4Front Ventures Corp.

FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2022

TABLE OF CONTENTS

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 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 for the six months ended June 30, 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 June 30, 2022, the Company operates six dispensaries in Massachusetts, Illinois, and Michigan, primarily under the "MISSION" brand name. As of June 30, 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 and Illinois 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.

Please see Note 7 of the financial statements for a full description of the Company’s entrance into the Island Merger Agreement on March 30, 2022, and related transactions.

Changes to Composition of Board of Directors

On July 13, 2022, Kathi Lentzch resigned from her role as Chair of the Board, while remaining a Director and Chair of the Compensation Committee, and Mr. Robert Hunt was appointed Chair of the Board

Thut Resignation as Interim Chief Financial Officer

On June 9, 2022, Andrew Thut resigned his position as Interim Chief Financial Officer of the Company. Mr. Thut joined the Company in October 2014 as its Chief Investment Officer and was appointed to the position Interim Chief Financial Officer (in addition to his position as Chief Investment Officer) effective July 1, 2021. Mr. Thut will continue to serve as the Company’s Chief Investment Officer. Mr. Thut’s resignation from this position was not in connection with any known disagreement with the Company on any matter relating to the Company’s operations, policies, or practices, including accounting principles and practices.

Adams Appointment As Chief Financial Officer

Effective June 9, 2022, the Company’s board of directors appointed Keith Adams as the Company’s Chief Financial Officer. From November 2019 to present, Mr. Adams served as the Chief Financial Officer of LPF JV, LLC a privately-held California vertically integrated cannabis company that was recently acquired by StateHouse Holdings, Inc., formerly known as Harborside Inc. From July 2018 to November 2019, Mr. Adams worked as the Chief Accounting Officer of DionyMed Brands, Inc. (OTCMKTS: DYMEF), a multi-state cannabis brand, distribution and delivery platform supporting cultivators, manufacturers and brands in both medical and adult-use markets. From May 2016 to June 2018, Mr. Adams was the Chief Financial Officer at Efficient Power Conversion, a provider of gallium nitride (GaN)-based power management technology. Prior to this time, Mr Adams held various senior level finance jobs including CFO, CAO and others, mainly in the technology industry over the course of 25 years. Mr. Adams is licensed as a Certified Public Accountant and Certified Management Accountant. He also holds a Bachelor of Business Administration in Accounting from University of Wisconsin-Oshkosh.

There are no arrangements or understandings between Mr. Adams and any other persons pursuant to which he was appointed as an officer of the Company. Mr. Adams has no family relationships with any of the Company’s directors or executive officers, and, other than as described above, Mr. Adams does not have any direct or indirect material interest in any transaction required to be disclosed pursuant to Item 404(a) of Regulation S-K.

In connection with his appointment as Chief Financial Officer, Mr. Adams executed an offer letter pursuant to which the Company and Mr. Adams will enter into an employment agreement at a later date, with proposed terms that Mr. Adams would be entitled to an annual base salary of $275,000, eligible to earn year-end performance bonuses with a target bonus opportunity of 50% of his base salary, and an initial equity grant of 1,250,000 shares of the Company’s Subordinated Voting Shares, no par value per share, which would begin vesting in one-third increments beginning on the first anniversary of Mr. Adam’s first year of employment with the Company.

Feltham Termination

Effective June 14, 2022, the Company determined that the position of Chief Operating Officer was not needed at the present time, in order to further streamline the Company's internal reporting structure. As such, Joseph Feltham was relieved of his duties as Chief Operating Officer of the Company, and a replacement for his position is not currently being pursued. The removal from employment of Mr. Feltham was not in connection with any known disagreement with the Company on any matter relating to the Company's operations, policies or practices, including accounting principles and practices.

In connection with his removal from the Company, effective June 14, 2022 Mr. Feltham and the Company entered into a Separation, Transition, and Release of Claims Agreement (the "Feltham Separation Agreement"). The Feltham Separation Agreement was signed by all parties on July 14, 2022. Pursuant to the terms proposed by the Company for the Feltham Separation Agreement, Mr. Feltham will continue to receive a base salary of $11,538.46 bimonthly through December 31, 2022, and will retain the right to exercise previously vested options held by Mr. Feltham within 90 days of his termination date. Mr. Feltham is also eligible for a 2021 bonus payment

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 June 30, 2022 Compared With Three Months Ended June 30, 2021

The following table sets forth our consolidated statement of operations for the three months ended June 30, 2022 and 2021, and the change between the two years ($ in thousands):

	For the Three Months Ended June 30, 2022	For the Three Months Ended June 30, 2021	Change $	Change %
Revenue from Sale of Goods	$ 25,488	$ 24,452	$ 1,036	4%
Real Estate Income	2,951	2,669	282	11%
Total Revenues	28,439	27,121	1,318	5%
Cost of Goods Sold	(16,123)	(10,816)	(5,307)	49%
Gross profit	12,316	16,305	(3,989)	24%
Total Operating Expense	16,415	15,637	778	5%
Income (Loss) from Operations	(4,099)	668	(4,767)	714%
Total Other income (expense), net	595	(3,535)	4,130	117%
Net Loss Before Income Taxes	(3,504)	(2,867)	(637)	22%
Income Tax Expense	(3,042)	(3,351)	309	9%
Net Loss from Continuing Operations	(6,546)	(6,218)	(328)	5%
Net Loss	$ (6,546)	$ (6,218)	$ (328)	5%

Revenue from Sale of Goods

Revenue from sale of goods for the three months ended June 30, 2022 was $25,488, an increase of $1,036 or 4% compared to the three months ended June 30, 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 as it ramps those portions of its business in California, Illinois, and Massachusetts.

Real Estate Income

Real Estate Income from leasing cannabis production facilities for the three months ended June 30, 2022 was $2,951, an increase of $282 or 11% which is relatively flat compared to the $2,669 recognized for the three months ended June 30, 2021.

Cost of Goods Sold

Cost of goods sold (“COGS”) increase $5,307 for the three months ended June 30, 2022 from $10,816 to $16,123. 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, as well as the acquisition of Island and the continued integration of both Island and NECC.

Gross Profit

Gross profit for the for the three months ended June 30, 2022 was $12,316 or 43% of revenue compared to $16,305 or 60% of revenue for the three months ended June 30, 2021. The decrease in gross profit percentage of 17% is primarily due to a larger contribution of revenue from the Company's wholesale business, increases in third-party inventory purchases, particularly to meet exceptional consumer demand in IL, and some anticipated pricing pressure in the Massachusetts market. To mitigate the pricing pressures in Massachusetts, the Company has improved vertical sell-through in its retail locations, a benefit of the high-quality flower and "fresh frozen" products added via the NECC acquisition.

Total Operating Expenses

Total operating expenses for the three months ended June 30, 2022 were $16,415, an increase of $778 or 5%, as compared to the three months ended June 30, 2021. This increase is primarily due to an increase in general and administrative expenses of $1,483, attributable to the addition of new operations in Brookline, MA, Holliston, MA and CA since the comparable period, offset by a decrease in equity based compensation of $3,947.

Total Other Income (Expense), net

Total Other Income (Expense) for the three months ended June 30, 2022 was $595, as compared to $(3,535) for the three months ended June 30, 2021. This is primarily driven by an increase in other income attributable to the write-off of a contingent liability consideration and a change in the fair value of derivative liability.

Six Months Ended June 30, 2022 Compared With Six Months Ended June 30, 2021

The following table sets forth our consolidated statement of operations for the six months ended June 30, 2022 and 2021, and the change between the two years ($ in thousands):

	For the Six Months Ended June 30,		Change	
	2022	2021	$	%
Revenue from Sale of Goods	$ 48,571	$ 44,532	$ 4,039	9%
Real Estate Income	5,916	5,559	357	6%
Total Revenues	54,487	50,091	4,396	9%
Cost of Goods Sold	(28,717)	(19,941)	(8,776)	44%
Gross profit	25,770	30,150	(4,380)	15%
Total Operating Expense	31,110	29,129	1,981	7%
Income (Loss) from Operations	(5,340)	1,021	(6,361)	623%
Total Other income (expense), net	(620)	(12,319)	11,699	95%
Net Loss Before Income Taxes	(5,960)	(11,298)	5,338	47%
Income Tax Expense	(6,480)	(6,004)	(476)	8%
Net Loss from Continuing Operations	(12,440)	(17,302)	4,862	28%
Net Loss	$ (12,440)	$ (17,302)	$ 4,862	28%

Revenue from Sale of Goods

Revenue from sale of goods for the six months ended June 30, 2022 was $48,571, an increase of $4,039 or 9% compared to the six months ended June 30, 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 as it ramps those portions of its business in California, Illinois, and Massachusetts.

Real Estate Income

Real Estate Income from leasing cannabis production facilities for the six months ended June 30, 2022 was $5,916, an increase of $357 or 6% which is relatively flat compared to the $5,559 recognized for the six months ended June 30, 2021.

Cost of Goods Sold

Cost of goods sold ("COGS") increased $8,776 for the six months ended June 30, 2022 from $19,941 to $28,717. 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, as well as the acquisition of Island and the continued integration of both Island and NECC, is largely attributed to increased third-party purchases to meet consumer demand at the Company's retail locations.

Gross Profit

Gross profit for the for the six months ended June 30, 2022 was $25,770 or 47% of revenue compared to $30,150 or 60% of revenue for the six months ended June 30, 2021. The decrease in gross profit percentage of 13% is primarily due to a larger contribution of revenue from the Company's wholesale business, increases in third-party inventory purchases, particularly to meet exceptional consumer demand in IL, and some anticipated pricing pressure in the Massachusetts market. To mitigate the pricing pressures in Massachusetts, the Company has improved vertical sell-through in its retail locations, a benefit of the high-quality flower and "fresh frozen" products added via the NECC acquisition.

Total Operating Expenses

Total operating expenses for the six months ended June 30, 2022 were $31,110, an increase of $1,981 or 7%, as compared to the six months ended June 30, 2021. This increase is primarily due to an increase in general and administrative expenses of $3,962, attributable to the addition of new operations in Brookline, MA, Holliston, MA and CA since the comparable period offset by a decrease in equity based compensation of $3,947.

Total Other Income (Expense), net

Total Other Income (Expense) for the six months ended June 30, 2022 was $620, as compared to $12,319 for the six months ended June 30, 2021. This is primarily driven by a decrease in non-cash expenses including amortization of loan discount, change in fair value of derivative liability, and an increase in other income attributable to the write-off of a contingent liability consideration.

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 six months ended June 30, 2022 and 2021, adjusted EBITDA consisted of the following:

Six months ended June 30,	2022	2021
Net loss (GAAP)	$(12,440)	$(17,302)
Interest income	(2)	(11)
Interest expense	9,274	5,362
Amortization of loan discount upon conversion of debt to equity	—	2,915
Income tax expense	6,480	6,004
Depreciation and amortization	4,689	2,166
Accretion of liability expense	7,400	—
Equity based compensation	1,428	5,375
Change in contingent consideration payable	(2,393)	—
Change in value of derivative liability	(3,074)	2,843
Acquisition, transaction, and other one-time costs	3,010	3,054
Non-cash inventory adjustment	1,600	—
Non-cash lease expense	2,213	1,765
Loss on lease termination	—	1,210
Adjusted EBITDA (Non-GAAP)	$ 18,185	$ 13,381

For the three months ended June 30, 2022 and 2021, adjusted EBITDA consisted of the following:

Three months ended June 30,	2022	2021
Net loss (GAAP)	$ (6,546)	$ (6,218)
Interest income	—	(8)
Interest expense	5,047	2,901
Amortization of loan discount upon conversion of debt to equity	—	—
Income tax expense	3,042	3,351
Depreciation and amortization	2,894	1,120
Accretion of liability expense	3,694	—
Equity based compensation	390	2,979
Change in contingent consideration payable	(2,393)	—
Change in value of derivative liability	(1,774)	311
Acquisition, transaction, and other one-time costs	2,119	1,558
Non-cash inventory adjustment	1,600	—
Non-cash lease expense	1,088	1,153
Loss on lease termination	—	331
Adjusted EBITDA (Non-GAAP)	$ 9,161	$ 7,478

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 June 30, 2022 and December 31, 2021, we had total current liabilities of $63,392 and $48,838, respectively, and current assets of $47,125 and $50,874, respectively, to meet our current obligations. As of June 30, 2022, we had working deficit of $16,267, compared to working capital of $2,036, as of December 31, 2021. The decrease of $18,303 is driven primarily by a decrease in cash and increases in accounts payable and taxes payable, 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 $2,884 for the six months ended June 30, 2022, a decrease of $7,151 as compared to $4,267 of net cash provided by operating activities for the six months ended June 30, 2021. The decrease is due to a gain recognized on the fair valuation of the Company's derivative liability compared to a loss in prior period 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 six months ended June 30, 2022. Additionally, the Company's management of working capital resulted in a decrease in net working capital of $2,458.

Net Cash Used in Investing Activities

Net cash used in investing activities was $26,680 for the six months ended June 30, 2022, an increase of $15,944 as compared to $10,736 of cash used in investing activities for the six months ended June 30, 2021. The increase is primarily due to cash paid by the Company as part of the NECC acquisition for the six months ended June 30, 2022 as well as purchases of property, plant, and equipment of $2,249. The Company did not enter into an acquisition during the six months ended June 30, 2021. This increase is partially offset by more purchases of property and equipment by the Company during the six months ended June 30, 2021 than the six months ended June 30, 2022.

Net Cash Provided by Financing Activities

Net cash provided by financing activities was $13,015 for the six months ended June 30, 2022, an increase of $13,915 as compared to $900 of cash used in financing activities for the six months ended June 30, 2021. The increase is attributed to proceeds from the construction finance liability associated with the NECC acquisition during the six months ended June 30, 2022 of $16,000, partially offset by repayments of notes payable during the six months ended June 30, 2022 of $2,656.

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 June 30, 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 June 30, 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 June 30, 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

The Company has begun implementing changes to strengthen the Company's internal controls, including the hiring of a permanent CFO and Director of External Reporting, evaluating systems that could aid in improving controls, and implementing month end close procedures that include monthly flux analysis, Gross Margin analysis and performing balance sheet reconciliations. Other than those described above, there have been no changes in the Company's internal control over financial reporting during the three months ended June 30, 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 May 15, 2017, the Company's wholly-owned subsidiary, 4Front Advisors, LLC, entered into an Application, Training, and Consulting Agreement with 5Seat Investment, LLC and Kanna. A dispute arose about amounts owed to the subsidiary under the agreement, and on May 17, 2022, the parties agreed to settle the matter for payment of $600 to the Company's subsidiary.

On January 26, 2022, Savills, Inc. sued the Company in the U.S. District Court for the Southern District of New York. That lawsuit alleged that the Company had 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 claimed 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 denied these allegations, denied the Company had obtained such benefits, disputed Savills' characterization of the facts, and denied liability. The Company filed a counterclaim against Savills alleging breach of contract by Savills. On August 3, 2022, the parties reached a confidential settlement in principle and agreed to dismissal of all claims. In accordance with the order of dismissal, if no application to restore the litigation is submitted by September 6, 2022, the case will be dismissed without prejudice.

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 LJM Investment Group.

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.

The Company did not repurchase any shares during the reporting period.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

The Company advanced its annual shareholder meeting from December to June, and held its annual shareholder meeting on June 22, 2022.

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: August 15, 2022	By:	/s/ Leo Gontmakher
		Leo Gontmakher *Chief Executive Officer and Director* *(Principal Executive Officer)*
Date: August 15, 2022	By:	/s/ Keith Adams
		Keith Adams *Chief Financial Officer* *(Principal Financial Officer)*