4Front Ventures Corp.

FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2022

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements generally relate to future events or our future financial or operating performance and may include statements concerning, among other things, our business strategy (including anticipated trends and developments in, and management plans for, our business and the markets in which we operate), financial results, the impact of COVID-19 on our business, operations, and the markets and communities in which we, our clients, and partners operate, results of operations, revenues, operating expenses, and capital expenditures, sales and marketing initiatives and competition. In some cases, you can identify forward-looking statements because they contain words such as "may," "might," "will," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "suggests," "potential" or "continue" or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans or intentions. These statements are not guarantees of future performance; they reflect our current views with respect to future events and are based on assumptions and are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance, or achievements to be materially different from expectations or results projected or implied by forward-looking statements.

We discuss many of these risks in other filings we make from time to time with the Securities and Exchange Commission (the "SEC"). Also, these forward-looking statements represent our estimates and assumptions only as of the date of this Quarterly Report on Form 10-Q, which are inherently subject to change and involve risks and uncertainties. Unless required by federal securities laws, we assume no obligation to update any of these forward-looking statements, or to update the reasons actual results could differ materially from those anticipated, to reflect circumstances or events that occur after the statements are made. Given these uncertainties, investors should not place undue reliance on these forward-looking statements.

Investors should read this Quarterly Report on Form 10-Q and the documents that we reference in this report and have filed with the SEC and on SEDAR, including our Annual Report on Form 10-K, filed with the SEC on April 18, 2022, with the understanding that our actual future results may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements for the three months ended March 31, 2022 and 2021.

Unless the context otherwise indicates, when used in this Quarterly Report on Form 10-Q, "4Front," "the Company," "we," "us" and "our" refer to 4Front Ventures Corp., a British Columbia corporation, and its wholly owned subsidiaries on a consolidated basis.

Overview

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. 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 March 31, 2022, the Company operates six dispensaries in Massachusetts, Illinois, and Michigan, primarily under the "MISSION" brand name. As of March 31, 2022, the Company operates three production facilities in Massachusetts, Illinois and California and produces the majority of products that are sold at its own Massachusetts, Illinois, and California dispensaries. Also, as part of its THC Cannabis segment, the Company leases real estate and sells equipment, supplies and intellectual property to cannabis producers in the state of Washington.

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 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.

Recent Developments

Merger with Island Global Holdings, Inc.

On March 30, 2022, the Company entered into an agreement and plan of merger (the "Island Merger Agreement") by and among the Company, Island Merger Sub, Inc., a Delaware corporation and wholly owned subsidiary of the Company ("Island Merger Sub"); Island Global Holdings, Inc., a California corporation ("Island"); and Navy Capital SR LLC, a Delaware limited liability company ("Navy", and together with the Company, Island Merger Sub, and Island, the "Island Parties"). Pursuant to the terms and conditions of the Island Merger Agreement, Island Merger Sub will be merged with and into Island, with Island surviving the merger and continuing its corporate existence as a wholly owned subsidiary of the Company (the "Island Merger"). The Island Merger Agreement was effective as of April 13, 2022 (the "Effective Date").

On the Effective Date, the Island Parties consummated the Island Merger, pursuant to the terms and conditions of the Island Merger Agreement, as amended. However, due to administrative and technical issues at the California Office of the Secretary of State, the Island Parties did not receive the certificate of merger evidencing the closing of the Island Merger as of the Effective Date until April 25, 2022. At the Effective Date, pursuant to the terms and conditions of the Island Merger Agreement, as amended, the Company issued to certain shareholders and debtholders of Island an aggregate of: (i) 8,783,716 Class A Subordinated Voting Shares of the Company (the "SVS"); (ii) 6% 54-month, subordinated promissory notes (the "Island Merger Notes") in the aggregate principal amount of $6,500,000; and (iii) warrants to purchase 2,999,975 SVS at a price of $1.00 per SVS (the "Warrants", and together with the SVS and Island Merger Notes, the "Island Merger Consideration").

On April 22, 2022, the Parties entered into the first amendment to the Island Merger Agreement to replace the requirement that certain noteholders fund a letter of credit to Island of up to $1,000,000. In lieu of funding a line of credit, the noteholders agreed to pay the full $1,000,000 in cash to Island on or prior to the closing of the transactions contemplated by the Island Merger Agreement.

Merger with New England Cannabis Corporation

Please see Note 7 of the financial statements for a full description of the Company's entrance into the NECC Merger Agreement on October 6, 2021, and related transactions.

Healthy Pharms Inc. Settlement Agreement

On January 14, 2022, the Company and Healthy Pharms Inc. entered into a settlement agreement to settle the unsecured promissory note with an outstanding balance of $3,213 at December 31, 2021, in SVS and the Company issued a total of 6,235,512 SVS.

Changes to Composition of Board of Directors

On January 28, 2022, Eric Rey resigned as a member of the Company's board of directors (the "Board") and committees of the Board of the Company. Mr. Rey's resignation was not in connection with any known disagreement with the Company on any matter relating to the Company's operations, policies, or practices.

Mr. Rey served as the chairman of the Board's audit committee. As a result of Mr. Rey's resignation, the Board appointed current Board member David Daily as chairperson of the Company's audit committee, effective as of February 2, 2022.

Effective April 12, 2022, the Company's Board appointed Mr. Amit Patel and Mr. Robert E. Hunt as members of the Board.

Mr. Patel and Mr. Hunt were elected to serve as directors of the Board until the Company's 2022 annual meeting of stockholders and until their successors are elected and qualified or until their earlier resignation or removal.

The Board has determined that Mr. Patel and Mr. Hunt are "independent" directors under the rules of the Securities and Exchange Commission and the listing standards of The Nasdaq Stock Market, LLC.

There are no arrangements or understandings between Mr. Patel or Mr. Hunt and any other persons pursuant to which they were elected as a director. Mr. Patel and Mr. Hunt do not have any family relationships with any of the Company's directors or executive officers. There are no transactions and no proposed transactions between Mr. Patel or Mr. Hunt and the Company that would be required to be disclosed pursuant to Item 404(a) of Regulation S-K.

Mr. Patel and Mr. Hunt were not initially appointed to serve on any committees of the Board. Furthermore, until Messrs. Patel and Hunt are approved by state regulators, they will be recused from decisions regarding operations and strategic planning, capital allocations, acquisitions, and divestments concerning assets in states where director approval is required.

Effective April 25, 2022, the Board accepted David Daily's resignation from his position as chairman of the audit committee. Mr. Daily will continue to serve as a member of the audit committee, as well as a member of the Board. Also effective April 25, 2022, the Board appointed Mr. Patel as both a member and chairman of its audit committee.

The Board has determined that as well as being an independent director, Mr. Patel qualifies as an "audit committee financial expert," as such term is defined in Item 407(d)(5)(ii) of Regulation S-K.

Interim Chief Financial Officer

Effective July 15, 2021, the Company's board of directors appointed Andrew Thut as the Company's Interim Chief Financial Officer while the Company continues its search for a permanent Chief Financial Officer. Mr. Thut joined the Company in October 2014 as its Chief Investment Officer and will continue to serve as Chief Investment Officer during his tenure as Interim Chief Financial Officer of the Company. The Company's search for a permanent Chief Financial Officer was on-going as of the date of this Quarterly Report on Form 10-Q.

COVID-19 Pandemic

In March 2020, the World Health Organization ("WHO") declared COVID-19 a global pandemic and the United States declared a national emergency with respect to COVID-19. The emergence of COVID-19, an extremely infectious airborne respiratory virus, caused a significant response on the part of many governments to contain it.

The full extent of the COVID-19 pandemic impact continues to depend on future developments that remain highly uncertain and cannot be accurately predicted, including new information that may emerge concerning COVID-19, the actions taken to contain it or treat its impact, the identification and spread of COVID-19 variants such as the Delta and the Omicron variants, the distribution of vaccines, the acceptance of vaccines and the implementation of vaccine mandates, and the economic impact on local, regional, national and international markets. Management continues to actively monitor the developments regarding the pandemic and the impact that the pandemic could have on our business, results of operations, financial condition, and most importantly the health and safety of our workforce. Given the continued volatility of the COVID-19 pandemic and the global responses to curb its spread, we are not able to estimate the effects of the COVID-19 pandemic on our results of operations, financial condition, or liquidity for 2022. Any recovery from negative impacts to our business and related economic impact due to the COVID-19 pandemic may also be slowed or reversed by a number of factors, including the current widespread resurgence in COVID-19 infections attributable to the Omicron variant, combined with the seasonal flu. As such, we are unable to reasonably estimate the duration of the pandemic or fully ascertain its long-term impact to our business.

War in Ukraine

In February 2022, the Russian Federation and Belarus commenced a military action with the country of Ukraine. As a result of this action, various nations, including the United States, have instituted economic sanctions against the Russian Federation and Belarus. Further, the impact of this action and related sanctions on the world economy are not determinable as of the date of these financial statements. The specific impact on our financial condition, results of operations, and cash flows is also not determinable as of the date of these financial statements.

Critical Accounting Policies and use of Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which we have prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). We believe that several accounting policies are important to understanding our historical and future performance. We refer to these policies as critical because these specific areas generally require us to make judgments and estimates about matters that are uncertain at the time we make the estimate, and different estimates – which also would have been reasonable – could have been used. On an ongoing basis, we evaluate our estimates and judgments, including those described in greater detail below. We base our estimates on historical experience and other market-specific or other relevant assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies and estimates are further discussed in our Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the SEC on April 18, 2022.

Results of Operations

Three Months Ended March 31, 2022 Compared With Three Months Ended March 31, 2021

The following table sets forth our consolidated statement of operations for the three months ended March 31, 2022 and 2021, and the change between the two years ($ in thousands):

	For the Three Months Ended March 31, 2022	For the Three Months Ended March 31, 2021	Change $	Change %
Revenue from Sale of Goods	$ 23,083	$ 20,080	$ 3,003	15%
Real Estate Income	2,965	2,890	75	3%
Total Revenues	26,048	22,970	3,078	13%
Cost of Goods Sold	(12,594)	(9,125)	(3,469)	38%
Gross profit	13,454	13,845	(391)	3%
Total Operating Expense	14,695	13,492	1,203	9%
Income (Loss) from Operations	(1,241)	353	(1,594)	452%
Total Other income (expense), net	(1,215)	(8,784)	7,569	86%
Net Loss Before Income Taxes	(2,456)	(8,431)	5,975	71%
Income Tax Expense	(3,438)	(2,653)	(785)	30%
Net Loss from Continuing Operations	(5,894)	(11,084)	5,190	47%
Net Loss	$ (5,894)	$(11,084)	$ 5,190	47%

Revenue from Sale of Goods

Revenue from sale of goods for the three months ended March 31, 2022 was $23,083, an increase of $3,003 or 15% compared to the three months ended March 31, 2021. This increase is primarily due to increased revenue from the Company's Brookline, MA and Calumet City, IL dispensaries as well as an increase in the Company's wholesale revenue.

Real Estate Income

Real Estate Income from leasing cannabis production facilities for the three months ended March 31, 2022 was $2,965, an increase of $75 or 3% which is relatively flat compared to the $2,890 recognized for the three months ended March 31, 2021.

Cost of Goods Sold

Cost of goods sold ("COGS") increased by $3,469 for the three months ended March 31, 2022. 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. This increase in COGS is largely attributed to increased third party purchases to meet consumer demand at the Company's retail locations.

Gross Profit

Gross profit for the three months ended March 31, 2022 was $13,454 or 52% of revenue compared to $13,845 or 60% of revenue for the three months ended March 31, 2021. The decrease in gross profit percentage of 8% is primarily due to increases in third party inventory purchases, particularly to meet exceptional consumer demand in IL, as well as some anticipated pricing pressure in the Massachusetts market.

Total Operating Expenses

Total operating expenses for the three months ended March 31, 2022 were $14,695, an increase of $1,203 or 9%, as compared to the three months ended March 31, 2021. This increase is primarily due to an increase in general and administrative expenses of $2,479, offset by a decrease in equity based compensation of $1,358.

Total Other Income (Expense), net

Total Other Income (Expense) for the three months ended March 31, 2022 was $1,215, as compared to $8,784 for the three months ended March 31, 2021. This is primarily driven by a decrease in non-cash expenses including amortization of loan discount and change in fair value of derivative liability.

Net Loss From Continuing Operations

Net loss from continuing operations for the three months ended March 31, 2022 was $5,894, compared to a net loss from continuing operations of $11,084 for the three months ended March 31, 2021.

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 a financial measure that is not calculated in accordance with 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 is 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 loss 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.

Adjusted EBITDA is defined by the Company as earnings before interest, taxes, depreciation and amortization, accretion, share-based compensation expense, legal settlement, change in value of derivative liability, foreign exchange gain (loss), loss on lease termination, other non-cash expenses, and one-time charges related to acquisition costs, financing-related costs, extraordinary pre-opening expenses and non-recurring expenses.

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 three months ended March 31, 2022 and 2021, adjusted EBITDA consisted of the following:

Three months ended March 31,	2022	2021
Net loss (GAAP)	$(5,899)	$(11,084)
Interest income	(2)	(3)
Interest expense	4,227	2,461
Amortization of loan discount upon conversion of debt to equity	—	2,915
Income tax expense	3,438	2,653
Depreciation and amortization	1,795	1,046
Accretion	3,706	—
Equity based compensation	1,038	2,396
Change in value of derivative liability	(1,300)	2,532
Acquisition, transaction, and other one-time costs	891	1,496
Non-cash lease expense	1,125	612
Loss on lease termination	—	879
Adjusted EBITDA (Non-GAAP)	9,018	$ 5,903

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
- Acquisition, transaction, and other expenses (income), which vary significantly by transaction and are excluded to evaluate ongoing operating results

Liquidity and Capital Resources

As of March 31, 2022 and December 31, 2021, we had total current liabilities of $51,612 and $48,838, respectively, and current assets of $43,809 and $50,874, respectively, to meet our current obligations. As of March 31, 2022, we had working deficit of $7,803, compared to working capital of $2,036, as of December 31, 2021. The decrease of $9,839 is driven primarily by a decrease in cash and increases in accounts payable, taxes payable and current portion of notes payable and accrued interest, partially offset by increases in accounts receivable, other receivables, and inventory, and decreases in accrued expenses and other current liabilities, derivative liability, and current portion of convertible notes.

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) Provided by Operations

Net cash used in operating activities was $2,368 for the three months ended March 31, 2022, a decrease of $5,182 as compared to $2,814 of net cash provided by operating activities for the three months ended March 31, 2021. The decrease is primarily due to a gain recognized on the fair valuation of the Company's derivative liability compared to a loss in the prior period, a decrease in equity based compensation, and a prior period amortization of loan discount upon conversion of debt to equity, which was a one-time expense that was not incurred during the three months ended March 31, 2022. Additionally, the Company's investments in working capital to build the California and Massachusetts wholesale business resulted in a decrease in net working capital of $1,293.

Net Cash Used in Investing Activities

Net cash used in investing activities was $26,009 for the three months ended March 31, 2022, an increase of $19,979 as compared to $6,030 of cash used in investing activities for the three months ended March 31, 2021. The increase is primarily due to cash paid by the Company as part of the NECC acquisition for the three months ended March 31, 2022. The Company did not enter into an acquisition during the three months ended March 31, 2021. This increase is partially offset by more purchases of property and equipment by the Company during the three months ended March 31, 2021 than the three months ended March 31, 2022.

Net Cash Provided by Financing Activities

Net cash provided by continued financing activities was $14,434 for the three months ended March 31, 2022, an increase of $12,344 as compared to $2,090 of cash provided by financing activities for the three months ended March 31, 2021. The increase is primarily attributed to proceeds from the failed sale-leaseback transaction associated with the NECC acquisition during the three months ended March 31, 2022.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Critical Accounting Policies

We review new accounting standards as issued. Although some of these accounting standards issued or effective after the end of our previous fiscal year may be applicable to the Company, we have not identified any standards that we believe merit further discussion. We do not expect the adoption of any recently issued accounting pronouncements to have a significant impact on our financial position, results of operations, or cash flows.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a "smaller reporting company" as defined by Item 10 of Regulation S-K, the Company is not required to provide information required by this Item.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, our management has carried out an evaluation, with the participation and under the supervision of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2022. Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating and implementing possible controls and procedures.

Material Weaknesses

A material weakness is a deficiency, or a combination of deficiencies, within the meaning of Public Company Accounting Oversight Board ("PCAOB") Auditing Standard AS 2201, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

Material Weaknesses in Internal Control

The Company did not fully design and implement effective control activities based on the criteria established in the COSO framework. The Company has identified deficiencies that constitute a material weakness, either individually or in the aggregate. This material weakness is attributable to the following factors:

- We did not have sufficient accounting staff resources to timely perform closing and audit-related procedures.
- We did not have effective controls over the review procedures for balance sheet account reconciliations and manual journal entries.
- We did not have documented evidence of review procedures and did not have sufficient segregation of duties within our accounting function.

Due to the existence of the above material weakness, management, including the CEO and CFO, has concluded that our internal control over financial reporting was not effective as of March 31, 2022. This material weakness creates a reasonable possibility that a material misstatement to the consolidated financial statements will not be prevented or detected on a timely basis.

Management conducted its evaluation of disclosure controls and procedures under the supervision of our CEO and CFO. Based upon, and as of the date of, this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of March 31, 2022 due to the material weaknesses listed above.

Remediation of Material Weaknesses in Internal Control over Financial Reporting

The Company continues to strengthen our internal control over financial reporting and is committed to ensuring that such controls are designed and operating effectively. The Company is implementing process and control improvements to address the above material weakness as follows:

- The Company will assess sufficient resources, both in accounting staff and related technology, needed to timely perform closing and audit-related procedures and align identified resources.
- The Company will assess controls needed to effectively review procedures for balance sheet account reconciliations and manual journal entries and implement identified controls.
- The Company will assess review procedures to have sufficient segregation of duties within our accounting function, then standardize and document such procedures for evidence of review.

The material weakness in the Company's internal control over financial reporting will not be considered remediated until the remediated controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. The Company is working to have the material weaknesses remediated as soon as possible. However, there is no assurance that the remediation will be fully effective. As described above, the material weakness has not been remediated as of the filing date of this Form 10-Q. If these remediation efforts do not prove effective and control deficiencies and material weaknesses persist or occur in the future, the accuracy and timing of the Company's financial reporting may be materially and adversely affected.

Inherent Limitations on Effectiveness of Controls

Management recognizes that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud or error, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Control over Financial Reporting

Other than those described above, there have been no changes in the Company’s internal control over financial reporting during the three months ended March 31, 2022 that have materially affected, or that are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

On August 5, 2019, Richard Hernandez and Commerce Citizens Against Marijuana Corruption (the "Complainants") filed a complaint (Superior Court of California Case No. 19ST-CV-27029) and writ of mandamus against the City of Commerce, California and certain of its officials alleging procedural errors committed by the City in relation to certain development agreements granted to 22 cannabis operators allowing such operators to operate various cannabis businesses in the City of Commerce. Cannex Holdings (California), Inc., a wholly owned subsidiary of the Company, is one such operator that was named as a Real Party in Interest in the case, and as such, engaged counsel to defend its interests relating to the claims brought against the City of Commerce, California. On April 15, 2021, the court in the matter ruled on a demurrer where certain of the Complainants' claims were dismissed. Additionally, a writ of mandamus hearing (subject to an application for continuance being sought on August 17, 2021) was scheduled for September 30, 2021. If the Complainants' remaining claims were upheld (including through appeals), the City of Commerce could have been required to reissue the "ordinances", "Development Agreements" or other applicable license rights to the current license holders. While the City of Commerce stated in no uncertain terms that it would act immediately to ensure/restore fully licensed status of any of the affected operators, there could be no assurances that such relicensing would be successful or if successful would not result in a significant disruption of operations for the operators. As a result, the Company entered into a confidential settlement with Complainants on or around September 22, 2021, and the matter was dismissed with prejudice as to the Company.

In December 2021, the Company settled a dispute with an undisclosed defendant. As part of the settlement, the Company recorded a gain on the settlement of $3,768.

On January 26, 2022, Savills, Inc. ("Savills") sued the Company in the U.S. District Court for the Southern District of New York. That lawsuit alleges that the Company has breached an alleged agreement with Savills under which the Company was allegedly required to pay Savills a percentage of savings realized under certain incentive programs offered in some jurisdictions, which Savills would assist the Company in obtaining. Savills claims damages of approximately $19,000 in connection with its claim that it obtained benefits for the Company allegedly valued at over $129,000. The Company denies these allegations, denies the Company has obtained such benefits, disputes Savills' characterization of the facts, and denies liability. The Company has filed a counterclaim against Savills alleging breach of contract by Savills.

Apart from the foregoing and ongoing legal proceedings, from time to time, we may be subject to various other legal proceedings and claims that are routine and incidental to our business. Although some of the legal proceedings set forth herein may result in adverse decisions or settlements, management believes that the final disposition of such matters will not have a material adverse effect on our business, financial position, results of operations or cash flows.

Item 1A. Risk Factors

As a "smaller reporting company" as defined by Item 10 of Regulation S-K, we are not required to provide information required by this Item.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On January 14, 2022, pursuant to a settlement agreement to settle an unsecured promissory note with an outstanding balance of $3,213 at December 31, 2021, the Company issued 6,235,512 SVS to Healthy Pharms Inc.

On January 28, 2022, pursuant to an agreement and plan of merger whereby New England Cannabis Corporation, Inc., a Massachusetts corporation ("NECC") became a wholly owned subsidiary of the Company, the Company issued 28,571,428 SVS, with a deemed value of $1.05 per share, or a total estimated valuation of $30,000,000 to Mr. Kenneth V. Stevens, the sole owner of all of the issued and outstanding capital stock of NECC.

On April 25, 2022, pursuant to an agreement and plan of merger whereby Island Global Holdings, Inc., a California corporation ("Island") became a wholly owned subsidiary of the Company, the Company issued an aggregate of: 8,783,716 SVS and warrants to purchase 2,999,975 SVS at a price of $1.00 per SVS to certain shareholders and debtholders of Island.

The foregoing transactions did not involve any underwriters, any underwriting discounts or commissions, or any public offering. We believe the offers, sales, and issuances of the above securities were exempt from registration under the Exchange Act (including Regulation D promulgated thereunder) by virtue of Section 4(a)(2) of the Securities Act, because the issuance of securities to the recipients did not involve a public offering. The recipients of the securities in each of these transactions represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were placed upon the stock certificates issued in these transactions. All recipients had adequate access, through their relationships with us or otherwise, to information about us. The issuances of these securities were made without any general solicitation or advertising.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

There is no other information required to be disclosed under this item which was not previously disclosed.

Item 6. Exhibits

Exhibit Number	Exhibit Description	Form	Filing Date	Exhibit Number	Filed Herewith
31.1	Certification of the Chief Executive Officer (Principal Executive Officer) pursuant to Rule 13a-14(a) of the Securities Exchange Act				x
31.2	Certification of the Chief Financial Officer (Principal Financial Officer) pursuant to Rule 13a-14(a) of the Securities Exchange Act				x
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Rule 13a-14(b) Under the Securities Exchange Act of 1934 and Section 1350 of Chapter 60 of Title 18 of the United States Code *				x
101.INS	Inline XBRL Instance Document				
101.SCH	Inline XBRL Taxonomy Extension Schema Document				
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)				

+ Indicates management contract or compensatory plan.

* This certification is being furnished solely to accompany this Quarterly Report pursuant to 18 U.S.C. Section 1350, and it is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934 and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

4FRONT VENTURES CORP.

Date: May 23, 2022	By:	/s/ Leo Gontmakher Leo Gontmakher Chief Executive Officer and Director (Principal Executive Officer)
Date: May 23, 2022	By:	/s/ Andrew Thut Andrew Thut Chief Investment Officer and Interim Chief Financial Officer (Principal Financial Officer)