



4FRONT VENTURES CORP.

Formerly 4Front Holdings, LLC

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020 AND 2019 (unaudited)

(EXPRESSED IN THOUSANDS OF US DOLLARS)

4FRONT VENTURES CORP.

Formerly 4Front Holdings, LLC

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4FRONT VENTURES CORP.*Formerly 4Front Holdings, LLC***Condensed Consolidated Interim Statements of Financial Position****As of June 30, 2020 and December 31, 2019 (unaudited)***Amounts expressed in thousands of United States dollars unless otherwise stated*

| | <u>Note</u> | <u>June 30, 2020</u> | <u>December 31, 2019</u> |
|--|-------------|----------------------|--------------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash | | \$ 11,434 | \$ 5,789 |
| Accounts receivable | | 560 | 677 |
| Other receivables | | 261 | 325 |
| Lease receivables | 10 | 10,787 | 9,556 |
| Inventory | 5 | 12,447 | 9,138 |
| Biological assets | 6 | 2,190 | 2,187 |
| Notes receivable | | 1,362 | 1,871 |
| Prepaid expenses | | 1,845 | 2,198 |
| Assets held for sale | 23 | <u>7,336</u> | <u>-</u> |
| Total current assets | | 48,222 | 31,741 |
| Restricted cash | | - | 2,352 |
| Property and equipment, net | 7 | 40,977 | 41,822 |
| Notes receivable | | 520 | 1,049 |
| Lease receivables | 10 | 22,876 | 23,944 |
| Intangible assets, net | 8 | 39,888 | 41,442 |
| Goodwill | 8,9 | 28,854 | 33,988 |
| Right-of-use assets | 10 | 30,991 | 20,476 |
| Investments | | 759 | 759 |
| Deposits | | <u>3,493</u> | <u>6,346</u> |
| TOTAL ASSETS | | <u>\$ 216,580</u> | <u>\$ 203,919</u> |
| LIABILITIES AND EQUITY | | | |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable and accrued expenses | | \$ 6,591 | \$ 8,138 |
| Taxes payable | 22 | 4,198 | 1,609 |
| Lease liability | 10 | 971 | 972 |
| Contingent consideration liability | 17 | 2,100 | 750 |
| Notes payable and accrued interest | 11 | 6,750 | 7,382 |
| Liabilities held for sale | 23 | <u>1,752</u> | <u>-</u> |
| Total current liabilities | | <u>22,362</u> | <u>18,851</u> |
| Convertible notes | 11 | 45,645 | 35,607 |
| Notes payable and accrued interest | 11 | 43,878 | 44,289 |
| Long term notes payable | 11 | 1,978 | 1,903 |
| Long term accounts payable | | 1,600 | 1,600 |
| Contingent consideration liability | 17 | 2,994 | 4,714 |
| Deferred tax liability | | 2,014 | - |
| Lease liability | 10 | <u>31,758</u> | <u>20,976</u> |
| TOTAL LIABILITIES | | <u>152,229</u> | <u>127,940</u> |
| EQUITY | | | |
| Equity attributable to 4Front Ventures Corp. | | 238,995 | 252,656 |
| Reserves | | 34,111 | 25,618 |
| Deficit | | (208,464) | (202,090) |
| Non-controlling interest | 14 | <u>(291)</u> | <u>(205)</u> |
| TOTAL EQUITY | | <u>64,351</u> | <u>75,979</u> |
| TOTAL LIABILITIES AND EQUITY | | <u>\$ 216,580</u> | <u>\$ 203,919</u> |

Nature of Operations (Note 1)**Contingencies (Note 17)****Subsequent Events (Note 24)**

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

4FRONT VENTURES CORP.*Formerly 4Front Holdings, LLC***Condensed Consolidated Interim Statements of Operations and Comprehensive Loss
For the Three and Six Months Ended June 30, 2020 and 2019 (unaudited)***Amounts expressed in thousands of United States dollars unless otherwise stated*

| | Note | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|------|--------------------------------|----------------------------|------------------------------|----------------------------|
| | | 2020 | 2019 (Restated Note 20) | 2020 | 2019 (Restated Note 20) |
| REVENUE | | \$ 12,701 | \$ 2,518 | \$ 25,353 | \$ 4,605 |
| Cost of goods sold, sale of grown and manufactured products | | (5,034) | (1,494) | (7,849) | (2,349) |
| Cost of goods sold, sale of purchased products | | (3,012) | (529) | (4,846) | (676) |
| Gross profit before fair value adjustments | | 4,655 | 495 | 12,658 | 1,580 |
| Realized fair value included in inventory sold | | (436) | (321) | (573) | (112) |
| Unrealized fair value gain on biological assets | 6 | 1,480 | 169 | 1,853 | 495 |
| Gross profit | | 5,699 | 343 | 13,938 | 1,963 |
| OPERATING EXPENSES | | | | | |
| Selling and marketing expenses | | 5,633 | 1,359 | 11,817 | 3,206 |
| General and administrative expenses | 17 | 2,873 | 5,620 | 8,096 | 9,277 |
| Depreciation and amortization | 7,10 | 1,109 | 386 | 2,160 | 706 |
| Equity based compensation | 15 | 1,048 | 459 | 2,275 | 709 |
| Total operating expenses | | 10,663 | 7,824 | 24,348 | 13,898 |
| Loss from Operations | | (4,964) | (7,481) | (10,410) | (11,935) |
| Other Income (Expense) | | | | | |
| Interest income | | 8 | - | 64 | - |
| Interest expense | | (3,685) | (936) | (6,953) | (1,123) |
| Accretion | 16 | 158 | - | 331 | - |
| Gain on sale of subsidiaries | | 9,559 | - | 11,211 | - |
| Gain on restructuring of notes receivable | | 281 | - | 281 | - |
| Other income | | 2,456 | 2,500 | 2,456 | 2,500 |
| Foreign exchange loss | | (55) | - | (18) | - |
| Total Other Income | | 8,722 | 1,564 | 7,372 | 1,377 |
| Net Income (Loss) Before Income Taxes | | 3,758 | (5,917) | (3,038) | (10,558) |
| Income Tax Expense | 22 | (2,179) | (239) | (2,923) | (452) |
| Net Income (Loss) from Continuing Operations | | 1,579 | (6,156) | (5,961) | (11,010) |
| Net Income (Loss) from Discontinued Operations, Net of Taxes | | 127 | (351) | (499) | (950) |
| Net Income (Loss) | | 1,706 | (6,507) | (6,460) | (11,960) |
| Net Loss Attributable to Non-Controlling Interest | | (68) | (24) | (86) | (110) |
| Net Income (Loss) Attributable to Shareholders | | \$ 1,774 | \$ (6,483) | \$ (6,374) | \$ (11,850) |
| Basic and Diluted Loss Per Share | | \$ 0.00 | \$ (0.02) | \$ (0.01) | \$ (0.03) |
| Weighted Average Number of Shares Outstanding, Basic and Diluted | | 506,379,437 | 340,370,271 | 506,379,437 | 340,370,271 |

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

4FRONT VENTURES CORP.

Formerly 4Front Holdings, LLC

Condensed Consolidated Interim Statements of Equity

For the Six Months Ended June 30, 2020 and 2019 (unaudited)

Amounts expressed in thousands of United States dollars unless otherwise stated

| | | Share Capital | | | | | Total 4Front Ventures Corp. | Non- Controlling Interest | Total |
|--|------|----------------|--------------------|-------------------|------------------|---------------------|--------------------------------|---------------------------------|-------------------------|
| | Note | Units | Shares | Amount | Reserves | Deficit | Shareholders' Equity | | Shareholders' Equity |
| Balance, January 1, 2019 | | <u>803,591</u> | <u>-</u> | <u>\$ 68,959</u> | <u>\$ 2,227</u> | <u>\$ (21,487)</u> | <u>\$ 49,699</u> | <u>\$ (1,668)</u> | <u>\$ 48,031</u> |
| Class F units of Holdings for acquisition of PHX | 9 | 5,496 | - | 2,675 | - | - | 2,675 | - | 2,675 |
| Class F units of Holdings for acquisition of Om | | 9,040 | - | 4,400 | - | - | 4,400 | - | 4,400 |
| Class F units of Holdings for acquisition of non-controlling interests | 18 | 11,642 | - | 5,667 | - | - | 5,667 | - | 5,667 |
| Purchase of non-controlling interests | 12 | - | - | (4,937) | - | - | (4,937) | (730) | (5,667) |
| Share-based compensation | 15 | 1,650 | - | - | 709 | - | 709 | - | 709 |
| Net loss | | - | - | - | - | (11,850) | (11,850) | (110) | (11,960) |
| Balance, June 30, 2019 | | <u>831,419</u> | <u>-</u> | <u>\$ 76,764</u> | <u>\$ 2,936</u> | <u>\$ (33,337)</u> | <u>\$ 46,363</u> | <u>\$ (2,508)</u> | <u>\$ 43,855</u> |
| | | | | | | | | | |
| Balance, January 1, 2020 | | <u>-</u> | <u>531,522,819</u> | <u>\$ 252,656</u> | <u>\$ 25,618</u> | <u>\$ (202,090)</u> | <u>\$ 76,184</u> | <u>\$ (205)</u> | <u>\$ 75,979</u> |
| GGP conversion feature and warrants with convertible debt | 16 | - | - | - | 20 | - | 20 | - | 20 |
| Shares issued for Pure Ratios earnout | | - | 223,145 | - | 94 | - | 94 | - | 94 |
| Share-based compensation | 18 | - | - | - | 2,275 | - | 2,275 | - | 2,275 |
| Exchange of stock for convertible swap notes | | - | (29,775,670) | (13,661) | - | - | (13,661) | - | (13,661) |
| Conversion option on notes transferred to equity | | - | - | - | 687 | - | 687 | - | 687 |
| Conversion option on swap notes transferred to equity | | - | - | - | 5,417 | - | 5,417 | - | 5,417 |
| Net loss | | - | - | - | - | (6,374) | (6,374) | (86) | (6,460) |
| Balance, June 30, 2020 | | <u>-</u> | <u>501,970,294</u> | <u>\$ 238,995</u> | <u>\$ 34,111</u> | <u>\$ (208,464)</u> | <u>\$ 64,642</u> | <u>\$ (291)</u> | <u>\$ 64,351</u> |

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

4FRONT VENTURES CORP.*Formerly 4Front Holdings, LLC***Condensed Consolidated Interim Statements of Cash Flows
For the Six Months Ended June 30, 2020 and 2019 (unaudited)***Amounts expressed in thousands of United States dollars unless otherwise stated*

| | Six Months Ended, June 30, | |
|---|-----------------------------------|-----------------|
| | 2020 | 2019 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss attributable to continuing operations | \$ (5,961) | \$ (11,010) |
| Net loss attributable to non-controlling interest | (86) | (110) |
| Adjustments to reconcile change in net loss to net cash used by operating activities: | | |
| Depreciation and amortization | 4,568 | 706 |
| Equity based compensation | 2,275 | 709 |
| Interest accrued - lease receivable | (163) | - |
| Accretion of convertible debentures and interest | (331) | - |
| Change in contingent consideration payable | (370) | - |
| Gain on sale of subsidiaries | (11,211) | - |
| Amortization of lease liability | - | (201) |
| Accrued interest on notes payable | - | 342 |
| Deferred rent | - | (1) |
| Deferred tax liability | - | 127 |
| Changes in operating assets and liabilities (Note 21) | <u>(627)</u> | <u>(1,514)</u> |
| NET CASH USED IN CONTINUED OPERATING ACTIVITIES | (11,906) | (10,952) |
| Net cash provided by (used in) discontinued operating activities (Note 23) | <u>70</u> | <u>(695)</u> |
| NET CASH USED IN OPERATING ACTIVITIES | <u>(11,836)</u> | <u>(11,647)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Long term deposits | 2,745 | - |
| Issuance of notes receivable, net of repayments | - | (1,205) |
| Repayment of notes receivable | 998 | - |
| Proceeds from the sale of Arkansas interests | 2,000 | - |
| Proceeds from the sale of PHX Interactive | 6,000 | - |
| Proceeds from the sale of Mission PA II | 10,247 | - |
| Purchase of PHX, net of cash acquired | - | (3,258) |
| Purchase of Om Medicine | - | (176) |
| Purchases of property and equipment | <u>(6,639)</u> | <u>(6,107)</u> |
| NET CASH PROVIDED BY (USED IN) CONTINUED INVESTING ACTIVITIES | 15,351 | (10,746) |
| Net cash used in discontinued investing activities (Note 23) | <u>(59)</u> | <u>(1,801)</u> |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | <u>15,292</u> | <u>(12,547)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Accrued interest on lease liability | 767 | - |
| Release of restricted cash | 2,352 | - |
| Gain on restructuring note payable | (281) | - |
| Proceeds from related party loan from Cannex | - | 9,887 |
| Proceeds from related party loan from LI Lending | - | 11,606 |
| Issuance of convertible debt | 8,597 | - |
| Repayment of notes payable | <u>(7,694)</u> | <u>(207)</u> |
| NET CASH PROVIDED BY CONTINUED FINANCING ACTIVITIES | 3,741 | 21,286 |
| Net cash provided by discontinued financing activities (Note 23) | <u>-</u> | <u>2,796</u> |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | <u>3,741</u> | <u>24,082</u> |
| NET INCREASE (DECREASE) IN CASH | 7,197 | (112) |
| CASH INCLUDED IN ASSETS HELD FOR SALE | (1,552) | - |
| CASH, BEGINNING OF PERIOD | <u>5,789</u> | <u>1,435</u> |
| CASH, END OF PERIOD | <u>\$ 11,434</u> | <u>\$ 1,323</u> |

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

4FRONT VENTURES CORP.

Formerly 4Front Holdings, LLC

Notes to Consolidated Interim Financial Statements

For the Six Months Ended June 30, 2020 and 2019 (unaudited)

Amounts expressed in thousands of United States dollars unless otherwise stated

1. NATURE OF OPERATIONS

4Front Ventures Corp. (“4Front” or the “Company”) exists pursuant to the provisions of the British Columbia Corporations Act. On July 31, 2019, 4Front Holdings LLC (“Holdings”) completed a Reverse Takeover Transaction (“RTO”) with Cannex Capital Holdings, Inc. (“Cannex”) whereby Holdings acquired Cannex and the shareholders of Holdings became the controlling shareholders of the Company (Note 9). Following the RTO, the Company is listed on the Canadian Securities Exchange (“CSE”) under the ticker “FFNT” and are quoted on the OTC (OTCQX: FFNTF).

As of June 30, 2020, the Company operates 9 dispensaries in Massachusetts, Illinois, Maryland, Michigan, and Arkansas. The Company operates two production facilities in Massachusetts, and one in Illinois.

The Company leases real estate and sells equipment, supplies and intellectual property to cannabis producers in the state of Washington. The Company also owns and operates Pure Ratios (which was acquired by Cannex in June 2019), a CBD-focused wellness company in California, that sells non-THC products throughout the United States.

While marijuana and CBD-infused products are legal under the laws of several U.S. states (with varying restrictions), the United States Federal Controlled Substances Act classifies all “marijuana” as a Schedule I drug, whether for medical or recreational use. Under U.S. 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 safety for the use of the drug under medical supervision.

The Company’s business could be materially and adversely affected by the outbreak of a widespread epidemic or pandemic or other public health crisis, including arising from the novel strain of the coronavirus known as “COVID-19.” This has resulted in significant economic uncertainty and consequently, it is difficult to reliably measure the potential impact of this uncertainty on our future financial results.

The head office address of the Company is 5060 North 40th Street, Suite 120, Phoenix, Arizona, and the registered office is 550 Burrard Street, Suite 2900, Vancouver, British Columbia.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”) and should be read in conjunction with the Company’s audited consolidated financial statements as of and for the year ended December 31, 2019. They do not include all the information required for a complete set of International Financial Reporting Standards (“IFRS”) financial statements. However, selected explanatory notes are included to explain events and transactions deemed significant to provide an understanding of the changes in the Company’s financial position and performance since its most recent annual financial statements. These condensed consolidated interim financial statements were approved and authorized by the Audit Committee on August 26, 2020.

4FRONT VENTURES CORP.

Formerly 4Front Holdings, LLC

Notes to Consolidated Interim Financial Statements

For the Six Months Ended June 30, 2020 and 2019 (unaudited)

Amounts expressed in thousands of United States dollars unless otherwise stated

2. BASIS OF PRESENTATION (CONTINUED)

(b) 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. The condensed consolidated interim financial statements are presented in United States dollars (“\$”) which is the functional currency of 4Front and its subsidiaries. Financial amounts are expressed in United States dollars unless indicated otherwise.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Critical accounting estimates and judgements

The preparation of the Company’s condensed interim consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. Actual results may differ from these 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 revision affects both current and future periods. The significant judgements made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual consolidated financial statements.

(b) New or amended standards adopted effective January 1, 2020

The Company has not adopted any new or amended IFRS standards during the period ended June 30, 2020.

4. CAPITAL MANAGEMENT

The Company’s primary objectives, when managing its capital, are to maintain adequate levels of funding to ensure the Company’s ability to continue as a going concern, support the operations of the Company and to maintain corporate and administrative functions. The Company defines capital as notes payable, 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.

Capital is comprised of the Company’s shareholders’ equity. As of June 30, 2020, the Company’s shareholders’ equity was \$64. There were no changes to the Company’s approach to capital management during the six months ended June 30, 2020. The Company is exposed to certain externally imposed capital requirements, as described in Note 11.

4FRONT VENTURES CORP.

Formerly 4Front Holdings, LLC

Notes to Consolidated Interim Financial Statements

For the Six Months Ended June 30, 2020 and 2019 (unaudited)

Amounts expressed in thousands of United States dollars unless otherwise stated

5. INVENTORY

Raw material is harvested cannabis where the flower has not been removed. Work in process is processed bulk flower and processed cannabis oil. Finished goods are cultivation supplies to be sold to cultivators, purchased and manufactured packaged flower, pre-rolls, vape cartridges, edibles, CBD products, and paraphernalia.

| | June 30, 2020 | December 31, 2019 |
|---------------------------------------|----------------------|--------------------------|
| Raw materials – harvested cannabis | \$ 777 | \$ 659 |
| Raw materials – CBD and ingredients | 84 | 76 |
| Work in process – flower and extract | 8,190 | 6,098 |
| Finished goods – cultivation supplies | 116 | 677 |
| Finished goods – packaged products | 3,280 | 1,628 |
| Total | \$ 12,447 | \$ 9,138 |

6. BIOLOGICAL ASSETS

Biological assets consist of live cannabis plants. For the six months ended June 30, 2020 and the year ended December 31, 2019, the changes in the carrying value of biological assets are shown below.

| | June 30, 2020 | December 31, 2019 |
|--|----------------------|--------------------------|
| Opening balance | \$ 2,187 | \$ 755 |
| Cost to grow harvested and live plants | 7,997 | 7,246 |
| Net change in fair value less costs to sell due to biological transformation | 1,853 | 782 |
| Transferred to inventory upon harvest | (9,847) | (6,596) |
| Total | \$ 2,190 | \$ 2,187 |

The following significant unobservable inputs, all of which are classified as level 3 on the fair value hierarchy, were used by management as part of this model:

- Selling price - calculated as the annual historical selling price for flower sold by the Company, which is expected to approximate future selling prices.
- Percentage of completion - represents the percentage of total expected costs incurred from growing biological assets as of the measurement date.
- Yield per plant - represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each harvested cannabis plant.
- Wastage - represents the weighted average percentage of biological assets which are expected to fail to mature into cannabis plants that can be harvested.
- Post-harvest costs - calculated as the cost per gram of harvested cannabis to complete the product post-harvest, consisting of the cost of direct and indirect materials and labor related to labeling and packaging.

4FRONT VENTURES CORP.*Formerly 4Front Holdings, LLC***Notes to Consolidated Interim Financial Statements****For the Six Months Ended June 30, 2020 and 2019 (unaudited)***Amounts expressed in thousands of United States dollars unless otherwise stated***6. BIOLOGICAL ASSETS (CONTINUED)**

The following table quantifies each significant unobservable input and also provides the impact of a 5% increase/decrease in each input would have on the fair value of biological assets:

| | June 30, 2020 | December 31, 2019 | 5% Change as of 6/30/2020 | 5% Change as of 12/31/2019 |
|--|--------------------------|------------------------------|--|---|
| Average selling price of flower per gram | \$ 6.85 | \$ 6.30 | \$ 110 | \$ 109 |
| Post harvesting costs per gram | \$.59 | \$ 1.75 | \$ 12 | \$ 21 |
| Yield per plant in grams | 158 | 142 | \$ 110 | \$ 109 |
| Percentage of completion | 54% | 65% | \$ 110 | \$ 108 |

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.

Biological assets were on average at a comparable stage of growth in 2020 (54% complete) compared to December 31, 2019 (65% complete). The Company aggregates fair value on a percentage of completion. As a result, a cannabis plant that is 50% through its estimated total grow cycle would be ascribed approximately 50% of its harvest date expected fair value (subject to wastage adjustments).

4FRONT VENTURES CORP.*Formerly 4Front Holdings, LLC***Notes to Consolidated Interim Financial Statements****For the Six Months Ended June 30, 2020 and 2019 (unaudited)***Amounts expressed in thousands of United States dollars unless otherwise stated***7. PROPERTY AND EQUIPMENT**

Property and equipment and related depreciation are summarized in the table below:

| Cost | Buildings | Building Improvements | Furniture, Equipment, and Other | Leasehold Improvements | Total |
|-------------------------------------|------------------|----------------------------------|--|-----------------------------------|--------------|
| Balance, December 31, 2018 | 674 | 2,586 | 2,843 | 14,286 | 20,389 |
| Additions | 7,487 | 1,983 | 4,273 | 9,289 | 23,032 |
| Acquisitions | - | - | 357 | 1,137 | 1,494 |
| Balance, December 31, 2019 | \$ 8,161 | \$ 4,569 | \$ 7,473 | \$ 24,712 | \$ 44,915 |
| Additions | 335 | 225 | 3,771 | 2,048 | 6,379 |
| Disposals | - | - | (283) | (1,458) | (1,741) |
| Transferred to assets held for sale | (362) | (637) | (835) | (2,254) | (4,088) |
| Balance, June 30, 2020 | \$ 8,134 | \$ 4,157 | \$ 10,126 | \$ 23,048 | \$ 45,465 |
| Accumulated Depreciation | | | | | |
| Balance, December 31, 2018 | 12 | 174 | 174 | 180 | 540 |
| Depreciation | 101 | 305 | 763 | 1,384 | 2,553 |
| Balance, December 31, 2019 | 113 | 479 | 937 | 1,564 | 3,093 |
| Depreciation | 126 | 352 | 441 | 476 | 1,395 |
| Balance, June 30, 2020 | \$ 239 | \$ 831 | \$ 1,378 | \$ 2,040 | \$ 4,488 |
| Net book value | | | | | |
| December 31, 2018 | \$ 662 | \$ 2,412 | \$ 2,669 | \$ 14,106 | \$ 19,849 |
| December 31, 2019 | \$ 8,048 | \$ 4,090 | \$ 6,536 | \$ 23,148 | \$ 41,822 |
| June 30, 2020 | \$ 7,895 | \$ 3,326 | \$ 8,748 | \$ 21,008 | \$ 40,977 |

Depreciation of property and equipment is computed using the straight-line method over the asset's estimated useful life. Depreciation expense for the six months ended June 30, 2020 and 2019 was \$958 and \$762 respectively, of which \$483 and \$206 respectively is included in cost of goods sold. Depreciation expense for ROU assets for the six months ended June 30, 2020 and 2019 was \$1,531 and \$392 respectively, of which \$1,132 and \$nil respectively is included in cost of goods sold. Right-of-use assets depreciation is not included in the table above.

4FRONT VENTURES CORP.*Formerly 4Front Holdings, LLC***Notes to Consolidated Interim Financial Statements****For the Six Months Ended June 30, 2020 and 2019 (unaudited)***Amounts expressed in thousands of United States dollars unless otherwise stated***8. INTANGIBLE ASSETS AND GOODWILL**

The net book value of intangible assets including trademarks acquired through the business combination with Cannex at June 30, 2020 and December 31, 2019 are comprised of:

(a) Goodwill

A summary of goodwill is as follows:

| | |
|--|------------------|
| Balance, December 31, 2018 | \$ 6,066 |
| Cannex acquisition (Note 9) | 166,557 |
| Om acquisition (Note 9) | 1,435 |
| PHX/Greens Goddess acquisition (Note 9) | 6,225 |
| Impairment | (146,295) |
| Balance, December 31, 2019 | 33,988 |
| Disposal of PHX/Greens Goddess (Note 23) | (5,134) |
| Balance, June 30, 2020 | \$ 28,854 |

(b) Intangible Assets

| | Licenses | Customer Relationships | Non-Competition Agreements | Trademarks | Know-How | Total |
|-------------------------------------|-----------|------------------------|----------------------------|------------|----------|-----------|
| Balance, December 31, 2018 | \$ 18,741 | \$ 2,827 | \$ 237 | \$ 88 | \$ - | \$ 21,893 |
| Cannex acquisition (Note 9) | - | - | - | 3,900 | 9,700 | 13,600 |
| Om of Medicine acquisition (Note 9) | 7,700 | - | - | - | - | 7,700 |
| Accumulated amortization | - | (580) | (100) | (263) | (808) | (1,751) |
| Balance, December 31, 2019 | \$ 26,441 | \$ 2,247 | \$ 137 | \$ 3,725 | \$ 8,892 | \$ 41,442 |
| Amortization expense | - | (290) | (52) | (1,016) | (196) | (1,554) |
| Balance, June 30, 2020 | \$ 26,441 | \$ 1,957 | \$ 85 | \$ 2,709 | \$ 8,696 | \$ 39,888 |

(c) Impairment of Intangible Assets and Goodwill

On an annual basis, the Company assesses the Company's CGUs for indicators of impairment or when facts or circumstances suggest that the carrying amount may exceed the recoverable amount. Goodwill is tested for impairment annually. For the purpose of impairment testing, goodwill is allocated to the Company's CGUs to which it relates. Goodwill was not tested during the six months ended June 30, 2020 and 2019.

4FRONT VENTURES CORP.

Formerly 4Front Holdings, LLC

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9. ACQUISITIONS AND BUSINESS COMBINATIONS

Cannex Capital Holdings, Inc.

On July 31, 2019, 4Front Holdings LLC (“Holdings”) and Cannex Capital Holdings, Inc. (“Cannex”) completed their business combination and the creation of 4Front Ventures Corp. (“4Front”). The acquisition combines Cannex’s understanding of large-scale cultivation and manufacturing operations with 4Front’s existing asset base and its retail and regulatory capabilities.

The business combination was completed by way of a plan of arrangement agreement under the Business Corporations Act (British Columbia) pursuant to the terms of the business combination agreement among Holdings, Cannex, 4Front and 1196260 B.C. Ltd. dated March 1, 2019, as amended (the “Arrangement Agreement”). Pursuant to the terms of the Arrangement Agreement, the former owners of Holdings exchanged, through a series of transactions, their respective interests in Holdings in exchange for a total of 340.4 million shares in 4Front when calculated as if all share classes were converted to Subordinate Voting Shares.

Holdings has been identified for accounting purposes as the acquirer, and accordingly 4Front is considered a continuation of Holdings and the net assets of Cannex on July 31, 2019, the date of the business combination, are deemed to have been acquired by Holdings.

The Company recorded the acquired balance at fair value as determined by third party valuation firms. The purchase price allocation (PPA) is preliminary and the Company has up to one year to make adjustments to the purchase price allocation. The following table summarizes the preliminary purchase price allocation:

| | |
|---|-------------------|
| Consideration transferred: | |
| Equity issued ⁽¹⁾ | \$ 181,110 |
| Fair value of GGP warrants ⁽²⁾ | 5,779 |
| Replacement warrants ⁽³⁾ | 5,317 |
| Replacement stock options ⁽⁴⁾ | 6,825 |
| Total | \$ 199,031 |

4FRONT VENTURES CORP.*Formerly 4Front Holdings, LLC***Notes to Consolidated Interim Financial Statements****For the Six Months Ended June 30, 2020 and 2019 (unaudited)***Amounts expressed in thousands of United States dollars unless otherwise stated***9. ACQUISITIONS AND BUSINESS COMBINATIONS (CONTINUED)***Cannex Capital Holdings, Inc. (continued)***Fair value of net assets acquired:**

| | | |
|--|-----------|----------------|
| Cash | \$ | 9,119 |
| Accounts receivable | | 1,869 |
| Prepaid expenses | | 352 |
| Inventory | | 527 |
| Property and equipment | | 1,230 |
| Notes receivable | | 2,233 |
| Notes receivable – 4Front ⁽⁵⁾ | | 12,497 |
| Deposits – equipment | | 2,182 |
| Deposits – real estate | | 820 |
| Right-of-use assets | | 15,160 |
| Investments | | 759 |
| Lease receivables | | 33,192 |
| Intangible assets | | 13,600 |
| Goodwill | | 166,557 |
| Accounts payable and accrued liabilities | | (3,042) |
| Notes payable | | (201) |
| Contingent consideration payable – Pure Ratios | | (1,500) |
| Convertible notes | | (39,881) |
| Lease liability | | (16,442) |
| | \$ | 199,031 |

⁽¹⁾ As part of the business combination, 190,482,146 shares were issued to Cannex investors with a value of \$0.95 per share (\$1.25 CAD).

⁽²⁾ On July 31, 2019, 13,521,328 warrants that were held by Gotham Green Partners (the “GGP Warrants”) were replaced with warrants with the same terms in 4Front Ventures Corp, with a fair value of \$5,779.

4FRONT VENTURES CORP.

Formerly 4Front Holdings, LLC

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9. ACQUISITIONS AND BUSINESS COMBINATIONS (CONTINUED)

Cannex Capital Holdings, Inc. (continued)

In determining the fair value of the warrants issued to GGP, the Company used the Black-Scholes option pricing model with the following weighted average assumptions:

| | July 31, 2019 |
|------------------------------------|----------------------|
| Risk-Free Interest Rate | 1.84% |
| Expected Life of Options (years) | 2.31 |
| Expected Annualized Volatility | 89% |
| Expected Forfeiture Rate | nil |
| Expected Dividend Yield | nil |
| Black-Scholes Value of Each Option | \$ 0.43 |

- (3) **On July 31, 2019, 25,251,757 warrants that were held by third parties, were replaced with warrants with the same terms in 4Front Ventures Corp, which had a total fair value of \$5,317 determined using the Black-Scholes valuation model (Note 13). The value of these warrants is recorded as derivative liability, as the exercise price of these warrants are denominated in a foreign currency, Canadian Dollars.**
- (4) On July 31, 2019, 16,346,665 stock options held by Cannex shareholders were replaced with stock options of 4Front. These replacement options had the same terms as the original options. The fair value of the replacement options was \$9,098, determined using the Black-Scholes model. The consideration for the business combination includes \$6,825 for replacement options, relating to past service with the remaining \$2,273 recognized over the vesting period.
- (5) As at July 31, 2019, Cannex had advanced the Company \$12,497. The note is eliminated upon consolidation.

Intangible assets comprise of trademarks with a fair value of \$3,900 and know-how with a fair value of \$9,700. The goodwill of \$166,557 is attributable mainly to the skills and technical expertise of Cannex's work force and the synergies expected to be achieved from integrating Cannex into 4Front's existing Cannabis business. None of the goodwill recognized is expected to be deductible for tax purposes. During the year ended December 31, 2019, the Company recognized an impairment loss of \$131,406 related to the business combination with Cannex.

Acquisition costs of \$2,324, were excluded from the consideration transferred, and were included in general and administrative expenses in the year ended December 31, 2019.

4FRONT VENTURES CORP.

Formerly 4Front Holdings, LLC

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9. ACQUISITIONS AND BUSINESS COMBINATIONS (CONTINUED)

Cannex Capital Holdings, Inc. (continued)

Preliminary Fair Value Estimates

The purchase price allocations for the acquisition, as set forth in the tables above, reflect various preliminary fair value estimates and analyses that are subject to change within the measurement period. The primary areas of the preliminary purchase price allocations relate to the valuation of deferred tax liabilities, intangible assets acquired and residual goodwill. The Company expects to continue to obtain information to assist in determining the fair value of the net assets acquired at the acquisition date during the measurement period. Measurement period adjustments that the Company determines to be material will be applied retrospectively to the period of acquisition in the Company's consolidated financial statements and, depending on the nature of the adjustments, other periods subsequent to the period of acquisition could be affected.

Om of Medicine LLC

On April 15, 2019, the Company acquired 100% of Om of Medicine LLC ("OM of Medicine"), a dispensary in Michigan. The purpose of the acquisition was to expand the Company's presence to Michigan.

The acquisition was accounted for in accordance with IFRS 3, and related operating results are included in the accompanying consolidated statements of operations, changes in equity and statement of cash flows for periods subsequent to the date of acquisition. Goodwill arose because the consideration paid for the business acquisition reflected the benefit of expected revenue growth and future market development. During the fourth quarter of 2019, management performed its annual impairment test and concluded that the carrying value was higher than the recoverable amount and recorded impairment losses of goodwill and intangibles assets of \$2,651.

The transaction was accounted for by the Company as a business combination, with the results included in the Company's net earnings 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 following table summarizes the purchase price allocation:

| | |
|---|-----------------|
| Consideration transferred: | |
| Cash | \$ 227 |
| Contingent consideration ⁽¹⁾ | 3,750 |
| Payables issued ⁽²⁾ | 1,058 |
| Equity paid ⁽³⁾ | 4,400 |
| Total | \$ 9,435 |

Fair value of net assets acquired are continued on the following page:

4FRONT VENTURES CORP.

Formerly 4Front Holdings, LLC

Notes to Consolidated Interim Financial Statements

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9. ACQUISITIONS AND BUSINESS COMBINATIONS (CONTINUED)

Om of Medicine LLC (continued)

Fair value of net assets acquired:

| | | |
|--|----|-------|
| Cash | \$ | 51 |
| Inventory | | 298 |
| Property and equipment | | 192 |
| Right-of-use assets | | 574 |
| Goodwill | | 1,435 |
| Intangible assets | | 7,700 |
| Accounts payable and accrued liabilities | | (161) |
| Notes payable | | (80) |
| Lease liability | | (574) |
| | \$ | 9,435 |

- ⁽¹⁾ Contingent consideration is payable depending on reaching certain future sales targets by Om of Medicine LLC. The Company determined the contingent payments to be \$3,750. See Note 17.
- ⁽²⁾ Consists of \$1,058 held back by the Company to pay future taxes, other expenses or payments to the sellers.
- ⁽³⁾ As part of the business combination, 9,040 Class F shares were issued which were valued at \$4,400.

Acquisition costs of \$29, were excluded from the consideration transferred, and were included in Selling, General and Administrative Expenses in the period in which they were incurred.

PHX Interactive, LLC

On February 22, 2019, the Company completed an acquisition of 100% of PHX Interactive, LLC (“PHX”), an entity that operates Greens Goddess Products, Inc., a cannabis license holder and dispensary operator in Phoenix, Arizona. The purpose of the acquisition was to expand the Company’s operations to Arizona.

The acquisition was accounted for in accordance with IFRS 3, and related operating results are included in the accompanying consolidated statements of operations and comprehensive loss, changes in equity and statement of cash flows for periods subsequent to the date of acquisition. Due to a management agreement between PHX and Greens Goddess, PHX controls Greens Goddess and the Company consolidates both PHX and Greens Goddess from the date of acquisition.

Goodwill arose because the consideration paid for the business acquisition reflected the benefit of expected revenue growth and future market development. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

4FRONT VENTURES CORP.*Formerly 4Front Holdings, LLC***Notes to Consolidated Interim Financial Statements****For the Six Months Ended June 30, 2020 and 2019 (unaudited)***Amounts expressed in thousands of United States dollars unless otherwise stated*

9. ACQUISITIONS AND BUSINESS COMBINATIONS (CONTINUED)*PHX Interactive, LLC (continued)*

The transaction was accounted for by the Company as a business combination, with the results included in the Company's net earnings 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. On March 30, 2020, the Company announced the divesture of PHX and Green Goddess to a third party for cash of \$6,000.

The following table summarizes the purchase price allocation:

| | | |
|---|----|--------------|
| Consideration transferred: | | |
| Cash | \$ | 3,360 |
| Payables issued ⁽¹⁾ | | 305 |
| Equity paid ⁽²⁾ | | 2,675 |
| Total | \$ | 6,340 |
| Fair value of net assets acquired: | | |
| Cash | \$ | 102 |
| Inventory | | 91 |
| Property and equipment | | 72 |
| Deposits | | 2 |
| Goodwill | | 6,225 |
| Accounts payable and accrued liabilities | | (152) |
| | | 6,340 |

⁽¹⁾ Consists of \$305 held back by the Company to pay certain vendor payables.

⁽²⁾ As part of the business combination, 5,496 Class F shares were issued which were valued at \$2,675.

4FRONT VENTURES CORP.*Formerly 4Front Holdings, LLC***Notes to Consolidated Interim Financial Statements****For the Six Months Ended June 30, 2020 and 2019 (unaudited)***Amounts expressed in thousands of United States dollars unless otherwise stated***10. LEASES****(a) The Company as a Lessee**

The Company initially adopted IFRS 16 effective January 1, 2019, whereby the amount recognized as a right-of-use asset was equal to the present value of the future lease payments due under outstanding leases at January 1, 2019. The right-of-use assets are being depreciated on a straight-line basis over the remaining term of the underlying lease as there are no options to acquire or otherwise transfer ownership of the underlying asset to the Company at the end of the lease term. Right of use assets consist of the following:

| | Right of Use, Net | |
|-----------------------------------|--------------------------|---------------|
| Balance, January 1, 2019 | \$ | - |
| Adoption of IFRS 16 | | 5,580 |
| Acquisition | | 15,734 |
| Additions | | 936 |
| Disposals | | (933) |
| Depreciation | | (841) |
| Balance, December 31, 2019 | \$ | 20,476 |
| Additions | | 12,545 |
| Disposals | | (1,356) |
| Depreciation | | (674) |
| Balance, June 30, 2020 | \$ | 30,991 |

The lease obligations consist of the following:

| | June 30, 2020 | December 31, 2019 |
|---------------------------------------|--------------------------|------------------------------|
| Balance, beginning of the year | \$ 21,948 | \$ 87 |
| Adoption of IFRS 16 | - | 5,810 |
| Acquisitions | - | 17,016 |
| Additions | 11,870 | 936 |
| Disposals | (1,474) | (968) |
| Interest | 1,110 | 1,157 |
| Principal payments | (725) | (2,090) |
| Balance, end of the year | \$ 32,729 | \$ 21,948 |
| Less current portion | (971) | (972) |
| Long term lease obligations | \$ 31,758 | \$ 20,976 |

4FRONT VENTURES CORP.*Formerly 4Front Holdings, LLC***Notes to Consolidated Interim Financial Statements****For the Six Months Ended June 30, 2020 and 2019 (unaudited)***Amounts expressed in thousands of United States dollars unless otherwise stated***10. LEASES (CONTINUED)**

Future minimum lease payments (principal and interest) on the leases is as follows:

| | June 30, 2020 | |
|---|----------------------|----------|
| 2020 | \$ | 1,898 |
| 2021 | | 4,800 |
| 2022 | | 4,886 |
| 2023 | | 4,903 |
| 2024 | | 4,812 |
| Thereafter | | 35,845 |
| Total minimum lease payments | \$ | 57,144 |
| Effect of discounting | | (24,415) |
| Present value of minimum lease payments | \$ | 32,729 |
| Current portion lease obligations | | (971) |
| Long term lease obligations | \$ | 31,758 |

The Company has right-of-use assets and lease liabilities for leased real estate for dispensaries, cultivation facilities and office space. The incremental borrowing rate for the Company at January 1, 2019 and through June 30, 2020 was 10.25%.

(a) The Company as a Lessor:

The Company is a landlord for one lease and one sublease for cannabis facilities with two licensed cannabis cultivators in the state of Washington. The Company acquired these leases in the Cannex business combination. The Company owns one of the facilities and leases the other from a third party. The following table summarizes changes in the Company's lease receivables:

| | June 30, 2020 | December 31, 2019 |
|---------------------------------------|--------------------------|------------------------------|
| Balance, beginning of the year | \$ 33,500 | \$ - |
| Acquisitions | - | 33,192 |
| Interest | 5,631 | 4,528 |
| Lease payments received | (5,468) | (4,220) |
| Balance, end of the year | \$ 33,663 | \$ 33,500 |
| Less current portion | (10,787) | (9,556) |
| Long term lease obligations | \$ 22,876 | \$ 23,944 |

4FRONT VENTURES CORP.*Formerly 4Front Holdings, LLC***Notes to Consolidated Interim Financial Statements****For the Six Months Ended June 30, 2020 and 2019 (unaudited)***Amounts expressed in thousands of United States dollars unless otherwise stated***10. LEASES (CONTINUED)**

Future minimum lease payments receivable (principal and interest) on the leases is as follows:

| | As of June 30, 2020 |
|--|----------------------------|
| 2020 | \$ 5,498 |
| 2021 | 11,846 |
| 2022 | 12,725 |
| 2023 | 1,575 |
| 2024 | - |
| Thereafter | - |
| Total minimum lease payments | 31,644 |
| Effect of discounting | (11,182) |
| Present value of minimum lease payments | 20,462 |
| Present value of residual value of leased property | 13,201 |
| Total lease receivable | 33,663 |
| Current portion lease receivable | (10,787) |
| Long term lease receivable | \$ 22,876 |

11. NOTES PAYABLE AND CONVERTIBLE NOTES

The Company's notes payable and convertible notes are as follows:

| | Gotham Green Partners, LLC | LI Lending, LLC | Convertible Notes | Convertible Notes (Swap) | Other Loans | Total |
|-----------------------------------|---------------------------------------|----------------------------|------------------------------|-------------------------------------|------------------------|------------------|
| Balance, December 31, 2018 | \$ - | \$ - | \$ - | \$ - | \$ 9,198 | \$ 9,198 |
| Acquisitions (Note 9) | 39,881 | - | - | - | - | 39,881 |
| Equity component | (4,874) | - | - | - | - | (4,874) |
| Loans advanced, net | - | 44,194 | - | - | 4,145 | 48,339 |
| Loan payments | (953) | - | - | - | (4,058) | (5,011) |
| Accretion income | (337) | - | - | - | - | (337) |
| Accrued interest | 1,890 | 95 | - | - | - | 1,985 |
| Balance, December 31, 2019 | 35,607 | 44,289 | - | - | 9,285 | 89,181 |
| Loans advanced, net | 3,000 | - | 5,827 | - | - | 8,827 |
| Equity exchanged | - | - | - | 13,661 | - | 13,661 |
| Equity component | (20) | - | (992) | (7,490) | - | (8,502) |
| Loan payments | (6,738) | (411) | - | - | (643) | (7,792) |
| Accretion income | (331) | - | - | - | - | (331) |
| Accrued interest | 2,855 | - | 79 | 187 | 86 | 3,207 |
| Balance, June 30, 2020 | \$ 34,373 | \$ 43,878 | \$ 4,914 | \$ 6,358 | \$ 8,728 | \$ 98,251 |

4FRONT VENTURES CORP.*Formerly 4Front Holdings, LLC***Notes to Consolidated Interim Financial Statements****For the Six Months Ended June 30, 2020 and 2019 (unaudited)***Amounts expressed in thousands of United States dollars unless otherwise stated***11. NOTES PAYABLE AND CONVERTIBLE NOTES (CONTINUED)**

| | Gotham Green Partners, LLC | LI Lending, LLC | Convertible Notes | Convertible Notes (Swap) | Other Loans | Total |
|-----------------------------------|---------------------------------------|----------------------------|------------------------------|-------------------------------------|------------------------|--------------|
| Balance, December 31, 2019 | \$ 35,607 | \$ 44,289 | \$ - | \$ - | \$ 9,285 | \$ 89,181 |
| Less: current portion | - | - | - | - | (7,382) | (7,382) |
| Long term portion | 35,607 | 44,289 | - | - | 1,903 | 81,799 |
| Balance, June 30, 2020 | 34,373 | 43,878 | 4,914 | 6,358 | 8,728 | 98,251 |
| Less: current portion | - | - | - | - | (6,750) | (6,750) |
| Long term portion | \$ 34,373 | \$ 43,878 | \$ 4,914 | \$ 6,358 | \$ 1,978 | \$ 91,501 |

Convertible Notes

On May 14, 2020, the company issued \$5,827 in convertible notes to existing investors in the Company. The notes pay interest of 5% per annum and have a maturity date of February 28, 2022. The notes can be converted into Class A Subordinate Voting Shares of the Company for \$0.25 per share at any time at the option of the holder. The Company can require mandatory conversion at any time that the Company's stock price remains above \$0.50 for 45 consecutive days.

As part of issuing the convertible notes, the investors were given the right to exchange stock in the Company into separate convertible notes (swap notes). In total 29,775,670 shares with a value of \$13,661 were exchanged for \$13,661 in convertible notes. These notes were effective May 28, 2020, have a maturity date of May 28, 2025, and can be converted into Class A Subordinate Voting Shares of the Company for \$0.46 per share at any time at the option of the holder. The notes pay no interest if the Company's annual revenue is greater than \$15,000, and 3% annually otherwise. The Company can require mandatory conversion at any time that the Company's stock price remains above \$0.92 for 45 consecutive days.

Gotham Green Partners LLC

Through the Cannex business combination (Note 9), the Company assumed senior secured convertible notes issued to Gotham Green Partners LLC ("GGP"). The convertible loan has a fair value on acquisition of \$39,881 which was determined as the present value of the loan and the fair value of the conversion feature. The fair value of the conversion feature was determined to be \$4,874 based on the acquisition date intrinsic value of the option. Upon acquisition, the Company reclassified the fair value of the conversion feature to equity.

The convertible loans have a principal value of \$33,502 and a maturity date of November 21, 2021. 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. 50% of the interest accrued monthly is payable in cash and 50% of the interest remains outstanding and accrued.

The notes are exchangeable into shares of the Company at \$0.83 per common share. The notes include 7,000,000 warrants to purchase shares for \$1.00 per share, 4,511,279 warrants to purchase in shares for \$1.33 per share, and 2,010,050 to purchase shares for \$1.99 per share.

4FRONT VENTURES CORP.

Formerly 4Front Holdings, LLC

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11. NOTES PAYABLE AND CONVERTIBLE NOTES (CONTINUED)

Gotham Green Partners LLC (continued)

The Company used an independent valuation company to value the notes as of July 31, 2019 using a 10.25% discount rate which management determined was the rate for similar notes with no conversion feature or warrants. During the six months ended June 30, 2020, the Company recorded \$331 in accretion income in relation to the convertible notes.

The Company has financial ratio covenants pertaining to the GGP notes including a fixed charge coverage ratio of above 1:1 and a debt-to-EBITDA ratio below 5:1, with debt calculated as debt less any unrestricted cash. As part of the GGP approval of the business combination with Cannex, the Company's compliance with the financial ratio covenants was suspended until after July 31, 2020.

LI Lending LLC

On May 10, 2019, the Company entered into a loan agreement with LI Lending LLC, a related party, for up to \$50,000. LI Lending LLC is related because an officer of the Company is a part-owner of LI Lending LLC. As at June 30, 2020, the Company had drawn \$44,750 on the loan, with transaction cost of \$806.

The funds advanced under the loan are kept in a bank account that is owned by the Company, however, control can be assumed by the lender in the event of default on the loan. The funds can be used for permitted uses which include the acquisition and development of real estate to be used for cannabis operations.

The loan matures on May 10, 2024 and bears interest at 10.25%. Monthly interest-only payments are required, and all accrued interest was paid through June 30, 2020.

The Company is subject to certain restrictions under the loan agreement, which include the segregation of the proceeds, the use of the funds for permitted uses, and providing security interest on assets acquired with the proceeds. Subsequent to June 30, 2020, the loan was amended. In exchange for consent to allow the sale of the Pennsylvania and Maryland assets and the release of related collateral, the Company has agreed to make prepayments of principal to LI Lending in the amount of \$250 per month for an eight-month period beginning on May 1, 2020. Additionally, the Company agreed to pay an increased interest rate of an additional 2% on the final \$10,000 of the loan until such time as this amount has been paid down. The remaining loan amount will be subject to the original 10.25% interest rate.

4FRONT VENTURES CORP.*Formerly 4Front Holdings, LLC***Notes to Consolidated Interim Financial Statements****For the Six Months Ended June 30, 2020 and 2019 (unaudited)***Amounts expressed in thousands of United States dollars unless otherwise stated***11. NOTES PAYABLE AND CONVERTIBLE NOTES (CONTINUED)***Other*

Outstanding as at June 30, 2020 were short term loans totaling \$6,750 which were assumed in the acquisitions of Healthy Pharms Inc, Om of Medicine LLC and PHX Interactive LLC and through the acquisition of non-controlling interests in three Arkansas entities as follows:

| Subsidiary | Terms | June 30, 2020 | December 31, 2019 |
|--|---|--------------------------|------------------------------|
| Healthy Pharms Inc. | Secured promissory note due November 18, 2020, interest at 15% paid in-kind. | \$ 5,265 | \$ 5,429 |
| Om Medicine, LLC | Unsecured promissory note, principal due upon completion of tax deliverables. | 1,058 | 1,058 |
| PHX Interactive LLC | Unsecured promissory note, principal to be used to pay income taxes. | 427 | 134 |
| Arkansas Entities | Unsecured promissory note, monthly interest payments at 12% per annum | - | 561 |
| Other | Various | - | 200 |
| Total Notes Payable and Convertible Notes | | \$ 6,750 | \$ 7,382 |

At June 30, 2020, the Company had \$1,978 (December 31, 2019 - \$1,903) in long-term notes payable from the acquisition of non-controlling interest in three Arkansas entities (\$1,865), and vehicle loans (\$113).

Future minimum payments on the notes payable and convertible debt is as follows:

| | June 30, 2020 |
|-----------------------------------|----------------------|
| 2020 | \$ 6,750 |
| 2021 | 34,373 |
| 2022 | 7,692 |
| 2023 | - |
| 2024 | 45,000 |
| Thereafter | 13,661 |
| Total minimum payments | 107,476 |
| Effect of discounting | (9,225) |
| Present value of minimum payments | 98,251 |
| Current portion | (6,750) |
| Long term portion | \$ 91,501 |

4FRONT VENTURES CORP.

Formerly 4Front Holdings, LLC

Notes to Consolidated Interim Financial Statements

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12. SHARE CAPITAL AND EQUITY

The Company has authorized an unlimited number of Class A Subordinate Voting Shares (“SVS”), Class B Subordinate Proportionate Voting Shares (“PVS”), and Class C Multiple Voting Shares (“MVS”), all with no par value. All share classes are included within share capital in the consolidated statements of shareholder’s equity on an as converted basis. Each share class is entitled to notice of and to attend at any meeting of the shareholders, except a meeting of which only holders of another particular class of shares will have the right to vote. All share classes are entitled to receive dividends,

as and when declared by the Company, on an as-converted basis, and no dividends will be declared by the Company on any individual class unless the Company simultaneously declares or pays dividends on all share classes. No subdivision or consolidation of any share class shall be made without simultaneously subdividing or consolidating all share classes in the same manner.

Class A Subordinate Voting Shares

Holders of Class A Subordinate Voting Shares are entitled to one vote in respect of each SVS.

Class B Subordinate Proportionate Voting Shares

Holders of Class B Subordinate Proportionate Voting Shares are entitled to one vote in respect of each SVS. Each PVS is convertible into 80 SVS at the holders’ option.

Class C Multiple Voting Shares

Holders of Class C Multiple Voting Shares are entitled to 800 votes in respect of each MVS. One MVS can convert to one SVS but are not convertible until the later of the date that (i) the aggregate number of PVS and MVS held by the Initial Holders (being the MVS holders on their initial issuance) on are reduced to a number which is less than 50% of the aggregate number of PVS and MVS held by the Initial Holders on the date of completion of the Business Combination with Cannex, and (ii) 3 years following the date of the business combination with Cannex.

| Series | Shares outstanding as of June 30, 2020 | As converted to SVS Shares |
|---|---|-----------------------------------|
| Class A – Subordinate Voting Shares | 311,747,469 | 311,747,469 |
| Class B – Proportionate Subordinate Voting Shares | 2,416,947 | 193,355,760 |
| Class C – Multiple Voting Shares | 1,276,208 | 1,276,208 |
| | | 506,379,437 |

4FRONT VENTURES CORP.

Formerly 4Front Holdings, LLC

Notes to Consolidated Interim Financial Statements

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Amounts expressed in thousands of United States dollars unless otherwise stated

13. WARRANTS

As of June 30, 2020, there were share purchase warrants outstanding to purchase up to 19,164,826 SVS shares:

| Series | Number of warrants | Weighted average exercise price |
|----------------------------|--------------------|---------------------------------|
| Balance, December 31, 2019 | 42,186,501 | \$ 1.14 |
| Issued | 2,230,080 | 0.67 |
| Expired | (25,251,757) | - |
| Balance, June 30, 2020 | 19,164,824 | \$ 1.06 |

As of June 30, 2020, the Company has the following warrants outstanding and exercisable.

| Warrants Outstanding | Exercise Price | Expiry Date |
|----------------------|----------------|-------------------|
| 7,000,000 | \$1.00 | November 21, 2021 |
| 4,511,278 | \$1.33 | November 21, 2021 |
| 2,010,050 | \$1.99 | November 21, 2021 |
| 3,413,416 | \$0.53 | October 3, 2020 |
| 2,230,080 | \$0.67 | January 29, 2023 |
| 19,164,824 | | |

14. NON-CONTROLLING INTEREST

The non-controlling interest of the Company for each affiliate are summarized in the following table:

| | Premium Medicine of Maryland | Silver Spring Consulting Group | Mission MA | Illinois Grown Medicine | Chesapeake Integrated Health Institute | Harborside Illinois Grown Medicine | Adroit Consulting Group | Mission Maryland | Other | Total |
|---|------------------------------------|---|---------------|-------------------------------|---|---|-------------------------------|---------------------|--------|------------|
| Balance at December 31, 2018 | \$ (444) | \$ (37) | \$ (663) | \$ (600) | \$ (267) | \$ (212) | \$ 12 | \$ 60 | \$ 483 | \$ (1,668) |
| Purchase of non-controlling interest | - | - | 663 | 600 | 267 | 308 | (12) | (53) | (7) | 1,766 |
| Net income attributable to non-controlling interest | 94 | 182 | - | - | - | (96) | - | (7) | (476) | (303) |
| Balance at December 31, 2019 | \$ (350) | \$ 145 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (205) |
| Net income attributable to non-controlling interest | (66) | (20) | - | - | - | - | - | - | - | (86) |
| Balance at June 30, 2020 | \$ (416) | \$ 125 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (291) |

15. SHARE-BASED COMPENSATION

The Company adopted two equity incentive plans where the Company may grant both Class A and Class B stock options. Under the terms of the plans, the maximum number of stock options which may be granted are a total of ten percent of the number of shares outstanding assuming conversion of all shares to SVS. The exercise price for stock options issued under the plans will be set by the compensation committee of the board of directors but will not be less than 100% of the fair market value of the Company's shares on the grant date. Stock options have a maximum term of 10 years from the date of grant. Stock options vest at the discretion of the Board.

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15. SHARE-BASED COMPENSATION (CONTINUED)

As of June 30, 2020, the Company had the following options outstanding and exercisable on an as-converted basis:

| Grant Date | Strike Price in CAD\$ | Options Outstanding | Exercisable Options | Life Remaining (years) |
|------------------|-----------------------|---------------------|---------------------|------------------------|
| July 31, 2019 | 1.00 | 10,450,000 | 10,450,000 | 2.45 |
| July 31, 2019 | 1.00 | 1,900,000 | 1,900,000 | 3.27 |
| July 31, 2019 | 1.50 | 3,250,000 | 3,250,000 | 3.95 |
| July 31, 2019 | 1.50 | 800,000 | 333,333 | 3.96 |
| July 31, 2019 | 0.10 | 6,355,040 | 6,355,040 | 4.22 |
| August 22, 2019 | 0.80 | 6,657,440 | - | 4.15 |
| August 22, 2019 | 1.00 | 6,150,000 | - | 4.15 |
| November 1, 2019 | 0.80 | 1,200,000 | - | 4.34 |
| November 6, 2019 | 0.80 | 15,040 | - | 4.36 |
| February 3, 2020 | 0.80 | 425,000 | - | 4.60 |
| June 8, 2020 | 0.80 | 25,000 | - | 4.94 |
| | | 37,227,520 | 22,288,373 | 3.63 |

Through June 30, 2020, 4,517,480 stock options were cancelled or forfeited. During the three months ended June 30, 2020 and 2019, the Company recognized share-based compensation of \$1,048 and \$459 respectively. For the similar period during the six months ended 2020 and 2019, the Company recognized share-based compensation of \$2,275 and \$709, respectively.

16. 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 directors. Compensation provided to key management for the six-month period ended June 30, 2020 and 2019 is as follows:

| | June 30, 2020 | June 30, 2019 |
|-----------------------------|---------------|---------------|
| Salaries and benefits | 767 | 869 |
| Share-based compensation | 613 | 110 |
| Key Management Compensation | \$ 1,380 | \$ 979 |

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16. RELATED PARTIES (CONTINUED)

(b) Related party transactions

Certain subsidiaries which were acquired in the business combination with Cannex have contractual relationships with two licensed Washington cannabis producer/processors: Superior Gardens LLC (d/b/a Northwest Cannabis Solutions) (“NWCS”) and 7Point Holdings LLC (“7Point”). The sole owner of NWCS holds a minority interest in the Company and is an executive in the Company. The sole owner of 7Point, holds a minority interest in the Company, and was an executive of the Company as of June 30, 2020.

NWCS and the Company are parties to a commercial gross lease expiring December 31, 2022 with two five-year renewal options. For the six months ended June 30, 2020 the Company recognized \$4,066 from interest revenue on the lease receivable for this lease.

7Point and the Company are parties to a commercial sublease expiring November 30, 2023 with one five-year renewal option. For the six months ended June 30, 2020 the Company recognized \$1,565 from interest revenue on lease receivable for this lease.

The Company has entered into a service agreement with NWCS to provide consulting and personnel services for growing and processing cannabis for \$30 per month and to act as exclusive purchasing agent for equipment, machinery, and other supplies for \$20 per month for a three-year term expiring January 1, 2021 with automatic renewal for additional three-year terms. The Company recognized a total of \$300 for the six months ended June 30, 2020.

NWCS and the Company have 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 expiring January 1, 2021 with automatic renewal for additional three-year periods. The Company recognized total of \$1,124 in revenue for the six months ended June 30, 2020 under the packaging supply agreement.

At June 30, 2020, the Company held three notes receivable from these related parties with a balance of \$467 (2019 - \$nil).

As at June 30, 2020, \$472 (2019 - \$nil) of the Company’s trade receivables were due from NWCS and 7Point (collected subsequent to year end).

An officer of the Company is a part-owner of a LI Lending LLC which extended the Company a real estate improvement/development loan of up to \$50,000 of which \$45,000 was drawn upon as of June 30, 2020.

An officer of the Company holds an interest in an online marketing company serving the online CBD market which provides online marketing services for Pure Ratios. Pure Ratios paid \$2,334 (2019 - \$nil) for the six months ended June 30, 2020 to this vendor for marketing services.

4FRONT VENTURES CORP.*Formerly 4Front Holdings, LLC***Notes to Consolidated Interim Financial Statements****For the Six Months Ended June 30, 2020 and 2019 (unaudited)***Amounts expressed in thousands of United States dollars unless otherwise stated***16. RELATED PARTIES (CONTINUED)**

The Company has issued notes receivable to 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 had \$606 and \$696 in such notes at June 30, 2020 and 2019, respectively.

17. CONTINGENCIES**(a) Cannabis Industry**

Cannabis is still considered a Schedule 1 substance under the Controlled Substance Act. As such, there is an inherent risk related to the federal government's position on cannabis; additionally, the risk exists, due to the Company's business in cannabis, that third party service providers could suspend or withdraw services and as well as the risk that regulatory bodies could impose certain restrictions on the issuer's ability to operate in the U.S.; however, the Company has deemed it not reasonable to estimate a potential liability related to the possible enforcement of laws against the medical cannabis industry.

(b) Contingent consideration payable

As part of the acquisition of Om of Medicine, LLC and Cannex's prior acquisition of Pure Ratios, the Company is subject to contingent consideration payable to the original vendors. The fair value of the contingent consideration, which is based on specific revenue levels achieved over a 2-3 year period, is as follows:

| | Om of Medicine | Pure Ratios | Total |
|-----------------------------------|-----------------------|--------------------|--------------|
| Balance, December 31, 2019 | \$ 3,964 | \$ 1,500 | \$ 5,464 |
| Additions | - | - | - |
| Accretion | 356 | - | 356 |
| Changes in fair value | 774 | (750) | 24 |
| Payments | - | (750) | (750) |
| Balance, June 30, 2020 | \$ 5,094 | \$ - | \$ 5,094 |
| Less: current portion | (2,100) | - | (2,100) |
| Long term portion | \$ 2,994 | \$ - | \$ 2,994 |

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17. CONTINGENCIES (CONTINUED)

The contingent consideration payable is measured at fair value based on unobservable inputs and is considered a Level 3 financial instrument. The determination of the fair value of these liabilities is primarily driven by the Company's expectations of the respective subsidiaries achieving certain milestones. The expected milestones were assigned probabilities and the expected related cash flows were discounted to derive the fair value of the contingent consideration.

- i) *OM of Medicine*: The contingent consideration payable is determined as the amount in excess of gross sales of \$3,400 (for fiscal 2020 and 2021) and \$3,500 (2022) to a maximum payable of \$6,000. At June 30, 2020, the probability of achieving all milestones to Om of Medicine's contingent consideration payable was estimated to be 57%. On June 30, 2020, the probability was increased to 100% and the contingent liability was increased by \$774 and a loss on the fair value adjustment was recorded to Other in Other Income (Expense) on the Consolidated Statements of Operations and Comprehensive Loss.
- ii) *Pure Ratios*: Contingent consideration of \$750 was earned due to CBD sales reaching a milestone, and stock was issued to the seller with a value of \$94. Per an amendment to the agreement, \$656 of the earned consideration was used to reduce the principal of the Accucanna note receivable. As of June 30, 2020, the Company determined that the probability of reaching a separate milestone for THC sales has a 0% probability and the value of the contingent liability was reduced by \$750. A gain on the fair value adjustment was recorded to Other in Other Income (Expense) on the Consolidated Statements of Operations and Comprehensive Loss.

(b) Legal Matters

In June 2020, the Company sold a legal claim on a consulting client to a third party for \$2,480 in cash. The Company recorded a gain of \$2,480 that was recorded to Other in Other Income (Expense) on the Consolidated Statements of Operations and Comprehensive Loss.

From time to time, the Company may be 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. As of June 30, 2020, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations. There are also no proceedings in which any of the Company's directors, officers, or affiliates is an adverse party or has a material interest adverse to the Company's interest.

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18. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company's financial instruments consist of cash, accounts receivable, other receivables, notes receivable, restricted cash, investments, accounts payable and accrued expenses, contingent consideration payable, notes payable, and derivative liabilities. The carrying values of these financial instruments approximate their fair values as of June 30, 2020 and December 31, 2019.

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 | 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). |

The fair value of the Company's cash, accounts receivable, other receivables, accounts payable and accrued expenses approximates carrying value due to their short-term nature. The Company's restricted cash, and investments approximate fair value due to the nature of the instruments. The Company's notes receivable, convertible notes payable, and notes payable approximate fair value due to the instruments bearing market rate of interest.

There were no transfers between fair value levels during the three and six months ended June 30, 2020 and the year ending December 31, 2019.

(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 loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash, lease receivables, other receivables, and notes receivable. The Company's maximum credit risk exposure is equivalent to the carrying value of these instruments.

The risk exposure is limited to the carrying amounts at the statement of financial position date. The risk to cash deposits is mitigated by holding these instruments with regulated financial institutions. Lease receivables, notes receivables and other receivables credit risk arises from the possibility that principal and interest due may become uncollectible. The Company mitigates this risk by managing and monitoring the underlying business relationships.

As of June 30, 2020, the maximum credit exposure related to the carrying amounts of accounts receivable, notes receivable and lease receivable was \$36,366.

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18. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)**(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.

(d) Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's secured convertible notes with GGP (Note 11) bear interest at variable rates and is exposed to interest rate risk. If the LIBOR had increased by 1% during the six months ended June 30, 2020, the Company's net loss would have increased by \$168.

(e) Foreign Exchange Risk

The Company is exposed to exchange rate fluctuations between United States and Canadian dollars. 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 the Company through the exercise of stock options or warrants will be less. The Company also has bank accounts with balances in Canadian dollars. The value of these bank balances if converted to U.S. dollars will fluctuate. 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 Company does not have a practice of trading derivatives and does not engage in "natural hedging" for funds held in Canada. The Company has determined that as at June 30, 2020, the effect of a 10% increase or decrease in the Canadian dollar against the U.S. dollar on financial assets and liabilities would result in an increase or decrease of approximately \$64 to comprehensive loss for the six months ended June 30, 2020.

(f) Other Price Risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. The Company is subject to risk of prices to its products due to competitive or regulatory pressures.

4FRONT VENTURES CORP.*Formerly 4Front Holdings, LLC***Notes to Consolidated Interim Financial Statements****For the Six Months Ended June 30, 2020 and 2019 (unaudited)***Amounts expressed in thousands of United States dollars unless otherwise stated***19. SEGMENT INFORMATION**

Operating segments are components of the Company that combine similar business activities, with activities grouped to facilitate the evaluation of business units and allocation of resources by the Company's board and management. As at June 30, 2020, the Company had five reportable segments:

- Retail - all Company controlled cannabis dispensaries, and consulting fees for assisting third party dispensaries.
- Production - production of cannabis products, and the importing of equipment and supplies for resale.
- Pure Ratios – production and sale of CBD products.
- Real Estate - leasing of cannabis production facilities in the state of Washington.
- Corporate

All of the Company's revenues were earned in the United States and all of the Company's non-financial long-lived assets are located in the United States.

| June 30, 2020 | Retail | Production | Real Estate | Pure Ratios | Corporate | Total |
|-----------------------------------|---------------|-------------------|--------------------|--------------------|------------------|--------------|
| Revenues | \$ 15,866 | \$ 397 | \$ 5,631 | \$ 3,459 | \$ - | \$ 25,353 |
| Depreciation and amortization | \$ 954 | \$ 1,165 | \$ - | \$ 41 | \$ - | \$ 2,160 |
| Interest income | \$ - | \$ - | \$ - | \$ - | \$ 64 | \$ 64 |
| Interest expense | \$ 113 | \$ - | \$ - | \$ 13 | \$ 6,827 | \$ 6,953 |
| Gain on sale of subsidiaries | \$ - | \$ - | \$ - | \$ - | \$ 11,211 | \$ 11,211 |
| Sale of legal claim | \$ - | \$ - | \$ - | \$ - | \$ 2,480 | \$ 2,480 |
| Share based compensation | \$ - | \$ - | \$ - | \$ - | \$ 2,275 | \$ 2,275 |
| Income (loss) before income taxes | \$ 392 | \$ 138 | \$ 5,395 | \$ (1,116) | \$ (7,847) | \$ (3,038) |
| Income taxes | \$ 923 | \$ - | \$ - | \$ - | \$ 2,000 | \$ 2,923 |
| Total assets | \$ 65,860 | \$ 114,166 | \$ 29,901 | \$ 1,987 | \$ 4,666 | \$ 216,580 |

| June 30, 2019 | Retail | Production | Real Estate | Pure Ratios | Corporate | Total |
|-----------------------------------|---------------|-------------------|--------------------|--------------------|------------------|--------------|
| Revenues | \$ 4,489 | \$ 56 | \$ - | \$ - | \$ 60 | \$ 4,605 |
| Depreciation and amortization | \$ 703 | \$ - | \$ - | \$ - | \$ 3 | \$ 706 |
| Interest income | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Interest expense | \$ - | \$ - | \$ - | \$ - | \$ 1,123 | \$ 1,123 |
| Other income | \$ - | \$ - | \$ - | \$ - | \$ 2,500 | \$ 2,500 |
| Share based compensation | \$ - | \$ - | \$ - | \$ - | \$ 709 | \$ 709 |
| Income (loss) before income taxes | \$ (3,354) | \$ 63 | \$ - | \$ - | \$ (7,267) | \$ (10,558) |
| Income taxes | \$ 452 | \$ - | \$ - | \$ - | \$ - | \$ 452 |
| Total assets | \$ 36,674 | \$ 28,424 | \$ - | \$ - | \$ 30,097 | \$ 95,195 |

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20. RESTATEMENT OF 2019 FINANCIAL STATEMENTS

The Company originally concluded that the Company did not control certain entities that own cannabis licenses. The Company held management agreements where it performed management services in exchange for management fees. In preparation of the 2019 year-end financial statements, the Company concluded that by applying IFRS 10, it did have control of these entities upon the execution of the management agreements in 2015 for Mission MA Inc. (“MMA”), in 2017 for Chesapeake Integrated Health Institute, LLC (“CIHI”) and for Premium Medicine of Maryland (“Premium”) and in 2019 for Maryland Alternative Relief LLC.

The correction is being applied to the three and six months ended June 30, 2019 Condensed Consolidated Interim Statements of Operations and Comprehensive Loss and the Condensed Consolidated Interim Statements of Cash Flows in the accompanying financial statements.

This correction includes the reclass adjustments to remove amounts for discontinued operations and to show them as a single line item on the Condensed Consolidated Interim Statements of Operations and Comprehensive Loss and the Condensed Consolidated Interim Statements of Cash Flows. See Note 23.

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The effect of this restatement on the 2019 financial statements are as follows:

| | For the three months ended June 30, 2019 | | |
|--|---|-----------------------------|--------------------|
| Impact on the consolidated statements of operations: | As Previously Reported | Effect of Correction | As Restated |
| REVENUE | <u>\$ 4,321</u> | <u>\$ (1,803)</u> | <u>\$ 2,518</u> |
| Cost of goods sold, sale of grown and manufactured products | (1,122) | (372) | (1,494) |
| Cost of goods sold, sale of purchased products | <u>(1,294)</u> | <u>765</u> | <u>(529)</u> |
| Gross profit before fair value adjustments | 1,905 | (1,410) | 495 |
| Unrealized fair value gain on biological assets | <u>(152)</u> | <u>-</u> | <u>(152)</u> |
| Gross profit | 1,753 | (1,410) | 343 |
| OPERATING EXPENSES | | | |
| Selling and marketing expenses | 2,127 | (768) | 1,359 |
| General and administrative expenses | 5,620 | - | 5,620 |
| Depreciation and amortization | 448 | (62) | 386 |
| Equity based compensation | <u>459</u> | <u>-</u> | <u>459</u> |
| Total operating expenses | <u>8,654</u> | <u>(830)</u> | <u>7,824</u> |
| Loss from Operations | <u>(6,901)</u> | <u>(580)</u> | <u>(7,481)</u> |
| Other Income (Expense) | | | |
| Interest income | 464 | (464) | - |
| Other Income | 2,500 | - | 2,500 |
| Interest expense | <u>(950)</u> | <u>14</u> | <u>(936)</u> |
| Total Other Income (Expense) | <u>2,014</u> | <u>(450)</u> | <u>1,564</u> |
| Net Loss Before Income Taxes | (4,887) | (1,030) | (5,917) |
| Income Tax Expense | <u>(488)</u> | <u>249</u> | <u>(239)</u> |
| Net Loss from Continuing Operations | (5,375) | (781) | (6,156) |
| Net Income from Discontinued Operations, Net of Taxes | <u>-</u> | <u>(351)</u> | <u>(351)</u> |
| Net Loss | (5,375) | (1,132) | (6,507) |
| Net Loss Attributable to Non-Controlling Interest | <u>(86)</u> | <u>62</u> | <u>(24)</u> |
| Net Loss Attributable to Shareholders | <u>\$ (5,289)</u> | <u>\$ (1,194)</u> | <u>\$ (6,483)</u> |

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| | For the six months ended June 30, 2019 | | |
|--|---|-----------------------------|--------------------|
| Impact on the consolidated statements of operations: | As Previously Reported | Effect of Correction | As Restated |
| REVENUE | \$ 7,877 | \$ (3,272) | \$ 4,605 |
| Cost of goods sold, sale of grown and manufactured products | (2,349) | - | (2,349) |
| Cost of goods sold, sale of purchased products | <u>(2,438)</u> | <u>1,762</u> | <u>(676)</u> |
| Gross profit before fair value adjustments | 3,090 | (1,510) | 1,580 |
| Unrealized fair value gain on biological assets | <u>383</u> | <u>-</u> | <u>383</u> |
| Gross profit | 3,473 | (1,510) | 1,963 |
| OPERATING EXPENSES | | | |
| Selling and marketing expenses | 4,374 | (1,168) | 3,206 |
| General and administrative expenses | 8,395 | 882 | 9,277 |
| Depreciation and amortization | 1,402 | (696) | 706 |
| Equity based compensation | <u>709</u> | <u>-</u> | <u>709</u> |
| Total operating expenses | <u>14,880</u> | <u>(982)</u> | <u>13,898</u> |
| Loss from Operations | <u>(11,407)</u> | <u>(528)</u> | <u>(11,935)</u> |
| Other Income (Expense) | | | |
| Interest income | 861 | (861) | - |
| Other Income | 2,500 | - | 2,500 |
| Interest expense | <u>(1,273)</u> | <u>150</u> | <u>(1,123)</u> |
| Total Other Income (Expense) | <u>2,088</u> | <u>(711)</u> | <u>1,377</u> |
| Net Loss Before Income Taxes | (9,319) | (1,239) | (10,558) |
| Income Tax Expense | <u>(989)</u> | <u>537</u> | <u>(452)</u> |
| Net Loss from Continuing Operations | (10,308) | (702) | (11,010) |
| Net Income from Discontinued Operations, Net of Taxes | <u>-</u> | <u>(950)</u> | <u>(950)</u> |
| Net Loss | (10,308) | (1,652) | (11,960) |
| Net Loss Attributable to Non-Controlling Interest | <u>(110)</u> | <u>-</u> | <u>(110)</u> |
| Net Loss Attributable to Shareholders | <u>\$ (10,198)</u> | <u>\$ (1,652)</u> | <u>\$ (11,850)</u> |

4FRONT VENTURES CORP.*Formerly 4Front Holdings, LLC***Notes to Consolidated Interim Financial Statements****For the Six Months Ended June 30, 2020 and 2019 (unaudited)***Amounts expressed in thousands of United States dollars unless otherwise stated***For the six months ended June 30, 2019****Impact on the statement of cash flows:****CASH FLOWS FROM OPERATING ACTIVITIES**

| | As Previously Reported | Effect of Correction | As Restated |
|---|-----------------------------------|---------------------------------|--------------------|
| Net loss attributable to controlling interest | \$ (10,198) | \$ (812) | \$ (11,010) |
| Net loss attributable to non-controlling interest | (110) | - | (110) |
| Adjustments to reconcile change in net loss to net cash used by operating activities: | | | |
| Depreciation and amortization | 1,402 | (696) | 706 |
| Equity based compensation | 709 | - | 709 |
| Accrued interest on notes payable from related parties | (451) | 451 | - |
| Amortization of lease liability | (231) | 30 | (201) |
| Accrued interest on notes payable to related parties | 342 | - | 342 |
| Deferred rent | (1) | - | (1) |
| Deferred tax liability | 127 | - | 127 |
| Changes in operating assets and liabilities | (263) | (1,251) | (1,514) |
| NET CASH USED IN OPERATING ACTIVITIES | <u>(8,674)</u> | <u>(2,278)</u> | <u>(10,952)</u> |
| Net Cash Used in Discontinued Operating Activities | - | (695) | (695) |
| NET CASH USED IN OPERATING ACTIVITIES | <u>(8,674)</u> | <u>(2,973)</u> | <u>(11,647)</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | | | |
|--|-----------------|----------------|-----------------|
| Issuance of notes receivable to related parties | (3,158) | 1,953 | (1,205) |
| Purchase of PHX, net of cash acquired | (3,258) | - | (3,258) |
| Purchase of Om Medicine, net of cash acquired | (176) | - | (176) |
| Purchases of property and equipment | (4,883) | (1,224) | (6,107) |
| NET CASH USED IN CONTINUED INVESTING ACTIVITIES | <u>(11,475)</u> | <u>(124)</u> | <u>(10,746)</u> |
| Net Cash Used in Discontinued Investing Activities | - | (1,801) | (1,801) |
| NET CASH USED IN INVESTING ACTIVITIES | <u>(11,475)</u> | <u>(1,072)</u> | <u>(12,547)</u> |

CASH FLOWS FROM FINANCING ACTIVITIES

| | | | |
|---|---------------|--------------|---------------|
| Proceeds from related party loan | 9,887 | - | 9,887 |
| Proceeds from LI Lending loan, net of restricted cash | 11,606 | - | 11,606 |
| Repayment of Notes Payable | (207) | - | (207) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | <u>21,286</u> | <u>-</u> | <u>21,286</u> |
| Net Cash Used in Discontinued Financing Activities | - | 2,796 | 2,796 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | <u>21,286</u> | <u>2,796</u> | <u>24,082</u> |

NET INCREASE (DECREASE) IN CASH

| | | | |
|----------------------------------|-----------------|-------------------|-----------------|
| CASH, BEGINNING OF PERIOD | <u>1,137</u> | <u>(1,249)</u> | <u>(112)</u> |
| CASH, END OF PERIOD | <u>\$ 2,400</u> | <u>\$ (1,077)</u> | <u>\$ 1,323</u> |

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21. SUPPLEMENTARY CASH FLOW INFORMATION

Changes in non-cash working capital:

| <u>Changes in operating assets and liabilities</u> | <u>June 30, 2020</u> | <u>June 30, 2019</u> |
|--|----------------------|----------------------|
| Accounts receivable | \$ 200 | \$ (153) |
| Other receivables | - | 1,413 |
| Deposits | - | (175) |
| Inventory and biological assets | (4,080) | (2,365) |
| Prepaid expenses | 346 | (240) |
| Accounts payable and accrued liabilities | (16) | 717 |
| Taxes payable | 2,923 | (711) |
| | <u>\$ (627)</u> | <u>\$ (1,514)</u> |

Non-cash activities during the three months ended June 30, 2020 and 2019 were as follows:

| | <u>June 30, 2020</u> | <u>June 30, 2019</u> |
|--|----------------------|----------------------|
| Biological assets transferred to Inventory | \$ 9,847 | \$ 3,692 |

- Cash paid for interest in for six months ended June 30, 2020 and 2019 was \$3,765 and \$190 respectively.
- Cash paid for income taxes for the six months ended June 30, 2020 and 2019 was \$Nil for 2020 and \$975 for 2019.

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22. INCOME TAXES

On July 31, 2019, the Company converted to a C corporation in the province of British Columbia for US tax purposes due to the reverse takeover of Cannex. Prior to July 31, 2019, the Company was classified as a Limited Liability Corporation (“LLC”) for US tax purposes. As such, prior to July 31, 2019, losses generated from operations were passes through to individual members.

The Company’s statutory U.S federal income tax rate is 27.7%. The Company’s provision for income taxes differs from applying the U.S. federal income tax rate to income before taxes primarily due to the effect of IRC Section 280E, state income taxes, certain share-based compensation, interest accretion on debt, and miscellaneous permanent differences.

Internal Revenue Code (“IRC”) Section 280E denies, at the US federal level, deductions and credits attributable to a trade or business trafficking in controlled substances. Because the Company is subject to IRC Section 280E, the Company has computed its US tax based on gross receipts less cost of goods sold. The tax provision for the six months ended June 30, 2020 and the year ended December 31, 2019, have been prepared based on the assumption that cost of goods sold is a valid expense for income tax purposes.

23. DISPOSALS AND DISCONTINUED OPERATIONS

On January 21, 2020, the Company sold two management companies that controlled two Arkansas cannabis licenses to a third party for \$2 million. A gain of \$2 million is included in gain on sale of subsidiaries in the Consolidated Statements of Operations and Comprehensive Loss. The entities sold had no operations through the sale date.

On February 22, 2019, the Company acquired PHX Interactive LLC and control of Greens Goddess Inc., an Arizona cannabis dispensary. On March 20, 2020, the Company completed the divestiture of these entities through a sale to a third party for \$6 million in cash. On December 31, 2019 the Company tested the Greens Goddess goodwill for impairment and based on the sale price, recorded \$1,092 in goodwill impairment. The Company paid a \$348 fee to a lender in exchange for allowing the Company to sell the dispensary. This fee is recorded as a disposal cost and is netted with gains as part of gain on sale of subsidiaries in the Consolidated Statements of Operations and Comprehensive Loss. Revenue and expenses, gains or losses relating to the discontinuation of these operations have been eliminated from the profit or loss from the Company’s continuing operations and are shown as part of a single line item in the interim condensed consolidated statements of operations and comprehensive loss.

During April 2020, the Company contemplated the divesture of non-core assets in Pennsylvania, Maryland, and Arkansas.

On May 7, 2020, the Company completed the sale of the Mission Pennsylvania II LLC dispensary with a third party for \$10.55 million in cash. A gain for this sale is included in gain on sale of subsidiaries in the interim condensed consolidated statements of operations and comprehensive loss. Revenue and expenses, gains or losses relating to the discontinuation of these operations have been eliminated from profit or loss from the Company’s continuing operations and are shown as part of a single line item in the interim condensed consolidated statements of operations and comprehensive loss.

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23. DISPOSALS AND DISCONTINUED OPERATIONS (CONTINUED)

On April 30, 2020, the Company signed an agreement to sell three Maryland dispensaries to the same party that purchased Mission Pennsylvania. A fourth Maryland dispensary is expected to be sold to a non-controlling interest. The Company expects to receive a total of approximately \$7.2 million in cash for these sales which are awaiting approval from the state of Maryland which is expected by the end of the third quarter of 2020. The Company owns three management companies, Adroit Consulting, Old Line State Consulting, Silver Spring Consulting, and one dispensary, Mission Maryland LLC. The three management companies control the following entities with dispensary licenses: Chesapeake Integrated Health Institute, Maryland Alternative Relief LLC, and Premium Medicine of Maryland LLC.

In April 2020, the Company committed to a plan for the sale of Arkansas Natural Products I Management LLC, which controls a dispensary, Arkansas Natural Products I LLC. The Company is negotiating a sale with a non-controlling interest and the sale is expected to close by the end of the third quarter of 2020.

The assets and liabilities allocable to the operations within Maryland and Arkansas are classified as a disposal group. Revenue and expenses, gains and losses relating to the discontinuation of the operations have been eliminated from profit or loss from the Company's continuing operations and are shown as a single line item in the unaudited interim condensed consolidated statements of operations and comprehensive loss. The assets and liabilities are classified as held for sale as a single line item in assets and liabilities of the condensed consolidated interim statements of financial position.

The entities that were sold during six months ended June 30, 2020 and the entities that are part of the Maryland and Arkansas disposal group were part of the Retail segment (Note 19). Below is a summary of the net income or loss from discontinued operations that is shown as a single line item for the three months ended June 30, 2020 and 2019:

| | Three months ended June 30, | |
|---|------------------------------------|-----------------|
| | 2020 | 2019 |
| REVENUE | \$ 4,423 | \$ 2,158 |
| Cost of goods sold, sale of purchased products | <u>(2,791)</u> | <u>(1,273)</u> |
| Gross profit before fair value adjustments | 1,632 | 885 |
| OPERATING EXPENSES | | |
| Selling and marketing expenses | 1,270 | 827 |
| Depreciation and amortization | <u>-</u> | <u>146</u> |
| Total operating expenses | <u>1,270</u> | <u>973</u> |
| Income from Operations | <u>362</u> | <u>(88)</u> |
| Interest expense | <u>(2)</u> | <u>(14)</u> |
| Net Loss Before Income Taxes | <u>360</u> | <u>(102)</u> |
| Income Tax Expense | <u>(233)</u> | <u>(249)</u> |
| Net Income (Loss) After Income Tax Expense | <u>\$ 127</u> | <u>\$ (351)</u> |

4FRONT VENTURES CORP.*Formerly 4Front Holdings, LLC***Notes to Consolidated Interim Financial Statements****For the Six Months Ended June 30, 2020 and 2019 (unaudited)***Amounts expressed in thousands of United States dollars unless otherwise stated***23. DISPOSALS AND DISCONTINUED OPERATIONS (CONTINUED)**

Below is a summary of the net income or loss from discontinued operations that is shown as a single line item for the six months ended June 30, 2020 and 2019:

| | Six months ended June 30, | |
|---|----------------------------------|-----------------|
| | 2020 | 2019 |
| REVENUE | <u>\$ 9,421</u> | <u>\$ 5,088</u> |
| Cost of goods sold, sale of purchased products | <u>(6,107)</u> | <u>(3,096)</u> |
| Gross profit before fair value adjustments | <u>3,314</u> | <u>1,992</u> |
| OPERATING EXPENSES | | |
| Selling and marketing expenses | 3,007 | 2,004 |
| Depreciation and amortization | <u>353</u> | <u>282</u> |
| Total operating expenses | <u>3,360</u> | <u>2,286</u> |
| Income from Operations | <u>(46)</u> | <u>(294)</u> |
| Interest expense | <u>(41)</u> | <u>(106)</u> |
| Net Loss Before Income Taxes | <u>(87)</u> | <u>(400)</u> |
| Income Tax Expense | <u>(412)</u> | <u>(550)</u> |
| Net Income (Loss) After Income Tax Expense | <u>\$ (499)</u> | <u>\$ (950)</u> |

Cash flows generated by the discontinued operations are reported as single line items in each section of the condensed consolidated interim statements of cash flows and are summarized as follows:

| | Six months ended June 30, | |
|--|----------------------------------|-----------------|
| | 2020 | 2019 |
| Net Cash Used in Operating Activities | <u>\$ 70</u> | <u>\$ (695)</u> |
| Net Cash Used in Investing Activities | (59) | (1,801) |
| Net Cash Provided by Financing Activities | <u>-</u> | <u>2,796</u> |
| Cash Flows from Discontinued Operations | <u>\$ 11</u> | <u>\$ 300</u> |

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23. DISPOSALS AND DISCONTINUED OPERATIONS (CONTINUED)

The carrying amounts of assets and liabilities in the disposal group are summarized as follows:

| | <u>June 30, 2020</u> |
|--|-----------------------------|
| Assets | |
| Cash | \$ 1,552 |
| Accounts Receivable | 5 |
| Inventory | 916 |
| Prepaid Expenses | 7 |
| Property and Equipment, Net | 3,536 |
| Right-Of-Use Assets | 1,257 |
| Deposits | <u>63</u> |
| Assets Classified as Held for Sale | <u>\$ 7,336</u> |
| | |
| Liabilities | |
| Accounts Payable | \$ 335 |
| Accrued Expenses and Other Current Liabilities | 58 |
| Lease Liability | <u>1,359</u> |
| Liabilities Classified as Held for Sale | <u>\$ 1,752</u> |

24. SUBSEQUENT EVENTS**(a) Illinois Expansion**

On July 30, 2020, the Company announced that it received its special use permit on July 22, 2020 for an additional retail location in Calumet City, Illinois. The Company has submitted building plans to local officials and expects to break ground in the coming weeks, with the goal of opening its second Illinois retail location in Q4 2020.

(b) Approval for Adult-Use Cannabis Sales

The Company announced on August 4, 2020, that the Massachusetts Cannabis Control Commission (“CCC”) has granted 4Front’s Mission dispensary and cultivation/processing facilities in Georgetown, Massachusetts, authorization to commence adult-use retail and production operations. The location opened for adult-use sales on August 12, 2020.