



4Front Ventures

Introducing 4Front Ventures

August 2, 2019

C O R P O R A T E P A R T I C I P A N T S

Josh Rosen, *Chief Executive Officer*

C O N F E R E N C E C A L L P A R T I C I P A N T S

Graeme Kreindler, *Eight Capital*

Allen Mathew, *Private Investor*

John Hamilton, *Private Investor*

Mike Regan, *MJ Biz Daily*

P R E S E N T A T I O N

Operator:

Greetings. Welcome to the **Introducing 4Front Ventures Conference Call**. At this time, all participants are in a listen-only mode. A question-answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad. Please note, this conference is being recorded.

I will now turn the conference over to your host, Josh Rosen, CEO of 4Front Ventures, Mr. Rosen, you may begin.

Josh Rosen:

Thank you Omar. Before I begin, I'm obligated to remind everyone that during the course of this conference call, Management may be making some forward-looking statements, which are based on current expectations and are subject to a number of risks and uncertainties that may cause actual results to differ materially from expectations. These risks are outlined in the risk factors section of our filings in our disclosure material, and the forward-looking statements should be considered in light of these factors. Please also note as Safe Harbor any outlook we present is as of today, and Management does not undertake any obligation to revise any forward-looking statements in the future.

All right, the seatbelt warning is over, and with that behind us, I want to start with a heartfelt thanks to the various stakeholders listening that have helped us get to this point. There's so much more to do, but this merger is an important milestone for us. We are excited to start the next chapter, which began earlier this week.

Our press release announcing the merger of 4Front and Cannex on Wednesday was fairly substantive. So I'd refer you to that for some overall details on 4Front Ventures.

For those that don't know me, I'm Josh Rosen, CEO of the newly formed 4Front Ventures, which is the combination of my previous company 4Front Holdings, and Cannex Capital. I'm guessing as you're on this call you realize we closed our merger earlier this week. In many ways, it was a long time coming, as we thought we were at the finish line for the close in late April, but the Department of Justice Antitrust Division had other ideas. Thankfully, I can express with confidence that we're through that chapter. HHR is behind us. We also weren't planning for our first Investor call on a Friday in the dog days of August, but we thought it important to be present with investors as we close this merger.

This industry tends to move very fast in some ways, but in other ways, friction presents itself wherever it can. Usually when things drag on it becomes—it can become a bit anti-climactic. But in this case, damn. I'm excited to be working with Cannex's Founder Leo Gontmakher and his team. In Leo, we believe we have partnered with one of the finest cannabis operators in the world. The complementary nature of our capabilities, mixed with what's just a bunch of good people has me energized.

While it's my job as CEO to work for our shareholders, I can tell you without reservation that it's just as true that I work for our team. They are my main boss, and while our Board gets to hold me accountable, it's our team that will drive our performance, and the plan is to keep on building something awesome. I love that we are an active part of so many lives and livelihoods and helping take the stigma away from cannabis.

The purpose of this call is not to be a cheerleader. In fact, it's the opposite. I wanted to take a few minutes to highlight our approach to Investor Relations. My formative years in the business world were spent being an equity analyst from one of the name brand investment banks. Back then I'd tell anyone who would listen that I'd never want to be the CEO of a publicly traded company. Yet here I am, sincerely excited by what's in front of me and the greater us. Right or wrong, I believe Investor Relations is about a few things. As our team knows, I like to start at 10,000 feet and then get into the details.

First, for an emerging rapid growth industry like ours, I think a large part of Investor Relations is helping investors understand what we are playing for, and helping them handicap our ability to be successful. We use this, what are we playing for, frequently in our internal conversations.

Second, Investor Relations is obviously about providing information regarding our financial performance, and meeting our reporting obligations in a transparent fashion.

Third, Investor Relations is about ensuring there's an equal playing field of disclosure and information access, something we take very seriously. As we sit here today, we are fortunate in that we have a group of shareholders that I believe are highly aligned with our vision for the future. This includes a Management team with skin in the game, with lots of friends and family alongside us, as well as some of the more strategic investors in the sector, having joined us for multiple rounds.

We're building a Company. We chose to be a publicly-traded company because many investors value liquidity, and we are in a capital intensive phase of the industry's growth. Some of the best CEOs in volatile industries that I've met over the years, focus religiously on the business, making goals and not being fixated on the gyrations of the stock price that are inherent in this industry. We're focused on building value over time. That's what we're playing for, more on that in a minute.

Turning to the details of how we plan to communicate with investors, we plan to host quarterly conference calls and provide consistent metrics on a quarterly basis. In addition to the required reporting, I want to be sure we share the metrics and milestones by which we judge our own performance. We're still working on some of the details of this. When it comes to metrics and milestones, with so many growth projects and initiatives running in parallel, we will do our best to highlight the most relevant topics in a consistent

fashion. Towards the end of this call I will run through these topics as well as we think you should be paying attention to over the next few quarters.

We will generally maintain a presence at many of the larger industry events, including in investor events, but not at the expense of running our business. We have a lot to do, and our leadership team is focused on making sure we're an industry leader over the coming years. We are pleased with our relationships on the capital side. We have some strong strategic investors and advisors that are supportive of what we are building and what we're playing for.

Of particular note, we entered into a real estate-related financing structure with LI Lending a couple months ago. We believe whether it's LI Lending or others, we have greater capacity for asset-based lending should it prove helpful. We value all of our investors and are focused on building something with enduring value, which requires institutional quality governance practices. We believe this will best position us for the future.

Last as it relates to communications, since our formation, we've emphasized our role in helping professionalize the industry. A big part of that is opening up the broader investment community to the sector. We are generally highly welcoming to folks that want to visit our facilities. If you can legally purchase from us, all the better. But please come visit us and meet our people. While I play a meaningful role in many of our larger decisions, it's what happens in our operations on a day-to-day basis that will drive long term value. In particular I'd highlight the original Northwest Cannabis Solutions operation that's in Cannex's, or now we're referring to as Brightleaf, but in Cannex's original facility in Tumwater Washington just south of Olympia.

This is the place to visit to see the operating efficiencies in production that we're so proud of and excited to be taken on the road. I'm going to take a few minutes to highlight the four pillars of the 4Front platform. Perhaps you're going to get tired of hearing about them because we think they'll be enduring pillars. Our industry is dynamic, and while the context around the pillars may change, I'm confident that if we stay anchored on these four, we're going to collectively like the outcomes.

First, experienced and aligned leadership. This largely speaks for itself. For me, there are two points to make related to this. One, we hope to continue to build upon the trust we've created with our stakeholders to-date that we're making decisions for our collective benefit largely because we're tightly aligned. Many of us have skin in the game, more than just equity.

Two, this goes into how we think about adding leaders to our team as well. There needs to be a good fit, not just a resume. This industry presents unique challenges and requires great agility, something we have started to more proactively recruit for.

The second pillar is battle tested operating capabilities. When looking at being a long term winner in cannabis, we think operating efficiency is going to be one of the, if not the hallmarks of the industry leaders. We believe brand loyalty is likely to remain fleeting while the industry is immature and price compression is inevitable. This pillar is a big part of the Cannex merger, as Leo and I have complete alignment on this point, and where we see the industry evolving. In addition to how we go about building scale, this is likely to underpin any acquisitions we might do.

The third pillar is our strategic asset base. Today that's represented in a multi-state license portfolio with a strong adult use or recreational bias. We expect this to evolve over time and plan to remain active with our regulatory and government relations activities to make sure we stay in tune with where to deploy our operating capabilities and bandwidth. Our press release highlights the current asset base of 4Front ventures, though I think the fourth pillar I'm about to get to is going to prove just as important as these tangible assets, that fourth pillar being people. It's our commitment to being a magnet for talent. Those of

you we've interacted with recently have likely heard me reference how this industry is transitioning from capital starved to talent starved.

The ability we think this industry requires that I referenced earlier is an uncommon trait and makes hiring for more typical manufacturing CPG and retail companies a challenge. We spend a lot of time making sure our culture and systems help build around the talent that thrives in this industry, and quickly identifies and manages out those that don't.

I want to end this call by highlighting what we're currently playing for in simple terms. As I noted in an internal memo to our staff upon the closing of this merger, and this is a direct quote, while Chris, and I can look back at what's been accomplished with pride, as can Leo and Chad, of Pure Ratios (phon), this is nothing compared to the excitement and commitment I feel to make the next few years the demonstration of our potential. We have the opportunity to be a well-known badass company on the world stage, and I can't wait to go after it again tomorrow, and the next day...

Translating this, what we're playing for into something quantitative for our leadership team, when we think about building our team, and the strategic and tactical decisions to support our growth, the underlying scale that we target today is planning to be a company that generates approximately \$200 million in EBITDA at sustainable margins, and that's U.S. dollars. We don't place a specific year in that target, other than noting, we're going after it every day and think that the markets we're in today, most noticeably—excuse me, most notably, modest market share in a mature Massachusetts, Illinois, Washington and California can get us a good portion of the way there. So, we won't be satisfied, if it takes us more than three years. If we end up doing a major acquisition or a vacation to adjust that broader target, we will communicate accordingly.

So, it's clear, and I don't think this point is lost in anyone in this industry, we think this industry affords even greater opportunity. So, we wouldn't plan on resting that \$200 million, particularly as our capabilities and capacity grow. But we think the common alignment internally and externally of a realistic target to guide decisions is very useful to support execution.

As is likely obvious to many in the industry, we find being precise with near term financial projections to be a challenge. We take our performance seriously, and as you might expect, we have our own highly detailed financial models, how we're predicting the timing of regulatory shifts, and/or local approvals has proven challenging. While we'd love Investors to give us a pass on everything, largely kidding, we've recognized having a future of 200 excuse me—we recognize having a future \$200 million EBITDA target doesn't give much of the view on the near term execution that will be necessary for us to be successful in achieving what we're playing for.

Our plan is to communicate around some consistent milestones that tie back to the pillars referenced. We have three buckets of milestones. We consider the first and fourth pillars, experienced and aligned leadership and commitment to being a magnet for talent as combined when it comes to milestones. We call these people milestones. These are clearly less tangible milestones, yet we commit to providing regular updates on what we're doing to support building the team, including key additions, our heavy investment in training. I expect soon we will be coming back with more meat on the bone as it relates to how we're building on our long standing training program.

Shifting to the battle tested operating capability pillar, we believe the near term milestones relate most tangibly to demonstrating that we can replicate production capabilities and successfully transition brands from Washington State, starting in Massachusetts. We will call these operating milestones. Similarly to the production side, demonstrating how we handle the increased volume and a thriving recreational retail environment is something we plan to provide tangible updates on within the next few months, also coming from Massachusetts.

Although the competitive environment in Washington State is intense, we're also sponsoring some R&D with Northwest Cannabis Solutions. To continue to improve efficiencies from which to build on, we will be providing more tangible milestones on these fronts as part of upcoming Investor communications.

One key operating milestone on the rise will be the introduction of the first few of Cannex's brands into the Massachusetts market. As we dial in genetics and manufacturing efficiencies, we expect to come back to you shortly on that.

For our strategic asset base, as the last of the buckets here, we believe the primary milestones relate to construction projects, a few of which are currently in motion, most notably a meaningful expansion in one of our Massachusetts production facilities, the development of the manufacturing and distribution facility in the Los Angeles Metro market, and the expansion of our Chicago based production facility. We will call these project milestones. Developing these assets to Leo standards is the plan. We will also highlight other areas of focus of our business development team, sometimes simply in the form of market perspective. We don't plan to prioritize acquisitions but given the nature of our industry and our capabilities, please expect us to stay opportunistic and strategic on this front.

With a large number of projects on the spirit of consistent disclosure, we're going to give high level views on the most relevant projects, particularly as relates to construction projects, giving views on the commencement of construction, the planned completion of construction, and if a cultivation facility than the first harvest. I thought it would be worthwhile to give a quick rundown of a few relevant projects. Let's call them our largest project milestones, if you will, as a starting point on this call.

We are expanding our Georgetown Massachusetts cultivation facility from approximately 10,000 square feet of flowering canopy to approximately 40,000 square feet, with constructed scheduled to commence on this expansion around year-end, with project completion taking about a year, so close to yearend 2020. Importantly, it should quickly transition to harvest given the rotation of the existing capacity on site.

Second, we're in the process of taking control of the entirety of our Chicago production—Chicago area production facility, so we can commence construction on the full 94,000 square feet. We anticipate commencing construction in the first quarter of 2020, and our current design is slightly more than 30,000 square feet of flower canopy with an expected project completion date close to the year-end of 2020 as well.

Third, we are under construction in the city of (inaudible) in Metro LA, we anticipate finishing construction in the first quarter of 2020 and working hard to generate our initial sales in the first quarter as well, could see this slipping a bit into the second quarter of 2020. With our growing network in California, we're quite enthusiastic about how quickly this project can ramp in the second half of 2020.

I don't want to get bogged down in the minutia on this call or future calls, so ask that you respect that we're not going to get detailed with financial projections for individual projects. We are more than willing to speak to the key projects in broad strokes and plan to provide regular updates, particularly when something is off plan.

You now have a view on what we're playing for, as the legacy 4Front investors know, I don't shy away from talking about the challenges and mistakes, as they are simply part of doing business. Unfortunately, there's not an elegant linear solution that maps us to our \$200 million EBITDA target that I can draw for you. It's just what we're focused on delivering against.

I'd be remiss if I didn't note that while we press ahead aggressively while dealing with the delays caused by the DoJ, the full integration with Cannex couldn't happen until now. It wasn't a day for day loss of

progress. But I'd say we've been operating at 75% to 80% efficiency in terms of Leo's team's ability to drive the 4Front construction projects. This was mixed with the distraction to our leadership team of being attentive to the DOJ as well. All I can say is so glad that's behind us. I'm much happier spending time with our team, even time with you all is so much better. It's fully go time for us, and we couldn't be more excited about where we sit.

Before taking questions, I want to highlight the commitment from our core legacy investor base. We are running this Company to be institutional quality, and we believe we have a committed Management team. Given there wasn't a capital raise associated with this transaction, we didn't have the typical obligation of a formal lockup. We intentionally don't want to create some future cliffs that have the perception of a tidal wave of potential sellers.

As I said, I think our shareholder alignment is in a great place today. Our leadership team and 4Front's single largest passive investor is putting in place a lockup plan that would allow for gradual liquidity over a three year window. It's a cumulative plan, so it doesn't encourage selling. We're all playing for the realization of this awesome company that we're trying—we're working our tails off to build.

Okay, one last, last thing, (inaudible) equity analyst coming up. As it stands at close using the Treasury method to calculate as is normal, our fully diluted share count is 582.7 million shares, and we have available capital of over \$38 million. At this point, I'd be happy to take questions. Again working—again noting we're going to work hard to get into a consistent communication rhythm around key milestones. And I'm likely to push back on getting overly detailed today.

Omar, ready for questions.

Operator:

At this time, we will be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment it may be necessary to pickup your handset before pressing the star keys. One moment please while we poll for questions.

Our first question is from Graeme Kreindler, Eight Capital. Please proceed with your question.

Graeme Kreindler:

Hi, guys. Good afternoon, and thanks for taking my questions here. First question I had just to follow up there, Josh, on the \$38 million in available capital. Can you elaborate a bit? I mean, you outlined a number of expansion plans there. Just how the Company feels in terms of the capital available to it, and with respect to the build out that's going to happen over the next couple months here. Does that take you all the way in terms of the projects that you outline? Thanks.

Josh Rosen:

Yes, certainly Graeme. In simple terms we believe that, that there's—I think I referenced it on the call that there are some other asset-backed financing options available to us, potentially even going back to the same source. Relative to the full scope of build out in front of us, the \$38 million would not be enough to fully build out commerce, Illinois and Massachusetts to the full scale of what we're looking for. But as I said, I mean, we and I think those that have worked with us understand, how strategic we take both become a nation's capital raising as well as delusions, relative to the alignments.

So, we're very confident in our ability to navigate that to the right place.

Graeme Kreindler:

Okay, got it. Appreciate that, and then on a different note here, you outlined, there is a number of different projects in various key states that you guys are going to be heads down on. But now, within with the new entity that's going to be trading shortly and having that proposition of a currency you can use for acquisition, does that change what you're looking at in terms of an M&A strategy or looking to expand into some new states or potentially go deeper into some of the existing ones?

Josh Rosen:

Great question. I mean, I think the simple answer and those that have been interacting with me for a while know, I've been anxious to get to a currency at some point. I think the answer ties back to as we think about those four pillars, ties back to first, are there other opportunities for us to expand the capability set, capacity set. We're seeing more of that today than what I would have acknowledged two to three years ago in terms of others that see the world similarly, and we think bring real execution capabilities to the table as opposed to assets.

I think for the foreseeable future, and this might be different than some of our peers. I'm not sure. We're not really in the mode of expanding assets from an M&A standpoint, save two things, organically expanding them, when we apply for licenses on our own behalf, and can do so cost effectively and bandwidth effectively. We think that's a great use of our own smaller amounts of capital to start.

Then secondarily, we will be opportunistic, and there might be times when asset prices are too good to pass up relative to what we think we can do with them over time, even if we acknowledge that, we're dealing with our own bandwidth constraints. I mean, one of the reasons we've recently turned down a few, what I would call, reasonably attractive economic, very effective economic propositions in a couple of states that we have some interest in over the long haul, was simply we want to execute. With what's right in front of us right now, we've got plenty on our plate. We've got plenty in our plate to go pursue the goal that we're setting for ourselves.

The last thing I want to do is not execute well with what's in front of us, simply because we're chasing things that might add to our total addressable market, but limit our execution capabilities. Building the ability to execute in this space, we believe, is as important as that asset base, per se.

Graeme Kreindler:

Got it understood, appreciate that. The last question for me here, just with respect to states like Massachusetts and Illinois, in the early days or about to be on the early days of adult use market, and with the experience, and the team that you're getting from the mechanics side of things, how should we think about the strategy in those various states? I would assume there's a tremendous opportunity in the wholesale market, and some very high prices. But, how do you contend with capturing that opportunity versus building out a business that's going to be very competitive at a mature and steady state, or as it's expected to roll out over time, just be interested to get some color there?

Josh Rosen:

I think it's nuanced by state, but let's use those two as the principal example, because they're top of mind for the right reasons, Massachusetts and Illinois, Massachusetts been implemented real time and Illinois obviously, coming early next year. The simple answer is go back to my tendencies, turning 10,000 feet. At

10,000 feet, we view ourselves as mass market providers, producers, and retailers from an access standpoint on the retail—from a retail lens.

So, with that, the 10,000 foot lens, we're not economically irrational to the point where we want to come in and instantly be massive price leaders and play aggressively, play the race to the bottom, when it comes to capacity coming online. We recognize that, that the market needs to mature and as there is limited supply, we've got to bring pricing down accordingly, relative to those goals.

So we, from our experiences West, for lack of a better description, from the experiences West, we do believe that the mass market ends up being price sensitive, and that price compression will be inevitable. Albeit, we don't plan until we're at that full scale. We wouldn't plan on being all that aggressive, if that answers, kind of dances around, because there's a little bit of nuance to the answer. But the reality is, we recognize that we've got to replicate the operating efficiencies, and drive those practices in order to be a market leader down the road.

Graeme Kreindler:

Got it understood. Thanks for the color there. That's it for me.

Operator:

Our next question comes from Allen Mathew, Private Investor. Please proceed with your question.

Allen Mathew:

Hi, I came in through IGM (phon), and we've gotten zero, I mean, zero information. The only information I've seen has been what's been out in the Internet or in the news. Can you give me some color as to what's going to happen with the shareholders from IGM? Are we locked up? That's the first one. Can you follow that up with, have you spoke to any market makers? I mean, what is the interest in who's going to want to own your shares? Thank you.

Josh Rosen:

Certainly. I think two things. First, on the plumbing side, we are still working through some of the formal mechanics. We have I think that—and IGM just for folks that don't want to go back looking through SEDAR filings, etc., is the Illinois entity that's been part of this. So in real simple terms, we've had disclosure requirements and much like we've had to disclose anyone else would have been the same how we would have disclosed IGM through this process. So yes, sorry that you're feeling like you didn't get enough information, our obligations, we're making sure we're reporting back through to the partners we had.

But anyhow, as it relates to market making, yes the expectation is those that were market making for Cannex, are also market making for the new 4Front. Effectively, there's a transition that takes a couple days here, that we are working through. It's a little bit different for those that come—that came in through 4Front and the private side. So what I would suggest, Allen is that you circle back around if you want to send us an email on the plumbing as it relates to the 4Front side of this and the conversion process for the shares, let's do that offline. I'm not the stated expert on that internally. We can work through those mechanics with you.

Allen Mathew:

Okay.

Operator:

Our next question comes from John Hamilton, Private Investor. Please proceed with your question.

John Hamilton:

Yes, first of all, I'd like to thank Anthony Dutton for introducing me to this opportunity. I'm very excited about it. Going forward, have you set a share price for the new venture?

Josh Rosen:

Set a new share price, I mean I think the share price for Cannex is likely the closest approximation. I mean, the market has known about this merger since—this contemplated merger since November. I think there may have been some consternation about whether it would close or not. So we are very pleased to have reached that milestone. But the Cannex stock has had plenty of time to reflect much of this and the conversion ratio etc., was all based on a like-for-like exchange in shares with Cannex. So for lack of better description without getting into the valuation piece of this, that's probably the closest proxy at least heading into this pre-close that's out there.

John Hamilton:

Thank you.

Operator:

We have reached the end of the question answer session. I will now turn the call back over to Josh Rosen for closing remarks.

Josh Rosen:

Yes...

Operator:

One question just came in, Mike Regan of MJ Biz Daily. Please proceed with your question.

Mike Regan:

Hi, thanks a lot. Just a quick question you gave the pro forma per diluted share count. Is there—could you just give us I guess the pro forma capital structure on the net debt or cash? Thanks.

Josh Rosen:

Yes, the—actually I don't have it top of mind. The \$38 million that I referenced, I believe could be viewed because of the real estate that we have as definitely the standard, and it's actually a mix of a cash position and then some debt that's been used to support real estate transactions. So, I don't have that—the specific number right in hand.

Mike Regan:

Got it. Okay, thanks a lot.

Josh Rosen:

Certainly.

Operator:

We have reached the end of the question answer session. I will now turn the call back over to Josh Rosen for closing remarks.

Josh Rosen:

Yes, thanks, Omar, all right. Try that again. Quite simply, we're excited to be entering this next chapter. In many ways, it's the beginning. We're proud of what's been accomplished to-date, but really focused on where we're going, where this industry is going and how we map our capabilities against that and really capitalize on this opportunity. So with that, much like I mentioned, we would be happy to take your questions etc., after this call, and really look forward to the future. Thanks much.

Operator:

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.