REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Directors of
4Front Ventures Corp.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of 4Front Ventures Corp. (the "Company") as of December 31, 2020 and 2019, and the related consolidated statements of operations and comprehensive loss, changes in shareholders' equity, and cash flows for the years ended December 31, 2020 and 2019, and the related notes and schedules (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years ended December 31, 2020 and 2019, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2019.

/s/ DAVIDSON & COMPANY LLP

Vancouver, Canada Chartered Professional Accountants

April 6, 2021

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

4FRONT VENTURES CORP.
Formerly 4Front Holdings, LLC
Consolidated Balance Sheets
As of December 31, 2020 and December 31, 2019
Amounts expressed in thousands of U.S. dollars except for share and per share data

	December 31, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash	$ 18,932	$ 5,789
Accounts receivable	437	597
Other receivables	1,341	405
Current portion of lease receivables	3,450	9,556
Inventory	18,037	9,825
Current portion of notes receivable	264	1,871
Prepaid expenses	2,275	2,198
Total current assets	44,736	30,241
Restricted cash	—	2,352
Property and equipment, net	33,618	41,822
Notes receivable and accrued interest	91	1,049
Lease receivables	7,595	23,944
Intangible assets, net	28,790	35,147
Goodwill	23,155	40,283
Right-of-use assets	62,466	20,757
Investments	—	759
Deposits	4,305	6,347
TOTAL ASSETS	$ 204,756	$ 202,701
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Current liabilities:		
Accounts payable	$ 4,722	$ 5,866
Accrued expenses and other current liabilities	6,427	3,465
Taxes payable	11,502	1,609
Derivative liability	5,807	—
Current portion of convertible notes	1,652	—
Current portion of lease liability	1,909	972
Current portion of contingent consideration payable	2,393	750
Current portion of notes payable and accrued interest	3,372	6,190
Total current liabilities	37,784	18,852
Convertible notes	14,722	35,607
Notes payable and accrued interest from related party	45,362	44,289
Long term notes payable	1,907	1,903
Long term accounts payable	1,600	1,600
Contingent consideration payable	3,103	4,714
Deferred tax liability	6,530	—
Lease liability	51,545	20,976
TOTAL LIABILITIES	162,553	127,941
SHAREHOLDERS' EQUITY		
Equity attributable to 4Front Ventures Corp.	250,583	252,656
Additional paid-in capital	42,116	25,618
Deficit	(250,548)	(203,497)
Non-controlling interest	52	(17)
TOTAL SHAREHOLDERS' EQUITY	42,203	74,760
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 204,756	$ 202,701

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

4FRONT VENTURES CORP.
Formerly 4Front Holdings, LLC
Consolidated Statements of Operations and Comprehensive Loss
For the Years Ended December 31, 2020 and 2019
Amounts expressed in thousands of U.S. dollars except for share and per share data

	December 31, 2020	December 31, 2019
REVENUE		
Revenue from sale of goods	$ 46,616	$ 14,812
Real estate income	11,019	4,220
Total revenues	57,635	19,032
Cost of goods sold, sale of grown and manufactured products	(11,973)	(6,844)
Cost of goods gold, sale of purchased products	(9,151)	(4,007)
Gross profit	36,511	8,181
OPERATING EXPENSES		
Selling and marketing expenses	23,174	9,038
General and administrative expenses	20,494	24,984
Depreciation and amortization	4,061	3,163
Equity based compensation	5,306	5,913
Impairment of goodwill and intangible assets	16,748	145,203
Foreign exchange (gain) loss	(19)	57
Accretion	(643)	(337)
Total operating expenses	69,121	188,021
Loss from operations	(32,610)	(179,840)
Other income (expense)		
Interest income	77	85
Interest expense	(15,779)	(5,559)
Change in fair value of derivative liability	(1,578)	5,317
Gain on sale leaseback transactions	3,345	—
Gain on restructuring of notes payable	380	—
Gain on extinguishment of debt	1,218	—
Loss on investments	(759)	(529)
Other	763	2,500
Total other income (expense)	(12,333)	1,814
Net loss before income taxes	(44,943)	(178,026)
Income tax expense	(15,049)	(966)
Net loss from continuing operations	(59,992)	(178,992)
Net income (loss) from discontinued operations, net of taxes	12,987	(3,133)
Net loss	(47,005)	(182,125)
Net income (loss) attributable to non-controlling interest	46	(115)
Net loss attributable to shareholders	$ (47,051)	$ (182,010)
Basic and diluted loss per share	$ (0.09)	$ (0.43)
Weighted average number of shares outstanding, basic and diluted	520,563,800	420,306,991

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

4FRONT VENTURES CORP.
Formerly 4Front Holdings, LLC
Consolidated Statements of Changes in Shareholders’ Equity
For the Years Ended December 31, 2020 and 2019
Amounts expressed in thousands of U.S. dollars except for share and per share data

	Share Capital			Additional Paid-In		Total 4Front Ventures Corp. Shareholders'	Non-Controlling	Total Shareholders'
	Units	Shares	Amount	Capital	Deficit	Equity	Interest	Equity
Balance, December 31, 2018	803,591	-	$ 68,959	$ 2,227	$ (21,487)	$ 49,699	$ (1,668)	$ 48,031
Class F units of Holdings for acquisition of PHX	5,496	—	2,676	—	—	2,676	—	2,676
Class F units for acquisition of Om	9,040	—	4,400	—	—	4,400	—	4,400
Class F units of Holdings for acquisition of non-controlling interests	11,642	—	7,989	—	—	7,989	—	7,989
Purchase of non-controlling interests	—	—	(10,156)	—	—	(10,156)	1,766	(8,390)
Issuance of Class F units due to timing of the Cannex acquisition	3,901	—	—	—	—	—	—	—
Issuance of Class F units to brokers	236	—	115	—	—	115	—	115
Share issuance costs	—	—	(115)	—	—	(115)	—	(115)
Share-based compensation through July 31, 2019	34,572	—	—	3,776	—	3,776	—	3,776
Conversion of 4Front Holdings units to 4Front Ventures Corp. shares	(868,478)	340,370,271	—	—	—	—	—	—
Cannex acquisition	—	190,482,146	181,110	6,825	—	187,935	—	187,935
GGP warrants acquired with Cannex	—	—	—	5,779	—	5,779	—	5,779
Issuance of broker warrants	—	—	—	1,823	—	1,823	—	1,823
Share issuance costs	—	—	—	(1,823)	—	(1,823)	—	(1,823)
Issuance of shares to brokers	—	1,035,456	420	—	—	420	—	420
Share issuance costs	—	—	(420)	—	—	(420)	—	(420)
Conversion option on GGP notes transferred to equity	—	—	—	4,874	—	4,874	—	4,874
Purchase of non-controlling interests in Arkansas entities	—	—	(2,322)	—	—	(2,322)	—	(2,322)
Share-based compensation after July 31, 2019	—	—	—	2,137	—	2,137	—	2,137
Return of treasury shares	—	(365,054)	—	—	—	—	—	—
Net loss	—	—	—	—	(182,010)	(182,010)	(115)	(182,125)
Balance, December 31, 2019	—	531,522,819	$ 252,656	$ 25,618	$ (203,497)	$ 74,777	$ (17)	$ 74,760

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

4FRONT VENTURES CORP.
Formerly 4Front Holdings, LLC
Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 2020 and 2019
Amounts expressed in thousands of U.S. dollars except for share and per share data

	Units	Share Capital Shares	Share Capital Amount	Additional Paid-In Capital	Deficit	Total 4Front Ventures Corp. Shareholders' Equity	Non-Controlling Interest	Total Shareholders' Equity
Balance, December 31, 2019	—	531,522,819	$ 252,656	$ 25,618	$ (203,497)	$ 74,777	$ (17)	$ 74,760
Conversion option and warrants for GGP notes transferred to equity	—	—	—	411	—	411	—	411
Conversion option for convertible notes transferred to equity	—	—	—	5,163	—	5,163	—	5,163
Shares issued for Pure Ratios earnout	—	223,145	94	—	—	94	—	94
Share-based compensation	—	—	—	5,306	—	5,306	—	5,306
Exchange of stock for convertible swap notes	—	(29,448,468)	(13,661)	—	—	(13,661)	—	(13,661)
Conversion of notes to equity	—	4,479,113	1,939	—	—	1,939	—	1,939
Shares issued with exercise of warrants	—	2,686,463	1,352	—	—	1,352	—	1,352
Shares issued for services	—	1,192,640	644	—	—	644	—	644
Issuance of stock for purchase of non-controlling interests	—	3,551,040	231	—	—	231	(231)	—
Derecognition of NCI with the sale of Maryland entities	—	—	—	—	—	—	254	254
Issuance of stock for bought deal	—	24,644,500	8,018	—	—	8,018	—	8,018
Issuance of broker warrants	—	—	—	577	—	577	—	577
Share issuance costs for bought deal	—	—	(690)	—	—	(690)	—	(690)
Issuance of warrants to Advisors	—	—	—	381	—	381	—	381
Issuance of warrants to LI Lending	—	—	—	4,660	—	4,660	—	4,660
Net loss	—	—	—	—	(47,051)	(47,051)	46	(47,005)
Balance, December 31, 2020	—	538,851,252	$ 250,583	$ 42,116	$ (250,548)	$ 42,151	$ 52	$ 42,203

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

Amounts expressed in thousands of U.S. dollars except for share and per share data

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	(47,005)	(182,125)
Adjustments to reconcile net loss to net cash used by operating activities		
Depreciation and amortization	8,563	4,171
Equity based compensation	5,306	5,913
Change in fair value of derivative liability	1,578	(5,317)
Accretion of lease liability	(107)	(958)
Write-off of investment	759	529
Write-off of receivable	518	—
Write-off of deposit	424	—
Impairment of inventory	—	483
Accrued interest income on notes receivable	—	(97)
Change in contingent consideration payable	774	214
Accretion of contingent consideration	758	—
Accretion of convertible debenture and interest	1,009	1,553
Accrued interest on notes payable	3,073	—
Interest accrued - lease receivable	(312)	(308)
Deferred taxes	6,530	(232)
Impairment of goodwill and intangibles	16,748	145,203
Tax adjustment to goodwill	(1,406)	—
Gain on sale of dispensaries	(13,454)	—
Gain on sales lease back	(3,345)	—
Equity issued to pay consulting fees	644	—
Changes in operating assets and liabilities	5,531	1,572
NET CASH PROVIDED BY (USED IN) CONTINUED OPERATING ACTIVITIES	(13,414)	(29,399)
Net cash provided by (used in) discontinued operating activities	(627)	2,005
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(14,041)	(27,394)
CASH FLOWS FROM INVESTING ACTIVITIES		
Long term deposits	—	(2,507)
Issuance of notes receivable, net of repayments	(3,503)	802
Advances to discontinued operations	—	(7,504)
Notes receivable repayments	782	—
Business combination with Cannex, net cash acquired	—	9,119
Business combination with Om, net cash acquired	—	(176)
Purchase of non-controlling interest	—	(400)
Sale of dispensaries and interests in cannabis licenses	25,423	—
Sale lease back transactions	32,189	—
Purchases of property and equipment	(13,875)	(20,906)
NET CASH PROVIDED BY (USED IN) CONTINUED INVESTING ACTIVITIES	41,016	(21,572)
Net cash provided by (used in) discontinued investing activities	(1,679)	2,073
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	39,337	(19,499)
CASH FLOWS FROM FINANCING ACTIVITIES		
Notes payable received (repaid), net of costs	(317)	46,113
Cannex loan	—	12,497
Sale of stock with warrants, net of issuance costs	12,134	—
Issuance of convertible notes	8,636	—
Proceeds from the exercise of warrants	1,352	—
Repayment of convertible debentures	(37,813)	(953)
Repayment of notes payable	(2,000)	(4,058)
NET CASH PROVIDED BY (USED IN) CONTINUED FINANCING ACTIVITIES	(18,008)	53,599
Net cash provided by discontinued financing activities	3,503	—
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(14,505)	53,599
NET INCREASE (DECREASE) IN CASH	10,791	6,706
CASH, BEGINNING OF YEAR	8,141	1,435
CASH, END OF YEAR	$ 18,932	$ 8,141

The accompanying notes are an integral part of these consolidated 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 11). Following the RTO, the Company's SVS are listed on the Canadian Securities Exchange ("CSE") under the ticker "FFNT" and are quoted on the OTC (OTCQX: FFNTF).

As of December 31, 2020, the Company operates five dispensaries in Massachusetts, Illinois, and Michigan. The Company operates two production facilities in Massachusetts and one in Illinois. The Company produces the majority of products that are sold at its Massachusetts and Illinois dispensaries.

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 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. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation and Statement of Compliance

The accompanying consolidated financial statements as of December 31, 2020 and 2019 (the "consolidated financial statements"), have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

(b) Basis of Measurement

These consolidated financial statements have been prepared on the going concern basis, under the historical cost convention, except for certain financial instruments that are measured at fair value as described herein.

(c) Functional and Presentation Currency

The Company's, and its subsidiaries', functional currency, as determined by management, is the United States ("U.S.") dollar. These consolidated financial statements are presented in U.S. dollars.

(d) Basis of Consolidation

The accompanying consolidated financial statements are comprised of the financial statements of the Company and its subsidiaries and reflect all adjustments which are necessary for a fair statement of the financial position, results of operations, and cash flows for the periods presented in accordance with GAAP. All intercompany balances and transactions are eliminated in consolidation. Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect these returns through the power to direct the relevant activities of the entity. To the extent that subsidiaries provide services that relate to the Company's activities, they are fully consolidated from the date control is transferred and are deconsolidated from the date control ceases.

Amounts expressed in thousands of U.S. dollars except for share and per share data

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

The following are the Company's wholly owned subsidiaries and entities that are controlled by the Company that are included in these consolidated financial statements as of and for the years ended December 31, 2020 and 2019:

Business Name	Entity Type	State of Operations	Ownership % 2020	Ownership % 2019
4Front Holdings, LLC	Holding Company	DE	100%	100%
4Front Advisors, LLC	Consulting Company	AZ	100%	100%
Mission Partners USA, LLC	Investment Company	DE	100%	100%
Linchpin Investors, LLC	Finance Company	DE	100%	100%
Healthy Pharms Inc.	Collocated Cultivation / Production / Dispensary	MA	100%	100%
MMA Capital, LLC	Finance Company	MA	95.0%	85.3%
IL Grown Medicine, LLC	Cultivation	IL	100%	100%
Harborside Illinois Grown Medicine, Inc.	Dispensary (allowing for the operation of 2 dispensaries)	IL	100%	100%
Om of Medicine, LLC	Co-located Medical Provisioning Center (Dispensary); Co-located Adult-Use Dispensary	MI	100%	100%
Mission MA, Inc.	Collocated Cultivation / Production / Dispensary	MA	100%	100%
Real Estate Properties LLC	Real Estate Holding	WA	100%	100%
Fuller Hill Development Co, LLC	Real Estate Holding	WA	100%	100%
Ag-Grow Imports LLC	Importer of Equipment	WA	100%	100%
Pure Ratios Holdings, Inc.	Online CBD Retail	DE	100%	100%
4Front California Capital Holdings Inc.	Real Estate Holding	CA	100%	100%
4Front Nevada Corp.	Holding Company	NV	100%	100%
Brightleaf Development LLC	Holding Company	WA	100%	100%
Mission Partners IP, LLC	IP Holding Company	DE	100%	100%
4Front US Holdings, Inc.	Holding Company	DE	100%	100%
4Front Management Associates, LLC	Management Company	MA	95%	76%
4Front Ventures Corp.	Holding Company	Canada	100%	100%

(e) Cash and Cash Equivalents

Cash and cash equivalents include cash deposits in financial institutions, other deposits that are readily convertible into cash, with original maturities of three months or less, and cash held at retail locations. For the years presented, the Company did not have any cash equivalents.

(f) Inventories

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.

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.

Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the weighted average cost basis. Products for resale and supplies and consumables are valued at lower of cost and net realizable value. The Company reviews inventory for obsolete, redundant and slow-moving goods and any such inventories are written down to net realizable value.

(g) Property and Equipment

Property and equipment are stated at cost, including capitalized borrowing costs, net of accumulated depreciation and impairment losses, if any. Expenditures that materially increase the life of the assets are capitalized. Ordinary repairs and maintenance are expensed as incurred. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset using the following terms and methods:

Land/ Assets Under Construction	Not Depreciated
Buildings and Improvements	10 – 39 Years
Furniture and Fixtures	5 – 7 Years
Equipment	7 years
Software	5 Years
Leasehold Improvements	Lesser of Remaining Life of Lease or Useful Life

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted prospectively if appropriate. An item of equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in operations in the year the asset is derecognized.

The Company evaluates the recoverability of other long-lived assets, including property, plant and equipment, and certain identifiable intangible assets, whenever events or changes in circumstances indicate that the carrying value of an asset or asset group may not be recoverable. The Company performs impairment tests of indefinite-lived intangible assets on an annual basis or more frequently in certain circumstances. Factors which could trigger an impairment review include significant underperformance relative to historical or projected future operating results, significant changes in the manner of use of the assets or the strategy for the overall business, a significant decrease in the market value of the assets or significant negative industry or economic trends. When the Company determines that the carrying value of long-lived assets may not be recoverable based upon the existence of one or more of the indicators, the assets are assessed for impairment based on the estimated future undiscounted cash flows expected to result from the use of the asset and its eventual disposition. If the carrying value of an asset exceeds its estimated future undiscounted cash flows, an impairment loss is recorded for the excess of the asset's carrying value over its fair value.

(h) Impairment of non-financial assets

The Company evaluates the recoverability of other long-lived assets, including property, plant and equipment, and certain identifiable intangible assets, whenever events or changes in circumstances indicate that the carrying value of an asset or asset group may not be recoverable. The Company performs impairment tests of indefinite-lived intangible assets on an annual basis or more frequently in certain circumstances. Factors which could trigger an impairment review include significant underperformance relative to historical or projected future operating results, significant changes in the manner of use of the assets or the strategy for the overall business, a significant decrease in the market value of the assets or significant negative industry or economic trends.

When the Company determines that the carrying value of long-lived assets may not be recoverable based upon the existence of one or more of the indicators, the assets are assessed for impairment based on the estimated future undiscounted cash flows expected to result from the use of the asset and its disposition, an impairment loss is recorded for the excess of the asset's carrying value over its fair value.

(i) Intangible Assets

Intangible assets are recorded at cost less accumulated amortization and impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization periods of assets with finite lives are based on management's estimates at the date of acquisition and were as follows for each class of intangible asset as of December 31, 2020:

Intangible assets estimated useful life:	
Customer Relationships	5 years
Tradenames	1-10 years
Non-competition Agreement	2-3 years
Know-how (trade secrets)	5 years

Intangible assets with finite lives are amortized over their estimated useful lives. The estimated useful lives, residual values, and amortization methods are reviewed at each year end, and any changes in estimates are accounted for prospectively.

(j) Goodwill

Goodwill arises from business combinations and is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any non-controlling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill acquired in a business combination is not amortized but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed.

The Company tests impairment of goodwill in two steps:

1. Indicators of impairment – a qualitative test to determine whether indicators of impairment (or conversely indicators of non-impairment), collectively "trigger events", are present by assessing the below. If there is no negative trigger event, no further analysis is necessary.
    a. Macroeconomic conditions such as a deterioration in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates, or other developments in equity and credit markets.

b. Industry and market considerations such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline in market-dependent multiples or metrics (consider in both absolute terms and relative to peers), a change in the market for an entity's products or services, or a regulatory or political development.
c. Cost factors such as increases in raw materials, labor, or other costs that have a negative effect on earnings and cash flows.
d. Overall financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods. In this case we have selected a 2019 to 2020 EBITDA comparative.
e. Other relevant entity-specific events such as changes in management, key personnel, strategy, or customers; contemplation of bankruptcy; or litigation
f. Events affecting a Reporting Unit such as a change in the composition or carrying amount of its net assets, a more-likely-than-not expectation of selling or disposing all, or a portion, of a Reporting Unit, the testing for recoverability of a significant asset group within a Reporting Unit, or recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of a Reporting Unit
g. If applicable, a sustained decrease in share price (consider in both absolute terms and relative to peers).

2. Quantitative Assessment - If the qualitative assessment above indicates that it is more likely than not that the fair value of the indefinite-lived intangible asset or the reporting unit (for goodwill) is less than its carrying value, a quantitative impairment test to compare the fair value to the carrying value. An impairment charge is recorded if the carrying value exceeds the fair value.

(k) Income Taxes

Deferred taxes are provided using an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Deferred tax assets and liabilities are measured using the enacted taxes rates. The effect on deferred tax assets and liabilities of a change in tax law or tax rates is recognized in income in the period that enactment occurs. As discussed further in Note 24, the Company is subject to the limitations of IRC Section 280E.

(l) Revenue Recognition

Revenue is recognized by the Company in accordance with ASU 2014-09, *Revenue from Contracts with Customers (Topic 606).* Through application of the standard, the Company recognizes revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

In order to recognize revenue under ASU 2014-09, the Company applies the following five steps:

- Identify a customer along with a corresponding contract;
- Identify the performance obligation(s) in the contract to transfer goods or provide distinct services to a customer;
- Determine the transaction price the Company expects to be entitled to in exchange for transferring promised goods or services to a customer;

- Allocate the transaction price to the performance obligation(s) in the contract;
- Recognize revenue when or as the Company satisfies the performance obligation(s).

Real estate income

The Company accounts for leases and subleases with its tenants as finance leases. At the inception of a finance lease, the Company recognizes a lease receivable for the net present value of the future lease payments, derecognizes the underlying assets from property and equipment and derecognize the right-of-use-asset for the lease on any subleased facility. Lease payments received are primarily recognized as real estate income in the Consolidated Statements of Operations and Comprehensive Loss. A portion of the lease payment amortizes the lease receivable.

Sale of goods

Revenues consist of consumer packaged goods and retail sales of cannabis, which are generally recognized at a point in time when control over the goods have been transferred to the customer and is recorded net of sales discounts. Payment is typically due upon transferring the goods to the customer or within a specified time period permitted under the Company's credit policy. Sales discounts were not material during the years ended December 31, 2020 and 2019.

Revenue is recognized upon the satisfaction of the performance obligation. The Company satisfies its performance obligation and transfers control upon delivery and acceptance by the customer.

The Company treats shipping and handling activities as a fulfillment cost, classified as cost of sales. Accordingly, the Company accrues all fulfillment costs related to the shipping and handling of consumer goods at the time of shipment.

For some of its locations, the Company offers a loyalty reward program to its dispensary customers. A portion of the revenue generated in a sale is allocated to the loyalty points earned. The amount allocated to the points earned is deferred until the loyalty points are redeemed or expire. As of December 31, 2020 and 2019, the loyalty liability totaled $417 and $nil, respectively, and is included in accrued liabilities on the consolidated balance sheets.

(m) Share-based compensation

The stock option plan (Note 18) allows Company directors, employees and consultants to acquire shares of the Company. The Company measures the fair value of services received in exchange for all options granted based on the fair market value of the award as of the grant date. The fair value of options granted is recognized as a share-based compensation expense with a corresponding increase in equity.

Consideration paid on the exercise of stock options is credited to share capital and the fair value of the options is reclassified from reserves to capital stock.

The fair value is measured at grant date and each tranche is recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the number of stock options that are expected to vest.

(n) Fair Value of Financial Instruments (See Note 21)

The Company applies fair value accounting for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities that are required to be recorded at fair value, the Company considers all related factors of the asset by market participants in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions, and credit risk.

The Company provides information about its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

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).

(o) Provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

Contingent consideration is measured upon acquisition and is estimated using probability weighting of potential payouts. Subsequent changes in the estimated contingent consideration from the final purchase price allocation are recognized in the Company's consolidated statement of operations.

(p) Share Capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, share options and warrants are classified as equity instruments. Incremental costs directly attributable to the issue of new shares, warrants or options are shown in equity as a deduction from the proceeds. The proceeds from the exercise of stock options are recorded as share capital. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with Accounting Standards Codification (ASC) 740, Income Taxes.

(q) Loss per Share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. Diluted loss per share has been calculated using the weighted average number of common shares that would have been outstanding during the respective period had all stock options and warrants outstanding and having a dilutive effect been converted into shares at the beginning of the period and the proceeds used to repurchase the Company's common shares at the average market price for the period. If these computations prove to be anti-dilutive, diluted loss per share is the same as the basic loss per share.

(r) Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The Company measures goodwill as the fair value of the consideration, less the net recognized amount of the identifiable assets and liabilities assumed, all measured at fair value as of the acquisition date. Any excess of the fair value of the net assets acquired over the consideration, is a gain on business acquisition and would be recognized as a gain in the consolidated statement of operations and comprehensive loss.

In determining the fair value of all identifiable assets, liabilities and contingent liabilities acquired, the most significant estimates relate to contingent consideration and intangible assets. Management exercises judgement in estimating the probability and timing of when earn-outs are expected to be achieved, which is used as the basis for estimating fair value.

(s) Foreign Currency

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into the entity's functional currency by the use of the exchange rate in effect at that date. At the period-end date, unsettled monetary assets and liabilities are translated into the functional currency by using the exchange rate in effect at the period-end date and the related translation differences are recognized in net income.

(t) Use of Estimates

The preparation of the consolidated financial statements and accompanying notes in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported. Actual results can differ from these estimates.

(u) Recent 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 12 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 consolidated 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 consolidated 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 consolidated 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 Taxes", which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. ASU 2019-12 is effective for the Company beginning January 1, 2021. The Company is currently evaluating the effect of adopting this ASU on the Company's 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)", which is intended to clarify the interaction of the accounting for equity securities under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. ASU 2020-01 is effective for the Company beginning January 1, 2021. The Company is currently evaluating the effect of adopting this ASU on the Company's financial statements.

(iii) In August 2020, the FASB issued ASU 2020-06, "Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40)". ASU 2020-06 simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity. ASU 2020-06 is effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting this ASU on the Company's financial statements.

3. 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 December 31, 2020, the Company's shareholders' equity was $42,151. There were no changes to the Company's approach to capital management during the twelve months ended December 31, 2020.

Amounts expressed in thousands of U.S. dollars except for share and per share data

4. CASH AND RESTRICTED CASH

Cash at banks earns interest at floating rates based on daily bank deposit rates. The Company had $nil and $2,352 in restricted cash at December 31, 2020 and 2019, respectively, held under the terms of a debt facility.

5. DEPOSITS

Long-term deposits are made up of the following:

	December 31, 2020	December 31, 2019
Deposits on equipment	$ 1,156	$ 3,505
Deposits on construction	—	1,500
Other long-term deposits	3,149	1,342
Total	$ 4,305	$ 6,347

6. INVENTORY

The Company's inventories include the following at December 31, 2020 and December 31, 2019:

	December 31,2020	December 31,2019
Raw materials – harvested cannabis	$ 4,693	$ 687
Raw materials – CBD and ingredients	214	76
Work in process – flower and extract	9,454	6,757
Finished goods – cultivation supplies	886	677
Finished goods – packaged products	2,790	1,628
Total	$ 18,037	$ 9,825

During 2020 and 2019, no inventory was pledged as collateral.

7. NOTES RECEIVABLE

	December 31, 2020	December 31, 2019
Accucanna Note (1)	$ —	$ 1,597
NWCS and 7 Point Notes (2)	355	586
Related Party Notes (3)	—	696
Other	—	41
Total	$ 355	$ 2,920
Less: notes receivable, current	(264)	(1,871)
Notes receivable, long term	$ 91	$ 1,049

(1) *Accucanna Note*

The Company, as part of the Cannex acquisition (Note 11), acquired a loan receivable from Accucanna, LLC ("Accucanna"), a California cannabis dispensary licensee which shared significant common ownership with Pure Ratios. The $1,500 loan was evidenced by a secured convertible promissory note. The note bore interest of 10% for the first six months and 18% thereafter. The loan was restructured in 2020 and the remaining balance was repaid prior to December 31, 2020.

Amounts expressed in thousands of U.S. dollars except for share and per share data

(2) *NWCS and 7Point Notes*

The Company acquired three notes receivable in the Cannex business combination (Note 11). The notes bear interest ranging from 10% - 13% per annum and are repayable in installments totaling $22 per month, maturing in 2022.

(3) *Related Party Notes*

The Company held various loans totaling $nil and $696 at December 31, 2020, and December 31, 2019, respectively, from related parties that hold cannabis licenses, have applied for cannabis licenses, or control real estate that can be used for a cannabis facility. The parties are related because a Company executive is a member of the Board of Managers of the party, or employees of the Company have a significant ownership of the party. The loans are unsecured, non-interest bearing, and are payable on demand. The loans were written-off during 2020.

8. INVESTMENTS

As of December 31, 2020 and 2019 the Company holds investments of equity in private companies as follows:

	December 31, 2020	December 31, 2019
HelloMe Inc., a California-based company focused on products on the beauty and wellness industry.	$ —	$ 509
LemonHaze Inc., a Washington-based private cannabis event company.	—	150
Retail Education Tools, Inc., a Washington-based start-up application company focused on marketing tools for emerging cannabis companies.	—	100
Total investments	$ —	$ 759

During 2020, the Company determined that the value of these investments is $nil due to a lack of revenue growth and no evidence of future profitability. Accordingly, a loss on investments of $759 has been recorded on the consolidated statement of operations and comprehensive loss.

Amounts expressed in thousands of U.S. dollars except for share and per share data

9. PROPERTY AND EQUIPMENT

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

	As of December 31, 2020	As of December 31, 2019
Land	$ 150	$ 1,636
Buildings & improvements	3,745	11,157
Construction in process	19,934	8,561
Furniture, equipment & other	9,968	7,504
Leasehold improvements	5,839	16,057
Total	39,636	44,915
Less: accumulated depreciation	(6,018)	(3,093)
Total property and equipment, net	**$ 33,618**	**$ 41,822**

On December 17, 2020, the Company closed two sale and lease back transactions to sell its Olympia, Washington cultivation and processing facility and its Georgetown, Massachusetts combination cultivation, production and dispensary to Innovative Industrial Properties, Inc. ("IIPR"). Under the long-term agreements, the Company will lease back the facilities and continue to operate and manage them. As a result of the sale, the Company disposed of $12,665 of land, buildings, building improvements, and equipment. The Company recognized a gain of $3,345 on the transactions. For further information regarding these transactions, see Note 12 - Leases.

Approximately $33,000 of property and equipment is secured by LI Lending as collateral on the LI Lending note (Note 13). There were no significant contractual commitments for future capital expenditures as of December 31, 2020 and 2019.

Depreciation of property and equipment is computed using the straight-line method over the asset's estimated useful life. Depreciation expense for the year ended December 31, 2020 and 2019 was $1,052 and $2,553 respectively, of which $3,769 and $1,700 respectively is included in cost of goods sold.

Amounts expressed in thousands of U.S. dollars except for share and per share data

10. INTANGIBLE ASSETS AND GOODWILL

Intangible Assets

Intangible assets are recorded at cost less accumulated amortization and impairment losses. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization of definite life intangibles is recognized on a straight-line basis over their estimated useful lives. The estimated useful lives, residual values, and amortization methods are reviewed at each year end, and any changes in estimates are accounted for prospectively.

	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 11)	—	—	—	3,900	9,700	13,600
Om of Medicine acquisition (Note 11)	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	—	(579)	(94)	(377)	(1,959)	(3,009)
Impairment	—	—	—	(3,348)	—	(3,348)
Balance, December 31, 2020	$ 20,146	$ 1,668	$ 43	$ —	$ 6,933	$ 28,790

Goodwill

Balance, December 31, 2018	$ 6,065
Cannex acquisition (Note 11)	166,557
Om acquisition (Note 11)	1,435
PHX/Greens Goddess acquisition (Note 11)	6,225
Impairment of PHX/Greens Goddess goodwill	(1,091)
Impairment of continuing operations goodwill	(138,908)
Balance, December 31, 2019	$ 40,283
Disposal of PHX/Greens Goddess (Note 25)	(5,134)
Tax adjustment to goodwill from Cannex acquisition	1,406
Impairment	(13,400)
Balance, December 31, 2020	**$ 23,155**

For the year ended December 31, 2020, the Company recorded a decrease of $5,134, from the disposal of PHX Interactive LLC/Greens Goddess Inc. (Note 25)

Goodwill is tested for impairment annually, or more frequently when events or circumstances indicate that impairment may have occurred. The Company tests impairment of goodwill in line with the two steps summarized below and further described in “Footnote 2. Significant Accounting Policies (j) Goodwill”:

1. Indicators of impairment – a qualitative test to determine if indicators of impairment (or conversely indicators of non-impairment), collectively “trigger events”, are present by assessing macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, other relevant entity-specific events, events affecting a Reporting Unit, and a sustained decrease in share price (if applicable).
2. One-Step Quantitative Test – The quantitative test compares the reporting unit’s fair value to its carrying value. An impairment is recorded for any excess carrying value above the reporting unit’s fair value, not to exceed the amount of goodwill.

Year ended December 31, 2020

In 2020, management assessed indicators of impairment and concluded the below for the respective reporting units:

Retail, Production and Ancillary Cannabis Reporting Units'

Management has not identified any significant negative triggering events that would suggest it is more likely than not that impairment exists. Therefore, further analysis is not required for these Reporting Units.

Pure Ratios RU

Management has identified negative trigger events regarding its online CBD business. Management has concluded that the overall financial performance of the entity continues to be worse than expectation, including revenue growth, EBITDA/cash flows, and future growth projections. The Pure Ratio's business operates at a breakeven (i.e.. Zero) profit level and is not expected to improve in the near term. As such, management has determined that the Goodwill and remaining Intangible assets associated with the Pure Ratio's RU are impaired.

The business was purchased by 4Front in 2019 with $32,376 in goodwill allocated to the entity. An impairment charge of $18,876 was recorded against Goodwill allocated to the reporting unit in 2019 due to triggers existing that identified future financial performance would be worse than projected. As a result of the same triggers in 2020, the remaining goodwill of $13,400 and $3,348 in Trademarks were written off as of December 31, 2020

Year ended December 31, 2019

In 2019, management assessed indicators of impairment and concluded the below for the respective reporting units:

Retail Reporting Unit

The Retail unit represented retail stores with direct sales to end consumers in multiple states. As a result of the impairment test, management concluded that the carrying value was higher than the fair value and recorded impairment losses of $13,797 during the year ended December 31, 2019 ($nil for the year ended December 31, 2018). The Company allocated the impairment loss to cannabis licenses held by continuing operations, and the remainder was fully allocated to goodwill.

Greens Goddess represents a cannabis dispensary in Arizona that was acquired by the Company in 2019. Greens Goddess was sold in 2020 for $6,000, and presented as discontinued operations. The Company used the sale price, less disposal costs as the recoverable amount at December 31, 2019. As a result of the impairment test, management concluded that the carrying value was higher than the fair value and recorded impairment losses of $1,091 during the year ended December 31, 2019. The impairment loss was fully allocated to goodwill.

Ancillary Cannabis Reporting Unit

Management concluded that the fair value was higher than the carrying value at December 31, 2019, and no impairment was recognized for the Ancillary Cannabis RU.

Amounts expressed in thousands of U.S. dollars except for share and per share data

Production Reporting Unit

The production unit represents the Company's operations Cannex Holdings California Inc., Illinois Grown Medicine, LLC, the production division of Healthy Pharms Inc., and the production division of Mission Massachusetts Inc. As a result of the impairment test, management concluded that the carrying value was higher than the fair value and recorded impairment losses of $112,530 during the year ended December 31, 2019. The impairment loss was fully allocated to goodwill.

Pure Ratios RU

Pure Ratios represents the operations of a CBD-focused wellness company. As a result of the impairment test, management concluded that the carrying value was higher than the fair value and recorded impairment losses of $18,876 during the year ended December 31, 2019. The impairment loss was fully allocated to goodwill.

11. 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. The acquisition combined Cannex's understanding of large-scale cultivation and manufacturing operations with 4Front's existing asset base and its retail and regulatory capabilities.

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

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

The 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.

The Company recorded the acquired balances at fair value as determined by third party valuation firms. The following table summarizes the 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

Amounts expressed in thousands of U.S. dollars except for share and per share data

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.

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 16). 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 work force and the synergies expected to be achieved from integrating Cannex into 4Front's existing Cannabis business. None of the goodwill recognized is expected to be deductible for tax purposes. For further details on intangible assets and goodwill, see Note 10.

Amounts expressed in thousands of U.S. dollars except for share and per share data

In 2020, an adjustment to the purchase price accounting was made to record a deferred tax liability of $1,406 and to increase goodwill. See Note 24.

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

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. The assets acquired and the liabilities assumed have been recorded at fair value as determined by the Company.

Goodwill arose because the consideration paid for the business acquisition reflected the benefit of expected revenue growth and future market development. None of the goodwill is expected to be deductible for tax purposes. 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 to goodwill and intangibles assets of $2,651.

The following table summarizes the purchase price allocation:

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

Fair value of net assets acquired are:

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

Amounts expressed in thousands of U.S. dollars except for share and per share data

(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 20.
(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 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 operated 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 controlled Greens Goddess and the Company consolidated both PHX and Greens Goddess from the date of acquisition. The assets acquired and the liabilities assumed have been recorded at fair value as determined by the Company.

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. Goodwill is not expected to be deductible for tax purposes.

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

The following table summarizes the purchase price allocation:

Consideration transferred:		
Cash	$	3,360
Payables issued (1)		304
Equity paid (2)		2,676
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 $304 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 $2,676.

Amounts expressed in thousands of U.S. dollars except for share and per share data

12. LEASES

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 “Leases (Topic 842)” (“ASU 2016-02”), which requires lessees to put most leases on the balance sheet but recognize expense on the income statement in a manner similar to current accounting. On January 1, 2019, the Company adopted the standard and all related amendments, using the optional transition method (modified retrospective approach) applied to leases at the adoption date. Under the modified retrospective approach, comparative periods have not been restated and continue to be reported under the accounting standards in effect for those periods. Additionally, an adjustment was recorded to retrained earnings to account for the initial adoption of the standard.

The Company elected the optional package of practical expedients to not reassess prior conclusions related to contracts containing leases, lease classification and initial direct costs. The Company also elected the practical expedient to not separate lease components from non-lease components for real estate leases. As a result of the adoption of ASU 2016-02, the Company recorded right-of-use (“ROU”) assets of $5,580 and corresponding lease liabilities of $5,897 with the difference of $317 recorded in opening retained earnings.

Upon adoption of ASU 2016-02, 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, at January 1, 2019. Balances related to operating leases are included in ROU assets and noncurrent lease liabilities on the consolidated balance sheet.

All real estate leases are recorded on the balance sheet. Equipment and other non-real estate leases with an initial term of twelve months or less are not recorded on the balance sheet. Lease agreements for some locations provide for rent escalations and renewal options. Many leases include one or more options to renew the lease at the end of the initial term. The Company considered renewals in its ROU assets and operating lease liabilities. Certain real estate leases require payment for taxes, insurance and maintenance which are considered non-lease components. The Company accounts for real estate leases and the related fixed non-lease components together as a single component.

The Company determines if an arrangement is a lease at inception. The Company must consider whether the contract conveys the right to control the use of an identified asset. Certain arrangements require significant judgment to determine if an asset is specified in the contract and if the Company directs how and for what purpose the asset is used during the term of the contract.

For the year ended December 31, 2020 and 2019 the Company recorded $4,872 and $2,204 in operating lease expense respectively.

Other information related to operating leases as of and for the year ended December 31, 2020 were as follows:

	Year Ended December 31, 2020	
Weighted average remaining lease term (in years)	$	16.1
Weighted average discount rate		14.4%

Amounts expressed in thousands of U.S. dollars except for share and per share data

(a) The Company as a Lessee

The following table summarizes the Company's operating leases:

	Classification - Consolidated Balance Sheets	December 31, 2020	December 31, 2019
Assets			
Operating lease assets	Operating lease assets	$ 62,466	$ 20,757
Liabilities			
Current			
Operating	Current portion of operating lease liabilities	1,909	972
Noncurrent			
Operating	Operating lease liabilities	51,545	20,976
Total lease liabilities		$ 53,454	$ 21,948

Maturities of lease liabilities for third-party operating leases as of December 31, 2020 were as follows:

Year Ending December 31	Third-Party Maturities of Lease Liability
2021	$ 8,987
2022	9,220
2023	9,397
2024	9,445
2025	9,599
2026 and thereafter	128,067
Total lease payments	$ 174,715

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

The Company has right-of-use assets and lease liabilities for leased real estate for dispensaries, cultivation and production facilities and office space. The incremental borrowing rate used for leases for 2019 was 10.25% and was 15-18% for 2020.

Disclosures related to period prior to adoption of ASU 2016-02

Future minimum rental commitments under non-cancelable operating leases as of December 31, 2019 were expected to be as follows:

Year Ending December 31,	Total
2020	$ 3,734
2021	3,805
2022	3,845
2023	3,701
2024	3,507
2025 and Thereafter	15,778
Total Future Minimum Lease Payments	**$ 34,370**

Amounts expressed in thousands of U.S. dollars except for share and per share data

(b) The Company as a Lessor:

The Company is a landlord for a lease in Olympia, Washington. The Company is a landlord through a sublease in Tumwater, Washington. The Company acquired these leases in the Cannex business combination. The Company applied ASC 842 to these leases when acquired on July 31, 2019 and determined that both leases should be classified as direct finance leases. Lease receivables were recorded for these leases for the future lease payments by the tenants and for the residual value of the leased assets at the end of the leases. On December 17, 2020, the Company sold the Olympia building and other assets as part of a sales lease back transaction and the lease where the Company is the landlord was cancelled. The Company applied ASC 842 to the new sublease and classified the new sublease as an operating lease. The lease receivable was sold to the purchaser of the assets as part of the sales lease back transaction.

The following table summarizes changes in the Company's lease receivables:

	December 31, 2020	December 31, 2019
Balance, beginning of the year	**$ 33,500**	**$ —**
Acquisitions	—	33,192
Sale of assets in sale lease back	(22,508)	—
Interest	11,019	4,528
Lease payments received	(10,966)	(4,220)
Balance, end of the period	$ 11,045	$ 33,500
Less current portion	**(3,450)**	**(9,556)**
Long-term lease receivables	**$ 7,595**	**$ 23,944**

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

	As of December 31, 2020
2021	$ 11,846
2022	12,725
2023	1,575
2024	—
2025	—
Thereafter	—
Total minimum lease payments	26,146
Less Olympia operating lease payments	(17,491)
Total minimum lease payments for Elma	8,655
Effect of discounting	(2,434)
Present value of minimum lease payments	6,221
Present value of residual value of leased property	4,824
Total lease receivable	**$ 11,045**
Current portion lease receivable	**(3,450)**
Long-term lease receivable	**$ 7,595**

Amounts expressed in thousands of U.S. dollars except for share and per share data

13. NOTES PAYABLE AND CONVERTIBLE NOTES

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

	Gotham Green Partners, LLC	LI Lending, LLC	Convertible Notes	Convertible Notes (Swap)	Other Loans	Total
Balance, December 31, 2018	$ —	$ —	$ —	$ —	**$ 9,198**	**$ 9,198**
Acquisitions (Note 11)	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	2,810	—	5,827	—	509	9,146
Equity exchanged	—	—	—	13,661	—	13,661
Equity component	(692)	—	(3,982)	—	(1,168)	(5,842)
Accretion income	(643)					(643)
Loan payments	(39,855)	(6,840)	—	—	(685)	(47,380)
Gain on extinguishment of debt	(1,218)					(1,218)
Converted to equity	—	—	(145)	(1,794)	—	(1,939)
Accrued interest	3,991	7,913	1,155	—	182	13,241
Balance, December 31, 2020	**—**	**45,362**	**2,855**	**11,867**	**6,931**	**67,015**
Less current portion	—	—	—	—	(5,024)	(5,024)
Long-term portion	$ —	$ 45,362	$ 2,855	$ 11,867	$ 1,907	$ 61,991

	Gotham Green Partners, LLC	LI Lending, LLC	Convertible Notes	Convertible Notes (Swap)	Other Payables	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, December 31, 2020	—	45,362	2,855	11,867	6,931	67,015
Less current portion	—	—	—	—	(5,024)	(5,024)
Long-term portion	$ —	$ 45,362	$ 2,855	$ 11,867	$ 1,907	$ 61,991

Convertible Notes

On May 14, 2020, the Company issued $5,827 in convertible notes to existing investors in the Company. The notes pay interest of 5% per annum and have a maturity date of February 28, 2022. The notes can be converted into Class A Subordinate Voting Shares of the Company for $0.25 per share at any time at the option of the holder. The Company can require mandatory conversion at any time after November 14, 2020 if that the Company's stock price remains above $0.50 for 45 consecutive days. In 2021, the Company enacted the mandatory conversion feature and converted all remaining debt to equity. One investor elected to convert their note in 2020.

As part of issuing the convertible notes, the investors were given the right to exchange stock in the Company into separate convertible notes (swap notes). In total 29,448,468 shares with a value of $13,661 were exchanged for $13,661 in convertible notes. These notes were effective May 28, 2020, have a maturity date of May 28, 2025, and can be converted into Class A Subordinate Voting Shares of the Company for $0.46 per share at any time at the option of the holder. The notes pay no interest if the Company's annual revenue is greater than $15,000, and 3% annually otherwise. The Company can require mandatory conversion at any time that the Company's stock price remains above $0.92 for 45 consecutive days.

Gotham Green Partners LLC

Through the Cannex business combination (Note 11), the Company assumed senior secured convertible notes issued to Gotham Green Partners LLC ("GGP"). The convertible loan had 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 Company used an independent valuation company to value the notes as of July 31, 2019 using a 10.25% discount rate which management determined was the rate for similar notes with no conversion feature or warrants. The notes were repaid in full in December 2020.

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 $0.65 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 $0.67 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 $50,000. LI Lending LLC is related because an officer of the Company is a part-owner of LI Lending LLC. As of December 31, 2019, the Company had drawn $45,000 on the loan in two amounts, an initial $35,000 and a final $10,000, both bearing a 10.25% interest rate.

In April 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 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. The $2,000 prepayment was applied to the initial $35,000 amount decreasing the balance to $33,000. Additionally, the Company agreed to pay an increased interest rate of 12.25% on the final $10,000 of the loan until such time as this amount has been paid down with the initial $33,000 amount continuing to be subject to the original 10.25% interest rate.

In December 2020, the loan was amended to allow for the release of collateral for the sale lease back transactions with Innovative Industrial Properties, Inc. ("IIPR"). The amendment increased both interest rates by 2.5% on the loan amounts but allowed the payments resulting from the incremental interest to be deferred until January 1, 2022. The Company elected to defer payment, and the additional 2.5% interest is accrued each month and added to the balance of the loan. The Company is still required to make interest-only payments monthly of 10.25% on the initial $33,000 and 12.25% on the final $10,000 of the loan until January 1, 2022 when the interest rates of 12.75% for the initial $33,000 and 14.75% for the final $10,000 will take effect for the remaining term.

The loan matures on May 10, 2024. An exit fee of 20% of the principal balance will be due as principal is repaid. Monthly interest-only payments are required and the Company has paid all interest due as of December 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. On December 31, 2019, $2,352 of the funds advanced were shown as Restricted Cash on the Consolidated Balance Sheets.

Amounts expressed in thousands of U.S. dollars except for share and per share data

Other

Outstanding as of December 31, 2020 were other payables totaling $ 6,931 which include notes issued as part of the acquisitions of Healthy Pharms and Arkansas entities as follows:

Subsidiary	Terms	December 31, 2020	December 31, 2019
Healthy Pharms Inc.	Secured promissory note due December 18, 2020, interest at 15% paid in-kind.	$ —	$ 5,429
Healthy Pharms Inc.	Unsecured convertible note at $0.50 per share, due November 18, 2021 at 12% per annum	1,652	—
Healthy Pharms Inc.	Unsecured promissory note, due June 18, 2021 at 12% per annum	2,823	—
Arkansas Entities	Unsecured promissory note, monthly interest payments at 12% per annum	—	561
Arkansas Entities	Unsecured promissory note, monthly interest payments at 14% per annum	1,907	1,738
Equipment Loans	Secured by equipment, monthly payments beginning in 2021 at 15% per annum	512	—
Other	Various	37	365
Total Notes Payable and Convertible Notes		**$ 6,931**	**$ 8,093**

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

	December 31, 2020
2021	$ 6,156
2022	7,589
2023	—
2024	43,000
2025	11,867
Thereafter	—
Total minimum payments	68,612
Effect of discounting	(1,597)
Present value of minimum payments	67,015
Current portion	(5,024)
Long-term portion	**$ 61,991**

14. GENERAL AND ADMINISTRATIVE EXPENSES

For the year ended December 31, 2020 and 2019, general and administrative expenses were comprised of:

	As of December 31, 2020	2019
Salaries and benefits	$ 8,008	$ 10,184
Professional services	6,628	7,985
Other general and administrative	5,858	6,815
	$ 20,494	$ 24,984

Amounts expressed in thousands of U.S. dollars except for share and per share data

15. SHARE CAPITAL AND EQUITY

The Company has authorized an unlimited number of Class A Subordinate Voting Shares ("SVS") and Class C Multiple Voting Shares ("MVS"), all with no par value. In December 2020, the shareholders of the Company passed a resolution to permit the Company to convert all Class B Subordinate Voting Shares ("PVS") shares into Class A shares and cancel the Class B PVS equity class, which occurred in 2020

All share classes are included within share capital in the consolidated statements of shareholder's equity on an as converted basis. Each share class is entitled to notice of and to attend at any meeting of the shareholders, except a meeting of which only holders of another particular class of shares will have the right to vote. All share classes are entitled to receive dividends, as and when declared by the Company, on an as-converted basis, and no dividends will be declared by the Company on any individual class unless the Company simultaneously declares or pays dividends on all share classes. No subdivision or consolidation of any share class shall be made without simultaneously subdividing or consolidating all share classes in the same manner.

Class A Subordinate Voting Shares

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

Class C Multiple Voting Shares

Holders of Class C Multiple Voting Shares are entitled to 800 votes in respect of each MVS. One MVS can convert to one SVS but are not convertible until the later of the date that (i) the aggregate number of PVS and MVS held by the Initial Holders (being the MVS holders on their initial issuance) 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 December 31, 2020**	**As converted to SVS Shares**
Class A – Subordinate Voting Shares	537,575,044	537,575,044
Class C – Multiple Voting Shares	1,276,208	1,276,208
	538,851,252	**538,851,252**

On November 23, 2020, the Company closed a brokered private placement and issued 24,644,500 Units at a price of C$ 0.70 per Unit. Each Unit is comprised of one subordinate voting share of the Company and one-half of a subordinate voting share purchase warrant. Each whole warrant entitles the holder to purchase one subordinate voting share for a period of two years from the date of issuance at an exercise price of C$ 0.90 per subordinate voting share. Net proceeds from this transaction were $11,557 net of share issuance costs of $690.

Because of the Canadian dollar denominated exercise price, these warrants do not qualify to be classified within equity and are therefore classified as derivative liabilities at fair value through profit or loss "FVTPL". On November 23, 2020, the warrants were valued using the Black Scholes option pricing model at $4,229 using the following assumptions: Share Price: C$0.94; Exercise Price: C$0.90; Expected Life: 2 years; Annualized Volatility: 87.73%; Dividend yield: 0%; Discount Rate: 0.16%; C$ Exchange Rate: 1.31.

On December 31, 2020, the warrants were revalued using the Black Scholes option pricing model, using the following assumptions: Share Price: C$1.15; Expected Life: 1.89 years; Annualized Volatility: 87.73%; Dividend yield: 0%; Discount Rate: 0.13%; C$ Exchange Rate: 1.27. The increase in the value of the derivative liability of $1,578 is reflected in the statement of comprehensive loss as a $1,578 loss on the change in fair value of the derivative liability.

Amounts expressed in thousands of U.S. dollars except for share and per share data

16. WARRANTS

As of December 31, 2020, there were share purchase warrants outstanding to purchase up to 42,772,992 SVS shares:

Series	Number of warrants	Weighted-average exercise price
Balance, December 31, 2018	—	—
Issued - Acquisition of Cannex	42,186,503	1.14
Balance, December 31, 2019	42,186,503	1.14
Issued	29,291,614	0.72
Exercised	(2,686,463)	0.53
Expired	(26,018,662)	1.10
Balance, December 31, 2020	**42,772,992**	**$ 0.90**

As of December 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
12,322,250	$ C0.90	November 23, 2022
1,438,412	$ C0.70	November 23, 2022
12,135,922	$ 0.82	December 17, 2022
2,230,080	$ 0.67	January 29, 2023
625,000 *	$ C0.80	October 6, 2024
500,000 *	$ C0.80	October 6, 2025
42,772,992		

* Unvested as of December 31, 2020

17. NON-CONTROLLING INTERESTS

The non-controlling interests of the Company for each affiliate before intercompany elimination are summarized in the tables below:

	As of December 31, 2019		
Summarized statements of financial position	**MMA Capital**	**4Front Management Associates**	**Total**
Current assets	$ —	$ —	$ —
Current liabilities	—	—	—
Current net assets	—	—	—
Non-current assets	13,807	—	13,807
Non-current liabilities	—	—	—
Non-current net assets	$ 13,807	$ —	$ 13,807

Amounts expressed in thousands of U.S. dollars except for share and per share data

	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	$ 438	$ (1,668)
Purchase price of non-controlling interest	—	—	663	600	267	308	(12)	(53)	(52)	45	1,766
Net income attributable to NCI	94	182	—	—	—	(96)	—	(7)	195	(483)	(115)
Balance at December 31, 2019	(350)	145	—	—	—	—	—	—	188	—	(17)
Purchase price of non-controlling interest	390	(136)	—	—	—	—	—	—	(231)	—	23
Net income attributable to NCI	(40)	(9)	—	—	—	—	—	—	95	—	46
Balance at December 31, 2020	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 52	$ —	$ 52

18. SHARE-BASED COMPENSATION

The Company adopted two equity incentive plans where the Company may grant Class A 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.

Amounts expressed in thousands of U.S. dollars except for share and per share data

As of December 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	8,883,332	8,883,332	1.95
July 31, 2019	1.00	1,166,667	1,166,667	2.76
July 31, 2019	1.50	516,666	344,444	3.45
July 31, 2019	1.50	800,000	333,334	3.46
July 31, 2019	0.10	6,245,840	6,245,840	3.71
August 22, 2019	0.80	6,358,600	2,922,737	3.64
August 22, 2019	1.00	6,150,000	1,881,450	3.64
November 1, 2019	0.80	1,200,000	400,000	3.84
November 6, 2019	0.80	15,040	5,013	3.85
February 3, 2020	0.80	425,000	25,000	4.10
June 8, 2020	0.80	25,000	-	4.44
July 31, 2020	0.80	1,500,000	933,344	4.58
September 15, 2020	0.86	8,265,920	-	4.71
October 2, 2020	0.77	3,000,000	-	4.76
November 24, 2020	0.94	1,775,000	1,331,250	4.90
December 2, 2020	1.11	2,900,000	-	4.92
December 21, 2020	1.06	1,200,000	-	4.98
		50,427,065	24,472,411	3.75

Stock option activity is summarized as follows:

	Number of Options	Weighted Average Price CAD$	Weighted Average Years
Balance December 31, 2018	—	—	—
Granted	40,028,465	0.86	—
Exercised	—	—	—
Forfeited/Expired	—	—	—
Balance December 31, 2019	40,028,465	0.86	4.12
Granted	19,190,960	0.90	—
Exercised	—	—	—
Forfeited/Expired	(8,792,360)	1.04	—
Balance December 31, 2020	50,427,065	0.84	3.72

Through December 31, 2020, 8,792,360 stock options were expired, cancelled or forfeited. During the year ended December 31, 2020 and 2019, the Company recognized share-based compensation of $5,306 and $5,913 respectively.

In determining the amount of equity-based compensation during the year, the Company used the Black-Scholes option pricing model to establish fair value of options granted during the year with the following key assumption:

Risk-Free Interest Rate	0.38%
Expected Life (years)	5
Expected Annualized Volatility	87.73%
Expected Dividend Yield	nil

19. RELATED PARTIES

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 was a related party of Cannex. However, upon the acquisition on July 31, 2019, management determined the sole owner did not have significant influence in the Company thus removing consideration of NWCS as a related party. The sole owner of 7Point was an executive of the Company during 2019. As a result of his departure, 7Point is no longer considered a related party.

NWCS and the Company are parties to a commercial gross lease expiring December 31, 2022 with two five-year renewal options. For the twelve months ended December 31, 2019 the Company recognized $3,338 from interest revenue on the lease receivable for this lease.

7Point and the Company are parties to a commercial sublease expiring May 31, 2023 with one five-year renewal option. For the twelve months ended December 31, 2020 the Company recognized $1,190 from interest revenue on lease receivable for this lease.

The Company has entered into a service agreement with NWCS to provide consulting and personnel services for growing and processing cannabis for $30 per month and to act as exclusive purchasing agent for equipment, machinery, and other supplies for $20 per month for a three-year term that expired on January 1, 2021 and automatically renewed for an additional three-year term. The Company recognized a total of $250 for the year ended December 31, 2019.

NWCS and the Company have entered into a packaging supply agreement under commercially reasonable pricing terms by which NWCS submits packaging and equipment 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 had an initial term of three years and expired on January 1, 2021 and automatic renewal for additional three-year periods. The Company recognized total of $3,703 in revenue for the year ended December 31, 2019 under the packaging supply agreement.

As of December 31, 2019, the Company held three notes receivable from these related parties with a balance of $586.

As of December 31, 2020, $597 of the Company's trade receivables were due from NWCS and 7Point (collected in the following year).

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 $45,000 of which $43,000 was outstanding as of December 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 $4,875 (2019 - $1,101) for the year ended December 31, 2020 to this vendor for management fees, pass through marketing costs and customer service.

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 $nil and $696 in such notes at December 31, 2020 and 2019, respectively.

Amounts expressed in thousands of U.S. dollars except for share and per share data

20. 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 sellers. 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, 2018	$ —	$ —	$ —
Acquisitions	3,750	1,500	5,250
Accretion	214	—	214
Balance, December 31, 2019	3,964	1,500	5,464
Accretion	758	—	758
Changes in fair value	774	—	774
Payments and settlements	—	(1,500)	(1,500)
Balance, December 31, 2020	5,496	—	5,496
Less: current portion	(2,393)	—	(2,393)
Long-term portion	$ 3,103	$ —	$ 3,103

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.

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 December 31, 2019, the probability of achieving all milestones to Om of Medicine's contingent consideration payable was estimated to be 57%. During 2020, the probability was increased to 100% and the contingent liability was increased by $774 and a loss on the fair value adjustment was recorded to Other in Other Income (Expense) on the Consolidated Statements of Operations and Comprehensive Loss.

Pure Ratios: Contingent consideration of $750 was earned during 2019 due to CBD sales reaching a milestone, and stock was issued to the seller with a value of $94 . Per an amendment to the agreement, $656 of the earned consideration was used to reduce the principal of the Accucanna note receivable. In 2020 an additional $750 was earned due to CBD sales and was used to pay down the Accucanna note.

Amounts expressed in thousands of U.S. dollars except for share and per share data

(c) Legal Matters

In June 2020, the Company sold a legal claim on a consulting client to a third party for $2,480 in cash. Under certain circumstances, the Company will receive additional consideration. The Company is unable to estimate the value of this contingent consideration. The Company recorded a gain of $2,480 that was recorded to Other in Other Income (Expense) on the Consolidated Statements of Operations and Comprehensive Loss.

From time to time, the Company may be involved in certain disputes arising in the ordinary course of business. Such disputes, taken in the aggregate, are not expected to have a material adverse effect on the Company. As of December 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 adverse party or has a material interest adverse to the Company's interest. In August 2019, the Company received a $2,500 payment that was related to certain contract disputes from consulting contracts that were executed prior to 2016, which was recorded as other income in profit or loss.

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

There were no transfers between fair value levels during the three and years ended December 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.

Amounts expressed in thousands of U.S. dollars except for share and per share data

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.

The Company maintains cash with federally insured financial institutions. As of December 31, 2020 and 2019, the Company exceeded federally insured limits by approximately $5,000 in 2020 and $10,000 in 2019. The Company has historically not experienced any losses in such accounts. As of December 31, 2020, the Company held approximately $12,000 in cash in Canadian bank accounts. These funds were transferred to U.S. federally insured financial institutions subsequent to December 31, 2020.

As of December 31, 2020 and 2019, the maximum credit exposure related to the carrying amounts of accounts receivable, notes receivable and lease receivables was $13,178 and $37,422 respectively.

(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.

The Company has the following gross contractual obligations as of December 31, 2020, which are expected to be payable in the following respective periods:

	Less than 1 year	1 to 3 years	3 to 5 years	Greater than 5 years	Total
Accounts payable and accrued liabilities	$ 11,149	$ 1,600	$ —	$ —	$ 12,749
Convertible notes, notes payable and accrued interest	5,024	16,629	45,362	—	67,015
Contingent consideration payable	2,393	3,103	—	—	5,496
Total	**$ 18,566**	**$ 21,332**	**$ 45,362**	**$ —**	**$ 85,260**

(d) Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's secured convertible notes with GGP (Note 11) had variable interest rates as of December 31, 2019. The GGP notes were paid in full in December 2020.

(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.

(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 U.S. dollars except for share and per share data

22. SEGMENT INFORMATION

Reportable Segments

The Company generates revenue from 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 Wellness – Pure Ratios which encompasses the production and sale of CBD products to third-party customers

The results of each segment are regularly reviewed by the Company's Chief Executive Officer, who is the Company's chief operating decision maker, to assess the performance of the segment and make decisions regarding the allocation of resources. The Company's chief operating decision maker uses revenue and adjusted EBITDA as measure of segment performance. The accounting policies of each segment are the same as those set out under the summary of significant accounting policies in Note 2. There are no intersegment sales or transfers. All revenues are derived from customers domiciled in the United States and all assets are located in the United States.

The below table presents revenues by type for the years ended December 31, 2020 and 2019:

	2020	2019
Net Revenues		
THC Cannabis	$ 50,041	$ 17,825
CBD Wellness	7,594	1,207
Corporate	—	—
Total Net Revenues	**$ 57,635**	**$ 19,032**
Depreciation and Amortization		
THC Cannabis	$ 3,982	$ 1,314
CBD Wellness	79	31
Corporate	—	1,818
Total Depreciation and amortization	**$ 4,061**	**$ 3,163**
Assets		
THC Cannabis	$ 186,899	$ 155,653
CBD Wellness	2,198	18,020
Corporate	15,659	29,028
Total Assets	**$ 204,756**	**$ 202,701**

Goodwill assigned to the THC Cannabis segment as of December 31, 2020 and December 31, 2019 was $21,749 and $26,883, respectively. Intangible assets, net assigned to the THC Cannabis segment as of December 31, 2020 and December 31, 2019 was $28,790 and $31,422, respectively.

Goodwill assigned to the CBD Wellness segment as of December 31, 2020 and December 31, 2019 was $nil and $13,400, respectively. Intangible assets, net assigned to the CBD segment as of December 31, 2020 and December 31, 2019 was $nil and $3,725, respectively.

Amounts expressed in thousands of U.S. dollars except for share and per share data

23. SUPPLEMENTARY CASH FLOW INFORMATION

Changes in non-cash working capital:

	December 31, 2020	December 31, 2019
Changes in operating assets and liabilities		
Accounts receivable	$ (781)	$ 1,192
Other receivables	—	3,079
Inventory	(9,159)	(4,076)
Prepaid expenses	298	(1,628)
Deposits	1,506	—
Accounts payable and accrued liabilities	3,078	2,345
Taxes payable	10,589	660
	$ 5,531	$ 1,572

- Cash paid for interest in for the years ended December 31, 2020 and 2019 was $6,655 and $1,023 respectively.
- Cash paid for income taxes for the year ended December 31, 2020 and 2019 was $nil for 2020 and $648 for 2019.

24. 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 passed 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 the effect of IRC Section 280E, state income taxes, certain share-based compensation, interest accretion on debt, and miscellaneous permanent differences.

Internal Revenue Code ("IRC") Section 280E denies, at the U.S. 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 U.S. tax based on gross receipts less cost of goods sold. The tax provision for the years ended December 31, 2020 and 2019, have been prepared based on the assumption that cost of goods sold is a valid expense for income tax purposes.

Income tax expense is comprised of:

	December 31, 2020	December 31, 2019
Net current taxes:		
U.S. Federal	$ 7,587	$ 1,221
U.S. State	2,750	388
Deferred taxes:		
U.S. Federal	3,749	(171)
U.S. State	1,375	(61)
Total	$ 15,461	$ 1,377

Amounts expressed in thousands of U.S. dollars except for share and per share data

A reconciliation of income taxes at statutory rates is as follows:

	December 31, 2020	December 31, 2019
Loss before income taxes (continuing and discontinued operations)	$ (31,544)	$ (180,748)
Statutory tax rate	21.00%	21.00%
Expense based on statutory rates	(6,624)	(37,957)
Permanent non-deductible items	14,036	48,200
Non-controlling interests	315	342
State taxes	1,650	(12,023)
Change in state rate reconciliation	(14)	(20)
Change in valuation allowance	119	738
Canadian losses	(330)	(389)
Pre-acquisition partnership income	—	3,169
Net changes in deferred tax liabilities	305	(683)
Intangibles adjustment	6,004	—
Less taxes on discontinued operations	(412)	(411)
Income tax expense	$ 15,049	$ 966

The components of deferred tax assets and liabilities were as follows:

	December 31, 2020	December 31, 2019
Deferred tax assets		
Net loss	$ 1,403	$ 738
Net right-of-use assets and liabilities	9,660	4,588
Interest accretion on convertible debt	—	—
Other	177	363
Total deferred tax assets	—	475
Valuation allowance	(771)	(873)
Total net deferred tax assets	10,469	5,291
Deferred tax liabilities		
Property and equipment	(1,299)	(822)
Intangible assets	(5,859)	—
Total deferred tax liabilities	(9,841)	(4,469)
Total net deferred tax liabilities	(16,999)	(5,291)
Total adjusted deferred tax liabilities	$ (6,530)	$ —

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Movement in net deferred tax liabilities:

	December 31, 2020	December 31, 2019
Balance at the beginning of the year	$ —	$ 232
Recognized in profit/loss	(5,124)	(232)
Acquired in business combination	(1,406)	—
Balance at the end of the year	$ (6,530)	$ —

Amounts expressed in thousands of U.S. dollars except for share and per share data

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

Net operating losses - US Federal	$	3,009
Net operating losses - US States		742
Non-capital losses carried forward – Canada		2,664

The Company's US net operating losses expire as follows:

2040 – California	$	742

The Company's Canadian non-capital income tax losses totaling $2,664 expire in 2039.

25. 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 $2,000. A gain of $2,000 is included in gain on sale of subsidiaries in the consolidated statements of operations and comprehensive loss. The entities sold had no operations through the sale date.

On February 22, 2019, the Company acquired PHX Interactive LLC and control of Greens Goddess Inc., an Arizona cannabis dispensary. On March 20, 2020, the Company completed the divestiture of these entities through a sale to a third party for $6,000 in cash. On December 31, 2019, the Company tested the Greens Goddess goodwill for impairment and based on the sale price, recorded $1,092 in goodwill impairment. The Company paid a $348 fee to a lender in exchange for allowing the Company to sell the dispensary. This fee is recorded as a disposal cost and is netted with gains as part of gain on sale of subsidiaries in the Consolidated Statements of Operations and Comprehensive Loss. Revenue and expenses, gains or losses relating to the discontinuation of these operations have been eliminated from the profit or loss from the Company's continuing operations and are shown as part of a single line item for net loss from discontinued operations in the condensed consolidated statements of operations and comprehensive loss.

The following sales of the Company's dispensaries and management companies were recorded as gains on sale of subsidiaries in the condensed consolidated statements of operations and comprehensive loss. Revenue and expenses, and gains or losses relating to the discontinuation of these operations have been eliminated from profit or loss from the Company's continuing operations for all periods presented and are shown as part of a single line item in the condensed consolidated statements of operations and comprehensive loss.

On May 7, 2020, the Company completed the sale of the Mission Pennsylvania II LLC dispensary to a third party for $10,550 in cash.

On September 1, 2020, the Company completed the sale of the Company's 79.5% interest in Arkansas Natural Products Management LLC, that manages an Arkansas dispensary. The Company received $1,384 in cash and a note receivable for $1,065 that was fully paid in 2021 On September 23, 2020, the Company completed the sale of one Maryland dispensary and two management companies that manage two additional Maryland dispensaries to a third party for $5,500 in cash.

On September 30, 2020, the Company completed the sale of the Company's 80% interest in a Maryland management company that manages a Maryland dispensary. The buyer is the owner of the dispensary and paid $1,200 in cash.

Amounts expressed in thousands of U.S. dollars except for share and per share data

Below is a summary of the net income or loss from discontinued operations that is shown as a single line item for the years ended December 31, 2020 and 2019:

	Twelve months ended December 31, 2020	Twelve months ended December 31, 2019
REVENUE	$ 12,482	$ 12,094
Cost of goods sold	(8,057)	(7,758)
Gross profit	4,425	4,336
OPERATING EXPENSES		
Selling and marketing expenses	3,899	5,274
Depreciation and amortization	472	692
Total operating expenses	4,371	5,966
Income (loss) from operations	54	(1,630)
Interest expense	(109)	—
Goodwill impairment	—	(1,092)
Gain on sale of subsidiaries	13,454	—
Net income (loss) before income taxes	13,399	(2,722)
Income tax expense	(412)	(411)
Net income (loss) after income tax expense	**$ 12,987**	**$ (3,133)**

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

	Year ended December 31, 2020	Year ended December 31, 2019
Net cash provided by (used in) operating activities	$ (627)	$ 2,005
Net cash provided by (used in) investing activities	(1,679)	2,073
Net cash provided by financing activities	3,503	—
Cash flows from discontinued operations	$ 1,197	$ 4,078

26. SUBSEQUENT EVENTS

Brookline, MA Construction

Subsequent to December 31, 2020, the Company announced that it continues to expand into the Massachusetts market and has received approval from the Brookline, Massachusetts Planning Board to start construction of a new Mission branded dispensary. The location will initially serve adult-use customers and is scheduled to open in Q2 2021.

Land and Funding for Illinois Cultivation and Production Facility

On March 15, 2021, the Company announced that it had entered into definitive agreements with the landowner and an affiliate of Innovative Industrial Properties, Inc. ("IIPR") to build a cultivation and production facility in Illinois. The agreements provide for IIPR to acquire the land for $6,500 and fund the approximately $45,000 buildout of phase one of the facility which will be leased back to the Company in the form of a 20-year lease with two five-year extensions at the Company's option.