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

The following discussion should be read in conjunction with the Consolidated Financial Statements and the accompanying notes presented in Item 8 of this Annual Report on Form 10-K. Except for historical information, the discussion in this section contains forward-looking statements that involve risks and uncertainties. Future results could differ materially from those discussed below for many reasons, including the risks described in “Forward-Looking Statements” and as noted below.

Disclosure Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking information about the Company that is intended to be covered by the safe harbor for "forward-looking statements" provided by the Private Securities Litigation Reform Act of 1955. Forward-looking statements are statements that are not historical facts. Words such as "guidance," "expect," "will," "may," “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “suggests,” “potential” and similar expressions are intended to identify forward-looking statements. There statements include information regarding our plans, strategies, and expectations of future financial performance and prospects. Forward-looking statements are not guarantees of performance. These statements are based upon the current beliefs and expectations of our management and are subject to significant risk and uncertainties that could cause actual results to differ materiality from those expressed in, or implied or projected by, the forward-looking information and statements. Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot assure investors that the expectations will prove to be correct. Among the factors that could cause actual results to differ materially from the expectations are acts of war or terrorism and the impact on the social and economic conditions in the United States, the effects of the COVID pandemic, and changes in the legalization of marijuana across the United States. New risk factors emerge over time and it is not possible to predict all such risk factors, or to assess the impact such risk factors have on the business. We undertake no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise, except as required by law.

Overview

4Front Ventures Corp. ("4Front", the "Company", "we" or "our") has two primary operating segments: THC Cannabis and CBD Wellness. With regard to its THC Cannabis segment, the Company owns, operates, or manages six dispensaries and seven cultivation and production facilities in Massachusetts, Illinois, Michigan, and California as of December 31, 2022. The Company's six "MISSION" branded dispensaries are located in: Brookline, MA; Georgetown, MA; Worcester, MA; South Shore (Chicago), IL; Calumet City, IL; and Ann Arbor, MI. The Company's seven cultivation and production assets differ by state as summarized below:

Massachusetts (3)

- Indoor cultivation facility in Worcester, MA totaling 34,000 square feet, of which 9,000 square feet is used for cultivation (4,500 square feet of flowering canopy) and 17,000 square feet of idle space that can be used for the expansion of existing operations. The Worcester facility includes an on-site dispensary of 6,000 square feet.
- Indoor cultivation and production facility in Georgetown, MA totaling 72,000 total square feet, of which 16,200 square feet is used for cultivation (8,000 square feet of flowering canopy), and 23,500 square feet is used for manufacturing and other operations. The Georgetown facility has 26,000 square feet of idle space that can be used for the expansion of existing operations and includes an on-site dispensary of approximately 6,000 square feet.
- Indoor cultivation facility in Holliston, MA totaling 52,000 square feet, of which 20,000 square feet is used for cultivation and 29,000 square feet of idle space that can be used for the expansion of existing operations.

Illinois (1)

- Indoor cultivation and production facility in Elk Grove, IL totaling 94,000 square feet, of which 21,000 square feet is used for cultivation and 17,000 square feet is used for manufacturing and other operations. The Elk Grove facility includes 26,500 square feet of idle space that can be used for the expansion of existing operations.

California (3)

- Production facility in Commerce, CA totaling 185,000 square feet, of which 95,000 square feet is used for manufacturing and distribution operations, with 12,000 square feet of idle space that can be used for expansion of existing operations.
- Greenhouse cultivation facility in Monterey County, CA with approximately 80,000 square feet of flowering canopy
- Outdoor, hoophouse, and nursery cultivation facility in Watsonville, CA totaling 264,000 square feet of flowering canopy

4Front operations are structured in key geographic locations across the United States to scale operations efficiently and position the company for future growth opportunities as cannabis legalization efforts continue across the U.S. and federally. Management intends to continue scaling operations in Illinois, Massachusetts, and California to increase its market share. The Company has made significant investments in manufacturing facilities in each of these locations. In January 2022, the Company acquired a new cultivation facility in Holliston, MA in the New England Cannabis Corporation ("NECC") acquisition, which doubled the Company's cultivation footprint in the Massachusetts market. Also in January 2022, the Company opened its production facility in Commerce, CA and ramped up production during fiscal year 2022, and is already selling into more than 300 retailers in the state of California. The acquisition of Island Global Holdings, Inc. (“Island”) in April 2022 further solidified the Company’s position in the California wholesale market, adding a premium flower brand to compliment the Company’s existing suite of derivative products. In addition to scaling and driving operational effectiveness, the Company will also focus on developing trusted brand products to grow revenue, build customer loyalty and market share.

As part of its THC Cannabis segment, the Company also leases real estate and sells equipment, supplies, and intellectual property to cannabis producers in the state of Washington.

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 hemp derived products throughout the United States.

While marijuana is legal under the laws of several U.S. states (with varying restrictions), the United States Federal Controlled Substances Act classifies all “marijuana” as a Schedule I drug, whether for medical or recreational use. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of safety for the use of the drug under medical supervision.

Refer to "Item 1. Business" of this Form 10-K for recent developments during the current fiscal year.

Results of Operations

The Company’s Consolidated Financial Statements are prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”), and the financial information contained herein, are reported in thousands (000’s) of United States dollars (“$”) unless otherwise specified. Canadian dollar amounts are denoted by “C$”.

The following table sets forth our results of operations for the years ended December 31, 2022 and 2021:

	For the Years Ended December 31,		Change	
	2022	2021	$	%
Revenue from Sale of Goods	$ 106,217	$ 93,387	$ 12,830	14 %
Real Estate Income	12,360	11,179	1,181	11 %
Total Revenues	118,577	104,566	14,011	13 %
Cost of Goods Sold	(77,426)	(55,170)	(22,256)	40 %
Gross Profit	41,151	49,396	(8,245)	17 %
Total Operating Expense	81,328	63,270	18,058	29 %
Income (Loss) from Operations	(40,177)	(13,874)	(26,303)	190 %
Total Other Income (Expense), net	3,207	(10,484)	13,691	131 %
Net Loss Before Income Taxes	(36,970)	(24,358)	(12,612)	52 %
Income Tax Expense	(9,907)	(13,931)	4,024	29 %
Net Loss	**$ (46,877)**	**$ (38,289)**	**$ (8,588)**	**22 %**

Revenue from Sale of Goods

Revenue from sale of goods for the year ended December 31, 2022 was $106.2 million, an increase of $12.8 million or 14% compared to the year ended December 31, 2021. The Company has focused on optimizing its operations, leveraging the assets acquired through acquisitions and realizing added synergies from expanding the size of its overall business and further vertically integrating its operations to achieve profitability. The additions of NECC and Island bolstered the Company's cultivation and production operations in Massachusetts and California, respectively. In Massachusetts, the NECC acquisition doubled the Company's flowering canopy, improved the overall flower quality, and allowed the Company to manufacture and sell butane-extracted products, bolstering both the Company's retail and wholesale market share. In California, the Island acquisition complimented our emerging manufacturing business with a long-standing wholesale flower brand, rounding out a wholesale menu in California that now includes a full suite of flower and pre-roll SKUs in addition to the 4Front derivative brands.

Real Estate Income

Real Estate Income from leasing cannabis production facilities for the year ended December 31, 2022 was $12.4 million, an increase of $1.2 million or 11% compared to the $11.2 million recognized for the year ended December 31, 2021. This increase in real estate income is attributed to new subleases of building space in Illinois and California.

Revenue in the reportable segments from which we operate is as follows:

	For the Years Ended December 31,		Change	
	2022	2021	$	%
THC Cannabis	$ 117,545	$ 102,262	$ 15,283	15 %
CBD Wellness	1,032	2,304	(1,272)	(55) %
Total Net Revenues	**$ 118,577**	**$ 104,566**	**$ 14,011**	**13 %**

Net revenues for the THC cannabis segment were $117.5 million for the year ended December 31, 2022, an increase of $15.3 million or 15%, compared to the year ended December 31, 2021. The increase was primarily due to the Company operating seven cultivation and production facilities during fiscal year 2022 versus six facilities in fiscal year 2021. Specifically, the Company opened its manufacturing facility in Commerce, CA in January 2022 and ramped up production during the year, with active partnerships with leading retailers and distributors. In addition, as a result of the NECC acquisition in January 2022, the Company acquired a 55,000 square feet facility in Holliston, MA as well as new cultivation methodologies resulting in notable improvements in the quality of our flower from all our core states and facilities. Management intends to continue focusing on expanding the Company's vertical operations to maximize growth in its core geographies.

Net revenues for the CBD wellness segment were $1.0 million for the year ended December 31, 2022, a decrease of $1,272 or 55%, compared to the year ended December 31, 2021. The decrease is largely attributable to changes in marketing strategy prioritizing profitable sales with a focus on neutral cash flow.

Cost of Goods Sold

Cost of goods sold for the year ended December 31, 2022 was $77.4 million, an increase of $22.3 million or 40% compared to $55.2 million for the year ended December 31, 2021. Due to the economic environment as well as cannabis market and regulations in fiscal year 2022, we noted an increase in the direct cost of labor and materials, indirect costs such as utilities and supplies used in the growing process, and indirect labor costs for individuals involved in the growing, quality control and inventory processes, as well as certain facility costs. The ramping of the Company’s California business, which launched in January 2022, added significant costs greater than its revenue contribution in its first year of operation, which increased cost of goods sold in the current year.

Gross Profit

Gross profit for the year ended December 31, 2022 was $41.2 million or 35% of revenue compared to $49.4 million or 47% of revenue for the year ended December 31, 2021. The decrease in gross margin of 13% was primarily due to increase in cost of goods sold as described above coupled with pricing compression across the Company's markets which has been mitigated by increases in retail sell-through of the Company-owned produced products primarily in Illinois and Massachusetts. Improvements in flower yields and quality led to increases in revenue, market share, and gross margin in Massachusetts for the year ended December 31, 2022. During the fiscal fourth quarter of 2022, the Company experienced similar improvements in flower yields and quality in Illinois. Additionally, because the Company added no new retail locations in fiscal year 2022, the Company’s wholesale segment, an inherently lower margin business, represented a larger percentage of revenue as compared to prior periods, adding to the overall decline in gross margin. As the California business continues to scale, management expects the margin profile to improve meaningfully.

Total Operating Expenses

Operating expenses consist of selling and marketing expenses, general and administrative expenses, depreciation and amortization, transaction and restructuring expenses, and equity based compensation expense. Total operating expenses for the year ended December 31, 2022 was $81.3 million, an increase of $18.1 million or 29%, as compared to the year ended December 31, 2021. This increase was primarily due to the impairment of acquired licenses of $13.2 million during fiscal year 2022 compared to none in the prior year. Refer to Note 6 of the Consolidated Financial Statements for further information. The Company also recognized transaction and restructuring related expenses of $2.2 million during the year ended December 31, 2022 compared to none in the prior year, primarily due to the NECC and Island acquisitions during fiscal year 2022. In addition, general and administrative expenses for the year ended December 31, 2022 increased $4.1 million compared fiscal year 2021. Note 14 of the Consolidated Financial Statements includes further detail on general and administrative expenses.

Total Other Income (Expense), net

Other income (expense) consists primarily of interest expense, change in fair value of derivative liability, (gain) loss on litigation settlement, and other income. Total other income for the year ended December 31, 2022 was $3.2 million, as compared to total other expense of $10.5 million for the year ended December 31, 2021. This was primarily due to an increase of $(0.4) million in other income of which during the year ended December 31, 2022, $7.4 million was related to the Employee Retention Tax Credit and $3.8 million was related to the Prepaid Forward Purchase Agreement.

On October 13, 2022, the Company entered into a Prepaid Forward Purchase Agreement with Frisco SPV, LLC ("Frisco") in which Frisco advanced the Company $3.8 million in exchange for a share of the proceeds of the Company’s planned litigation against four former licensing clients. See Note 17 of the Consolidated Financial Statements for further information.

Net Loss

Net loss for the year ended December 31, 2022 was $46.9 million, compared to $38.3 million for the year ended December 31, 2021. The increase in net loss for the year ended December 31, 2022 was primarily due to the decline in gross profit as described above and the impairment of acquired licenses totaling $13.2 million as a result of recent market conditions in the cannabis industry and the economy as a whole. Such impacts were offset by the $13.2 million recognized in other income as noted above.

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), it represents a clearer picture of what the Company's operations could be doing. Adjusted EBITDA is defined by the Company is detailed below. 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.

The following table reconciles Net Loss to Adjusted EBITDA for the years ended December 31, 2022 and 2021:

	For the Years Ended December 31,			
	2022		2021	
Net loss before NCI (GAAP)	$	(46,877)	$	(38,289)
Interest income		(32)		(15)
Interest expense		12,685		13,704
Income tax expense		9,907		13,931
Depreciation and amortization		8,339		6,636
EBITDA (Non-GAAP)	**$**	**(15,978)**	**$**	**(4,033)**
Equity based compensation		7,214		10,081
Impairment of goodwill and intangible assets		13,184		—
Change in fair value of derivative liability		(3,502)		(832)
Change in fair value of contingent consideration		(2,393)		—
Loss on disposal and lease termination		609		1,210
Loss (gain) on litigation settlement		250		(3,768)
Sale leaseback related interest expense and non-cash operating lease amortization		6,142		9,195
Facility start-up costs / under-absorbed overhead		14,904		7,176
Fair value mark-up for acquired inventory		1,330		8,506
Acquisition, transaction, and other non-cash costs		5,974		6,420
Adjusted EBITDA (Non-GAAP)	**$**	**27,734**	**$**	**33,955**

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, as defined by the Company, excludes from Net Loss:

- Interest income and expense;
- Current income tax expense;
- Non-cash depreciation and amortization expense;
- Non-cash equity based compensation expense;
- Non-cash impairment charges, as the charges are not expected to be a recurring business activity;
- Non-cash changes in fair value of derivative liability and contingent consideration;
- Loss on disposal of assets and lease terminations;
- Loss (gain) recognized on litigation settlements;
- Sale leaseback related interest expense and non-cash operating lease amortization;
- Facility start-up costs and under-absorbed overhead costs related to expenses incurred at non-operational facilities during construction and facilities in California due to first year operations;
- Non-cash inventory adjustment related to the mark-up of acquired inventory to fair value recognized in cost of goods sold, including amounts related to prior periods; and
- Acquisition, transaction, and other non-cash costs, which vary significantly by transactions and are excluded to evaluate ongoing operating results.

Liquidity and Capital Resources

As of December 31, 2022 and 2021, we had total current liabilities of $77.5 million and $48.8 million, respectively, and current assets of $53.3 million and $50.9 million, respectively, to meet our current obligations. As of December 31, 2022 and 2021, we had working capital (deficit) of $(24.2) million and $2.0 million, respectively. The decrease in working capital of $26.2 million was driven primarily by an increase in accounts payable and accrued liabilities and an increase in taxes payable due to the Company's expanded operations resulting from the mergers and acquisitions completed during fiscal year 2022.

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. Historically, the Company has raised capital as needed however there is no guarantee the Company will be able to continue to raise funds in the same manor it has historically.

Cash Flows

Net Cash Provided by Operating Activities

Net cash provided by operating activities was $8.8 million for the year ended December 31, 2022, an increase of $3.0 million as compared to $5.8 million of net cash provided by operating activities for the year ended December 31, 2021. The increase was primarily due to the $7.4 million in employer retention credits received in cash during the year ended December 31, 2022 and cash advanced for the Prepaid Forward Purchase Agreement. Refer to the discussion in "Results of Operations" of Item 7 in this Form 10-K.

Net Cash Used in Investing Activities

Net cash used in investing activities was $26.9 million for the year ended December 31, 2022, an increase of $13.9 million as compared to $13.0 million of net cash used in investing activities for the year ended December 31, 2021. The increase is primarily due to $24.5 million cash paid for asset acquisitions and business combinations in fiscal year 2022, offset by a decrease in purchases of property and equipment for the year ended December 31, 2022 as compared to the year ended December 31, 2021.

Net Cash Provided by Financing Activities

Net cash provided by financing activities was $10.7 million for the year ended December 31, 2022, a decrease of $0.2 million as compared to $10.9 million of net cash provided by financing activities for the year ended December 31, 2021. The decrease is primarily attributed to proceeds from the exercise of stock options and warrants of $3.5 million in the prior year versus an insignificant amount during the current period.

Availability of Additional Funds

While the Company believes that its current cash on hand is sufficient to meet operating and capital requirements for the next twelve months, there is substantial doubt about continuing as a going concern thereafter that the Company will be able to meet such requirements. 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 contractual obligations as of December 31, 2022, which are expected to be payable in the respective periods:

	Less than 1 year	1 to 3 years	3 to 5 years	Greater than 5 years	Total
Accounts payable and accrued liabilities	$ 26,966	$ 1,362	$ —	$ —	$ 28,328
Convertible notes, notes payable and accrued interest	9,059	64,675	10,431	—	84,165
Construction finance liability	—	16,000	—	—	16,000
Total	**$ 36,025**	**$ 82,037**	**$ 10,431**	**$ —**	**$ 128,493**

Subsequent Events

Refer to Note 21 of the Consolidated Financial Statements for events that have occurred through March 30, 2023.

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.

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 the statement of operations 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:

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 18.

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.

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 in specific periods.

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

Impairment of Goodwill & Long-Lived Assets

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, on October 31, 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. In the impairment test, the Company measures the recoverability of goodwill by comparing a reporting unit's carrying amount to the estimated fair value of the reporting unit. The carrying amount of each reporting unit is determined based upon the assignment of the Company's assets and liabilities, including existing goodwill, to the identified reporting units. The Company relies on a number of factors, including historical results, business plans, forecasts and market data. Changes in the conditions for these judgments and estimates can significantly affect the recoverable amount. There was no goodwill impairment for the year ended December 31, 2022 and 2021.

Long-lived assets, including amortizable intangible assets, are tested annually for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Once a triggering event has occurred, the impairment test employed is based on whether the intent is to hold the asset for continued use or to hold the asset for sale. The impairment test for assets held for use requires a comparison of cash flows expected to be generated over the useful life of an asset group to the carrying value of the asset group. An asset group is established by identifying the lowest level of cash flows generated by a group of assets that are largely independent of the cash flows of other assets and could include assets used across multiple businesses or segments. If the carrying value of an asset group exceeds the estimated undiscounted future cash flows, an impairment would be measured as the difference between the fair value of the group's long-lived assets and the carrying value of the group's long-lived assets. The impairment is only to the extent the carrying value of each asset is above its fair value. For assets held for sale, to the extent the carrying value is greater than the asset's fair value less costs to sell, an impairment loss is recognized for the difference. Determining whether a long-lived asset is impaired requires various estimates and assumptions, including whether a triggering event has occurred, the identification of the asset groups, estimates of future cash flows and the discount rate used to determine fair values.

The estimates and assumptions used in management's impairment analysis are based on current facts, historical experience and various other factors that the Company believes to be reasonable under the circumstances, the results of which form the basis for making judgments about its impairment analysis. The impairment estimates and assumptions bear the risk of change due to its inherent nature and subjectivity. The unanticipated effects of a global pandemic and decreases in consumer demand could reasonably expected to negatively affect the key assumptions and estimates.

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 7 for additional details.

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.

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 13.

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.

Emerging Growth Company Status

The Company is an "emerging growth company" as defined in the Section 2(a) of the Exchange Act, as modified by the Jumpstart Our Business Start-ups Act of 2012, or the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 13(a) of the Exchange Act for complying with new or revised accounting standards applicable to public companies. The Company has elected to take advantage of this extended transition period and as a result of this election, our financial statements may not be comparable to companies that comply with public company effective dates.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not required for smaller reporting companies.

Item 8. Financial Statements and Supplementary Data

The information required by this item is included below in "Item 15. Exhibits and Financial Statement Schedules" and incorporated by reference herein.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

An evaluation was performed pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934 (the "Exchange Act") under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this annual report. These disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in our reports under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that this information is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Exchange Act Rule 13a-15(f). Our internal control over financial reporting is a process designed under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. GAAP. The CEO and CFO are also responsible for disclosing any changes to the Company's internal controls during the most recent period that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. The Company's management, under the supervision and with the participation of its CEO and CFO, conducted an evaluation of the effectiveness of the Company´s internal control over financial reporting as of December 31, 2022 based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").