

4Front Ventures Corp. (formerly 4Front Corp.)

Attachment to Form 8937-Part II

Report of Organizational Actions Affecting Basis of Securities (RTO Arrangement)

**Consult your tax advisor:** The information contained herein is being provided pursuant to the requirements of Section 6045B of the Internal Revenue Code of 1986, as amended (the “**Code**”), and includes a general summary regarding the application of certain U.S. federal income tax laws and regulations relating to the effects of the RTO Arrangement (as defined below) on the tax basis of shares in 4Front Ventures Corp., (“**4Front Ventures**”) (formerly known as 4Front Corp., “**4Front Corp.**”), in the hands of 4Front Ventures shareholders who are U.S. taxpayers (“**U.S. Shareholders**”). This discussion does not constitute tax advice and does not purport to be complete or to describe the consequences that may apply to particular categories of shareholders.

All U.S. Shareholders that previously held Class B Units or Class C Units of 4Front Holdings, LLC (“**4Front LLC**”) should consult their own tax advisors regarding the particular consequences of the RTO Arrangement to them in light of their particular circumstances, including the applicability and effect of all U.S. federal, state and local tax laws and foreign tax laws. This Form 8937 and the analysis contained herein does not address the U.S. federal, state, local or foreign tax consequences of the RTO Arrangement applicable to U.S. Shareholders which previously held Class B Units or Class C Units of 4Front LLC.

For additional information, please read the Management Information Circular of 4Front LLC (the “**4Front LLC Circular**”), which was previously mailed to unitholders of 4Front LLC (“**4Front Unitholders**”). You may also access the Management Information Circular of Cannex dated as of March 19, 2019 (the “**Cannex Circular**”) at [www.sedar.com](http://www.sedar.com).

Item 14. Description of organizational action

The “**RTO Arrangement**” was effected pursuant to the following mutually interdependent steps (certain steps of the RTO Arrangement which are not relevant to the discussion herein are omitted, but are described in greater detail in the 4Front LLC Circular and Cannex Circular):

**Step 1:** Pursuant to the terms and conditions of the business combination agreement (the “**Agreement**”) dated as of March 1, 2019, as amended, to which 4Front Holdings, LLC, a Delaware limited liability company (“**4Front**”) and Cannex Capital Holdings Inc., a corporation existing under the laws of the Province of British Columbia, Canada (“**Cannex**”), 4Front Ventures Inc., a corporation organized under the laws of Delaware (“**Ventures**”) contributed its assets to 4Front Corp, a corporation organized under the laws of Nevada (“**Nevada Holdco**”) in exchange class B proportionate voting common shares of Nevada Holdco stock (“**Nevada Holdco Class B Shares**”). Outstanding options to acquire shares of Ventures stock (“**Ventures Options**”) were exchanged for options to acquire Nevada Holdco Class B Shares upon the exercise thereof (“**Nevada Holdco Options**”). The foregoing transactions are referred to herein as the “**Ventures Contribution**”.

**Step 2:** Ventures wound up its affairs and liquidated, distributing Nevada Holdco Class B Shares to the holders of shares of Ventures stock (“**Ventures Shares**”) in cancellation of such shares of Ventures stock (the “**Ventures Liquidation**”).

**Step 3:** Holders of shares of stock of 4Front Can/Am Investco Inc., a Delaware corporation (“**US Blocker**”, such shares, “**US Blocker Shares**”, and the holders thereof, “**US Blocker Shareholders**”) contributed their US Blocker Shares to Nevada Holdco in exchange for class A subordinate voting common shares of Nevada Holdco stock (“**Nevada Holdco Class A Shares**”). The issued and outstanding warrants to acquire US Blocker Shares (the “**US Blocker Warrants**”) were amended to be exercisable for Nevada Holdco Class A Shares (“**Nevada Holdco Warrants**”). The foregoing transactions are referred to herein as the “**US Blocker Contribution**”.

**Step 4:** US Blocker wound up its affairs and liquidated, distributing its ownership interests in 4Front (“**4Front Units**”) and all of its other assets to Nevada Holdco in cancellation of the outstanding US Blocker Shares (the “**US Blocker Liquidation**”).

**Step 5:** Certain 4Front Unitholders contributed all of their respective 4Front Units and \$112,500 cash to Nevada Holdco in exchange for Nevada Holdco Class B Shares and class C multiple voting common shares of Nevada Holdco stock (“**Nevada Holdco Class C Shares**”) (the “**4Front Unitholder Contribution**”).

**Step 6:** 4Front Merger LLC, a Delaware limited liability company, the sole owner of which was Nevada Holdco, merged with and into 4Front with 4Front surviving the merger (the “**LLC Merger**”). Pursuant to the LLC Merger, all then-remaining 4Front Unitholders other than Nevada Holdco received Nevada Holdco Class B Shares.

**Step 7:** Nevada Holdco redeemed the initial share of Nevada Holdco common stock issued to the individual which organized Nevada Holdco for cash equal to the initial subscription price paid for such share (the “**Nevada Holdco Redemption**”).

**Step 8:** Nevada Holdco continued to, and became governed by the laws of, British Columbia, Canada (the “**Continuance**”).

**Step 9:** Nevada Holdco amalgamated with 1196260 B.C. Ltd., a British Columbia, Canada corporation newly-formed prior to the effected time of the RTO Arrangement with no business operations, liabilities or assets (other than a nominal amount of cash received pursuant to its formation) (the “**Amalgamation**”) to form the resulting entity, which is referred to herein as “**4Front Ventures**”. Pursuant to the Amalgamation, holders of Nevada Holdco Class A Shares received subordinate voting shares of 4Front Ventures (“**Subordinate Voting Shares**”), holders of Nevada Holdco Class B Shares received proportionate voting shares of 4Front Ventures (“**Proportionate Voting Shares**”), holders of Nevada Holdco Class C Shares received multiple voting shares of 4Front Ventures (“**Multiple Voting Shares**”), holders of Nevada Holdco Options received options to acquire 4Front Ventures Proportionate Voting Shares (“**4Front Ventures Options**”), and holders of Nevada Holdco Warrants received warrants to acquire 4Front Ventures Subordinate Voting Shares (“**4Front Ventures Warrants**”).

**Step 10:** Holders of shares of Cannex common stock (“**Cannex Common Shares**”), holders of class A common shares of Cannex stock (“**Cannex Class A Shares**”, together with the Cannex Common Shares, the “**Cannex Shares**” and the holders thereof, “**Cannex Shareholders**”), holders of warrants to acquire Cannex Shares (“**Cannex Warrants**”, and the holders thereof, “**Cannex Warrantholders**”), holders of options to acquire Cannex Shares (“**Cannex Options**”, and the holders thereof, “**Cannex Optionholders**”), and holders of certain promissory notes which, pursuant to their terms were convertible into Cannex Class A Shares (the “**Cannex Convertible Notes**”, and the holders thereof, the “**Cannex Convertible Noteholders**”) contributed such Cannex Shares, Cannex Warrants, Cannex Options, and Cannex Convertible Notes to 4Front Ventures in exchange for 4Front Ventures Shares, 4Front Ventures Warrants, 4Front Ventures Options and 4Front Ventures Convertible Notes, respectively (the “**Cannex Contribution**”).

**Step 11:** Cannex would up its affairs and liquidated, distributing all of its assets to 4Front Ventures (the “**Cannex Liquidation**”, and together with the Cannex Contribution, the “**Cannex Reorganization**”).

4Front Ventures believes that Nevada Holdco after the Continuance and 4Front Ventures after the Amalgamation were each classified as a U.S. domestic corporation for U.S. federal income tax purposes pursuant to the application of Code Section 7874(b), but provides no assurances in this regard. The following discussion in this Attachment assumes that Nevada Holdco after the Continuance and 4Front Ventures after the Amalgamation were each classified as a U.S. domestic corporation for U.S. federal income tax purposes pursuant to the application of Code Section 7874(b).

4Front Ventures believes that the Ventures Contribution and Ventures Liquidation, the US Blocker Contribution and US Blocker Liquidation, the Key Member Contribution, the LLC Merger, and the Cannex Reorganization (each of the foregoing transactions, collectively, the “**Section 351 Transaction**”) should be treated as a single integrated transaction for Code Section 351 purposes. The following summary assumes that each of the components of the Section 351 Transaction are treated as a single integrated transaction for Code Section 351 purposes.

4Front Ventures Shareholders, 4Front Ventures Optionholders and 4Front Ventures Warrantholders should review the 4Front LLC Circular and the Cannex Circular and consult their own tax advisors regarding the tax consequences of the RTO Arrangement to them in light of their particular circumstances.

Part II Item 15. Description of the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer

Pursuant to the Ventures Contribution and Ventures Liquidation, each Ventures Shareholder received Nevada Holdco Class B Shares in exchange for its Ventures Shares and the terms of each Ventures Option were amended to be exercisable for Proportionate Voting Shares. Provided the Ventures Contribution and Ventures Liquidation constitute a single integrated transaction qualifying as a tax-deferred reorganization under Section 368(a)(1)(C) of the Code, the tax basis

of the Nevada Holdco Shares received by a former Ventures Shareholder should be the same as that shareholder's tax basis in the Ventures Shares held immediately prior to the effective time of the RTO Arrangement and the tax basis of the Ventures Options, as amended to be exercisable for Nevada Holdco Class B Shares, should be the same as that optionholder's tax basis in the Ventures Options held immediately prior to the effective time of the RTO Arrangement.

Pursuant to the US Blocker Contribution and US Blocker Liquidation, each US Blocker Shareholder received Nevada Holdco Class A Shares in exchange for its US Blocker Shares and the terms of each US Blocker Warrant were amended to be exercisable for Subordinate Voting Shares. Provided the US Blocker Contribution and US Blocker Liquidation constitute a single integrated transaction qualifying as a tax-deferred reorganization under Section 368(a)(1)(C) of the Code, the tax basis of the Nevada Holdco Shares received by a former US Blocker Shareholder should be the same as that shareholder's tax basis in the US Blocker Shares held immediately prior to the effective time of the RTO Arrangement and the tax basis of the US Blocker Warrants, as amended to be exercisable for Nevada Holdco Class A Shares, should be the same as that warrant holder's tax basis in the US Blocker Warrants held immediately prior to the effective time of the RTO Arrangement.

Pursuant to the Continuance, Nevada Holdco Shareholders, Nevada Holdco Optionholders and Nevada Holdco Warrantheolders were deemed to receive shares, options and warrants of Nevada Holdco, as continued to be organized under applicable British Columbia law. Provided the Continuance qualifies as a tax-deferred reorganization under Section 368(a)(1)(F) of the Code and Nevada Holdco (as continued) is classified as a U.S. domestic corporation for U.S. federal income tax purposes pursuant to Code Section 7874(b) immediately after the Continuance, the tax basis of the shares of Nevada Holdco (as continued) deemed received by a former shareholder of Nevada Holdco (as organized under applicable Nevada law) should be the same as that shareholder's tax basis in the Nevada Holdco Shares held immediately prior to the Continuance, the tax basis of the options of Nevada Holdco (as continued) deemed received by a former optionholder of Nevada Holdco (as organized under applicable Nevada law) should be the same as that optionholder's tax basis in the Nevada Holdco Options held immediately prior to the Continuance, and the tax basis of the warrants of Nevada Holdco (as continued) deemed received by a former warrant holder of Nevada Holdco (as organized under applicable Nevada law) should be the same as that warrant holder's tax basis in the Nevada Holdco Warrants held immediately prior to the Continuance.

Pursuant to the Amalgamation, each Nevada Holdco Shareholder, Nevada Holdco Optionholder and Nevada Holdco Warrantheolder, respectively, exchanged such Nevada Holdco Shares, Nevada Holdco Options and Nevada Holdco Warrants for 4Front Ventures Shares, 4Front Ventures Options and 4Front Ventures Warrants, respectively. Provided the Amalgamation qualifies as a tax-deferred reorganization under Section 368(a)(1)(F) of the Code and 4Front Ventures is classified as a U.S. domestic corporation for U.S. federal income tax purposes pursuant to Code Section 7874(b) immediately after the Amalgamation, the tax basis of the 4Front Ventures Shares received by a former Nevada Holdco Shareholder should be the same as that shareholder's tax basis in the Nevada Holdco Shares held immediately prior to the Amalgamation, the tax basis of the 4Front Ventures Options received by a former Nevada Holdco Optionholder should be the same as that optionholder's tax basis in the Nevada Holdco

Options held immediately prior to the Amalgamation, and the tax basis of the 4Front Ventures Warrants deemed received by a former Nevada Holdco Warrantholder should be the same as that warrantholder's tax basis in the Nevada Holdco Warrants held immediately prior to the Amalgamation.

Pursuant to the 4Front Unitholder Contribution and the LLC Merger, each 4Front Member received Proportionate Voting Shares or Multiple Voting Shares (or a mix thereof) in exchange for its 4Front Units. Provided the 4Front Unitholder Contribution and the LLC Merger constitute a single integrated transaction for U.S. federal income tax purposes with the other components of the Section 351 Transaction qualifying as a tax-deferred contribution under Code Section 351(a), although not free from doubt, each former 4Front Unitholder should have a tax basis in each BC Holdco Share received pursuant to the 4Front Unitholder Contribution and the LLC Merger equal to 4Front LLC's adjusted tax basis in its "non-hot assets" (i.e., assets not described in Code Section 751) at the time of the 4Front Unitholder Contribution and LLC Merger, respectively and should also have a tax basis in the remaining portion of each BC Holdco Share equal to 4Front LLC's adjusted tax basis in its "hot assets" (i.e., assets described in Code Section 751) at the time of the 4Front Unitholder Contribution and LLC Merger, increased, in the case of a participant in the 4Front Unitholder Contribution, proportionately by the amount of cash contributed by such 4Front Unitholder pursuant to the 4Front Unitholder Contribution. Accordingly, although not free from doubt, each 4Front Member participating in the 4Front Unitholder Contribution or LLC Merger should have a split tax basis in each BC Holdco Share received pursuant to the 4Front Unitholder Contribution and LLC Merger, respectively.

Pursuant to the Cannex Reorganization, each Cannex Shareholder, Cannex Optionholder and Cannex Warrantholder contributed such Cannex Shares, Cannex Options and Cannex Warrants to 4Front Ventures in exchange for 4Front Ventures Shares, 4Front Ventures Options and 4Front Ventures Warrants, respectively. Based upon its projected earnings and profits, Cannex believed that its cumulative earnings and profits through the date of the RTO Arrangement would not be materially greater than zero. Provided the Cannex Reorganization constitutes a single integrated transaction qualifying as a tax-deferred reorganization under Section 368(a) of the Code and assuming that the cumulative earnings and profits of Cannex through the date of the RTO Arrangement was zero or less, the tax basis of the 4Front Ventures Shares, 4Front Ventures Options and 4Front Ventures Warrants received by former Cannex Shareholders, Cannex Optionholders and Cannex Warrantholders should be the same as that holders tax basis in the Cannex Shares, Cannex Options and Cannex Warrants, respectively, held immediately prior to the effective time of the RTO Arrangement.

#### Part II Item 16. Description of the calculation of the change in basis

In the event the RTO Arrangement, or any component thereof, is taxable for U.S. federal income tax purposes, for purposes of calculating fair market value, the fair market value of a 4Front Ventures Share on July 31, 2019 is estimated at U.S. \$0.91, which was the average of the high and low prices for 4Front Shares on the Canadian Stock Exchange on August 6, 2019, the first day such shares traded on the Canadian Stock Exchange following completion of the RTO Arrangement, as converted to U.S. dollars.

4Front Ventures has not yet determined 4Front LLC's adjusted tax basis in its "non-hot assets" (i.e., assets not described in Code Section 751) and "hot assets" (i.e., assets described in Code Section 751) as of the effective time of the RTO Arrangement, but intends to update this Form and provide further information to such affected 4Front Ventures Shareholders in this regard.

Each 4Front Ventures Shareholder, 4Front Ventures Optionholder and 4Front Ventures Warrantholder should consult with its own tax advisors to determine whether they are required to recognize gain and what measure of fair market value is appropriate.

Part II Item 17. (list of applicable Code sections)

4Front Ventures believes that Nevada Holdco after the Continuance and 4Front Ventures after the Amalgamation were each classified as a U.S. domestic corporation for U.S. federal income tax purposes pursuant to the application of Code Section 7874(b), but provides no assurances in this regard. The following assumes that Nevada Holdco after the Continuance and 4Front Ventures after the Amalgamation were each classified as a U.S. domestic corporation for U.S. federal income tax purposes pursuant to the application of Code Section 7874(b).

The Ventures Contribution and Ventures Liquidation should constitute a single integrated transaction and qualify as a tax-deferred reorganization under Section 368(a)(1)(C) of the Code. Accordingly, provided the Ventures Contribution and Ventures Liquidation constitute a single integrated transaction qualifying as a tax-deferred reorganization under Section 368(a)(1)(C) of the Code, the U.S. federal income tax consequences to former Ventures Shareholders and Ventures Optionholders of the Ventures Contribution and Ventures Liquidation should be determined under Code Sections 354, 356, and 368.

The US Blocker Contribution and US Blocker Liquidation should constitute a single integrated transaction and qualify as a tax-deferred reorganization under Section 368(a) of the Code. Accordingly, provided the US Blocker Contribution and US Blocker Liquidation constitute a single integrated transaction qualifying as a tax-deferred reorganization under Section 368(a) of the Code, the U.S. federal income tax consequences to former US Blocker Shareholders and US Blocker Warrantholders of the US Blocker Contribution and US Blocker Liquidation should be determined under Code Sections 354, 356, and 368.

Each of the Continuance and the Amalgamation should qualify as a tax-deferred reorganization under Section 368(a)(1)(F) of the Code. Accordingly, provided each of the Continuance and the Amalgamation qualify as a tax-deferred reorganization under Section 368(a)(1)(F) of the Code and provided that Nevada Holdco after the Continuance and 4Front Ventures after the Amalgamation were each classified as a U.S. domestic corporation for U.S. federal income tax purposes pursuant to the application of Code Section 7874(b), the U.S. federal income tax consequences to former Nevada Holdco Shareholders, Nevada Holdco Optionholders and Nevada Holdco Warrantholders of the Continuance and the Amalgamation should be determined under Code Sections 354, 356, 368 and 7874.

The 4Front Unitholder Contribution and the LLC Merger should constitute a single integrated transaction for U.S. federal income tax purposes with the other components of the Section 351

Transaction qualifying as a tax-deferred contribution under Code Section 351(a). Accordingly, provided the 4Front Unitholder Contribution and the LLC Merger constitutes a single integrated transaction for U.S. federal income tax purposes with the other components of the Section 351 Transaction qualifying as a tax-deferred contribution under Code Section 351(a), the U.S. federal income tax consequences former 4Front Unitholders should be determined under Code Sections 351, 358, 1001, 1221 and 7874.

The Cannex Reorganization should constitute a single integrated transaction and qualify as a tax-deferred reorganization under Section 368(a)(1)(C) of the Code. Accordingly, provided the Cannex Reorganization constitutes a single integrated transaction qualifying as a tax-deferred reorganization under Section 368(a) of the Code, the U.S. federal income tax consequences to former Cannex Shareholders, Cannex Optionholders and Cannex Warrantholders of the Cannex Reorganization should be determined under Code Sections 354, 356, 367, 368, 1001, 1221 and 7874.

#### Part II Item 18. (recognition of loss)

4Front Ventures believes that Nevada Holdco after the Continuance and 4Front Ventures after the Amalgamation were each classified as a U.S. domestic corporation for U.S. federal income tax purposes pursuant to the application of Code Section 7874(b), but provides no assurances in this regard. The following assumes that Nevada Holdco after the Continuance and 4Front Ventures after the Amalgamation were each classified as a U.S. domestic corporation for U.S. federal income tax purposes pursuant to the application of Code Section 7874(b).

Provided the Ventures Contribution and Ventures Liquidation constitute a single integrated transaction and qualify as a tax-deferred reorganization under Section 368(a) of the Code, each former Ventures Shareholder which received Nevada Holdco Shares pursuant to the Ventures Contribution and Ventures Liquidation, and each Ventures Optionholder which received Nevada Holdco Options pursuant to the Ventures Contribution and Ventures Liquidation, should not recognize any loss.

Provided the US Blocker Contribution and US Blocker Liquidation constitute a single integrated transaction and qualify as a tax-deferred reorganization under Section 368(a) of the Code, each former US Blocker Shareholder which received Nevada Holdco Shares pursuant to the US Blocker Contribution and US Blocker Liquidation, and each US Blocker Warrantholder which received Nevada Holdco Warrants pursuant to the US Blocker Contribution and US Blocker Liquidation, should not recognize any loss.

Provided each of the Continuance and the Amalgamation qualify as a tax-deferred reorganization under Section 368(a)(1)(F) of the Code and provided that Nevada Holdco after the Continuance and 4Front Ventures after the Amalgamation were each classified as a U.S. domestic corporation for U.S. federal income tax purposes pursuant to the application of Code Section 7874(b), each former Nevada Holdco Shareholder, Nevada Holdco Optionholder and Nevada Holdco Warrantholder which was deemed to receive shares, options and warrants in Nevada Holdco (as continued) pursuant to the Continuance, and which received 4Front Ventures Shares, 4Front

Ventures Options and 4Front Ventures Warrants, as applicable pursuant to the Amalgamation, should not recognize any loss.

Provided the 4Front Unitholder Contribution and the LLC Merger constitutes a single integrated transaction for U.S. federal income tax purposes with the other components of the Section 351 Transaction qualifying as a tax-deferred contribution under Code Section 351(a), each former 4Front Unitholder which received 4Front Ventures Shares pursuant to the RTO Arrangement should not recognize any loss.

Provided the Cannex Reorganization constitutes a single integrated transaction and qualifies as a tax-deferred reorganization under Section 368(a) of the Code, each former Cannex Shareholder which received 4Front Ventures Shares, each Cannex Optionholder which received 4Front Ventures Options, and each Cannex Warrantholder which received 4Front Ventures Warrants, each pursuant to the RTO Arrangement, should not recognize any loss.

Part II Item 19. (other information)

The RTO Arrangement was effective on July 31, 2019. For a 4Front Ventures Shareholder, 4Front Ventures Optionholder or 4Front Ventures Warrantholder which participated in the RTO Arrangement whose taxable year is a calendar year, the reportable tax year is 2019.





**Part II Organizational Action** (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ▶ See Attachment.

Blank lined area for listing applicable Internal Revenue Code sections.

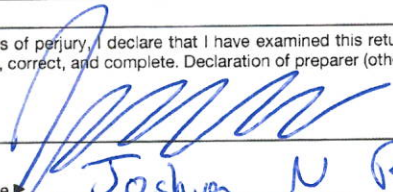
18 Can any resulting loss be recognized? ▶ See Attachment.

Blank lined area for indicating if a resulting loss can be recognized.

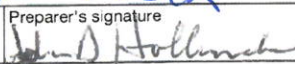
19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ▶ See Attachment.

Blank lined area for providing other information necessary to implement the adjustment.

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

**Sign Here** Signature ▶  Date ▶ 9/16/19

Print your name ▶ Joshua N Rosen Title ▶ CEO

|   |                                    |   |           |   |           |
|---|------------------------------------|---|-----------|---|-----------|
| <b>Paid Preparer Use Only</b>   | Print/Type preparer's name         | Preparer's signature  | Date      | Check <input type="checkbox"/> if self-employed | PTIN      |
|   | John Hollinrake                    |  | 9/12/2019 |   | P01568530 |
|   | Firm's name ▶ Dorsey & Whitney LLP | Firm's EIN ▶ 41-0223337   |           | Phone no. (206) 903-8812                        |           |
| Firm's address ▶ Columbia Center, 701 Fifth Avenue, Suite 6100, Seattle, WA 98104 |                                    |   |           |   |           |

Send Form 8937 (including accompanying statements) to: Department of the Treasury, Internal Revenue Service, Ogden, UT 84201-0054