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

Investors should read the following discussion in conjunction with the unaudited financial statements and notes thereto included under Part 1, Item 1 of this Quarterly Report on Form 10-Q. In addition, investors should refer to our audited consolidated financial statements and notes thereto and related Management's Discussion and Analysis of Financial Condition and Results of Operations appearing in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

Disclosure Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q 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, and changes in the legalization of marijuana across the United States. More information on factors that could cause actual results to differ materially from those anticipated is included from time to time in our reports filed with the Securities and Exchange Commissions, including our Annual Report on Form 10-K for the year ended December 31, 2022. 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 operates six dispensaries and four production and cultivation facilities in Massachusetts, Illinois, and Michigan as of September 30, 2023. 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 cultivation and production assets are detailed in our Annual Report on Form 10-K for the year ended December 31, 2022.

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 and Massachusetts 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. The Company has continued to expand its footprint in the Illinois market with the development of the Matteson facility which is currently in progress. Additionally, the company entered into an agreement to purchase a cannabis license to enable the Company to open an additional dispensary in the state of Illinois. 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 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.

Recent Developments

Discontinued THC Operations in California

During the fiscal quarter ended September 30, 2023, the Company ceased its THC cannabis cultivation and production operations in the state of California (together, the "California operations"). The Company concluded the abandonment of its California operations represented a strategic shift and thus all assets and liabilities to the operations within the state of California were classified as discontinued operations. Revenue and expenses, gains or losses relating to the discontinuation of California operations were eliminated from profit or loss from the Company's continuing operations and are shown as a single line item in the consolidated statements of operations for all periods presented.

Asset Acquisition of Euphoria, LLC

On March 27, 2023, the Company entered into a Membership Interest Purchase Agreement to acquire 100% of the issued and outstanding equity interests in Euphoria, LLC which holds a conditional adult use dispensary license in the state of Illinois. The transfer of the license is subject to regulatory approval. Please see Note 5 of the financial statements for a full description of the transaction.

Management Changes

Effective July 31, 2023, Keith Adams resigned as Chief Financial Officer of the Company. Effective August 4, 2023, Nicole Frederick was named Interim Chief Financial Officer.

Modification of Lease Agreement

On July 7, 2023, the Company amended its lease agreement for the cultivation and production facility in Matteson, Illinois to apply a portion of the security deposit to pay one-half of the monthly base rent for the four month period through November 30, 2023; to defer payment of the $2.2 million increase in security deposit to be funded as draws on the tenant improvement allowance through November 30, 2023; and to make pro rata payments of such deferred payments equal to 1/12 of the aggregate amount, concurrently with monthly base rent installments, for the twelve month period commencing January 1, 2024.

Amendment of Senior Secured Debt

In July 2023, the Company entered into a definitive agreement with the Company's senior secured lender, LI Lending, LLC ("Lender") to extend the maturity date, reduce the interest payable, and expand the third-party financings allowed under the December 17, 2020 Amended and Restated Loan and Security Agreement ("Loan") between 4Front and Lender on terms and conditions set out in the Term Sheet.

The Lender will extend the maturity date of the Loan to May 1, 2026, reduce the interest payable to 12.0% per year, payable monthly, and allow for in excess of $30.0 million additional senior secured financing.

The Company shall pay an extension fee of $0.52 million payable in cash on May 1, 2024. In addition, the Company shall issue warrants equal to 33% of the loan balance, or approximately $17.06 million, wherein each warrant shall be exercisable into one Subordinate Voting Share of the Company at an exercise price not less than $0.17 through May 1, 2026. Refer to Note 8 of the financial statements for further information.

Debt Amendments

On September 28, 2023, the Company amended the unsecured promissory note dated September 20, 2019 wherein the interest rate was reduced to 11% per annum through March 15, 2024 and the maturity date was extended to November 30, 2024. By March 15, 2024, the parties will agree to an interest rate on the promissory note through maturity. The Company shall make monthly payments of $25,000 through December 2023 and monthly interest payments thereafter.

On October 2, 2023, the Company amended the unsecured convertible promissory note with Healthy Pharms Inc. wherein the interest rate was amended to 12.0% per annum and the maturity date was extended to December 18, 2024. Beginning January 15, 2024, the Company shall make monthly cash payments of $50,000 through the maturity date. In November 2023, the Company issued 10,359,372 Class A Subordinate Voting Shares to the noteholder at an exercise price of C$0.26 per share to settle $1,992,187 of the promissory note.

On October 6, 2023, the Company amended the October 2021 Convertible Note wherein payment of interest shall be deferred and become due and payable upon the earlier of the maturity date, a change of control, or event of default under the existing agreement terms. In addition, the outstanding balance, including any deferred interest payments, shall accrue interest at a rate of 10.0% per annum through maturity. The conversion price was amended to $0.23 per share.

On October 10, 2023, the Company amended the Promissory Note Purchase Agreement with HI 4Front, LLC and Navy Capital Green Fund, LP wherein the maturity date was extended to January 1, 2024. As consideration for the amendment, the Company paid an extension fee of C$65,000 in the form of 1,283,425 share purchase warrants, wherein each warrant is exercisable into one (1) Subordinate Voting Share at an exercise price of US$0.20 and expire on October 17, 2027.

$10M Senior Secured Credit Facility

On October 13, 2023, the Company entered into a senior secured credit facility for an aggregate principal up to $10,000,000 in which a term loan in the amount of $6,000,000 was drawn on the closing date and a second tranche of $4,000,000 is available to be drawn through July 13, 2023. The term loans accrue interest paid monthly in arrears at a rate equal to the greater of (a) the sum of the prime rate and 7.0% and (b) 15.5% per annum. The term loans mature on December 1, 2023 and include extension terms under certain circumstances no further than September 30, 2026. For each term loan, the Company shall pay an origination fee equal to 7.0% of the principal amount of the term loan upon issuance. In addition, the Company shall pay a commitment fee on the undrawn second tranche which shall accrue at a rate per annum of 2.0% through the earlier of July 13, 2023 and the date on which the maximum facility amount is drawn. The Company may prepay the term loans, in whole or in part, at any time subject to the prepayment fee based on the date of the prepayment. Further, the Company shall pay an exit fee of $1,400,000 upon the earlier of the maturity date or the date on which the obligations are paid in full. The funds are committed to building out the Company’s retail operations in Illinois in connection with the imminent launch of its new state-of-the-art cultivation and processing facility in Matteson. Refer to Note 19 of the financial statements for further information.

Closure of Michigan Location

On November 8, 2023, the Company shuttered operations at the Ann Arbor, Michigan dispensary location. As of September 30, 2023, this event did not qualify for discontinued operations treatment. For the nine months ended September 30, 2023, the Michigan dispensary contributed $1.2 million in revenue and a net loss of $0.4 million.

Equipment Sale

On November 17, 2023, the Company entered into an agreement with a third party to purchase a significant piece of equipment for a purchase price of $1.4 million. $0.95 million of the purchase price is to be paid in cash with the remaining $0.5 million contemplated in a promissory note. This equipment was classified as assets related to discontinued operations as of September 30, 2023.

Asset Acquisition of Westside Visionaries, LLC

On November 17, 2023, the Company entered into a Membership Interest Purchase Agreement to acquire 100% of the issued and outstanding equity interests in Westside Visionaries, LLC ("Westside") for a total purchase price of $2.4 million to be paid in cash, a promissory note, and Class A Subordinate Voting Shares. In addition, Westside has issued a $2 million secured promissory note to fund the permitted expansion for the dispensary build out with a maturity date of the earlier of the second anniversary of closing (license approval) or the third anniversary of the date on which the note was executed. Westside holds a conditional adult use dispensary license in the state of Illinois which shall convert to a state license upon regulatory approval. The transfer of the license is subject to regulatory approval.

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"). Critical accounting policies and estimates are identified and discussed in our Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the SEC on March 30, 2023. Although we believe our estimates and judgments are reasonable, they are based upon information available at the time the judgment or estimate is made. Actual results may differ significantly from estimates under different assumptions or conditions.

Results of Operations

Three Months Ended September 30, 2023 Compared With Three Months Ended September 30, 2022

The following table sets forth our results of operations for the three months ended September 30, 2023 and 2022:

	For the Three Months Ended September 30,		Change	
	2023	2022	$	%
Revenue from Sale of Goods	$ 20,110	$ 25,035	$ (4,925)	20 %
Real Estate Income	2,892	3,065	(173)	6 %
Total Revenues	23,002	28,100	(5,098)	18 %
Cost of Goods Sold	(13,722)	(11,039)	(2,683)	24 %
Gross Profit	9,280	17,061	(7,781)	46 %
Total Operating Expense	23,419	14,720	8,699	59 %
Income (Loss) from Continuing Operations	(14,139)	2,341	(16,480)	704 %
Total Other Expense, net	(16,488)	(3,010)	(13,478)	448 %
Net Loss from Continuing Operations Before Income Taxes	(30,627)	(669)	(29,958)	4477 %
Income Tax Benefit (Expense)	4,199	(3,321)	7,520	226 %
Net Loss from Continuing Operations	**$ (26,428)**	**$ (3,990)**	**$ (22,438)**	**562 %**
Net Loss from Discontinued Operations, Net of Taxes	(35,668)	(4,611)	(31,057)	674 %
Net Loss	**$ (62,096)**	**$ (8,601)**	**$ (53,495)**	**622 %**

Revenue from Sale of Goods

Revenue from the sale of goods related to continuing operations for the three months ended September 30, 2023 was $20.1 million, a decrease of $4.9 million or 20% compared to the three months ended September 30, 2022. Refer to the segment discussion below for specific revenue drivers quarter over quarter.

Real Estate Income

Real estate income from leasing cannabis production facilities for the three months ended September 30, 2023 was $2.9 million, which remained materially consistent compared to the $3.1 million recognized for the three months ended September 30, 2022.

Total revenue from continuing operations in the reportable segments from which we operate were as follows:

	For the Three Months Ended September 30,		Change	
	2023	2022	$	%
THC Cannabis	$ 22,840	$ 28,276	$ (5,436)	19%
CBD Wellness	162	(176)	338	192%
Total Net Revenues	**$ 23,002**	**$ 28,100**	**$ (5,098)**	**18%**

Net revenues for the THC cannabis segment were $22.8 million for the three months ended September 30, 2023, a decrease of $5.4 million or 19%, compared to the three months ended September 30, 2022. The decrease was primarily attributable to price compression in Illinois as well as liquidation of products and pricing declines year-over-year in Massachusetts.

Net revenues for the CBD wellness segment were materially consistent for the three months ended September 30, 2023 and 2022.

Cost of Goods Sold

Cost of goods sold for the three months ended September 30, 2023 was $13.7 million, an increase of $2.7 million or 24% compared to $11.0 million for the three months ended September 30, 2022. Due to the economic environment as well as cannabis market and regulations compared to the prior year, the Company has experienced 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.

Gross Profit

Gross profit for the three months ended September 30, 2023 was $9.3 million, or 40% of revenue, compared to $17.1 million, or 61% of revenue, for the three months ended September 30, 2022. The decrease in gross profit percentage of 20% was primarily due to increase in cost of goods sold as described above coupled with a general decline in the cannabis market compared to the prior year.

Total Operating Expenses

Operating expenses consist of selling, general and administrative expenses, depreciation and amortization, equity based compensation expense, and transaction related expenses. Total operating expenses for the three months ended September 30, 2023 were $23.4 million, an increase of $8.7 million or 59%, as compared to the three months ended September 30, 2022. The increase was primarily attributed to a one time reserve for bad debt on our Washington sublease revenue of $6.5 million recorded in Q3 2023 as compared to nil in Q3 2022 and the issuance of RSUs and stock options as part of the Company's compensation structure during the current quarter.

Total Other Expense, net

Other expense consists primarily of interest expense, change in fair value of derivative liability, and other expenses. Total other expense for the three months ended September 30, 2023 was $16.5 million, as compared to $3.0 million for the three months ended September 30, 2022. The increase of $13.5 million was primarily due to a change in fair value of derivative liability of $11.9 million recognized during the current period for the warrants issued in August 2023.

Net Loss

Net loss from continuing operations for the three months ended September 30, 2023 was $26.4 million, compared to $4.0 million for the three months ended September 30, 2022. The increase in net loss for the three months ended September 30, 2023 was primarily attributable to the changes in fair value of derivative liability, the increase in operating expenses, and the decline in gross profit as described above.

Nine Months Ended September 30, 2023 Compared With Nine Months Ended September 30, 2022

The following table sets forth our results of operations for the nine months ended September 30, 2023 and 2022:

	For the Nine Months Ended September 30,		Change	
	2023	2022	$	%
Revenue from Sale of Goods	$ 67,709	$ 70,847	$ (3,138)	4 %
Real Estate Income	8,747	8,981	(234)	3 %
Total Revenues	76,456	79,828	(3,372)	4 %
Cost of Goods Sold	(38,884)	(35,680)	(3,204)	9 %
Gross Profit	37,572	44,148	(6,576)	15 %
Total Operating Expense	52,041	40,870	11,171	27 %
Income (Loss) from Continuing Operations	(14,469)	3,278	(17,747)	541 %
Total Other Expense, net	(24,276)	(3,069)	(21,207)	691 %
Net Income (Loss) from Continuing Operations Before Income Taxes	(38,745)	209	(38,954)	18646 %
Income Tax Expense	(818)	(9,801)	8,983	92 %
Net Loss from Continuing Operations	**$ (39,563)**	**$ (9,592)**	**$ (29,971)**	**312 %**
Net Loss from Discontinued Operations, Net of Taxes	(45,389)	(11,449)	(33,940)	296 %
Net Loss	**$ (84,952)**	**$ (21,041)**	**$ (63,911)**	**304 %**

Revenue from Sale of Goods

Revenue from sale of goods related to continuing operations for the nine months ended September 30, 2023 was $67.7 million, a decrease of $3.1 million or 4% compared to the nine months ended September 30, 2022. Refer to the segment discussion below for specific revenue drivers quarter over quarter.

Real Estate Income

Real estate income from leasing cannabis production facilities for the nine months ended September 30, 2023 was $8.7 million, which remained materially consistent compared to the $9.0 million recognized for the nine months ended September 30, 2022.

Total revenue from continuing operations in the reportable segments from which we operate were as follows:

	For the Nine Months Ended September 30,		Change	
	2023	2022	$	%
THC Cannabis	$ 75,815	$ 79,495	$ (3,680)	5%
CBD Wellness	641	333	308	92%
Total Net Revenues	**$ 76,456**	**$ 79,828**	**$ (3,372)**	**4%**

Net revenues for the THC cannabis segment were $75.8 million for the nine months ended September 30, 2023, a decrease of $3.7 million or 5%, compared to the nine months ended September 30, 2022. The decrease was primarily attributed to price compression in Illinois as well as liquidation of products and pricing declines year-over-year in Massachusetts. Net revenues for the CBD wellness segment were materially consistent for the nine months ended September 30, 2023 and 2022.

Cost of Goods Sold

Cost of goods sold for the nine months ended September 30, 2023 was $38.9 million, an increase of $3.2 million or 9% compared to $35.7 million for the nine months ended September 30, 2022. Due to the economic environment as well as cannabis market and regulations during 2023, the Company has experienced 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.

Gross Profit

Gross profit for the nine months ended September 30, 2023 was $37.6 million, or 49% of revenue, compared to $44.1 million, or 55% of revenue, for the nine months ended September 30, 2022. The decrease in gross profit percentage of 6% was primarily due to the increase in cost of goods sold as described above coupled with pricing compression across the Company's markets.

Total Operating Expenses

Operating expenses consist of selling, general and administrative expenses, depreciation and amortization, equity based compensation expense, and transaction related expenses. Total operating expenses for the nine months ended September 30, 2023 was $52.0 million, an increase of $11.2 million or 27%, as compared to the nine months ended September 30, 2022. This increase was attributed to an additional $3.2 million in lease related expenses resulting from expansion of the Company's operations, an increase in bad debt expense of $6.5 million, and an increase in share based compensation primarily due to the issuance of 9,300,250 shares of Subordinate Voting Shares to the Company's Chief Executive Officer, Leo Gontmakher, and the issuances of restricted share options for certain executives during the fiscal third quarter of 2023 as compared to the same period in 2022.

Total Other Expense, net

Other expense consists primarily of interest expense, change in fair value of derivative liability, gain on contingent consideration payable, and other expenses. Total other expense for the nine months ended September 30, 2023 was $24.3 million, as compared to $3.1 million for the nine months ended September 30, 2022. The increase of $21.2 million was primarily due to a loss on changes in fair value of derivative liability of $11.9 million in the current year as compared to a gain on changes in fair value of derivative liability of $3.5 million in the prior year. In addition, the Company recognized a gain on contingent consideration payable of $2.4 million for the nine months ended September 30, 2022 versus none in the current year. During the nine months ended September 30, 2023, other expense of $2.6 million primarily consisted of an expense accrual of $1.3 million related to an Illinois cultivation tax audit while no such transactions occurred in the prior year.

Net Loss

Net loss from continuing operations for the nine months ended September 30, 2023 was $39.6 million, compared to $9.6 million for the nine months ended September 30, 2022. The increase in net loss for the nine months ended September 30, 2023 was primarily attributable to the changes in fair value of derivative liability, the increase in general and administrative expenses, and the decline in gross profit as described 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 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 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 as 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. For comparative purposes, certain prior year amounts have been reclassified to conform to the current year presentation.

The following table reconciles Net Loss to Adjusted EBITDA for the three and nine months ended September 30, 2023 and 2022:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
Net loss (GAAP)	$ (62,096)	$ (8,601)	$ (84,952)	$ (21,041)
Less: Net loss from discontinued operations, net of taxes	35,668	4,611	45,389	11,449
Net loss from continuing operations	(26,428)	(3,990)	(39,563)	(9,592)
Interest income	21	(6)	—	(8)
Interest expense	3,322	3,642	9,561	9,066
Income tax expense	(4,199)	3,321	818	9,801
Depreciation and amortization	1,416	1,564	4,222	4,594
EBITDA from Continuing Operations (Non-GAAP)	**$ (25,868)**	**$ 4,531**	**$ (24,962)**	**$ 13,861**
Share-based compensation	3,678	863	4,912	2,291
Impairment of goodwill and intangible assets	—	—	—	—
Change in fair value of derivative liability	11,931	(420)	11,931	(3,494)
Change in fair value of contingent consideration	—	—	—	(2,393)
Loss on disposal and lease termination	160	—	160	—
Loss on litigation settlement	—	250	3	250
Sale leaseback related interest expense and non-cash operating lease amortization	1,418	1,072	4,309	3,901
Facility start-up costs/under-absorbed overhead costs	2,987	1,882	8,907	5,736
Fair value mark-up for acquired inventory	—	—	—	—
Acquisition, transaction, and other non-cash costs	9,154	—	10,459	3,840
Adjusted EBITDA from Continuing Operations (Non-GAAP)	**$ 3,460**	**$ 8,178**	**$ 15,719**	**$ 23,992**

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 share-based compensation expense;
- Non-cash changes in fair value of derivative liability and contingent consideration;
- Loss recognized on litigation settlements;
- Sale leaseback related interest expense and non-cash operating lease amortization;
- Facility start-up costs and under-absorbed overhead costs; 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 September 30, 2023 and December 31, 2022, we had total current liabilities of $97.9 million and $77.5 million, respectively, and current assets of $33.8 million and $53.3 million, respectively, to meet our current obligations. As of September 30, 2023 and December 31, 2022, we had a working capital deficit of $64.2 million compared to $24.2 million. The decline in working capital of $40.0 million was primarily driven by a decrease in cash of $11.5 million as the Company continues its retail expansion strategy and completes the buildout of the cultivation and production facility in Matteson. This was coupled with an increase in taxes payable of $2.0 million given the Company's expanded operations compared to the prior year in addition to a derivative liability of $16.1 million as of September 30, 2023 related to warrants issued in July 2023 in connection with the amendment of the senior secured debt with LI Lending. The conditions described above raise substantial doubt with respect to the Company’s ability to meet its obligations for at least one year from the issuance of these consolidated financial statements, and therefore, to continue as a going concern.

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 manner it has historically.

Cash Flows

Cash Flows from discontinued operations are separately presented on the statement of cash flow for each operating, investing, and financing section of the statement. For liquidity purposes, the focus of this section is on the cash flow from continuing operations which is expected to affect future liquidity and capital resources.

Net Cash Provided by Continuing Operating Activities

Net cash provided by continuing operating activities was $3.4 million for the nine months ended September 30, 2023, an decrease of $6.2 million as compared to $9.5 million for the nine months ended September 30, 2022. The increase was primarily attributable to the increase in net loss as a result of a decrease in gross profits as described above.

Net Cash Used in Continuing Investing Activities

Net cash used in continuing investing activities was $0.5 million for the nine months ended September 30, 2023, a decrease of $26.1 million as compared to $26.6 million for the nine months ended September 30, 2022. The decrease was primarily attributable to the financing of acquisition activity in 2022. In the nine months ended September 30, 2023, there were no comparable transactions.

Net Cash (Used in) Provided by Continuing Financing Activities

Net cash used in financing activities for continuing operations was $6.6 million for nine months ended September 30, 2023, a decrease of $18.3 million as compared to $11.7 million of cash provided by financing activities for the nine months ended September 30, 2022. The decrease was primarily attributable to the non-recurring nature of the proceeds from the construction finance liability of $16.0 million associated with the NECC acquisition during the nine months ended September 30, 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 September 30, 2023. 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.

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

There have been no changes in the Company's internal control over financial reporting during the nine months ended September 30, 2023 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 January 26, 2022, Savills, Inc. sued the Company in the U.S. District Court for the Southern District of New York. That lawsuit alleged 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 $19.4 million in connection with its claim that it obtained benefits for the Company allegedly valued at over $129.0 million. 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, which was finalized on September 12, 2022 and required the Company to pay $0.25 million in five monthly installments beginning in October 2022. In addition to this initial payment, there is a portion of the settlement that is contingent on future tax savings. As of September 30, 2023, this additional contingent amount is not reasonably estimable.

On May 9, 2023, Florival LLC ("Florival") sued the Company in the California Superior Court for the County of Santa Cruz. The lawsuit alleged the Company had breached an agreement with Florival under which Company subsidiary Island Global Holdings, Inc. ("Island") agreed to purchase the membership interests of licensed cannabis cultivator Gold Coast Gardens, LLC. Florival claimed damages of $0.85 million. The Company denied it had any direct liability under the agreement, which was executed two years before the Company's acquisition of Island and asserted an unclean hands defense on behalf of both the Company and Island based on Florival's inequitable conduct during the litigation. On November 7, 2023, the court entered summary judgment against the Company and Island. The Company and Island intends to appeal the decision. Management has accrued $0.85 million related to this matter as of September 30, 2023.

On September 14, 2023, Teichman Enterprises, Inc. ("Teichman") sued Company subsidiary 4Front California Capital Holdings, Inc. ("4Front CA") in the California Superior Court for the County of Los Angeles. The lawsuit alleged 4Front CA had breached a lease with Teichman for 4Front CA's facility in Commerce, California by failing to pay rent due under the lease. Teichman sought possession of the property and damages of $0.6 million. 4Front CA denied the allegations, but vacated the facility. Trial is set for January 2024. Management has accrued $0.6 million related to this matter as of September 30, 2023.

On September 29, 2023, Teichman Enterprises, Inc. sued 4Front CA and the Company in the Superior Court for the County of Los Angeles. The lawsuit alleged the Company had breached a lease agreement with Teichman under which the Company entered into a 10 year lease commitment ending on January 31, 2029, and that the Company breached its guarantee of the lease. Teichman has alleged total rent owed under the lease agreement is $13.4 million in addition to a license fee of $1.0 million. Total damages sought from Teichman under the lease contracts is $15.5 million. 4Front CA and the Company denied the allegations in the compliant, and denied that Teichman was entitled to the full amount of damages claimed due to Teichman's obligation to mitigate. Based on management's review of case, the Company has accrued $2.0 million associated with this legal liability as of September 30, 2023.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.