

# FORM 7

## MONTHLY PROGRESS REPORT

Name of Listed Issuer: Cannex Capital Holdings Inc. (the "Issuer" or "Cannex").

Trading Symbol: CNNX

Number of Outstanding Listed Securities: 87,642,204 (Common)

Date: March 31, 2019

This Monthly Progress Report must be posted before the opening of trading on the fifth trading day of each month. This report is not intended to replace the Issuer's obligation to separately report material information forthwith upon the information becoming known to management or to post the forms required by Exchange Policies. If material information became known and was reported during the preceding month to which this report relates, this report should refer to the material information, the news release date and the posting date on the Exchange website.

This report is intended to keep investors and the market informed of the Issuer's ongoing business and management activities that occurred during the preceding month. Do not discuss goals or future plans unless they have crystallized to the point that they are "material information" as defined in the Policies. The discussion in this report must be factual, balanced and non-promotional.

### **General Instructions**

- (a) Prepare this Monthly Progress Report using the format set out below. The sequence of questions must not be altered nor should questions be omitted or left unanswered. The answers to the items must be in narrative form. State when the answer to any item is negative or not applicable to the Issuer. The title to each item must precede the answer.
- (b) The term "Issuer" includes the Issuer and any of its subsidiaries.
- (c) Terms used and not defined in this form are defined or interpreted in Policy 1 – Interpretation and General Provisions.

### **Report on Business**

1. Provide a general overview and discussion of the development of the Issuer's business and operations over the previous month. Where the Issuer was inactive disclose this fact.

During the month of March 2019, the Issuer:

- signed a definitive agreement dated March 1, 2019 (the "Definitive Agreement") with 4Front Holdings, LLC ("4Front") with respect to the business combination (the "Transaction") whereby the former securityholders of Cannex

and 4Front will become securityholders in the combined company (the “Resulting Issuer”). Cannex and 4Front are arm’s length parties. In connection with the Transaction, an application will be made to list the Resulting Issuer’s subordinate voting shares (“Subordinate Voting Shares”) for trading on the Canadian Securities Exchange (the “CSE”) initially under Cannex’s symbol “CNNX”, and it is expected that a new ticker symbol will be obtained in connection with the Transaction. The Transaction is subject to CSE approval, approval of the 4Front members and approval of at least 66 2/3% of the votes cast by Cannex shareholders at a special meeting expected to take place on April 18, 2019.

Under the terms of the Definitive Agreement, the Transaction will be carried out by way of a plan of arrangement under the British Columbia *Business Corporations Act* whereby Cannex shareholders will exchange their shares for 347,771,341 securities in the Resulting Issuer on a non-diluted basis (the “Cannex Consideration Shares”), subject to minor adjustment provisions included in the Definitive Agreement. Holders of common shares of Cannex will receive Subordinate Voting Shares on a 1:1 basis. Holders of Class A restricted voting shares of Cannex will receive proportionate voting shares of the Resulting Issuer (“Proportionate Voting Shares”) on a 80:1 basis. Each Proportionate Voting Share carries 80 votes. The Proportionate Voting Shares will not be listed for trading on the CSE but may be exchanged for Subordinate Voting Shares in certain circumstances. Pursuant to the Transaction, certain key members of 4Front, namely Joshua Rosen, Trevor Pratte, Karl Chowscano, Andrew Thut and Kris Kane (collectively, the “4Front Key Shareholders”), are expected to receive multiple voting shares of the Resulting Issuer (“Multiple Voting Shares”). Each Multiple Voting Share carries 800 votes. The Multiple Voting Shares will not be listed for trading on the CSE and may only be transferred or converted into Proportionate Voting Shares in certain circumstances. The Multiple Voting Shares are intended to provide voting control to the 4Front Key Shareholders. The number of Cannex Consideration Shares was determined by way of a previously agreed ratio such that the shareholder ratio will proportionally equal 1:1.75 Cannex shareholders to 4Front shareholders on closing of the Transaction (the “Exchange Ratio”).

The Exchange Ratio was determined when the parties entered into the interim agreement (announced on November 26, 2018). The pre-agreed ratio provides for a pre-Transaction value to 4Front shareholders of approximately C\$321.5 million calculated using a Cannex share price of C\$1.125 per share.

- The Definitive Agreement will constitute a “fundamental change” for Cannex pursuant to CSE policies;
- Cannex has scheduled a shareholder meeting for April 18, 2019 and has secured Lock Up and Support Agreements (the “Support Agreements”) in favour of the Transaction from Cannex shareholders, including all directors and officers, representing approximately 68.93% of Cannex’s outstanding shares;

- A majority of the principal shareholders of 4Front have agreed to vote in favor of the deal pursuant to support agreements;
- The Transaction will create a strong operator with expertise across the cannabis value chain, including cultivation, manufacturing, workflow, packaging, distribution and retail at scale, led by a team with longstanding industry credibility and strategic M&A capabilities;
- Initial collaboration in Massachusetts and Illinois already in motion, while collectively laying groundwork in new states including Arizona, California and Michigan.

Pursuant to the Definitive Agreement, directors, officers and founding shareholders of both 4Front and Cannex have entered into support agreements pursuant to which they have agreed to vote their shares in favor of the Transaction.

Upon completion of the Transaction, the board of directors of the Resulting Issuer will be comprised of five directors, with one executive director from each of Cannex and 4Front and three mutually agreed upon directors.

Cannex and 4Front have agreed to a US\$10 million termination fee if either company should choose an alternative transaction prior to the closing of the Transaction.

The board of directors of both Cannex and 4Front have unanimously approved the Transaction and the Cannex board of directors unanimously recommends that all Cannex shareholders vote in favor of the Transaction. The board of directors of Cannex has relied on a fairness opinion provided by Beacon Securities Limited (“Beacon”) stating that in Beacon’s opinion, and based upon and subject to the assumptions, limitations, and qualifications set forth therein, the consideration to be received by Cannex shareholders pursuant to the Transaction is fair, from a financial point of view, to such Cannex shareholders.

Eight Capital was engaged as 4Front’s financial advisor and provided 4Front’s board of directors its opinion that based upon and subject to certain assumptions, limitations, and qualifications, the financial consideration to be received by the 4Front shareholders pursuant to the Definitive Agreement is fair.

Closing will remain subject to court approval(s), CSE approval, as well as any other approvals that are customary for a transaction of this nature. Further information will also be available by way of an information circular to be prepared by Cannex and mailed to shareholders in connection with Cannex’s special meeting. All other relevant and publicly disclosable materials will be filed by Cannex on [www.sedar.com](http://www.sedar.com). Other than fees paid to Beacon in connection with the fairness opinion, there is no finder’s fee payable in connection with the Transaction.

The Transaction is expected to constitute a “fundamental change” for Cannex, as defined in CSE policies. Pursuant to CSE policies, the Company’s stock has been halted and will remain halted until all required documentation with respect to the Transaction has been received by the CSE and the CSE and applicable

securities regulatory authorities are otherwise satisfied that the halt should be lifted.

- continued actively reviewing business opportunities, with a focus on California, Nevada and Arizona.

The Issuer, through its wholly-owned subsidiaries, delivers comprehensive solutions for developing, operating, branding, and supplying licensed cannabis cultivators and producers throughout the United States. The Issuer expects to generate returns from any or all of the following revenue sources: (i) dividend income (or other profit distributions) and capital appreciation from equity investments; (ii) operating support, consulting, licensing, and advisory fees from service contracts with certain license holders; and (iii) leasing facilities and equipment to certain licensed cannabis entities.

2. Provide a general overview and discussion of the activities of management.

Management is focused on expansion initiatives to support the acquisition and development of additional assets in legal medical and recreational cannabis markets.

3. Describe and provide details of any new products or services developed or offered. For resource companies, provide details of new drilling, exploration or production programs and acquisitions of any new properties and attach any mineral or oil and gas or other reports required under Ontario securities law.

As the Issuer identifies additional opportunities, it will consider whether such opportunities meet its investment criteria and will either redeploy revenue into future projects or seek to raise additional capital, through equity financings or otherwise, to make such investments.

4. Describe and provide details of any products or services that were discontinued. For resource companies, provide details of any drilling, exploration or production programs that have been amended or abandoned.

Not applicable.

5. Describe any new business relationships entered into between the Issuer, the Issuer's affiliates or third parties including contracts to supply products or services, joint venture agreements and licensing agreements etc. State whether the relationship is with a Related Person of the Issuer and provide details of the relationship.

The Issuer has entered into the Definitive Agreement with 4Front, as described above. 4Front is not considered a Related Persons to the Issuer.

6. Describe the expiry or termination of any contracts or agreements between the Issuer, the Issuer's affiliates or third parties or cancellation of any financing arrangements that have been previously announced.

Not applicable

7. Describe any acquisitions by the Issuer or dispositions of the Issuer's assets that occurred during the preceding month. Provide details of the nature of the assets acquired or disposed of and provide details of the consideration paid or payable together with a schedule of payments if applicable, and of any valuation. State how the consideration was determined and whether the acquisition was from or the disposition was to a Related Person of the Issuer and provide details of the relationship.

Not applicable.

8. Describe the acquisition of new customers or loss of customers.

Not applicable.

9. Describe any new developments or effects on intangible products such as brand names, circulation lists, copyrights, franchises, licenses, patents, software, subscription lists and trade-marks.

Not applicable.

10. Report on any employee hirings, terminations or lay-offs with details of anticipated length of lay-offs.

Not applicable.

11. Report on any labour disputes and resolutions of those disputes if applicable.

Not applicable.

12. Describe and provide details of legal proceedings to which the Issuer became a party, including the name of the court or agency, the date instituted, the principal parties to the proceedings, the nature of the claim, the amount claimed, if any, if the proceedings are being contested, and the present status of the proceedings.

Not applicable.

13. Provide details of any indebtedness incurred or repaid by the Issuer together with the terms of such indebtedness.

Not applicable.

14. Provide details of any securities issued and options or warrants granted.

Security	Number Issued	Details of Issuance
Common Shares	300,000	03/05/19 - Option Exercise @ C\$1.00
	150,000	03/25/19 - Warrant Exercise @ C\$1.50
Class A Shares	Nil	N/A

Warrants	Nil	N/A
Convertible Notes	Nil	N/A
Options	Nil	N/A

15. Provide details of any loans to or by Related Persons.  
Not applicable.
16. Provide details of any changes in directors, officers or committee members.  
Not applicable.
17. Discuss any trends which are likely to impact the Issuer including trends in the Issuer's market(s) or political/regulatory trends.

### **Market Information, Trends, Commitments, Events and Uncertainties**

The most significant trends and uncertainties which management expects could impact its business and financial condition are: (i) the changing legal and regulatory regime which regulates the production and sale of cannabis and cannabis related product; (ii) the ability of companies who may receive funds from the sale of cannabis and cannabis related products to adequately track and legally transfer such funds; and (iii) the ability of companies to raise adequate capital to carry out their business objectives. See Section 17 – Risk Factors in the Company's CSE Form 2A Listing Statement dated March 12, 2018.

### **Legal and Regulatory Trends**

The Issuer's flagship investments are in Washington State and currently management expects the legal and regulatory regimes in the United States (on a federal level), Washington State, and Canada to be the most relevant to its business.

#### ***United States***

In the United States, 33 states and Washington D.C. have legalized medical marijuana, while ten states and Washington, D.C. have also legalized recreational marijuana. Although cannabis currently remains a Schedule I drug under federal law, the U.S. Department of Justice issued a memorandum, known as the "Cole Memorandum", on August 29, 2013 to the U.S. Attorneys' offices (federal prosecutors) directing that individuals and businesses that rigorously comply with state regulatory provisions in states that have strictly-regulated legalized medical or recreational cannabis programs should not be a prosecutorial priority for violations of federal law. This federal policy was reinforced by passage of a 2015 federal budget bill amendment (passed in 2014) known as the Rohrabacher-Farr Amendment that prohibits the use of federal funds to interfere in the implementation of state medical marijuana laws. This bill targets Department of Justice funding, which encompasses the Drug Enforcement Agency and Offices of the United States Attorneys. This bill shows the development of bi-partisan support in the U.S. Congress for legalizing the use of cannabis. It is anticipated that the

federal government will eventually repeal the federal prohibition on cannabis and/or allow the states to decide for themselves whether to permit regulated cannabis cultivation and sale, just as states are largely free today to decide policies governing the distribution of alcohol or tobacco. On January 4, 2018, the U.S. Department of Justice rescinded the Cole Memorandum. Given that the Cole Memorandum was never legally binding, the U.S. Department of Justice continues to have discretion to enforce federal drug laws.

Under U.S. federal law it may potentially be a violation of federal money laundering statutes for financial institutions to take any proceeds from marijuana sales or the sale of any other Schedule I substance. Canadian banks are also hesitant to deal with cannabis companies, due to the uncertain legal and regulatory framework of the industry. Banks and other financial institutions could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses. Under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering or conspiracy. Despite these laws, the U.S. Treasury Department issued a memorandum in February 2014 outlining the pathways for financial institutions to bank marijuana businesses in compliance with federal law. Under these guidelines, financial institutions must submit a “suspicious activity report” (SAR) as required by federal anti-money laundering laws. These marijuana related SARs are divided into three categories: marijuana limited, marijuana priority, and marijuana terminated, based on the financial institution’s belief that the marijuana business follows state law, is operating out of compliance with state law, or where the banking relationship has been terminated. In the U.S., a bill has been tabled in Congress to grant banks and other financial institutions immunity from federal criminal prosecution for servicing marijuana-related businesses if the underlying marijuana business follows state law. This bill has not been passed and there can be no assurance with that it will be passed in its current form or at all. In both Canada and the United States, transactions involving banks and other financial institutions are both difficult and unpredictable under the current legal and regulatory landscape.

Political and regulatory risks also exist due to the presidential administration of Donald Trump. The President’s positions on cannabis regulation have been difficult to discern. On November 7, 2018, Attorney General Jeff Sessions, a noted cannabis law reform skeptic, resigned. President Trump has appointed William Barr, who served as Attorney General in the presidential administration of George H.W. Bush from 1991 to 1993. Mr. Barr’s views on cannabis are unknown. It remains unclear what stance the U.S. Department of Justice under the new administration might take toward legalization efforts in U.S. states, but federal enforcement of the CSA and other applicable laws is possible.

Despite the legal, regulatory, and political obstacles the marijuana industry currently faces, the industry has continued to grow.

## **Washington State**

### Legislative History

Washington has authorized the cultivation, possession, processing, wholesaling, and retail sale of marijuana by certain licensed Washington businesses. The Washington State

Liquor and Cannabis Board (“**WSLCB**”) regulates Washington’s marijuana regulatory program. BrightLeaf is advised by legal counsel and/or other advisors in connection with Washington’s marijuana regulatory program. BrightLeaf only engages in transactions with Washington marijuana businesses that hold licenses that are in good standing and in compliance with Washington’s marijuana regulatory program. To the extent required by Washington’s marijuana regulatory program, BrightLeaf has fully disclosed and/or registered its and/or its subsidiaries relationships with Washington marijuana businesses.

### Licensing Requirements

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

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

An applicant must provide the WSLCB the applicant’s financial statements to verify the source of funds for the business, including any acquisition agreements and any agreements for the development of an operating marijuana business, as well as financial documents verifying the source of funds for all purchases of and material changes to the business. An applicant must disclose any financiers which are providing funds to be used by the marijuana business, and such financiers, except banks and other financial institutions, are subject to a substantially similar application process through the WSLCB. An applicant must provide the WSLCB the applicant’s and the applicant’s spouse’s personal and criminal history, including fingerprints for the submission of a criminal records background check with the Washington State Patrol and the U.S. Federal Bureau of Investigation. Conviction for certain serious crimes, or over a certain amount of convictions for more minor crimes, may disqualify an applicant from holding a marijuana license.

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

### Operations

Current Issuer operations, through BrightLeaf, are only in Washington State, so the Issuer is currently more exposed to Washington-specific risks. Management has observed, through third-party analyst reports, conversations with other industry participants, visits to Washington retail stores, and conversations with NWCS and 7Point employees, that prices for cannabis products have contracted sharply since roughly January 2018. Management does not have visibility into the exact cause of such compression, but does note that, to management’s knowledge, Washington State has by far the most granted recreational cannabis production/processing licenses of any state which has legalized cannabis in any form, and was recently noted by BDS Analytics (a cannabis-specific multi-state analytics company) as having the lowest wholesale price per pound of cannabis of any state which currently has a state-legalized market for

cannabis, at under \$800 wholesale.

This pricing compression adversely affects the profitability and cash-flow generating abilities of the Issuer's tenants NWCS and 7Point and has led to occasional delayed payment of portions of rent. If current trends worsen, NWCS and/or 7Point could potentially be unable to pay the full amount of current rent charged by the Company, current markups on non-cannabis inputs sold by Ag Grow, afford Ag Grow consulting services, etc. Management is monitoring the situation in Washington, and actively seeking to expand operations into other states to diversify Washington-specific risk. Management continues to consult with NWCS and 7Point to help them streamline operations, improve profitability, and be in an advantageous position should market trends reverse.

In January 2019, NWCS received an administrative violation notice from the WSLCB. Per the WSLCB, "[a]ll license holders have due process and if a business receives an Administrative Violation Notice or AVN there are several options for remedy including accept the recommended penalty, request a settlement conference or request an administrative hearing before an administrative law judge." NWCS reports that day to day operations are not affected. Approximately 600 AVNs and written warnings are issued by the WSLCB each year with many of these AVNs covering the type of alleged violation issued to NWCS. Many are settled or dismissed for lesser penalties even though, as in the case of NWCS, a possible outcome could be a loss of license.

BrightLeaf and BrightLeaf's subsidiaries, Real Estate Properties, LLC, Fuller Hill Development Co. LLC, and Ag Grow Imports LLC and the business licensees contracting with such subsidiaries (including NWCS and 7Point) are in compliance with Washington's marijuana regulatory program. The Issuer and its legal counsel continuously monitor statements and guidance issued by U.S. attorney regarding the risk of enforcement and the Issuer's compliance with state regulations.

#### *Canadian Securities*

On February 8, 2018, the Canadian Securities Administrators published Staff Notice 51-352 (Revised) Issuers with U.S. Marijuana-Related Activities ("Staff Notice 51-352") which provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the United States as permitted within a particular state's regulatory framework. All issuers with United States cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in prospectus filings and other required disclosure documents. As a result of the Issuer's investments in certain United States entities, the Issuer is subject to Staff Notice 51-352.

#### **Joyce Amendment**

On May 17, 2018 the U.S. House of Representatives Appropriations Committee approved the inclusion of the Rohrabacher-Blumenauer Amendment (previously, the Rohrabacher Farr Amendment), which adds a provision to prohibit the U.S. Department of Justice from using funding to prevent states from implementing medical marijuana laws through the end of fiscal year 2019, known as the "Joyce Amendment".

## **2018 Farm Bill**

In December 2018, President Trump signed the 2018 Farm Bill, which contained certain provisions legalizing the production, extraction, interstate commerce of, etc. industrial hemp. Industrial hemp is defined as hemp which contains less than 0.3% tetrahydrocannabinol (“THC”), the cannabinoid most commonly associated with intoxication which is contained within cannabis and hemp plants, on a dry weight basis.

This bill legalizes U.S. hemp for production and sale across state lines for research and commercial uses for all hemp that meets all the following criteria:

- the hemp contains less than 0.3% THC;
- the producer of the hemp is licensed by the state where it was grown; and
- the state where it was grown has a hemp program approved by the USDA.

Each state is allowed to submit a hemp regulatory program for USDA approval. The USDA will be working on reviewing submitted programs and constructing a hemp regulatory program for all states with no submitted program. No programs are currently approved by the USDA. Once a program is approved, producers may apply for licenses under the program and sell hemp legally for all purposes after the license is obtained.

Hemp is a genetically related plant to cannabis and has long been prohibited based at least in part on its similarity to cannabis, which tends to contain significantly higher amounts of THC than hemp. Hemp, unlike cannabis plants which tend to be richer in THC, is the most common source of cannabidiol (“**CBD**”). Research suggests that CBD is a non-psychoactive cannabinoid which may have several therapeutic effects. CBD is increasingly becoming popular as a wellness product, and its usage as an adjunct to THC is increasing as well.

Management believes hemp legalization is positive for a number of reasons: (1) CBD source material will likely become cheaper, leading to lower cost basis in certain CBD-infused products sold by NWCS; and (2) hemp legalization suggests liberalizing legislator and executive attitudes towards cannabis.

## 18. Certificate Of Compliance

The undersigned hereby certifies that:

1. The undersigned is a director and/or senior officer of the Issuer and has been duly authorized by a resolution of the board of directors of the Issuer to sign this Certificate of Compliance.
2. As of the date hereof there were is no material information concerning the Issuer which has not been publicly disclosed.
3. The undersigned hereby certifies to the Exchange that the Issuer is in compliance with the requirements of applicable securities legislation (as such term is defined in National Instrument 14-101) and all Exchange Requirements (as defined in CNSX Policy 1).
4. All of the information in this Form 7 Monthly Progress Report is true.

Dated April 2, 2019.

Anthony Dutton  
Name of Director or Senior  
Officer

/s/ Anthony Dutton  
Signature

Chief Executive Officer  
Official Capacity

<b><i>Issuer Details:</i></b> Name of Issuer <b>Cannex Capital Holdings Inc.</b>	For Month End <b>March 2019</b>	Date of Report YY/MM/DD <b>19/04/02</b>
Issuer Address: <b>1241 Alberni Street</b>		
City/Province/Postal Code <b>Vancouver, BC V6E 4R4</b>	Issuer Fax No. <b>(888) 691-0529</b>	Issuer Telephone No. <b>(604) 628-9338</b>
Contact Name <b>Anthony Dutton</b>	Contact Position <b>CEO</b>	Contact Telephone No. <b>(604) 628-9338</b>
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