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 under the heading "Risk Factors" appearing elsewhere in this Annual Report on Form 10-K 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 1995. 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. These 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. Many factors, including those set forth under the heading :Risk Factors" appearing elsewhere in this Annual Report on Form 10-K, as well as factors such as changes in the legalization of marijuana across the United States could cause actual results to differ materially from the expectations reflected in the forward-looking statements. 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 may have on the Company's 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 five dispensaries and four cultivation and production facilities in Massachusetts and Illinois as of December 31, 2023. The Company's five "MISSION" branded dispensaries are located in: Brookline, MA; Georgetown, MA; Worcester, MA; South Shore (Chicago), IL; and Calumet City, IL. The Company's four cultivation and production assets differ by state as summarized below:

Massachusetts

- Indoor cultivation facility in Worcester, MA totaling 34,000 square feet, of which up to 27,000 square feet is and can be used for cultivation operations (4,500 square feet of flowering canopy). 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 35,300 square feet is and can be used for cultivation operations (8,000 square feet of flowering canopy), and 23,500 square feet is used for manufacturing and other operations. The Georgetown facility includes an on-site dispensary of approximately 6,000 square feet.
- Indoor cultivation facility in Holliston, MA totaling 52,000 square feet, of which 49,000 square feet is and can be used for cultivation operations.

Illinois

- Indoor cultivation and production facility in Elk Grove, IL totaling 94,000 square feet, of which 21,000 square feet is and can be used for cultivation operations and 17,000 square feet is used for manufacturing and other operations, and the remainder has been subleased or to be subleased.
- The Company continues to expand its footprint in the Illinois market with the construction of its Matteson facility, which is anticipated to start cultivation and production during the second quarter of 2024. Matteson is a 250,000 square feet state-of-the-art cannabis facility built from the ground up. The facility will have 108,000 square feet of cultivation space, 53,250 square feet manufacturing space, 12,500 square feet of office space, and approximately 76,250 square feet available for future expansion.
- The Company is also in the process of opening a third dispensary in the city of Chicago, which is anticipated to open in May 2024 with a fourth dispensary being planned and targeted to open during the second half of 2024. 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.

4Front's operations are strategically situated in key geographic locations across its major markets to allow the Company to efficiently scale its operations, and competitively position it to take advantage of future growth opportunities as cannabis legalization efforts continue across the U.S. Management intends to continue scaling its operations in Illinois and Massachusetts to further increase its market share. The Company has made significant investments in manufacturing and production facilities in each of these markets. The Company remains focused on scaling and driving operational effectiveness throughout its portfolio, in addition to developing trusted brands and products to continue to grow revenue, build customer loyalty, and increase 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 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 information regarding our consolidated results of operations for the years ended December 31, 2023 and 2022:

	For the Years Ended December 31,		Change	
	2023	**2022**	**$**	**%**
Revenue from Sale of Goods	$ 86,132	$ 95,722	$ (9,590)	10 %
Real Estate Income	11,303	11,942	(639)	5 %
Total Revenues	97,435	107,664	(10,229)	10 %
Cost of Goods Sold	(51,543)	(56,239)	4,696	8 %
Gross Profit	45,892	51,425	(5,533)	11 %
Total Operating Expense	66,739	66,445	294	— %
Income (Loss) from Operations	(20,847)	(15,020)	(5,827)	39 %
Total Other Income (Expense), net	(16,779)	3,806	(20,585)	(541) %
Operations Before Income Taxes	(37,626)	(11,214)	(26,412)	236 %
Income Tax Expense	(7,092)	(10,077)	2,985	30 %
Net Loss from Continuing Operations	(44,718)	(21,291)	(23,427)	110 %
Net Income from Discontinued Operations, Net of Taxes	(46,914)	(25,586)	(21,328)	83 %
Net Loss	**$ (91,632)**	**$ (46,877)**	**$ (44,755)**	**95 %**

Revenue from Sale of Goods

Revenue from the sale of goods related to continuing operations for the year ended December 31, 2023, was $86.1 million – a decrease of $9.6 million or 10% when compared to $95.7 million for the year ended December 31, 2022. Refer to the segment discussion below for specific revenue drivers year over year.

Real Estate Income

Real estate income from leasing cannabis production facilities for the year ended December 31, 2023 was $11.3 million, which remained materially consistent when compared to $11.9 million for the year ended December 31, 2022.

Operating Segment Income

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

	For the Years Ended December 31,		Change	
	2023	**2022**	**$**	**%**
THC Cannabis	$ 96,588	$ 106,632	$ (10,044)	(9) %
CBD Wellness	847	1,032	(185)	(18) %
Total Net Revenues	**$ 97,435**	**$ 107,664**	**$ (10,229)**	**(10)%**

Net revenues for the THC cannabis segment were $96.6 million for the year ended December 31, 2023, representing a decrease of $10.0 million or 9%, when compared to the year ended December 31, 2022. Revenue in Massachusetts decreased 7.4% to $44.1 million, primarily due to lower volumes as a result of underperforming flower yields and price declines year over year. Revenue in Illinois declined by 7.1% to $37.7 million primarily due to price compression. Other revenue decreased 28% to $3.5 million due to lower hardware and equipment sales.

Net revenues for the CBD wellness segment were $0.8 million for the year ended December 31, 2023, resulting in a decrease of 18%, due primarily to the Company's strategy to focus on the THC business.

Cost of Goods Sold

Cost of goods sold for the year ended December 31, 2023 was $51.5 million, representing a decrease of $4.7 million or 8% when compared to $56.2 million for the year ended December 31, 2022. The decrease in cost of goods sold was directly related to the decrease in revenue from the sale of goods. Operating costs including labor, utilities, and purchased material also increased during the year, which the Company was not able to pass through to customers due to strong price competition in its respective markets.

Gross Profit

Gross profit for the year ended December 31, 2023 was $45.9 million, or 47% of revenue, compared to $51.4 million, or 48% of revenue, for the year ended December 31, 2022. The decrease in gross profit of $5.5 million was primarily due to the decrease in revenue as described above. In addition, the decrease in gross margin from 48% to 47% is attributable to the price compression seen in both Massachusetts and Illinois. During the fiscal third quarter ended September 30, 2023, the Company ceased operations in the California market and renewed its focus on core, profitable markets of Illinois and Massachusetts.

Total Operating Expenses

Operating expenses consist of selling, general and administrative expenses, depreciation and amortization, share-based compensation expense, and transaction and restructuring expenses. Total operating expenses for the year ended December 31, 2023, was $66.7 million, an increase of $0.3 million, as compared to the year ended December 31, 2022. The change was primarily driven by a $7.1 million increase in selling, general and administrative expenses, which includes an increase in lease related costs of $3.5 million related to the Matteson facility and another $1.0 million related to the other facilities, in addition to $7.1 million increase in bad debt expense, partially offset by a decline in salaries and benefits and professional fees, each declined by $1.3 million. The overall operating expense were offset by a decrease of $6.5 million in impairment on goodwill and intangible assets, as there was no impairment loss recognized during the current year. In addition, transaction and restructuring related expenses for the year ended December 31, 2023 decreased, $0.8 million compared to prior year, primarily due to the acquisition of NECC during fiscal year 2022. Refer to Note 16 of the Consolidated Financial Statements includes further detail on selling, general and administrative expenses.

Total Other Income (Expense), net

Other income (expense) consists primarily of interest expense, the change in fair value of derivative liability, and other income. Total other expense for the year ended December 31, 2023, was $16.8 million, as compared to total other income of $3.8 million for the year ended December 31, 2022. This decrease was primarily due to other income for the year ended December 31, 2022 which included $7.4 million related to the Employee Retention Tax Credit and $3.8 million related to our Prepaid Forward Purchase Agreement with Frisco SPV, LLC, versus no such transactions in the current year. Interest expense for the year ended December 31, 2023, increased by $1.2 million primarily due to the recognition and amortization of debt discount related to the restricted stock units issued to ALT Debt II, LP ("Altmore") during the same period in the amount of $2.1 million. The Company also recognized a loss on changes in fair value of derivative liability of $0.4 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. Refer to Note 20 of the consolidated financial statements which includes further detail on the Prepaid Forward Purchase Agreement.

Net Loss

Net loss from continuing operations for the year ended December 31, 2023, was $44.7 million, compared to $21.3 million for the year ended December 31, 2022. The increase in net loss from continuing operations for the year

ended December 31, 2023, was primarily due to the decrease in gross profit of $5.5 million and changes in other income (expense) as described above, offset by a decrease of $3.0 million in income tax expense.

Non-GAAP Financial and Performance Measures

To supplement financial measurements prepared in accordance with U.S. GAAP management uses certain non-GAAP financial measures such as Adjusted EBITDA, to analyze 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 believes the non-GAAP measurement of Adjusted EBITDA 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 is useful to investors because it enables investors to evaluate the Company's operating results and future prospects in the same manner as management. However, non-GAAP financial measures are not prepared in accordance with U.S. GAAP and may 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 other companies. Accordingly, non-GAAP measures are intended to provide additional information and should not be considered in isolation as a substitute for or superior to measures of performance prepared in accordance with U.S. GAAP. We caution investors not to place undue reliance on non-GAAP measures, but instead to consider them with the most directly comparable U.S. GAAP measures.

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

As there are no standardized methods of calculating non-GAAP measures, the Company's presentation of Adjusted EBITDA are not necessarily comparable to other similarly titled captions of other companies and should not be considered by investors in isolation or used as a substitute for 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 investors with an understanding of the trends affecting the business as management views them.

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 prior year reconciliation of Net Loss to Adjusted EBITDA has been adjusted for consistency with current year presentation. These adjustments did not affect net loss, revenues and stockholders' equity.

The following table reconciles Net Loss (the most directly comparable U.S. GAAP measure) to Adjusted EBITDA for the years ended December 31, 2023 and 2022:

	For the Years Ended December 31,	
	2023	**2022**
Net loss (U.S. GAAP)	$ (91,632)	$ (46,877)
Less: Net loss from discontinued operations, net of taxes	46,914	25,586
Net loss from continuing operations	(44,718)	(21,291)
Adjusted For:		
Interest income	(3)	(32)
Interest expense [1]	30,920	26,733
Income tax expense	7,092	10,077
Depreciation and amortization [2]	9,373	8,397
EBITDA from Continuing Operations (Non-GAAP)	**$ 2,664**	**$ 23,884**
Share-based compensation [3]	6,860	7,214
Impairment of goodwill and intangible assets	—	6,484
Change in fair value of derivative liability	385	(3,502)
Change in fair value of contingent consideration	—	(2,393)
Loss on disposal and lease termination	149	228
Adjusted EBITDA from Continuing Operations (Non-GAAP)	**$ 10,058**	**$ 31,915**

(1) For the current period, interest expense includes interest related to leases of $17.1 million for the year ended December 31, 2023. Prior year amounts of $14.1 million for the year ended December 31, 2022 have been reclassified for consistency with the current year presentation. Non-cash interest expense related to leases was previously presented as a reconciling item from EBITDA from Continuing Operations (Non-GAAP) to Adjusted EBITDA from Continuing Operations (Non-GAAP).

(2) For the current period, depreciation and amortization expense includes amortization related to leases of $3.8 million for the year ended December 31, 2023. Prior year amounts of $3.3 million for the year ended December 31, 2022 have been reclassified for consistency with the current year presentation. Non-cash amortization expense related to leases was previously presented as a reconciling item from EBITDA from Continuing Operations (Non-GAAP) to Adjusted EBITDA from Continuing Operations (Non-GAAP).

(3) Although share-based compensation is an important component of employee and executive compensation, determining the fair value of share-based compensation involves a high degree of judgment and as a result the Company excludes share-based compensation from Adjusted EBITDA because its believes that the expense recorded may bear little resemblance to the actual value realized upon future exercise or termination of any related share-based compensation award.

Adjusted EBITDA should not be considered in isolation from, or as a substitute for or superior measure of, Net Loss. There are a number of limitations related to the use of Adjusted EBITDA as compared to Net Loss, the closest comparable U.S. GAAP measure. Adjusted EBITDA, as defined by the Company, excludes from Net Loss:

- Interest income and expense, including interest expense related to leases;
- Current income tax expense;
- Non-cash depreciation and amortization expense, including amortization of leases;
- 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; and
- Loss on disposal of assets and lease terminations.

Liquidity and Capital Resources

As of December 31, 2023, the Company had total current liabilities of $104.0 million and current assets of $33.9 million to meet our current obligations, as compared to $77.5 million and $53.3 million, respectively, as of December 31, 2022. The Company had a working capital deficit of $70.1 million and $24.2 million, as of As of December 31, 2023 and 2022, respectively. The decline in working capital of $45.9 million was primarily driven by a decrease in cash of $10.9 million as the Company executes its retail expansion strategy and completes the build out of the cultivation and production facility in Matteson, Illinois, which was completed in February 2024. This was coupled with the October 2021 Convertible Note of $15.8 million now classified as current on the consolidated balance sheet, an increase in taxes payable of $3.1 million, and an increase in derivative liability of $4.6 million due to the warrants issued in August 2023 to our senior secured lender, LI Lending, and the restricted stock units issued in November 2023 to Altmore. 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 the form 10-K as of and for the year ended As of December 31, 2023, 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 consolidated statements of cash flows 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 $3.9 million for the year ended December 31, 2023, compared to $23.4 million for the year ended December 31, 2022. The change was primarily attributable to the increase in net loss as a result of a decrease in gross profits and a decrease in other income as described above.

Net Cash Used in Continuing Investing Activities

Net cash used in continuing investing activities was $3.2 million for the year ended December 31, 2023, compared to $26.2 million for the year ended December 31, 2022. The change was primarily attributable to the cash paid for asset acquisitions and business combinations in fiscal year 2022, versus no comparable transactions for the year ended December 31, 2023.

Net Cash (Used in) Provided by Continuing Financing Activities

Net cash used in continuing financing activities was $5.5 million for the year ended December 31, 2023, compared to net cash provided by continuing financing activities of $10.7 million for the year ended December 31, 2022. The change 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 year ended December 31, 2022. Refer to Note 7 of the audited consolidated financial statements which includes further detail on our acquisition of NECC.

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, 2023, 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	$ 20,429	$ 977	$ —	$ —	$ 21,406
Convertible notes, notes payable and accrued interest	25,630	47,513	11,030	—	84,173
Construction finance liability	—	16,000	—	—	16,000
Total	**$ 46,059**	**$ 64,490**	**$ 11,030**	**$ —**	**$ 121,579**

Subsequent Events

Refer to Note 24 of the Consolidated Financial Statements for events that have occurred through April 15, 2024.

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 21.

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.

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 of the Consolidated Financial Statements 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, warrants or other equity instruments 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 15 of the Consolidated Financial Statements.

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