NOTICE TO READER

4Front Ventures Corp. (the "Company") assessed its status as a "foreign private issuer" and determined that it no longer qualified as a "foreign private issuer" as such term is defined in Rule 405 under the United States Securities Act of 1933. This means that as of January 1, 2021, the Company has been required to comply with all of the periodic disclosure requirements of the Securities Exchange Act of 1934 applicable to U.S. domestic issuers, such as Forms 10-K, 10-Q, and 8-K, rather than the forms the Company has filed with the Securities and Exchange Commission ("SEC") in the past as a foreign private issuer, such as Forms 40-F and 6-K.

Accordingly, the Company is now required to prepare its financial statements filed with the SEC in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). As required pursuant to section 4.3(4) of National Instrument 51-102 – Continuous Disclosure Obligations, the Company must restate its interim financial reports for the fiscal year ended December 31, 2020, in accordance with U.S. GAAP, such interim financial reports having previously been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The attached amended and restated condensed consolidated interim financial statements (the "Financial Statements") for the three months ended March 31, 2020 and March 31, 2019, have been prepared in accordance with U.S. GAAP, are current as of July 14, 2020, 2020, and provide financial information for the three months ended March 31, 2020, as amended, and restated on March 31, 2021. Other than as expressly set forth above, the revised Financial Statements do not, and do not purport to, update, or restate the information in the original condensed interim consolidated financial statements or reflect any events that occurred after the date of the filing of the original condensed consolidated interim financial statements.

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

Under Part 4, subsection 4.3(3)(a) of National Instrument 51-102 – Continuous Disclosure Obligations, if an auditor has not performed a review of the condensed interim financial statements, they must be accompanied by a notice indicating that the condensed interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements of 4Front Ventures Corp. (the "Company") have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these condensed interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

4FRONT VENTURES CORP.

Formerly 4Front Holdings, LLC

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

(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 Balance Sheets (unaudited)
As of March 31, 2020 and December 31, 2019
Amounts expressed in thousands of United States dollars unless otherwise stated

	Note	March 31, 2020	December 31, 2019
ASSETS			
Current assets			
Cash		$ 9,288	$ 5,789
Accounts receivable - related parties		786	677
Other receivables		247	325
Current portion of lease receivables	*9*	11,186	9,556
Inventory, net	*5*	12,600	9,825
Current portion of notes receivable		1,644	1,871
Prepaid expenses		1,919	2,198
Total current assets		37,670	30,241
Restricted cash		—	2,352
Property and equipment, net	*6*	45,091	41,822
Notes receivable and accrued interest from related parties		1,135	1,049
Lease receivables	*9*	22,477	23,944
Intangible assets, net	*7,8*	34,370	35,147
Goodwill	*7,8*	35,149	40,283
Right-of-use assets	*9*	32,832	20,757
Other non-current assets		5,706	7,106
TOTAL ASSETS		$ 214,430	$ 202,701
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Current liabilities			
Accounts payable		$ 6,643	$ 5,866
Accrued expenses and other current liabilities		$ 2,771	3,465
Taxes payable		2,569	1,609
Current portion of convertible notes	*10*	2,495	—
Current portion of lease liability	*9*	1,230	972
Current portion of contingent consideration payable	*16*	750	750
Current portion of notes payable and accrued interest	*10*	7,115	6,190
Total current liabilities		23,573	18,852
Convertible notes	*10*	35,982	35,607
Notes payable and accrued interest from related party	*10*	44,326	44,289
Long term notes payable	*10*	1,941	1,903
Long term accounts payable		1,600	1,600
Contingent consideration payable	*8,16*	4,714	4,714
Deferred tax liability		109	—
Lease liability	*9*	33,288	20,976
TOTAL LIABILITIES		145,533	127,941
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Equity attributable to 4Front Ventures Corp.		252,656	252,656
Reserves		27,537	25,618
Deficit		(211,291)	(203,497)
Total 4Front Ventures Corp. shareholders' equity		68,902	74,777
Non-controlling interest	*13*	(5)	(17)
TOTAL SHAREHOLDERS' EQUITY		68,897	74,760
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 214,430	$ 202,701
Contingencies (Note 16)		***$ —***	

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 (unaudited)
For the Three Months Ended March 31, 2020 and 2019
Amounts expressed in thousands of United States dollars except share amounts

	Note	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
REVENUE			
Revenue from sale of goods		$ 14,053	$ 3,466
Real estate income		$ 2,897	$ —
Total Revenues		16,950	3,466
Cost of goods sold, sale of grown and manufactured products		(2,815)	(1,227)
Cost of goods sold, sale of purchased products		(4,684)	(1,137)
Gross Profit		9,451	1,102
OPERATING EXPENSES			
Selling and marketing expenses		8,092	1,710
General and administrative expenses		5,278	3,891
Equity based compensation	*14*	1,227	459
Depreciation and amortization	*6,7,9*	1,204	652
Total operating expenses		15,801	6,712
Loss from operations		(6,350)	(5,610)
Other Income (Expense)			
Interest income		56	—
Interest expense		(2,136)	(276)
Foreign exchange gain		37	—
Total other income (expense)		(2,043)	(276)
Net loss from continuing operations before income taxes		(8,393)	(5,886)
Income tax expense	*20*	(862)	(470)
Net loss from continuing operations, net of taxes		(9,255)	(6,356)
Net income from discontinued operations, net of taxes		1,473	42
Net loss		(7,782)	(6,314)
Net loss attributable to non-controlling interest		12	86
Net loss attributable to shareholders		$ (7,794)	$ (6,400)
Basic and diluted loss per share		$ (0.01)	$ (0.02)
Weighted average number of shares outstanding, basic and diluted		531,552,819	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 Changes in Shareholders' Equity (unaudited)
For the Three Months Ended March 31, 2020 and 2019
Amounts expressed in thousands of United States dollars unless otherwise stated

	Note	Share Capital Units	Share Capital Shares	Share Capital Amount	Reserves	Deficit	Total 4Front Ventures Corp. Shareholders' Equity	Non-Controlling Interest	Total Equity
Balance, December 31, 2018		803,591	—	$ 68,960	$ 2,227	$ (21,487)	$ 49,700	$ (1,623)	$ 48,077
Class F units of Holdings for acquisition of PHX	8	5,496	—	2,675	—	—	2,675	—	2,675
Class F units of Holdings for acquisition of non-controlling interests	8	4,772	—	2,323	—	—	2,323	—	2,323
Purchase of non-controlling interests		—	—	(1,101)	—	—	(1,101)	(1,222)	(2,323)
Share-based compensation	14	1,067	—	—	459	—	459	—	459
Net loss		—	—	—	—	(6,400)	(6,400)	86	(6,314)
Balance, March 31, 2019		814,926	—	$ 72,857	$ 2,686	$ (27,887)	$ 47,656	$ (2,759)	$ 44,897

	Note	Share Capital Units	Share Capital Shares	Share Capital Amount	Reserves	Deficit	Total 4Front Ventures Corp. Shareholders' Equity	Non-Controlling Interest	Total Equity
Balance, December 31, 2019		—	531,522,819	$ 252,656	$ 25,618	$ (203,497)	$ 74,777	$ (17)	$ 74,760
GGP warrants issued with convertible debt		—	—	—	411	—	411	—	411
Conversion option on GGP notes transferred to equity		—	—	—	281	—	281	—	281
Share-based compensation	14	—	—	—	1,227	—	1,227	—	1,227
Net loss		—	—	—	—	(7,794)	(7,794)	12	(7,782)
Balance, March 31, 2020		—	531,522,819	$ 252,656	$ 27,537	$ (211,291)	$ 68,902	$ (5)	$ 68,897

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 (unaudited)
For the Three Months Ended March 31, 2020 and 2019
Amounts expressed in thousands of United States dollars unless otherwise stated

	Three Months Ended March 31,	
CASH FLOWS FROM OPERATING ACTIVITIES	**2020**	**2019**
Net Loss	$ (7,782)	$ (6,314)
Adjustments to reconcile net loss to net cash used by operating activities		
Depreciation and amortization	2,041	785
Equity based compensation	1,227	459
Accretion of convertible debenture and interest	(173)	—
Accretion of lease liability	604	
Accrued interest - lease receivable	(163)	—
Accrued interest - notes payable	888	203
Deferred taxes	—	157
Deferred rent	—	2
Changes in operating assets and liabilities	(978)	(345)
NET CASH USED IN CONTINUED OPERATING ACTIVITIES	(4,336)	(5,053)
Net cash provided by (used in) discontinued operation activities (Note 21)	212	(60)
NET CASH USED IN OPERATING ACTIVITIES	(4,124)	(5,113)
CASH FLOWS FROM INVESTING ACTIVITIES		
Long term deposits	1,399	—
Issuance of notes receivable, net of repayments	141	(791)
Sale of PHX Interactive	6,000	—
Purchase of PHX Interactive, net cash	—	(3,258)
Purchases of property and equipment	(3,931)	(1,054)
NET CASH PROVIDED BY (USED IN) CONTINUED INVESTING ACTIVITIES	3,609	(5,103)
Net cash used in discontinued investing activities (Note 21)	(32)	—
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	3,577	(5,103)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from related party loan	—	13,000
Notes payable received, net costs	327	—
Issuance of convertible debt	2,810	—
Repayment of notes payable	(1,503)	(280)
NET CASH PROVIDED BY CONTINUED FINANCING ACTIVITIES	1,634	12,720
Net cash provided by discontinued financing activities (Note 21)	60	—
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,694	12,720
NET INCREASE IN CASH AND RESTRICTED CASH	1,147	2,504
CASH AND RESTRICTED CASH, BEGINNING OF PERIOD	8,141	1,435
CASH AND RESTRICTED CASH, END OF PERIOD	$ 9,288	$ 3,939

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

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 8). Following the RTO, the Company is listed on the Canadian Securities Exchange ("CSE") under the ticker "FFNT" and is quoted on the OTC (OTCQX: FFNTF).

As of March 31, 2020, the Company operates 10 dispensaries in Massachusetts, Illinois, Maryland, Michigan, Pennsylvania, 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 is 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

The accompanying unaudited condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information.

In the opinion of management, the financial statements included herein contain all adjustments, including normal recurring adjustments, considered necessary to present fairly the financial position, the results of operations and comprehensive income (loss) and cash flows of the Company for the periods presented in accordance with U.S. GAAP.

The results reported in these condensed consolidated interim financial statements should not be regarded as necessarily indicative of results that may be expected for an entire fiscal year. The policies set out below are consistently applied to all periods presented, unless otherwise noted.

(a) Principles of consolidation

The accompanying condensed consolidated interim financial statements include the accounts of the Company and all entities in which the Company either has a controlling voting interest or is the primary beneficiary of a variable interest entity. All intercompany accounts and transactions have been eliminated on consolidation. Information on the Company's subsidiaries with non-controlling interests is included in Note 13.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

3. SUMMARY OF SIGNICANT ACCOUNTING POLICIES

(a) Critical accounting estimates and judgements

The preparation of the Company's condensed 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 latest annual consolidated financial statements.

(b) Recently Accounting Pronouncements

Recently Adopted

(i) In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02 "Leases (Topic 842)" ("ASU 2016-02"), which requires lessees to record most leases on the balance sheet but recognize expense on the income statement in a manner similar to current accounting. For lessors, ASU 2016-02 also modifies the classification criteria and the accounting for sales-type and direct financing leases. The standard requires a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements and was effective in the first quarter of 2019.

Upon adoption of ASU 2016-02, the Company recorded right-of-use assets of $5,580 and corresponding lease liabilities of $5,897 with the difference of $317 recorded in opening retained earnings. The adoption did not have a material impact on consolidated net earnings or cash flows. See Note 9 for additional information.

(ii) In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments". ASU 2016-13 requires the measurement of current expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Adoption of ASU 2016-13 requires financial institutions and other organizations to use forward-looking information to better formulate their credit loss estimates. In addition, the ASU amends the accounting for credit losses on available for sale debt securities and purchased financial assets with credit deterioration. This update was effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company adopted the provisions of ASU 2016-13 as of January 1, 2020. The adoption did not have a material impact on the Company's condensed consolidated interim financial statements.

(iii) In January 2017, the FASB issued ASU No. 2017-04 "Intangibles— Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment", which simplifies the accounting for goodwill impairment. ASU 2017-04 requires entities to record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value (Step 1 under the current impairment test). The standard eliminates Step 2 from the current goodwill impairment test, which included determining the implied fair value of goodwill and comparing it with the carrying amount of that goodwill. ASU 2017-04 is applied prospectively, and the Company adopted the new standard in the first quarter of 2020. The adoption did not have a material impact on the Company's condensed consolidated interim financial statements.

(iv) In August 2018, the FASB issued ASU 2018-13, "Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820)". ASU 2018-13 adds, modifies, and removes certain fair value measurement disclosure requirements. ASU 2018-13 is effective for annual and interim periods beginning after December 15, 2019. ASU 2018-13 is applied prospectively, and the Company adopted the new standard in the first quarter of 2020. The adoption did not have a material impact on the Company's condensed consolidated interim financial statements.

Accounting Pronouncements Not Yet Adopted

(i) In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income

Amounts expressed in thousands of United States dollars unless otherwise stated

Taxes." The new guidance is intended to simplify the accounting for income taxes by removing certain exceptions and by updating accounting requirements around franchise taxes, goodwill recognized for tax purposes, the allocation of current and deferred tax expense among legal entities, among other minor changes. The ASU is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Early adoption is permitted. The Company is assessing what impact ASU 2019-12 will have on the condensed consolidated interim financial statements.

(ii) In January 2020, the FASB issued ASU 2020-01, "Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815." The amendments in ASU 2020-01 clarify the interaction of the accounting for equity securities under Topic 321 and investments accounted for under the equity method of accounting. The ASU is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Early adoption is permitted. The Company is assessing what impact ASU 2020-01 will have on the condensed consolidated interim financial statements.

(iii) In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." This ASU provides temporary optional expedients for applying GAAP to contract modifications, hedging relationships and other transactions if certain criteria are met in order to ease the potential accounting and financial reporting burden associated with the expected market transaction away from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. The ASU is currently effective and may be applied prospectively at any point through December 31, 2022 at the Company's option. The Company is assessing what impact ASU 2020-04 will have on the condensed consolidated interim financial statements.

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 March 31, 2020, the Company's shareholders' equity was $68,897. There were no changes to the Company's approach to capital management during the three months ended March 31, 2020. The Company is exposed to certain externally imposed capital requirements, as described in Note 10. Compliance with these covenants was suspended by the lender until July 31, 2020.

5. INVENTORY

Raw material consists of unharvested cannabis plants, and materials used to manufacture CBD and cannabis products. Work in process is harvested cannabis, processed cannabis oil, and manufactured products that are not complete. Finished goods are cultivation supplies to be sold to cultivators, purchased, and manufactured packaged flower, pre-rolls, vape cartridges, edibles, CBD products, and paraphernalia.

	March 31, 2020	December 31, 2019
Raw materials – unharvested cannabis	$ 878	$ 687
Raw materials – CBD and ingredients	118	76
Work in process – flower and extract	7,219	6,757
Finished goods – cultivation supplies	149	677
Finished goods – packaged products	4,236	1,628
Total	$ 12,600	$ 9,825

Inventories of purchased finished goods and packing materials are initially valued at cost and subsequently at the lower of cost or net realizable value. Costs incurred during the growing and production process are capitalized as incurred to the extent that cost is less than net realizable value. These costs include materials, labor and manufacturing overhead used in the growing and production processes. During 2020 and 2019, no inventory was pledged as collateral.

Amounts expressed in thousands of United States dollars unless otherwise stated

6. PROPERTY AND EQUIPMENT

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

Cost	**Land**	**Buildings**	**Building Improvements**	**Furniture, Equipment, and Other**	**Leasehold Improvements**	**Total**
Balance, December 31, 2018	50	624	2,586	2,843	14,286	20,389
Additions	1,586	5,901	1,983	4,273	9,289	23,032
Acquisitions	—	—	—	357	1,137	1,494
Balance, December 31, 2019	$ 1,636	$ 6,525	$ 4,569	$ 7,473	$ 24,712	$ 44,915
Additions	—	335	225	2,119	1,568	4,247
Disposals	—	—	—	(55)	(229)	(284)
Balance, March 31, 2020	$ 1,636	$ 6,860	$ 4,794	$ 9,537	$ 26,051	$ 48,878
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	—	109	101	332	152	694
Balance, March 31, 2020	—	$ 222	$ 580	$ 1,269	$ 1,716	$ 3,787
Net Book Value						
December 31, 2018	$ 50	$ 612	$ 2,412	$ 2,669	$ 14,106	$ 19,849
December 31, 2019	$ 1,636	$ 6,412	$ 4,090	$ 6,536	$ 23,148	$ 41,822
March 31, 2020	$ 1,636	$ 6,638	$ 4,214	$ 8,268	$ 24,335	$ 45,091

Depreciation expense for the three months ended March 31, 2020 and 2019 was $694 and $370, respectively. ROU assets and depreciation are not included in the table above. Depreciation of $492 and $122 was included in cost of goods sold for the three months ended March 31, 2020 and 2019, respectively.

Amounts expressed in thousands of United States dollars unless otherwise stated

7. GOODWILL AND INTANGIBLE ASSETS

(a) Goodwill

A summary of goodwill is as follows:

Balance, December 31, 2018	$	6,066
Cannex acquisition (Note 8)		166,557
Om acquisition (Note 8)		1,435
PHX/Greens Goddess acquisition (Note 8)		6,225
Impairment of PHX/Greens Goddess goodwill		(1,091)
Impairment of continuing operations goodwill		(138,909)
Balance, December 31, 2019	$	40,283
Disposal of PHX/Greens Goddess (Note 21)		(5,134)
Balance, March 31, 2020	$	35,149

(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 8)	—	—	—	3,900	9,700	13,600
Om of Medicine acquisition (Note 8)	7,700	—	—	—	—	7,700
Accumulated amortization	—	(580)	(100)	(263)	(808)	(1,751)
Impairment	(6,295)	—	—	—	—	(6,295)
Balance, December 31, 2019	$ 20,146	$ 2,247	$ 137	$ 3,725	$ 8,892	$ 35,147
Amortization expense	—	(145)	(26)	(508)	(98)	(777)
Balance, March 31, 2020	$ 20,146	$ 2,102	$ 111	$ 3,217	$ 8,794	$ 34,370

(c) Impairment of Intangible Assets and Goodwill

On an annual basis, the Company assesses the Company's Reporting Unit's ("RUs") for indicators of impairment or when facts or circumstances suggest that it is more likely than not that the carrying amount may exceed the recoverable amount. For the purpose of impairment testing, goodwill is allocated to the Company's RUs to which it relates.

Goodwill was not tested during the three months ended March 31, 2020 and 2019.

8. 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 operationswith 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.

Amounts expressed in thousands of United States dollars unless otherwise stated

The Company recorded the acquired balance at fair value as determined by third party valuation firms. The purchase price allocation calculation is preliminary, and the Company has up to one year to make adjustments. 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
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.

Amounts expressed in thousands of United States dollars unless otherwise stated

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 12). 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 of July 31, 2019, Cannex had advanced the Company $12,497. The note was 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 workforce 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 Selling, General and Administrative Expenses in the year ended December 31, 2019.

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 ASC 805, 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.

Amounts expressed in thousands of United States dollars unless otherwise stated

Om of Medicine LLC (continued)

The following table summarizes the preliminary 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:		
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 16.
(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 ASC 805, 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.

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.

Amounts expressed in thousands of United States dollars unless otherwise stated

PHX Interactive, LLC (continued)

The following table summarizes the preliminary 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.

On March 30, 2020, the Company announced the divesture of PHX and Green Goddess to a third party for cash of $6,000.

Preliminary Fair Value Estimates

The purchase price allocations for the acquisitions, 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 reflected in the current period in the Company's consolidated financial statements and, depending on the nature of the adjustments, with disclosure on the effects of the adjustment on prior periods.

9. LEASES

(a) The Company as a Lessee

The Company initially adopted ASC 842 – Leases effective January 1, 2019. Upon adoption of ASU 2016-02, Right of Use ("ROU") assets were adjusted for deferred rent and prepaids as of January 1, 2019. Lease expense is recognized on a straight-line basis over the expected lease term. The Company's incremental borrowing rate is used in determining the present value of future payments at the commencement date of the lease, or for the adoption of ASU 2016-02, on January 1, 2019. Balances related to operating leases are included in ROU assets and noncurrent lease liabilities on the consolidated balance sheet.

The Company primarily leases office and production facilities, warehouses, production equipment and vehicles. The Company assesses service arrangements to determine if an asset is explicitly or implicitly specified in the agreement and if we have the right to control the use of the identified asset.

The right-of-use asset is initially measured at cost, which is primarily comprised of the initial amount of the lease liability, plus initial direct costs, and lease payments at or before the lease commencement date, less any lease incentives received, and is amortized on a straight-line basis over the remaining lease term. All right-of-use assets are reviewed periodically for impairment. The lease liability is initially measured at the present value of lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. We elected to recognize expenses for leases with a term of 12 months or less on a straight-line basis over the lease term and not to recognize these short-term leases on the balance sheet. Leases have varying terms with remaining lease terms of up to approximately 30 years. Certain of our lease arrangements provide us with the option to extend or to terminate the lease early.

Amounts expressed in thousands of United States dollars unless otherwise stated

Lease payments included in the measurement of the lease liability comprise (a) fixed payments, including in substance fixed payments; (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; (c) amounts expected to be payable under a residual value guarantee; and (d) the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

At inception or reassessment of a contract that contains lease and non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

Right of use assets consist of the following:

	Right of Use
Balance, January 1, 2019	**$ —**
Adoption of ASC 842	5,580
Acquisition	15,734
Additions	936
Disposals	(933)
Depreciation	(560)
Balance, December 31, 2019	**$ 20,757**
Additions	12,645
Depreciation	(570)
Balance, March 31, 2020	**$ 32,832**

The lease obligations consist of the following:

	March 31, 2020	December 31, 2019
Balance, beginning of the year	**$ 21,948**	**$ 87**
Adoption of ASC 842	—	5,810
Acquisitions	—	17,016
Additions	11,966	936
Disposals	—	(968)
Interest	860	1,157
Principal payments	(256)	(2,090)
Balance, end of the period	**$ 34,518**	**$ 21,948**
Less current portion	**(1,230)**	**(972)**
Long term lease obligations	**$ 33,288**	**$ 20,976**

Amounts expressed in thousands of United States dollars unless otherwise stated

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

	March 31, 2020
2020	$ 4,234
2021	5,038
2022	5,111
2023	5,000
2024	4,841
Thereafter	34,699
Total minimum lease payments	$ 58,923
Effect of discounting	(24,405)
Present value of minimum lease payments	$ 34,518
Current portion lease obligations	(1,230)
Long term lease obligations	$ 33,288

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 on January 1, 2019 through March 31, 2020 was 10.25%.

(b) 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:

	March 31, 2020	December 31, 2019
Balance, beginning of the year	**$ 33,500**	**$ —**
Acquisitions	—	33,192
Interest	2,897	4,528
Lease payments received	(2,734)	(4,220)
Balance, end of the period	**$ 33,663**	**$ 33,500**
Less current portion	**(11,186)**	**(9,556)**
Long term lease receivables	**$ 22,477**	**$ 23,944**

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

	As of March 31, 2020
2020	$ 8,232
2021	11,846
2022	12,725
2023	1,575
2024	—
Thereafter	—
Total minimum lease payments	$ 34,378
Effect of discounting	(715)
Present value of minimum lease payments	$ 33,663
Current portion lease receivable	(11,186)
Long term lease receivable	$ 22,477

Amounts expressed in thousands of United States dollars unless otherwise stated

10. NOTES PAYABLE AND CONVERTIBLE NOTES

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

	Gotham Green Partners, LLC	LI Lending, LLC	Other Loans	Total
Balance, December 31, 2018	**$ —**	**$ —**	**$ 9,198**	**$ 9,198**
Acquisitions (Note 8)	39,881	—	—	39,881
Equity component	(4,874)	—	—	(4,874)
Loans advanced, net	—	44,194	2,953	47,147
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**	**$ 8,093**	**$ 87,989**
Loans advanced, net	2,890	—	1,192	4,082
Equity component	(411)	—		(411)
Loan payments	—	—	(516)	(516)
Accretion income	(173)	—	—	(173)
Accrued interest	564	37	287	888
Balance, March 31, 2020	**$ 38,477**	**$ 44,326**	**$ 9,056**	**$ 91,859**

	Gotham Green Partners, LLC	LI Lending, LLC	Other Loans	Total
Balance, December 31, 2019	$ 35,607	$ 44,289	$ 8,093	$ 87,989
Less current portion	—	—	(6,190)	(6,190)
Long term portion	35,607	44,289	1,903	81,799
Balance, March 31, 2020	38,477	44,326	9,056	91,859
Less current portion	(2,495)	—	(7,115)	(9,610)
Long term portion	$ 35,982	$ 44,326	$ 1,941	$ 82,249

Gotham Green Partners LLC

Through the Cannex business combination (Note 8), 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.

The Company used an independent valuation company to value the notes as of July 31, 2019 using 10.25%, discount rate which management determined was the rate for similar notes with no conversion feature or warrants. During the three months ended March 31, 2020, the Company recorded $173 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.

Amounts expressed in thousands of United States dollars unless otherwise stated

On January 29, 2020, the Company issued convertible secured promissory notes for a total of $3,000 to entities associated with GGP. These notes were due on July 29, 2020 and accrued interest at 15% per annum with no payments due until the maturity date. The notes were convertible at the option of the holder into the Company's stock for the equivalent of $0.64675 per share. The notes were issued with detachable stock warrants that gave the holders of the notes the option to purchase 2,230,080 shares of the Company's stock for $0.672625 per share. The notes were repaid in full in May 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 by virtue of an officer of the Company being a part- owner of LI Lending LLC. As at March 31, 2020, the Company had drawn $45,000 on the loan, with transaction cost of $806.

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 March 31, 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 March 31, 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.

Other

Outstanding as at March 31, 2020 were term loans totaling $9,056 which were assumed in 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	March 31, 2020	December 31, 2019
Healthy Pharms Inc.	Secured promissory note originally due November 13, 2019, renegotiated subsequent to March 31, 2020. No interest on the note.	$ 5,429	$ 5,429
Om Medicine, LLC	Unsecured promissory note, principal due upon completion of tax deliverables.	1,058	—
PHX Interactive LLC	Unsecured promissory note, principal due upon completion of tax deliverables.	427	—
Arkansas Entities	Unsecured promissory note, monthly interest payments at 12% per annum	1,730	1,730
Arkansas Entities	Unsecured promissory note, monthly interest payments at 12% per annum	—	561
Other	Various	412	373
Total Notes Payable and Convertible Notes		$ 9,056	$ 8,093

At March 31, 2020, the Company had $1,941 (December 31, 2019 - $1,903) in long-term notes payable from the acquisition of non-controlling interest in three Arkansas entities ($1,822), and vehicle and other loans ($119).

Amounts expressed in thousands of United States dollars unless otherwise stated

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

	March 31, 2020
2020	$ 9,610
2021	38,141
2022	1,941
2023	—
2024	53,191
Thereafter	—
Total minimum payments	102,883
Effect of discounting	(11,024)
Present value of minimum payments	91,859
Current portion	(9,610)
Long term portion	$ 82,249

11. 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 consolidatedstatements 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 holder's option.

Class C Multiple Voting Shares

Holders of Class C Multiple Voting Shares are entitled to 800 votes in respect of each MVS. One MVScan 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 March 31, 2020	As converted to SVS Shares
Class A – Subordinate Voting Shares	223,190,932	223,190,932
Class B – Proportionate Subordinate Voting Shares	3,838,181	307,054,480
Class C – Multiple Voting Shares	1,276,208	1,276,208
	228,305,321	531,521,620

12. WARRANTS

As of March 31, 2020, there were share purchase warrants outstanding to purchase up to 19,164,826 SVS shares:

Amounts expressed in thousands of United States dollars unless otherwise stated

Series	Number of warrants	Weighted average exercise price
Balance, December 31, 2019	42,186,503	$ 1.14
Issued	2,230,080	0.67
Expired	(25,251,757)	—
Balance, March 31, 2020	19,164,826	$ 1.06

As of March 31, 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
3,413,418	$ 0.53	October 3, 2020
2,230,080	$ 0.67	January 29, 2023
19,164,826		

13. NON-CONTROLLING INTEREST

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

	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	MMA Capital	Other	Total
Balance at December 31, 2018	$ (444)	$ (37)	$ (663)	$ (600)	$ (267)	$ (212)	$ 12	$ 60	$ 45	$ 483	$ (1,623)
Purchase of non-controlling interest	—	—	663	600	267	308	(12)	(53)	(52)	(7)	1,714
Net income attributable to non-controlling interest	94	182	—	—	—	(96)	—	(7)	195	(476)	(108)
Balance at December 31, 2019	$ (350)	$ 145	$ —	$ —	$ —	$ —	$ —	$ —	$ 188	$ —	$ (17)
Net income attributable to non-controlling interest	(8)	(10)	—	—	—	—	—	—	30	—	12
Balance at March 31, 2020	$ (358)	$ 135	$ —	$ —	$ —	$ —	$ —	$ —	$ 218	$ —	$ (5)

Amounts expressed in thousands of United States dollars unless otherwise stated

14. 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.

As of March 31, 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	2.70
July 31, 2019	1.00	1,975,000	908,332	3.52
July 31, 2019	1.50	3,121,666	1,110,000	4.20
July 31, 2019	1.50	800,000	166,667	4.21
July 31, 2019	0.10	6,791,760	6,791,760	4.47
August 22, 2019	0.80	7,491,640	1,108,080	4.40
August 22, 2019	1.00	5,650,000	—	4.40
November 1, 2019	0.80	1,200,000	—	4.59
November 6, 2019	0.80	15,040	—	4.61
February 3, 2020	0.80	425,000	25,000	4.85
		37,920,106	20,559,839	3.89

Through March 31, 2020, 2,038,360 stock options were cancelled or forfeited.

During the three months ended March 31, 2020, the Company recognized share-based compensation of $1,227 (2019 - $459).

15. RELATED PARTIES

Key management personnel compensation

Key management personnel are those persons having the authority and responsibility for planning, directing, and controlling activities of the entity, directly or indirectly. The key management personnel of the Company are the members of the Company's executive management team and board of directors. Compensation provided to key management for the three months ended March 31, 2020 and 2019 is as follows:

	March 31, 2020	March 31, 2019
Salaries and benefits	$ 457	$ 345
Share-based compensation	421	72
	$ 878	$ 417

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 is an executive of the Company.

NWCS and the Company are parties to a commercial gross lease expiring December 31, 2022 with two five-year renewal options. For the three months ended March 31, 2020 the Company recognized $2,142 from interest revenue on 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 three months ended March 31, 2020 the Company recognized $755 from interest revenue on lease receivable for this lease.

Amounts expressed in thousands of United States dollars unless otherwise stated

The Company has entered into a service agreement with NWCS to provide consulting and personnel services for growing and processing 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 $150 for the three months ended March 31, 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 a total of $323 in revenue for the three months ended March 31, 2020 under the packaging supply agreement.

As at March 31, 2020, the Company held two notes receivable from these related parties with a balance of $529 (2019 -$nil).

As at March 31, 2020, $529 (2019 - $nil) of the Company's trade receivables were due from NWCSand 7Point (collected subsequent to period 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 March 31, 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 $1,237 (2019 - $nil) for the three months ended March 31, 2020 to this vendor for marketing services.

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 March 31, 2020 and 2019, respectively.

16. 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	—	—	—
Balance, March 31, 2020	$ 3,964	$ 1,500	$ 5,464

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 March 31, 2020, the likelihood of the milestones being achieved is probable, and the amount provided for has been reasonably estimated. If the probabilities of achieving the milestones decreased by 5%, the estimated fair value of the contingent consideration would decrease by approximately $700.

ii) *Pure Ratios*: The contingent consideration payable of $750 in SVS of the Company is due upon gross sales exceeding $600 for three consecutive months during the year ended December 31, 2020. At March 31, 2020, the probability of achieving all milestones pertaining to Pure Ratios' contingent consideration payable was estimated to be 100%.

(c) Legal Matters

From time to time, the Company may be involved in certain disputes arising in the ordinary courseof business. Such disputes, taken in the aggregate, are not expected to have a material adverse effecton the Company. As of March 31, 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 adverseparty or has a material interest adverse to the Company's interest.

17. 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 March 31, 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 approximate the 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 months ended March 31, 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 March 31, 2020, the maximum credit exposure related to the carrying amounts of accounts receivable, notes receivable and lease receivable was $37,475.

(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 10) bear interest at variable rates and is exposed to interest rate risk. If the LIBOR had increased by 1% during the three months ended March 31, 2020, the Company's net loss would have increased by $95.

(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 March 31, 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 $98 to comprehensive loss for the three months ended March 31, 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.

Amounts expressed in thousands of United States dollars unless otherwise stated

18. 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 March 31, 2020, the Company had two reportable segments:

- THC Cannabis – Production and cultivation of THC cannabis, manufacturing, and distribution of cannabis products to own dispensaries and third-party retail customers, ancillary services supporting wholesale operations, and retail sales direct to end consumers
- CBD Cannabis – Pure Ratios which encompasses the production and sale of CBD products to third-party customers

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.

March 31, 2020	THC Cannabis	CBD Cannabis	Corporate	Total
Revenues	$ 15,160	$ 1,790	$ —	$ 16,950
Depreciation and amortization	1,181	21	2	1,204
Interest income	—	—	56	56
Interest expense	—	—	2,136	2,136
Other income (expense)	—	—	37	37
Share based compensation	—	—	1,227	1,227
Income (loss) before income taxes	1,228	(614)	(9,007)	(8,393)
Income tax expense	862	—	—	862
Total assets	$ 209,684	$ 1,851	$ 2,895	$ 214,430

March 31, 2019	THC Cannabis	CBD Cannabis	Corporate	Total
Revenues	$ 3,466	$ —	$ —	$ 3,466
Depreciation and amortization	652	—	—	652
Interest income	—	—	—	—
Interest expense	—	—	276	276
Other income (expense)	—	—	—	—
Share based compensation	—	—	459	459
Income (loss) before income taxes	(434)	—	(5,452)	(5,886)
Income tax expense	470	—	—	470
Total assets	$ 41,422	$ —	$ 20	$ 41,442

19. SUPPLEMENTARY CASH FLOW INFORMATION

Changes in non-cash working capital:

Changes in operating assets and liabilities	March 31, 2020	March 31, 2019
Accounts receivable	$ (109)	$ —
Other receivables	78	93
Deposits	—	52
Inventory	(3,803)	(963)
Prepaid expenses	279	62
Accounts payable	2,311	(133)
Accrued expenses and other liabilities	(694)	200
Taxes payable	960	344
	$ (978)	$ (345)

Amounts expressed in thousands of United States dollars unless otherwise stated

- Cash paid for interest in for three months ended March 31, 2020 and 2019 was $1,813 and $190, respectively.
- Cash paid for income taxes for the three months ended March 31, 2020 and 2019 was $Nil for both years.

20. 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 Company ("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 21%. The Company's provision for income taxes differs from applying the U.S. federal income tax rate to income before taxes primarily due to state income taxes, certain share-based compensation, warrants accretion, tax credits and miscellaneouspermanent 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 three months ended March 31, 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.

21. 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 operation 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 ofthese 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 $1,091 in goodwill impairment. The Company paid a $348 fee to a lender in exchange for allowing the Companyto sell the dispensary. This fee is recorded as a disposal cost and is netted with gains as part of gain onsale of subsidiaries in the Consolidated Statements of Operations and Comprehensive Loss.

The entities that were sold during the period ended March 31, 2020 were part of the Retail segment (Note 18).

The Company has classified Greens Goddess as a discontinued operation for the three months ended March 31, 2020 and 2019. The net operating loss for Greens Goddess for the three months ended March 31, 2020 and 2019 are reported as a single line item in the Statements of Operations and Comprehensive Loss and are summarized as follows:

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
REVENUE	$ 700	$ 323
Cost of goods gold, sale of purchased products	(466)	(202)
Gross profit before fair value adjustments	234	121
OPERATING EXPENSES		
Selling and marketing expenses	288	43
Depreciation and amortization	64	5
Gain on sale of subsidiary	(1,652)	—
Total operating (income) expenses	(1,300)	48
Income from Operations	1,534	73
Income Tax Expense	(61)	(31)
Net Income After Income Tax Expense	$ 1,473	$ 42

Cash flows generated by Greens Goddess are reported as single line items in each section of the Condensed Consolidated Interim

Amounts expressed in thousands of United States dollars unless otherwise stated

Statements of Cash Flows and are summarized as follows:

	2020	2019
Net Cash Used in Operating Activities	$ 212	$ (60)
Net Cash Used in Investing Activities	(32)	—
Net Cash Provided by Financing Activities	60	—
Cash Flows From Discontinued Operations	$ 240	$ (60)

22. SUBSEQUENT EVENTS

(a) Selling of Non-Core Assets

On May 1, 2020, the Company announced that it had entered into a definitive agreement to sell its stake in retail cannabis licenses in Pennsylvania and Maryland, netting in excess of $18,000 of cash. On May 8, 2020, the Company completed the sale of its non-core retail licenses in Pennsylvania for a total cash consideration of $10,600.

(b) Private Placement Debt

The Company announced on May 15, 2020, that it had closed on raising approximately $5,800 in private placement of convertible debt. The convertible debt has an annual coupon of 5%, paid-in-kind, and will mature on February 28, 2022. The Notes are exchangeable into subordinate voting shares (“common equivalent”) at a conversion price of $0.25.