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, 2023.

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. The 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, 2023. 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"), through its subsidiaries, operates five cannabis dispensaries and four cannabis production and cultivation facilities across Illinois and Massachusetts as of September 30, 2024. The Company has three primary operating segments: Illinois, Massachusetts, and corporate. The Company's five "MISSION" branded dispensaries are located in: Georgetown, MA; Worcester, MA; South Shore (Chicago), IL; Calumet City, IL; and Norridge, IL. In the state of Massachusetts, the Company has a cultivation facility in Worcester, and cultivation and production facilities in Georgetown and Holliston. In the state of Illinois, the Company has a cultivation and production facility in Matteson. The Company also sells non-THC hemp derived products across the United States. As part of its corporate segment, subsidiaries of 4Front Ventures lease real estate and sell equipment and supplies to cannabis producers in the state of Washington.

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, with an ongoing emphasis on driving wholesale growth through product quality and yield optimization. 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.

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

Amendment of Credit Facility

On September 20, 2024, the Company amended the senior secured credit facility with ALT Debt II, LP (the "Facility") and a term loan of $0.9 million was drawn. The maturity date of the term loans under the Facility was extended to December 31, 2024 and shall accrue interest paid monthly in arrears at a rate equal to the greater of (a) the sum of the prime rate and 10.0% and (b) 18.5% per annum. In addition, the amendment includes a paid-in-full fee provision in the amount of $0.5 million minimum, payable at maturity.

In connection with the amendment, the Company entered into a restricted stock unit agreement dated September 20, 2024 wherein the Company issued 49,957,714 restricted stock units ("RSU") to the lender at an issue price of CAD$0.08. Each RSU represents an unsecured promise to issue one Subordinate Voting Share upon the earliest of certain distribution events.

Completion of Michigan Sale

During the fiscal third quarter of 2024, the Company completed the transaction for the sale of Om of Medicine, LLC ("Om of Medicine"), its retail dispensary located in Ann Arbor, Michigan.

Opening of Matteson Facility

During the fiscal third quarter of 2024, the Company commenced operations at its state-of-the-art cultivation and production facility in Matteson, Illinois (the "Matteson Facility"). The Matteson Facility was officially opened on November 6, 2024 and will serve Mission dispensaries and wholesale partners throughout Illinois.

Management Changes

Effective July 5, 2024, Robert Hunt resigned as Chair of the Board and Kristopher Krane was announced as the Chair of the Board. Mr. Krane has served as a member of the board of directors since March 2023.

Effective October 23, 2024, Peter Kampian resigned as Chief Financial Officer and Michael Kronberg was appointed as the Interim Chief Financial Officer.

Change in Segment Reporting

During the third fiscal quarter of 2024, the Company changed its reportable segments to better align with segment information provided to its chief operating decision maker and to reflect the regulatory environments in each state that the Company operates in. In accordance with US GAAP, all previously reported information as presented herein has been restated to conform to the current period presentation.

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, 2023, as filed with the SEC on April 15, 2024. 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, 2024 Compared With Three Months Ended September 30, 2023

The following table sets forth our results of operations for the three months ended September 30, 2024 and 2023:

	September 30,		Change	
	2024	**2023**	**$**	**%**
Revenue from Sale of Goods	$ 15,292	$ 20,110	$ (4,818)	24 %
Real Estate Income	1,840	2,892	(1,052)	36 %
Total Revenues	17,132	23,002	(5,870)	26 %
Cost of Goods Sold	(13,468)	(13,722)	254	2 %
Gross Profit	3,664	9,280	(5,616)	61 %
Total Operating Expense	9,031	23,579	(14,548)	(62) %
Loss from Continuing Operations	(5,367)	(14,299)	8,932	62 %
Total Other Expense, net	(1,096)	(16,328)	15,232	(93) %
Net Loss from Continuing Operations Before Income Taxes	(6,463)	(30,627)	24,164	79 %
Income Tax Benefit	—	4,199	(4,199)	100 %
Net Loss from Continuing Operations	**$ (6,463)**	**$ (26,428)**	**$ 19,965**	**76 %**
Net Income (Loss) from Discontinued Operations, Net of Taxes	60	(35,668)	35,728	100 %
Net Loss	**$ (6,403)**	**$ (62,096)**	**$ 55,693**	**90 %**

Revenue from Sale of Goods

Revenue from sale of goods related to continuing operations for the three months ended September 30, 2024 was $15.3 million, representing a decrease of $4.8 million or 24% when compared to the three months ended September 30, 2023. Refer to the segment discussion below for specific revenue drivers.

Real Estate Income

Real estate income from leasing cannabis production facilities for the three months ended September 30, 2024 was $1.8 million, versus $2.9 million recognized for the three months ended September 30, 2023. This decrease of $1.1 million was largely attributable to lower rent billings in accordance with the lease agreements amended in fiscal year 2023.

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

	Three Months Ended September 30,		Change	
	2024	2023	$	%
Illinois	$ 7,255	$ 9,058	$ (1,803)	20%
Massachusetts	7,883	10,455	(2,572)	25%
Corporate	1,994	3,489	(1,495)	43%
Total Net Revenues	**$ 17,132**	**$ 23,002**	**$ (5,870)**	**26%**

Net revenues for the Illinois segment were $7.3 million for the three months ended September 30, 2024, representing a decrease of $1.8 million or 20% compared to the three months ended September 30, 2023. The decrease was primarily due to overall softness within the retail portion of this segment as a result of increased competition and price compression as the cannabis market matures in Illinois.

Net revenues for the Massachusetts segment were $7.9 million for the three months ended September 30, 2024, representing a decrease of $2.6 million or 25% compared to the three months ended September 30, 2023. This decrease was primarily due to overall softness within the retail portion of this segment as a result of increased competition and continued price compression.

Net revenues for the corporate segment includes the sale of CBD products to third-party consumers and the leasing of real estate and sale of equipment and supplies to cannabis producers in the state of Washington, which were $2.0 million for the three months ended September 30, 2024. The decrease of $1.5 million or 43% compared to the three months ended September 30, 2023 was primarily due to the decrease in real estate income as described above.

Cost of Goods Sold

Cost of goods sold for the three months ended September 30, 2024 was $13.5 million, resulting in a decrease of $0.3 million or 2% when compared to $13.7 million for the three months ended September 30, 2023. The decrease in cost of goods sold of 2% was not commensurate with the decrease in revenue from sale of goods of 24% quarter-over-quarter. This was primarily due to the commencement of operations at the Matteson Facility during the fiscal third quarter of 2024, resulting in lease costs associated with the Matteson Facility being recognized in cost of goods sold, which were previously reported in selling, general and administrative expenses.

Gross Profit

Gross profit for the three months ended September 30, 2024 was $3.7 million or 21% of revenue, compared to $9.3 million or 40% of revenue for the three months ended September 30, 2023. The decrease in gross profit was primarily due to the decrease in revenue outpacing the decrease in cost of goods sold as described above.

Total Operating Expenses

Operating expenses consist of selling, general and administrative expenses, depreciation and amortization, and gain/loss on disposal. Total operating expenses for the three months ended September 30, 2024 was $9.0 million, representing a decrease of $14.5 million or 62%, as compared to the three months ended September 30, 2023. This decrease was primarily attributable to a $12.5 million decrease in selling, general and administrative expenses. Specifically, the Company saw a decrease in rent and lease related expenses of $3.7 million, a decrease in salaries and benefits of $3.2 million, and a decrease in bad debt expense of $6.5 million. Refer to Note 19 of the Consolidated Financial Statements includes further detail on selling, general and administrative expenses. In addition, the Company recognized a gain on disposal of $0.6 million upon the completion of the sale of Om of Medicine and $0.6 million upon the sale of equipment during the current quarter.

Total Other Expense, net

Other expense consists primarily of interest expense, change in fair value of derivative liability, loss on extinguishment of debt, and other expenses. Total other expense for the three months ended September 30, 2024 was $1.1 million, compared to $16.3 million for the three months ended September 30, 2023. The decrease of $15.2 million was primarily due a decrease in interest expense of $1.2 million from prior year as a result of debt amendments subsequent to the fiscal third quarter of 2023, and a loss on extinguishment of debt of $1.34 million during the current quarter related to the amendment of the Facility on September 20, 2024. In addition, the Company recognized a gain on changes in fair value of derivative liability of $2.4 million for the three months ended September 30, 2024 versus a loss of $11.9 million in the comparative prior period.

Net Loss

Net loss from continuing operations for the three months ended September 30, 2024 was $6.5 million, compared to $26.4 million for the three months ended September 30, 2023. The decrease in net loss from continuing operations of $20.0 million for the three months ended September 30, 2024 was primarily attributable to the decrease in selling, general and administrative expenses of $12.5 million coupled with a gain on changes in fair value of derivative liability of $2.4 million for the three months ended September 30, 2024 versus a loss of $11.9 million in the comparative prior period. This was offset by an income tax benefit of $4.2 million in the comparative prior quarter, versus none in the current period.

Nine Months Ended September 30, 2024 Compared With Nine Months Ended September 30, 2023

The following table sets forth our results of operations for the nine months ended September 30, 2024 and 2023:

	Nine Months Ended September 30,		Change	
	2024	2023	$	%
Revenue from Sale of Goods	$ 49,005	$ 67,709	$ (18,704)	28 %
Real Estate Income	5,625	8,747	(3,122)	36 %
Total Revenues	54,630	76,456	(21,826)	29 %
Cost of Goods Sold	(36,053)	(38,884)	2,831	7 %
Gross Profit	18,577	37,572	(18,995)	51 %
Total Operating Expense	33,110	52,201	(19,091)	37 %
Loss from Continuing Operations	(14,533)	(14,629)	96	1 %
Total Other Expense, net	(15,520)	(24,116)	8,596	(36)%
Net Loss from Continuing Operations Before Income Taxes	(30,053)	(38,745)	8,692	22 %
Income Tax Expense	—	(818)	818	100 %
Net Loss from Continuing Operations	**$ (30,053)**	**$ (39,563)**	**$ 9,510**	**24 %**
Net Income (Loss) from Discontinued Operations, Net of Taxes	330	(45,389)	45,719	101 %
Net Loss	**$ (29,723)**	**$ (84,952)**	**$ 55,229**	**65 %**

Revenue from Sale of Goods

Revenue from sale of goods related to continuing operations for the nine months ended September 30, 2024 was $49.0 million, representing a decrease of $18.7 million or 28% when compared to the nine months ended September 30, 2023. Refer to the segment discussion below for specific revenue drivers.

Real Estate Income

Real estate income from leasing cannabis production facilities for the nine months ended September 30, 2024 was $5.6 million, versus $8.7 million recognized for the nine months ended September 30, 2023. This decrease of $3.1 million was largely attributable to lower rent billings in accordance with the lease agreements amended in fiscal year 2023.

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

	Nine Months Ended September 30,		Change	
	2024	2023	$	%
Illinois	$ 23,969	$ 29,172	$ (5,203)	18%
Massachusetts	24,117	34,794	(10,677)	31%
Corporate	6,544	12,490	(5,946)	48%
Total Net Revenues	**$ 54,630**	**$ 76,456**	**$ (21,826)**	**29%**

Net revenues for the Illinois segment were $24.0 million for the nine months ended September 30, 2024, representing a decrease of $5.2 million or 18% when compared to the nine months ended September 30, 2023. Net revenues for the Massachusetts segment were $24.1 million for the nine months ended September 30, 2024, representing a decrease of $10.7 million or 31% compared to the nine months ended September 30, 2023. The year-over-year decline in revenue from sales of goods in both Illinois and Massachusetts were primarily attributed to increased competition and price competition which impacted the retail portion within each segment. In addition, significant regulatory and tax burdens have impacted financial performance and profit margins. Net revenues for the corporate segment were $6.5 million for the nine months ended September 30, 2024, a decrease of $5.9 million or 48% compared to the nine months ended September 30, 2023, which was primarily due to the decrease in real estate income as described above.

Cost of Goods Sold

Cost of goods sold for the nine months ended September 30, 2024 was $36.1 million, resulting in a decrease of $2.8 million or 7% when compared to $38.9 million for the nine months ended September 30, 2023. The decrease in cost of goods sold of 7% was not commensurate with the decrease in revenue from sale of goods of 28% year-over-year primarily due to the commencement of operations at the Matteson Facility during the fiscal third quarter of 2024, resulting in lease costs associated with the Matteson Facility being recognized in cost of goods sold, which were previously reported in selling, general and administrative expenses. This increase in overhead resulted in higher incremental costs to cultivate and manufacture cannabis and cannabis derived goods, resulting in a higher cost of goods per unit sold.

Gross Profit

Gross profit for the nine months ended September 30, 2024, was $18.6 million or 34% of revenue, compared to $37.6 million or 49% of revenue for the nine months ended September 30, 2023. The decrease in gross profit was primarily due to the decrease in revenue outpacing the decrease in cost of goods sold as described above.

Total Operating Expenses

Operating expenses consist of selling, general and administrative expenses, depreciation and amortization, and gain/ loss on disposal. Total operating expenses for the nine months ended September 30, 2024 was $33.1 million, representing a decrease of $19.1 million or 37%, as compared to the nine months ended September 30, 2023. This decrease was primarily attributable to a $16.7 million decrease in selling, general and administrative expenses. Specifically, the Company saw a decrease in rent and lease related expenses of $5.8 million, a decrease in salaries and benefits of $2.7 million, and a decrease in bad debt expense of $6.9 million. Refer to Note 19 of the Consolidated Financial Statements includes further detail on selling, general and administrative expenses. In addition, the Company recognized a gain on disposal of $0.6 million upon the completion of the sale of Om of Medicine and $0.6 million upon the sale of equipment during the current period.

Total Other Expense, net

Other expense consists primarily of interest expense, change in fair value of derivative liability, loss on extinguishment of debt, and other expenses. Total other expense for the nine months ended September 30, 2024 was $15.5 million, compared to $24.1 million for the nine months ended September 30, 2023. The decrease of $8.6 million was primarily due to a loss on extinguishment of debt of $11.8 million from the conversion of $23.0 million of the senior secured debt into 244,680,852 SVS on January 29, 2024 and a loss on extinguishment of debt of $1.3 million from the amendment of the Facility on September 20, 2024. This was offset by a decrease in interest expense of $3.2 million from prior year as a result of debt amendments as a result of debt amendments subsequent to the fiscal third quarter of 2023 and a decrease in other expense of $2.5 million primarily due to an accrual for cultivation taxes in the state of Illinois recognized in the fiscal second quarter of 2023. In addition, the Company recognized a gain on changes in fair value of derivative liability of $4.0 million for the nine months ended September 30, 2024 versus a loss of $11.9 million in the prior year.

Net Loss

Net loss from continuing operations for the nine months ended September 30, 2024 was $30.1 million, compared to $39.6 million for the nine months ended September 30, 2023. The decrease in net loss from continuing operations of $9.5 million for the nine months ended September 30, 2024 was primarily due to the decrease in gross profit offset by the decreases in operating expense and other expense 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. Adjusted EBITDA is defined by the Company as detailed below. This measure provides investors with additional information to measure the Company's financial performance, particularly with respect to changes in performance from period to period. The Company's management uses Adjusted EBITDA (a) as a measure of operating performance, (b) for planning and forecasting in future periods, and (c) in communications with the Company's board of directors concerning the Company's financial performance.

The Company's presentation of Adjusted EBITDA is not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation and should not be used by investors as a substitute or alternative to net 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 understand 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 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 to Adjusted EBITDA for the three and nine months ended September 30, 2024 and 2023:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	**2023**	**2024**	**2023**
Net loss (GAAP)	$ (6,403)	$ (62,096)	$ (29,723)	$ (84,952)
Less: Net (income) loss from discontinued operations, net of taxes	(60)	35,668	(330)	45,389
Net loss from continuing operations	(6,463)	(26,428)	(30,053)	(39,563)
Adjusted for:				
Interest income	(5)	21	(15)	—
Interest expense (1)	7,053	7,628	19,377	22,354
Income tax expense	—	(4,199)	—	818
Depreciation and amortization (2)	2,031	2,382	6,368	7,128
EBITDA Income (Loss) from Continuing Operations (Non-GAAP)	**$ 2,616**	**$ (20,596)**	**$ (4,323)**	**$ (9,263)**
Share-based compensation (3)	688	3,678	2,594	4,912
Change in fair value of derivative liability	(2,403)	11,931	(4,033)	11,931
Loss on extinguishment of debt	1,343	—	13,095	—
(Gain) Loss on disposal	(1,213)	160	(1,208)	160
Adjusted EBITDA Income (Loss) from Continuing Operations (Non-GAAP)	**$ 1,031**	**$ (4,827)**	**$ 6,125**	**$ 7,740**

(1) For the current period, interest expense includes interest related to leases of $4.9 million and $13.0 million for the three and nine months ended September 30, 2024, respectively. Prior year amounts of $4.3 million and $12.8 million for the three and nine months ended September 30, 2023, respectively, 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 $1.0 million and $2.6 million for the three and nine months ended September 30, 2024. Prior year amounts of $1.0 million and $2.9 million for the three and nine months ended September 30, 2023, respectively, 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, 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, including interest expense related to leases;
- Current income tax expense;

- Non-cash depreciation and amortization expense, including amortization of leases;
- Non-cash share-based compensation expense;
- Non-cash changes in fair value of derivative liability;
- Loss on extinguishment of debt; and
- Loss on disposal of assets.

Liquidity and Capital Resources

As of September 30, 2024 and December 31, 2023, the Company had total current liabilities of $112.9 million and $104.0 million, respectively, and current assets of $38.1 million and $33.9 million, respectively, to meet current obligations. As of September 30, 2024 and December 31, 2023, the Company had a working capital deficit of $74.8 million compared to $70.1 million. The decline in working capital of $4.7 million was primarily driven by an increase in accounts payable of $4.8 million, an increase in taxes payable of $2.7 million, offset by an increase in inventory of $2.5 million resulting from the commencement and continued scaling of operations at the Matteson Facility during the fiscal third quarter of 2024.

The Company is an emerging 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 $1.8 million for the nine months ended September 30, 2024, a decrease of $1.5 million as compared to $3.4 million for the nine months ended September 30, 2023. The decrease was primarily attributable to the decrease in gross profit, offset by the decrease in selling, general and administrative expenses as a direct result of management's decisive action to streamline operations and reduce its cash burn.

Net Cash Used in Continuing Investing Activities

Net cash used in continuing investing activities was $1.9 million for the nine months ended September 30, 2024, an increase of $1.4 million as compared to $0.5 million for the nine months ended September 30, 2023. The increase was primarily attributable to an increase in purchases of property and equipment related to the completion of the Matteson facility in February 2024 and the construction of the Norridge dispensary, which opened in May 2024.

Net Cash Used in Continuing Financing Activities

Net cash used in continuing financing activities was $2.5 million for nine months ended September 30, 2024, a decrease of $4.1 million as compared to $6.6 million for the nine months ended September 30, 2023. The decrease was due to a decrease in repayments of notes payable resulting from amendments to its debt agreements subsequent to the fiscal third quarter of 2023.

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, 2024. Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating and implementing possible controls and procedures.

Material Weaknesses

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

Material Weaknesses in Internal Control

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

- We did not have sufficient accounting staff resources to timely perform closing, review and audit related procedures during the financial close process.