Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Our management's discussion and analysis of financial condition and results of operations should be read in conjunction with our accompanying Consolidated Audited Financial Statements and related notes, as well other information contained in this annual report. The discussion is based upon, among other things, our Consolidated Audited Financial Statements, which have been prepared in accordance with U.S. GAAP. The preparation of financial statements in conformity with U.S. GAAP requires us to, among other things, make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent liabilities at the financial statement dates and the reported amounts of revenues and expenses during the reporting periods. We review our estimates and assumptions on an ongoing basis. Our estimates are based on our historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results are likely to differ from those estimates under different assumptions or conditions, but we do not believe such differences will materially affect our financial position or results of operations, although they could. All references to results of operations in this discussion are references to results of continuing operations, unless otherwise noted.

Overview

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. 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).

The Company has two primary operating segments: THC Cannabis and CBD Wellness. With regard to its THC Cannabis segment, as of December 31, 2020, the Company operated five dispensaries in Massachusetts, Illinois, and Michigan, primarily under the "MISSION" brand name. Also, as of December 31, 2020, the Company operated 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. Also as part of its THC Cannabis segment, the Company sells equipment, supplies and intellectual property to cannabis producers in the state of Washington. The Company also operates age-gated online educational platforms for THC Cannabis patients and customers.

The Company's CBD Wellness segment is focused upon its ownership and operation of its wholly-owned subsidiary, Pure Ratios Holdings, Inc. ("Pure Ratios"), 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 data for the use of the drug under medical supervision.

COVID-19

In March 2020, the World Health Organization (WHO) declared the coronavirus disease 2019 ("COVID-19") a global pandemic. The duration and severity of COVID-19's effects and those of its variants are currently unknown, but the Company's priorities during the pandemic are protecting the health and safety of its employees and its customers, following the recommended actions of government and health authorities.

Operations of the Company are currently ongoing as the cultivation, processing and sale of cannabis products is currently considered an "essential" business by all states in which the Company operates. COVID-19 has not negatively impacted the Company's revenue, gross profit and operating income, nor materially impacted the Company's business operations or liquidity position to date. The Company continues to generate operating cash flows to meet its short-term liquidity needs.

The Company's ability to continue to operate without any significant negative operational impact from the COVID-19 pandemic and any of its variants will in part depend on the Company's ability to protect its employees, customers and supply chain and its continued designation as "essential" in states where it does business that currently or in the future impose restrictions on business operations. The Company continues to implement and evaluate actions to strengthen its financial position and support the continuity of its business and operations in the face of this pandemic and other events.

Foreign Private Issuer Status

As of January 1, 2021, we were no longer a foreign private issuer, and we are required to comply with all of the provisions applicable to a U.S. domestic issuer under the Exchange Act, including filing this Annual Report on Form 10-K, quarterly periodic reports and current reports for certain events, complying with the sections of the Securities Exchange Act of 1934, as amended (the "Exchange Act") regulating the solicitation of proxies, requiring insiders to file public reports of their share ownership and trading activities and insiders being liable for profit from trades made in a short period of time. We are also no longer exempt from the requirements of Regulation FD promulgated under the Exchange Act related to selective disclosures. In addition, we are required to report our financial results under U.S. Generally Accepted Accounting Principles, including our historical financial results, which have previously been prepared in accordance with International Financial Reporting Standards. We expect to continue to incur significant legal, accounting, insurance and other expenses and to expend greater time and resources to comply with these requirements. In addition, we may need to develop our reporting and compliance infrastructure and may face challenges in complying with the new requirements applicable to us.

Recent Accounting Pronouncements

A description of recently issued accounting pronouncements that may potentially impact our financial position and results of operations is disclosed in "Part IV, Item 15, Note 2 – Significant Accounting Policies" to our consolidated financial statements appearing elsewhere in this Annual Report on Form 10-K.

Significant Accounting Judgments, Estimates and Assumptions

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below.

Significant estimates made in the preparation of these consolidated financial statements include the following areas:

Useful lives of property, plant and equipment and intangible assets

Property, plant and equipment are amortized or depreciated over their useful lives. Useful lives are based on management's estimate of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the consolidated statement of operations and comprehensive loss in specific periods.

Amortization of intangible assets is dependent upon estimates of useful lives based on management's estimate.

Inventory

The net realizable value of inventories represents the estimated selling price for inventories in the ordinary course of business, less all estimated costs of completion and costs necessary to make the sale. The determination of net realizable value requires significant judgment, including consideration of factors such as shrinkage, the aging of and future demand for inventory, expected future selling price the Company expects to realize by selling the inventory, and the contractual arrangements with customers. The estimates are judgmental in nature and are made at a point in time, using available information, expected business plans, and expected market conditions. As a result, the actual amount received on sale could differ from the estimated value of inventory. Periodic reviews are performed on the inventory balance. The impact of changes in inventory reserves is reflected in cost of goods sold.

Share-based compensation

Share-based compensation expense is measured by reference to the fair value of the stock options at the date at which they are granted. Estimating fair value for granted stock options requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, dividend yield, and rate of forfeitures. See Note 18.

Fair value of financial instruments

The individual fair values attributed to the different components of a financing transaction, notably investment in equity securities, derivative financial instruments, convertible debt and loans, are determined using valuation techniques. The Company uses judgment to select the methods used to make certain assumptions and in performing the fair value calculations in order to determine (a) the values attributed to each component of a transaction at the time of their issuance; (b) the fair value measurements for certain instruments that require subsequent measurement at fair value on a recurring basis; and (c) for disclosing the fair value of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market. The assumptions regarding the derivative liabilities are disclosed in Note 21.

Goodwill Impairment

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 uses the approach described in ASC Topic 350 which includes both qualitative and quantitative measures to test for impairment.

Determination of Reporting Units

The Company's assets are aggregated into two reportable segments (THC Cannabis and CBD Wellness). For the purposes of testing goodwill, the Company has identified four reporting units. The Company analyzed its reporting units by first reviewing the operating segments based on retail vs. production operations for THC, and comprehensive operations of Pure Ratios for CBD. The production operating segment was then further divided into two reporting units determined through primary activities for cultivation and production, and ancillary services supporting the production operating segment.

Business combinations

Classification of an acquisition as a business combination or an asset acquisition depends on whether the assets acquired constitute a business, which can be a complex judgment. Whether an acquisition is classified as a business combination or asset acquisition can have a significant impact on the entries made on and after acquisition.

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. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied. See Note 11 for additional details.

Segmented reporting

The Company must exercise judgement in defining its business segments (Note 22) and allocating revenue, expenses and assets among the segments. The Company bases allocations on the groupings used to manage the business and report to senior management.

Income taxes

The Company must exercise judgment in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for expected tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

Control of entities being consolidated

The Company must exercise judgment in determining if, and when control exists over entities where the Company does not have direct ownership but does have control through management agreements. The Company consolidates all entities that it controls.

Intangible assets

Intangible assets acquired in a business combination are measured at fair value at the acquisition date. The Company must exercise judgment in identifying intangible assets, in determining their useful life, if any, and in testing for impairment.

Results of Operations

Year Ended December 31, 2020 Compared With Year Ended December 31, 2019

The following table sets forth our consolidated statement of operations for the years ended December 31, 2020 and 2019, and the change between the two years ($ in thousands):

			Change	
	2020	**2019**	**$**	**%**
Revenue from Sale of Goods	$ 46,616	$ 14,812	$ 31,804	215%
Real Estate Income	11,019	4,220	6,799	161%
Total Revenues	57,635	19,032	38,603	203%
Cost of Goods Sold	(21,124)	(10,851)	(10,273)	95%
Gross profit	36,511	8,181	28,330	346%
Total Operating Expense	69,121	188,021	(118,900)	(63%)
Income (Loss) from Operations	(32,610)	(179,840)	147,230	82%
Total Other income (expense)	(12,333)	1,814	(14,147)	(780%)
Net Income (Loss) Before Income Taxes	(44,943)	(178,026)	133,083	75%
Income Tax Expense	(15,049)	(966)	(14,083)	1458%
Net Loss from Continuing Operations	(59,992)	(178,992)	119,000	66%
Net Income (Loss) from Discontinued Operations, Net of Taxes	12,987	(3,133)	16,120	515%
Net Income (Loss)	$ (47,005)	$ (182,125)	$ 135,120	74%

Revenue from Sale of Goods

Revenue from sale of goods for the twelve months ended December 31, 2020 was $46,616, an increase of $31,804 or 215% compared to the twelve months ended December 31, 2019. This increase was primarily due to higher sales with the start of adult use sales in at our two dispensaries in Illinois in January and December 2020, and in Massachusetts in August and September of 2020.

Real Estate Income

Real Estate Income from leasing cannabis production facilities ended December 31, 2020 was $11,019, an increase of $6,799 or 161% compared to the twelve months ended December 31, 2019. This increase was primarily due to a full year of real estate income in 2020 as compared to five months of income in 2019 after the Cannex business combination.

Cost of Goods Sold

Cost of goods sold ("COGS") increased $10,273 for the twelve months ended December 31, 2020. COGS represent costs to cultivate and produce cannabis and CBD products that are produced in our owned facilities and are sold to third parties and through our owned dispensaries. For products that are purchased from third parties, COGS is the cost of inventory for sales to retail customers. Production costs increased $5,129 due to the increased production at the at our Illinois and Massachusetts facilities. COGS for purchased inventory grew $5,994 to help facilitate the demand at our owned facilities as adult use became available in Illinois in January and December 2020, and in Massachusetts in August and September 2020.

Gross Profit

Gross profit for the twelve months ended December 31, 2020 was $36,511, an increase of $28,330 or 346%, compared the twelve months ended December 31, 2019. The increase was primarily due to higher sales from the dispensaries in Illinois and Massachusetts as noted in Revenue above.

Total Operating Expenses

Total operating expenses for the twelve months ended December 31, 2020 were $69,121, an decrease of $118,900 or 63%, as compared to the twelve months ended December 31, 2019. This increase is primarily due to an increase of $14,328 due to higher selling costs at the store-level. The sharp decrease is largely due to a $145,203 impairment of goodwill from the Cannex business combination during the twelve months ended December 31, 2019. This impairment was a non-cash item and had no effect on the operations of the Company.

Total Other Income (Expense)

Total Other Income (Expense) for the twelve months ending December 31, 2020 was ($12,333), as compared to $1,814 for the twelve months ended December 31, 2019. This is driven by higher interest expense from the GGP and LI Lending loans (Note 13).

Net Loss From Continuing Operations

Net loss from continuing operations for the twelve months ended December 31, 2020 was $59,992, compared to a net loss from continuing operations of $178,992 for the twelve months ended December 31, 2019. The higher loss for the twelve months ended December 31, 2019 was primarily due to the impairment of goodwill from the Cannex business combination.

Year Ended December 31, 2019 Compared With Year Ended December 31, 2018

The following table sets forth our consolidated statement of operations for the years ended December 31, 2019 and 2018, and the change between the two years ($ in thousands):

			Change	
	2019	**2018**	**$**	**%**
Revenue from Sale of Goods	$ 14,812	$ 3,766	$ 11,046	293%
Real Estate Income	4,220	—	4,220	N/A
Total Revenues	19,032	3,766	15,266	405%
Cost of Goods Sold	(10,851)	(2,618)	(8,233)	314%
Gross profit	8,181	1,148	7,033	613%
Total Operating Expense	188,021	13,523	174,498	1290%
Income (Loss) from Operations	(179,840)	(12,375)	(167,465)	(1353%)
Total Other income (expense)	1,814	2,218	(404)	(18%)
Net Income (Loss) Before Income Taxes	(178,026)	(10,157)	(167,869)	(1653%)
Income Tax Expense	(966)	(105)	(861)	820%
Net Loss from Continuing Operations	(178,992)	(10,262)	(168,730)	(1644%)
Net Income (Loss) from Discontinued Operations, Net of Taxes	(3,133)	—	(3,133)	N/A
Net Income (Loss)	$ (182,125)	$ (10,262)	$ (171,863)	(1675%)

Revenue from Sale of Goods

Revenue for the twelve months ended December 31, 2019 was $14,812 an increase of $11,046 or 293% compared to the twelve months ended December 31, 2018. This increase was primarily due to a full year of operations at businesses acquired in 2018 ($5,586), the acquisition of PHX Interactive, LLC in February 2019 ($2,077), the acquisition of Om of Medicine in April 2019 ($2,061) and the business combination with Cannex in July 2019 ($7,118).

Revenues also improved from the opening of three dispensaries in Maryland, one dispensary in Arkansas, and one dispensary and cultivation location in Worcester, MA throughout 2019 ($3,475). For existing dispensary operations in South Shore, IL, Allentown, PA, and Catonsville, MD combined sales increased in 2019 compared to 2018 by over $5,835. Existing cultivation and processing operations in Illinois increased revenues in the twelve months ended December 31, 2019 by $2,007 through wholesale transactions.

Real Estate Income

Real Estate Income from leasing cannabis production facilities ended December 31, 2019 was $4,220 compared to $nil for to the twelve months ended December 31, 2018, resulting from the five months of real estate income recognized after the Cannex business combination in 2019.

Cost of Goods Sold

Cost of goods sold (“COGS”) increased $8,233 for the twelve months ended December 31, 2019. COGS represent costs to cultivate and produce cannabis and CBD products that are produced in Company owned facilities and are sold to third parties and through Company-owned dispensaries. For products that are purchased from third parties, COGS is the cost of inventory for sales to retail customers. Production costs increased $5,538 due to the increased production at the previously acquired HPI facility as well as increased production at the Company’s Illinois location and newly opened Worcester, MA facility. COGS for purchased inventory grew $10,018 to help facilitate the demand at newly opened or acquired dispensary locations ($8,800) as well as the business combination with Cannex’s equipment and supplies wholesale business ($1,218).

Gross Profit

Gross profit for the twelve months ended December 31, 2019 was $8,181, an increase of $7,033 or 613%, compared the twelve months ended December 31, 2018. The increase was primarily due to the business combination with Cannex and the associated real estate leasing business. Additionally, gross profits increased with a full year's performance of Healthy Pharms, and the acquisition of PHX Interactive, LLC and OM of Medicine. The remaining gross profit improvement can be attributed to progress of existing dispensary operations in Pennsylvania and Illinois, as well as newly opened dispensaries and productions assets in Maryland, Arkansas, Illinois, and Massachusetts.

Total Operating Expenses

Total operating expenses for the twelve months ended December 31, 2019 were $188,021, an increase of $174,498 or 1290%, as compared to the twelve months ended December 31, 2018. The result is largely due to a $146,295 charge from the impairment of goodwill from the Cannex business combination. This impairment is a non-cash items and has no effect on the operations of the Company. The goodwill is the difference between the consideration paid and the fair value of the net assets acquired on July 31, 2019. Goodwill is required to be tested for impairment at least annually and the first test of the goodwill occurred as of December 31, 2019. The goodwill acquired was approximately $180,157 and was the result of the Company's relatively high stock price on July 31, 2019. The Company hired an independent valuation company to test for impairment and the results were reviewed by the Company's auditors. The primary intangible asset acquired is the know-how to efficiently grow and manufacture high quality cannabis products at scale and this know-how has been implemented at Holdings' three legacy production facilities. The Company continues to forecast rapid growth in revenue and cash flows as a result of this know-how and for the impairment testing the Company discounted the cash flows from the rapid growth to be conservative which resulted in a higher impairment amount. The Company continues to forecast rapid growth and improvements to cash flows over the next three years.

Total Other Income (Expense)

Total Other Income (Expense) for the twelve months ending December 31, 2019 was 1,814, a decrease of ($404) or 18%. The decrease is largely due to higher legal settlements in 2018.

Net Loss Before Income Taxes

Net loss before taxes and non-controlling interest for the twelve months ended December 31, 2019 was $178,026, compared to a net loss before taxes and non-controlling interest of $10,157 for the twelve months ended December 31, 2018. This higher loss was primarily due to the impairment of goodwill, additional overhead expenses from Cannex entities, and an increase in corporate headcount. The loss was partially offset by the improvement in the underlying dispensary, cultivation, and production businesses compared to the twelve months ending December 31, 2018.

Results of Operations – Segments

The following tables summarize revenues net of sales discounts by segment for the years ended December 31, 2020, 2019 and 2018:

	For the Year ended December 31,			**2020 vs. 2019**		**2019 vs. 2018**	
	2020	**2019**	**2018**	**$**	**%**	**$**	**%**
THC Cannabis	50,041	17,825	3,766	32,216	181%	14,059	373%
CBD Wellness	7,594	1,207	-	6,388	529%	1,207	N/A
Total	**57,635**	**19,032**	**3,766**	**38,603**	**203%**	**15,266**	**405%**

Year Ended December 31, 2020 Compared With Year Ended December 31, 2019

Net revenues for the THC Cannabis Segment were $50,041 for the year ended December 31, 2020, an increase of $32,216 or 181%, compared to the year ended December 31, 2019. The increase in net revenues was primarily driven by 2019 only including five months of revenue from the Cannex acquisition.

Net revenues for the CBD Wellness Segment were $7,594 for the year ended December 31, 2020, an increase of $6,388 or 529%, compared to the year ended December 31, 2019. The increase in net revenues was primarily driven by a significant increase in digital marketing.

Year Ended December 31, 2019 Compared With Year Ended December 31, 2018

Net revenues for the THC Cannabis Segment were $17,825 for the year ended December 31, 2019, an increase of $14,059 or 373%, compared to the year ended December 31, 2018. The increase in net revenues was primarily driven by the acquisition of Healthy Pharms in November 2018, the acquisition of Om of Medicine in April 2019, and the opening of the Mission Worcester dispensary in May 2019.

Net revenues for the CBD Wellness Segment were $1,207 for the year ended December 31, 2019, an $nil for the year ended December 31, 2018, as Pure Ratios included in the 2019 acquisition of Cannex.

Non-GAAP Financial and Performance Measures

In addition to providing financial measurements based on GAAP, we provide additional financial metrics that are not prepared in accordance with GAAP. Management uses non-GAAP financial measures, in addition to GAAP financial measures, to understand and compare operating results across accounting periods, for financial and operational decision making, for planning and forecasting purposes and to evaluate the Company’s financial performance. Management uses the non-GAAP measurement of adjusted EBITDA, which we believe reflects our ongoing business in a manner that allows for meaningful comparisons and analysis of trends in the business, as it facilitates comparing financial results across accounting periods. We also believe that this non-GAAP financial measure enables investors to evaluate the Company’s operating results and future prospects in the same manner as management. This non-GAAP financial measures may also exclude expenses and gains that may be unusual in nature, infrequent or not reflective of the Company’s ongoing operating results. As there are no standardized methods of calculating non-GAAP measures, our methods may differ from those used by others, and accordingly, the use of these measures may not be directly comparable to similarly titled measures used by others. Accordingly, non-GAAP measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

Adjusted EBITDA

Adjusted EBITDA is defined by the Company as earnings before interest, taxes, depreciation and amortization less share-based compensation expense and one-time charges related to acquisition and business combination related costs. We consider these measures to be an important indicator of the financial strength and performance of our business. The following table reconciles adjusted EBITDA to its closest GAAP measure.

For the years ended December 31, 2020 and 2019, adjusted EBITDA consisted of the following:

Year ended December 31,	**2020** **$**	**2019** **$**
Net loss (GAAP)	$ (47,051)	$ (182,010)
Interest income	(77)	(85)
Interest expense	15,779	5,559
Income tax expense	15,049	966
Depreciation and amortization	8,563	4,171
Accretion	(643)	(337)
Equity based compensation	5,306	5,913
Legal settlement	(2,480)	(2,500)
Change in value of derivative liability	1,578	(5,317)
Foreign exchange gain (loss)	(19)	57
Acquisition, transaction, and other one-time costs	3,872	2,394
Non-cash inventory adjustment	2,305	—
Non-cash lease expense	2,404	—
Investment write-off	1,701	529
Adjustment to contingent consideration	775	—
Impairment of goodwill	16,748	145,203
Gain on sale of subsidiary	(12,987)	529
Gain on sale leaseback transactions	(3,345)	—
Gain on restructuring of notes receivable	(380)	—
Gain on settlement of debt	(1,218)	—
Adjusted EBITDA (Non-GAAP)	$ 5,880	$ (24,928)

Adjusted EBITDA should not be considered in isolation from, or as a substitute for, net loss. There are a number of limitations related to the use of adjusted EBITDA as compared to net loss, the closest comparable GAAP measure. Adjusted EBITDA excludes:

- Interest income and expense
- Current income tax expense
- Non-cash depreciation and amortization expense
- Accretion expense related to a periodic update of the present value of a liability
- Equity based compensation expense, which has been, and will continue to be for the foreseeable future, a significant recurring expense in our business and an important part of our compensation strategy
- Legal settlements
- Non-cash change in fair value of derivative liability
- Non-cash foreign exchange gains or losses, which accounts for the effect of both realized and unrealized foreign exchange transactions; unrealized gains or losses represent foreign exchange revaluation of foreign denominated monetary assets and liabilities
- Acquisition, transaction, and other expenses (income), which vary significantly by transactions and are excluded to evaluate ongoing operating results
- Investment write-off
- Non-cash impairment charges, as the charges are not expected to be a recurring business activity

Adjusted EBITDA is a financial measure that is not calculated in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Management believes that because adjusted EBITDA excludes (a) certain non-cash expenses (such as depreciation, amortization and stock-based compensation) and (b) expenses that are not reflective of the Company’s core operating results over time (such as restructuring costs, litigation or dispute settlement charges or gains, and transaction-related costs), this measure provides investors with additional useful information to measure the Company’s financial performance, particularly with respect to changes in performance from period to period. The Company’s management uses adjusted EBITDA (a) as a measure of operating performance, (b) for planning and forecasting in future periods, and (c) in communications with the Company’s board of directors concerning the Company’s financial performance. The Company’s presentation of adjusted EBITDA are not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation and should not be used by investors as a substitute or alternative to net income or any measure of financial performance calculated and presented in accordance with U.S. GAAP. Instead, management believes adjusted EBITDA should be used to supplement the Company’s financial measures derived in accordance with U.S. GAAP to provide a more complete understanding of the trends affecting the business.

Although adjusted EBITDA is frequently used by investors and securities analysts in their evaluations of companies, adjusted EBITDA has limitations as an analytical tool, and investors should not consider it in isolation or as a substitute for, or more meaningful than, amounts determined in accordance with U.S. GAAP. Some of the limitations to using non-GAAP measures as an analytical tool are (a) they do not reflect the Company's interest income and expense, or the requirements necessary to service interest or principal payments on the Company's debt, (b) they do not reflect future requirements for capital expenditures or contractual commitments, and (c) although depreciation and amortization charges are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and non-GAAP measures do not reflect any cash requirements for such replacements.

Year Ended December 31, 2020 Compared With Year Ended December 31, 2019

Liquidity and Capital Resources

As of December 31, 2020 and 2019, we had total current liabilities of $37,784 and $18,852, respectively, and current assets of $44,736 and $30,241, respectively to meet its current obligations. As of December 31, 2020, we had working capital of $6,952, down $4,727 as compared to December 31, 2019, driven primarily by an increase in cash and cash equivalents.

The Company is an early-stage growth company. It is generating cash from sales and is deploying its capital reserves to acquire and develop assets capable of producing additional revenues and earnings over both the immediate and near term. Capital reserves are being utilized for capital expenditures and improvements in existing facilities, product development and marketing, as well as customer, supplier and investor and industry relations.

Cash Flows

Net Cash Used in Continued Operating Activities

Net cash used in continued operating activities is $13,414 for the twelve month period ended December 31, 2020, a decrease of $15,985 as compared to $29,399 for the twelve month period ended December 31, 2019. The increase is largely due to increased non-cash charges such as depreciation and accrued interest, which was offset by higher interest charges from debt acquired through the Cannex acquisition and from other loans.

Net Cash Provided by (Used in) Continued Investing Activities

Net cash provided by continued investing activities is $41,016 for the twelve month period ended December 31, 2020, an improvement of $62,588 as compared to the ($21,572) cash used in investing activities for the twelve month period ended December 31, 2019. The primary source is proceeds from the sale of our dispensaries and interests in Arizona, Pennsylvania, Maryland and Arkansas, as well as the closing of a sale leaseback transaction. Some of these proceeds were used to purchased $13,785 in property and equipment during the period.

Net Cash Provided by (Used in) Continued Financing Activities

Net cash used in continued financing activities is ($18,008) for the twelve months ended December 31, 2020, a decrease of $71,607 as compared to the twelve month period ended December 31, 2019. The decrease is largely due to $46,113 received in proceeds from loans from Cannex and LI Lending during 2019. The loan proceeds received in 2019 were used in later periods for capital expenditures and working capital. In 2020, the Company repaid $37,813 of convertible debentures, which was partially offset by $8,597 of cash proceeds from issuing convertible debt, and $12,134 from the sale of stock.

Net Cash Provided by (Used in) Discontinued Operations

Net cash provided by discontinued operating, investing, and financing activities is $1,197 for the twelve months ended December 31, 2020, a decrease of $2,881 as compared to the twelve month period ended December 31, 2019. The primary source is a lower net loss for 2020 due to higher sales at the dispensaries. The Company does not believe that the reduction of cash provided from discontinued activities will materially impact liquidity in short term or future operations.

Availability of Additional Funds

The Company believes its current cash on hand is sufficient to meet its operating and capital requirements for at least the next twelve months from the date these financial statements are issued. Thereafter, the Company may need to raise further capital, through the sale of additional equity or debt securities or otherwise, to support its future operations. The Company's operating needs include the planned costs to operate its business, including amounts required to fund working capital and capital expenditures. If the Company is unable to secure additional capital, it may be required to curtail its research and development initiatives and take additional measures to reduce costs in order to conserve its cash.

Our operating needs include the planned costs to operate our business, including amounts required to fund working capital and capital expenditures. Our future capital requirements and the adequacy of our available funds will depend on many factors, including our ability to successfully commercialize our products and services, competing technological and market developments, and the need to enter into collaborations with other companies or acquire other companies or technologies to enhance or complement our product and service offerings.

Contractual Obligations

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**

Off-Balance Sheet Arrangements

We did not have, during the periods presented, and we do not currently have, any relationships with any organizations or financial partnerships, such as structured finance or special purpose entities, that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Subsequent Events

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 first phase of the buildout will constitute 258,000 square feet of building, comprising 65,000 square feet of flowering canopy and approximately 70,000 square feet of manufacturing space for the development of 4Front's branded flower, edibles, tinctures, concentrates and other manufactured products. Phase 1 is expected to be operational by Q4 2022.

The subsequent phase(s) of the buildout will add an additional 300,000 square feet of facility to meet market demand. The Company plans to hire more than 240 employees to its cultivation and production teams during Phase 1.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Not required for smaller reporting companies.