-
Fair value of finders' warrants (note 18)	173,435	-
Share-based compensation (notes 16 and 19)	2,659,689	-
	<u>3,510,109</u>	<u>72,917</u>

Included in management fees above are amount paid to companies controlled by related parties:

• A company controlled by the Company's CEO	46,812	-
• A company controlled by the Company's CFO	46,812	-
• A company controlled by the Company's COO	66,666	-

Finders' fees above were paid and finders' warrants issued to companies controlled by directors.

Short-term employee benefits were paid or accrued directly to employees and directors of the Company.

Share-based compensation comprised the fair value of incentive stock options awarded to directors and officers (\$2,185,910) and the fair value of shares issued to insiders in excess of the cash consideration paid (\$473,779).

During the period ended September 30, 2017, BrightLeaf acquired three subsidiaries in non-arm's length transactions, see note 11.

In October 2017, the Company issued common shares to insiders of the Company for cash consideration of C\$0.001 per share. The Company determined that the fair value at the issue date was C\$0.02, resulting in an aggregate benefit to the subscribers as follows: the Company's COO, \$2,143; and a director of the Company, \$89,070.

At April 30, 2018, the Company owed \$nil (September 30, 2017 - \$3,251,062) to related parties on account of revolving loans (note 12); \$nil (September 30, 2017 - \$19,583,334) to related parties on account of promissory notes (note 14); and \$9,283,194 (September 30, 2017 - \$nil) to related parties on account of convertible promissory notes and derivative liabilities (note 14).

CANNEX CAPITAL HOLDINGS INC.
(formerly Arco Resources Corp.)
Notes to the Consolidated Financial Statements
For the Seven Months Ended April 30, 2018
(United States dollars)

20. Related Party Transactions (continued)

During the period ended April 30, 2018, the Company generated product sales of \$2,106,794 (2017 - \$792,805) and rental income of \$3,498,240 (2017 - \$2,565,376) from a company owned by an individual holding 2,037,658 common shares and 12,015,565 Class A shares (see note 23).

During the period ended April 30, 2018, the Company generated product sales of \$78,830 (2017 - \$nil) and rental income of \$1,200,000 (2017 - \$nil) from a company owned by a member of the board of the Company (see note 23).

In the period ended April 30, 2018, the Company paid or accrued interest of \$699,657 (2017 - \$653,619) to related parties.

As at April 30, 2018, \$63,343 (September 30, 2017 - \$nil) is owing to related parties on account of compensation and expenses incurred.

As at April 30, 2018, \$1,365,887 (September 30, 2017 - \$252,365) of the Company's trade receivables were due from companies controlled by related parties.

As at April 30, 2018, \$527,592 (2017 - \$nil) of notes receivable is due from companies controlled by related parties.

21. Commitments

The Company has entered into a commercial property lease with a remaining life of 5.1 years, with a five-year renewal option. The future minimum rental payments under the lease at April 30, 2018 were:

<u>Years ending April 30</u>	<u>\$</u>
2019	247,500
2020	255,000
2021	255,000
2022	255,000
2023	255,000
2024	21,250
	<u>1,288,750</u>

CANNEX CAPITAL HOLDINGS INC.
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22. Income Taxes

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

Year ended April 30,	2018	2017
	\$	\$
Loss before income taxes	(4,428,540)	701,715
Expected income tax recovery	(1,195,706)	182,446
BrightLeaf income allocated to its members	(513,002)	1,681,471
Effect of foreign tax rates	7,986	-
Permanent difference	1,570,332	68
Effect of change in future tax rates	(734,091)	-
Change in unrecognized temporary differences	136,846	55,945
Total income tax expense (recovery)	(727,635)	1,919,930
Current income tax (recovery)	75,000	-
Deferred income tax (recovery)	(802,635)	1,919,930
	(727,635)	1,919,930

In September 2017, the British Columbia (BC) Government proposed changes to the general corporate income tax rate to increase the rate from 11% to 12% effective January 1, 2018 and onwards. This change in tax rate was substantively enacted on October 26, 2017. The relevant deferred tax balances have been remeasured to reflect the increase in the Company's combined Federal and Provincial (BC) general corporate income tax rate from 26% to 27%.

In December 2017, the United States government proposed changes to the Federal corporate income tax rate to reduce the rate from 34% to 21% effective January 1, 2018 and onwards. This change in tax rate was substantively enacted on December 22, 2017. The relevant deferred tax balances have been remeasured to reflect the decrease in the Company's Federal income tax rate from 34% to 21% applicable to the Company's US subsidiaries.

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the statement of financial position are as follows:

	2018	Expiry Date Range	2017	Expiry Date Range
Property, plant and equipment	-	Indefinite	-	Indefinite
Share issue costs	1,809,647	Indefinite	-	Indefinite
Non-capital losses available for future period	1,428,717	2037-2038	224,374	2037

CANNEX CAPITAL HOLDINGS INC.
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Notes to the Consolidated Financial Statements
For the Seven Months Ended April 30, 2018
(United States dollars)

22. Income Taxes (continued)

The significant components of the Company's deferred tax assets and liabilities are as follows:

	2018	2017
	\$	\$
Deferred tax assets (liabilities)		
Property and equipment	(1,117,295)	(1,919,930)
Net deferred tax liability	(1,117,295)	(1,919,930)

Tax attributes are subject to review, and potential adjustment, by tax authorities.

Section 280E of the Tax Code prohibits businesses from taking deductions or credits in carrying on any trade or business consisting of trafficking in controlled substances which are prohibited by federal law. The IRS has invoked Section 280E in tax audits against various cannabis businesses in the U.S. that are authorized under state laws, seeking substantial sums in tax liabilities, interest and penalties resulting from underpayment of taxes due to the application of Section 280E. Under a number of cases, the United States Supreme Court has held that income means gross income (not gross receipts). Under this reasoning, the cost of goods sold is permitted as a reduction in determining gross income, notwithstanding Section 280E. Although proper reductions for cost of goods sold are generally allowed to determine gross income, the scope of such items has been the subject of debate, and deductions for significant costs may not be permitted. While there are currently several pending cases before various administrative and federal courts challenging these restrictions, there is no guarantee that these courts will issue an interpretation of Section 280E favorable to cannabis businesses. Thus, the Company, to the extent of its "trafficking" activities (if applicable), and/or key contract counterparties directly engaged in trafficking in cannabis, may be subject to United States federal tax, without the benefit of deductions or credits.

CANNEX CAPITAL HOLDINGS INC.
(formerly Arco Resources Corp.)
Notes to the Consolidated Financial Statements
For the Seven Months Ended April 30, 2018
(United States dollars)

23. Segment Reporting

As at April 30, 2018, the Company had three reportable segments: (1) real estate; (2) supplies; and (3) corporate. Operating segments are aggregated and organized by the nature of the product and service provided.

April 30, 2018	Real Estate	Supplies	Corporate	Total
	\$	\$	\$	\$
Revenue from external customers	4,698,240	2,241,928	-	6,940,168
Depreciation and amortization	1,398,000	-	25	1,398,025
Interest expense	404,036	19,012	446,913	869,961
Interdivisional sales (purchases)	(64,500)	64,500	-	-
Income (loss) before income taxes	2,486,790	446,315	(7,361,645)	(4,428,540)
Share-based compensation	-	-	3,752,715	3,752,715
Capital expenditures	974,129	-	-	974,129
Income tax expense (recovery)	(633,635)	30,000	(124,000)	(727,635)
Total assets	30,600,925	1,530,842	14,967,021	47,098,788

CANNEX CAPITAL HOLDINGS INC.
(formerly Arco Resources Corp.)
Notes to the Consolidated Financial Statements
For the Seven Months Ended April 30, 2018
(United States dollars)

23. Segment Reporting (continued)

September 30, 2017	Real Estate \$	Supplies \$	Corporate \$	Total \$
Revenue from external customers	2,565,376	773,638	-	3,339,014
Cost of sales	-	645,823	-	645,823
Depreciation and amortization	627,880	-	-	627,880
Interest expense	741,665	43,589	7,551	792,805
Interdivisional sales (purchases)	(699,094)	699,094	-	-
Income (loss) before income taxes	1,087,670	(6,977)	(378,978)	701,715
Income tax expense	1,919,930	-	-	1,919,930
Capital expenditures	1,297,739	-	-	1,297,739*
Total assets	29,819,635	1,517,040	447,286	31,783,961

* Does not include capitalized interest of \$118,656

The geographical location of assets is as follows:

	April 30 2018 \$	September 30 2017
US	35,268,206	31,347,716
Canada	11,830,582	436,245
Total assets	47,098,788	31,783,961

All of the Company's long-lived assets are located in the United States. All revenues were generated in the United States.

The following customers represented more than 10% of sales (see note 20):

	April 30, 2018		September 30, 2017	
	Amount \$	%	Amount \$	%
Customer A	5,605,034	81	3,358,181	98

CANNEX CAPITAL HOLDINGS INC.
(formerly Arco Resources Corp.)
Notes to the Consolidated Financial Statements
For the Seven Months Ended April 30, 2018
(United States dollars)

24. Financial Risk Management

The Company's activities expose it to a variety of financial risks, including foreign exchange risk, interest rate risk, commodity price risk, credit risk and liquidity risk. The Company does not have a practice of trading derivatives.

Fair Values

Other than derivative assets and a derivative liability, the Company does not hold any financial instruments subject to level 1, 2 or 3 fair value measurements. There were no changes in level 1, 2, or 3 financial instruments during the period ended April 30, 2018.

Foreign Exchange Risk

The Company's activities are primarily undertaken in the United States but the parent company is located in Canada and the Company is exposed to changes in exchange rate between the US and Canadian dollars.

As at April 30, 2018 with other variables unchanged, a 10% increase (decrease) in the Canadian dollar would decrease (increase) net earnings by approximately \$57,000. Exposure to the Canadian dollar on financial instruments is as follows:

<hr/>	
Balance at April 30, 2018	\$
<hr/>	
Cash and cash equivalents	245,412
Receivables	67,107
Accounts payable and accrued liabilities	(1,043,507)
<hr/>	
<hr/>	
Balance at September 30, 2017	\$
<hr/>	
Cash and cash equivalents	263,071
Receivables	542
Accounts payable and accrued liabilities	(60,398)
<hr/>	

Interest Rate Risk

The Company's interest rate risk mainly arises from the interest rate impact on cash and cash equivalents. Cash earns interest based on market interest rates. The Company's revolving loans and promissory notes have a fixed interest rates and are not exposed to interest rate risk until maturity.

CANNEX CAPITAL HOLDINGS INC.
(formerly Arco Resources Corp.)
Notes to the Consolidated Financial Statements
For the Seven Months Ended April 30, 2018
(United States dollars)

24. Financial Risk Management (continued)

Credit Risk

Credit risk arises from the non-performance by counterparties of contractual financial obligations. The Company's credit risk arises primarily with respect to its cash and cash equivalents and trade receivables.

The Company manages credit risk by holding cash with large reputable financial institutions and trading with recognized creditworthy third parties. In addition, receivable balances are monitored on an on-going basis with the result that the Company's exposure to bad debt is not significant.

The Company also manages its credit risk by investing its cash only in obligations of Canada and the United States or its respective agencies, obligations of enterprises sponsored by any of the above governments; bankers' acceptances purchased in the secondary market and having received the highest credit rating from a recognized rating agency in Canada or the United States, with a term of less than 180 days; and bank term deposits and bearer deposit notes, with a term of less than 180 days.

The Company's maximum exposure to credit risk at the reporting date is the carrying value of cash and trade receivables.

Liquidity Risk

The Company manages liquidity risk by maintaining adequate cash balances. If necessary, it may raise funds through the issuance of debt, equity, or monetization of non-core assets. To ensure that there is sufficient capital to meet obligations, the Company continuously monitors and reviews actual and forecasted cash flows and matches the maturity profile of financial assets to development, capital and operating needs.

April 30, 2018	Less than three months \$	Three to 12 months \$	One to five years \$	Total \$
Accounts payable and accrued liabilities	2,377,155	-	-	2,377,155
Promissory notes	193,672	738,594	1,603,782	2,536,048
Convertible promissory notes	276,645	867,556	8,334,285	9,478,486
	<u>2,847,472</u>	<u>1,606,150</u>	<u>9,938,067</u>	<u>14,391,689</u>

Fair Value

The fair value of the Company's financial assets and financial liabilities, other than a convertible note receivable and convertible promissory notes, approximate the carrying value due to the short-term maturities of the instruments and for long-term promissory notes, notes receivable, a market rate of interest.

CANNEX CAPITAL HOLDINGS INC.
(formerly Arco Resources Corp.)
Notes to the Consolidated Financial Statements
For the Seven Months Ended April 30, 2018
(United States dollars)

25. Earnings (Loss) Per Share

	April 30 2018	September 30 2017
Loss for the period	\$ (3,700,905)	\$ (1,218,215)
Weighted average number of common shares outstanding	128,941,519	13,147,825
Loss per share, basic and diluted (\$ per share)	(0.03)	(0.09)

Diluted income (loss) per share for the periods ended April 30, 2018 and September 30, 2017 are the same as basic income (loss) per share. At April 30, 2018, the exercise of the 11,400,000 share options and 25,762,215 warrants would be anti-dilutive; and at September 30, 2017, there were no stock options or warrants outstanding.

26. Supplemental Disclosure With Respect to Cash Flow

During the period ended April 30, 2018 the Company incurred the following non-cash transactions:

- Share issuance costs included in accounts payable of \$810,943.
- Issued agents warrants valued at \$554,933 (note 16).
- Recorded a non-cash loss of \$488,000 on the change in fair value of a derivative liability (note 15).
- Converted promissory notes of \$768,000 (Note 14) and revolving loans of \$124,265 (note 13) into equity.

During the period ended September 30, 2017 the Company incurred the following non-cash transactions:

- Share issuance costs included in accounts payable of \$2,400.
- Shares issued for prepaid services valued at \$156,267.

27. Event After the Reporting Period

In August 2018, the Company advanced a further \$1,000,000 under its convertible promissory note with Jetty, see note 8.

SCHEDULE "D"
**UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS OF CANNEX AS
OF AND FOR THREE AND NINE MONTHS ENDED JANUARY 31, 2019**

(See attached)



CANNEX CAPITAL HOLDINGS INC.

(Formerly Arco Resources Corp.)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Expressed in United States Dollars

Unaudited

January 31, 2019



**NOTICE OF NO AUDITOR REVIEW OF
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited condensed consolidated interim financial statements of Cannex Capital Holdings Inc. for the nine months ended January 31, 2019 have been prepared by the management of the Company and approved by the Company's audit committee.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with standards established by the Canadian Institute of Chartered Professional Accountants for a review of the condensed consolidated interim financial statements by an entity's auditor.

CANNEX CAPITAL HOLDINGS INC.

(formerly Arco Resources Corp.)

Condensed Consolidated Interim Statements of Financial Position

(United States dollars)

	Note	January 31 2019 \$	April 30 2018 \$
ASSETS			
Current assets			
Cash and cash equivalents		27,847,191	11,862,715
Accounts receivable	6, 19	2,134,365	1,582,994
Equipment finance receivable	7, 19	131,771	157,084
Inventory		319,331	147,705
Prepaid expenses		517,116	128,798
Total current assets		30,949,774	13,879,296
Non-current assets			
Deposits		2,016,029	59,456
Convertible note receivable and derivative asset	8	-	2,511,759
Advance to 4Front	9	2,000,000	-
Other investments	10	981,812	-
Property, plant and equipment	11	28,830,224	30,277,769
Equipment finance receivable	7, 19	305,714	370,508
Total non-current assets		34,133,779	33,219,492
Total assets		65,083,553	47,098,788
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	12, 19	1,611,387	2,377,155
Income taxes payable		295,000	75,000
Promissory note due within 12 months	13	-	932,266
Convertible promissory note due within 12 months	14	-	1,144,201
Derivative liability	14	13,957,142	5,077,000
Total current liabilities		15,863,529	9,605,622
Non-current liabilities			
Promissory note	13	-	1,603,782
Convertible promissory notes	14	13,021,289	3,745,285
Deferred income taxes		1,052,295	1,117,295
Total non-current liabilities		14,073,584	6,466,362
Total liabilities		29,937,113	16,071,984
EQUITY			
Share capital - common	15	30,335,767	31,007,807
Share capital - Class A	15	1,462,329	1,462,329
Reserves	16	12,807,305	3,475,788
Deficit		(9,458,961)	(4,919,120)
		35,146,440	31,026,804
Total liabilities and equity		65,083,553	47,098,788

Commitment (note 20)

Events after the reporting period (note 25)

On behalf of the directors:

<u>"Leo Gontmakher"</u> Leo Gontmakher	Director	<u>"Roman Tkachenko"</u> Roman Tkachenko	Director
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See accompanying notes

CANNEX CAPITAL HOLDINGS INC.

(formerly Arco Resources Corp.)

Condensed Consolidated Interim Statements of Comprehensive Loss

(United States dollars)

	Note	Three months ended		Nine months ended	
		January 31 2019 \$	December 31 2017 \$	January 31 2019 \$	December 31 2017 \$
Product sales	21	1,281,275	1,244,709	3,144,796	2,018,347
Cost of sales		1,102,601	1,083,383	2,544,203	1,729,206
Gross profit		178,674	161,326	600,593	289,141
Rental income	21	2,397,512	1,639,296	6,985,928	4,204,672
		2,576,186	1,800,622	7,586,521	4,493,813
Operating expenses					
Accretion	14	416,197	-	1,036,197	-
Consulting fees		885,667	172,127	1,023,667	275,217
Depreciation	11	499,870	731,477	1,500,430	1,359,357
Director fees		50,960	-	113,171	-
Foreign exchange		167,232	(19,553)	(143,131)	(19,553)
General		410,812	200,036	882,489	228,974
Interest	13, 14	1,187,754	320,626	1,834,141	1,113,431
Investor relations		91,442	16,816	334,222	24,424
Legal and professional fees		633,724	306,328	1,219,826	437,280
Rent		50,238	63,173	148,864	77,278
Share-based compensation	18	1,155,695	462,505	2,125,482	462,505
Shareholder and regulatory		36,209	8,289	80,329	8,289
Property taxes		68,330	14,355	361,534	193,509
Travel		39,915	142,293	135,731	142,293
Wages and salaries	19	519,091	101,755	987,151	208,699
		6,213,136	2,520,227	11,640,103	4,511,703
Loss before other items		(3,636,950)	(719,605)	(4,053,582)	(17,890)
Other income					
Change in fair value of derivative liabilities	14	(1,811,000)	-	1,961,000	-
Loss on loan settlement	14	(2,514,000)	-	(2,514,000)	-
Interest income		46,856	-	221,741	-
Loss before income taxes		(7,915,094)	(719,605)	(4,384,841)	(17,890)
Income taxes					
Current		228,000	-	(220,000)	-
Deferred		22,000	-	65,000	(1,919,930)
		250,000	-	(155,000)	(1,919,930)
Loss for the period		(7,665,094)	(719,605)	(4,539,841)	(1,937,820)
Translation gain		909,109	38,414	459,382	29,142
Comprehensive loss for the period		(6,755,985)	(681,191)	(4,080,459)	(1,908,678)
Basic and diluted loss per share	23	(0.04)	(0.01)	(0.02)	(0.06)
Weighted average number of shares outstanding, basic and diluted	23	183,713,937	96,801,748	183,713,937	35,078,186

See accompanying notes

CANNEX CAPITAL HOLDINGS INC.
(formerly Arco Resources Corp.)
Condensed Consolidated Interim Statements of Cash Flow
(United States dollars)

Nine months ended	Note	January 31 2019 \$	December 31 2017 \$
Operating activities			
Loss for the period		(4,539,842)	(1,937,820)
Items not requiring cash:			
Accretion	14	1,036,197	-
Depreciation	11	1,500,430	1,359,357
Share-based compensation	18	2,125,482	462,505
Interest income		(221,741)	-
Interest expense		1,834,141	1,113,431
Shares issued for payment of consulting services		-	-
Unrealized exchange loss (gain)		(168,688)	-
Change in fair value of derivative liabilities	14	(1,961,000)	-
Deferred income taxes		(65,000)	1,919,930
Changes in working capital:			
Accounts receivables		(549,212)	(582,375)
Inventory		(171,626)	607,388
Prepaid expense		(388,316)	(183,645)
Accounts payable		(672,159)	(1,429,475)
Taxes payable		220,000	-
Net cash generated from (used in) operations		(2,021,334)	1,329,296
Investing activities			
Cash acquired from acquisitions		-	183,148
Deposits		(1,956,573)	104,517
Purchase of property, plant and equipment	11	(52,885)	(1,685,902)
Investment in Jetty	8	(1,000,000)	-
Repayment by Jetty	8	3,500,000	-
Interest income		102,540	-
Advance to 4Front		(2,000,000)	-
Equity investments		(981,812)	-
Repayment of equipment finance receivable	7	90,107	-
Net cash generated from (used in) investing activities		(2,298,623)	(1,398,237)
Financing activities			
Issuance of common shares for cash, net of issuance costs		-	2,299,556
Share subscriptions received		-	9,428,095
Capital contributed		-	1,808,380
Revolving loan advances	11	-	986,261
Convertible note repayments	14	(6,964,485)	-
Convertible note advances		32,000,000	-
Convertible note costs		(738,900)	-
Loan proceeds		-	230,000
Loan repayments	13	(2,536,048)	(3,043,366)
Interest paid	13, 14	(1,447,355)	(339,162)
Net cash generated by (used in) financing activities		20,313,212	11,369,764
Effect of exchange rate movements on cash		(8,780)	(422,332)
Change in cash and cash equivalents		15,984,475	10,878,491
Cash and cash equivalents, beginning of period		11,862,716	-
Cash and cash equivalents, end of period		27,847,191	10,878,491
Cash and cash equivalents comprise			
Cash		21,380,362	10,878,491
Cash equivalents		6,466,829	-
		27,847,191	10,878,491

Supplemental disclosure with respect to cash flow (note 24)

See accompanying notes

CANNEX CAPITAL HOLDINGS INC.

(formerly Arco Resources Corp.)

Condensed Consolidated Interim Statements of Equity

(United States dollars)

	Note	Number of Shares		Share capital		Share sub- scriptions received	Members' equity	Reserves	Deficit	Total
		Common	Class A	Common	Class A					
				\$	\$					
March 31, 2017		-	-	-	-	-	-	-	-	-
Issuance of shares for cash	15	19,350,355	-	2,229,556	-	-	-	-	-	2,229,556
Shares issued for payment of consulting services		16,360,056	-	-	-	-	-	-	-	-
Share subscriptions received		-	-	-	-	9,428,095	-	-	-	9,428,095
Cash contributed	15	-	-	-	-	-	2,308,379	-	-	2,308,379
Cash distributed	15	-	-	-	-	-	(499,999)	-	-	(499,999)
Loan converted to equity	15	-	-	-	-	-	1,706,120	-	-	1,706,120
Effect of acquisitions under common control		-	-	-	-	-	(1,629,024)	-	-	(1,629,024)
Foreign currency translation loss		-	-	-	-	-	-	29,142	-	29,142
Loss for the period		-	-	-	-	-	-	-	(1,937,820)	(1,937,820)
December 31, 2017		35,710,411	-	2,229,556	-	9,428,095	1,885,476	29,142	(1,937,820)	11,704,449
April 30, 2018		87,192,203	96,521,734	31,007,807	1,462,329	-	-	3,475,788	(4,919,120)	31,026,804
Share issue costs		-	-	(672,040)	-	-	-	-	-	(672,040)
Fair value of warrants issued		-	-	-	-	-	-	6,746,653	-	6,746,653
Share-based compensation	18	-	-	-	-	-	-	2,125,482	-	2,125,482
Foreign currency translation loss		-	-	-	-	-	-	459,382	-	459,382
Income for the period		-	-	-	-	-	-	-	(4,539,841)	(4,539,841)
January 31, 2019		87,192,203	96,521,734	30,335,767	1,462,329	-	-	12,807,305	(9,458,961)	35,146,440

See accompanying notes

CANNEX CAPITAL HOLDINGS INC.

(formerly Arco Resources Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the Nine Months Ended January 31, 2019

(United States dollars)

1. Corporate Information

Cannex Capital Holdings Inc. (formerly Arco Resources Corp.) ("Cannex" or the "Company") was incorporated as Atomic Minerals Ltd. on March 13, 2006 pursuant to the provisions of the British Columbia Business Corporations Act and was previously listed on the NEX board of the TSX Venture Exchange (the "Exchange").

On March 13, 2018, Cannex Capital Group Inc. (the "Cannex Group") and its security holders (the "Cannex Group Security holders") completed an amalgamation with Arco Resources Corp. ("Arco"), a public company listed on the NEX board of the Exchange pursuant to which the Cannex Group Security holders transferred all of their common shares of Cannex Group in exchange for common shares of Arco on a 1:1 ratio. The transaction resulted in the former Cannex Group Security holders obtaining control the resulting issuer, and therefore constituted a reverse takeover (the "RTO Amalgamation") under the policies of the Exchange.

Concurrently with the RTO Amalgamation Cannex Group completed the acquisition of 100% of the membership units of BrightLeaf, LLC ("BrightLeaf"), an entity under common control with Cannex Group, for cash of \$22,532,608, the issuance of convertible promissory notes of \$9,033,025 (note 14) and the assumed debts of \$4,434,370. Prior to the acquisition BrightLeaf debt of \$892,265 was converted to equity of BrightLeaf.

The ongoing entity, being the combined operations of Cannex Group and BrightLeaf, has adopted the name Cannex Capital Holdings Inc. Cannex has been identified for accounting purposes as the acquirer, and accordingly the entity is considered to be a continuation of Cannex and the net assets of Arco at the date of the RTO Amalgamation are deemed to have been acquired by Cannex. The comparative figures are those of Cannex and BrightLeaf prior to the RTO Amalgamation.

In connection with the RTO Amalgamation, Cannex delisted its common shares from the NEX and relisted on the Canadian Securities Exchange and completed a private placement, net of issuance costs, for \$34,749,478. The Company's common shares resumed trading on the Canadian Securities Exchange under the symbol "CNNX" on March 14, 2018.

The Company leases real estate and sells supplies to cannabis producers and is seeking to expand through investments in cannabis growers, processors and retailers. The head office and principal address of the Company is 1241 Alberni Street, Vancouver, British Columbia, V6E 4R4.

CANNEX CAPITAL HOLDINGS INC.

(formerly Arco Resources Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the Nine Months Ended January 31, 2019

(United States dollars)

2. Basis of Presentation

a) Change of year end

Cannex Group had a September 30 year end but, in conjunction with the RTO Amalgamation, elected to change its year end to April 30. The comparative statements of comprehensive income (loss), equity, and cash flow are for the period ended December 31, 2017.

b) Statement of compliance

These condensed consolidated interim financial statements for the nine months ended January 31, 2019 have been prepared in accordance with *IAS 34 – Interim Financial Reporting* and should be read in conjunction with the Company's April 30, 2018 audited financial statements which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Company's audit committee approved the release of these condensed consolidated interim financial statements on March 30, 2019.

c) Basis of measurement

These condensed consolidated interim financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are measured at fair value, as explained in the significant accounting policies set out in the Company's April 30, 2018 audited financial statements. The condensed consolidated interim financial statements are presented in United States dollars. The functional currency of the parent company, Cannex, is the Canadian dollar ("C\$") and the functional currency of its subsidiary companies is the United States dollar ("\$").

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

CANNEX CAPITAL HOLDINGS INC.

(formerly Arco Resources Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the Nine Months Ended January 31, 2019

(United States dollars)

2. Basis of Presentation (continued)

d) Basis of consolidation

The condensed consolidated interim financial statements comprise the financial statements of the Company and its wholly-owned subsidiaries. Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect these returns through the power to direct the relevant activities of the entity. To the extent that subsidiaries provide services that relate to the Company's activities, they are fully consolidated from the date control is transferred and are deconsolidated from the date control ceases. All intercompany balances and transactions have been eliminated.

Cannex's principal subsidiaries are:

Entity	Ownership Percentage	Principal Activity
BrightLeaf Development LLC ("BrightLeaf")	100%	Real estate holding
Real Estate Properties LLC ("REP")	100%	Real estate holding
Fuller Hill Development Co LLC ("Fuller")	100%	Leaseholds
Ag-Grow Imports LLC ("Ag-Grow")	100%	Sale of supplies
Cannex Capital Group Inc.	100%	Holding
Cannex Holdings (Nevada) Inc. ("Cannex USA")	100%	Holding
Cannex Holdings (California) Inc.	100%	Holding

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

CANNEX CAPITAL HOLDINGS INC.

(formerly Arco Resources Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the Nine Months Ended January 31, 2019

(United States dollars)

2. Basis of Presentation (continued)

e) Going concern

These condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will be able to continue its operations for at least the next twelve months and will be able to realize its assets and discharge its liabilities in the normal course of business.

The Company indirectly derives its revenues from the cannabis industry in certain states of the United States, which industry is illegal under United States federal law. The Company is not directly engaged in the manufacture, importation, possession, use, sale or distribution of cannabis in the recreational cannabis marketplace in either Canada or the United States, nor is the Company directly engaged in the manufacture, importation, possession, use, sale or distribution of cannabis in the medical cannabis marketplace in Canada or the United States.

More than half of the states in the United States have enacted legislation to regulate the sale and use of medical cannabis without limits on tetrahydrocannabinol ("THC"), while other states have regulated the sale and use of medical and adult-use cannabis with strict limits on the levels of THC. Notwithstanding the permissive regulatory environment of adult-use recreational and medical cannabis at the state level, cannabis continues to be categorized as a controlled substance under the Controlled Substances Act in the United States and as such, cannabis-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis are illegal under United States federal law. Strict compliance with state laws with respect to cannabis will neither absolve the Company of liability under United States federal law, nor provide a defense to any federal proceeding which may be brought against the Company. Any such proceedings brought against the Company may adversely affect the Company's operations and financial performance.

CANNEX CAPITAL HOLDINGS INC.

(formerly Arco Resources Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the Nine Months Ended January 31, 2019

(United States dollars)

3. Adoption of New Accounting Pronouncements and Recent Developments

Certain pronouncements, issued by the IASB or the IFRS Interpretations Committee, were adopted during the period, or were mandatory for the Company's fiscal periods beginning on or after May 1, 2018 or are required to be adopted in future periods.

New standards adopted during the period ended January 31, 2019

a) IFRS 9 – Financial Instruments

On May 1, 2018, the Company adopted the new accounting standard IFRS 9. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company's accounting policy with respect to financial liabilities is unchanged.

As a result of the adoption of this standard, the Company has changed its accounting policy for financial assets retrospectively, for assets that were recognized at the date of application. The change did not impact the carrying value of any financial assets on the transition date.

The following are new accounting policies for financial assets under IFRS 9.

Financial assets

1. Classification and measurement

The Company classifies its financial assets in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI") or at amortized cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The classification of debt instruments is driven by the business model for managing the financial assets and their contractual cash flow characteristics. Debt instruments are measured at amortized cost if the business model is to hold the instrument for collection of contractual cash flows and those cash flows are solely principal and interest. If the business model is not to hold the debt instrument, it is classified as FVTPL. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest. Equity instruments that are held for trading (including all equity derivative instruments) are classified as FVTPL, for other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument by-instrument basis) to designate them as at FVTOCI.

CANNEX CAPITAL HOLDINGS INC.

(formerly Arco Resources Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the Nine Months Ended January 31, 2019

(United States dollars)

3. Adoption of New Accounting Pronouncements and Recent Developments (continued)

Financial assets

1. Classification and measurement

i) Financial assets at FVTPL

Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statement of profit or loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial asset held at FVTPL are included in the statement of profit or loss in the period in which they arise. Derivatives are also categorized as FVTPL unless they are designated as hedges.

ii) Financial assets at FVTOCI

Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income. There is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment.

iii) Financial assets at amortized cost

Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment. They are classified as current assets or non-current assets based on their maturity date.

2. Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the loss allowance is measured for the financial asset at an amount equal to twelve month expected credit losses. For trade receivables the Company applies the simplified approach to providing for expected credit losses, which allows the use of a lifetime expected loss provision. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

CANNEX CAPITAL HOLDINGS INC.

(formerly Arco Resources Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the Nine Months Ended January 31, 2019

(United States dollars)

3. Adoption of New Accounting Pronouncements and Recent Developments (continued)

Financial assets

3. Derecognition of financial assets

Financial assets are derecognized when they mature or are sold, and substantially all the risks and rewards of ownership have been transferred. Gains and losses on derecognition of financial assets classified as FVTPL or amortized cost are recognized in the income statement. Gains or losses on financial assets classified as FVTOCI remain within accumulated other comprehensive income. The Company completed an assessment of its financial instruments as at January 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

	Original classification on IAS 39	New classification on IFRS 9
Financial assets		
Cash	Amortized cost	Amortized cost
Trade receivables	Amortized cost	Amortized cost
Financial liabilities		
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Short term loans and interest payable	Amortized cost	Amortized cost
Due to related parties and interest payable	Amortized cost	Amortized cost
Liabilities on derivatives	FVTPL	FVTPL

Derivative financial instruments

Derivatives are recognized initially at fair value on the date the related contract is entered into. Subsequent to initial recognition, derivatives are remeasured at their fair value. The method of recognizing any resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognized immediately in the statement of profit or loss.

b) IFRS 15 – Revenue from Contracts with Customers

On May 1, 2018, the Company adopted the new accounting standard IFRS 15 to all contracts using the modified retrospective approach. The Company has concluded that there is no significant impact resulting from the application of the new revenue standard on its consolidated financial statements. Under the new revenue standard, the Company's revenue continues to be recognised when products are delivered to the customer, which is also the moment when control of the products is transferred, and when there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of loss have been transferred to the customer and the customer has accepted the products in accordance with the sales contract.

CANNEX CAPITAL HOLDINGS INC.

(formerly Arco Resources Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the Nine Months Ended January 31, 2019

(United States dollars)

3. Adoption of New Accounting Pronouncements and Recent Developments (continued)

New standards, interpretations and amendments not yet effective

c) IFRS – Leases

IFRS 16 - Leases specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring that lessees recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has an insignificant value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 was issued in January 2016 and will be applicable to the Company's fiscal period beginning May 1, 2019, although early adoption is permitted. The Company does not intend to early adopt this standard and is currently evaluating the impact of adopting this standard on the consolidated financial statements. The Company expects that it will recognize additional assets and liabilities as a result of the leasing arrangements currently entered or to be entered by its subsidiaries. The full extent of the impact of adoption of the standard has not yet been determined and management will continue to assess the impact as fiscal approaches.

d) IFRIC 23

This standard clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. It is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Company does not expect that the adoption of this standard will have a material effect on the Company's consolidated financial statements.

There are no other pending IFRSs or IFRIC interpretations that are expected to be relevant to the Company's financial statements.

CANNEX CAPITAL HOLDINGS INC.

(formerly Arco Resources Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the Nine Months Ended January 31, 2019

(United States dollars)

4. Critical Accounting Estimates and Judgments

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are the same as those applied to the Company's April 30, 2018 audited financial statements.

The Company makes critical judgments in the determination of property, plant and equipment, inventory, share-based compensation, fair value of financial instruments and impairment.

CANNEX CAPITAL HOLDINGS INC.

(formerly Arco Resources Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the Nine Months Ended January 31, 2019

(United States dollars)

5. Capital Management

The Company's primary objectives, when managing its capital, are to maintain adequate levels of funding to support the operations of the Company and to maintain corporate and administrative functions. The Company defines capital as revolving loans, promissory notes, convertible notes and equity, consisting of the issued units of the Company. The capital structure of the Company is managed to provide sufficient funding for planned operating activities of the Company. Funds are primarily secured through a combination of equity capital raised by way of private placements and debt. There can be no assurances that the Company will be able to continue raising equity capital and debt in this manner.

The Company invests all capital that is surplus to its immediate needs in short-term, liquid and highly rated financial instruments, such as cash and other short-term deposits, which are all held with financial institutions.

There were no changes to the Company's approach to capital management during the nine months ended January 31, 2019 from the period ended April 30, 2018. The Company is not subject to any externally imposed capital requirements.

6. Accounts Receivable

	January 31 2019	April 30 2018
	\$	\$
Trade accounts receivable	1,973,384	1,515,887
Allowance for doubtful debts	-	-
Net trade accounts receivable	1,973,384	1,515,887
Other receivables	160,981	67,107
	2,134,365	1,582,994

As at January 31, 2019, two customers accounted for 100% (April 30, 2018 – 86%) of total accounts receivable (note 21).

CANNEX CAPITAL HOLDINGS INC.

(formerly Arco Resources Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the Nine Months Ended January 31, 2019

(United States dollars)

7. Equipment Finance Receivable

	January 31 2019	April 30 2018
	\$	\$
September 30, 2017	-	
Notes receivable	530,178	
Interest	690	
Repayments (principal and interest)	(3,276)	
April 30, 2018	527,592	
Interest	21,951	
Repayments (principal and interest)	(112,058)	
January 31, 2019	437,485	
	January 31 2019	April 30 2018
	\$	\$
Financial statement presentation:		
Current	131,771	157,084
Non-current	305,714	370,508
	437,485	527,592

In February 2018 and April 2018, the Company issued notes receivable for a total of \$530,178 to a related party. The notes bear interest at 6% per year and are repayable in 48 instalments aggregating \$12,451 per month.

CANNEX CAPITAL HOLDINGS INC.

(formerly Arco Resources Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the Nine Months Ended January 31, 2019

(United States dollars)

8. Convertible Note Receivable and Derivative Asset

In April 2018, the Company subscribed for a promissory note with Ametrine Wellness dba Jetty Extracts ("Jetty"), a company which holds a 99.99% membership interest in Jetty Marketing, LLC a 50% membership interest in Jetty MindTricks, LLC, and a 5% membership interest in 57th Avenue LLC. Jetty is a California-based processor and distributor of cannabis products.

The Company advanced \$3,500,000 to Jetty under a convertible promissory note secured by the assets of Jetty and bearing interest at 8% annually, due on maturity. The promissory note was due on October 10, 2020 but Jetty elected to repay the note early and the Company received full payment of principal and interest in October 2018. The option to settle the promissory notes in common shares of Jetty represented an embedded derivative in the form of a call option to the Company. Jetty was a private company and its shares could not be reliably valued using any market-derived indicators. Accordingly, the derivative asset was initially recognized by comparing a similar instrument without the conversion option and discounting the fair value of the host contract with the non-convertible instrument interest rate, which the Company estimates would be 15%.

	Convertible note receivable \$	Derivative asset \$	Total \$
September 30, 2017	-	-	-
Advance	2,067,000	433,000	2,500,000
Interest	11,759	-	11,759
April 30, 2018	2,078,759	433,000	2,511,759
Advance	849,000	151,000	1,000,000
Interest	106,029	-	106,029
Repayment	(3,033,788)	(584,000)	(3,617,788)
January 31, 2019	-	-	-

CANNEX CAPITAL HOLDINGS INC.

(formerly Arco Resources Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the Nine Months Ended January 31, 2019

(United States dollars)

9. Transaction with 4Front Holdings

In December 2018, the Company entered into a binding letter agreement to acquire the membership interests of 4Front Holdings, LLC, an U.S.-based cannabis company which owns, manages, or controls or services cannabis licenses in Illinois, Massachusetts, Pennsylvania, and Maryland, in addition to having license applications in other U.S. states. Subsequent to period end, the Company signed a definitive agreement with 4Front with respect to the business combination (note 25).

CANNEX CAPITAL HOLDINGS INC.

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10. Other Investments*Soma*

In October 2018, the Company completed a \$755,103 (10%) equity investment into Soma Group Holdings Inc. ("Soma"), a New-Zealand based private cannabis start-up. The Company is not able to exert significant influence over the operations of Soma.

	\$
April 30, 2018	-
Investment	755,103
January 31, 2019	755,103

LemonHaze

In January 2019, the Company completed a \$150,000 investment into LemonHaze, Inc., a Washington based private cannabis event company.

	\$
April 30, 2018	-
Investment	150,000
January 31, 2019	150,000

Conservative Drug Policy Reform Group Ltd.

In February 2019, Cannex Capital Group (UK) Ltd., completed a \$76,709 investment into the Conservative Drug Policy Reform Group Ltd., a drug policy reform initiative in the United Kingdom.

	\$
April 30, 2018	-
Investment	76,709
January 31, 2019	76,709

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11. Property, Plant and Equipment

	Land	Buildings	Leasehold Improve- ments	Equipment and Fixtures	Total
	\$	\$	\$	\$	\$
Cost					
At April 30, 2018	1,000,000	3,919,453	26,167,255	1,209,082	32,295,790
Purchases	-	-	112,412	(59,527)	52,885
Disposal	-	-	-	(29,114)	(29,114)
At January 31, 2019	1,000,000	3,919,453	26,279,667	1,120,441	32,319,561
Accumulated depreciation					
At April 30, 2018	-	106,838	1,727,837	183,346	2,018,021
Depreciation expense	-	76,923	1,282,693	140,814	1,500,430
Disposal	-	-	-	(29,114)	(29,114)
At January 31, 2019	-	183,761	3,010,530	295,046	3,489,337
Net book value					
At April 30, 2018	1,000,000	3,812,615	24,439,418	1,025,736	30,277,769
At January 31, 2019	1,000,000	3,735,692	23,269,137	825,395	28,830,224

12. Accounts Payable and Accrued Liabilities

	January 31 2019	April 30 2018
	\$	\$
Trade accounts payable	1,611,387	2,016,867
Accrued liabilities	-	311,640
Sales taxes	-	48,648
Accounts payable and accrued liabilities	1,611,387	2,377,155

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13. Promissory Note

The note bears interest at 8.5% annually, with monthly payments of \$82,066 including interest. This promissory note was paid in full in October 2018.

	\$
September 30, 2017	22,473,586
Advances	230,000
Converted to equity	(768,000)
Interest	381,429
Repayments (principal and interest)	(19,780,967)
April 30, 2018	2,536,048
Interest	52,526
Repayments (principal and interest)	(2,588,574)
January 31, 2019	-

	January 31 2019 \$	April 30 2018 \$
Financial statement presentation:		
Current liabilities	-	932,266
Non-current liabilities	-	1,603,782
	-	2,536,048

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14. Convertible Promissory Note

	January 31, 2019		April 30, 2018	
	Convertible promissory notes	Derivative liability	Convertible promissory notes	Derivative liability
RTO amalgamation	-	-	4,889,486	5,077,000
Gotham Green Partners	13,021,289	13,957,142	-	-
	13,021,289	13,957,142	4,889,486	5,077,000

RTO Amalgamation

On March 13, 2018, the Company entered into convertible promissory notes for \$9,033,025 as part of the RTO Amalgamation. The convertible promissory notes are secured by the units of BrightLeaf and pay 12% interest, calculated and paid monthly, and mature on March 15, 2020. The notes are convertible into common shares of the Company at the option of the subscriber at any time until maturity at a price of C\$1.00 per common share. The Company is to make monthly payments equal to the lesser of (1) interest for the previous month; and (2) 50% of the distributable cash of BrightLeaf, with distributable cash defined as cash received by BrightLeaf minus payments to lenders, cash expenses and expenditures and cash reserves. If the Company fails to make payments on time, the interest rate increases to 18% until the default is remedied, and an additional 50% late payment fee is charged.

The Company received a waiver from the holders of the notes described above, allowing it to defer required payments until August 2018 with no penalty. The Company requested this waiver as an accommodation to allow it to instead completely pay down a trade payable, which was interest bearing at 12% per year. As of August 2018, the trade payable was completely paid down, and the first required payment to the holders of the notes described above has been made.

The Company used the residual value method to allocate the principal amount between the liability and option components of the convertible promissory notes. The option component of the convertible promissory notes is a derivative liability as the ultimate number of common shares to be issued varies with the foreign exchange rate between United States and Canadian dollars. At the end of each reporting period, the Company revalues the derivative liability, that is the conversion option, by using the Black-Scholes option pricing model with the following assumptions:

	January 31 2019	April 30 2018
Annualized share price volatility	80%	100%
Risk-free interest rate	2.07%	2.11%
Expected lives	1.6 years	1.9 years
Dividend yield	0.0%	0.0%

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14. Convertible Promissory Note (continued)

On April 30, 2018, the fair value of the derivative liability was estimated at \$5,077,000. At January 31, 2019, the Company estimated the fair value of the derivative liability to be \$nil, with the result that the Company recorded a gain on the change in fair value of the derivative liability in the period ended January 31, 2019 of \$3,772,000. During the period ended January 31, 2019, the Company recognized accretion of \$770,000 representing the difference between the fair value of the convertible promissory note financing cost and nominal interest at 12%.

	Convertible promissory note \$	Derivative liability \$	Total \$
April 30, 2018	4,889,486	5,077,000	9,966,486
Accretion	770,000	-	770,000
Interest	639,740	-	639,740
Payments	(6,299,226)	(1,305,000)	(7,604,226)
Change in fair value of derivative	-	(3,772,000)	(3,772,000)
January 31, 2019	-	-	-

	January 31 2019 \$	April 30 2018 \$
Financial statement presentation:		
Current liabilities	-	1,144,201
Non-current liabilities	-	3,745,285
	-	4,889,486

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14. Convertible Promissory Note (continued)*Gotham Green Partners*

In November 2018, the Company closed a \$32,000,000 secured debt financing with Gotham Green Partners LLC ("GGP"). The use of proceeds was the repayment of all other existing indebtedness of the Company totaling approximately \$9,400,000, general corporate purposes, and working capital. At January 31, 2019 the payable due, with accrued interest, under the terms of the GGP promissory note agreement, and before consideration of transaction costs and the derivative liability, was \$32,386,786 (note 22).

The Company used the residual value method to allocate the principal amount between the liability and option components of the convertible promissory notes. The option component of the convertible promissory notes is a derivative liability as the ultimate number of common shares to be issued varies with the foreign exchange rate between United States and Canadian dollars. At the end of each reporting period, the Company revalues the derivative liability, that is the conversion option, by using the Black-Scholes option pricing model with the following assumptions:

	January 31 2019	April 30 2018
Annualized share price volatility	102%	N/A
Risk-free interest rate	2.07%	N/A
Expected lives	2.8 years	N/A
Dividend yield	0.0%	0.0%

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14. Convertible Promissory Note (continued)

At January 31, 2019, the Company estimated the fair value of the derivative liability to be \$13,957,142, with the result that the Company recorded a gain on the change in fair value of the derivative liability in the period ended January 31, 2019 of \$1,811,000. During the period ended January 31, 2019, the Company recognized accretion of \$266,197 representing the difference between the fair value of the convertible promissory note financing cost and nominal interest at 13.5%.

	Convertible promissory note \$	Derivative liability \$	Total \$
April 30, 2018	-	-	-
Promissory note proceeds	16,145,000	15,855,000	32,000,000
Transaction costs	(3,776,695)	(3,708,858)	(7,485,553)
Accretion	266,197	-	266,197
Interest	773,572	-	773,572
Payments	(386,786)	-	(386,786)
Change in fair value of derivative	-	1,811,000	1,811,000
January 31, 2019	13,021,289	13,957,142	26,978,431

	January 31 2019 \$	April 30 2018 \$
Financial statement presentation:		
Non-current liabilities	13,021,289	-
	13,021,289	-

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15. Share Capital and Members' Capital

Authorized capital

Unlimited number of common shares without par value; and

Unlimited Class A shares without par value.

The holders of the Class A shares are entitled to receive notice of and to attend all meetings of the shareholders or holders of Class A shares and to one vote per Class A share at any meeting of the shareholders of the Company provided that the holders of the Class A shares are not entitled to vote for the election or removal of the directors of the Company. Class A holders are entitled to receive dividends as and when declared by the board if also paid to holders of common shares. In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, holders of Class A shares are entitled to share rateably, together with holders of common shares, in such assets of the Company as are available for distribution.

Each Class A share shall be convertible into one common share, without payment of additional consideration, at the option of the holder thereof as follows:

- a) at any time that is not a restricted period;
- b) if the Company determines that it has ceased to be a "foreign issuer" (see below), as such term is defined in Rule 902(e) of the US Securities Act, and has notified the holders of the Class A shares of such determination;
- c) if there is an offer to purchase the common shares which must be made by reason of applicable securities legislation or the rules or policies of a stock exchange to all or substantially all of the holders of common shares any of whom are in, or whose last address as shown on the books of the Issuer is in, a province or territory of Canada to which the relevant requirement applies.

For these purposes, a "Restricted Period" means any time at which the board of directors of the Company reasonably believes that the Company is a "Domestic Issuer" under applicable United States securities laws – being a U.S. issuer or a non-U.S. issuer that has a majority (50.1% or more) of its outstanding voting securities held by U.S. residents and either the majority of the executive officers or directors are U.S. citizens or residents, a majority of the assets of the issuer are located in the U.S., or the business of the issuer is administered principally in the U.S. – or would become a Domestic Issuer as a result of the issuance of common shares upon the conversion of a Class A share.

In addition, each Class A share may be converted into one common share at any time and from time to time at the option of the Company upon notice to the holder.

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15. Share Capital and Members' Capital (continued)

Issued capital

87,192,203 common shares

96,521,734 Class A shares

The Company did not issue any shares in the period ended January 31, 2019.

During the period ending December 31, 2017, Cannex Group issued 12,933,571 common shares at a price of C\$0.005 for gross proceeds of C\$64,668 (\$51,734), and 22,776,840 common shares at a price of C\$0.02 per share for gross proceeds of C\$455,537 (\$364,430). Of these shares, 22,450,411 were issued to members of BrightLeaf.

During the period ended December 31, 2017, members contributed net cash of \$1,808,381 (cash contributions of \$2,293,380 and cash distributed of \$499,999). Certain members loans totalling \$1,706,120 were converted to members' equity (note 13).

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16. Reserves

Reserves comprise the fair value of stock option grants and warrants prior to exercise and cumulative unrealized gains and losses on foreign exchange.

	Warrants	Share-based compensation reserve	Foreign currency translation reserve	Total
	\$	\$	\$	\$
April 30, 2018	554,933	3,278,936	(358,081)	3,475,788
Foreign currency translation reserve	-	-	459,382	459,382
Share-based compensation	6,746,653	2,125,482	-	8,872,135
January 31, 2019	7,301,586	5,404,418	101,301	12,807,305

17. Warrants

	Financing Warrants		Broker Warrants	
	Warrants Outstanding	Weighted Average Exercise Price C\$	Warrants Outstanding	Weighted Average Exercise Price C\$
At April 30, 2018	24,109,936	1.50	1,652,279	1.00
Issued	13,521,328	1.64	-	-
At January 31, 2019	37,631,264	1.53	1,652,279	1.00

At January 31, 2019, warrants were outstanding enabling holders to acquire common shares or units as follows:

Number of Financing Warrants	Number of Broker Warrants	Exercise Price C\$	Expiry Date
24,109,936	-	1.50	March 12, 2020
-	1,652,279	1.00	March 12, 2020
13,521,328	-	1.64	November 21, 2021
37,631,264	1,652,279		

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18. Share-Based Compensation

Cannex's board of directors has adopted rolling stock option plans under which the Company is authorized to grant options to directors, employees and consultants to acquire up to 10% of the issued and outstanding common shares and 10% of the issued and outstanding Class A shares. The exercise price of each option is based on the market price of the Company's stock for a period preceding the date of grant. The options can be granted for a maximum term of ten years and vest as determined by the board of directors. The Company's shares trade in Canadian dollars and options granted to date have been denominated in Canadian funds.

The Company's practice is to issue share options with a term of five years that vest in increments over a two-year period.

Option Grants

In October 2018, the Company granted 1,975,000 options to directors, employees and consultants of the Company. The grant-date fair value of the options was C\$0.66. The options are exercisable at C\$1.00 per share until October 2023.

In December 2017, the Company granted 11,650,000 options to directors, employees and consultants of the Company. The grant-date fair value of the options was C\$0.75. The options are exercisable at C\$1.00 per share until December 2022. Options granted to directors, employees and consultants vest in three equal tranches: March 13, 2018; March 13, 2019 and March 13, 2020. Options granted for investor relations vest in four equal tranches on June 13, 2018, September 13, 2018, December 13, 2018 and March 13, 2019.

A summary of stock option activity to January 31, 2019 follows:

	Stock Options Outstanding	Weighted Average Exercise Price C\$
September 30, 2017	-	-
Granted	11,650,000	1.00
Forfeited	(250,000)	1.00
April 30, 2018	11,400,000	1.00
Granted	1,975,000	1.00
Forfeited	(150,000)	1.00
January 31, 2019	13,225,000	1.00

During the period ended January 31, 2019, the Company recognized share-based compensation of \$2,125,482 (December 31, 2017 - \$462,505) in connection with stock options issued.

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18. Share-Based Compensation (continued)

At January 31, 2019, the Company had outstanding and exercisable stock options as follows:

Exercise Price	Outstanding Options			Exercisable Options	
	Number	Weighted Average Remaining Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
C\$			C\$		C\$
\$1.00	13,225,000	4.0 years	1.00	8,275,000	1.00

The Company employed the Black-Scholes option-pricing model using the following weighted average assumptions to determine share-based compensation:

	2018	2017
Annualized share price volatility	96%	100%
Risk-free interest rate	2.0%	2.0%
Expected option lives	4.8 years	4.75 years
Dividend yield	0.0%	0.0%

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19. Related Party Transactions

The Company considers key management personnel to be those persons determined as having authority and responsibility for planning, directing and controlling the activities of the Company. Key management includes the Company's board of directors and executive officers.

Key management personnel compensation was:

	Three months ended		Nine months ended	
	January 31 2019	December 31 2017	January 31 2019	December 31 2017
	\$	\$	\$	\$
Short-term employee benefits	47,642	-	156,902	-
Management fees (included in wages and salaries)	146,014	-	438,042	-
Directors' fees	50,960	-	113,171	-
Share-based compensation (note 21)	528,116	-	1,463,994	-
	<u>772,733</u>	<u>-</u>	<u>2,172,110</u>	<u>-</u>
Included in management fees above are amount paid to companies controlled by related parties:				
• A company controlled by the Company's CEO	23,007	-	69,021	-
• A company controlled by the Company's CFO	23,007	-	69,021	-
• A company controlled by the Company's COO	100,000	-	300,000	-
	<u>146,014</u>	<u>-</u>	<u>438,042</u>	<u>-</u>

Short-term employee benefits were paid or accrued directly to employees and directors of the Company.

Share-based compensation comprised the fair value of incentive stock options awarded to directors and officers.

At January 31, 2019, the Company owed \$nil (April 30, 2018 - \$9,283,194) to related parties on account of convertible promissory notes and derivative liabilities (note 14).

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19. Related Party Transactions (continued)

During the period ended January 31, 2019, the Company generated product sales of \$3,144,796 (December 31, 2017 - \$2,018,347) and rental income of \$4,780,298 (December 31, 2017 - \$4,204,672) from a company owned by an individual holding 2,037,658 common shares and 12,015,565 Class A shares (see note 20).

During the period ended January 31, 2019, the Company generated product sales of \$nil (September 30, 2017 - \$nil) and rental income of \$2,205,000 (December 31, 2017 - \$nil) from a company owned by a member of the board of the Company (see note 20).

In the period ended January 31, 2019, the Company paid or accrued interest of \$592,013 (December 31, 2017 - \$939,924) to related parties.

As at January 31, 2019, \$nil (April 30, 2018 - \$63,343) is owing to related parties on account of compensation and expenses incurred.

As at January 31, 2019, \$2,134,365 (April 30, 2018 - \$365,887) of the Company's trade receivables were due from companies controlled by related parties.

As at January 31, 2019, \$nil (April 30, 2018 - \$527,592) of equipment finance receivable is due from companies controlled by related parties.

As at January 31, 2019, the Company paid management fees of \$600,000 (December 31, 2017 - \$nil) to a company owned by a member of the board of the Company.

20. Commitment

The Company has entered into a commercial property lease with a remaining life of 4.6 years, with a five-year renewal option. The future minimum rental payments under the lease at January 31, 2019 were:

Periods ending April 30	\$
2019	187,500
2020	255,000
2021	255,000
2022	255,000
2023	255,000
2024	21,250
	<u>1,228,750</u>

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21. Segment Reporting

As at January 31, 2019, the Company had three reportable segments: (1) real estate; (2) supplies; and (3) corporate. Operating segments are aggregated and organized by the nature of the product and service provided.

Three months ended January 31, 2019	Real Estate	Supplies	Corporate	Total
	\$	\$	\$	\$
Revenue from external customers	2,397,512	1,281,275	-	3,678,787
Cost of sales	-	(1,102,601)	-	(1,102,601)
Depreciation	499,717	-	153	499,870
Interest expense	-	-	1,187,754	1,187,754
Share-based compensation	-	-	1,155,695	1,155,695
Income (loss) before income taxes	1,722,815	123,915	(9,811,824)	(7,915,094)
Income taxes	(351,000)	(26,000)	627,000	250,000
Capital expenditures	(77,736)	-	-	(77,736)
Total assets	2,046,578	178,237	19,560,145	21,784,960

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21. Segment Reporting (continued)

Three months ended December 31, 2017	Real Estate \$	Supplies \$	Corporate \$	Total \$
Revenue from external customers	1,639,296	1,244,709	-	2,884,005
Cost of sales	-	(1,083,383)	-	(1,083,383)
Depreciation	731,477	-	-	731,477
Interest expense	300,164	19,012	1,450	320,626
Interdivisional sales (purchases)	-	-	29,142	29,142
Interdivisional transactions	29,029	(29,029)	-	-
Income (loss) before income taxes	330,844	89,917	(1,140,366)	(719,605)
Share-based compensation	-	-	462,505	462,505
Income taxes	-	-	-	-
Capital expenditures	506,819	-	-	506,819
Total assets	30,129,845	1,770,229	11,458,191	43,358,265

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21. Segment Reporting (continued)

Nine months ended January 31, 2019	Real Estate	Supplies	Corporate	Total
	\$	\$	\$	\$
Revenue from external customers	6,985,928	3,144,796	-	10,130,724
Cost of sales	-	(2,544,203)	-	(2,544,203)
Depreciation	1,500,126	-	304	1,500,430
Interest expense	100,828	-	1,733,313	1,834,141
Share-based compensation	-	-	2,125,482	2,125,482
Income (loss) before income taxes	4,845,196	447,861	(9,677,898)	(4,384,841)
Income taxes	(953,000)	(94,000)	892,000	(155,000)
Capital expenditures	52,885	-	-	52,885
Total assets	33,451,530	983,323	30,648,700	65,083,553

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21. Segment Reporting (continued)

Nine months ended December 31, 2017	Real Estate \$	Supplies \$	Corporate \$	Total \$
Revenue from external customers	4,204,672	2,018,347	-	6,223,019
Cost of sales	-	(1,729,206)	-	(1,729,206)
Depreciation	1,359,357	-	-	1,359,357
Interest expense	1,041,829	62,601	9,001	1,113,431
Interdivisional sales (purchases)	-	-	29,142	29,142
Interdivisional transactions	(670,065)	670,065	-	-
Income (loss) before income taxes	1,418,514	82,940	(1,519,344)	(17,890)
Share-based compensation	-	-	462,505	462,505
Income taxes	(1,919,930)	-	-	(1,919,930)
Capital expenditures	1,804,558	-	-	1,804,558
Total assets	30,129,845	1,770,229	11,458,191	43,358,265

* Does not include capitalized interest of \$57,284

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21. Segment Reporting (continued)

The geographical location of assets is as follows:

	January 31 2019 \$	April 30 2018 \$
US	58,111,238	35,268,206
Canada	6,972,315	11,830,582
Total assets	65,083,553	47,098,788

All of the Company's long-lived assets are located in the United States. All revenues were generated in the United States.

The following customers represented more than 10% of sales (see note 19):

	January 31, 2019		December 31, 2017	
	Amount \$	%	Amount \$	%
Customer A	4,780,928	68	5,251,755	95
Customer B	2,205,000	32	277,700	5

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22. Financial Risk Management

The Company's activities expose it to a variety of financial risks, including foreign exchange risk, interest rate risk, commodity price risk, credit risk and liquidity risk. The Company does not have a practice of trading derivatives.

Fair Values

There were no changes in level 1, 2, or 3 financial instruments during the period ended January 31, 2019.

Foreign Exchange Risk

The Company's activities are primarily undertaken in the United States but the parent company is located in Canada and the Company is exposed to changes in exchange rate between the US and Canadian dollars.

As at January 31, 2019 with other variables unchanged, a 10% increase (decrease) in the Canadian dollar would decrease (increase) net earnings by approximately \$448,700. Exposure to the Canadian dollar on financial instruments is as follows:

<hr/>	
Balance at January 31, 2019	\$
<hr/>	
Cash and cash equivalents	6,527,544
Receivables	160,981
Accounts payable and accrued liabilities	(790,615)
<hr/>	
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Balance at April 30, 2018	\$
<hr/>	
Cash and cash equivalents	245,412
Receivables	67,107
Accounts payable and accrued liabilities	(1,043,507)
<hr/>	

Interest Rate Risk

The Company's interest rate risk mainly arises from the interest rate impact on cash and cash equivalents. Cash earns interest based on market interest rates. The Company's revolving loans and promissory notes have fixed interest rates and are not exposed to interest rate risk until maturity.

CANNEX CAPITAL HOLDINGS INC.

(formerly Arco Resources Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the Nine Months Ended January 31, 2019

(United States dollars)

22. Financial Risk Management (continued)*Credit Risk*

Credit risk arises from the non-performance by counterparties of contractual financial obligations. The Company's credit risk arises primarily with respect to its cash and cash equivalents and trade receivables.

The Company manages credit risk by holding cash with large reputable financial institutions and trading with recognized creditworthy third parties. In addition, receivable balances are monitored on an on-going basis with the result that the Company's exposure to bad debt is not significant.

The Company also manages its credit risk by investing its cash only in obligations of Canada and the United States or its respective agencies, obligations of enterprises sponsored by any of the above governments; bankers' acceptances purchased in the secondary market and having received the highest credit rating from a recognized rating agency in Canada or the United States, with a term of less than 180 days; and bank term deposits and bearer deposit notes, with a term of less than 180 days.

The Company's maximum exposure to credit risk at the reporting date is the carrying value of cash and trade receivables.

Liquidity Risk

The Company manages liquidity risk by maintaining adequate cash balances. If necessary, it may raise funds through the issuance of debt, equity, or monetization of non-core assets. To ensure that there is sufficient capital to meet obligations, the Company continuously monitors and reviews actual and forecasted cash flows and matches the maturity profile of financial assets to development, capital and operating needs.

January 31, 2019	Less than three months \$	Three to 12 months \$	One to five years \$	Total \$
Accounts payable and accrued liabilities	1,611,387	-	-	1,611,387
Convertible promissory notes (note 14)	-	-	32,386,786	32,386,786
	1,611,387	-	32,386,786	33,998,173

Fair Value

The fair value of the Company's financial assets and financial liabilities, other than a convertible note receivable and convertible promissory notes, approximate the carrying value due to the short-term maturities of the instruments and for long-term promissory notes, notes receivable, a market rate of interest.

CANNEX CAPITAL HOLDINGS INC.

(formerly Arco Resources Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the Nine Months Ended January 31, 2019

(United States dollars)

23. Loss Per Share

	Three months ended		Nine months ended	
	January 31 2019	December 31 2017	January 31 2019	December 31 2017
Loss for the period	\$ (7,665,094)	\$ (719,605)	\$ (4,539,841)	\$ (1,937,820)
Weighted average number of common shares outstanding	183,713,937	96,801,748	183,713,937	35,078,186
Loss per share, basic and diluted (\$ per share)	(0.04)	(0.01)	(0.02)	(0.06)

For the purpose of determining loss per share, common shares and Class A shares are treated as participating on an equal basis.

Diluted loss per share for the periods ended January 31, 2019 and December 31, 2017 are the same as basic loss per share. At January 31, 2019, the exercise of the 8,275,000 share options (December 31, 2017 – 11,250,000) and 39,283,543 warrants would be anti-dilutive.

24. Supplemental Disclosure With Respect to Cash Flow

During the period ended January 31, 2019 the Company incurred the following non-cash transactions:

- Paid \$nil in income taxes.
- Recorded a non-cash gain of \$3,772,000 and \$1,811,000 loss on the change in fair value of a derivative liability (note 14).

During the period ended December 31, 2017 the Company incurred the following non-cash transactions:

- Paid \$nil in income taxes.
- Converted promissory notes of \$1,706,120 into equity.

CANNEX CAPITAL HOLDINGS INC.

(formerly Arco Resources Corp.)

Notes to the Condensed Consolidated Interim Financial Statements

For the Nine Months Ended January 31, 2019

(United States dollars)

25. Events After the Reporting Period

In February 2019, the Company granted 200,000 options to an investor relations provider. The options are exercisable at C\$1.00 per share until February 2024 and vest in two equal instalments on February 1, 2019 and May 1, 2019.

In February 2019, the Company signed a binding letter agreement to acquire 100% of Pure Ratio Holdings, Inc., in a cash and stock transaction. Pursuant to the proposed transaction, the Company will pay Pure Ratios' shareholders total consideration of up to \$2,000,000 in cash, 3,500,000 shares of Cannex stock, \$2,500,000 of contingent cash consideration and the assumption of \$500,000 of Pure Ratios' existing debt for total maximum consideration of \$8,000,000. Upon closing of the transaction, Cannex will pay the Pure Ratios' shareholders \$1,400,000 in cash with an additional \$100,000 per month for 6 months for total cash consideration of \$2,000,000 and will issue 3,500,000 shares of Cannex. All shares issued in the Transaction will be subject to a statutory Canadian hold period of four months and a day from the date of issuance. The Transaction is subject to a number of conditions, including but not limited to, final due diligence by the respective parties, execution of a definitive acquisition agreement which shall supersede the letter agreement, receipt of applicable corporate approvals, and other regulatory and/or governmental approval. There can be no assurance that the transaction will be completed as proposed herein or at all.

In March 2019, the Company signed a definitive agreement with 4Front with respect to the business combination whereby the former securityholders of Cannex and 4Front will become securityholders in the combined company. Cannex and 4Front are arm's length parties. In connection with the transaction, an application will be made to list the resulting issuer's subordinate voting shares for trading on the Canadian Securities Exchange (the "CSE") initially under Cannex's symbol "CNNX", and it is expected that a new ticker symbol will be obtained in connection with the transaction. The transaction is subject to CSE approval, approval of the 4Front members and approval of at least 66 2/3% of the votes cast by Cannex shareholders at a special meeting expected to take place on April 18, 2019.

In March 2019, the Company made a \$500,000 investment into a California-based company focused on products in the beauty and wellness industry.

SCHEDULE "E"
AUDITED FINANCIAL STATEMENTS OF HEALTHY PHARMS AS OF JANUARY 1, 2016 AND AS OF
AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(See attached)

HEALTHY PHARMS, INC.

FINANCIAL STATEMENTS

**As of December 31, 2017, December 31, 2016 and January 1, 2016 and
For the Years Ended December 31, 2017 and 2016**

HEALTHY PHARMS, INC.
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Healthy Pharms, Inc.

We have audited the accompanying financial statements of Healthy Pharms, Inc., which comprise the statements of financial position as of December 31, 2017, December 31, 2016 and January 1, 2016, the statements of loss and other comprehensive loss, changes in equity (deficit) and cash flows for the years ended December 31, 2017 and 2016 and the related notes to the financial statements, which comprise a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors
Healthy Pharms, Inc.
Page 2

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Healthy Pharms, Inc., as of December 31, 2017, December 31, 2016 and January 1, 2016 and their financial performance and their cash flows for the years ended December 31, 2017 and 2016 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Sheehan & Company CPA, P.C.

Brightwaters, New York
March 19, 2019

Healthy Pharms, Inc.
Statements of Financial Position
At December 31, 2017, December 31, 2016 and January 1, 2016

	<u>Note</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>January 1, 2016</u>
ASSETS				
Current Assets:				
Cash and Cash Equivalents		\$ 193,462	\$ 107,121	\$ 235,645
Inventory	<i>Note 3</i>	1,161,734	-	-
Biological Assets	<i>Note 4</i>	413,602	-	-
Prepaid Expenses		51,276	38,219	-
Total Current Assets		<u>1,820,074</u>	<u>145,340</u>	<u>235,645</u>
Property and Equipment, Net	<i>Note 5</i>	<u>4,744,612</u>	<u>3,806,556</u>	<u>25,596</u>
TOTAL ASSETS		<u><u>\$ 6,564,686</u></u>	<u><u>\$ 3,951,896</u></u>	<u><u>\$ 261,241</u></u>
LIABILITIES AND EQUITY (DEFICIT)				
LIABILITIES				
Current Liabilities:				
Accounts Payable		\$ 120,349	\$ 218,418	\$ 21,697
Accrued Liabilities	<i>Note 11</i>	1,257,441	-	-
Taxes Payable	<i>Note 2</i>	370,545	-	-
Finance Lease Liability	<i>Note 6</i>	41,940	-	-
Deferred Rent		28,548	-	-
Total Current Liabilities		<u>1,818,823</u>	<u>218,418</u>	<u>21,697</u>
Long-Term Liabilities:				
Notes Payable to Related Parties	<i>Note 7 and 10</i>	7,681,094	5,191,735	895,261
Finance Lease Liability	<i>Note 6</i>	80,570	-	-
Deferred Rent		188,596	186,435	-
Deferred Tax Liability	<i>Note 2</i>	277,556	-	-
Total Long-Term Liabilities		<u>8,227,816</u>	<u>5,378,170</u>	<u>895,261</u>
Total Liabilities		<u>10,046,639</u>	<u>5,596,588</u>	<u>916,958</u>
EQUITY (DEFICIT)				
Accumulated Deficit		<u>(3,481,953)</u>	<u>(1,644,692)</u>	<u>(655,717)</u>
TOTAL EQUITY (DEFICIT)		<u>(3,481,953)</u>	<u>(1,644,692)</u>	<u>(655,717)</u>
TOTAL LIABILITIES AND EQUITY (DEFICIT)		<u><u>\$ 6,564,686</u></u>	<u><u>\$ 3,951,896</u></u>	<u><u>\$ 261,241</u></u>

Nature of Operations (Note 1)
Commitments and Contingencies (Note 11)
Subsequent Events (Note 15)

Approved and authorized by the Board of Directors on March 19, 2019

"Andrew Thut"

Director

"Clay Crolius"

Controller

Healthy Pharms, Inc.
Statements of Loss and Other Comprehensive Loss
For the Years Ended December 31, 2017 and 2016

	<u>Note</u>	<u>2017</u>	<u>2016</u>
REVENUE			
Dispensary Sales			
Flower		\$ 1,143,259	\$ -
Marijuana Infused Products		762,623	-
Merchandise		27,567	-
Wholesale to Third Party Dispensaries		<u>58,967</u>	<u>-</u>
Total Gross Revenue		<u>1,992,416</u>	<u>-</u>
Cost of Goods Sold - to Grow and Manufacture Products	<i>Note 4</i>	(487,299)	-
Gain on Changes in Fair Value of Biological Assets	<i>Note 4</i>	<u>436,970</u>	<u>-</u>
Gross Profit		<u>1,942,087</u>	<u>-</u>
OPERATING EXPENSES			
General and Administrative	<i>Note 8</i>	2,051,179	642,502
Sales and Marketing		207,423	-
Depreciation Expense	<i>Note 5</i>	<u>20,046</u>	<u>-</u>
Total Operating Expenses		<u>2,278,648</u>	<u>642,502</u>
Loss from Operations		<u>(336,561)</u>	<u>(642,502)</u>
Other Income (Expense)			
Interest Expense		<u>(852,599)</u>	<u>(346,473)</u>
Total Other Income (Expense)		<u>(852,599)</u>	<u>(346,473)</u>
Net Loss Before Income Taxes		<u>(1,189,160)</u>	<u>(988,975)</u>
Income Taxes			
	<i>Note 2</i>		
Current		(370,545)	-
Deferred		<u>(277,556)</u>	<u>-</u>
Total Income Taxes		<u>(648,101)</u>	<u>-</u>
Net Loss		<u>\$ (1,837,261)</u>	<u>\$ (988,975)</u>

The accompanying notes are an integral part of these financial statements

Healthy Pharms, Inc.
Statements of Changes in Equity (Deficit)
For the Years Ended December 31, 2017 and 2016

	<u>Common Shares</u>	<u>Accumulated Deficit</u>	<u>Total Equity (Deficit)</u>
Balance, January 1, 2016	100	\$ (655,717)	\$ (655,717)
Net Loss	<u>-</u>	<u>(988,975)</u>	<u>(988,975)</u>
Balance, December 31, 2016	100	(1,644,692)	(1,644,692)
Net Loss	<u>-</u>	<u>(1,837,261)</u>	<u>(1,837,261)</u>
Balance, December 31, 2017	<u>100</u>	<u>\$ (3,481,953)</u>	<u>\$ (3,481,953)</u>

The accompanying notes are an integral part of these financial statements

Healthy Pharms, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	\$ (1,837,261)	\$ (988,975)
Adjustments to reconcile change in net loss to net cash used by operating activities		
Depreciation and amortization	304,717	-
Accrued interest on notes payable to related parties	828,418	346,474
Deferred rent expense	30,709	186,435
Deferred tax expense	277,556	
Changes in operating assets and liabilities		
Inventory	(1,161,734)	-
Biological Assets	(413,602)	-
Prepaid expenses	(13,057)	(38,219)
Accounts payable	(98,069)	196,721
Accrued liabilities	1,257,441	-
Taxes payable	370,545	-
Total adjustments	<u>1,382,924</u>	<u>691,411</u>
NET CASH (USED) IN OPERATING ACTIVITIES	<u>(454,337)</u>	<u>(297,564)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(1,095,490)</u>	<u>(3,780,960)</u>
NET CASH (USED) IN INVESTING ACTIVITIES	<u>(1,095,490)</u>	<u>(3,780,960)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of notes payable from related parties	1,660,941	3,950,000
Principal payments made under finance lease	<u>(24,773)</u>	<u>-</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>1,636,168</u>	<u>3,950,000</u>
NET INCREASE (DECREASE) IN CASH	86,341	(128,524)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>107,121</u>	<u>235,645</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 193,462</u>	<u>\$ 107,121</u>
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>
Cash paid for taxes	<u>\$ -</u>	<u>\$ -</u>
Non-cash financing activities:		
Accrued interest unpaid on related party debt	<u>\$ 828,418</u>	<u>\$ 346,474</u>
Equipment acquired through finance lease	<u>\$ 147,283</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements

HEALTHY PHARMS, INC.
Notes to the Financial Statements

1. GENERAL INFORMATION

Healthy Pharms, Inc. (the Company) is a Massachusetts corporation that was founded on April 30, 2013 as a non-profit for state purposes. The Company is considered a for-profit corporation for federal income tax purposes. On July 25, 2018 the Company filed articles of entity conversion that converted the Company to a for-profit for state purposes. Healthy Pharms, Inc.'s principle address is 401 East Main Street, Georgetown Massachusetts 01833 in the United States of America.

Nature of Operations

The Company operates a vertically integrated cannabis cultivation facility, a cannabis processing facility, and a cannabis dispensary that opened in May 2017 in Georgetown, Massachusetts. On January 1, 2018, the Company opened a second dispensary in Cambridge, Massachusetts. The Company is licensed by the state of Massachusetts and by the cities of Georgetown and Cambridge to operate these facilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies for the Company are as follows:

(a) Statement of Compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the IFRS Interpretations Committee (IFRIC) in effect for the years ended December 31, 2017 and 2016.

The financial statements for the years ended December 31, 2017 and 2016, were the first that the Company has prepared in accordance with IFRS. Accordingly, the Company has prepared financial statements that comply with IFRS as of December 31, 2017 together with comparative period data for the year ended December 31, 2016. In preparing the financial statements, the Company's opening statement of financial position was prepared as of January 1, 2016, the Company's date of transition to IFRS. In restating the Company's U.S. GAAP financial statements to IFRS, the Company did not identify any material adjustments to its statement of financial position nor its statement of operations.

These financial statements were approved and authorized for issue by the Board of Directors of the Company on March 19, 2019.

(b) Basis of Measurement

These financial statements have been prepared on the going concern basis, under the historical cost convention except for certain financial instruments and biological assets that are measured at fair value as described herein. In addition, these financial statements have been prepared using the accrual basis of accounting.

(c) Functional Currency

The Company's functional currency, as determined by management, is the United States (U.S.) dollar. These financial statements are presented in U.S. dollars.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) For-Profit Presentation

These financial statements are presented as if the Company was a for-profit for all periods presented. The Company has not determined the final ownership structure of the converted corporation (Also see Note 9).

(e) Property and Equipment

Property and equipment is stated at cost, net of accumulated depreciation and impairment losses, if any. Expenditures that materially increase the life of the assets are capitalized. Ordinary repairs and maintenance are expensed as incurred. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset using the following terms and methods:

Furniture and equipment	5 - 7 years
Leasehold improvements	Remaining life of lease
Assets under construction	Not depreciated

The assets' residual values, useful lives and methods of depreciation are reviewed at each year-end and adjusted prospectively, if appropriate. An asset is derecognized upon disposal or when no future economic benefit is expected. Any gain or loss from derecognition of the asset (the difference between the net disposal proceeds and the carrying value) is included in the Statements of Operations in the years of derecognition.

(f) Financial Instruments (Also see Note 12)

(i) Financial Assets

All financial assets (including assets designated at fair value through profit or loss) are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Company classifies its financial assets as loans and receivables. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) Financial Liabilities

All financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire. The Company classifies its financial liabilities as other liabilities. Subsequent to initial recognition other liabilities are measured at amortized cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Financial Instruments (Also see Note 12) *(continued)*

(iii) Classification of Financial Instruments

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics, and management intent as outlined below:

	<u>Classification</u>
Cash	Loans and receivables
Accounts Payable and Accrued Liabilities	Other financial liabilities
Notes Payable and accrued interest	Other financial liabilities
Finance lease liability	Other financial liabilities

(iv) Classification of Financial Instruments

Financial assets, other than those classified at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period or whenever circumstances dictate. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

(g) Use of Estimates

The preparation of financial statements in conformity with IFRS accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods.

Significant judgements, estimates and assumptions that have the most significant effect on the amounts recognized in the financial statements are described below.

I. Estimated Useful Lives and Depreciation of Property and Equipment (Also see Note 5)

Depreciation of property and equipment is dependent upon estimates of useful lives which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

II. Biological Assets (see Note 4)

Management is required to make estimates in calculating the fair value of biological assets and harvested cannabis inventory. These estimates include a number of assumptions, such as estimating the stages of growth of the cannabis, harvested costs, sales price and expected yields.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Recent Accounting Pronouncements

The following IFRS standards have been recently issued by the IASB. The Company is assessing the impact of these new standards on future consolidated financial statements. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

IFRS 15, Revenue from Contracts with Customers

The IASB replaced IAS 18, *Revenue*, in its entirety with IFRS 15, *Revenue from Contracts with Customers*. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Company was not able to evaluate all impacts of this pronouncement, but will adopt the pronouncement in 2018. The Company does not expect a significant impact on its financial statements from the adoption of this new standard.

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, *Leases*, which will replace IAS 17, *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15, *Revenue from Contracts with Customers*, at or before the date of initial adoption of IFRS 16. The extent of the impact of adoption of the standard has not yet been determined.

(i) Cash and Cash Equivalents

The Company considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and highly liquid debt instruments purchased with a maturity of three months or less and debit card sales in transit that are readily convertible into known amounts of cash with original maturities of three months or less to be cash and cash equivalents.

(j) Biological Assets

The Company measures biological assets, which consists of medical cannabis plants, at fair value less costs to sell and complete up to the point of harvest. Unrealized gains or losses arising from changes in fair value less cost to sell during the year are included in the results of operations of the related year.

(k) Inventory

Inventory consists of raw materials which include harvested cannabis, work in process which consists of dried cannabis flower, cannabis oil, supplies and consumables, and finished goods that are available for sale at the dispensary. Cannabis inventory is valued at the lower of cost and net realizable value, which is the value as of the harvest date, plus incurred production costs after harvest, less the cost to sell.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Revenue Recognition

Revenue is recognized at the fair value of consideration received or receivable. Revenue from the sale of goods is recognized when all the following conditions have been satisfied, which are generally met once the products are handed to customers:

- The Company has transferred the significant risks and rewards of ownership of the goods to the customer;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the customer; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

For the year ended December 31, 2017, amounts recorded as revenue are net of discounts which were not separately tracked.

(m) Rent Expense Policy

The Company recognizes rent expense on a straight-line basis over the lease period. The difference between actual lease payments and the straight-lined rent amount is recorded as a deferred rent liability in the statements of financial position.

(n) Income Taxes

For the 2017 tax year, the Company paid federal income tax and Massachusetts state income tax as a for-profit corporation. Tax expense of \$370,545 was recognized in 2017 in the Statement of Operations based on actual taxes paid for the 2017 tax year plus deferred taxes. No taxes were due for the 2016 tax year.

Deferred tax assets and liabilities and the related deferred income tax expense or recovery, if any, are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs. At December 31, 2017 a deferred income tax liability was recorded for \$277,556. No deferred income tax liability was recorded at December 31, 2016.

As the Company operates in the cannabis industry, it is subject to the limits of IRC Section 280E under which the Company is only allowed to deduct expenses directly related to sales of product. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E.

A provision for income taxes which represents timing differences in recognizing tax items between tax and the financial statements, has been recorded as of December 31, 2017. On December 22, 2017, the Tax Cuts and Jobs Act ("TCJA") was signed into law. TCJA, among other things, reduced the Federal corporate tax rate from 34% to 21% for tax years beginning after December 31, 2017. As a result of the enacted law, the Company calculated its deferred tax assets and liabilities using the enacted rate under the TCJA.

HEALTHY PHARMS, INC.
Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Income Taxes *(Continued)*

At December 31, 2017, December 31, 2016 and January 1, 2016, the net deferred tax liability amounts to \$(277,556), \$-0- and \$-0-, respectively, and is included in other liabilities (deferred tax liability) in the accompanying statements of financial position. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are as follows:

	December 31, 2017	December 31, 2016	January 1, 2016
Accrued vacation	\$ 1,947	\$ -	\$ -
Depreciation	(42,510)	-	-
Inventory reclassification	(117,613)	-	-
Fair value adjustment to inventory	(119,380)	-	-
Net deferred tax liability	<u><u>\$ (277,556)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The Company would recognize any potential accrued interest and penalties related to unrecognized tax benefits within operations as interest or penalty expense, as applicable. The Company had no penalties or interest related to income taxes for periods ended December 31, 2017 and 2016.

3. INVENTORY

The Company's inventory includes the following at December 31, 2017:

Raw Material - Harvested Cannabis	\$ 29,713
Work in Process - Extracts	229,320
Finished Goods	
Packaged Cannabis	831,634
Edibles and Other Cannabis Products	69,542
Non-cannabis Products	<u>1,525</u>
Total Finished Goods	<u>902,701</u>
Total Inventory	<u><u>\$ 1,161,734</u></u>

Cannabis inventory is valued at the lower of cost and net realizable value, which is the value at harvest, plus cost to complete, less cost to sell. Cost is determined by using the first in, first out costing method. The Company reviews inventory for obsolete, redundant and slow moving good and any such inventory identified are written down to net realizable value.

There was no inventory as of December 31, 2016.

4. BIOLOGICAL ASSETS

Biological assets consist of cannabis plants. At December 31, 2017, the changes in the carrying value of biological assets are shown below:

Biological Assets

Beginning balance at January 1, 2017	\$ -
Costs to grow harvested and live plants in 2017	1,363,509
Net change in fair value less costs to sell due to biological transformation	436,970
Transferred to inventory upon harvest	<u>(1,386,877)</u>
Ending balance December 31, 2017	<u><u>\$ 413,602</u></u>

4. BIOLOGICAL ASSETS *(Continued)*

The Company values its biological assets at the end of each reporting period at fair value less costs to sell and complete. Actual yields of flower for each plant in 2018 were used to value each live plant at December 31, 2017. The cost to bring each live plant to harvest was estimated based on actual costs to grow all plants in 2017. The average wholesale price of cannabis flower in Massachusetts per Cannabis Benchmarks was used as the estimated sales price of harvested flower. Selling cost was estimated based on actual selling cost at the Company's dispensary in 2017. Using the age of the plant and the harvest date of each plant, a valuation model was used to determine the value of each live plant at December 31, 2017.

The significant assumptions used in determining the fair value of medical cannabis plants are as follows:

- The average selling price of flower is \$5.23 per gram;
- Post harvesting processing costs include drying and curing, testing and packaging, are estimated to be \$0.24 per gram; and
- Selling costs are estimated to be \$1.75 per gram.

The estimates of post harvesting processing costs and selling costs are based on the Company's historical results.

Management has quantified the sensitivity of the inputs, and determined that a decrease in the selling price per gram by 5% would result in the biological asset value decreasing by \$53,697 and inventory decreasing by \$80,151.

Biological assets are measured using Level 3 inputs, and therefore are subject to volatility and several uncontrollable factors, which could significantly affect the fair value of biological assets in future periods.

All of the plants are to be harvested as agricultural produce (i.e. medical cannabis) and at December 31, 2017, the biological assets were on average 48% complete.

Mother plants, or bearer plants, are plants grown for the purpose of taking cuttings in order to grow additional plants of the same type as the bearer plant. Bearer plants are critical to the success of the business, however are not measured for accounting purposes. Bearer plants are plants that once mature are held strictly to grow produce over their useful life.

The biological assets at December 31, 2017 ultimately yielded 211,532 grams of cannabis flower.

Unrealized gains or losses arising from changes in fair value less cost to sell during the year are included in the results of operations in the related year.

HEALTHY PHARMS, INC.
Notes to the Financial Statements

5. PROPERTY AND EQUIPMENT

The following is a summary of property and equipment, at cost less accumulated depreciation as of December 31, 2017, December 31, 2016 and January 1, 2016:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>January 1, 2016</u>
Leasehold improvements	\$4,643,488	\$3,652,656	\$21,696
Furniture and equipment	<u>405,841</u>	<u>153,900</u>	<u>3,900</u>
Total Property and Equipment, Gross	5,049,329	3,806,556	25,596
Less: Accumulated Depreciation	<u>(304,717)</u>	<u>-</u>	<u>-</u>
Property and equipment, Net	<u>\$4,744,612</u>	<u>\$3,806,556</u>	<u>\$25,596</u>

A reconciliation of the beginning and ending balances and equipment is as follows:

	<u>Property and Equipment, Gross</u>	<u>Accumulated Depreciation</u>	<u>Property and Equipment, Net</u>
Balance as of January 1, 2016	\$ 25,596	\$ -	\$ 25,596
Additions	<u>3,780,960</u>	<u>-</u>	<u>3,780,960</u>
Balance as of December 31, 2016	3,806,556	-	3,806,556
Additions	1,242,773	-	1,242,773
Depreciation	<u>-</u>	<u>(304,717)</u>	<u>(304,717)</u>
Balance as of December 31, 2017	<u>\$5,049,329</u>	<u>\$ (304,717)</u>	<u>\$4,744,612</u>

Depreciation of property and equipment is computed using the straight-line method over their estimated useful lives. Depreciation expense for the periods ended December 31, 2017 and 2016 were \$304,717 and \$-0-, respectively, of which \$284,671 is included in cost of goods sold in 2017.

6. FINANCE LEASE LIABILITY

In February 2017, the Company acquired extraction equipment through a financing lease. The equipment was valued at \$207,095 and is included in fixed assets. The lease liability is recorded as a current and non-current liability and is amortized as the lease payments are made. Imputed interest is recorded monthly based on the imputed interest rate of 6.53%. Once the last lease payment is made in March 2021, the equipment can be purchased for \$1 and the Company anticipates that it will purchase the equipment. Approximately \$6,700 is recorded as interest expense in 2017 relating to this liability. Minimum lease payments for each of the next four years, including interest of \$13,796 are:

2018	\$ 41,940
2019	41,940
2020	41,940
2021	<u>10,485</u>
	<u>\$136,305</u>

The net present value of the minimum lease payments at December 31, 2017 using management's estimate of the fair market interest rate of 15% is \$107,361.

HEALTHY PHARMS, INC.
Notes to the Financial Statements

7. NOTES PAYABLE TO RELATED PARTIES

The Company has financed its capital expenditures and operating losses by issuing notes to the two owners Paul Overgaag and Nat Averill. These notes paid interest between 12% and 15% per annum and principal and interest were not due until the dispensary and cultivation facility began operating. In June 2017, the various notes were consolidated into two new notes that pay interest of 15% per annum and are payable in installments. The note holders waived the requirement to make payments on these notes for 2017 and 2018. These notes and accrued interest were repaid in full as part of the sale of the Company on November 13, 2018.

Redline Management is owned by Paul Overgaag and Nat Averill and provided management services during 2017 and 2016. Unpaid balances are included as a part of notes payable to related parties.

Timbuktu Real Estate is owned by Paul Overgaag and owns the Georgetown building. The unpaid balance at December 31, 2017 is included as a part of notes payable to related parties.

Tomolly Inc. is owned by Paul Overgaag and was a tenant in the Cambridge building that was leased by the Company. Per the lease, Tomolly Inc. received a \$50,000 per quarter payment. The unpaid balance at December 31, 2017 is included as a part of notes payable to related parties.

In February 2017, the Company issued notes to three related parties (Fischer, Woodard and Ledyard) who were close friends of the owners. These notes pay interest between 10% and 15% and are payable in annual installments beginning on July 1, 2018. The note holders waived the requirement to make annual interest only payments on these notes for 2018.

Below are the outstanding principal and accrued interest for each of the notes as of December 31, 2017, December 31, 2016 and January 1, 2016:

	Principal December 31, 2017	Accrued Interest at December 31, 2017	Principal December 31, 2016	Accrued Interest at December 31, 2016	Principal January 1, 2016	Accrued Interest at January 1, 2016
Paul Overgaag	\$5,000,000	\$1,081,044	\$4,100,000	\$385,044	\$350,000	\$ 95,162
Nat Averill	450,000	238,423	450,000	156,691	350,000	100,099
Redline Management	238,022	-	100,000	-	-	-
Timbuktu Real Estate	72,920	-	-	-	-	-
Tomolly Inc.	50,000	-	-	-	-	-
Fischer Note	200,000	18,500	-	-	-	-
Woodman Note	200,000	18,500	-	-	-	-
Ledyard Note	100,000	13,685	-	-	-	-
Total	<u>\$6,310,942</u>	<u>\$1,370,152</u>	<u>\$4,650,000</u>	<u>\$541,735</u>	<u>\$700,000</u>	<u>\$195,261</u>

All note principal and accrued interest was repaid in full as part of the sale of the Company on November 13, 2018. In accordance with IAS 10, the classification should be made based on facts that existed at the period end date of December 31, 2017, accordingly, all notes payable have been classified as long-term at December 31, 2017.

HEALTHY PHARMS, INC.
Notes to the Financial Statements

8. GENERAL AND ADMINISTRATIVE EXPENSES

For the years ended December 31, general and administrative expenses were comprised of:

	2017	2016
Legal and Professional	\$1,422,189	\$258,192
Licenses	256,857	1,108
Rent	156,258	186,435
Other	<u>215,875</u>	<u>196,767</u>
Total	<u>\$2,051,179</u>	<u>\$642,502</u>

9. SHARE CAPITAL

The Company is a Massachusetts corporation that was founded on April 30, 2013 as a non-profit for state purposes. The Company is considered a for-profit corporation of federal income tax purposes. On July 25, 2018 the Company filed articles of entity conversion that converted the Company to a for-profit for state purposes. As part of the conversion, 100 common stock shares with no par value were issued to the founders of the Company who are officers and are members of the board of directors. No other common stock has been issued.

There are five members of the board of directors. Two are the founders and common stock holders and three are independent board members. The board of directors manages the company.

10. RELATED PARTIES

Key management personnel compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly. The key management personnel of the Company are the two officers of the Company who are also members of the Company's board of directors and the three other independent members of the Company's board of directors. Compensation provided to key management is as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Short-term employee benefits	\$118,000	\$ -
Management fees	138,000	100,000
Share-based compensation	<u>-</u>	<u>-</u>
	<u>\$256,000</u>	<u>\$100,000</u>

Related party transactions (Also see Note 11)

The Company leases the Georgetown building and the Cambridge Dispensary building from entities that are owned by an officer and a board member. Approximately \$284,000 was paid for rent for the Georgetown building and \$18,000 was paid for the Cambridge location in 2017. No rent was paid or due in 2016.

11. COMMITMENTS AND CONTINGENCIES

Operating leases

The Company has two real estate leases that are classified as operating leases. Future minimum lease obligations under these leases as of December 31, 2017, and for each of the five succeeding years and thereafter are as follows:

2018	\$ 697,403
2019	722,266
2020	748,379
2021	785,798
2022	475,805
Thereafter	<u>1,449,636</u>
	<u>\$4,879,287</u>

One lease is the Georgetown, Massachusetts building that houses cultivation, production and dispensary facilities. The second lease is for the Cambridge dispensary. Both buildings are owned by an officer and a board member the Company (see Note 10). Rent expense in 2017 and 2016 was \$382,459 and \$186,435, respectively of which \$226,201 was capitalized to inventory in 2017.

Included in the commitments are \$50,000 in quarterly payments to Tomolly Inc. as part of the Cambridge lease; the first payment was on November 1, 2017. Total payments will be \$1,000,000 over the first five years of the lease. Tomolly was a tenant in the Cambridge building and the payments are in exchange for Tomolly vacating the space. Paul Overgaag, a shareholder and an officer of the Company, owns the Cambridge building and owns Tomolly Inc.

Other Contingencies - The Company's operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulations at December 31, 2017, medical cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

Legal matters - The Company was involved in a legal dispute regarding the Cambridge Dispensary. This legal dispute was settled on November 8, 2018. A \$1,200,000 accrual for legal expenses and settlement payments was recorded as of December 31, 2017.

12. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company's financial instruments consist of cash, accounts payable, accrued liabilities, and notes payable to related parties. The carrying values of these financial instruments approximate their fair values as of December 31, 2017 and 2016.

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of hierarchy are:

HEALTHY PHARMS, INC.
Notes to the Financial Statements

12. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(Continued)*

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
 Level 2 - Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
 Level 3 - Inputs for the asset or liability that are not based on observable market data.

There have been no transfers between fair value levels during the years ending December 31, 2017 and 2016.

The following table summarizes the Company's financial instruments as of December 31, 2017:

	<u>Loans and Receivables</u>	<u>Other Financial Liabilities</u>	<u>Total</u>
Financial Assets:			
Cash	\$193,462	\$ -	\$ 193,462
Financial Liabilities:			
Accounts payable	-	120,349	120,349
Accrued liabilities	-	1,257,441	1,257,441
Finance lease liability	-	122,510	122,510
Notes payable and accrued interest	-	7,681,094	7,4681,094

The following table summarizes the Company's financial instruments as of December 31, 2016:

	<u>Loans and Receivables</u>	<u>Other Financial Liabilities</u>	<u>Total</u>
Financial Assets:			
Cash	\$107,121	\$ -	\$ 107,121
Financial Liabilities:			
Accounts payable	-	218,418	218,418
Notes payable and accrued interest	-	5,191,735	5,191,735

Financial Risk Management

The Company is exposed in varying degrees to a variety of financial instruments related risks. The Board mitigates these risks by assessing, monitoring and approving the Company's risk management processes.

(a) Credit Risk

Credit risk is the risk of a potential loss to the Company if a third party or a related party to a financial instrument fails to meet its contractual obligations. As of December 31, 2017 and 2016, the Company did not have any receivables that could cause a credit risk.

The Company maintains cash with federally insured financial institutions. As of December 31, 2017 and 2016, the Company did not exceeded federally insured limits.

12. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(Continued)*

Financial Risk Management *(Continued)*

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to raise sufficient capital to settle obligations and liabilities when due.

(c) Equity Price Risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. The Company keeps significant cannabis inventory levels which could lose value if cannabis retail prices fall. Management believes that prices will remain steady due to an increase in demand for wholesale cannabis to keep up with new demand at the retail level as recreational cannabis licenses are granted throughout Massachusetts in 2018 and 2019.

(d) Interest Rate Risk

The Company's interest rate risk mainly arises from changes in the interest rates on cash. Cash generates interest based on market interest rates. At December 31, 2017, the Company was not subject to significant interest rate risk.

(e) Regulatory Risk

The Company's operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations. Medical cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

(f) Market Risk

Market risk is the risk of variability in fair value due to movements in equity or market prices. See Note 4 for the Company's assessment of certain changes in the fair value assumption used in the calculation of biological asset values.

13. SEGMENT INFORMATION

The Company operates in one segment: cultivating, processing, and selling cannabis to consumers.

All property, plant and equipment is located in the United States.

All revenue was generated in the United States during the year ended December 31, 2017.

14. CAPITAL MANAGEMENT

The Company considers its capital to consist of cash, short-term and long-term debt and accumulated deficit. The Company manages its capital to maintain its ability to continue as a going concern and makes adjustments to it based on funds available to the Company in order to fund its operations.

The Company, upon approval from its board of Directors, will balance its overall capital structure through capital infusions from related parties or by undertaking other activities as deemed appropriate under the specific circumstances.

As of December 31, 2017, the Company is not subject to externally imposed capital requirements.

15. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through March 19, 2019, which is the date that the financial statements became available to issue.

On August 16, 2018, the Company Filed Articles of Entity Conversion of a Domestic Non-Profit with a Pending Provisional or Final Certification to Dispense Medical Use Marijuana to a Domestic Business Corporation with the Commonwealth of Massachusetts. As part of the filing, the Articles of Incorporation were amended to authorize 275,000 shares of common stock with no par value.

On November 8, 2018, the Company settled a legal dispute regarding the Cambridge Dispensary. The \$1,200,000 legal accrual at December 31, 2017 is adequate to pay the settlement costs and all related legal expenses for this dispute.

On November 13, 2018, the Company was sold to 4Front Holdings LLC (4Front) for approximately \$27 million, plus \$6.06 million for the value of the Company's inventory. 4Front acquired 100% of the stock and will continue to operate the cultivation facility and the two dispensaries under the current cannabis licenses. As part of the transaction, all debt to related parties including accrued interest, was repaid.

Effective November 13, 2018, Paul Overgaag and Nat Averill resigned from all offices of the Company and as Directors of the Company. 4Front appointed a replacement Director and replacement officers. On November 13, 2018, Nat Averill entered into a consulting agreement with the Company and was paid \$15,000 a month for three months. The consulting agreement ended on January 12, 2019.

On November 13, 2018, new leases were executed for the Georgetown building and the Cambridge building with entities that are owned by Paul Overgaag. These leases were considered arms-length transactions and have an initial 5-year term and can be extended for two additional 5-year terms at the option of the Company. All previous building leases were terminated. At lease inception, \$88,000 was paid for a security deposit for Georgetown and \$51,333 was paid for a security deposit for Cambridge. The rent is paid in equal monthly installments for each of the 5 years of the initial term. The annual rent is as follows for the initial 5-year term:

HEALTHY PHARMS, INC.
Notes to the Financial Statements

15. SUBSEQUENT EVENTS *(Continued)*

	<u>Georgetown</u>	<u>Cambridge</u>
Year 1	\$264,000.00	\$154,000.00
Year 2	\$271,920.00	\$158,620.00
Year 3	\$280,077.00	\$163,378.00
Year 4	\$288,480.00	\$168,279.96
Year 5	\$297,134.00	\$173,328.36

SCHEDULE "F"
UNAUDITED CONDENSED FINANCIAL STATEMENTS OF HEALTHY PHARMS AS OF SEPTEMBER
30, 2018 AND DECEMBER 31, 2017 AND FOR THE THREE AND NINE MONTH PERIOD ENDED
SEPTEMBER 30, 2018 AND 2017

(See attached)

HEALTHY PHARMS, INC.

CONDENSED FINANCIAL STATEMENTS

**As of September 30, 2018 and December 31, 2017
and for the Three and Nine Months Ended
September 30, 2018 and 2017**

(Unaudited)

HEALTHY PHARMS, INC.
Notes to Financial Statements

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Healthy Pharms, Inc.
Statements of Financial Position
At September 30, 2018 and December 31, 2017
(Unaudited)

ASSETS	<u>Note</u>	<u>September 30, 2018</u>	<u>December 31, 2017</u>
ASSETS			
Current Assets:			
Cash and Cash Equivalents		\$ 293,697	\$ 193,462
Inventory	<i>Note 3</i>	1,990,546	1,161,734
Biological Assets	<i>Note 4</i>	190,255	413,602
Prepaid Expenses		<u>109,855</u>	<u>51,276</u>
Total Current Assets		2,584,353	1,820,074
Property and Equipment, Net	<i>Note 5</i>	<u>4,513,306</u>	<u>4,744,612</u>
TOTAL ASSETS		<u><u>\$ 7,097,659</u></u>	<u><u>\$ 6,564,686</u></u>
LIABILITIES AND EQUITY			
LIABILITIES			
Current Liabilities:			
Accounts Payable		\$ 169,892	\$ 120,349
Accrued Liabilities		1,274,811	1,257,441
Taxes Payable		590,698	370,545
Finance Lease Liability	<i>Note 6</i>	41,940	41,940
Deferred Rent		<u>36,705</u>	<u>28,548</u>
Total Current Liabilities		2,114,046	1,818,823
Long-Term Liabilities:			
Notes Payable to Related Parties	<i>Note 7 and 10</i>	9,361,996	7,681,094
Finance Lease Liability	<i>Note 6</i>	54,555	80,570
Deferred Rent		127,551	188,596
Deferred Tax Liability	<i>Note 2</i>	<u>80,217</u>	<u>277,556</u>
Total Long-Term Liabilities		9,624,319	8,227,816
Total Liabilities		<u>11,738,365</u>	<u>10,046,639</u>
EQUITY			
Accumulated Deficit	<i>Note 9</i>	<u>(4,640,706)</u>	<u>(3,481,953)</u>
TOTAL EQUITY		<u>(4,640,706)</u>	<u>(3,481,953)</u>
TOTAL LIABILITIES AND EQUITY		<u><u>\$ 7,097,659</u></u>	<u><u>\$ 6,564,686</u></u>

Nature of Operations (Note 1)
Commitments and Contingencies (Note 11)
Subsequent Events (Note 15)

Approved and authorized by the Board of Directors on March 19, 2019

"Andrew Thut"

Director

"Clay Crolius"

Controller

The accompanying notes are an integral part of these financial statements

Healthy Pharms, Inc.
Statements of Operations and Other Comprehensive (Loss)
For the Three and Nine Months Ended September 30, 2018 and 2017
(Unaudited)

	Note	Three Months Ended September 30,		Nine Months Ended September 30,	
		2018	2017	2018	2017
REVENUE					
Dispensary Sales					
Flower		\$ 761,525	\$ 383,042	\$ 1,517,799	\$ 544,614
Marijuana Infused Products		591,566	312,767	1,143,915	340,381
Merchandise		20,071	10,264	48,027	12,226
Wholesale to Third Party Dispensaries		-	16,345	37,005	16,345
Total Gross Revenue		<u>1,373,162</u>	<u>722,418</u>	<u>2,746,746</u>	<u>913,566</u>
Cost of Goods Sold - to Grow and Manufacture Products		(360,961)	(298,056)	(732,642)	(362,700)
Gain (Loss) on Changes in Fair Value of Biological Assets		(388,207)	152,242	(854,788)	389,641
Gross Profit		<u>623,994</u>	<u>576,604</u>	<u>1,159,316</u>	<u>940,507</u>
OPERATING EXPENSES					
General and Administrative	Note 8	279,188	106,093	796,977	172,965
Sales and Marketing		136,192	52,512	281,586	102,705
Depreciation Expense	Note 5	27,426	7,075	78,954	12,971
Total Operating Expenses		<u>442,806</u>	<u>165,680</u>	<u>1,157,517</u>	<u>288,641</u>
Income (Loss) from Operations		<u>181,188</u>	<u>410,924</u>	<u>1,799</u>	<u>651,866</u>
Other Income (Expense)					
Interest Expense		(295,198)	(242,967)	(826,426)	(578,629)
Total Other Income (Expense)		<u>(295,198)</u>	<u>(242,967)</u>	<u>(826,426)</u>	<u>(578,629)</u>
Net Income (Loss) Before Income Taxes		<u>(114,010)</u>	<u>167,957</u>	<u>(824,627)</u>	<u>73,237</u>
Income Taxes					
Current		(293,539)	(119,056)	(531,466)	(179,446)
Deferred		(13,407)	(89,179)	197,340	(134,414)
Total Income Taxes		<u>(306,946)</u>	<u>(208,235)</u>	<u>(334,126)</u>	<u>(313,860)</u>
Net Income (Loss) and Comprehensive Income (Loss)		<u>\$ (420,956)</u>	<u>\$ (40,278)</u>	<u>\$ (1,158,753)</u>	<u>\$ (240,623)</u>

The accompanying notes are an integral part of these financial statements

Healthy Pharms, Inc.
Statements of Changes in Equity (Deficit)
For the Nine Months Ended September 30, 2018 and 2017
(Unaudited)

	<u>Common Shares</u>	<u>Accumulated Deficit</u>	<u>Total Equity (Deficit)</u>
Balance, January 1, 2017	100	\$ (1,644,692)	\$ (1,644,692)
Net Loss	<u>-</u>	<u>(240,623)</u>	<u>(240,623)</u>
Balance, September 30, 2017	<u>100</u>	<u>\$ (1,885,315)</u>	<u>\$ (1,885,315)</u>
Balance, January 1, 2018	100	\$ (3,481,953)	\$ (3,481,953)
Net Loss	<u>-</u>	<u>(1,158,753)</u>	<u>(1,158,753)</u>
Balance, September 30, 2018	<u>100</u>	<u>\$ (4,640,706)</u>	<u>\$ (4,640,706)</u>

The accompanying notes are an integral part of these financial statements

Healthy Pharms, Inc.
Statements of Cash Flows
For the Nine Months Ended September 30, 2018 and 2017
(Unaudited)

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	\$ (1,158,753)	\$ (240,623)
Adjustments to reconcile change in net loss to net cash used in operating activities		
Depreciation and amortization	328,431	210,746
Accrued interest on notes payable to related parties	782,582	578,629
Deferred rent expense	(52,888)	32,435
Deferred tax expense	(197,338)	134,414
Changes in operating assets and liabilities		
Inventory	(828,812)	(929,996)
Biological Assets	223,347	(520,490)
Prepaid expenses	(58,579)	30,013
Accounts payable	49,545	(67,319)
Accrued liabilities	17,370	1,898
Taxes payable	220,153	179,446
Total adjustments	<u>483,811</u>	<u>(350,224)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(674,942)</u>	<u>(590,847)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(97,125)</u>	<u>(534,023)</u>
 NET CASH USED IN INVESTING ACTIVITIES	<u>(97,125)</u>	<u>(534,023)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of notes payable from related parties	1,136,460	1,403,488
Repayment of notes payable from related parties	(238,140)	-
Principal payments made under finance lease	<u>(26,018)</u>	<u>(16,381)</u>
 NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>872,302</u>	<u>1,387,107</u>
 NET INCREASE IN CASH	100,235	262,237
 CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>193,462</u>	<u>107,121</u>
 CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 293,697</u>	<u>\$ 369,358</u>
 Cash paid for interest	<u>\$ 31,143</u>	<u>\$ 4,589</u>
 Cash paid for taxes	<u>\$ 310,000</u>	<u>\$ -</u>
 Non-cash financing activities:		
Accrued interest unpaid on related party debt	<u>\$ 782,582</u>	<u>\$ 578,629</u>
Equipment acquired through finance lease	<u>\$ -</u>	<u>\$ 147,283</u>

The accompanying notes are an integral part of these financial statements

HEALTHY PHARMS, INC.
Notes to Financial Statements

1. GENERAL INFORMATION

Healthy Pharms, Inc. (the Company) is a Massachusetts corporation that was founded on April 30, 2013 as a non-profit for state purposes. The Company is considered a for-profit corporation for federal income tax purposes. On July 25, 2018 the Company filed articles of entity conversion that converted the Company to a for-profit for state purposes. Healthy Pharms, Inc.'s principle address is 401 East Main Street, Georgetown Massachusetts 01833 in the United States of America.

Nature of Operations

The Company operates a vertically integrated cannabis cultivation facility, a cannabis processing facility, and a cannabis dispensary that opened in May 2017 in Georgetown, Massachusetts. On January 1, 2018 the Company opened a second dispensary in Cambridge, Massachusetts. The Company is licensed by the state of Massachusetts and by the cities of Georgetown and Cambridge to operate these facilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies for the Company are as follows:

(a) Statement of Compliance

The unaudited interim condensed financial statements for the three and nine months ended September 30, 2018 and 2017, have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the IFRS Interpretations Committee ("IFRIC").

The unaudited interim condensed financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting. These unaudited interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the December 31, 2017 audited financial statements and notes.

These financial statements were approved and authorized for issue by the Board of Directors of the Company on March 19, 2019.

(b) Basis of measurement

These unaudited interim condensed financial statements have been prepared on the going concern basis, under the historical cost convention except for certain financial instruments and biological assets that are measured at fair value as described herein. In addition, these financial statements have been prepared using the accrual basis of accounting.

(c) Functional Currency

The Company's functional currency, as determined by management, is the United States ("U.S.") dollar. These unaudited interim condensed financial statements are presented in U.S. dollars.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(d) For-profit Presentation

These unaudited interim condensed financial statements are presented as if the Company was a for-profit for all periods presented (Also see Note 9).

(e) Property and Equipment

Property and equipment is stated at cost, net of accumulated depreciation and impairment losses, if any. Expenditures that materially increase the life of the assets are capitalized. Ordinary repairs and maintenance are expensed as incurred. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset using the following terms and methods:

Furniture and Equipment	5 – 7 years
Leasehold improvements	Remaining life of lease
Assets under construction	Not depreciated

The assets' residual values, useful lives and methods of depreciation are reviewed at each year-end and adjusted prospectively, if appropriate. An asset is derecognized upon disposal or when no future economic benefit is expected. Any gain or loss from derecognition of the asset (the difference between the net disposal proceeds and the carrying value) is included in the Statements of Operations and Other Comprehensive (Loss) in the years of derecognition.

(f) Financial Instruments (Also see Note 12)

(i) Financial Assets

All financial assets (including assets designated at fair value through profit or loss) are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Company classifies its financial assets as loans and receivables. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) Financial Liabilities

All financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire. The Company classifies its financial liabilities as other liabilities. Subsequent to initial recognition other liabilities are measured at amortized cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial Instruments (Also see Note 12) (continued)

(iii) Classification of Financial Instruments

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics, and management intent as outlined below:

	<u>Classification</u>
Cash and cash equivalents	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Notes payable and accrued interest	Other financial liabilities
Finance lease liability	Other financial liabilities

(iv) Classification of Financial Instruments

Financial assets, other than those classified at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period or whenever circumstances dictate. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

(g) Use of Estimates

The preparation of unaudited interim condensed financial statements in conformity with IFRS accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods.

Significant judgements, estimates and assumptions that have the most significant effect on the amounts recognized in the financial statements are described below.

I. *Estimated Useful Lives and Depreciation of Property and Equipment (Also see Note 5)*

Depreciation of property and equipment is dependent upon estimates of useful lives which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

II *Biological Assets (see Note 4)*

Management is required to make estimates in calculating the fair value of biological assets and harvested cannabis inventory. These estimates include a number of assumptions, such as estimating the stages of growth of the cannabis, harvested costs, sales price and expected yields.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Recent Accounting Pronouncements

The following IFRS standard has been recently issued by the IASB. The Company is assessing the impact of this new standards on future consolidated financial statements. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

IFRS 15, Revenue from Contracts with Customers

The IASB replaced IAS 18, *Revenue*, in its entirety with IFRS 15, *Revenue from Contracts with Customers*. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Company has implemented this standard in the accompanying unaudited interim condensed financial statements.

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, *Leases*, which will replace IAS 17, *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15, *Revenue from Contracts with Customers*, at or before the date of initial adoption of IFRS 16. The extent of the impact of adoption of the standard has not yet been determined.

(i) Cash and Cash Equivalents

The Company considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and highly liquid debt instruments purchased with a maturity of three months or less and debit card sales in transit that are readily convertible into known amounts of cash with original maturities of three months or less to be cash and cash equivalents.

(j) Biological Assets

The Company measures biological assets, which consists of medical cannabis plants, at fair value less costs to sell and complete up to the point of harvest. Unrealized gains or losses arising from changes in fair value less cost to sell during the year are included in the results of operations of the related year.

(k) Inventory

Inventory consists of raw materials which include harvested cannabis, work in process which consists of dried cannabis flower, cannabis oil, supplies and consumables, and finished goods that are available for sale at the dispensary. Cannabis inventory is valued at the lower of cost and net realizable value using the value as of the harvest date, plus incurred production costs after harvest, less the cost to sell.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(l) Revenue Recognition

Revenue is recognized by the Company in accordance with IFRS 15. Through application of the standard, the Company recognizes revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services. The Company has applied IFRS 15 retrospectively and determined that there is no change to the comparative periods or transitional adjustments required as a result of the adoption of this standard. The Company applies the following five steps:

- Identify a customer along with a corresponding contract.
- Identify the performance obligations in the contract.
- Determine a transaction price.
- Allocate the transaction price to the performance obligations in the contract.
- Recognize revenue when or as the Company satisfies a performance obligation.

Revenue from the direct sale of cannabis to medical customers for a fixed price is recognized when the Company transfers control of the goods to the customer. For the three and nine months ended September 30, 2018 and 2017, amounts recorded as revenue are net of discounts which were not separately tracked. The Company does not enter into contracts with customers.

(m) Rent Expense Policy

The Company recognizes rent expense on a straight-line basis over the lease period. The difference between actual lease payments and the straight-lined rent amount is recorded as a deferred rent liability on the statement of financial position.

(n) Income Taxes

Income tax expense consisting of current and deferred tax expenses is recognized in the unaudited interim statements of operations and other comprehensive (loss) based on the expected tax payable on the taxable income for the period, using tax rates enacted at year-end.

Deferred tax assets and liabilities and the related deferred income tax expense or recovery, if any, are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs. At September 30, 2018 and December 31, 2017 a deferred income tax liability was recorded for \$80,217 and \$277,556, respectively.

As the Company operates in the cannabis industry, it is subject to the limits of IRC Section 280E under which the Company is only allowed to deduct expenses directly related to sales of product. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E.

A provision for income taxes which represents timing differences in recognizing tax items between tax and the financial statements, has been recorded as of December 31, 2017. On December 22, 2017, the Tax Cuts and Jobs Act ("TCJA") was signed into law. TCJA, among other things, reduced the Federal corporate tax rate from 34% to 21% for tax years beginning after December 31, 2017. As a result of the enacted law, the Company calculated its deferred tax assets and liabilities using the enacted rate under the TCJA.

HEALTHY PHARMS, INC.
Notes to Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Income Taxes (Continued)

At September 30, 2018 and December 31, 2017, the net deferred tax liability amounts to \$80,217, and \$277,556, respectively, and is included in other liabilities (deferred tax liability) in the accompanying balance sheet. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are as follows:

	September 30, 2018	December 31, 2017
Accrued vacation	\$ 2,067	\$ 1,947
Depreciation	(82,284)	(42,510)
Inventory reclassification	-	(117,613)
Fair value adjustment to inventory	-	(119,380)
Net deferred tax liability	<u>\$(80,217)</u>	<u>\$(277,556)</u>

The Company would recognize any potential accrued interest and penalties related to unrecognized tax benefits within operations as interest or penalty expense, as applicable. The Company had no penalties or interest related to income taxes for periods ended September 30, 2018 and December 31, 2017.

3. INVENTORY

The Company's inventory includes the following at September 30, 2018 and at December 31, 2017:

	<u>2018</u>	<u>2017</u>
Raw Material - Harvested Cannabis	\$ 173,947	\$ 29,713
Work in Process - Extracts	426,493	229,320
Finished Goods		
Packaged Cannabis	1,283,122	831,634
Edibles and Other Cannabis Products	99,789	69,542
Non-cannabis Products	<u>7,195</u>	<u>1,525</u>
Total Finished Goods	<u>1,390,106</u>	<u>902,701</u>
Total Inventory	<u>\$1,990,546</u>	<u>\$1,161,734</u>

Cannabis inventory is valued at the lower of cost and net realizable value, which is the value at harvest, plus cost to complete, less cost to sell. Cost is determined by using the first in, first out costing method. The Company reviews inventory for obsolete, redundant and slow moving good and any such inventory identified are written down to net realizable value.

4. BIOLOGICAL ASSETS

Biological assets consist of cannabis plants. At September 30, 2018 and the twelve months ended December 31, 2017, the changes in the carrying value of biological assets are shown below:

Biological Assets

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 413,602	\$ -
Costs to grow harvested and live plants	1,906,516	1,363,509
Net change in fair value less costs to sell due to biological transformation	(854,788)	436,970
Transferred to inventory upon harvest	<u>(1,274,475)</u>	<u>(1,386,877)</u>
Ending balance	<u>\$ 190,855</u>	<u>\$ 413,602</u>

The Company values its biological assets at the end of each reporting period at fair value less costs to sell and complete. Actual yields of flower for each plant in 2018 were used to value each live plant at December 31, 2017 and those live plants at September 30, 2018 that had been harvested as of November 2, 2018. Estimates of harvest yields were used to value plants at September 30, 2018 that had not been harvested as of November 2, 2018. The cost to bring each live plant to harvest was estimated based on actual costs to grow plants. The average wholesale price of cannabis flower in Massachusetts per Cannabis Benchmarks was used as the estimated sales price of harvested flower. Selling cost was estimated based on actual selling cost at the Company's dispensary. Using the age of the plant and the harvest date of each plant, a valuation model was used to determine the value of each live plant at September 30, 2018 and December 31, 2017.

The significant assumptions used in determining the fair value of medical cannabis plants are as follows:

The average selling price of flower is \$5.23 per gram;

Post harvesting processing costs include drying and curing, testing and packaging, are estimated to be \$0.24 per gram: and

Selling costs are estimated to be \$1.75 per gram.

The estimates of post harvesting processing costs and selling costs are based on the Company's historical results.

Management has quantified the sensitivity of the inputs, and has determined that a decrease in the selling price per gram by 5% would result in the biological assets value decreasing by \$18,673 (2017 - \$53,697) and inventory decreasing by \$33,255 (2017 - \$80,151).

Biological assets are measured using Level 3 inputs, and therefore are subject to volatility and several uncontrollable factors, which could significantly affect the fair value of biological assets in future periods.

HEALTHY PHARMS, INC.
Notes to Financial Statements

4. BIOLOGICAL ASSETS *(Continued)*

All of the plants are to be harvested as agricultural produce (i.e. medical cannabis) and at September 30, 2018, the biological assets were on average 46% (2017 - 48%) complete.

Mother plants, or bearer plants, are plants grown for the purpose of taking cuttings in order to grow additional plants of the same type as the bearer plant. Bearer plants are critical to the success of the business, however are not measured for accounting purposes. Bearer plants are plants that once mature are held strictly to grow produce over their useful life. Unrealized gains or losses arising from changes in fair value less cost to sell during the period are included in the results of operations in the related period.

5. PROPERTY AND EQUIPMENT

The following is a summary of property and equipment, at cost less accumulated depreciation as of September 30, 2018 and December 31, 2017:

	<u>2018</u>	<u>2017</u>
Leasehold improvements	\$4,738,488	\$4,643,488
Furniture and equipment	<u>407,966</u>	<u>405,841</u>
Total Property and Equipment	5,146,454	5,049,329
Less: Accumulated Depreciation	<u>(633,148)</u>	<u>(304,717)</u>
Property and equipment, Net	<u>\$4,513,306</u>	<u>\$4,744,612</u>

A reconciliation of the beginning and ending balances and equipment is as follows:

	<u>Property and Equipment, Gross</u>	<u>Accumulated Depreciation</u>	<u>Property and Equipment, Net</u>
Balance as of January 1, 2018	\$5,049,329	\$(304,717)	\$4,744,612
Additions	97,125	-	97,125
Depreciation	-	<u>(328,431)</u>	<u>(328,431)</u>
Balance as of September 30, 2018	<u>\$5,146,454</u>	<u>\$(633,148)</u>	<u>\$4,513,306</u>

Depreciation of property and equipment is computed using the straight-line method over their estimated useful lives. Depreciation expense for the nine-month periods ended September 30, 2018 and 2017 was \$328,431 and \$210,746 respectively, of which \$249,477 and \$197,775 is included in cost of goods sold for the nine months ended September 30, 2018 and 2017.

6. FINANCE LEASE LIABILITY

In February 2017, the Company acquired extraction equipment through a financing lease. The equipment was valued at \$207,095 less accumulated depreciation and is included in fixed assets. The lease liability is recorded as a current and non-current liability and is amortized as the lease payments are made. Imputed interest is recorded monthly based on the imputed interest rate of 6.53%. Once the last lease payment is made in March 2021, the equipment can be purchased for \$1 and the Company anticipates that it will purchase the equipment. Approximately \$5,400 is recorded as interest expense for the nine months ended September 30, 2018 relating to this liability. Minimum lease payments for the three months ended December 31, 2018 and for each of the next three years including interest of \$8,355 are:

HEALTHY PHARMS, INC.
Notes to Financial Statements

6. FINANCE LEASE LIABILITY (Continued)

2018 (three months)	\$ 10,485
2019	41,940
2020	41,940
2021	<u>10,485</u>
	<u>\$104,850</u>

The net present value of the minimum lease payments at September 30, 2018 using management's estimate of the fair market interest rate of 15% is \$86,987.

7. NOTES PAYABLE TO RELATED PARTIES

The Company has financed its capital expenditures and operating losses by issuing notes to the two owners Paul Overgaag and Nat Averill. These notes paid interest between 12% and 15% per annum and principal interest was not due until the dispensary and cultivation facility began operating. In June 2017 the various notes were consolidated into two new notes that pay interest of 15% per annum and are payable in installments. The note holders waived the requirement to make payments on these notes for 2017 and 2018. These notes and accrued interest were repaid in full as part of the sale of the Company on November 13, 2018.

Redline Management is owned by Paul Overgaag and Nat Averill and provided management services during 2016 and 2017. Unpaid balances are shown as a related party note payable. The 2017 balance was repaid in full prior to September 30, 2018.

Timbuktu Real Estate is owned by Paul Overgaag and owns the Georgetown building. The unpaid balance is shown as a related party note payable.

Tomolly Inc. is owned by Paul Overgaag and was a tenant in the Cambridge building that was leased by the Company. Per the lease, Tomolly Inc. received a \$50,000 per quarter payment. The unpaid balance is shown as a related party note payable.

In February 2017 the Company issued notes to three related parties (Fischer, Woodard and Ledyard) who were close friends of the owners. These notes pay interest between 10% and 15% and are payable in annual installments beginning on July 1, 2018. The note holders waived the requirement to make payments on these notes for 2018.

Below are the outstanding principle and accrued interest for each of the notes as of September 30, 2018 and December 31, 2017:

	Principal at September 30, 2018	Accrued Interest at September 30, 2018	Principal at December 31, 2017	Accrued Interest at December 31, 2017
Paul Overgaag	\$5,950,000	\$1,776,639	\$5,000,000	\$1,081,044
Nat Averill	450,000	309,442	450,000	238,423
Redline Management	-	-	238,022	-
Timbuktu Real Estate	109,380	-	72,920	-
Tomolly Inc.	200,000	-	50,000	-
Fischer Note	200,000	33,667	200,000	18,500
Woodman Note	200,000	7,965	200,000	18,500
Ledyard	<u>100,000</u>	<u>24,904</u>	<u>100,000</u>	<u>13,685</u>
Total	<u>\$7,209,380</u>	<u>\$2,152,617</u>	<u>\$6,310,942</u>	<u>\$1,370,152</u>

HEALTHY PHARMS, INC.
Notes to Financial Statements

7. NOTES PAYABLE TO RELATED PARTIES *(Continued)*

All note principal and accrued interest was repaid in full as part of the sale of the Company on November 13, 2018. In accordance with IAS 10 the classification should be made based on facts that existed at the period end date of September 30, 2018, accordingly, all notes payable have been classified as long-term at September 30, 2018.

8. GENERAL AND ADMINISTRATIVE EXPENSES

For the nine months ended September 30, general and administrative expenses were comprised of:

	<u>2018</u>	<u>2017</u>
Legal and Professional	\$234,731	\$108,790
Rent	352,894	24,927
Other	<u>209,352</u>	<u>39,248</u>
Total	<u>\$796,977</u>	<u>\$172,965</u>

9. SHARE CAPITAL

The Company is a Massachusetts corporation that was founded on April 30, 2013 as a non-profit for state purposes. The Company is considered a for-profit corporation for federal income tax purposes. On July 25, 2018 the Company filed articles of entity conversion that converted the Company to a for-profit for state purposes. As part of the conversion, 100 common stock shares with no par value were issued to the founders of the Company who are officers and are members of the board of directors. No other common stock has been issued.

There are five members of the board of directors. Two are the founders and common stock holders and three are independent board members. The board of directors manages the company.

On August 16, 2018, the Company filed Articles of Entity Conversion of a Domestic Non-Profit with a Pending Provisional or Final Certification to Dispense Medical Use Marijuana to a Domestic Business Corporation with the Commonwealth of Massachusetts. As part of the filing, the Articles of Incorporation were amended to authorize 275,000 shares of common stock with no par value.

10. RELATED PARTIES

Key management personnel compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly. The key management personnel of the Company are the two officers of the Company who are also members of the Company's board of directors and the three other independent members of the Company's board of directors. Compensation to key management for the three and nine months ended September 30, 2018 was \$35,000 and \$110,000, respectively. Compensation to key management for the three and nine months ended September 30, 2017 was \$-0- and \$-0-, respectively.

HEALTHY PHARMS, INC.
Notes to Financial Statements

10. RELATED PARTIES *(Continued)*

Related party transactions (Also see Note 11)

The Company leases the Georgetown building and the Cambridge Dispensary building from entities that are owned by an officer and a board member. Approximately \$192,000 and \$563,000 was paid for rent for the two buildings for the three and nine months ended September 30, 2018, respectively and \$73,000 and \$218,000 was paid for rent for the three and nine months ended September 30, 2017, respectively.

11. COMMITMENTS AND CONTINGENCIES

Operating leases:

The Company has two real estate leases that are classified as operating leases. Future minimum lease obligations under these leases as of September 30, 2018, and for the three months ended December 31, 2018 and each of the four succeeding years and thereafter are as follows:

2018 (three months)	\$ 176,722
2019	722,266
2020	748,379
2021	785,798
2022	475,805
Thereafter	<u>1,449,636</u>
	<u>\$4,358,606</u>

One lease is the Georgetown, Massachusetts building that houses cultivation, production and dispensary facilities. The second lease is for the Cambridge dispensary. Both buildings are owned by an officer and a board member the Company (see Note 10). Rent expense for the three and nine months ended September 30, 2018 was approximately \$192,000 and \$563,000 respectively of which \$66,000 and \$210,000 was capitalized to inventory. Rent expense for the three and nine months ended September 30, 2017 was approximately \$73,000 and \$218,000 respectively, of which \$73,000 and \$193,000 were capitalized to inventory.

Included in the commitments are \$50,000 in quarterly payments to Tomolly Inc. as part of the Cambridge lease; the first payment was on November 1, 2017. Total payments will be \$1,000,000 over the first five years of the lease. Tomolly was a tenant in the Cambridge building and the payments are in exchange for Tomolly vacating the space. Paul Overgaag, a shareholder and an office of the Company, owns the Cambridge building and owns Tomolly Inc.

Other Contingencies - The Company's operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulations at September 30, 2018, medical cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

Legal matters - The Company was involved in a legal dispute regarding the Cambridge Dispensary. This legal dispute was settled on November 8, 2018. A \$1,125,000 accrual for legal expenses and settlement payments were recorded as of September 30, 2018.

12. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company's financial instruments consist of cash, accounts payable, accrued liabilities, and notes payable to related parties. The carrying values of these financial instruments approximate their fair values as of September 30, 2018 and December 31, 2017.

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – Inputs for the asset or liability that are not based on observable market data.

There have been no transfers between fair value levels during the nine months ending September 30, 2018.

The following table summarizes the Company's financial instruments as of September 30, 2018:

	<u>Loans and Receivables</u>	<u>Other Financial Liabilities</u>	<u>Total</u>
Financial Assets:			
Cash	\$293,697	\$ -	\$ 293,697
Financial Liabilities:			
Accounts payable	-	169,894	169,894
Accrued liabilities	-	1,274,811	1,274,811
Finance lease liability	-	96,495	96,495
Notes payable and accrued interest	-	9,361,996	9,361,996

The following table summarizes the Company's financial instruments as of December 31, 2017:

	<u>Loans and Receivables</u>	<u>Other Financial Liabilities</u>	<u>Total</u>
Financial Assets:			
Cash	\$193,462	\$ -	\$ 193,462
Financial Liabilities:			
Accounts payable	-	120,349	120,349
Accrued liabilities	-	1,257,441	1,257,441
Finance lease liability	-	122,510	122,510
Notes payable and accrued interest	-	7,681,094	7,681,094

Financial Risk Management

The Company is exposed in varying degrees to a variety of financial instruments related risks. The Board mitigates these risks by assessing, monitoring and approving the Company's risk management processes.

12. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Credit Risk

Credit risk is the risk of a potential loss to the Company if a third party or a related party to a financial instrument fails to meet its contractual obligations. As of September 30, 2018 and December 31, 2017, the Company did not have any receivables that could cause a credit risk.

The Company maintains cash with federally insured financial institutions. As of September 30, 2018 and December 31, 2017, the Company did not exceed federally insured limits.

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to raise sufficient capital to settle obligations and liabilities when due.

(c) Equity Price Risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. The Company keeps significant cannabis inventory levels which could lose value if cannabis retail prices fall. Management believes that prices will remain steady due to an increase in demand for wholesale cannabis to keep up with new demand at the retail level as recreational cannabis licenses are granted throughout Massachusetts in 2018 and 2019.

(d) Interest Rate Risk

The Company's interest rate risk mainly arises from changes in the interest rates on cash. Cash generates interest based on market interest rates. At September 30, 2018, the Company was not subject to significant interest rate risk.

(e) Regulatory Risk

The Company's operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations. Medical cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

(f) Market Risk

Market risk is the risk of variability in fair value due to movements in equity or market prices. See Note 4 for the Company's assessment of certain changes in the fair value assumption used in the calculation of biological asset values.

13. SEGMENT INFORMATION

The Company operates in one segment: cultivating, processing, and selling cannabis to consumers.

All property, plant and equipment is located in the United States.

13. SEGMENT INFORMATION *(Continued)*

All revenue was generated in the United States during the nine months ended September 30, 2018.

14. CAPITAL MANAGEMENT

The Company considers its capital to consist of cash and cash equivalents, short-term and long-term debt and accumulated deficit. The Company manages its capital to maintain its ability to continue as a going concern and makes adjustments to it based on funds available to the Company in order to fund its operations.

The Company, upon approval from its board of Directors, will balance its overall capital structure through capital infusions from related parties or by undertaking other activities as deemed appropriate under the specific circumstances.

As of September 30, 2018, the Company is not subject to externally imposed capital requirements.

15. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through March 19, 2019, which is the date that the financial statements became available to issue.

On November 8, 2018 the Company settled a legal dispute regarding the Cambridge Dispensary. The \$1,125,000 legal accrual at September 30, 2018 is adequate to pay the settlement costs and all related legal expenses for this dispute.

On November 13, 2018, the Company was sold to 4Front Holdings LLC (4Front) for approximately \$27 million, plus \$6.06 million for the value of the Company's inventory. 4Front acquired 100% of the stock and will continue to operate the cultivation facility and the two dispensaries under the current cannabis licenses. As part of the transaction, all debt to related parties including accrued interest, was repaid.

Effective November 13, 2018, Paul Overgaag and Nat Averill resigned from all offices of the Company and as Directors of the Company. 4Front appointed a replacement Director and replacement officers. On November 13, 2018, Nat Averill entered into a consulting agreement with the Company and was paid \$15,000 a month for three months. The consulting agreement ended on January 12, 2019.

On November 13, 2018, new leases were executed for the Georgetown building and the Cambridge building with entities that are owned by Paul Overgaag. These leases were considered arms-length transactions and have an initial 5-year term and can be extended for two additional 5-year terms at the option of the Company. All previous building leases were terminated. At lease inception, \$88,000 was paid for a security deposit for Georgetown and \$51,333 was paid for a security deposit for Cambridge. The rent is paid in equal monthly installments for each of the 5 years of the initial term. The annual rent is as follows:

	<u>Georgetown</u>	<u>Cambridge</u>
Year 1	\$264,000.00	\$154,000.00
Year 2	\$271,920.00	\$158,620.00
Year 3	\$280,077.00	\$163,378.00
Year 4	\$288,480.00	\$168,279.96
Year 5	\$297,134.00	\$173,328.36

SCHEDULE "G"
PRO FORMA FINANCIAL STATEMENTS OF THE RESULTING ISSUER AS AT SEPTEMBER 30, 2018

(See attached)

4FRONT HOLDINGS LLC
Condensed Interim Consolidated Statements of Financial Position
At December 31, 2018

Unaudited (Amounts Expressed in United States Dollars Unless Otherwise Stated)

	4Front Holdings, LLC December 31, 2018	Cannex Capital Holdings, Inc. January 31, 2019	Adjustments	Pro Forma Consolidated
ASSETS				
Current Assets:				
Cash	\$ 1,262,733	\$ 27,847,191	\$ -	\$ 29,109,924
Accounts Receivable	-	2,134,365	-	2,134,365
Other Receivables	-	131,771	-	131,771
Inventory	4,360,367	319,331	-	4,679,698
Prepaid Expenses	266,094	517,116	-	783,210
Notes Receivable and Accrued Interest from Related Parties	1,765,000	-	-	1,765,000
Total Current Assets	<u>7,654,194</u>	<u>30,949,774</u>	-	<u>38,603,968</u>
Property and Equipment, Net	14,213,951	28,830,224	-	43,044,175
Notes Receivable and Accrued Interest from Related Parties	11,348,400	-	-	11,348,400
Notes Receivable	-	2,000,000	-	2,000,000
Intangible Assets	28,083,150	-	173,744,566 <i>3a</i>	201,827,716
Investment in Soma	-	981,812	-	981,812
Equipment Finance Receivable	-	305,714	-	305,714
Deposits	554,610	2,016,029	-	2,570,639
TOTAL ASSETS	<u>\$ 61,854,305</u>	<u>\$ 65,083,553</u>	<u>\$ 173,744,566</u>	<u>\$ 300,682,424</u>
LIABILITIES AND OWNERS' EQUITY				
LIABILITIES				
Current Liabilities:				
Accounts Payable	\$ 1,262,149	\$ 1,611,387	\$ -	\$ 2,873,536
Accrued Expenses and Other Current Liabilities	1,310,730	295,000	-	1,605,730
Unearned Revenue	-	-	-	-
Deferred Rent	229,547	-	-	229,547
Derivative Liability	-	13,957,142	-	13,957,142
Note Payable and Accrued Interest, net of discount	9,630,144	-	-	9,630,144
Notes Payable and Accrued Interest to Related Parties	-	-	-	-
Total Current Liabilities	<u>12,432,570</u>	<u>15,863,529</u>	-	<u>28,296,099</u>
Convertible Notes	-	13,021,289	-	13,021,289
Other Long-Term Liabilities	404,866	1,052,295	-	1,457,161
Unearned Revenue	-	-	-	-
TOTAL LIABILITIES	<u>12,837,436</u>	<u>29,937,113</u>	-	<u>42,774,549</u>
MEMBERS' EQUITY (DEFICIT)				
Controlling Interest:				
Contributed Capital	71,847,307	44,605,401	173,744,566 <i>3b</i>	290,197,274
Accumulated Deficit	(22,472,055)	(9,458,961)	-	(31,931,016)
Non-Controlling Interest	-	-	-	-
Members' Equity	<u>(358,383)</u>	<u>-</u>	<u>-</u>	<u>(358,383)</u>
TOTAL MEMBERS' EQUITY (DEFICIT)	<u>49,016,869</u>	<u>35,146,440</u>	<u>173,744,566</u>	<u>257,907,875</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY (DEFICIT)	<u>\$ 61,854,305</u>	<u>\$ 65,083,553</u>	<u>\$ 173,744,566</u>	<u>\$ 300,682,424</u>

4FRONT HOLDINGS LLC**Condensed Interim Consolidated Statements of Operations****For the Twelve Months Ended December 31, 2018***Unaudited (Amounts Expressed in United States Dollars Unless Otherwise Stated)*

	4Front Holdings, LLC	Healthy Pharms Inc.	Cannex Capital Holdings, Inc.	Pro Forma Consolidated
	Twelve Months Ended December 31, 2018	For The Period Ended November 12, 2018*	Twelve Months Ended January 31, 2019	
REVENUE				
Total Gross Revenue	<u>3,667,468</u>	<u>3,406,038</u>	<u>10,219,045</u>	<u>17,292,551</u>
Cost of Goods Sold	<u>(2,494,292)</u>	<u>(1,539,617)</u>	<u>(2,544,203)</u>	<u>(6,578,112)</u>
Gross (Loss) Profit	1,173,176	1,866,421	7,674,842	10,714,439
OPERATING EXPENSES				
Selling, General and Administrative Expenses	<u>12,353,178</u>	<u>1,277,649</u>	<u>12,193,132</u>	<u>25,823,959</u>
Loss from Operations	<u>(11,180,002)</u>	<u>588,772</u>	<u>(4,518,290)</u>	<u>(15,109,520)</u>
Other Income (Expense)				
Interest Income	828,624	-	221,741	1,050,365
Interest Expense	(1,502,827)	(826,951)	-	(2,329,778)
Other Income	<u>(38,401)</u>	<u>-</u>	<u>(4,760,000)</u>	<u>(4,798,401)</u>
Total Other Income (Expense)	<u>(712,604)</u>	<u>(826,951)</u>	<u>(4,538,259)</u>	<u>(6,077,814)</u>
Net Income (Loss) before Income Taxes	(11,892,606)	(238,179)	(9,056,549)	(21,187,334)
Income Tax Expense	-	(623,902)	(155,000)	(778,902)
Net Income (Loss)	<u>(11,892,606)</u>	<u>(862,081)</u>	<u>(9,211,549)</u>	<u>(21,966,236)</u>
Net Loss Attributable to Non-Controlling Interest	(871,118)	-	-	(871,118)
Translation Loss (Gain)	-	-	(779,340)	(779,340)
Net Loss Attributable to Members of the Resulting Issue	\$ (11,021,488)	\$ (862,081)	\$ (8,432,209)	\$ (20,315,778)

* Healthy Pharms was acquired on November 12, 2018. For the period beginning November 13, 2018 to December 31, 2018, Healthy Pharms' financials have been consolidated into the 4Front Holdings as reported for the period ending December 31, 2018

4FRONT HOLDINGS LLC**Condensed Interim Consolidated Statements of Operations***Unaudited (Amounts Expressed in United States Dollars Unless Otherwise Stated)*

	4Front Holdings, LLC	Healthy Pharms Inc.	Cannex Capital Holdings, Inc.	Pro Forma Consolidated
	Fiscal Year Ended	Fiscal Year Ended	Twelve Months Ended*	
	December 31, 2017	December 31, 2017	January 31, 2018	
REVENUE				
Total Gross Revenue	<u>721,009</u>	<u>1,992,416</u>	<u>10,190,860</u>	<u>12,904,285</u>
Cost of Goods Sold	<u>(1,039,416)</u>	<u>(50,329)</u>	<u>(2,297,249)</u>	<u>(3,386,994)</u>
Gross (Loss) Profit	<u>(318,407)</u>	<u>1,942,087</u>	<u>7,893,611</u>	<u>9,517,291</u>
OPERATING EXPENSES				
Selling, General and Administrative Expenses:	<u>4,338,358</u>	<u>2,278,648</u>	<u>9,065,453</u>	<u>15,682,459</u>
Loss from Operations	<u>(4,656,765)</u>	<u>(336,561)</u>	<u>(1,171,842)</u>	<u>(6,165,168)</u>
Other Income (Expense)				
Interest Income	200,646	-	68,908	269,554
Interest Expense	(766,789)	(852,599)	-	(1,619,388)
Other Income	<u>883,781</u>	<u>-</u>	<u>2,047,816</u>	<u>2,931,597</u>
Total Other Income (Expense)	<u>317,638</u>	<u>(852,599)</u>	<u>2,116,724</u>	<u>1,581,763</u>
Net Income (Loss) before Income Taxes	(4,339,127)	(1,189,160)	944,882	(4,583,405)
Income Tax Expense	-	(648,101)	(1,192,295)	(1,840,396)
Net Income (Loss)	<u>(4,339,127)</u>	<u>(1,837,261)</u>	<u>(247,413)</u>	<u>(6,423,801)</u>
Net Loss Attributable to Non-Controlling Interest	(750,257)	-	-	(750,257)
Translation Loss (Gain)	-	-	38,123	38,123
Net Loss Attributable to Members of the Resulting Issuer	<u>\$ (3,588,870)</u>	<u>\$ (1,837,261)</u>	<u>\$ (285,536)</u>	<u>\$ (5,711,667)</u>

* Denotes period beginning with the commencement of Cannex operations on February 22, 2017 and ending January 31, 2018.

4Front Ventures
Notes to Pro Forma Consolidated Financial Statements

The accompanying unaudited pro forma consolidated financial statements of 4Front Ventures (the “Company” or “Resulting Issuer”) have been prepared by management to reflect the Business Combination Agreement (“Combination Agreement”) between 4Front and Cannex.

The unaudited pro forma consolidated financial statements include:

- i. a pro forma consolidated statement of financial position as at December 31, 2018 prepared from the unaudited condensed consolidated interim statement of financial position of 4Front as at December 31, 2018 and the audited statement of financial position of Cannex as at January 31, 2019, which gives pro forma effect to the merger of 4Front and Cannex and the assumptions described in Note 2, as if these transactions occurred on December 31, 2018.
- ii. a pro forma consolidated statement of operations for the twelve months ended December 31, 2018 prepared from the unaudited condensed consolidated interim statement of operations of 4Front for the twelve months ended December 31, 2018 and the unaudited condensed interim statement of loss and comprehensive loss of Cannex for the twelve months ended January 31, 2019, as if the transactions described in Note 2 had occurred on January 1, 2018.

To provide additional context for the 4Front financials for the 3-month period ended December 31, 2018, please see notes below which highlight the major changes from September 30, 2018 to December 31, 2018.

Inventory increased by \$3.9 million from September 30, 2018 to December 31, 2018 due to the acquisition of Healthy Pharms Inc. (“HPI”), which accounted for \$2.8 million of the increase, and because 4Front began harvesting and processing cannabis in the Illinois cultivation facility during the fourth quarter (\$1.0 million).

Property and Equipment increased by \$5.3 million from September 30, 2018 to December 31, 2018 due to the acquisition of HPI, which accounted for \$5.1 million of the increase.

Intangible Assets increased by \$26.9 million due to the acquisition of HPI. The excess of consideration paid over the net assets was recorded as an intangible asset. The final purchase price accounting will allocate this \$26.9 million between goodwill and identifiable intangible assets such as cannabis licenses, customer relationships, and trademarks.

Notes Receivable and Accrued Interest increase from \$2.9 million at September 30, 2018 to \$9.6 million at December 31, 2018. The full \$9.6 million balance at December 31, 2018 is due to the former owners of HPI and represents consideration paid for the HPI acquisition. The \$2.9 million receivable at September 30, 2018 was repaid in December 2018.

Member Equity increased by \$30 million from September 30, 2018 to December 31, 2018. This increase was due to the sale of approximately \$29 million in Class F units. The proceeds were used for the purchase of HPI and for general business purposes. In addition, \$4 million in equity was issued as part of the HPI acquisition and the acquisition of equity from non-controlling interests in other subsidiaries. These increases were offset by a \$3 million increase to the accumulated deficit.

4Front Ventures
Notes to Pro Forma Consolidated Financial Statements

iii. a pro forma consolidated income statement for the year ended December 31, 2017 prepared from the audited consolidated statement of operations of 4Front for the year ended December 31, 2017 and the audited statement of operations of Cannex for the period from February 22, 2017 to January 31, 2018, as if the transactions described in Note 2 had occurred on January 1, 2017. The Cannex statement of operations has been constructed by using the available reporting periods for Cannex as represented in the Annual Consolidated Financial Statements dated April 30, 2018 and the unaudited condensed interim statement of loss and comprehensive loss of Cannex for the three months ended April 30, 2018.

The unaudited pro forma consolidated statement of financial position has been prepared for illustration purposes only and may not be indicative of the combined results or financial position had the Transaction been in effect at the date indicated. No adjustments have been made to reflect additional costs or cost savings that could result from the combination of the operations of 4Front and Cannex, as management does not anticipate any material costs or cost savings as a result of this Transaction.

The unaudited pro forma financial statements have been compiled using the significant accounting policies as set out in the audited financial statements of 4Front for the year ended December 31, 2017. Based on the review of the accounting policies of Cannex, it is management's opinion that there are no material differences between the accounting policies of 4Front and Cannex.

The pro forma effective statutory income tax rate of the combined companies will be 28%.

The pro forma consolidated financial statements should be read in conjunction with the audited annual and unaudited interim consolidated financial statements of 4Front and Cannex and the notes thereto.

2. Material Business Acquisitions

Adjustments related to material primary business acquisitions, in accordance with National Instrument 41-101 -General Prospectus Requirements, include the following transactions completed during 2018:

a. Healthy Pharms, Inc.

On November 11, 2018, 4Front acquired all interests in Healthy Pharms, Inc., a vertically-integrated operator in Massachusetts, for total consideration of \$26,942,147, which includes cash, seller's notes and stock.

No acquisition-related adjustments were made to the consolidated statement of operations for the period from January 1, 2018 to November 12, 2018 or the year ended December 31, 2017, respectively. Acquisition-related adjustments were made to the consolidated statement of operations for the period from November 13, 2018 to December 31, 2018. Acquisition-related adjustments to the pro forma consolidated statement of financial position as at December 31, 2018 were prepared as if the acquisition occurred on November 12, 2018. The amount of consideration paid in excess of the fair value of the net assets acquired has been allocated to intangible assets.

3. RTO Adjustments

- a. In connection with the Transaction, intangible assets will be written up in accordance with standard goodwill calculations. The value of Cannex, as determined by multiplying the number

4Front Ventures
Notes to Pro Forma Consolidated Financial Statements

of subordinate voting shares (including converted subordinate proportionate voting shares) to be exchanged for Cannex common and class A shares outstanding as of the signing of the Business Combination Agreement by the stock price of \$1.30 as halted on March 1, 2019 is \$238,828,119. This calculation is in accordance with IFRS standards regarding the calculation of purchase price in an RTO transaction, standing true that if Cannex, as the legal subsidiary, were to acquire 4Front, the legal parent, it would need to issue equity in the amount of \$417,949,208 to end up with the same relative ownership that it is receiving currently, equivalent to 1.75 times the Cannex value of \$238,828,119. The share price and resulting equity value will be adjusted at closing to the current stock price on the date that control passes to 4Front using prices available from any actively traded market and the final goodwill adjustment will be updated accordingly. The calculation assumes full conversion whereby all subordinate proportionate voting shares in the Resulting Issuer will be converted to subordinate voting shares at a ratio of 1:80. The issuance of multiple voting shares to Key Members of 4Front is not expected to affect the value of the shares issued to current Cannex security holders. The net value of assets is \$65,083,553. The resulting goodwill adjustment is \$173,744,566.

Purchase Price	\$238,828,119
Less: Net Value of Assets	\$65,083,553
Goodwill Adjustment	\$173,744,566

- b. In connection with the Transaction, contributed capital will be written up in accordance with standard calculations. The total contributed capital adjustment is equal to the goodwill adjustment of \$173,744,566.

To determine the acquiring entity for accounting purposes, we applied IFRS 10.

The three elements of control per IFRS 10 are:

- Power
- Exposure or rights to variable returns
- Ability to use power to affect returns

Key Members of 4Front will have the voting power to control the resulting issuer through the issuance of multiple voting shares to Key Members of 4Front. 4Front is exposed to variable returns of the resulting issuer through stock ownership. 4Front, through Key Members with voting control, will have the ability to use their power to affect returns of the resulting issuer.

Since 4Front will have all three elements of control over the resulting issuer, 4Front will have control over the resulting issuer.

IFRS 3 requires that an acquiring entity be identified for accounting purposes. Since IFRS 10 identifies 4Front as having control over the resulting issuer, IFRS 3 requires that 4Front be identified as the acquiring entity for accounting purposes. Since 4Front is the acquirer, Cannex must be the acquiree for accounting purposes.

4Front Ventures
Notes to Pro Forma Consolidated Financial Statements

Pro Forma Capitalization.

The below table summarizes the consideration issued from the resulting issuer to both Cannex and 4Front shareholders.

Pro Forma Summary Capitalization Table of the Resulting Issuer					
	Subordinated Voting Common	Subordinate Proportionate Voting Common	Multiple Voting Common	Total Shares	% of Total Shares
Cannex Common (Non-US)	45,266,304	-	-	45,266,304	28.01%
Cannex Common (US)	46,337,477	-	-	46,337,477	28.67%
Cannex Series A (US)	-	1,206,522	-	1,206,522	0.75%
Dilutive Securities (Non-US)	36,300,631	-	-	36,300,631	22.46%
Dilutive Securities (US)	-	814,658	-	814,658	0.50%
4Front Shareholders (Non-US)	26,525,206	-	-	26,525,206	16.41%
4Front Shareholders (US)	-	2,724,354	-	2,724,354	1.69%
4Front Insiders (US)	-	1,184,769	1,276,208	2,460,977	1.52%
Total	154,429,618	5,930,302	1,276,208	161,636,128	100.00%

SCHEDULE "H"
ANNUAL AND INTERIM MANAGEMENT DISCUSSION AND ANALYSIS OF 4FRONT

(See attached)

4Front Holdings LLC

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

MD&A of 4Front Holdings LLC

This management discussion and analysis (“**MD&A**”) of the financial condition and results of operations of 4Front Holdings LLC (the “**Company**”, “**we**”, “**our**”, “**us**” or “**4Front**”) is for the year ended December 31, 2017. It is supplemental to, and should be read in conjunction with, the Company’s audited consolidated financial statements and the accompanying notes for the years ended December 31, 2017 and 2016. The Company’s financial statements are prepared in accordance with International Financial Reporting Standards (“**IFRS**”).

This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 Continuous Disclosure Obligations of the Canadian Securities Administrators.

This MD&A contains certain “forward-looking statements” and certain “forward-looking information” as defined under applicable United States securities laws and Canadian securities laws. Please refer to the discussion of forward-looking statements and information set out under the heading “Cautionary Statement Regarding Forward-Looking Statements”, located at the beginning of this listing statement. As a result of many factors, the Company’s actual results may differ materially from those anticipated in these forward-looking statements and information.

The MD&A was prepared by management of the Company and approved by the Board of Managers on February XX, 2019.

All references to “\$” are to United States dollars unless otherwise specified.

OVERVIEW OF THE COMPANY

4Front Holdings LLC (Holdings) is a Delaware limited liability company and was founded on September 15, 2016, with the contribution of the assets and liabilities of 4Front Ventures, Inc. (Ventures) (collectively the “Company”). Holdings operates licensed cannabis facilities in state-licensed markets in the United States. As of December 31, 2017, the Company operated a dispensary and a cultivation facility in Illinois. The Company owns dispensary/cultivation licenses in Massachusetts, and dispensary licenses in Pennsylvania and Maryland.

The Company operates a legacy consulting business that assists customers with acquiring cannabis licenses and operating cannabis facilities. The Company has tightened the focus of its professional services resources to more squarely support the advancement of its own license interests and those of its legacy clients in key markets, while providing more limited services to select new clients. Revenue from the consulting business will continue due to ongoing fees from existing contracts.

On November 26, 2018, the Company announced a tentative agreement to merge with Cannex Capital Holdings Inc. with a planned completion date of March 15, 2019. Cannex leases real estate and provides consulting services to cannabis cultivation facilities in the state of Washington. The merger is subject to due diligence, the negotiation of a final merger agreement, shareholder and unit holder approval, and regulatory approval. Cannex and 4Front have agreed to a termination fee applicable under certain circumstances of \$10 million.

Highlights from the year ended December 31, 2017

2017 was a transformational year for 4Front, as we opened our first dispensary in Chicago, Illinois in July. We also constructed a cultivation facility in the Chicago area and began cultivating cannabis in small quantities. Below are some of the key events and highlights that were pivotal to our success in 2017:

- We secured approximately \$10 million in financing from the issuance of convertible notes.
- We made great progress in securing real estate and getting ready for construction of cannabis facilities in Maryland and Massachusetts.
- We made strategic investments in entities that will construct and manage two dispensaries in Maryland and one

dispensary in Pennsylvania.

- We made several strategic hires, bringing on board leaders and experts in construction management, operations, finance and accounting, and we improved the infrastructure of our business.

Looking forward, management believes that we are well positioned to construct and open more cannabis facilities and to gain control of additional cannabis licenses through the application process, acquisition, or strategic partnerships.

Operational and Regulation Overview

4Front's operations are in full compliance with all applicable state and local laws, regulations and licensing requirements in the states in which we operate. As at December 31, 2017, the Company had operations in the state of Illinois. The Company also controls or manages licenses in Maryland, Pennsylvania and Massachusetts.

SELECTED FINANCIAL INFORMATION

The following table presents selected financial data derived from the audited annual consolidated financial statements of the Company at and for the years ended December 31, 2017 and 2016. The selected consolidated financial information below may not be indicative of the Company's future performance.

(in thousands \$)	As at and for the year ended December 31,		Change	
	2017	2016	\$	%
Revenue, net	\$ 721	\$ 669	\$ 52	8 %
Cost of goods sold	(1,039)	(74)	(965)	(1,304)%
Gross profit	(318)	595	(913)	n/m
General and Administrative expenses	(4,338)	(4,900)	562	11 %
Other income (loss)	318	2,491	(2,173)	(87)%
Net loss	\$ (4,339)	\$ (1,814)	\$ (2,525)	(139)%
Total assets	\$ 13,778	\$ 6,665	\$ 7,113	107 %
Long-term liabilities	\$ 9,804	\$ 187	\$ 9,617	n/m

n/m - Not meaningful

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Revenue

The Company derives its revenues from consulting services and the retail dispensary businesses where cannabis is sold to consumers. 4Front opened its first dispensary in Illinois in July 2017.

Revenue for the year ended December 31, 2017 was \$721, an increase of \$52, or 8%, from the year ended December 31, 2016. The increase was primarily due to the opening of the Illinois dispensary in July 2017. Revenue from cannabis will increase as additional dispensaries are opened and when the Illinois cultivation facility begins selling cannabis. Revenue from the consulting business is expected to decline as the Company concentrates on building and operating cannabis facilities.

Cost of goods sold and gross profit

Gross profit is revenue less cost of goods sold. Cost of goods sold includes the costs directly attributable to cultivating and processing cannabis and amounts paid for finished goods, such as flower, edibles and concentrates, as well as packaging and other supplies, and allocated overhead which includes allocations of rent and utilities.

Cost of goods sold for the year ended December 31, 2017 was \$1,039, an increase of \$965, or 1,304%, from the year

ended December 31, 2016. This increase is primarily due to production costs of cannabis in the Illinois cultivation facility. Plants were grown throughout the year with the intention of selling the flower on the wholesale market. Due to problems with the quality of the product no cultivated cannabis was sold in 2017 and the plants and materials harvested were eventually destroyed. The cost to grow these plants was written-off to cost of goods sold. Gross profit for 2017 was negative due to these write offs.

General and Administrative expenses

Total general and administrative expenses primarily consist of corporate personnel costs including salaries, benefits and share based compensation, professional service costs including legal and consulting, travel, and rent. We expect to continue to invest considerably in this area to support our aggressive expansion plans and to support the increasing complexity of the cannabis business. Furthermore, we expect to incur acquisition and transaction costs related to our expansion plans. We anticipate a significant increase in personnel costs, marketing costs, and legal and professional fees associated with preparing the company to be a publicly traded company.

Total operating expenses for the year ended December 31, 2017 was \$4,338, a decrease of \$562, or 11%, compared to the year ended December 31, 2016. This was primarily because 2016 included legal fees associated with a business dispute that resulted in a \$3 million settlement.

Other Income (Loss)

Total other income for the year ended December 31, 2017 was \$318, a decrease of \$2,173 when compared to the year ended December 31, 2016. The decrease is because 2016 included a \$3 million settlement for a business dispute. This was offset by a \$1.04 million gain from the sale of an investment in a dispensary in 2017.

Net Loss

Net loss for the year ended December 31, 2017 was \$4,339, an increase of \$2,525 or 139%, as compared to a net loss of \$1,814 for the year ended December 31, 2016. The increase in net loss was because 2016 included a \$3 million gain on the settlement of a business dispute.

LIQUIDITY AND CAPITAL RESOURCES

Our primary need for liquidity is to fund the working capital requirements of our business, including capital expenditures, acquisitions, and for general corporate purposes. Our primary source of liquidity is funds generated by financing activities. When the Company made its decision to merge with Cannex Capital Holdings Inc. in November 2018, the Company elected to postpone its internal fundraising initiatives, which included a substantially negotiated secured promissory note exceeding \$10 million in proceeds. In place of this note, an \$8 million line of credit was obtained from Cannex. The Cannex loan is short-term, which results in the Company's working capital deficit staying negative.

For the year ended December 31, 2017, the Company had a loss of \$4,339,127, had negative cash flow from operations, and had a working capital deficit at December 31, 2017. The possibility of the cancelation of the Cannex merger creates a material uncertainty and casts significant doubt as to the ability of the Company to meet its obligations as they come due unless it is able to raise sufficient funds to enable it to reach profitability, and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. The consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the going concern assumption was inappropriate, and these adjustments could be material.

Management believes that if the Cannex merger is cancelled, that it will have time to execute existing fundraising initiatives and to repay any debt that comes due in the next year. Management has demonstrated its ability to raise capital and to secure loans in the past. Nevertheless, there is no assurance that these initiatives will be successful or sufficient.

Change in Cash (in thousands of \$)	For the Year Ended		Change	
	2017	2016	\$	%
Net cash used in operating activities	\$ (4,299)	\$ (2,567)	\$ (1,732)	(67)%
Net cash used in investing activities	(5,132)	(2,521)	(2,611)	(104)%
Net cash provided by financing activities	10,977	3,425	7,552	221 %
Change in cash	\$ 1,546	\$ (1,663)	\$ 3,209	

As of December 31, 2017, the Company had \$3,609 in cash, and a \$689 working capital deficit (current assets minus current liabilities), compared with \$2,062 in cash, \$400 of restricted cash and a \$1,893 of working capital deficit as of December 31, 2016.

Cash used in operating activities

Net cash used in operating activities was \$4,299 for the year ended December 31, 2017, an increase of \$1,732, or 67%, as compared to \$2,567 for the year ended December 31, 2016. The increase was primarily due to higher costs to grow cannabis at our Illinois cultivation facility and an increase in interest paid.

Cash used in investing activities

Net cash used in investing activities was \$5,132 for the year ended December 31, 2017, an increase of \$2,611, or 104%, compared to \$2,521 for the year ended December 31, 2016. The increase was due to an increase in capital expenditures for the buildout of the Illinois dispensary and the Illinois cultivation facility in 2017. This was partially offset by cash received for the sale of the investment in a dispensary.

Cash provided by financing activities

Net cash provided by financing activities was \$10,977 for the year ended December 31, 2017, an increase of \$7,552, or 221%, compared to \$3,425 for the year ended December 31, 2016. The increase was due to the issuance of \$10.12 million in convertible debt in 2017, which was partially offset by the issuance of \$3.425 million of debt in 2016.

Contractual Obligations

The Company and its subsidiaries have entered into operating lease agreements for the corporate offices, a cultivation facility and dispensaries. The following represents the Company's commitments in relation to its operating leases:

(in thousands \$)	Amount
Not later than one year	\$ 317
Later than one year and not later than five years	1,211
Later than five years	2,306
Total	\$ 3,834

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any material off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of the operations or financial condition of the Company, including, and without limitation, such considerations as liquidity and capital resources.

TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are entered into in the normal course of business and are measured at the amount established and agreed to by the parties.

Related party notes receivable

As described in Note 16 of the consolidated financial statements, the Company has outstanding notes receivable with related parties totaling \$2,982,000 and \$835,000 at December 31, 2017 and 2016, respectively. The interest rates on the notes range from 0-18%. Interest income on the notes amounted to \$175,000 and \$61,000 for the years ended December 31, 2017 and 2016, respectively.

Related party notes payable

As described in Note 10 of the consolidated financial statements, the Company has outstanding notes payable with related parties totaling \$3,505,000 and \$3,262,000 at December 31, 2017 and 2016 respectively. The interest rate is between 5% and 10%.

SUBSEQUENT TRANSACTIONS

On April 4, 2018, Mission Massachusetts Inc., a related party to the Company, converted from a not-for-profit for state purposes, to a new entity, Mission MA, Inc., which is a for-profit entity for state purposes. The Company is evaluating the effect of this conversion for the 2018 year.

On June 12, 2018, the Company opened a cannabis dispensary in Allentown Pennsylvania.

From February 2018 through June 2018, the Company completed a financing of Class D units for proceeds of \$13.4 million. The price of all Class D units was \$442.50. The Class D units receive a preferred return of 5% that has a preference that is similar to the Class A units. After the Class A units and the Class D units receive their full preferred return, the Class D units participate with the Class B and the Class C units in any additional distributions except that the Class D units additional distributions are reduced by the value of the Class D preferred return. The Class D units have a right to elect one Manager who will sit on the Board of Managers.

Because more than \$10 million of Class D units were sold, the owners of convertible debt had the option of converting their debt into Class D units. All of the holders of the outstanding \$10.1 million in convertible debt converted their debt into Class D units as of June 2018.

The holder of a \$3,000,000 note payable agreed to convert the \$3,000,000 balance of the note plus \$301,096 in accrued interest into Class D units at \$442.50 each. This conversion was completed in June 2018. Stock warrants in Ventures that were held by the note holder were also exercised in exchange for 2,238 shares of Ventures' common stock.

On April 19, 2018 the Company, through an affiliate, purchased a 34.17% interest in Mission Pennsylvania II LLC from a non-controlling interest by issuing a \$2,000,000 note. On August 29, 2018, the Company exchanged the note for 4,520 Class E units with a value of \$2,000,100. The Class E units have similar rights to the Class D units. On November 13, 2018, the Company, through an affiliate, purchased the 15.83% interest in Mission Pennsylvania II LLC for \$500,000 plus 693.27 Class F Units from a non-controlling interest.

On August 31, 2018, the Company borrowed \$3,000,000 through a note that matures on December 31, 2018, accrues interest at 20 percent per annum and requires no payments prior to maturity. The Company repaid the principle of \$3,000,000 plus accrued interest of \$184,027 in December 2018.

In September and October 2018, the Company sold approximately \$30 million in Class F units to investors at \$486.75 per unit. The proceeds were used to finance the Healthy Pharms Inc. acquisition and for general business purposes.

During November 2018, \$250,000 in debt plus accrued interest was converted into Class F units.

On November 13, 2018, the Company completed an acquisition of Healthy Pharms Inc., an entity that owns a cannabis license in Massachusetts and operates two dispensaries and one vertically integrated cultivation facility. The

purchase price was \$27 million and was paid in cash by issuing 7,605 Class E units and the issuance of a \$3,500,000 note payable. The interest rate of the note is 15% per annum, requires quarterly interest only payments, and the principal is due on November 13, 2019. In addition, the Company agrees to pay up to \$6.06 million to the sellers for the value of the Healthy Pharms Inc. inventory. Payments are due on March 13, 2019 and July 13, 2019 (based on gross sales), with the final payment due on November 13, 2019. The final payment is subject to being reduced by up to \$2.43 million under certain circumstances.

Selected line items from the Company's pro-forma Consolidated Statements of Operations for the years ended December 31, 2017 and 2016, are presented below:

	4Front Holdings		Healthy Pharms Inc.		Pro-forma Results	
	For the Year Ended		For the Year Ended		For the Year Ended	
	December	December	December	December	December	December
	<u>31, 2017</u>	<u>31, 2016</u>	<u>31, 2017</u>	<u>31, 2016</u>	<u>31, 2017</u>	<u>31, 2016</u>
Revenue, net	\$ 721,009	\$ 668,858	\$ 1,992,416	\$ -	\$ 2,713,425	\$ 668,858
Gross profit (loss)	(318,408)	594,715	1,942,087	-	1,623,679	594,715
Net operating loss	(4,656,765)	(4,305,542)	(336,561)	(642,501)	(4,993,326)	(4,948,043)
Net loss	(4,339,127)	(1,814,342)	(1,837,261)	(988,975)	(6,176,388)	(2,803,317)

On November 26, 2018, the Company announced a tentative agreement to merge with Cannex Capital Holdings Inc. with a planned completion date of March 15, 2019. Cannex leases real estate and provides consulting services to cannabis cultivation facilities in the state of Washington. The merger is subject to due diligence, the negotiation of a final merger agreement, shareholder and unit holder approval, and regulatory approval. Cannex and 4Front have agreed to a termination fee applicable under certain circumstances of \$10 million.

On December 24, 2018, the Company received an \$8 million line of credit from Cannex to be used prior to the merger. This line can be used for general corporate expenses and for acquisitions. If the merger is cancelled, the balance on the line of credit must be repaid within 90 days from the date of cancelation.

SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements in conformity with IFRS accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods.

Significant judgements, estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described below.

(i) *Estimated Useful Lives and Depreciation of Property and Equipment (Also see Note 6)*

Depreciation of property and equipment is dependent upon estimates of useful lives which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

(ii) *Estimated Useful Lives and Amortization of Intangible Assets (Also see Note 8)*

Amortization of intangible assets is recorded on a straight-line basis over the estimated useful life of the intangible asset. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they

might be impaired.

(iii) *Biological Assets*

Management is required to make estimates in calculating the fair value of biological assets and harvested cannabis inventory. These estimates include a number of assumptions, such as estimating the stages of growth of the cannabis, harvested costs, sales price and expected yields.

(iv) *Share-Based Compensation*

The fair value of share-based compensation expenses are estimated using the Black-Scholes pricing model and rely on a number of estimates, including the life of the grant, the volatility of the underlying unit price, the risk free rate of return, and the estimated rate of forfeiture of units granted.

(v) *Business Combinations*

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. Contingent consideration is measured at its acquisition-date fair value and is included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The valuations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. Amortization of intangible assets is recorded on a straight-line basis over estimated useful lives.

Financial Instruments

The Company's financial instruments consist of cash, restricted cash, account receivable, notes receivable and accrued interest from related parties, accounts payable, other current liabilities, notes payable to related parties, and convertible notes. The carrying values of these financial instruments approximate their fair values as of December 31, 2017 and 2016.

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and

Level 3 – Inputs for the asset or liability that are not based on observable market data.

There have been no transfers between fair value levels during the years ending December 31, 2017 and 2016.

Income taxes

Except for certain subsidiaries, the Company is treated as a partnership for federal and state income tax purposes and, accordingly, is generally not subject to company-level taxes. Taxable income or losses are allocated to the members in accordance with the limited liability company operating agreement. Therefore, there is no provision for federal or state income taxes in the accompanying consolidated financial statements.

For the corporate subsidiaries, deferred tax assets and liabilities and the related deferred tax expense or recovery are

recognized for deferred tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the asset can be utilized. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current assets against current tax liabilities and when they relate to income taxes levied by the same taxing authority and the Company intends to settle its current tax assets and liabilities on a net basis. At December 31, 2017 and 2016, deferred tax assets and liabilities were immaterial.

Certain 4Front Holdings LLC's subsidiaries are subject to U.S. Internal Revenue Code Section 280E. This section disallows deductions and credits attributable to a trade or business trafficking in controlled substances. Under U.S. law, marijuana is a Schedule I controlled substance. The Company has taken the position that any costs included in the cost of goods sold should not be treated as amounts subject to the Section 280E expense disallowance.

The Company would recognize any potential accrued interest and penalties related to unrecognized tax benefits as part of its tax provision as interest or penalty expense, as applicable. The Company had no penalties or interest related to income taxes for periods ended December 31, 2017 and 2016.

Impairment on promissory notes receivable

At each reporting date the Company assesses whether there is objective evidence that a promissory note receivable is impaired. A promissory note receivable is deemed to be impaired, if, and only if, there is objective evidence of impairment resulting from one or more events that have occurred after the initial recognition of the note and that event has an impact on the estimated future cash flows of the promissory note receivable.

CHANGES IN OR ADOPTION OF ACCOUNTING POLICIES

New standards and interpretations issued but not yet adopted

The following IFRS standards have been recently issued by the IASB. The Company is assessing the impact of these new standards on future consolidated financial statements. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

(i) *IFRS 7, Financial Instruments: Disclosure*

IFRS 7, Financial Instruments: Disclosure, was amended to require additional disclosures on transition from IAS 39 to IFRS 9. IFRS 7 is effective on adoption of IFRS 9, which is effective for annual periods commencing on or after January 1, 2018.

(ii) *IFRS 9, Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9, *Financial Instruments*, which reflects all phases of the financial instruments project and replaces IAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Company was not able to evaluate all impacts of this pronouncement, but will adopt the pronouncement in 2018. The Company does not expect a significant impact on its consolidated financial statements from the adoption of this new standard.

(iii) *IFRS 15, Revenue from Contracts with Customers*

The IASB replaced IAS 18, *Revenue*, in its entirety with IFRS 15, *Revenue from Contracts with Customers*.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Company was not able to evaluate all impacts of this pronouncement, but will adopt the pronouncement in 2018. The Company does not expect a significant impact on its consolidated financial statements from the adoption of this new standard.

(iv) *IFRS 16, Leases*

In January 2016, the IASB issued IFRS 16, *Leases*, which will replace IAS 17, *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15, *Revenue from Contracts with Customers*, at or before the date of initial adoption of IFRS 16. The extent of the impact of adoption of the standard has not yet been determined.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company is exposed in varying degrees to a variety of financial instruments related risks. The Board mitigates these risks by assessing, monitoring and approving the Company's risk management processes.

(a) Credit Risk

Credit risk is the risk of a potential loss to the Company if a third party or a related party to a financial instrument fails to meet its contractual obligations. As of December 31, 2017 and 2016, the maximum credit exposure related to the carrying amounts of Notes Receivable and Accrued Interest from Related Parties were \$3.0 million and \$0.8 million respectively.

The Company maintains cash with federally insured financial institutions. As of December 31, 2017 and 2016, the Company exceeded federally insured limits by approximately \$3.0 million and \$1.5 million respectively. The Company has historically not experienced any losses in such accounts.

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to raise sufficient capital to settle obligations and liabilities when due.

In addition to the commitments outlined in Note 17, the Company has the following contractual obligations:

	<u><1 Year</u>	<u>1 to 3 Years</u>	<u>3 to 5 Years</u>	<u>Greater than 5</u>	<u>Total</u>
Accounts Payable and					
Accrued Liabilities	\$ 556,180	\$ -	\$ -	\$ -	\$ 556,180
Deferred Rent	83	909	640	119,006	120,638
Notes Payable	3,795,041	-	-	-	3,795,041
Convertible Notes	-	9,436,124	-	-	9,436,124

(c) Price Risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. The Company keeps cannabis inventory levels at their dispensaries low to manage the risk of falling inventory values.

Capital risk management

The Company considers its capital structure to include contributed capital, accumulated deficit, non-controlling interests and any other component of members' equity. The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages its capital structure and adjusts it as appropriate given changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new units, issue new debt, or acquire or dispose of assets. The Company is not subject to externally imposed capital requirements.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes to the Company's capital management approach during the year ended December 31, 2017.

OUTSTANDING SHARE DATA

The following share capital data is as of December 31, 2017:

Shares Outstanding (expressed in units)

Class A preferred units	500,000
Class B units	135,108
Class C units	9,698
Total	644,806

4Front Holdings LLC

MANAGEMENT'S DISCUSSION & ANALYSIS

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018
AND 2017**

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

MD&A of 4Front Holdings LLC

This management discussion and analysis (“**MD&A**”) of the financial condition and results of operations of 4Front Holdings LLC (the “**Company**” or “**4Front**”) is for the three and nine months ended September 30, 2018 and 2017. It is supplemental to, and should be read in conjunction with, the Company’s unaudited interim condensed consolidated financial statements and the accompanying notes for the three and nine months ended September 30, 2018. The Company’s financial statements are prepared in accordance with International Financial Reporting Standards (“**IFRS**”).

This MD&A contains certain “forward-looking statements” and certain “forward-looking information” as defined under applicable United States securities laws and Canadian securities laws. Please refer to the discussion of forward-looking statements and information set out under the heading “Cautionary Note Regarding Forward-Looking Information”, identified in the “Risks and Uncertainties” section of this MD&A. As a result of many factors, the Company’s actual results may differ materially from those anticipated in these forward-looking statements and information.

All references to “\$” are to United States dollars unless otherwise specified.

OVERVIEW OF THE COMPANY

4Front Holdings LLC (Holdings) is a Delaware limited liability company and was founded on September 15, 2016, with the contribution of the assets and liabilities of 4Front Ventures, Inc. (Ventures) (collectively the “**Company**”). Holdings operates licensed cannabis facilities in state-licensed markets in the United States. As of September 30, 2018, the Company operated a dispensary and a cultivation facility in Illinois, a dispensary in Pennsylvania and manages a dispensary in Maryland. The Company owns dispensary/cultivation licenses in Massachusetts, and dispensary licenses in Pennsylvania and Maryland.

The Company operates a legacy consulting business that assists customers with acquiring cannabis licenses and operating cannabis facilities. The Company has tightened the focus of its professional services resources to more squarely support the advancement of its own license interests and those of its legacy clients in key markets, while providing more limited services to select new clients. Revenue from the consulting business will continue due to ongoing fees from existing contracts.

On November 26, 2018, the Company announced a tentative agreement to merge with Cannex Capital Holdings Inc. with a planned completion date of March 15, 2019. Cannex leases real estate and provides consulting services to cannabis cultivation facilities in the state of Washington. The merger is subject to due diligence, the negotiation of a final merger agreement, shareholder and unit holder approval, and regulatory approval. Cannex and 4Front have agreed to a termination fee applicable under certain circumstances of \$10 million.

Revenue Streams

The Company has consolidated financial statements across its operating businesses. For the purpose of analysis, 4Front considers two operating divisions – Cultivation and Retail – in which it manufactures, distributes packaged cannabis products to its own dispensaries and third-party retail customers, and from direct sales to end consumers in its retail stores.

As of the three months ended September 30, 2018, 4Front had operating revenue in Illinois and Pennsylvania. With the acquisition in Massachusetts, 4Front has operating revenue in Massachusetts beginning on November 13, 2018. In October 2018, 4Front through a management agreement began operating a cannabis retailer in Maryland. 4Front expects to open a Maryland retailer and manage two additional Maryland retailers in 2019.

4Front continues to receive ongoing revenue from consulting contracts with cannabis license holders.

SELECTED FINANCIAL INFORMATION

The following is selected financial data derived from the unaudited consolidated financial statements of the Company for the three and nine months ended September 30, 2018 and 2017.

The selected consolidated financial information set out below may not be indicative of the Company's future performance:

	As of and for the			
	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Total Revenue	\$ 596,519	\$ 187,146	\$ 971,199	\$ 508,270
Cost of Goods Sold	\$ 625,185	\$ 185,721	\$ 1,334,695	\$ 631,145
Gross Profit	\$ (28,666)	\$ 1,425	\$ (363,496)	\$ (122,875)
SG&A Expenses	\$ 3,210,147	\$ 1,190,563	\$ 7,563,859	\$ 3,130,788
Other Income (Expense)	\$ 157,011	\$ (279,058)	\$ (733,148)	\$ 509,634
Total Assets	\$24,295,963	\$13,778,527	\$24,295,963	\$13,778,527
Long-Term Liabilities	\$ 557,500	\$ 9,803,624	\$ 557,500	\$ 9,803,624

Three Months Ended September 30, 2018

Revenue

Revenue for the three months ended September 30, 2018 increased \$409,373 or 219% from \$187,146 for the three months ended September 30, 2017 due to the opening of the Pennsylvania dispensary on June 12, 2018 and higher sales from the Illinois dispensary. This was partially offset by lower revenue from the consulting business as the Company focuses more on its cannabis operations.

Cost of Goods Sold

Cost of goods sold represents cost to cultivate and produce cannabis in the Illinois facility and wholesale purchases made from third party producers in Illinois and in Pennsylvania. Cultivation costs increased \$153,253 as we ramped up production in Illinois in anticipation of selling the first internally grown cannabis products in late 2018. The sale of purchased inventory grew \$286,211 because of the opening of the Pennsylvania dispensary on June 12, 2018 and because the Illinois dispensary had higher sales.

Gross Profit

Gross profit for the three months ended September 30, 2018 was a loss of \$28,666 due to higher cultivation costs in Illinois, partially offset by a modest profit from the new Pennsylvania dispensary.

Selling, General and Administrative Expenses

SG&A expenses for the three months ended September 30, 2018 were \$3,210,147, an increase of

\$2,019,584, compared to the three months ended September 30, 2017. This 170% increase is primarily due to higher payroll costs as personnel was added in anticipation of opening new locations, and higher professional fees due to the Massachusetts acquisition, the potential Cannex merger, and an ongoing legal dispute with two consulting clients. Additionally, marketing costs were higher due to an initiative to develop 4Front brands.

Total Other Income (Expense)

Total other income for three months ended September 30, 2018 was \$157,011 as compared to a \$279,058 loss in the prior year. The improvement is due to higher interest income as a result of additional loans to a license holder that is building a dispensary and a cultivation facility in Massachusetts. 4Front will manage the dispensary and cultivation facility once it is completed in 2019.

Net Loss

Net loss before non-controlling interest for the three months ended September 30, 2018 was \$3,081,802, an increase of \$1,613,606 compared to the three months ended September 30, 2017. This higher loss was due to higher payroll expenses in anticipation of opening new locations and higher professional fees due to the Massachusetts acquisition, the potential Cannex merger, and an ongoing legal dispute.

Nine Months Ended September 30, 2018

Revenue

Revenue for the nine months ended September 30, 2018 was \$971,199, an increase of 91% from \$508,270 for the nine months ended September 30, 2017 due to the opening of the Pennsylvania dispensary on June 12, 2018 and higher sales from the Illinois dispensary. This was partially offset by lower revenue from the consulting business as the Company focuses on the cannabis operations.

Cost of Goods Sold

Cultivation costs increased \$228,223 as production was ramped up in Illinois in anticipation of selling internally grown cannabis products for the first time in late 2018. The sale of purchased inventory grew \$475,327 because of the opening of the Pennsylvania dispensary on June 12, 2018 and because of higher sales at the Illinois dispensary.

Gross Profit

Gross profit for the nine months ended September 30, 2018 was a loss of \$363,496, which was an increased loss of \$240,621 as compared to the prior year. This increased loss was due to a decrease in consulting revenue as the Company focuses on its cannabis operations.

Selling, General and Administrative Expenses

SG&A expenses for the nine months ended September 30, 2018 were \$7,563,859, an increase of \$4,433,071, as compared to the nine months ended September 30, 2017. This 142% increase is primarily due to \$1,399,087 in higher professional fees due to the Massachusetts acquisition, the potential Cannex merger, an ongoing legal dispute with consulting clients, and higher payroll costs as we add personnel in anticipation of opening new locations. Additionally, licensing costs, equity based compensation, and marketing costs were higher as compared to the prior period.

Other Income (Expense)

Other income (expense) for the nine months ended September 30, 2018 was \$733,148 in net expenses as

compared to \$509,634 in income in the prior year. The unfavorable variance is because the prior period included a \$1,036,303 gain from the sale of an investment in a California dispensary.

Net Loss

Net loss before non-controlling interest for the nine months ended September 30, 2018 was \$8,660,503, an increased loss of \$5,916,474 as compared to the nine months ended September 30, 2017. This higher loss was due to increases in operating expenses including professional fees, payroll expenses, license fees, and equity based compensation.

Drivers of Results of Operations

Revenue

The Company derives its revenue from both its retail business and its legacy consulting business. Retail sales are through licensed dispensaries in Pennsylvania and Illinois. The consulting revenue is decreasing as the Company focuses on its cannabis operations.

Gross Profit

Gross profit is revenue less cost of goods sold. Cost of goods sold includes the costs directly attributable to product sales and includes amounts paid for finished goods, such as flower, edibles, and concentrates, as well as packaging and other supplies, and allocated overhead which includes allocations of rent, salaries, utilities, and related costs. Cannabis costs are affected by various state regulations that limit the sourcing and procurement of cannabis products, which may create fluctuations in gross profit over comparative periods as the regulatory environment changes.

Over the three and nine months ended September 30, 2018, the Company continued to be focused on building and opening new dispensaries and cultivation facilities for Company owned licenses and for related party license holders. The Company also negotiated and completed an acquisition of two dispensaries and a vertically integrated cultivation facility in Massachusetts that closed on November 13, 2018. The company is also improving cultivation techniques at their cultivation facility in Illinois as it began selling cannabis to the 4Front owned dispensary in Illinois in late 2018. The Company has been investigating other potential business acquisitions.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include costs incurred at the corporate offices, primarily related to personnel costs, benefits, share-based compensation and other professional service costs. The Company expects to continue to invest considerably in this area to support aggressive expansion plans and to support the increasing complexity of the cannabis business. The Company expects to continue to incur acquisition and transaction costs related to acquisitions and the potential merger with Cannex in 2019.

Provision for Income Taxes

Except for certain subsidiaries, the Company is treated as a partnership for federal and state income tax purposes and, accordingly, is generally not subject to company-level taxes. Taxable income or losses are allocated to the members in accordance with the limited liability company operating agreement. Therefore, there is no provision for federal or state income taxes in the accompanying consolidated financial statements.

For the corporate subsidiaries, deferred tax assets and liabilities and the related deferred tax expense or recovery are recognized for deferred tax consequences attributable to differences between the financial

statement carrying amount of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs. Through September 30, 2018, the Company had only one corporate subsidiary and management determined that the tax benefit from this subsidiary was immaterial.

On November 13, 2018 the Company purchased a corporation that owns cannabis operations in Massachusetts. This subsidiary will pay federal and Massachusetts income taxes and a tax provision will be made for this subsidiary once the acquisition is recorded.

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the asset can be utilized. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current assets against current tax liabilities and when they relate to income taxes levied by the same taxing authority and the Company intends to settle its current tax assets and liabilities on a net basis. At September 30, 2018 and December 31, 2017, deferred tax assets and liabilities were immaterial.

Certain 4Front Holdings LLC's subsidiaries are subject to U.S. Internal Revenue Code Section 280E. This section disallows deductions and credits attributable to a trade or business trafficking in controlled substances. Under U.S. law, marijuana is a Schedule I controlled substance. The Company has taken the position that any costs included in the cost of goods sold should not be treated as amounts subject to the Section 280E expense disallowance.

The Company would recognize any potential accrued interest and penalties related to unrecognized tax benefits as part of its tax provision as interest or penalty expense, as applicable. The Company had no penalties or interest related to income taxes for periods ended September 30, 2018 and 2017.

Liquidity, Financing Activities During the Period, and Capital Resources

Our primary need for liquidity is to fund the working capital requirements of our business, including capital expenditures, acquisitions, and for general corporate purposes. Our primary source of liquidity is funds generated by financing activities. When the Company made its decision to merge with Cannex Capital Holdings Inc. in November 2018, the Company elected to postpone its internal fundraising initiatives, which included a substantially negotiated secured promissory note exceeding \$10 million in proceeds. In place of this note, an \$8 million line of credit was obtained from Cannex. The Cannex loan is short-term, which results in the Company's working capital deficit staying negative.

For the nine months ended September 30, 2018, the Company had a loss of \$8,660,503, negative cash flow from operations, and working capital deficit at September 30, 2018. The possibility of the cancellation of the Cannex merger creates a material uncertainty and casts significant doubt as to the ability of the Company to meet its obligations as they come due unless it is able to raise sufficient funds to enable it to reach profitability, and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the going concern assumption was inappropriate, and these adjustments could be material.

Management believes that if the Cannex merger is cancelled, that it will have time to execute existing fundraising initiatives and to repay any debt that comes due in the next year. Management has demonstrated its ability to raise capital and to secure loans in the past. Nevertheless, there is no assurance that these initiatives will be successful or sufficient.

Cash Flows

Cash Used in Operating Activities

Net cash used in operating activities was \$6,772,823 for the nine months ended September 30, 2018, an increase of \$4,074,106 compared to the nine months ended September 30, 2017. The increase in net cash used in operating activities was primarily due to increases to operating expenses including professional services, payroll, and marketing.

Cash Flow from Investing Activities

Net cash used in investing activities was \$11,378,693 for the nine months ended September 30, 2018, an increase of \$7,010,709, compared to \$4,367,984 for the nine months ended September 30, 2017. The increase in net cash used in investing activities was due to the construction of three dispensaries in Maryland, and one dispensary in Pennsylvania. Two of the Maryland dispensaries will be leased to license holders.

Cash Flow from Financing Activities

Net cash provided by financing activities was \$16,889,136 for the nine months ended September 30, 2018, an increase of \$10,278,313 as compared to \$6,610,823 for the nine months ended September 30, 2017. The increase in net cash provided by financing activities was due to the proceeds from the sale of \$13.4 million in Class D Units. This was offset by a \$3.1 million decrease in other borrowing.

Off-Balance Sheet Arrangements

As of the date of this filing, the Company does not have any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company, including, and without limitation, such considerations as liquidity and capital resources.

Transactions with Related Parties

At September 30, 2018 and December 31, 2017, amounts due from related parties were \$11,209,617 and \$2,981,970 respectively for loans to cannabis license holders for the construction of dispensaries and cultivation facilities.

At September 30, 2018 and December 31, 2017, amounts due to related parties were \$594,562 and \$3,795,041 respectively. The decrease is because a \$3 million note was converted to Class D Units in 2018.

Subsequent Transactions

In September and October 2018, the Company sold approximately \$30 million in Class F units to investors at \$486.75 per unit. The proceeds were used to finance the Healthy Pharms Inc. acquisition and for general business purposes.

During November 2018, \$250,000 in debt plus accrued interest was converted into Class F units.

On November 13, 2018, the Company completed an acquisition of Healthy Pharms Inc., an entity that owns a cannabis license in Massachusetts and operates two dispensaries and one vertically integrated cultivation facility. The purchase price was \$27 million and was paid in cash by issuing 7,605 Class E units and the issuance of a \$3,500,000 note payable. The interest rate of the note is 15% per annum, requires quarterly interest only payments, and the principal is due on November 13, 2019. In addition, the Company agreed to pay up to \$6.06 million to the sellers for the value of the Healthy Pharms Inc. inventory. Payments are due on March 13, 2019 and July 13, 2019 (based on gross sales), with the final payment is due on November 13, 2019. The final payment is subject to being reduced by up to \$2.43 million under

certain circumstances.

Selected line items from the Company's pro-forma Consolidated Statements of Operations for the nine months ended September, 2018 and 2017, are presented below:

	Holdings		Healthy Pharms Inc.		Pro-forma Results	
	For the Nine Months		For the Nine Months		For the Nine Months	
	Ended		Ended		Ended	
	September	September	September	September	September	September
	<u>30, 2018</u>	<u>30, 2017</u>	<u>30, 2018</u>	<u>30, 2017</u>	<u>30, 2018</u>	<u>31, 2017</u>
Revenue, net	\$ 971,199	\$ 508,270	\$ 2,746,746	\$ 913,566	\$ 3,717,945	\$ 1,421,836
Gross profit (loss)	(363,496)	(122,875)	1,159,316	940,507	795,820	817,632
Net operating loss	(7,927,355)	(3,253,663)	1,799	651,866	(7,925,556)	(2,601,797)
Net loss	(8,660,503)	(2,744,029)	(1,448,489)	(158,553)	(10,108,992)	(2,902,582)

On November 26, 2018, the Company announced a tentative agreement to merge with Cannex Capital Holdings Inc. with a planned completion date of March 15, 2019. Cannex leases real estate and provides consulting services to cannabis cultivation facilities in the state of Washington. The merger is subject to due diligence, the negotiation of a final merger agreement, shareholder and unit holder approval, and regulatory approval. Cannex and 4Front have agreed to a termination fee applicable under certain circumstances of \$10 million.

On December 24, 2018, the Company received an \$8 million line of credit from Cannex to be used prior to the merger. This line can be used for general corporate expenses and for acquisitions. If the merger is cancelled, the balance on the line of credit must be repaid within 90 days from the date of cancellation.

Changes in Accounting Practices

The following IFRS standards have been recently issued by the IASB. The Company is assessing the impact of these new standards on future consolidated financial statements. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, *Leases*, which will replace IAS 17, *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15, *Revenue from Contracts with Customers*, at or before the date of initial adoption of IFRS 16. The extent of the impact of adoption of the standard has not yet been determined. However, upon adoption of IFRS 16, the leases described in note 15(a) will likely constitute right of use assets with a corresponding lease obligation.

Significant Accounting Judgments, Estimates and Assumptions

The preparation of consolidated financial statements in conformity with IFRS accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing

basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods.

Significant judgements, estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described below.

(i) *Estimated Useful Lives and Depreciation of Property and Equipment*

Depreciation of property and equipment is dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

(ii) *Estimated Useful Lives and Amortization of Intangible Assets*

Amortization of intangible assets is recorded on a straight-line basis over the estimated useful life of the intangible asset. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

(iii) *Biological Assets*

Management is required to make estimates in calculating the fair value of biological assets and harvested cannabis inventory. These estimates include a number of assumptions, such as estimating the stages of growth of the cannabis, harvested costs, sales price and expected yields.

(iv) *Share-Based Compensation*

The fair value of share-based compensation expenses are estimated using the Black-Scholes pricing model and rely on a number of estimates, including the life of the grant, the volatility of the underlying unit price, the risk free rate of return, and the estimated rate of forfeiture of units granted.

(v) *Business Combinations*

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. Contingent consideration is measured at its acquisition-date fair value and is included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. Amortization of intangible assets is recorded on a straight-line basis over estimated useful lives.

Financial Instruments and Financial Risk Management

The Company's financial instruments consist of cash, account receivable, notes receivable and accrued interest from related parties, accounts payable, accrued liabilities, notes payable to related parties, and convertible notes. The carrying values of these financial instruments approximate their fair values as of September 30, 2018 and September 30, 2017.

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and

Level 3 – Inputs for the asset or liability that are not based on observable market data.

Financial Risk Management

The Company is exposed in varying degrees to a variety of financial instruments related risks. The Board mitigates these risks by assessing, monitoring and approving the Company's risk management processes.

Credit Risk

Credit risk is the risk of a potential loss to the Company if a third party or a related party to a financial instrument fails to meet its contractual obligations. As of September 30, 2018 and December 31, 2017, the maximum credit exposure related to the carrying amounts of Notes Receivable and Accrued Interest from Related Parties were \$11.2 million and \$3.1 million respectively.

The Company maintains cash with federally insured financial institutions. As of September 30, 2018 and December 31, 2017, the Company exceeded federally insured limits by approximately \$1.7 million and \$3.0 million respectively. The Company has historically not experienced any losses in such accounts.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to raise sufficient capital to settle obligations and liabilities when due.

Price Risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. The Company keeps cannabis inventory levels at their dispensaries low to manage the risk of falling inventory values.

SCHEDULE "T"
ANNUAL AND INTERIM MANAGEMENT DISCUSSION AND ANALYSIS OF CANNEX

(See attached)



(Formerly Arco Resources Corp.)

Management's Discussion and Analysis

April 30, 2018

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Vancouver, BC V6E 4R4

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CANNEX CAPITAL HOLDINGS INC.
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The following management's discussion and analysis ("MD&A") is intended to help the reader understand Cannex Capital Holdings Inc.'s ("Cannex" or the "Company") audited financial statements. The information provided herein should be read in conjunction with the Company's audited consolidated financial statements and notes for the year ended April 30, 2018. All amounts are stated in United States dollars ("\$\$") unless otherwise indicated; amounts denominated in Canadian dollars are indicated by "C\$". The effective date of this report is August 28, 2018.

Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward-looking statements. See the "Forward-Looking Statements" section of the report.

Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures and internal controls and to ensure that information used internally or disclosed externally, including the financial statements and MD&A, is complete and reliable. The Company's board of directors follows recommended corporate governance guidelines for public companies to ensure transparency and accountability to shareholders. The board of directors and the audit committee meet with management on a quarterly basis to review the financial statements including the MD&A and to discuss other financial, operating and internal control matters.

Additional information relating to the Company is available on SEDAR at www.sedar.com.

Description of Business and Overview

Cannex Capital Holdings Inc. was formed by an amalgamation under the laws of British Columbia on March 13, 2018 and its common shares are listed on the Canadian Securities Exchange ("**CSE**") under the symbol "CNNX" and on the OTCQB market under "CNXXF". The Company is a reporting issuer in British Columbia and Alberta and the head office and principal address of the Company is 1241 Alberni Street, Vancouver, British Columbia, V6E 4R4.

In March 2018, Arco Resources Corp. ("**Arco**") and Cannex Capital Group Inc. completed a three-cornered amalgamation where Arco acquired all of the issued and outstanding securities of Cannex Capital Group Inc. in exchange for securities of Arco (the "**Amalgamation**"). See *Amalgamation* below.

In March 2018, the Company, through its wholly-owned subsidiary Cannex Holdings (Nevada) Inc., a corporation organized under the laws of the state of Nevada, acquired 100% of the membership interests of BrightLeaf Development LLC ("**BrightLeaf**") a limited liability company organized under the laws of the state of Washington, that, through subsidiaries, holds real estate assets, leasehold improvements, brands and other intellectual property, and/or material supply agreements with Superior Gardens LLC (d/b/a Northwest Cannabis Solutions), a Washington State licensed cannabis producer/processor and 7Point Holdings LLC, another Washington State licensed cannabis producer/processor. See *Amalgamation* below.

Cannex, through its wholly owned subsidiaries, provides a range of comprehensive and flexible growth options for licensed cannabis cultivators, processors and dispensaries in the United States, including provision of: (1) turn-key real estate with operational infrastructure; (2) cannabis growing-related consulting services; (3) purchasing agent services; and (4) sales of packaging and other non-cannabis product inputs, such as soil, indoor lighting and packaging.

The Company currently has operations in Washington State.

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Corporate Developments

- In June 2018, the Company's shares were listed for trading on the OTCQB Market under the symbol "CNXXF".
- In May 2018, the Company appointed Roman Tkachenko as board chairman. Mr. Tkachenko is a founding director of Cannex and is currently the CEO of Direct Source Seafood LLC, an importer and wholesaler of specialized frozen seafood products.
- In April 2018, the Company signed a binding letter agreement to acquire 100% of Oakland, California-based Ametrine Wellness Inc. dba Jetty Extracts ("**Jetty**").

Amalgamation

In March 2018, Arco and Cannex Capital Group Inc. closed all transactions and received the required regulatory approvals, including from the NEX board of the TSX Venture Exchange ("**NEX**") and CSE, pursuant to which Arco acquired all of the issued and outstanding securities of Cannex Capital Group Inc. in exchange for securities of Arco. The resulting issuer's common shares were listed under the name "Cannex Capital Holdings Inc." and its common shares began trading effective at market open on March 14, 2018 on the CSE.

Financing

Concurrently with the closing of the Amalgamation, Arco and Cannex Capital Group Inc. completed their subscription receipt offering, pursuant to which they sold 48,219,872 subscription receipts of Cannex at a subscription price of C\$1.00 per subscription receipt for gross proceeds of C\$48,219,872 (\$37,582,568). The offering was completed on a private placement basis through a syndicate of agents led by Beacon Securities Limited, as lead agent and sole bookrunner, Mackie Research Capital Corporation and Echelon Wealth Partners Inc. The Company paid a cash commission equal to 6% of the gross proceeds (1.75% on the "President's List") and issued 1,012,959 finder warrants exercisable at C\$1.00 until March 13, 2020. In addition, the Company paid C\$563,341 (\$459,068) to certain finders and issued 639,320 finder warrants on the same terms.

On closing, the subscription receipts were exchanged for one common share of Cannex, and one-half of one common share purchase warrant of Cannex. Each full warrant entitles the holder to acquire one common share of Cannex at a price of C\$1.50 until March 13, 2020.

The warrants issued to participants in the private placement may be accelerated by Cannex, at its sole option, at any time in the event that the volume-weighted average closing price of the common shares of Cannex on the CSE, or such other exchange on which the common shares of Cannex may primarily trade from time to time, is greater than or equal to C\$2.25 for a period of 20 consecutive trading days. The underlying securities issued as part of the offering are not subject to a Canadian hold period.

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BrightLeaf Acquisition

On December 7, 2017, prior to the Amalgamation, the Company entered into a contribution agreement, pursuant to which it acquired 36,000,000 units of membership interests in BrightLeaf, with such closing occurring concurrently with a redemption of all other units of BrightLeaf held by other members of BrightLeaf, resulting in 100% ownership of BrightLeaf by Cannex USA. Consideration for the membership interests was \$36,000,000 and paid as follows:

	\$
Cash	22,532,608
Promissory notes	9,033,022
Assumption of certain liabilities	4,434,370
	<u>36,000,000</u>

The promissory notes bear interest at 12% compounding annually with interest accruing from December 1, 2017. Monthly payments are due and determined as the greater of:

- accrued interest for the preceding month, or
- 50% of the distributable cash of BrightLeaf, determined as cash received by BrightLeaf minus all payments to lenders, all cash expenses and expenditures, and cash reserves.

If payments are missed, the interest rate increases to 18% until payment is made.

Proposed Acquisition of Ametrine Wellness (Jetty Extracts)

In April 2018, the Company signed a binding letter agreement to acquire Ametrine Wellness Inc. (d/b/a Jetty Extracts and referred to as "**Jetty**"). Jetty operates a 12,000 sq. ft. facility in Oakland, California's "Green Zone" incorporating extraction, manufacturing, distribution, product development and administration.

The Company plans to pay Jetty shareholders total consideration of \$22,500,000 in cash and stock, with additional consideration of \$7,500,000 being awarded upon the completion by Jetty of certain mutually-agreed upon performance targets. The initial \$22,500,000 consideration will be satisfied by the issuance of \$20,000,000 in Cannex shares (being a combination of common shares and Class A shares) at a price of C\$1.00 per share and the payment of \$2,500,000 in cash upon closing, less any applicable indemnification holdbacks. Upon Jetty meeting the performance milestones, Jetty shareholders will be entitled to additional consideration of \$2,500,000 in cash and \$5,000,000 in a combination of common and Class A shares.

Approximately 80% of all securities issued as consideration in the transaction will be subject to escrow provisions whereby the insiders of Jetty will receive 10% of their share consideration upon closing of the transaction and the balance of the share consideration over a period of three years, with releases of 15% of the total consideration each six months. In addition to the three-year limited-release lock-up, all shares issued in the transaction will be subject to a statutory Canadian hold-period of four months plus one day from the date of issuance. A certain portion of such securities, to be agreed upon between Jetty and Cannex, will be subject to escrow as part of the indemnification holdback.

The transaction is subject to conditions, including but not limited to, final due diligence by the respective parties, execution of a definitive acquisition agreement which will supersede the letter agreement, receipt of applicable corporate approvals, and other regulatory and/or governmental approval. There can be no assurance that the transaction will complete as proposed or at all.

The Company has also agreed to fund up to \$5,000,000 of capital expenditures to support Jetty's growth in California and to fund increased production capacity, inventory, expanded marketing and branding initiatives

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and for new product development. In April 2018, the Company completed the funding of a \$2,500,000 secured 30-month convertible note bearing interest at 8%. The convertible note, which provides for further funding of up to \$2,500,000 being released to Jetty upon the completion of certain agreed-upon performance targets, is convertible into Class A voting shares of Jetty at Cannex's option. The primary use of proceeds for the convertible note is to fund working capital, capital expenditures and inventory expansion to meet the increasing demand in California for Jetty's consumer branded products. In August 2018, Cannex released a second tranche of \$1,000,000 to fund inventory buildup and general corporate purposes.

Operations

BrightLeaf

BrightLeaf, a Washington State limited liability company, was formed on April 12, 2017. BrightLeaf is primarily a holding company, which has three wholly owned subsidiaries:

- Real Estate Properties, LLC ("**REP**") owns the real estate and all associated improvements located at 9603 and 9631 Lathrop Industrial Dr. SW, Tumwater WA (the "**Tumwater Facility**"). The Tumwater Facility is currently leased to and operated by Superior Gardens, LLC (d/b/a Northwest Cannabis Solutions) ("**NWCS**"), a Washington-State licensed cannabis producer/processor. The Tumwater Facility is made up of two buildings, with total interior area of approximately 116,500 square feet. 9631 Lathrop Industrial Dr. is purely devoted to indoor cannabis cultivation (the "**Tumwater Grow**"), and 9603 Lathrop Industrial Dr. is devoted to processing and distribution of cannabis (i.e., weighing, packaging, extracting, creation of edibles, and otherwise creating end products which are sold to licensed cannabis retailers by NWCS) ("**Tumwater Processing**").
- Fuller Hill Development Co. LLC ("**Fuller**") leases an approximately 60,000 square foot warehouse located at 37 Enterprise Ln, Elma WA from the Port of Grays Harbor ("**Elma Grow**"). Fuller's lease allows it to extend its lease for up to 50 years from October 1, 2016. After entering into this lease, Fuller undertook the development of the Elma Grow, which is a facility devoted only to indoor cannabis cultivation, like the Tumwater Grow. Management believes that the Elma Grow is superior to the Tumwater Grow, because it implements multiple design/functionality improvements which management believes will increase operator yields and improve operator costs. The Elma Grow is leased to and operated by 7Point Holdings LLC ("**7Point**"), a Washington State-licensed cannabis producer and processor.
- Ag-Grow Imports, LLC ("**Ag Grow**") (1) provides cannabis growing-related consulting to both NWCS and 7Point; (2) holds certain cannabis related intellectual property, including brand names, formulations, know-how, etc. which it licenses cost-free to NWCS in exchange for being the exclusive supplier of packaging related to items NWCS sells which utilize such intellectual property, subject to certain markup constraints which prevent Ag Grow excessively marking up such packaging; (3) provides purchase agent services which assist 7Point and NWCS in favorably sourcing non-cannabis production inputs such as lights and ballasts; (4) sells and leases cannabis processing and other equipment to NWCS and 7Point; and (5) continues to develop new formulations, brands, and other know-how related to cannabis which it then may commercialize through a properly licensed operating partner either in Washington or other states.

BrightLeaf derives revenue primarily from real estate leasehold revenue, packaging sales, consulting services, and equipment sales. BrightLeaf operations include intellectual property creation, e.g. new formulations for products, new brands and product lines. Management views developing intellectual property a prudent investment for the future, given what management believes to be a growing trend towards cannabis liberalization. Management plans to deploy BrightLeaf-created intellectual property through any cannabis

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businesses created or acquired by Cannex in other jurisdictions, and to potentially pursue licensing opportunities in jurisdictions Cannex does not plan to operate in.

Accordingly, given the long-term nature of BrightLeaf's intellectual property, which increases expenses in the near-term in order to invest in long-term growth, management does not judge BrightLeaf performance by any specific financial metrics and instead focuses on creation of valuable intellectual property which will be accretive in the long term while remaining a profit center.

Going forward, management anticipates that BrightLeaf will be the main US-based operating subsidiary of Cannex and therefore expects BrightLeaf to bear more "corporate" expenses related to administration, legal, integration of acquisitions, regulatory, licensing applications, etc. Additionally, BrightLeaf's current intellectual property creations team is expected to become the nucleus for any such efforts throughout Cannex's future US-based operations to achieve cost synergies in branding, packaging design, and advertising.

NWCS and 7Point are both owned by persons who are related parties to the Company, as described in more detail below.

Performance of Operating Tenant

BrightLeaf does not own or control the business operations of its operating tenants NWCS and 7Point. However, because BrightLeaf provides consulting services (including growing consulting services, which are discussed in more detail in the section below) and licenses certain intellectual property to NWCS, it does attempt to track NWCS sales performance as at least a partial reflection of the value of such consulting/intellectual property. NWCS financial statements are not audited, but it self-reports sales through a state-mandated cannabis traceability system.

Washington State initiated a change in traceability system providers in approximately October 2017. Prior to October 2017, much of the state traceability information contained in the old system was regularly disclosed under public records access laws. This allowed third-party websites (such as 502data.com) to aggregate such data and provide a convenient way for BrightLeaf to track the sales performance of NWCS, and any other cannabis business in Washington, through publicly available sources.

Although cannabis licensees such as NWCS are still required to track transactions through the new system, since the changeover in October 2017, much of that same data is not publicly available and what is available is unreliable. Accordingly, from October 2017, BrightLeaf has had to depend on NWCS voluntarily sharing its information. NWCS is not subject to financial audit, and BrightLeaf is currently unable to verify NWCS results in any way.

NWCS records indicate that gross sales as reported through state traceability system for Cannex's fiscal 2018 (September 30, 2017 through April 30, 2018) were \$15,788,231.

Additionally, management notes that, beyond the data issues mentioned above, the state traceability changeover was widely acknowledged by Washington cannabis companies as disrupting normal operations. Cannabis companies, including NWCS, reported disappearing inventory, mismatched manifests leading to rejected deliveries, and many other traceability system issues which prevented sales. More recently, those issues appear to have been largely resolved. In the long term, management views the state traceability changeover as a positive because of certain changes which will allow for more efficient operations by cannabis companies themselves. However, its effect in fiscal 2018 was significant in management's estimation.

Financial

Amounts presented below are for the current period, being the seven months ended April 30, 2018, compared to amounts from the formation of the Company on February 23, 2017 to September 30, 2017 which includes

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five months of operations. Amounts, other than per-share amounts, in the narrative below have been rounded to the nearest thousand dollars.

Selected Annual Information

The following table provides a brief summary of the Company's financial position and results of operations.

	Period ended April 30 2018	Period ended September 30 2017
	\$	\$
Total revenues	6,940,168	3,339,014
Loss for the period	(3,700,905)	(1,218,215)
Basic loss per share	(0.03)	(0.09)
Diluted loss per share	(0.03)	(0.09)
Total assets	47,098,788	31,783,961
Total long-term liabilities, excluding deferred income taxes	5,349,067	1,905,460

Selected Quarterly Information

The Company was recently formed by an Amalgamation in March 2018. Accordingly, it does not have a history of preparing quarterly financial statements but future MD&As will include selected quarterly information.

Results of Operations

Overall, the Company recorded a loss of \$3,700,905 for the period ended April 30, 2018 as compared to a loss of \$1,218,215 for the period ended September 30, 2017.

Product Sales

Product sales primarily represent sales of finished goods packaging, such as printed boxes, plastic film, backing cards, branded unfilled extract cartridges, branded unfilled battery/cartridge combination units, etc. (collectively referred to as "Packaging"). Packaging sales increased due to increased demand.

Rental Income

Rental income is earned leasing the Company's facilities to NWCS and 7Point. Rental income increased compared to the prior period as the Elma Grow property was put into service in September 2017, increasing the area being leased from 116,500 square feet to 176,500 square feet. Rent payments for the Elma Grow commenced in December 2017. Additionally, the rent paid by NWCS for its two facilities escalated to a higher rate starting in January 2018, under the terms of its lease agreement with REP.

Operating Expenses:

Comments on operating expenses follow:

- Consulting fees were paid for cannabis growing advisory and similar services.
- Depreciation primarily relates to the Company's rental properties. Depreciation expense increased after the Elma Grow property was placed into service.

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- General expenses include office, telephone and similar expenses incidental to the conduct of business. The current period increase is largely a result of corporate activity undertaken by the head office in Vancouver, BC.
- Foreign exchange gain loss increased due to more activity at the Company's head office in Canada where it incurs expenses and holds funds in Canadian dollars. The Company is accordingly exposed to changes in the exchange rate between the US dollar and the Canadian dollar. The Company's exposure to foreign exchange gain and loss was unusually high in the current period due to holdings and transfers of funds raised in Canadian dollars as part of the Amalgamation.
- Interest expense relates to the cost of financing the Company through debt. Up until the Amalgamation, the Company was primarily funded by advances from related parties, the majority of which attracted an interest rate of 8% per year. Concurrent with the Amalgamation, the Company repaid \$22,532,608 of these loans and borrowed \$9,033,022 through convertible promissory notes with a nominal interest rate of 12%.
- Professional fees represent legal and audit fees. Professional fees increased substantially as a result of audit and related fees for the Amalgamation. Legal fees for general corporate activities increased as the Company investigated other business opportunities. Legal fees associated with the Amalgamation were offset against funds raised as a capital adjustment rather than an expense.
- Rent relates to leasing the Fuller property. The increase in rent expense reflects lease payments for the Elma Grow facility which commenced in March 2017.
- Property taxes relate to property taxes for the Fuller leasehold and REP property.
- Share-based compensation comprises the fair value of compensatory stock options awarded in December 2017 to directors, employees and consultants (\$3,278,936) and the fair value of shares issued to insiders in excess of the subscription price (\$473,799). The fair value of stock options was determined using the Black-Scholes option pricing model.
- Shareholder and regulatory expenses include transfer agent and stock exchange fees incurred now that the Company is publicly listed.
- Travel represents costs incurred in connection with the Amalgamation, investigation of new business opportunities and business operations. In the comparative period, the Company did not undertake travel.
- Wages and salaries are paid to managers and operating staff.
- Change in the fair value of derivative liabilities results from convertible promissory notes. This amount represents the change in the fair value of the conversion feature and is determined using the Black-Scholes option pricing model.
- Listing expense is the fair value of shares issued to Arco shareholders less the net assets of Arco received.
- Income taxes of the US operations are payable only for the period since the Amalgamation. Prior to that, income was taxed in the hands of BrightLeaf's partners. Income taxes are higher than the nominal rate since the Company is unable to offset Canadian operating losses against its United States operating income. The 2017 deferred income tax provision reflects a deferred tax liability arising from BrightLeaf taking accelerated depreciation for tax purposes prior to the Amalgamation that reduced the tax base available for future tax deductions. The 2018 deferred income tax recovery reflects the effect of the reduced federal tax rate on the deferred income tax liability.

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Results for the Quarter ended April 30, 2018

The Company was recently formed and completed an Amalgamation in March 2018. Accordingly, it does not have a history of preparing quarterly financial statements.

Liquidity and Capital Resources

At April 30 2018, the Company had working capital of \$4,273,674, including cash of \$11,862,715, as compared to a working capital deficiency of \$25,661,988 at September 30, 2017. Other factors affecting near-term liquidity are:

- In August 2018, the Company advanced \$1,000,000 to Jetty and has agreed, subject to certain conditions, to advance a further \$1,500,000. The Company has also entered into a letter of intent to acquire Jetty that will require payment of \$2,500,000 in cash, with a potential additional \$2,500,000 in cash payable upon the performance of certain earnout conditions.
- Under the terms of its promissory notes, the Company must make monthly payments that are typically 50% of BrightLeaf's distributable cash (see *Promissory Notes* above).

Related Party Transactions

In fiscal 2017, on the formation of the Company, BrightLeaf acquired REP, Fuller and Ag Grow from related parties. In doing so, it paid consideration \$1,629,000 greater than the book value of net assets acquired.

In October 2017, the Company issued common shares to insiders of the Company for cash consideration of C\$0.001 per share. The Company determined that the fair value at the issue date was C\$0.02, resulting in an aggregate benefit to the subscribers as follows: Leo Gontmakher, the Company's COO, \$2,000; Roman Tkachenko, a director of the Company, \$89,000; and Vlad Orlovskii, who holds more than 10% of the voting rights, \$267,000.

The Company does not have employment contracts with its senior management. The Company paid management fees to companies controlled by insiders as follows: \$46,812 (2017 - \$nil) to Delu Corp. a company controlled by the Company's CEO; \$46,812 (2017 - \$nil) to Equity One Capital Corporation, a company controlled by the Company's CFO; and \$66,666 (2017 - \$nil) to Maha Consulting LLC, a company controlled by the Company's COO.

As part of the Amalgamation, the Company paid finders' fees and issued warrants to insiders. The Company paid a finder's fee of \$402,475 and issued 515,861 warrants with a fair value of \$173,435 to Logic Fund Management a company controlled by Greg Marshall, a director of the Company; and paid a finder's fee of \$8,885 to KEMA Partners, LLC, a company controlled by Tom Peters, a director of the Company.

NWCS and 7Point have multiple contractual relationships with subsidiaries of the Company and are related to the Company as follows: Vlad Orlovskii, the sole owner of NWCS, holds 2,037,658 Common Shares and 12,015,565 Class A Shares in the Company. Gerald Derevyanny, the sole owner of 7Point, holds 515,000 Common Shares in the Company, is a member of the board of directors of the Company, and is an employee of BrightLeaf.

On March 1, 2017, NWCS and REP entered into a commercial gross lease for a 70-month term with two five-year renewal options of the 116,608 square foot Tumwater facility at a rate of \$4.00 per square foot set to increase January 1 of each year during the initial term by \$0.50 per square foot. On June 1, 2017, 7Point and Fuller entered into a commercial sublease for a six-year term with one five-year renewal option for the 60,000 square foot Elma Grow at a rate of \$4.00 per square foot set to begin December 1, 2017 and increase November 1 of each year during the initial term by \$0.25 per square foot.

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On January 1, 2018, Ag Grow entered into a service agreement with NWCS engaging Ag Grow to provide consulting and personnel services for growing and processing for \$30,000 per month and to act as exclusive purchasing agent for equipment, machinery, and other supplies for \$20,000 per month for a three-year term with automatic renewal for additional three-year terms.

On January 1, 2018, Ag Grow entered into a service agreement with 7Point engaging Ag Grow to provide consulting and personnel services for growing and processing for \$10,000 per month and to act as exclusive purchasing agent for equipment, machinery, and other supplies for \$5,000 per month for a three-year term with automatic renewal for additional three-year terms.

On January 1, 2018, NWCS and Ag Grow entered into a packaging supply agreement under commercially reasonable pricing terms by which NWCS submits packaging orders for Company-designed packaging sold by NWCS under an exclusive license to use Company brands and recipes in the state of Washington. The packaging supply agreement has an initial term of three years with automatic renewal for additional three-year periods.

During the period ended April 30, 2018, the Company generated product sales of \$2,106,794 (2017 - \$792,805) and rental income of \$3,498,240 (2017 - \$2,565,376) from NWCS. During the period ended April 30, 2018, the Company generated product sales of \$78,830 (2017 - \$nil) and rental income of \$1,200,000 (2017 - \$nil) from 7Point.

At April 30, 2018, the Company owed \$nil (September 30, 2017 - \$3,251,062) to related parties on account of revolving loans; \$nil (September 30, 2017 - \$19,583,334) to related parties on account of promissory notes; and \$9,248,015 (September 30, 2017 - \$nil) to related parties on account of convertible promissory notes and derivative liabilities.

In the period ended April 30, 2018, the Company paid or accrued interest of \$699,656 (2017 - \$653,619) to related parties.

As at April 30, 2018, \$63,343 (September 30, 2017 - \$nil) is owing to related parties on account of compensation and expenses incurred.

As at April 30, 2018, \$1,365,887 (September 30, 2017 - \$252,365) of the Company's trade receivables were due from companies controlled by related parties.

As at April 30, 2018, \$527,592 (2017 - \$nil) of notes receivable is due from companies controlled by related parties.

Financial Instruments

The Company's activities expose it to a variety of financial risks, including foreign exchange risk, interest rate risk, commodity price risk, credit risk and liquidity risk.

Foreign Exchange Risk

The Company is exposed to exchange rate fluctuations between the United States and Canadian dollars. The Company maintains a head office in Canada where it incurs expenses primarily denominated in Canadian dollars. More importantly the Company's share price is denominated in Canadian dollars. If the Canadian dollar declines against the United States dollar, the United States dollar amounts available to fund expansion through the exercise of stock options and warrants will be less than originally contemplated.

The Company does not have a practice of trading derivatives but manages short-term foreign exchange risk by engaging in "natural hedging", that by holding funds in the currency in which they are expected to be spent.

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Interest Rate Risk

The Company's borrowings are at fixed interest rates and so it is not exposed to interest rate fluctuations in the short term. The Company's borrowings are material in relation to its assets and so the Company is exposed to interest rate fluctuations when and if the debt instruments are renewed.

Credit Risk

Cannex manages credit risk by trading with recognized creditworthy parties. In addition, it monitors receivable balances with the result that the Company's exposure to impaired receivables is generally not significant.

Liquidity Risk

The Company manages liquidity risk by maintaining adequate cash balances. If necessary, it may raise funds through the issuance of debt, equity, or monetization of non-core assets. To ensure that there is sufficient capital to meet obligations, the Company continuously monitors and reviews actual and forecasted cash flows and matches the maturity profile of financial assets to development, capital and operating needs.

Future accounting policy changes

The following new standards, and amendments to standards and interpretations, are not yet effective for the current period and have not been applied in preparing these financial statements. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below

- IFRS 9: New standard that replaced IAS 39 for classification and measurement, effective for annual periods beginning on or after January 1, 2018. Earlier application of IFRS 9 continues to be permitted. The Company does not intend to early adopt this standard and is currently evaluating the impact of adopting this standard on the consolidated financial statements, but does not expect the impact to be material.
- IFRS 15: In May 2014, the International Accounting Standards Board issued *IFRS 15 - Revenue from Contracts with Customers*, which provides a single, principles-based five-step model for revenue recognition to be applied to all customer contracts, and requires enhanced disclosures. This standard is effective January 1, 2017 and allows early adoption. On July 22, 2015, the IASB unanimously affirmed its proposal to defer the effective date of IFRS 15 to periods beginning after January 1, 2018. Earlier application of IFRS 15 continues to be permitted. The Company does not intend to early adopt this standard. This standard is not expected to materially affect the Company's Consolidated Statement of Comprehensive Income, but is expected to require additional disclosures.
- IFRS 16: *IFRS 16 - Leases* specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring that lessees recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has an insignificant value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 was issued in January 2016 and will be applicable to the Company's fiscal period beginning May 1, 2019, although early adoption is permitted. The Company does not intend to early adopt this standard and is currently evaluating the impact of adopting this standard on the consolidated financial statements. The Company expects that it will recognize additional assets and liabilities as a result of the leasing arrangements currently entered or to be entered by its subsidiaries. The full extent of the impact of adoption of the standard has not yet been determined and management will continue to assess the impact as January 1, 2019 approaches.

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Critical accounting estimates

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Information about critical accounting estimates and judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements are discussed below:

Estimates

Property, plant and equipment – Property, plant and equipment are depreciated over their useful lives. Useful lives are based on management's estimate of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the consolidated statement of loss and other comprehensive loss in specific periods.

Inventory - The Company reviews the net realizable value of, and demand for, its inventory quarterly to provide assurance that recorded inventory is stated at the lower of cost or net realizable value. Factors that could impact estimated demand and selling prices include competitor actions, supplier prices and economic trends.

Valuation of derivatives – The Company revalues the derivative liability associated with promissory notes. This requires the Company to estimate the likely repayment schedule as well as the assumptions such as volatility and dividend yield.

Share-based compensation - Share-based compensation is measured by reference to the fair value of the stock options at the date at which they are granted. Estimating fair value for granted stock options requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, dividend yield, and rate of forfeitures.

Fair value of financial instruments - The individual fair values attributed to the different components of a financing transaction, notably investment in equity securities, derivative financial instruments, convertible debt and loans, are determined using valuation techniques. The Company uses judgment to select the methods used to make certain assumptions and in performing the fair value calculations in order to determine (a) the values attributed to each component of a transaction at the time of their issuance; (b) the fair value measurements for certain instruments that require subsequent measurement at fair value on a recurring basis; and (c) for disclosing the fair value of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market.

Impairment - Long-lived assets, including property, plant and equipment and intangible assets are reviewed for indicators of impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of

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other assets or groups of assets (the CGU). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously

Combination with entities under common control - Business combinations under common control are business combinations involving entities or businesses under common control, in which all of the combining entities or businesses are ultimately controlled by the same party both before and after the business combination. There is currently no guidance in IFRS on the accounting treatment for business combinations among entities under common control.

Segmented reporting - The Company must exercise judgement in defining its business segments and allocating revenue, expenses and assets among the segments. The Company bases allocations on the groupings used to manage the business and report to senior management. From time to time, assets and personnel of one division may be used to benefit another division resulting in inaccuracies, but these are not material.

Income taxes - The Company must exercise judgment in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for expected tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

Share Capital

The Company has two classes of shares, common shares and Class A restricted voting shares ("Class A shares"). The Class A shares are entitled to attend shareholder meetings and receive dividends but cannot vote for the election or removal of the Company's directors. Class A shares make up roughly 60% of the total issued and outstanding shares of the Company.

Each Class A shares may be converted into one common share by board action, subject to certain potential restrictions mainly involving Cannex preserving its "foreign private issuer" status under U.S. securities law. The 96,521,734 Class A shares were issued as part of the Amalgamation.

The following summarizes outstanding share capital and potential dilutive factors:

- Shares - At April 30, 2018 and the date of this report, there are 87,192,203 common shares and 96,521,734 Class A shares issued and outstanding.
- Stock Options - At April 30, 2018 and the date of this report, there are stock options to purchase up to 11,400,000 common shares outstanding.
- Warrants - At April 30, 2018 and the date of this report there are share purchase warrants outstanding to purchase up to 25,762,215 common shares.

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- Convertible debt – There are convertible promissory notes outstanding which, if converted at April 30, 2018, would have resulted in the issuance of approximately 12,200,000 common shares. The number of shares to be issued under the promissory notes is a function of the balance outstanding and the prevailing United States dollar / Canadian dollar exchange rate.

Common Shares

Fiscal 2017

During the period ending September 30, 2017, Cannex Group issued 12,933,571 common shares at a price of C\$0.005 for gross proceeds of C\$64,668 (\$50,930), and 6,416,784 common shares at a price of C\$0.02 per share for gross proceeds of C\$128,336 (\$101,013). In September 2017, Cannex Group issued 16,360,056 common shares at C\$0.02 per share as compensation for services provided or to be provided with a value of C\$327,201 (\$261,761). Of these shares, 14,875,056 were purchased by, and issued to, individuals who held and ownership interest in limited liability companies which were members of BrightLeaf.

Fiscal 2018

In October 2017, Cannex Group issued 30,000,000 common shares at a price of C\$0.0001 per share for aggregate cash consideration of C\$3,000 (\$2,381). The Company recorded share based compensation, being the difference in the fair value of shares issued (\$476,160) and cash received (\$2,381).

In November 2017, Cannex Group issued 60,439,944 common shares at a price of C\$0.02 per share for aggregate cash consideration of C\$1,208,799 (\$949,630).

In November 2017, Cannex Group issued 7,343,707 common shares for aggregate cash consideration of C\$734,371 (\$577,585) of which C\$236,000 (\$188,800) had been received as subscription receipts as at September 30, 2017.

In March 2018, the Company issued 48,219,872 units at C\$1.00 per unit as part of the Amalgamation. See *Amalgamation* above.

Warrants

In March 2018, as part of the Amalgamation, the Company issued warrants to purchase up to 24,109,936 common shares at C\$1.50 per share exercisable until March 13, 2020. The Company also issued agent warrants to purchase up to 1,652,279 common shares at C\$1.00 per share exercisable until March 13, 2020.

Stock Options

In December 2017, the Company issued options to purchase up to 11,650,000 common shares exercisable at C\$1.00 per share for a term of five years. The shares issued to all but investor relations consultants vested on one-third increments on March 13, 2018, March 13, 2019 and March 13, 2020. Investor relations consultants received 300,000 options which vest in equal increments on June 13, 2018, September 13, 2018, December 13, 2018 and March 13, 2019. Contractors holding a total of 250,000 options stopped working for the Company before the first vesting date and forfeited their options as a result.

Forward-Looking Statements

This MD&A may contain "forward-looking statements" which reflect the Company's current expectations regarding the future results of operations, performance and achievements of the Company, including but not limited to statements with respect to the Company's plans or future financial or operating performance, the estimation of mineral reserves and resources, conclusions of economic assessments of projects, requirements

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for additional capital, sources and timing of additional financing, realization of unused tax benefits and future outcome of legal and tax matters.

The Company has tried, wherever possible, to identify these forward-looking statements by, among other things, using words such as "anticipate," "believe," "estimate," "expect", "budget", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved".

The statements reflect the current beliefs of the management of the Company, and are based on currently available information. Accordingly, these statements are subject to known and unknown risks, uncertainties and other factors, which could cause the actual results, performance, or achievements of the Company to differ materially from those expressed in, or implied by, these statements. These uncertainties are factors that include but are not limited to risks related to international operations; risks related to general economic conditions and credit availability, uncertainty related to the resolution of legal disputes and lawsuits; actual results of current exploration activities, unanticipated reclamation expenses; fluctuations in prices of gold; fluctuations in foreign currency exchange rates, increases in market prices of mining consumables, possible variations in mineral resources, grade or recovery rates; accidents, labour disputes, title disputes, claims and limitations on insurance coverage and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities, changes in national and local government regulation of mining operations, tax rules and regulations, and political and economic developments in countries in which the Company operates.

The Company's management periodically reviews information reflected in forward-looking statements. The Company has and continues to disclose in its MD&A and other publicly filed documents, changes to material factors or assumptions underlying the forward-looking statements and to the validity of the statements themselves, in the period the changes occur.

Historical results of operations and trends that may be inferred from the above discussions and analysis may not necessarily indicate future results from operations.

Risks and Uncertainties

The most significant trends and uncertainties which management expects could impact its business and financial condition are (i) the changing legal and regulatory regime which regulates the production and sale of cannabis and cannabis related products; (ii) the ability of companies who may receive funds from the sale of cannabis and cannabis related products to adequately track and legally transfer such funds; (iii) the ability of companies to raise adequate capital; (iv) market risks of continued competition in its primary market of Washington, leading to further price/margin compression and potentially hampering the ability of the operating cannabis companies which the Company contracts with performing on their obligations.

Legal and Regulatory Trends

The Company's flagship investments are in Washington State and currently management expects the legal and regulatory regimes in the United States (on a federal level), Washington State, and Canada to be the most relevant to its business.

United States

In the United States, 29 states and Washington D.C. have legalized medical marijuana, while eight states and Washington, D.C. have also legalized recreational marijuana. Although cannabis currently remains a Schedule I drug under federal law, the U.S. Department of Justice issued a memorandum, known as the "Cole Memorandum", on August 29, 2013 to the U.S. Attorneys' offices (federal prosecutors) directing that

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individuals and businesses that rigorously comply with state regulatory provisions in states that have strictly-regulated legalized medical or recreational cannabis programs should not be a prosecutorial priority for violations of federal law. This federal policy was reinforced by passage of a 2015 federal budget bill amendment (passed in 2014) known as the Rohrabacher-Farr Amendment that prohibits the use of federal funds to interfere in the implementation of state medical marijuana laws. This bill targets Department of Justice funding, which encompasses the Drug Enforcement Agency and Offices of the United States Attorneys. This bill shows the development of bi-partisan support in the U.S. Congress for legalizing the use of cannabis. It is anticipated that the federal government will eventually repeal the federal prohibition on cannabis and thereby leave the states to decide for themselves whether to permit regulated cannabis cultivation and sale, just as states are free today to decide policies governing the distribution of alcohol or tobacco. On January 4, 2018, the U.S. Department of Justice rescinded the Cole Memorandum. Given that the Cole Memorandum was never legally binding, the U.S. Department of Justice continues to have discretion to enforce federal drug laws.

Under U.S. federal law it may potentially be a violation of federal money laundering statutes for financial institutions to take any proceeds from marijuana sales or the sale of any other Schedule I substance. Canadian banks are also hesitant to deal with cannabis companies, due to the uncertain legal and regulatory framework of the industry. Banks and other financial institutions could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses. Under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering or conspiracy. Despite these laws, the U.S. Treasury Department issued a memorandum in February 2014 outlining the pathways for financial institutions to bank marijuana businesses in compliance with federal law. Under these guidelines, financial institutions must submit a "suspicious activity report" (SAR) as required by federal anti-money laundering laws. These marijuana related SARs are divided into three categories: marijuana limited, marijuana priority, and marijuana terminated, based on the financial institution's belief that the marijuana business follows state law, is operating out of compliance with state law, or where the banking relationship has been terminated. In the U.S., a bill has been tabled in Congress to grant banks and other financial institutions immunity from federal criminal prosecution for servicing marijuana-related businesses if the underlying marijuana business follows state law. This bill has not been passed and there can be no assurance with that it will be passed in its current form or at all. In both Canada and the United States, transactions involving banks and other financial institutions are both difficult and unpredictable under the current legal and regulatory landscape.

Political and regulatory risks also exist due to the presidential administration of Donald Trump and his appointment of Sen. Jeff Sessions to the post of Attorney General. President Trump's positions regarding marijuana are difficult to discern; however, AG Sessions has been a consistent opponent of marijuana legalization efforts throughout his political career. It remains unclear what stance the U.S. Department of Justice under the new administration might take toward legalization efforts in U.S. states, but federal enforcement of the CSA and other applicable laws is possible. In July of 2017, AG Sessions sent letters to the Governors of Colorado, Washington, Alaska, and Oregon responding to their April 2017 request to retain the Cole Memorandum and engage with the Governors before embarking on any changes to regulatory and enforcement systems. In these response letters, AG Sessions noted that the Cole Memorandum does not prevent federal investigations or prosecutions of cannabis businesses acting in compliance with state law and cited law enforcement data sources to cast doubt on the effectiveness of state regulation to prevent unauthorized sales, black market activity, and negative public health outcomes. The Governors of Alaska and Washington have since then publicly pushed back on AG Sessions' claims stating that the data sources used in his letter are outdated and incomplete. On January 4, 2018, the U.S. Department of Justice rescinded the Cole Memorandum.

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Despite the legal, regulatory, and political obstacles the marijuana industry currently faces, the industry has continued to grow.

Washington State

Current Cannex operations, through BrightLeaf, are only in Washington State, so Cannex is currently more exposed to Washington-specific risks. Management has observed, through third-party analyst reports, conversations with other industry participants, visits to Washington retail stores, and conversations with NWCS and 7Point employees, that prices for cannabis products have contracted sharply since roughly January 2018. Management does not have visibility into the exact cause of such compression, but does note that, to management's knowledge, Washington State has by far the most granted recreational cannabis production/processing licenses of any state which has legalized cannabis in any form, and was recently noted by BDS Analytics (a cannabis-specific multi-state analytics company) as having the lowest wholesale price per pound of cannabis of any state which currently has a state-legalized market for cannabis, at under \$800 wholesale.

This pricing compression adversely affects the profitability and cash-flow generating abilities of Cannex's tenants NWCS and 7Point, and has led to occasional delayed payment of portions of rent. If current trends worsen, NWCS and/or 7Point could potentially be unable to pay the full amount of current rent charged by REP and/or Fuller, current markups on non-cannabis inputs sold by Ag Grow, afford Ag Grow consulting services, etc. Management is monitoring the situation in Washington, and actively seeking to expand operations into other states to diversify Washington-specific risk. Management continues to consult with NWCS and 7Point to help them streamline operations, improve profitability, and be in an advantageous position should market trends reverse.

On February 8, 2018, the Canadian Securities Administrators published Staff Notice 51-352 (Revised) Issuers with U.S. Marijuana-Related Activities ("Staff Notice 51-352") which provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the United States as permitted within a particular state's regulatory framework. All issuers with United States cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in prospectus filings and other required disclosure documents. As a result of the Company's investments in certain United States entities, the Company is subject to Staff Notice 51-352.

Joyce Amendment

On May 17, 2018 the U.S. House of Representatives Appropriations Committee approved the inclusion of the Rohrabacher-Blumenauer Amendment (previously, the Rohrabacher Farr Amendment), which adds a provision to prohibit the U.S. Department of Justice from using funding to prevent states from implementing medical marijuana laws through the end of fiscal year 2019, known as the "Joyce Amendment".

Additional information relating to the Company is available on SEDAR at www.sedar.com.



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Nine Months Ended January 31, 2019

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*The following management's discussion and analysis ("MD&A") is intended to help the reader understand Cannex Capital Holdings Inc.'s ("**Cannex**" or the "**Company**") financial statements. The information provided herein should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the nine months ended January 31, 2019 and the audited consolidated financial statements and notes for the period ended April 30, 2018. All amounts are stated in United States dollars ("\$\$") unless otherwise indicated; amounts denominated in Canadian dollars are indicated by "**C\$**". The effective date of this report is March 30, 2019.*

The Company's unaudited condensed consolidated interim financial statements for the period ended January 31, 2019 have been prepared in accordance with IAS 34 – Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee.

Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward-looking statements. See the "Forward-Looking Statements" section of the report.

Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures and internal controls and to ensure that information used internally or disclosed externally, including the financial statements and MD&A, is complete and reliable. The Company's board of directors follows recommended corporate governance guidelines for public companies to ensure transparency and accountability to shareholders. The board of directors and the audit committee meet with management on a quarterly basis to review the financial statements including the MD&A and to discuss other financial, operating and internal control matters.

Additional information relating to the Company is available on SEDAR at www.sedar.com.

Description of Business and Overview

Cannex, through its wholly owned subsidiaries, provides a range of comprehensive and flexible growth options for licensed cannabis cultivators, processors and dispensaries in the United States, including provision of: (1) turn-key real estate with operational infrastructure; (2) cannabis growing-related consulting services; (3) purchasing agent services; and (4) sales of packaging and other non-cannabis product inputs, such as soil, indoor lighting and packaging. The Company has operations in Washington State and a corporate head office in Vancouver, BC, Canada.

Cannex was formed by an amalgamation (the "**Amalgamation**") under the laws of British Columbia on March 13, 2018 and its common shares are listed on the Canadian Securities Exchange ("**CSE**") under the symbol "**CNNX**" and on the OTCQX market under "**CNXXF**". The Company is a reporting issuer in the provinces of British Columbia, Alberta and Ontario, and the head office of the Company is in Vancouver, BC, Canada.

The Amalgamation constituted a reverse takeover of Arco Resources Corp. by Cannex Capital Group Inc. ("**Cannex Group**") following which the Company, through its wholly-owned subsidiary Cannex Holdings (Nevada) Inc., acquired 100% of the membership interests of BrightLeaf Development LLC ("**BrightLeaf**") a limited liability company organized under the laws of the state of Washington. BrightLeaf, through subsidiaries, holds real estate assets, leasehold improvements, brands and other intellectual property, and material supply agreements with Superior Gardens LLC (d/b/a Northwest Cannabis Solutions), a Washington State licensed cannabis producer and processor and 7Point Holdings LLC, another Washington State licensed cannabis producer and processor.

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Change of Year End

Cannex Group had a September 30 year end but, in conjunction with the Amalgamation, was required to change its year end to April 30. This change resulted in the current January 31, 2019 statements of comprehensive income (loss), equity and cash flow being misaligned to the comparative statements which are for the nine-month period ended December 31, 2017.

Corporate Developments

- In December 2018, the Company entered into a binding letter agreement (the "**Interim Agreement**") regarding a business combination (the "**Transaction**") with 4Front Holdings, LLC ("**4Front**") and executed an unsecured demand promissory note allowing 4Front to borrow up to \$8,000,000 during the pendency of the Transaction (the "**4Front Note**"). By mutual agreement, the 4Front Note was later increased to up to the principal amount of \$13,000,000. *See 4Front Transaction section below for more information.*
- In November 2018, the Company closed a \$32,000,000 secured debt financing with Gotham Green Partners LLC ("**GGP**"). The use of proceeds was the repayment of all other existing indebtedness of the Company totaling approximately \$9,400,000, general corporate purposes, and working capital. *See Gotham Green Partners Financing section below for more information.*

4Front Note

In December 2018, Cannex issued to 4Front the 4Front Note. The 4Front Note will provide 4Front additional capital to execute on growth initiatives and potential acquisitions while Cannex and 4Front move towards the Transaction.

The 4Front Note bears interest at the published prime rate ("**Prime**") (5.5% as of December 20, 2018). If the Transaction fails to close by April 30, 2019, or some other date as mutually agreed, the interest rate increases to Prime plus 5%, and the 4Front Note must be repaid within 90 days.

As of the date hereof, Cannex has advanced \$13,000,000 under the 4Front Note.

Gotham Green Partners Financing

In November 2018, the Company issued to GGP \$32,000,000 in senior secured convertible notes with a maturity date of November 21, 2021 (the "**Notes**"). The Notes have a coupon of LIBOR +11% in year 1, LIBOR +10% in year 2 and LIBOR +9.5% in year 3, with agreed voluntary prepayment rights after the first anniversary of the closing date. The Notes are exchangeable into shares of the Company at a 25% premium to \$0.66 (the "**Reservation Price**"), or \$0.83. The Notes include warrants (the "**Warrants**") to purchase \$7,000,000 in shares at 150% of the Reservation Price (\$1.00), \$6,000,000 in shares at 200% of the Reservation Price (\$1.33), and \$4,000,000 in shares at 300% of the Reservation Price (\$1.99), all such prices secured with the CSE. Half of the interest payable under the Notes is paid monthly in cash, and half is paid in kind.

Net proceeds of the GGP financing were \$30,716,000. The use of proceeds is: (1) repayment of approximately \$9,400,000 in convertible promissory notes owed as a part of the contribution and redemption agreement pursuant to which the Company became the ultimate owner of BrightLeaf, (2) working capital, and (3) general corporate purposes.

The Notes and Warrants are subject to a four-month plus one day statutory hold period from date of issuance in Canada, along with applicable US securities law restrictions.

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Subsequent Events

- In March 2019, the Company made a \$500,000 investment into a California-based company focused on products in the beauty and wellness industry.
- In March 2019, the Company signed the Definitive Agreement, as defined below, with 4Front, pursuant to which 4Front has agreed to combine with Cannex in an all-stock transaction whereby the former securityholders of Cannex and 4Front will become securityholders in the combined company. 4Front is a U.S.-based cannabis company which owns, manages, controls, or services cannabis licenses in Illinois, Massachusetts, Pennsylvania, Maryland, Arizona, and Michigan in addition to having license applications in other U.S. states. *See 4Front Transaction section below for more information*
- In March 2019, the Company and 4Front agreed to (1) extend the maturity of the 4Front Note to December 31, 2019 and (2) increase the principal amount of the 4Front Note to up-to \$13,000,000.
- In February 2019, the Company signed a binding letter agreement to acquire 100% of Pure Ratios Holdings, Inc. ("**Pure Ratios**"), a California based cannabis wellness company in a cash and stock transaction. The Company also loaned Pure Ratios \$400,000 pursuant to a secured convertible promissory note (the "Pure Ratios Note") to provide for growth initiatives and general working capital during the pendency of the transaction. In addition, the Company loaned \$1,000,000 pursuant to a secured convertible promissory note to Accucanna LLC, an affiliate of Pure Ratios which is not being acquired by the Company. *See Pure Ratios Transaction section below for more information.*
- In February 2019, the Company retained Hybrid Financial Ltd. ("**Hybrid**") to provide marketing and branding distribution services to the Company. The agreement between the Company and Hybrid consists of a monthly retainer of \$14,000 for an initial six-month period, and an option grant of 200,000 options with a \$1.00 exercise price expiring February 2024.

4Front Transaction

In December 2018, the Company, 4Front and its affiliates entered into a definitive agreement dated March 1, 2019 (the "**Definitive Agreement**") in respect of the Transaction whereby the former securityholders of Cannex and 4Front will become securityholders in the combined company (the "**Resulting Issuer**") through an all-stock transaction. Cannex and 4Front are arm's length parties. In connection with the Transaction, an application has been made to list the Resulting Issuer's subordinate voting shares ("**Subordinate Voting Shares**") for trading on the CSE initially under Cannex's symbol "CNNX", and it is expected that a new ticker symbol will be obtained in connection with the Transaction. The Transaction is subject to CSE approval, approval of the 4Front members, approval of at least 66 2/3% of the votes cast by Cannex shareholders at a special meeting expected to take place on April 18, 2019, and other customary closing conditions.

Under the terms of the Definitive Agreement, the Transaction will be carried out by way of a plan of arrangement under the *Business Corporations Act* (British Columbia). Former members of 4Front will, through a series of transactions, exchange such interests for 327.4 million shares in the Resulting Issuer on an as-converted basis (the "**Consideration Shares**"), subject to minor adjustment provisions to be included in the Definitive Agreement. The number of Consideration Shares was determined by way of a previously agreed ratio such that the shareholder ratio will proportionally equal 1:1.75 Cannex shareholders to former 4Front members on closing of the Transaction (the "**Exchange Ratio**"). Holders of Cannex common shares will receive Subordinate Voting Shares on a 1:1 basis. Holders of Class A restricted voting shares of Cannex will receive proportionate voting shares of the Resulting Issuer ("**Proportionate Voting Shares**") on an 80:1 basis. Each Proportionate Voting Share carries 80 votes and each Subordinate Voting Share carries one vote.

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The Proportionate Voting Shares will not be listed for trading on the CSE but may be exchanged for Subordinate Voting Shares in certain circumstances. Pursuant to the Transaction, certain key members of 4Front, namely Joshua Rosen, Trevor Pratte, Karl Chowscano, Andrew Thut and Kris Krane (collectively, the "**4Front Key Shareholders**"), are expected to receive multiple voting shares of the Resulting Issuer ("**Multiple Voting Shares**") where each Multiple Voting Share carries 800 votes. The Multiple Voting Shares will not be listed for trading on the CSE and may only be transferred or converted into Proportionate Voting Shares in certain circumstances. The Multiple Voting Shares are intended to provide voting control to the 4Front Key Shareholders.

The Exchange Ratio was determined when the parties entered into the Interim Agreement. The pre-agreed ratio provides for a pre-Transaction value to 4Front shareholders of approximately C\$368.4 million calculated using a Cannex share price of C\$1.125 per share. Cannex Shareholders holding ~68.9% of total outstanding common and Class A shares, including all directors and officers, have executed lock up and voting support agreements in favor of the Transaction.

For a full description of the Transaction, its terms, and other important shareholder information, please see the Management Information Circular filed on www.sedar.com.

Pure Ratios Transaction

In February 2019, the Company signed a binding letter agreement to acquire 100% of Pure Ratios (the "**Pure Ratios Transaction**"), in a cash and stock transaction. Pursuant to the proposed transaction, the Company will pay Pure Ratios shareholders total consideration of up to \$1,000,000 in cash, 3,500,000 shares of Cannex stock, \$2,500,000 of contingent cash consideration and the assumption of \$500,000 of Pure Ratios' existing debt for total maximum consideration of \$7,000,000, and an additional \$1,000,000 capital infusion into the company to fund growth initiatives. Upon closing of the transaction, Cannex will pay the Pure Ratios' shareholders \$1,400,000 in cash with an additional \$100,000 per month for six months for total cash consideration of \$2,000,000 and will issue 3,500,000 shares of Cannex. All shares issued in the proposed transaction will be subject to a statutory Canadian hold period of four months and a day from the date of issuance.

Additionally, Cannex has extended Pure Ratios a loan of \$400,000 by way of a secured convertible promissory note (the "**Pure Ratios Note**"), as an advance against the anticipated \$1,000,000 in growth capital which was to be given at closing. The Pure Ratios Note bears interest at ten percent for six months, and subsequently bear 18% interest until it matures one year from issuance.

The proposed transaction is subject to a number of conditions, including but not limited to, final due diligence by the respective parties, execution of a definitive acquisition agreement which shall supersede the letter agreement, receipt of applicable corporate approvals, and other regulatory and/or governmental approval. There can be no assurance that the proposed transaction will be completed as proposed herein or at all.

In addition to the proposed transaction, Cannex extended Accucanna LLC, an affiliated of Pure Ratios, which owns a soon to be opened cannabis dispensary in Desert Hot Springs, California, a loan of up to \$1,500,000 by way of a secured convertible promissory note (the "**Accucanna Note**"). The Accucanna Note bears interest at 10% for six months, and subsequently bear 18% interest until it matures one year from issuance. To date, Cannex has funded \$1,000,000. The use of proceeds of the Note are repayment of other debt, working capital, construction costs, and general corporate purposes.

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Operations

BrightLeaf

BrightLeaf's business is composed of two primary segments: (1) leasing of turn-key facilities for the growing and/or processing of cannabis; and (2) provision of packaging, branding, non-cannabis input materials, associated consulting services, etc. to licensed cannabis entities in Washington State.

Leasing

BrightLeaf leases two facilities in Washington State: (1) the **Tumwater Facility** and (2) the **Elma Grow**.

The Tumwater Facility is made up of two buildings, with total interior area of approximately 116,500 square feet. 9631 Lathrop Industrial Drive is purely devoted to indoor cannabis cultivation (the "**Tumwater Grow**"), and 9603 Lathrop Industrial Drive is devoted to processing and distribution of cannabis (i.e., weighing, packaging, extracting, creation of edibles, and otherwise creating end products which are sold to licensed cannabis retailers by NWCS, as defined below) ("**Tumwater Processing**"). The Tumwater Facility is currently leased to and operated by Superior Gardens, LLC (d/b/a Northwest Cannabis Solutions) ("**NWCS**"), a leading Washington State-licensed cannabis producer/processor.

The Elma Grow is an approximately 60,000 square foot warehouse located at 37 Enterprise Lane, Elma, WA, which is leased from the Port of Grays Harbor under a lease which allows extension for up to 50 years from October 1, 2016. After entering into this lease, BrightLeaf improved the existing warehouse into the Elma Grow, which is a facility devoted only to indoor cannabis cultivation, like the Tumwater Grow. Management believes that the Elma Grow is superior to the Tumwater Grow, because it implements multiple design/functionality improvements which management believes will increase operator yields and improve operator costs. The Elma Grow is leased to and operated by 7Point Holdings LLC ("**7Point**"), a Washington State-licensed cannabis producer and processor.

For the nine months ended January 31, 2019, revenue from leasing was \$6,985,928 compared to \$4,204,672 for the nine months ended December 31, 2017 which included eight months of operations.

Packaging, Branding, Consulting Services, Etc.

BrightLeaf also earns revenue by, among other things: (1) providing cannabis growing-related consulting to both NWCS and 7Point; (2) selling NWCS cannabis packaging material, which contain protected intellectual property that BrightLeaf owns; (3) providing purchase agent services which assist 7Point and NWCS in favorably sourcing non-cannabis production inputs such as lights, ballasts, plastics, etc.; and (4) selling and/or leasing cannabis processing and other equipment to NWCS and 7Point.

BrightLeaf also actively develops intellectual property related to cannabis, such as new formulations, recipes, and brands. Management views developing intellectual property a prudent investment for the future, given what management believes to be a growing trend towards cannabis liberalization. Management plans to deploy BrightLeaf-created intellectual property through any cannabis businesses created or acquired by Cannex in other jurisdictions, and to potentially pursue licensing opportunities.

Accordingly, given the long-term nature of BrightLeaf's intellectual property, which increases expenses in the near-term in order to invest in long-term growth, management does not judge BrightLeaf performance by any specific financial metrics and instead focuses on creation of valuable intellectual property which will be accretive in the long term while remaining a profit center.

Going forward, management anticipates that BrightLeaf will be the main US-based operating subsidiary of Cannex and therefore expects BrightLeaf to bear more "corporate" expenses related to administration, legal,

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integration of acquisitions, regulatory, licensing applications, etc. Additionally, BrightLeaf's current intellectual property creations team is expected to become the nucleus for any such efforts throughout Cannex's future US-based operations to achieve cost synergies in branding, packaging design, and advertising.

NWCS and 7Point are both owned by persons who are related parties to the Company, as described in more detail below.

For the nine months ended January 31, 2019, revenue from packaging, branding, consulting, etc., activities was \$3,144,796 compared to \$2,018,347 for the nine months ended December 31, 2017 which included eight months of operations.

Financial

Profit and loss amounts presented below are for the current period, being the nine months ended January 31, 2019, compared to the nine months ended December 31, 2017 which included eight months of operations.

Selected Quarterly Information

The Company was formed by an Amalgamation in March 2018. Accordingly, it does not have a complete history of preparing quarterly financial statements. Initially, the predecessor operations of Cannex Group and BrightLeaf had a September 30 year end. The Company changed its year end to April 30 in conjunction with the Amalgamation to facilitate the preparation of filings. Accordingly, fiscal quarters prior to the Amalgamation do not align with the post-Amalgamation fiscal periods. Furthermore, the Company's operations did not begin until May 2017, so the first quarter with operations was for the period ended June 30, 2017.

Quarter Ended	Revenue \$	Income (loss) for the period \$	Basic and diluted income (loss) per share \$/share
June 30, 2017	1,528,341	(403,027)	(0.05)
September 30, 2017	1,810,673	(815,188)	(0.05)
December 31, 2017	2,884,005	(719,605)	(0.01)
July 31, 2018	3,400,435	2,428,507	0.01
October 31, 2018	3,051,502	696,746	0.00
January 31, 2019	3,678,787	(7,665,094)	(0.04)

Significant variations in the results of operations for each quarter relate to:

- June 30, 2017 – Includes only two months of operations with 116,500 square feet of leased property.
- July 31, 2018 – This is the first period of operations that includes all of the Company's facilities and public company expenses without any Amalgamation-related costs.
- January 31, 2019 – The loss for the period primarily relates to non-cash activity for derivative liabilities and loan settlements, operating expenses including share-based compensation and consulting and legal fees relating to the transaction with 4Front.

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Results of Operations

Overall, the Company recorded a loss of \$4,539,841 for the nine-month period ended January 31, 2019 as compared to a loss of \$1,937,820 for the period ended December 31, 2017 (indicated by "2017" in the disclosure below). Although the comparative fiscal period was nine months, it only included eight months of operations as the Company was substantially inactive prior to May 1, 2017. Adjusted EBITDA decreased from \$2,917,403 in the comparative period to \$2,442,688 in the nine months ended January 31, 2019 (see *Adjusted EBITDA* below for how these amounts were determined).

Product Sales

Product sales primarily represent sales of finished goods packaging, such as printed boxes, plastic film, backing cards, branded unfilled extract cartridges, branded unfilled battery/cartridge combination units, etc. (collectively referred to as "**Packaging**"). Packaging sales increased during the period due to: (i) Packaging purchasing ramp up by NWCS to coincide with high anticipated demand, and (ii) cannabis demand seasonality.

Rental Income

Rental income is earned leasing the Company's facilities to NWCS and 7Point. Rental income was unchanged from previous period. Rent payments for the Elma Grow commenced in December 2017. The rent paid by NWCS for its two facilities escalated to a higher rate starting in January 2018, and 7Point's rent paid escalated to a higher rate for the facility which it subleases starting in November 2018, under the terms of each company's respective lease agreement with the Company.

Operating Expenses:

Comments on operating expenses follow:

- Accretion represents the difference between the stated interest rate on the convertible promissory notes and implicit fair value of incurring this debt if there were no conversion feature. It does not represent a cash disbursement to the Company.
- Consulting fees were paid for cannabis growing advisory and similar services.
- Depreciation primarily relates to the Company's rental properties. Depreciation expense increased after the Elma Grow property was placed into service in September 2017.
- General expenses include office, telephone and similar expenses incidental to the conduct of business. The current period increase is largely a result of corporate activity undertaken by the head office in Vancouver, BC, Canada.
- Foreign exchange gain / loss increased due to more activity at the Company's head office in Canada where it incurs expenses and holds funds in Canadian dollars. The Company is accordingly exposed to changes in the exchange rate between the US dollar and the Canadian dollar.
- Interest expense relates to the cost of financing the Company through debt. Up until the Amalgamation, the Company was primarily funded by advances from related parties, the majority of which attracted an interest rate of 8% per year. Concurrent with the Amalgamation, the Company repaid \$22,532,608 of these loans and borrowed \$9,033,022 through convertible promissory notes with a nominal interest rate of 12%. Such convertible promissory notes, with accrued interest, were repaid as part of the GGP transaction described above.

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- Professional fees represent legal, accounting and audit fees. Professional fees increased primarily due to the GGP financing and 4Front Transaction.
- Rent relates to leasing the Elma Grow facility which was placed into service in September 2017. Rent costs were capitalized in the comparative period while the facility was being fitted out.
- Property taxes relate to property taxes for Tumwater and Elma Grow facilities.
- Share-based compensation comprises the fair value of compensatory stock options awarded in December 2017 and October 2018 to directors, employees and consultants. The fair value of stock options was determined using the Black-Scholes option pricing model and is recognized in the financial statements over the vesting periods.
- Shareholder and regulatory expenses include transfer agent and stock exchange fees incurred now that the Company is publicly listed.
- Travel represents costs incurred in connection with the Amalgamation, investigation of new business opportunities and business operations. In the comparative period, the Company did not undertake travel.
- Wages and salaries are paid to managers and operating staff.
- Change in the fair value of derivative liabilities results from convertible promissory notes. This amount represents the change in the fair value of the conversion feature and is determined using the Black-Scholes option-pricing model.
- Income taxes of the US operations are payable only for the period since the Amalgamation. Prior to that, income was taxed in the hands of BrightLeaf's partners. Income taxes are higher than the nominal rate since the Company is unable to offset Canadian operating losses against its United States operating income. The deferred income tax provision reflects a deferred tax liability arising from BrightLeaf taking accelerated depreciation for tax purposes prior to the Amalgamation that reduced the tax base available for future tax deductions. This provision is not directly result in cash flow and will reverse over time as the assets are depreciated.

Changes in Financial Position

Changes in financial position since the Company's April 30, 2018 year end primarily relate to the GGP financing, collection of the US\$3.5 million note to Ametrine Wellness dba Jetty Extracts receivable, repayment of liabilities due to certain related parties, and repayment of the mortgage secured by the Tumwater Facility.

Liquidity and Capital Resources

At January 31, 2019, the Company had working capital of \$15,086,245, including cash of \$27,847,191, as compared to working capital of \$4,273,674 at April 30, 2018. Other factors affecting near-term liquidity are:

- To the date of this MD&A, the Company has advanced additional capital of \$13,000,000 under the 4Front Note, to execute on growth initiatives.
- To the date of this MD&A, the Company has advanced \$400,000 to Pure Ratios ahead of the planned acquisition for growth initiatives and general working capital.

At January 31, 2019, 100% of the assets of the Company's stated in the interim financial statements related to cannabis activity in the U.S.

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To supplement its consolidated financial statements, which are prepared and presented in accordance with IFRS, Cannex uses "adjusted EBITDA" which is a non-GAAP financial measure. Cannex believes that adjusted EBITDA helps identify underlying trends in its business that could otherwise be distorted by the effect of certain income or expenses that Cannex includes in Income (loss) for the period. Cannex further believes that adjusted EBITDA provides useful information about core operating results and cash flow generating potential, enhances the overall understanding of its past performance and future prospects and allows for greater visibility with respect to key metrics used by management in its financial and operational decision-making. Adjusted EBITDA should not be considered in isolation or construed as an alternative to income (loss) for the period or any other measure of performance or as an indicator of Cannex's operating performance. Adjusted EBITDA presented here may not be comparable to similarly titled measures presented by other companies. Other companies may calculate similarly titled measures differently, limiting their usefulness as comparative measures to our data. Adjusted EBITDA represents loss for the period, excluding interest expense, interest income, and income taxes and certain non-cash expenses, consisting of accretion, share-based compensation, depreciation and change in fair value of derivative liabilities that Cannex do not believe are reflective of the core operating performance during the periods presented.

Adjusted EBITDA

A reconciliation of income (loss) to adjusted EBITDA follows:

Nine months ended	January 31, 2019	December 31, 2017
	\$	\$
Income (loss) for the period	(4,539,841)	(1,937,820)
Accretion	1,036,197	-
Interest expense	1,834,141	1,113,431
Interest income	(221,741)	-
Income taxes	155,000	1,919,930
Share-based compensation	2,125,482	462,505
Depreciation	1,500,430	1,359,357
Gain on loan settlement	2,514,000	-
Change in fair value of derivative liabilities	(1,961,000)	-
Adjusted EBITDA	2,442,688	2,917,403

Three months ended	January 31, 2019	December 31, 2017
	\$	\$
Income (loss) for the period	(7,665,094)	(719,605)
Accretion	416,197	-
Interest expense	1,187,754	320,626
Interest income	(46,856)	-
Income taxes	(250,000)	-
Share-based compensation	1,155,695	462,505
Depreciation	499,870	731,477
Loss on loan settlement	2,514,000	-
Change in fair value of derivative liabilities	1,811,000	-
Adjusted EBITDA	(377,434)	795,003

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Management considers adjusted EBITDA to be an important financial measure of the business' performance. The convertible debt incurred by Cannex as a result of its initial purchase of BrightLeaf, which has been fully repaid as of December 2018 but is still reflected in financial information through the period ending October 31, 2018, was denominated in U.S. dollars, but convertible to shares at C\$1.00. Due to IFRS accounting rules, this led to charges to net income which were connected to both the exchange rate fluctuation between the two currencies and the current performance of Cannex's stock (labelled above as "Accretion" and "Change in fair value of derivative liabilities"), but, notably, not any changes in the underlying operations/business of the Company. Accordingly, management's view is that adjusted EBITDA, which backs out these charges, is a useful metric in analyzing the underlying financial performance of the business. A fuller explanation of the Company's accounting for accretion and changes in fair value of derivative liabilities is contained in Note 14 of the Company's contemporaneous comprehensive financial statements.

Related Party Transactions

The Company does not have employment contracts with certain senior management. In the nine months ended January 31, 2019, the Company paid management fees to companies controlled by insiders as follows: \$69,021 (2017 - \$nil) to Delu Corp. a company controlled by the Company's CEO; \$69,021 (2017 - \$nil) to Equity One Capital Corporation, a company controlled by the Company's former CFO; and \$300,000 (2017 - \$nil) to Maha Consulting LLC, a company controlled by the Company's COO.

The Company pays director fees of C\$1,500 per month (C\$4,000 to the board chairman) and an additional fee of C\$2,000 per month to the chairs of the audit and risk and remuneration and nomination committees. Directors who are also employees of Cannex or a subsidiary do not receive director fees.

NWCS and 7Point have multiple contractual relationships with subsidiaries of the Company and are related to the Company as follows: Vlad Orlovskii, the sole owner of NWCS, holds 2,037,658 common shares and 12,015,565 Class A shares in the Company. Gerald Derevyanny, the sole owner of 7Point, holds 515,000 common shares in the Company, is a member of the board of directors of the Company, and is an employee of BrightLeaf.

On March 1, 2017, NWCS and the Company entered into a commercial gross lease for a 70-month term with two five-year renewal options of the 116,608 square foot Tumwater Facility at a rate of \$4.00 per square foot set to increase January 1 of each year during the initial term by \$0.50 per square foot. On June 1, 2017, 7Point and the Company entered into a commercial sublease for a six-year term with one five-year renewal option for the 60,000 square foot Elma Grow at a rate of \$4.00 per square foot set to begin December 1, 2017 and increase November 1 of each year during the initial term by \$0.25 per square foot.

On January 1, 2018, the Company entered into a service agreement with NWCS engaging Ag Grow Imports LLC ("**Ag Grow**"), a wholly-owned subsidiary of BrightLeaf, to provide consulting and personnel services for growing and processing for \$30,000 per month and to act as exclusive purchasing agent for equipment, machinery, and other supplies for \$20,000 per month for a three-year term with automatic renewal for additional three-year terms.

On January 1, 2018, the Company entered into a service agreement with 7Point engaging Ag Grow to provide consulting and personnel services for growing and processing for \$10,000 per month and to act as exclusive purchasing agent for equipment, machinery, and other supplies for \$5,000 per month for a three-year term with automatic renewal for additional three-year terms.

On January 1, 2018, NWCS and the Company entered into a packaging supply agreement under commercially reasonable pricing terms by which NWCS submits packaging orders for Company-designed packaging sold by NWCS under an exclusive license to use Company brands and recipes in the state of Washington. The

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packaging supply agreement has an initial term of three years with automatic renewal for additional three-year periods.

During the nine months ended January 31, 2019, the Company generated product sales of \$3,144,796 (December 31, 2017 - \$2,018,347) and rental income of \$4,780,298 (December 31, 2017 - \$4,204,672) from NWCS. During the nine months ended January 31, 2019, the Company generated product sales of \$nil (December 31, 2017 - \$nil) and rental income of \$2,205,000 (December 31, 2017 - \$nil) from 7Point.

In the period ended January 31, 2019, the Company paid or accrued interest of \$592,013 (December 31, 2017 - \$939,924) to Arkadi Gontmakher, Leonid Gontmakher, Roman Tkachenko, Vlad Orlovskii, and Oleg Orlovskii.

At January 31, 2019, the Company owed \$nil (April 30, 2018 - \$9,283,194) to related parties on account of convertible promissory notes and derivative liabilities. Subsequently, in December 2018, such promissory notes were fully repaid using the proceeds of the GGP financing described above.

As at January 31, 2019, \$nil (April 30, 2018 - \$63,343) is owing to related parties on account of compensation and expenses incurred.

As at January 31, 2019, \$2,134,365 (April 30, 2018 - \$365,887) of total trade receivables were due from NWCS and 7Point.

As at January 31, 2019, the balance of finance leases due from NWCS was \$nil (April 30, 2018 - \$527,592).

In December 2018, the Company entered into a non-arm's length consulting agreement with Inverness Advisors LLC ("**Inverness**"), an affiliate of KEMA Partners LLC, a FINRA member and SEC-registered broker dealer, ("**Inverness Agreement**") to provide merger and acquisition advisory work connected with the 4Front transaction described above and other projects. Inverness is partially owned by Thomas Peters, a board member of the Company. The Inverness Agreement was approved by non-interested members of the Company's board, provides for compensation in the amount of \$450,000 in December 2018, and a monthly retainer payment of \$150,000 thereafter, and is cancellable by either party on five days' notice. As at January 31, 2019, the Company paid management fees of \$600,000 (December 31, 2017 - \$nil) to Inverness.

Financial Instruments

The Company's activities expose it to a variety of financial risks, including foreign exchange risk, interest rate risk, commodity price risk, credit risk and liquidity risk.

Foreign Exchange Risk

The Company is exposed to exchange rate fluctuations between United States and Canadian dollars. Most importantly, the Company's share price is denominated in Canadian dollars. If the Canadian dollar declines against the United States dollar, the United States dollar amounts available to fund expansion through the exercise of stock options and the C\$1.50 warrants issued as part of the Company's March 2018 subscription receipt offering will be less than originally contemplated.

The interest payable on the Company's debt is denominated in U.S. dollars. While the Company maintains a head office in Canada where it incurs expenses primarily denominated in Canadian dollars, such expenses are a small portion of overall expenses incurred by the Company.

The convertible debt and warrants issued by the Company as part of the GGP financing are denominated in U.S. dollars. The Company does not have a practice of trading derivatives and does not engage in "natural hedging."

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Interest Rate Risk

The Company's borrowings are tied to LIBOR, with a LIBOR floor value of 2.5% and a ceiling of 5%. So, the Company is exposed to a certain degree of interest rate fluctuation, but such exposure is limited by the contractual LIBOR ceiling. The Company's borrowings are material in relation to its assets and so the Company is exposed to interest rate fluctuations when and if the debt instruments are renewed.

Credit Risk

Cannex manages credit risk by trading with recognized creditworthy parties. In addition, it monitors receivable balances with the result that the Company's exposure to impaired receivables is generally not significant.

Liquidity Risk

The Company manages liquidity risk by maintaining adequate cash balances. If necessary, it may raise funds through the issuance of debt, equity, or monetization of non-core assets. To ensure that there is sufficient capital to meet obligations, the Company continuously monitors and reviews actual and forecasted cash flows and matches the maturity profile of financial assets to development, capital and operating needs.

Future accounting policy changes

The following new standards, and amendments to standards and interpretations, are not yet effective for the current period and have not been applied in preparing these financial statements. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below

- **IFRS 9 – *Financial Instruments*:** On May 1, 2018, the Company adopted the new accounting standard IFRS 9. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company's accounting policy with respect to financial liabilities is unchanged. As a result of the adoption of this standard, the Company has changed its accounting policy for financial assets retrospectively, for assets that were recognized at the date of application. The change did not impact the carrying value of any financial assets on the transition date.
- **IFRS 15 – *Revenue from Contracts with Customers*:** On May 1, 2018, the Company adopted the new accounting standard IFRS 15 to all contracts using the modified retrospective approach. The Company has concluded that there is no significant impact resulting from the application of the new revenue standard on its consolidated financial statements. Under the new revenue standard, the Company's revenue continues to be recognized when products are delivered to the customer, which is also the moment when control of the products is transferred, and when there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of loss have been transferred to the customer and the customer has accepted the products in accordance with the sales contract.
- **IFRS 16 – *Leases*:** IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring that lessees recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has an insignificant value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 was issued in January 2016 and will be applicable to the Company's fiscal period beginning May 1, 2019, although early adoption is permitted. The Company does not intend to early adopt this standard and is

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currently evaluating the impact of adopting this standard on the consolidated financial statements. The Company expects that it will recognize additional assets and liabilities as a result of the leasing arrangements currently entered or to be entered by its subsidiaries. The full extent of the impact of adoption of the standard has not yet been determined and management will continue to assess the impact as fiscal approaches.

- IFIC 23: This standard clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. It is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Company does not expect that the adoption of this standard will have a material effect on the Company's consolidated financial statements.

Critical accounting estimates

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are the same as those applied to the Company's April 30, 2018 audited financial statements.

The Company makes critical judgments in the determination of property, plant and equipment, inventory, share-based compensation, fair value of financial instruments and impairment.

Share Capital

The Company has two classes of shares, common shares and Class A restricted voting shares ("Class A shares"). The Class A shares are entitled to attend shareholder meetings and receive dividends but cannot vote for the election or removal of the Company's directors. Class A shares make up roughly 60% of the total issued and outstanding shares of the Company.

Each Class A shares may be converted into one common share by board action, subject to certain potential restrictions mainly involving Cannex preserving its "foreign private issuer" status under U.S. securities law. The 96,521,734 Class A shares were issued as part of the Amalgamation.

The following summarizes outstanding share capital and potential dilutive factors at the date of this MD&A:

- Shares - At January 31, 2019 and the date of this report, there are 87,192,203 common shares and 96,521,734 Class A shares issued and outstanding.
- Stock Options - At January 31, 2019, there were stock options to purchase up to 13,225,000 common shares outstanding and the date of this report, there are stock options to purchase up to 13,425,000 common shares outstanding.
- Warrants - At January 31, 2019 and the date of this report there are share purchase warrants outstanding to purchase up to 39,283,543 common and/or Class A shares in the following amounts:
 - 1,652,279 broker warrants at C\$1.00

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- 24,109,936 warrants at C\$1.50
- 13,521,328 warrants at C\$1.64
- Convertible debt – The GGP financing is the only convertible debt currently issued by the Company. Such debt, if converted as of the date of the MD&A, would have resulted in the issuance of approximately 38,554,217 shares.

Common Shares

The Company did not issue any shares in the period ended January 31, 2019.

Warrants

In November 2018, the Company issued 13,521,328 warrants as part of the GGP Financing in the following amounts:

- 7,000,000 warrants at \$1.00
- 4,511,278 warrants at \$1.33
- 2,010,050 warrants at \$1.99

Stock Options

In October 2018, the Company granted 1,975,000 options to directors, employees and consultants of the Company. The options are exercisable at C\$1.00 per share until October 2023.

In February 2019, the Company granted 200,000 options to an investor relations provider. The options are exercisable at C\$1.00 per share until February 2024 and vest in two equal instalments on February 1, 2019 and May 1, 2019.

Forward-Looking Statements

This MD&A may contain "forward-looking statements" which reflect the Company's current expectations regarding the future results of operations, performance and achievements of the Company, including but not limited to statements with respect to the Company's plans or future financial or operating performance, conclusions of economic assessments of cannabis projects, requirements for additional capital, sources and timing of additional financing, and proposed transactions.

The Company has tried, wherever possible, to identify these forward-looking statements by, among other things, using words such as "anticipate," "believe," "estimate," "expect", "budget", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved".

The Company's management periodically reviews information reflected in forward-looking statements. The Company has and continues to disclose in its MD&A and other publicly filed documents, changes to material factors or assumptions underlying the forward-looking statements and to the validity of the statements themselves, in the period the changes occur.

Historical results of operations and trends that may be inferred from the above discussions and analysis may not necessarily indicate future results from operations.

Risks and Uncertainties

The most significant trends and uncertainties which management expects could impact its business and financial condition are (i) the changing legal and regulatory regime which regulates the production and sale

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of cannabis and cannabis related products; (ii) the ability of companies who may receive funds from the sale of cannabis and cannabis related products to adequately track and legally transfer such funds; (iii) the ability of companies to raise adequate capital; (iv) market risks of continued competition in its primary market of Washington, leading to further price/margin compression and potentially hampering the ability of the operating cannabis companies which the Company contracts with performing on their obligations; and (v) the Company relies on third-party suppliers, manufacturers, and contractors which, due to the uncertain regulatory landscape for regulating cannabis in the U.S., may elect, at any time, to decline or withdraw services necessary to the Company's operations.

Inability to Access Public or Private Capital

The Company has historically had, and continues to have, access to equity and debt financing from the public and prospectus-exempt (private placement) markets. Given the illegality of marijuana under U.S. federal law, there is no guarantee that the Company will continue to have access to public or private capital. Although there has been an increase in the amount of private financing available over the last several years, there is neither a broad nor deep pool of institutional capital that is available to cannabis license holders and license applicants. There can be no assurance that additional financing, if raised privately, will be available to the Company when needed or on terms that are acceptable. The Company's potential inability to raise financing to fund capital expenditures or acquisitions could limit its growth and may have a material adverse effect on future profitability. Commercial banks, private equity firms and venture capital firms have approached the cannabis industry cautiously to date. However, there are increasing numbers of high net worth individuals and family offices that have made meaningful investments in companies and projects similar to the Company's projects.

Legal and Regulatory Trends

The Company's flagship investments are in Washington State and currently management expects the legal and regulatory regimes in the United States (on a federal level), Washington State, and Canada to be the most relevant to its business.

United States

In the United States, 33 states and Washington D.C. have legalized medical marijuana, while ten states and Washington, D.C. have also legalized recreational marijuana. Although cannabis currently remains a Schedule I drug under federal law, the U.S. Department of Justice issued a memorandum, known as the "Cole Memorandum", on August 29, 2013 to the U.S. Attorneys' offices (federal prosecutors) directing that individuals and businesses that rigorously comply with state regulatory provisions in states that have strictly-regulated legalized medical or recreational cannabis programs should not be a prosecutorial priority for violations of federal law. This federal policy was reinforced by passage of a 2015 federal budget bill amendment (passed in 2014) known as the Rohrabacher-Farr Amendment that prohibits the use of federal funds to interfere in the implementation of state medical marijuana laws. This bill targets Department of Justice funding, which encompasses the Drug Enforcement Agency and Offices of the United States Attorneys. This bill shows the development of bi-partisan support in the U.S. Congress for legalizing the use of cannabis. It is anticipated that the federal government will eventually repeal the federal prohibition on cannabis and/or allow the states to decide for themselves whether to permit regulated cannabis cultivation and sale, just as states are largely free today to decide policies governing the distribution of alcohol or tobacco. On January 4, 2018, the U.S. Department of Justice rescinded the Cole Memorandum. Given that the Cole Memorandum was never legally binding, the U.S. Department of Justice continues to have discretion to enforce federal drug laws.

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Marijuana is illegal under U.S. federal law and enforcement of relevant laws is a significant risk to the Company.

Under U.S. federal law it may potentially be a violation of federal money laundering statutes for financial institutions to take any proceeds from marijuana sales or the sale of any other Schedule I substance. Canadian banks are also hesitant to deal with cannabis companies, due to the uncertain legal and regulatory framework of the industry. Banks and other financial institutions could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses. Under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering or conspiracy. Despite these laws, the U.S. Treasury Department issued a memorandum in February 2014 outlining the pathways for financial institutions to bank marijuana businesses in compliance with federal law. Under these guidelines, financial institutions must submit a "suspicious activity report" (SAR) as required by federal anti-money laundering laws. These marijuana related SARs are divided into three categories: marijuana limited, marijuana priority, and marijuana terminated, based on the financial institution's belief that the marijuana business follows state law, is operating out of compliance with state law, or where the banking relationship has been terminated. In the U.S., a bill has been tabled in Congress to grant banks and other financial institutions immunity from federal criminal prosecution for servicing marijuana-related businesses if the underlying marijuana business follows state law. This bill has not been passed and there can be no assurance with that it will be passed in its current form or at all. In both Canada and the United States, transactions involving banks and other financial institutions are both difficult and unpredictable under the current legal and regulatory landscape.

Political and regulatory risks also exist due to the presidential administration of Donald Trump. The President's positions on cannabis regulation have been difficult to discern. On November 7, 2018, Attorney General Jeff Sessions, a noted cannabis law reform skeptic, resigned. President Trump has appointed William Barr, who served as Attorney General in the presidential administration of George H.W. Bush from 1991 to 1993. Mr. Barr's views on cannabis are unknown. It remains unclear what stance the U.S. Department of Justice under the new administration might take toward legalization efforts in U.S. states, but federal enforcement of the CSA and other applicable laws is possible.

Despite the legal, regulatory, and political obstacles the marijuana industry currently faces, the industry has continued to grow.

Washington State

Legislative History

Washington has authorized the cultivation, possession, processing, wholesaling, and retail sale of marijuana by certain licensed Washington businesses. The Washington State Liquor and Cannabis Board ("**WSLCB**") regulates Washington's marijuana regulatory program. BrightLeaf is advised by legal counsel and/or other advisors in connection with Washington's marijuana regulatory program. BrightLeaf only engages in transactions with Washington marijuana businesses that hold licenses that are in good standing and in compliance with Washington's marijuana regulatory program. To the extent required by Washington's marijuana regulatory program, BrightLeaf has fully disclosed and/or registered its and/or its subsidiaries relationships with Washington marijuana businesses.

Licensing Requirements

Every individual with an ownership or equity interest, with a right to receive a percentage of gross or net profits, or who exercises control over a licensed marijuana operator must apply for licensing with the WSLCB and be approved. Each applicant must be over 21 years of age and a Washington resident.

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An applicant must provide the WSLCB with the applicant's organizational and operational documents, including the entity's operating agreement and a detailed operating plan, in order to verify that the proposed business meets the minimum requirements for licensing.

An applicant must provide the WSLCB the applicant's financial statements to verify the source of funds for the business, including any acquisition agreements and any agreements for the development of an operating marijuana business, as well as financial documents verifying the source of funds for all purchases of and material changes to the business. An applicant must disclose any financiers which are providing funds to be used by the marijuana business, and such financiers, except banks and other financial institutions, are subject to a substantially similar application process through the WSLCB. An applicant must provide the WSLCB the applicant's and the applicant's spouse's personal and criminal history, including fingerprints for the submission of a criminal records background check with the Washington State Patrol and the U.S. Federal Bureau of Investigation. Conviction for certain serious crimes, or over a certain amount of convictions for more minor crimes, may disqualify an applicant from holding a marijuana license.

Any change in the initial ownership of a cannabis entity must receive prior approval through the WSLCB, and undergoes a review of the same rigor and breadth as an initial application.

Operations

Current Cannex operations, through BrightLeaf, are only in Washington State, so Cannex is currently more exposed to Washington-specific risks. Management has observed, through third-party analyst reports, conversations with other industry participants, visits to Washington retail stores, and conversations with NWCS and 7Point employees, that prices for cannabis products have contracted sharply since roughly January 2018. Management does not have visibility into the exact cause of such compression, but does note that, to management's knowledge, Washington State has by far the most granted recreational cannabis production/processing licenses of any state which has legalized cannabis in any form, and was recently noted by BDS Analytics (a cannabis-specific multi-state analytics company) as having the lowest wholesale price per pound of cannabis of any state which currently has a state-legalized market for cannabis, at under \$800 wholesale.

This pricing compression adversely affects the profitability and cash-flow generating abilities of Cannex's tenants NWCS and 7Point and has led to occasional delayed payment of portions of rent. If current trends worsen, NWCS and/or 7Point could potentially be unable to pay the full amount of current rent charged by the Company, current markups on non-cannabis inputs sold by Ag Grow, afford Ag Grow consulting services, etc. Management is monitoring the situation in Washington, and actively seeking to expand operations into other states to diversify Washington-specific risk. Management continues to consult with NWCS and 7Point to help them streamline operations, improve profitability, and be in an advantageous position should market trends reverse.

In January 2019, NWCS received an administrative violation notice from the WSLCB. Per the WSLCB, "[a]ll license holders have due process and if a business receives an Administrative Violation Notice or AVN there are several options for remedy including accept the recommended penalty, request a settlement conference or request an administrative hearing before an administrative law judge." NWCS reports that day to day operations are not affected. Approximately 600 AVNs and written warnings are issued by the WSLCB each year with many of these AVNs covering the type of alleged violation issued to NWCS. Many are settled or dismissed for lesser penalties, even though, as in the case of NWCS, a possible outcome could be a loss of license. The stated penalty for NWCS' violation is loss of license.

BrightLeaf and BrightLeaf's subsidiaries, Real Estate Properties, LLC, Fuller Hill Development Co. LLC, and Ag Grow Imports LLC and the business licensees contracting with such subsidiaries (including NWCS and 7Point) are in compliance with Washington's marijuana regulatory program. The Company and its legal counsel

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continuously monitor statements and guidance issued by U.S. attorney regarding the risk of enforcement and the Company's compliance with state regulations.

Canadian Securities

On February 8, 2018, the Canadian Securities Administrators published Staff Notice 51-352 (Revised) Issuers with U.S. Marijuana-Related Activities ("Staff Notice 51-352") which provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the United States as permitted within a particular state's regulatory framework. All issuers with United States cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in prospectus filings and other required disclosure documents. As a result of the Company's investments in certain United States entities, the Company is subject to Staff Notice 51-352.

Joyce Amendment

On May 17, 2018 the U.S. House of Representatives Appropriations Committee approved the inclusion of the Rohrabacher-Blumenauer Amendment (previously, the Rohrabacher Farr Amendment), which adds a provision to prohibit the U.S. Department of Justice from using funding to prevent states from implementing medical marijuana laws through the end of fiscal year 2019, known as the "Joyce Amendment".

2018 Farm Bill

In December 2018, President Trump signed the 2018 Farm Bill, which contained certain provisions legalizing the production, extraction, interstate commerce of, etc. industrial hemp. Industrial hemp is defined as hemp which contains less than 0.3% tetrahydrocannabinol ("**THC**"), the cannabinoid most commonly associated with intoxication which is contained within cannabis and hemp plants, on a dry weight basis.

This bill legalizes U.S. hemp for production and sale across state lines for research and commercial uses for all hemp that meets all the following criteria:

- the hemp contains less than 0.3% THC;
- the producer of the hemp is licensed by the state where it was grown; and
- the state where it was grown has a hemp program approved by the USDA.

Each state is allowed to submit a hemp regulatory program for USDA approval. The USDA will be working on reviewing submitted programs and constructing a hemp regulatory program for all states with no submitted program. No programs are currently approved by the USDA. Once a program is approved, producers may apply for licenses under the program and sell hemp legally for all purposes after the license is obtained.

Hemp is a genetically related plant to cannabis and has long been prohibited based at least in part on its similarity to cannabis, which tends to contain significantly higher amounts of THC than hemp. Hemp, unlike cannabis plants which tend to be richer in THC, is the most common source of cannabidiol ("**CBD**"). Research suggests that CBD is a non-psychoactive cannabinoid which may have several therapeutic effects. CBD is increasingly becoming popular as a wellness product, and its usage as an adjunct to THC is increasing as well.

Management believes hemp legalization is positive for a number of reasons: (1) CBD source material will likely become cheaper, leading to lower cost basis in certain CBD-infused products sold by NWCS; and (2) hemp legalization suggests liberalizing legislator and executive attitudes towards cannabis.

SCHEDULE "J"
ANNUAL AND INTERIM MANAGEMENT DISCUSSION AND ANALYSIS OF HEALTHY PHARMS

(See attached)

Healthy Pharms, Inc.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2017 AND 2016

MD&A of Healthy Pharms, Inc.

This management discussion and analysis (“**MD&A**”) of the financial condition and results of operations of Healthy Pharms, Inc. (the “Company” or “HPI”) is for the year ended December 31, 2017 and 2016. It is supplemental to, and should be read in conjunction with, the Company’s audited financial statements and the accompanying notes for the years ended December 31, 2017 and 2016. The Company’s financial statements are prepared in accordance with International Financial Reporting Standards (“**IFRS**”).

This MD&A contains certain “forward-looking statements” and certain “forward-looking information” as defined under applicable United States securities laws and Canadian securities laws. Please refer to the discussion of forward-looking statements and information set out under the heading “Cautionary Note Regarding Forward-Looking Information”, identified in the “Risks and Uncertainties” section of this MD&A. As a result of many factors, the Company’s actual results may differ materially from those anticipated in these forward-looking statements and information.

All references to “\$” are to United States dollars unless otherwise specified.

OVERVIEW OF THE COMPANY

HPI operates a vertically integrated cannabis cultivation facility, a cannabis processing facility, and a cannabis dispensary in Georgetown, Massachusetts. On January 1, 2018 the Company opened a second dispensary in Cambridge, Massachusetts. The Company is licensed by the state of Massachusetts and by the cities of Georgetown and Cambridge to operate these facilities.

On November 13, 2018 the Company was sold to 4Front Holdings LLC (4Front) for approximately \$27 million. 4Front acquired 100% of the stock and will continue to operate the cultivation facility and the two dispensaries under the current cannabis licenses. As part of the transaction, all debt to related parties including accrued interest was repaid.

The Company cultivates various strains of cannabis in their Georgetown facility. Once the cannabis is harvested, the flower is either packaged and sold through HPI’s two dispensaries or is converted to cannabis oils. The cannabis oils are either sold to consumers as concentrates or are used by the Company to produce edibles, topicals, or other consumer products. Nearly all of the products sold in the Company’s two dispensaries were grown or manufactured by HPI. The Company occasionally sells cannabis products to other licensed dispensaries in Massachusetts. HPI purchases non-cannabis paraphernalia from third parties to be resold by HPI. The Company has purchased small quantities of specialty cannabis products that were resold in the dispensaries.

Revenue Streams

For the purpose of analysis, HPI includes all three operating divisions – cultivation, processing, and retail – in which it cultivates, manufactures, distributes and sells packaged cannabis products in its own dispensaries and in small quantities to third-party retail customers. All revenue is generated in the state of Massachusetts in the United States of America.

SELECTED FINANCIAL INFORMATION

The following is selected financial data derived from the audited financial statements of the Company for the years ended December 31, 2017 and 2016.

The selected financial information set out below may not be indicative of the Company’s future performance:

	As of and for the year ended December 31,	
	<u>2017</u>	<u>2016</u>
Total Revenue	\$ 1,992,416	\$ -
Cost of Goods Sold		
To Grow and Manufacture Products	\$ 487,299	\$ -
Gain on Changes in Fair Value of Biological Assets	\$ (436,970)	\$ -
Gross Profit	\$ 1,942,087	\$ -
Total Operating Expenses	\$ 2,278,648	\$ 642,502
Interest Expense	\$ 852,599	\$ 346,473
Total Assets	\$ 6,564,686	\$ 3,951,896
Long-Term Liabilities	\$ 8,227,816	\$ 5,378,170

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Revenue

The Company derives its revenue from selling cannabis products to consumers and occasionally to other licensed dispensaries per the terms of the Company's cannabis licenses. The Company also sells a small amount of non-cannabis paraphernalia to consumers.

The Company opened the Georgetown dispensary in May 2017 and revenue gradually increased each month through the end of 2017. There was no revenue in 2016.

Cost of Goods Sold

Cost of Goods Sold represents the carrying value of goods sold at the Georgetown dispensary and for sales to third party dispensaries. The carrying value is based on the value of the cannabis at harvest that is contained in the products sold, plus the cost to complete the manufacturing of the product. For paraphernalia, the COGS is the purchase price of the product. There was no Cost of Goods Sold in 2016 because the Company did not start growing and manufacturing cannabis until January of 2017.

Also included in Cost of Goods Sold is the Gain or Loss on Changes in Fair Value of Biological Assets. This is the difference between the actual cultivation costs of Biological Assets (live cannabis plants) and the estimated sales price of harvested cannabis from the Biological Assets, less cost to complete, and less sales costs. The \$436,970 gain is because the value of the plants that were grown during 2017 was greater than the cost to grow them. This was because labor costs were relatively low in 2017 and there were no significant disruptions of the cultivation process.

Gross Profit

Gross profit for the year ended December 31, 2017 was \$1,942,087 due to increasing sales at the Georgetown dispensary and value created by growing cannabis during 2017. There was no Gross Profit in 2016 because no cannabis was grown and there were no sales.

Total Operating Expenses

Total operating expenses for the year ended December 31, 2017 was \$1,636,146 or 255% higher than 2016 because 2017 included a \$1.2 million legal accrual for costs associated with a legal dispute regarding the Cambridge dispensary. This dispute was resolved in 2018. Without this legal accrual, operating expenses increased \$436,146 or 68%. This increase is primarily due to licensing costs with the opening of the Georgetown dispensary and cultivation facility in 2017, and salary costs for dispensary employees in 2017.

Interest Expense

Interest expense for the year ended December 31, 2017 was \$506,126 or 146% higher than the prior year as debt increased to complete the Georgetown facility and to pay for leasehold improvements to the Cambridge dispensary which opened January 1, 2018.

Net Loss Before Income Taxes

The net loss before income taxes was \$1,189,160 for the year ended December 31, 2017 as compared to a net loss of \$988,975 in 2016. This unfavorable variance is due to a \$1.2 million legal accrual in 2017 for a legal dispute for the Cambridge dispensary. Without this legal accrual, the Company would have had a net profit before income taxes of \$10,840. This favorable variance was due to profits from the sale of cannabis products in 2017, partially offset by higher interest expense and Sales and Marketing costs.

Income Tax Provision

In 2016, the Company did not have an income tax liability due to a lack of revenue. The income tax provision of \$648,101 includes both \$370,545 for estimated income taxes payable for the 2017 tax year and \$277,556 for taxes that will be due in future years as book vs. tax differences reverse.

The Company is subject to Section 280E of the federal tax code, which requires taxable income to be computed based on gross revenue less COGS to Grow and Manufacture Products. Operating expenses and interest expense is not deductible under Section 280E. This results in a higher effective tax rate as compared to other businesses. The decrease in the corporate federal tax rate from 34% in 2017 to 21% in 2018 and future years reduced the deferred taxes for 2017.

Net Loss

The net loss increased by \$848,286 in 2017 as compared to 2016. This increase is primarily due to a \$1.2 million legal accrual in 2017 for a dispute involving the Cambridge dispensary.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary need for liquidity is to fund the working capital requirements of the business, including capital expenditures and for general corporate purposes. The primary source of liquidity are funds generated by operations of the Georgetown dispensary as well as loans from related parties. To date, HPI has used loans from related parties as a source of liquidity for short-term working capital needs and general corporate purposes. With the sale of the Company to 4Front, all loans have been repaid including accrued interest. Cash flow from operations are expected to provide liquidity for future periods. 4Front has the resources available to provide funding as needed.

Change in Cash (in thousands of \$)	For the Year Ended		Change	
	2017	2016	\$	%
Net cash used in operating activities	\$ (454)	\$ (298)	\$ (156)	(53)%
Net cash used in investing activities	(1,096)	(3,781)	2,685	71 %
Net cash provided by financing activities	1,636	3,950	(2,314)	(59) %
Change in cash	\$ 86	\$ (129)	\$ 215	

All \$ amounts are in thousands unless otherwise noted.

As of December 31, 2017, the Company had \$193 of cash, and \$1 of working capital (current assets minus current liabilities), compared with \$107 of cash and a \$73 working capital deficit as of December 31, 2016.

During 2018, loans from related parties provided financing for working capital. On November 13, 2018 the Company was purchased by 4Front who will be responsible for any future working capital needs.

Cash used in operating activities

Net cash used in operating activities was \$454 for the year ended December 31, 2017, an increase of \$156, or 53%, as compared to \$298 for the year ended December 31, 2016. The increase was primarily because of an increase in inventory.

Cash used in investing activities

Net cash used in investing activities was \$1,096 for the year ended December 31, 2017, a decrease of \$2,685 or 71%, compared to \$3,781 for the year ended December 31, 2016. The decrease was because 2016 included most of the construction of the Georgetown building.

Cash provided by financing activities

Net cash provided by financing activities was \$1,636 for the year ended December 31, 2017, a decrease of \$2,314 or 59%, compared to \$3,950 for the year ended December 31, 2016. The decrease was because 2016 included new loans used for the construction of the Georgetown building.

Contractual Obligations

The Company has entered into operating lease agreements for the Georgetown building, the Cambridge dispensary building, and an equipment lease. The following represents the Company's commitments in relation to its operating leases:

	Amount (in thousands of \$)
Not later than one year	\$ 739
Later than one year and not later than five years	2,827
Later than five years	1,449
Total	\$ 5,015

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any material off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the results of the operations or financial condition of the Company, including, and without limitation, such considerations as liquidity and capital resources.

TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are entered into in the normal course of business and are measured at the amount established and agreed to by the parties.

Related party notes payable

As described in Note 7 of the financial statements, the Company had outstanding notes receivable with related parties totaling \$7,681,094 and \$5,191,735 at December 31, 2017 and 2016, respectively. The interest rates on the notes range from 10-15%.

Georgetown and Cambridge Building Leases

As described in Note 10 of the financial statements, the Company leases the Georgetown and Cambridge buildings from entities that are owned by an owner and a board member of the Company. A management company owned by the two owners of the company provides consulting services to the Company.

SUBSEQUENT TRANSACTIONS

On November 8, 2018 the Company settled a legal dispute regarding the Cambridge Dispensary. The \$1,200,000 legal accrual at December 31, 2017 is adequate to pay the settlement costs and all related legal expenses for this dispute.

On November 13, 2018 the Company was sold to 4Front Holdings LLC (4Front) for approximately \$27,000,000. 4Front acquired 100% of the stock and will continue to operate the cultivation facility and the two dispensaries under the current cannabis licenses. As part of the transaction, all debt to related parties including accrued interest, was repaid.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods.

Significant judgements, estimates and assumptions that have the most significant effect on the amounts recognized in the financial statements are described below.

(i) *Estimated Useful Lives and Depreciation of Property and Equipment (Also see Note 5)*

Depreciation of property and equipment is dependent upon estimates of useful lives which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

(ii) *Biological Assets*

Management is required to make estimates in calculating the fair value of biological assets and harvested cannabis inventory. These estimates include a number of assumptions, such as estimating the stages of growth of the cannabis, harvested costs, sales price and expected yields.

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts payable, other current liabilities, and notes payable to related parties. The carrying values of these financial instruments approximate their fair values as of December 31, 2017 and 2016.

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – Inputs for the asset or liability that are not based on observable market data.

There have been no transfers between fair value levels during the years ending December 31, 2017 and 2016.

Income taxes

For the 2017 tax year, the Company paid federal income tax and Massachusetts state income tax as a for-profit corporation. Tax expense of \$370,545 was recognized in 2017 in the Statement of Operations based on estimated taxes due for the 2017 tax year. No taxes were due for the 2016 tax year.

Deferred tax assets and liabilities and the related deferred income tax expense or recovery, if any, are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs. At December 31, 2017 a deferred income tax liability was recorded for \$277,556. No deferred income tax liability was recorded at December 31, 2016.

As the Company operates in the cannabis industry, it is subject to the limits of IRC Section 280E under which the Company is only allowed to deduct expenses directly related to sales of product. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E.

On December 22, 2017, the Tax Cuts and Jobs Act (“TCJA”) was signed into law. TCJA, among other things, reduced the Federal corporate tax rate from 34% to 21% for tax years beginning after December 31, 2017. As a result of the enacted law, the Company calculated its deferred tax assets and liabilities using the enacted rate under the TCJA.

The Company would recognize any potential accrued interest and penalties related to unrecognized tax benefits within operations as interest or penalty expense, as applicable. The Company had no penalties or interest related to income taxes for periods ended December 31, 2017 and 2016.

CHANGES IN OR ADOPTION OF ACCOUNTING POLICIES

New standards and interpretations issued but not yet adopted

The following IFRS standards have been recently issued by the IASB. The Company is assessing the impact of these new standards on future financial statements. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

(i) *IFRS 7, Financial Instruments: Disclosure*

IFRS 7, Financial Instruments: Disclosure, was amended to require additional disclosures on transition from IAS 39 to IFRS 9. IFRS 7 is effective on adoption of IFRS 9, which is effective for annual periods commencing on or after January 1, 2018. The Company does not expect a significant impact on its financial statements from the adoption of this new standard.

(ii) *IFRS 9, Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9, *Financial Instruments*, which reflects all phases of the financial instruments project and replaces IAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Company was not able to evaluate all impacts of this pronouncement, but will adopt the pronouncement in 2018. The Company does not expect a significant impact on its financial statements from the adoption of this new standard.

(iii) *IFRS 15, Revenue from Contracts with Customers*

The IASB replaced IAS 18, *Revenue*, in its entirety with IFRS 15, *Revenue from Contracts with Customers*. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Company concluded that there should be no significant impact on its financial statements from the adoption of this new standard.

(iv) *IFRS 16, Leases*

In January 2016, the IASB issued IFRS 16, *Leases*, which will replace IAS 17, *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15, *Revenue from Contracts with Customers*, at or before the date of initial adoption of IFRS 16. The extent of the impact of adoption of the standard has not yet been determined.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company is exposed in varying degrees to a variety of financial instruments related risks. The Board mitigates these risks by assessing, monitoring and approving the Company's risk management processes.

(a) Credit Risk

Credit risk is the risk of a potential loss to the Company if a third party or a related party to a financial instrument fails to meet its contractual obligations. The Company maintains cash with federally insured financial institutions. As of December 31, 2017 and 2016, the Company had no exposure for deposits in excess of federally insured limits. The Company has historically not experienced any losses in such accounts.

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its debt. The Company has secured loans from related parties to finance its operations.

(c) Price Risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. The Company monitors cannabis prices and makes adjustments to its cannabis cultivation and production to minimize risk from falling inventory values.

Capital risk management

The Company considers its capital structure to include accumulated deficit, and any other component of members' equity. The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages its capital structure and adjusts it as appropriate given changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, or acquire or dispose of assets. The Company is not subject to externally imposed capital requirements.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes to the Company's capital management approach during the year ended December 31, 2017.

Healthy Pharms, Inc.

MANAGEMENT'S DISCUSSION & ANALYSIS

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018
AND 2017**

MD&A of Healthy Pharms, Inc.

This management discussion and analysis (“**MD&A**”) of the financial condition and results of operations of Healthy Pharms, Inc. (the “Company” or “HPI”) is for the three and nine months ended September 30, 2018 and 2017. It is supplemental to, and should be read in conjunction with, the Company’s unaudited interim condensed financial statements and the accompanying notes for the three and nine months ended September 30, 2018. The Company’s financial statements are prepared in accordance with International Financial Reporting Standards (“**IFRS**”).

This MD&A contains certain “forward-looking statements” and certain “forward-looking information” as defined under applicable United States securities laws and Canadian securities laws. Please refer to the discussion of forward-looking statements and information set out under the heading “Cautionary Note Regarding Forward-Looking Information”, identified in the “Risks and Uncertainties” section of this MD&A. As a result of many factors, the Company’s actual results may differ materially from those anticipated in these forward-looking statements and information.

All references to “\$” are to United States dollars unless otherwise specified.

OVERVIEW OF THE COMPANY

HPI operates a vertically integrated cannabis cultivation facility, a cannabis processing facility, and a cannabis dispensary in Georgetown, Massachusetts. On January 1, 2018 the Company opened a second dispensary in Cambridge, Massachusetts. The Company is licensed by the state of Massachusetts and by the cities of Georgetown and Cambridge to operate these facilities.

On November 13, 2018 the Company was sold to 4Front Holdings LLC (4Front) for approximately \$27,000,000. 4Front acquired 100% of the stock and will continue to operate the cultivation facility and the two dispensaries under the current cannabis licenses. As part of the transaction, all debt to related parties including accrued interest was repaid.

The Company cultivates various strains of cannabis in their Georgetown facility. Once the cannabis is harvested, the flower is either packaged and sold through HPI’s two dispensaries or is converted to cannabis oils. The cannabis oils are either sold to consumers as concentrates or are used by the Company to produce edibles, topicals, or other consumer products. Nearly all of the products sold in the Company’s two dispensaries were grown or manufactured by HPI. The Company occasionally sells cannabis products to other licensed dispensaries in Massachusetts. HPI purchase non-cannabis paraphernalia from third parties to be resold by HPI. The Company has purchased small quantities of specialty cannabis products that were resold in the dispensaries.

Revenue Streams

For the purpose of analysis, HPI includes all three operating divisions – cultivation, processing, and retail – in which it cultivates, manufactures, distributes and sells packaged cannabis products in its own dispensaries and in small quantities to third-party retail customers. All revenue is generated in the state of Massachusetts in the United States of America.

As of the three months ended September 30, 2018, HPI has operating revenue from both its Georgetown and Cambridge dispensaries.

SELECTED FINANCIAL INFORMATION

The following is selected financial data derived from the unaudited financial statements of the Company for the three and nine months ended September 30, 2018 and 2017.

The selected financial information set out below may not be indicative of the Company's future performance:

	As of and for the			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Total Revenue	\$ 1,373,162	\$ 722,418	\$ 2,746,746	\$ 913,566
Cost of Goods Sold	\$ 749,168	\$ 145,814	\$ 1,587,430	\$ (26,941)
Gross Profit	\$ 623,994	\$ 576,604	\$ 1,159,316	\$ 940,507
Total Operating Expenses	\$ 442,806	\$ 165,680	\$ 1,157,517	\$ 288,641
Interest Expense	\$ (295,198)	\$ (242,967)	\$ (826,426)	\$ (578,629)
Total Assets	\$ 7,097,659	\$ 6,936,493	\$ 7,097,659	\$ 6,936,493
Long-Term Liabilities	\$ 9,624,319	\$ 7,519,153	\$ 9,624,319	\$ 7,519,153

Three Months Ended September 30, 2018

Revenue

Revenue for the three months ended September 30, 2018 was \$1,373,162, up 90% from \$722,418 for the three months ended September 30, 2017. The increase was because the Cambridge dispensary opened on January 1, 2018 and because of growing sales at the Georgetown dispensary.

Cost of Goods Sold

Cost of Goods Sold represents the carrying value of goods sold at the Georgetown dispensary and for sales to third party dispensaries. The carrying value is based on the value of the cannabis at harvest that is contained in the product sold, plus the cost to complete the manufacturing of the product. For paraphernalia, the COGS is the purchase price of the product. Cost of Goods Sold to grow and manufacture product increased by \$62,905 for the three months ended September 30, 2018 as compared to the prior year because more product was sold in 2018.

Also included in Cost of Goods Sold is the Gain or Loss on Changes in Fair Value of Biological Assets. This is the difference between the actual cultivation costs of Biological Assets (live cannabis plants) and the estimated sales price of harvested cannabis from the Biological Assets, less cost to complete, and less sales costs. The unfavorable variance of \$540,449 is because cultivation production was halted in early 2018 due to the destruction of plants following an event wherein employees had cleared all marijuana plants out of a room in the cultivation facility to sanitize it with an off-the-shelf pesticide that is commonly used on fruits and vegetables. This inadvertently contaminated a sprayer that was used to sanitize hard surfaces between batches of plants. While neither the sprayer nor the pesticide was applied directly to the plants, testing revealed trace amounts of the pesticide in a batch of plants from the previously sanitized room. No affected product was sold and the batch that tested positive was quarantined and destroyed in compliance with state regulations. This issue was resolved in two months, but the smaller harvests with constant fixed costs resulted in higher costs to harvest each plant. The cost to harvest was higher than the

estimated value of the harvested plants which resulted in a Loss on the Changes in Fair Value of Biological Assets in 2018. In 2017 the Company had lower payroll costs and was able to grow plants for less than their value at harvest, which resulted in a Gain on Changes in Fair Value of Biological Assets.

Gross Profit

Gross profit for the three months ended September 30, 2018 was \$47,390 higher than the prior year. Although sales increased, the cost to cultivate and process cannabis also increased. In 2018, smaller harvests with higher costs reduced Gross Profit as compared to 2017.

Total Operating Expenses

Total operating expenses for the three months ended September 30, 2018 were \$277,126 higher than in 2017. This increase is due to the opening of the Cambridge dispensary in 2018. Expenses in Cambridge for payroll, rent and other costs were not incurred in 2017. The Cambridge dispensary costs are relatively higher than the Georgetown dispensary due to higher payroll and rent relative to sales.

Interest Expense

Interest expense for the three months ended September 30, 2018 was \$52,231 higher than the prior year as debt increased to build out the Cambridge dispensary.

Net Loss Before Income Taxes

Net loss before income taxes was \$114,010 as compared to net income of \$167,957 in 2017. This unfavorable variance is due to higher cultivation costs associated with smaller harvests, and higher sales and marketing costs due to the opening of the Cambridge dispensary.

Income Tax Provision

The income tax provision increased by \$98,711 between 2017 and 2018. This increase is because gross profit excluding the Gain or Loss on Biological Assets increased in 2018. Because the Company is subject to Section 280E of the federal tax code, taxable income is computed on gross profit excluding the Gain or Loss on Biological Assets. The increase in taxable income was partially offset by a decrease in the corporate federal tax rate from 34% in 2017 to 21% in 2018. Section 280E requires entities that sell cannabis to compute income taxes on gross profits (excluding the Gain or Loss on Changes in Fair Value of Biological Assets) since business expenses are not deductible.

Nine Months Ended September 30, 2018

Revenue

Revenue for the nine months ended September 30, 2018 was \$2,746,746, an increase of 201% from \$913,566 for the nine months ended September 30, 2017. This increase is due to the Georgetown dispensary being open seven months in 2018 as compared to five months in 2017. The opening of the Cambridge dispensary on January 1, 2018 also increased sales. Sales were lower than they would otherwise have been due to a suspension in sales for two months beginning in late February 2018 due to the detection of banned pesticides in cannabis that was grown. Once the problem was isolated and additional tests verified that there was no additional contamination, the dispensaries were allowed to sell again.

Cost of Goods Sold

Cost of Goods Sold to grow and manufacture product increased by \$369,942 for the nine months ended September 30, 2018 as compared to the prior year because more product was sold in 2018.

The unfavorable variance of \$1,244,429 in the Gain or Loss on Changes in Fair Value of Biological Assets is because cultivation production was slowed down in 2018 due to a problem with a pesticide being detected in the harvested plants. This issue was resolved in two months, but the smaller harvests with constant fixed costs resulted in higher costs to harvest each plant. The cost to harvest was higher than the estimated value of the harvested plants which resulted in a Loss on the Changes in Fair Value of Biological Assets in 2018. In 2017 the Company had lower payroll costs and was able to grow plants for less than their value at harvest, which resulted in a Gain on Changes in Fair Value of Biological Assets.

Gross Profit

Gross profit for the nine months ended September 30, 2018 was \$1,159,316 as compared to \$940,507 in the prior year. The higher gross profit was due to an increase in sales due to Georgetown being open for seven months in 2018 and only five months in 2017.

Total Operating Expenses

Total operating expenses for nine months ended September 30, 2018 were \$1,157,517, an increase of \$868,876, compared to the nine months ended September 30, 2017. This 301% increase is primarily due to payroll and rent for the Cambridge dispensary, and because the Georgetown dispensary incurred expenses for all nine months in 2018 but only five months in 2017.

Interest Expense

Interest expense increased by \$247,797 for the nine months ended September 30, 2018 because debt increased to finance the two-month suspension of sales during 2018.

Net Income (Loss) Before Income Taxes

Net Income (loss) before income taxes was a loss of \$824,627 in 2018 as compared to income of \$73,237 in 2017. This unfavorable variance was because of losses during the two months that sales were suspended, losses sustained in operating the Cambridge dispensary, an increase in headcount in cultivation, higher interest expense, and higher legal expenses.

Income Tax Provision

The income tax provision increased by \$20,266 because gross profit excluding the Gain or Loss on Changes in Fair Value of Biological Assets increased in 2018 from 2017. The increase in taxable income was partially offset by a decrease in the corporate federal tax rate from 34% in 2017 to 21% in 2018. Because the Company is subject to Section 280E of the federal tax code, income is computed on gross profits excluding the Fair Value adjustment because necessary business expenses are not deductible.

Drivers of Results of Operations

Revenue

The Company derives its revenue from selling packaged cannabis products to patients who are authorized to buy medical cannabis in the state of Massachusetts from their Georgetown and Cambridge dispensaries. Products sold include flower, concentrates, edibles, pre-rolls, and a small amount of non-cannabis paraphernalia. The cannabis sold is cultivated and processed by the Company in the Georgetown facility. The Company focused its production capacity on meeting the needs of its own medical patients. It offered a limited supply of product to meet the needs of other vertically-integrated dispensaries in the state. The Company also has ramped up its production in anticipation of gaining its permits to sell cannabis for recreational adult use at its dispensaries.

Gross Profit

Gross profit is revenue less cost of goods sold. Cost of goods sold includes the costs directly attributable to growing and processing cannabis products and the cost of any non-cannabis products that are purchased for resale. Gain (Loss) on Changes in Fair Value of Biological Assets are also included in gross profit. These Gains or losses are the difference in the fair value of cannabis plants and the cost that was incurred to cultivate the cannabis plants. The gain or loss fluctuates as plant yields fluctuate and costs to cultivate change. Certain overhead costs including rent, depreciation, and utilities that relate to cultivation are capitalized as inventory which is included in COGS for products that are sold.

Over the three months ended September 30, 2018, the Company continued to focus its production capacity on meeting the needs of its own medical patients. It offered a limited supply of product to meet the needs of other vertically-integrated dispensaries in the state. The Company has also ramped up its production in anticipation of gaining its permits to sell cannabis for adult use at its dispensaries.

Total Operating Expenses

Total operating expenses other than the cost of goods sold, consist of costs to operate the two dispensaries including payroll and rent. Corporate overhead including legal expenses are included in Total Operating Expenses. Selling costs generally correlate to revenue. As a percentage of sales, the Company expects selling costs to remain relatively flat as the Company increases sales at the two dispensaries.

Provision for Income Taxes

The Company is subject to Section 280E of the federal tax code that prevents deductions for non-COGS expenses. This results in a higher effective tax rate than if the Company was not subject to 280E. The lowering of the federal corporate income tax rate from 34% in 2017 to 21% in 2018 has partially offset the increase in gross profits in 2018.

Liquidity, Financing Activities During the Period, and Capital Resources

On November 13, 2018, the Company was purchased by 4Front Holdings LLC. One hundred percent of the stock of the Company was purchased and all debt and accrued interest was repaid as part of the purchase. 4Front plans to continue to operate the Company under the current licenses and in their current locations.

Cash Flows

Cash Used in Operating Activities

Net cash used in operating activities was \$674,942 for the nine months ended September 30, 2018, which was higher than the \$590,847 for the nine months ended September 30, 2017. The biggest use of cash in both years was the building up of inventory which was increased to meet the needs of increasing sales.

Cash Flow from Investing Activities

Net cash used in investing activities was for purchases of property and equipment and was \$97,125 for the nine months ended September 30, 2018, as compared to \$534,023 for the nine months ended September 30, 2017. The decrease was because 2017 included the building of the Cambridge dispensary.

Cash Flow from Financing Activities

Net cash provided by financing activities was \$872,302 for the nine months ended September 30, 2018, a decrease of \$514,805 from \$1,387,107 for the nine months ended September 30, 2017. In 2017 the issuance of notes was used to finance the construction of the Cambridge dispensary. In 2018 the issuance of notes was used to finance the two-month suspension of sales.

Off-Balance Sheet Arrangement

As of the date of this filing, the Company does not have any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company, including, and without limitation, such considerations as liquidity and capital resources.

Transactions with Related Parties

At September 30, 2018 and December 31, 2017, amounts due from related parties including accrued interest were \$9,361,996 and \$7,681,094 respectively for loans to finance the construction of the facilities and startup costs. All notes with related parties, including accrued interest, were repaid in full as part of the sale of the Company on November 13, 2018.

The Georgetown building and the Cambridge building are both owned by entities that are owned by a shareholder and an executive of the Company. The Company pays rent per the leases.

A management company owned by the two owners of the Company provided consulting services to the Company. Fees charged for management services were \$2,000 and \$138,140 for 2018 and 2017 respectively.

Completed and Proposed Transactions

On November 13, 2018 the Company was sold to 4Front Holdings LLC. The sale price was \$27 million and was paid in cash, by issue units of 4Front, and by issuing a \$3,500,000 note to the shareholders of the Company. Inventory as of the transaction date will be paid for over a year, with the price contingent of certain conditions. All notes and accrued interest owed by the Company were repaid as part of the sale.

Changes in Accounting Practices

The following IFRS standards have been recently issued by the IASB. The Company is assessing the impact of these new standards on future financial statements. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, *Leases*, which will replace IAS 17, *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15, *Revenue from Contracts with Customers*, at or before the date of initial adoption of IFRS 16. The extent of the impact of adoption of the standard has not yet been determined. However, upon adoption of IFRS 16, the outstanding leases will likely constitute right of use assets with a corresponding lease obligation.

Critical Accounting Estimates

The preparation of financial statements in conformity with IFRS accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods.

Significant judgements, estimates and assumptions that have the most significant effect on the amounts recognized in the financial statements are described below.

I. Estimated Useful Lives and Depreciation of Property and Equipment (Also see Note 5)

Depreciation of property and equipment is dependent upon estimates of useful lives which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

II Biological Assets (Also see Note 4)

Management is required to make estimates in calculating the fair value of biological assets and harvested cannabis inventory. These estimates include a number of assumptions, such as estimating the stages of growth of the cannabis, harvested costs, sales price and expected yields.

Financial Instruments and Financial Risk Management

The Company's financial instruments consist of cash, accounts payable, accrued liabilities, notes payable and accrued interest to related parties. The carrying values of these financial instruments approximate their fair values as of September 30, 2018 and September 30, 2017.

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and

Level 3 – Inputs for the asset or liability that are not based on observable market data.

Financial Risk Management

The Company is exposed in varying degrees to a variety of financial instruments related risks. The Board mitigates these risks by assessing, monitoring and approving the Company's risk management processes.

Credit Risk

Credit risk is the risk of a potential loss to the Company if a third party or a related party to a financial instrument fails to meet its contractual obligations. As of September 30, 2018 and December 31, 2017, the Company has no receivables and no risk of default.

The Company maintains cash with federally insured financial institutions. As of September 30, 2018 and December 31, 2017, the Company did not exceed federally insured limits. The Company has historically not experienced any losses in such accounts.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to raise sufficient capital to settle obligations and liabilities when due.

Price Risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. The Company monitors the retail and wholesale price of cannabis and will adjust their inventory levels if necessary to avoid losses from falling inventory values.