UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
☒ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: September 30, 2024

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________ to ______________

Commission File Number 000-56075

4Front Ventures Corp.

(Exact name of registrant as specified in its charter)

British Columbia	**83-4168417**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

7010 E. Chauncey Lane
Suite 235
Phoenix, Arizona 85054
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (602) 428-5337

Securities registered pursuant to Section 12(b) of the Act:
None.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller reporting company ☒
	Emerging growth company ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of November 11, 2024, the registrant had 913,928,993 Class A Subordinate Voting Shares outstanding.

4Front Ventures Corp.

FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2024

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

4FRONT VENTURES CORP.

CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS (unaudited)

As of September 30, 2024 and December 31, 2023

(Amounts expressed in thousands of U.S. dollars except for share data)

	September 30, 2024	December 31, 2023
ASSETS		
Current assets:		
Cash	$ 1,246	$ 3,398
Accounts receivable, net	5,707	3,682
Other receivables	1,819	735
Current portion of lease receivables	4,125	3,990
Inventory	19,613	17,087
Prepaid expenses and other assets	4,617	3,324
Assets held for sale or disposal	956	1,696
Total current assets	38,083	33,912
Property, plant, and equipment, net	36,457	36,549
Lease receivables	2,303	3,963
Intangible assets, net	25,669	26,793
Goodwill	41,807	41,807
Right-of-use assets	131,280	118,511
Deposits	2,484	2,419
TOTAL ASSETS	**$ 278,083**	**$ 263,954**
LIABILITIES AND SHAREHOLDERS' DEFICIT		
LIABILITIES		
Current liabilities:		
Accounts payable	$ 16,229	$ 11,415
Accrued expenses and other current liabilities	10,172	9,014
Taxes payable	42,375	39,634
Derivative liability	2,834	4,550
Current portion of convertible notes	17,331	15,818
Current portion of lease liability	1,694	1,720
Current portion of finance lease liability	46	—
Current portion of notes payable and accrued interest	11,371	9,812
Current liabilities held for sale or disposal	10,833	12,037
Total current liabilities	112,885	104,000
Notes payable and accrued interest from related party	28,767	47,491
Long term notes payable	11,480	11,052
Long term accounts payable	2,062	977
Construction finance liability	16,000	16,000
Deferred tax liability	11,882	11,882
Lease liability	143,460	123,946
TOTAL LIABILITIES	326,536	315,348
SHAREHOLDERS' DEFICIT		
Multiple Voting Shares and Subordinate Voting Shares (no par value, unlimited shares authorized, 915,200,201 and 669,519,349 shares issued and outstanding as of September 30, 2024 and December 31, 2023, respectively)	337,222	308,952
Additional paid-in capital	71,342	66,948
Accumulated deficit	(457,125)	(427,402)
Equity attributable to 4Front Ventures Corp.	(48,561)	(51,502)
Non-controlling interest	108	108
TOTAL SHAREHOLDERS' DEFICIT	(48,453)	(51,394)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	**$ 278,083**	**$ 263,954**

See accompanying notes to condensed consolidated interim financial statements.

4FRONT VENTURES CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS (unaudited)
For the Three and Nine Months Ended September 30, 2024 and 2023
(Amounts expressed in thousands of U.S. dollars except for share and per share data)

	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
REVENUE				
Revenue from sale of goods	$ 15,292	$ 20,110	$ 49,005	$ 67,709
Real estate income	1,840	2,892	5,625	8,747
Total revenues	17,132	23,002	54,630	76,456
Cost of goods sold	(13,468)	(13,722)	(36,053)	(38,884)
Gross profit	3,664	9,280	18,577	37,572
OPERATING EXPENSES				
Selling, general and administrative expenses	9,919	22,407	32,718	49,423
Depreciation and amortization	325	817	1,600	2,406
(Gain) Loss on disposal	(1,213)	160	(1,208)	160
Transaction and restructuring related expenses	—	195	—	212
Total operating expenses	9,031	23,579	33,110	52,201
Income (loss) from continuing operations	(5,367)	(14,299)	(14,533)	(14,629)
Other income (expense):				
Interest income	5	(21)	15	—
Interest expense	(2,141)	(3,322)	(6,332)	(9,561)
Change in fair value of derivative liability	2,403	(11,931)	4,033	(11,931)
Loss on extinguishment of debt	(1,343)	—	(13,095)	—
Loss on litigation settlement	—	—	—	(3)
Other	(20)	(1,054)	(141)	(2,621)
Total other expense, net	(1,096)	(16,328)	(15,520)	(24,116)
Net loss from continuing operations before income taxes	(6,463)	(30,627)	(30,053)	(38,745)
Income tax benefit (expense)	—	4,199	—	(818)
Net loss from continuing operations	(6,463)	(26,428)	(30,053)	(39,563)
Net income (loss) from discontinued operations, net of taxes	60	(35,668)	330	(45,389)
Net loss	(6,403)	(62,096)	(29,723)	(84,952)
Net income attributable to non-controlling interest	—	5	—	15
Net loss attributable to shareholders	**$ (6,403)**	**$ (62,101)**	**$ (29,723)**	**$ (84,967)**
Basic and diluted loss per share - continuing operations	$ (0.01)	$ (0.04)	$ (0.03)	$ (0.06)
Basic and diluted loss per share - discontinued operations	$ —	$ (0.05)	$ —	$ (0.07)
Weighted average number of shares outstanding, basic and diluted	913,923,993	653,080,343	886,589,101	647,329,688

See accompanying notes to condensed consolidated interim financial statements.

4FRONT VENTURES CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT (unaudited)
For the Nine Months Ended September 30, 2024 and 2023
(Amounts expressed in thousands of U.S. dollars except for share data)

	Common Stock						
	Shares	**Amount**	**Additional Paid-In Capital**	**Deficit**	**Total 4Front Ventures Corp. Shareholders' Equity**	**Non-Controlling Interest**	**Total**
Balance, December 31, 2023	**669,519,349**	**$ 308,952**	**$ 66,948**	**$ (427,402)**	**$ (51,502)**	**$ 108**	**$ (51,394)**
Conversion of debt to equity	244,680,852	28,270	—	—	28,270	—	28,270
Share-based compensation	—	—	1,008	—	1,008	—	1,008
Net loss	—	—	—	(18,453)	(18,453)	—	(18,453)
Balance, March 31, 2024	**914,200,201**	**$ 337,222**	**$ 67,956**	**$ (445,855)**	**$ (40,677)**	**$ 108**	**$ (40,569)**
Share-based compensation	—	—	786	—	786	—	786
Shares issued for executive compensation	1,000,000	—	112	—	112	—	112
Net loss	—	—	—	(4,867)	(4,867)	—	(4,867)
Balance, June 30, 2024	**915,200,201**	**$ 337,222**	**$ 68,854**	**$ (450,722)**	**$ (44,646)**	**$ 108**	**$ (44,538)**
Share-based compensation	—	—	688	—	688	—	688
Warrants issued	—	—	267	—	267	—	267
Equity component of debt	—	—	1,533	—	1,533	—	1,533
Net loss	—	—	—	(6,403)	(6,403)	—	(6,403)
Balance, September 30, 2024	**915,200,201**	**$ 337,222**	**$ 71,342**	**$ (457,125)**	**$ (48,561)**	**$ 108**	**$ (48,453)**

See accompanying notes to condensed consolidated interim financial statements.

4FRONT VENTURES CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT (unaudited)
For the Nine Months Ended September 30, 2024 and 2023
(Amounts expressed in thousands of U.S. dollars except for share data)

	Common Stock						
	Shares	Amount	Additional Paid-In Capital	Deficit	Total 4Front Ventures Corp. Shareholders' Equity	Non-Controlling Interest	Total
Balance, December 31, 2022	**643,416,275**	**$ 304,602**	**$ 59,411**	**$ (335,755)**	**$ 28,258**	**$ 93**	**$ 28,351**
Share-based compensation	—	—	1,020	—	1,020	—	1,020
Net loss	—	—	—	(11,397)	(11,397)	5	(11,392)
Balance, March 31, 2023	**643,416,275**	**$ 304,602**	**$ 60,431**	**$ (347,152)**	**$ 17,881**	**$ 98**	**$ 17,979**
Share-based compensation	—	—	214	—	214	—	214
Shares issued for asset acquisition	2,380,952	447	—	—	447	—	447
Shares issued to settle payables	4,062,500	650	—	—	650	—	650
Net loss	—	—	—	(11,469)	(11,469)	5	(11,464)
Balance, June 30, 2023	**649,859,727**	**$ 305,699**	**$ 60,645**	**$ (358,621)**	**$ 7,723**	**$ 103**	**$ 7,826**
Share-based compensation	—	—	2,634	—	2,634	—	2,634
Warrants issued	—	—	182	—	182	—	182
Shares issued for executive compensation	9,300,250	862	—	—	862	—	862
Net loss	—	—	—	(62,101)	(62,101)	5	(62,096)
Balance, September 30, 2023	**659,159,977**	**$ 306,561**	**$ 63,461**	**$ (420,722)**	**$ (50,700)**	**$ 108**	**$ (50,592)**

See accompanying notes to condensed consolidated interim financial statements.

4FRONT VENTURES CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (unaudited)
For the Nine Months Ended September 30, 2024 and 2023
(Amounts expressed in thousands of U.S. dollars)

	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss from continuing operations	$ (30,053)	$ (39,563)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,751	4,222
Equity based compensation	2,861	4,912
Change in fair value of derivative liability	(4,033)	11,931
Accretion of lease liability	6,719	4,502
(Gain) Loss on disposal	(1,208)	160
Loss on extinguishment of debt	13,095	—
Accretion of debt discount	628	355
Accrued interest on convertible debenture and interest	1,194	678
Accrued interest on notes payable	4,515	7,261
Interest accrued - lease receivable	1,525	1,040
Deferred taxes	—	1,196
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,025)	1,240
Other receivables	(1,084)	(129)
Prepaid expenses and other assets	(1,293)	(824)
Inventory	(2,526)	1,726
Accounts payable	5,899	1,869
Accrued expenses and other current liabilities	1,158	(143)
Taxes payable	2,767	1,962
Deposits	(64)	977
Net cash provided by continuing operating activities	1,826	3,372
Net cash provided by (used in) discontinued operating activities	483	(7,443)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**2,309**	**(4,071)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for asset acquisitions and business combinations, net of cash received	—	(250)
Purchases of property and equipment	(1,924)	(267)
Net cash used in continuing investing activities	(1,924)	(517)
Net cash used in discontinued investing activities	—	(284)
NET CASH USED IN INVESTING ACTIVITIES	**(1,924)**	**(801)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Notes payable issued	800	—
Repayments of notes payable	(3,337)	(6,634)
Net cash used in continuing financing activities	(2,537)	(6,634)
NET CASH USED IN FINANCING ACTIVITIES	(2,537)	(6,634)
NET DECREASE IN CASH	(2,152)	(11,506)
CASH, BEGINNING OF PERIOD	3,398	14,271
CASH, END OF PERIOD	**$ 1,246**	**$ 2,765**

See accompanying notes to condensed consolidated interim financial statements.

4FRONT VENTURES CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (unaudited)
For the Nine Months Ended September 30, 2024 and 2023
(Amounts expressed in thousands of U.S. dollars)

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Non-cash investing and financing activities:				
Issuance of warrants for debt amendments	$	—	$	4,165
Issuance of restricted stock units	$	241	$	—
Issuance of equity for asset acquisition	$	—	$	447
Shares issued to settle payables	$	—	$	650
Transfers of property and equipment from assets related to discontinued operations to continuing operations	$	—	$	5,498

See accompanying notes to condensed consolidated interim financial statements.

Note 1: NATURE OF OPERATIONS

4Front Ventures Corp. (“4Front Ventures”) exists pursuant to the provisions of the British Columbia Corporations Act and issues Class A Subordinate Voting Shares (“SVS”) and Class C Multiple Voting Shares (“MVS”). As of September 30, 2024, subsidiaries of 4Front Ventures operate five cannabis dispensaries and four cannabis production and cultivation facilities across Illinois and Massachusetts. 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. Together, 4Front Ventures and its subsidiaries are referred to in this report as “4Front” or the “Company.”

The unaudited condensed consolidated interim financial statements include the accounts of 4Front and all entities in which the Company either has a controlling voting interest or is the primary beneficiary of a variable interest entity in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Company has prepared these statements pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC") and U.S. GAAP. Certain information related to the organization, significant accounting policies, and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed, or omitted.

In the opinion of management, the financial statements include all adjustments necessary for the fair presentation of the results of the interim periods presented. All adjustments are of a normal recurring nature, except as otherwise noted below. Operating results for interim periods are not necessarily indicative of results you can expect for a full year. These financials should be read in conjunction with our audited consolidated financial statements and notes thereto appearing in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023.

Going Concern

As of September 30, 2024, the Company had cash of $1.2 million and working capital deficit of $74.8 million. The Company incurred net losses from continuing operations of $6.5 million and $26.4 million for the three months ended September 30, 2024 and 2023, respectively, and $30.1 million and $39.6 million for the nine months ended September 30, 2024 and 2023, respectively. 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 plans to continue to fund its operations through cash generated 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. 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.

Reclassifications

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications did not affect net loss, revenues and stockholders’ equity.

Management's Estimates and Assumptions

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. We cannot predict what future laws and regulations might be passed that could have a material effect on our results of operations. We assess the impact of significant changes in laws and regulations on a regular basis and update the assumptions and estimates used to prepare our financial statements when we deem it necessary. Actual results may differ from these estimates. The most critical and subjective areas are discussed in detail in the notes in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023. There have been no changes to the Company's accounting policies since the Annual Report.

New Accounting Pronouncements

Recently Adopted

In June 2022, the FASB issued ASU 2022-03, *"Fair Value Measurements - Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions (Topic 820)*". ASU 2022-03 clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. It also clarifies that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. For public business entities, the ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. The adoption of the standard on January 1, 2024 did not have a material impact on the Company's consolidated financial statements.

In March 2023, the FASB issued ASU 2023-01, "*Leases (Topic 842) – Common Control Arrangement*s", which require that leasehold improvements associated with common control leases be amortized by the lessee over the useful life of the leasehold improvements to the common control group (regardless of the lease term) as long as the lessee controls the use of the underlying asset. It also requires such leasehold improvements to be accounted for as a transfer between entities under common control through an adjustment to entity if, and when, the lessee no longer controls the use of the underlying asset. ASU 2023-01 is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. The adoption of the standard on January 1, 2024 did not have a material impact on the Company's consolidated financial statements.

Issued but Not Yet Adopted

In October 2023, the FASB issued ASU 2023-06, "*Disclosure Improvements,*" which incorporates certain existing or incremental disclosures and presentation requirements of SEC Regulations S-X and S-K into the FASB Accounting Standards Codification (the "Codification"). ASU 2023-06 is effective for the Company as of the effective date to remove the existing disclosure requirement from Regulations S-X and S-K. Early adoption is not permitted. The Company is currently assessing the impact of adopting ASU 2023-06 on the consolidated financial statements.

In November 2023, the FASB issued ASU 2023-07, "*Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*," which requires that a public entity provide all annual disclosures about a reportable segment's profit or loss and assets currently required by Topic 280 in interim periods, including those that have a single reportable segment. It also requires all public entities, including those with a single reportable segment, to disclose significant segment expenses and other segment items for each reportable segment. In addition, the ASU requires entities to disclose information about the chief operating decision maker ("CODM") and an explanation of how the CODM uses the reported measures. For public business entities, the ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company is currently assessing the impact of adopting ASU 2023-07 on the consolidated financial statements.

(Amounts expressed in thousands of U.S. dollars except for share and per share data)

In December 2023, the FASB issued ASU 2023-09, "*Income Taxes (Topic 740): Improvements to Income Tax Disclosures*," which requires public business entities to disclose additional information in specified categories with respect to the reconciliation of the effective tax rate to the statutory rate (the rate reconciliation) for federal, state, and foreign income taxes. It also requires greater detail about individual reconciling items in the rate reconciliation to the extent the impact of those items exceeds a specified threshold. In addition, the ASU requires information pertaining to taxes paid (net of refunds received) to be disaggregated for federal, state, and foreign taxes and further disaggregated for specific jurisdictions to the extent the related amounts exceed a quantitative threshold. For public business entities, the ASU is effective for fiscal years beginning after December 15, 2024. The Company is currently assessing the impact of adopting ASU 2023-09 on the consolidated financial statements.

Note 2: INVENTORY

The Company's inventories are summarized in the table below:

	September 30, 2024	December 31, 2023
Raw materials - unharvested cannabis	$ 4,507	$ 2,268
Raw materials - harvested and purchased cannabis	4,904	5,745
Packaging and other non-finished goods	1,152	1,072
Work in process - manufactured and purchased extracts	2,509	1,790
Finished goods	6,541	6,212
Total inventory	**$ 19,613**	**$ 17,087**

Note 3: PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment and related depreciation are summarized in the table below:

	September 30, 2024	December 31, 2023
Land	$ 774	$ 774
Buildings & improvements	12,584	12,584
Construction in process	120	7,165
Furniture, equipment & other	12,964	8,855
Leasehold improvements	24,309	19,966
Total	$ 50,751	$ 49,344
Less: accumulated depreciation	(14,294)	(12,795)
Total property, plant, and equipment, net	**$ 36,457**	**$ 36,549**

Depreciation expense related to continuing operations for the three months ended September 30, 2024 and 2023 was $0.9 million and $0.8 million, respectively, of which $0.7 million and $0.6 million, respectively, is included in cost of goods sold. Depreciation expense related to continuing operations for the nine months ended September 30, 2024 and 2023 was $2.6 million and $2.3 million, respectively, of which $2.2 million and $1.8 million, respectively, is included in cost of goods sold.

Unless specifically excluded in the LI Lending note, all property, plant, and equipment is secured by LI Lending as collateral on the LI Lending note (Note 9).

(Amounts expressed in thousands of U.S. dollars except for share and per share data)

Note 4: INTANGIBLE ASSETS AND GOODWILL

Intangible Assets

Intangible assets and related amortization are summarized in the table below:

	Licenses	Know-How	Total
Gross Carrying Amount, September 30, 2024 and December 31, 2023	**$ 25,661**	**$ 9,700**	**$ 35,361**
Accumulated Amortization, December 31, 2023	$ —	$ (8,568)	$ (8,568)
Amortization expense	—	(1,124)	(1,124)
Accumulated Amortization, September 30, 2024	**$ —**	**$ (9,692)**	**$ (9,692)**
Intangible Assets, Net at December 31, 2023	**$ 25,661**	**$ 1,132**	**$ 26,793**
Intangible Assets, Net at September 30, 2024	**$ 25,661**	**$ 8**	**$ 25,669**

During fiscal year 2023, the Company entered into agreements to acquire dispensary licenses from Euphoria, LLC and Westside Visionaries. Refer to Note 5 for further details on the transaction.

Goodwill

Balance, December 31, 2023 and September 30, 2024	**$ 41,807**

Impairment of Intangible Assets and Goodwill

Goodwill as of September 30, 2024 and December 31, 2023 is related to the Massachusetts segment in which there is no accumulated impairment within this segment.

Goodwill and infinite lived assets are assessed on an annual basis for impairment, or more frequently, if circumstances indicate an impairment to the carrying value may have occurred. As of September 30, 2024, the Company believes the carrying amounts of the long-lived assets, including finite-lived intangible assets (licenses), are recoverable and there were no events or circumstances that indicated impairment. However, if adverse events were to occur or circumstances were to change indicating the carrying amount of such assets may not be fully recoverable, the assets would be reviewed for impairment.

Refer to Note 17 for discussion of intangible assets and goodwill related to the Company's operations in California classified as discontinued operations.

Note 5: ASSET ACQUISITIONS

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 ("Euphoria") for a total purchase price of $4.5 million to be paid in cash, promissory notes, and SVS. In addition, Euphoria has agreed to reimburse a subsidiary of the Company for the lesser of $2.0 million or actual expenditures to build out the dispensary. As of September 30, 2024, the Company has paid $0.7 million in cash and issued 2,380,952 SVS valued at $0.4 million based on the closing stock price of the SVS on the issuance date, which is included as a component of prepaid expenses and other assets on the consolidated balance sheet as of September 30, 2024.

In certain events as defined in this agreement, such as, but not limited to the inability to obtain regulatory approval, all consideration paid by the Company to the sellers are refundable. The remaining consideration will be due upon regulatory approval at the closing date. In the event of termination by the Company under certain circumstances, the Company shall pay a breakup fee of $3.5 million to the sellers, less any portion of the purchase price already paid. Conversely, in the event of termination by the sellers under certain circumstances, the sellers shall pay a breakup fee of $3.5 million to the Company.

Euphoria holds a final adult use dispensary license in the state of Illinois. The transfer of the license is subject to regulatory approval. Subject to pending regulatory approval, a subsidiary of the Company entered into a management services agreement to manage the operations of Euphoria until the transfer is approved.

Westside Visionaries

On November 17, 2023, a subsidiary of 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 of which $1.1 million shall be paid in cash, $1.2 million shall be in the form of a promissory note, and $0.1 million in the form of SVS. In addition, Westside has agreed to reimburse a subsidiary of the Company for the lesser of $2.0 million or actual expenditures to build out the dispensary.

In the event of termination by mutual written consent of both parties or by the sellers based on the Company's breach, then any portion of the purchase price paid as of the termination date may be retained by the sellers. As of September 30, 2024, the Company has paid $0.6 million in cash which is included as a component of prepaid expenses and other assets on the consolidated balance sheet as of September 30, 2024.

Westside holds a conditional adult use dispensary license in the state of Illinois which shall convert to a final license upon regulatory approval. The transfer of the license is subject to regulatory approval. A subsidiary of the Company entered into a conditional management services agreement to manage the operations of Westside until a final license is issued.

Note 6: ASSETS HELD FOR SALE

On November 8, 2023, Om of Medicine, LLC ("Om of Medicine"), a subsidiary of the Company, ceased operations at its retail dispensary located in Ann Arbor, Michigan. The assets were classified as held for sale as of September 30, 2024 and December 31, 2023 and did not meet the criteria for discontinued operations under ASC Subtopic 205-20. In May 2023, the Company entered into an Asset Purchase Agreement to sell the assets related to Om of Medicine, which was amended in January 2024. In January 2024, the Company received confirmation of the legal dissolution of the entity. The transaction closed during the third fiscal quarter of 2024. As of September 30, 2024, all assets and liabilities related to Om of Medicine were deconsolidated from the consolidated balance sheet, with the exception of taxes payable, and the Company recorded a gain on disposal of $0.6 million during the three and nine months ended September 30, 2024.

(Amounts expressed in thousands of U.S. dollars except for share and per share data)

Note 7: DERIVATIVE LIABILITY

A reconciliation of the changes in fair value of derivative liabilities for the three and nine months ended September 30, 2024 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	**2023**	**2024**	**2023**
Balance, beginning of period	$ 5,478	$ —	$ 4,550	$ —
Issuance of derivative liability	—	4,165	2,558	4,165
Cancellation of restricted stock units	(241)	—	(241)	—
Change in fair value of derivative liability	(2,403)	11,931	(4,033)	11,931
Balance, end of period	**$ 2,834**	**$ 16,096**	**$ 2,834**	**$ 16,096**

See Note 11 for warrants classified within equity.

In connection with the amendment of the senior secured debt with LI Lending LLC in July 2023, the Company issued warrants to purchase a variable number of SVS on August 10, 2023 wherein each warrant shall be exercisable into one SVS at an exercise price of $0.17 through May 1, 2026. If 4Front obtains a bona fide offer from a third party to refinance the loan within six months from the amendment date, the lender will have the option to match the proposed terms of the offer or keep the loan in force; upon exercise of either option, the lender's warrant coverage will be reduced from 33% to 30% of the loan balance divided by the exercise price as of the current maturity date. If 4Front obtains permitted secured debt senior to the loan up to $8.0 million, 75% of the warrants will become exercisable by cashless exercise. If 4Front obtains permitted secured debt senior to the loan in excess of $8.0 million (up to the $10.0 million maximum), 100% of the warrants will become exercisable by cashless exercise. The warrants met the criteria in ASC 480 due to the variability of the number of issuable shares, and are therefore classified as liabilities at fair value with changes being reported through the statement of operations.

The fair value of the warrants classified as liabilities was determined using the Black-Scholes simulation model based on Level 3 inputs on the fair value hierarchy. The following weighted average assumptions were used for the periods presented:

	Issuance Date	**September 30, 2024**
Share Price	$ 0.10	$ 0.05
Exercise Price	$ 0.17	$ 0.17
Expected Life (in Years)	2.7 years	1.6 years
Annualized Volatility	84.5 %	139.7 %
Risk-Free Annual Interest Rate	4.5 %	3.7 %

In connection with the Second Amendment to the loan agreement with LI Lending on January 29, 2024, the Company issued a warrant to purchase 36,702,127 SVS at a price of C$0.14. These warrants were determined to be a derivative liability under ASC 815. Accordingly, the Company recorded an initial value of $2.6 million as a derivative liability on the date of grant. The fair value of the January 2024 warrants was determined using the Black-Scholes simulation model based on Level 3 inputs on the fair value hierarchy. The following weighted average assumptions were used for the periods presented:

(Amounts expressed in thousands of U.S. dollars except for share and per share data)

	Issuance Date	September 30, 2024
Share Price	$ 0.12	$ 0.05
Exercise Price	$ 0.11	$ 0.11
Expected Life (in Years)	2.3 years	1.6 years
Annualized Volatility	104.3 %	140.1 %
Risk-Free Annual Interest Rate	4.3 %	3.7 %

In connection with the senior secured credit facility with Alt Debt II, LP, the Company entered into a restricted stock unit ("RSU") agreement (the "RSU Agreement") dated November 13, 2023 wherein the Company granted 15,900,000 RSUs to the lender at an issue price of CAD$0.31. Each RSU represents an unsecured promise to issue one SVS upon the earliest of certain distribution events. If at the time of the distribution event, the number of SVS underlying the RSUs is less than 2.12% of the fully diluted SVS of the Company, an additional number of RSUs will be issuable to the lender at the closing market price on the Canadian Securities Exchange on the trading day prior to issuance.

On September 20, 2024, the RSU Agreement dated November 13, 2023 was voided and the Company entered into a new RSU Agreement dated September 20, 2024 wherein the Company granted 49,957,714 RSUs to the lender at an issue price of CAD$0.08. Each RSU represents an unsecured promise to issue one SVS upon the earliest of certain distribution events. If at the time of the distribution event, the number of SVS underlying the RSUs is less than 4.24% of the fully diluted SVS of the Company, an additional number of RSUs will be issuable to the lender at the closing market price on the Canadian Securities Exchange on the trading day prior to issuance. The additional RSUs met the criteria in ASC 480 due to the variability of the number of issuable shares, and are therefore classified as liabilities at fair value with changes being reported through the statement of operations. The fair value of the RSUs classified as liabilities was determined using the Company's share price which is considered a Level 1 input on the fair value hierarchy.

On January 29, 2024, the Company entered into an RSU agreement with LI Lending, LLC providing that, in the event of a financing by the Company at less than C$0.125 per SVS on or before July 29, 2024, LI Lending, LLC shall be entitled to receive a number of shares necessary to restore it to 18.43% of the voting interests of the Company. The RSUs met the criteria in ASC 480 due to the variability of the number of issuable shares, and are therefore classified as liabilities at fair value with changes being reported through the statement of operations. No financing that would trigger the RSU had occurred as of July 29, 2024 and the RSU was forfeited as of September 30, 2024. As of the issuance date and September 30, 2024, the fair value of the RSUs classified as liabilities was determined to be nil.

Note 8: LEASES

New Lease Agreement

On February 14, 2024, the Company entered into a guaranty of a lease agreement for a fourth dispensary location in Illinois. Rent payments commence on the earlier of one year after the commencement date or the date on which business opens. As of September 30, 2024, the Company recognized an initial right of use asset and lease liability of $1.2 million in connection with the lease agreement.

(Amounts expressed in thousands of U.S. dollars except for share and per share data)

Lease Modifications

On April 10, 2024, the Company amended its lease agreement for the cultivation and production facility in Matteson, Illinois to increase the tenant improvement allowance under the lease by $1.6 million, to increase the base rent by $20,000 per month, and to increase the annual rent escalation to 3.5%. The modification resulted in an increase in right-of-use asset and lease liability of $14.5 million during the fiscal second quarter of 2024.

The Company as a Lessor:

Lease income for operating and direct financing leases for the periods presented are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	**2023**	**2024**	**2023**
Real estate income:				
Operating leases	$ 850	$ 2,318	$ 2,655	$ 6,952
Direct financing leases	990	574	2,970	1,795
Total real estate income	**$ 1,840**	**$ 2,892**	**$ 5,625**	**$ 8,747**

The Company leases buildings in Olympia, Washington and Elk Grove, Illinois that are subleased or partly subleased to a third party. The subleases are classified as operating leases under ASC 842. The underlying assets are presented in the condensed consolidated balances sheets as follows:

	September 30, 2024	**December 31, 2023**
Right-of-use assets	$ 24,885	$ 25,249
Current portion of lease liability	$ 282	$ 289
Long-term portion of lease liability	$ 22,566	$ 22,380

The Company also leases a building in Elma, Washington that is subleased to a third party. This sublease is classified as a finance lease. A reconciliation of the lease receivables is as follows:

	September 30, 2024	**December 31, 2023**
Balance, beginning of period	$ 7,953	$ 9,421
Interest	1,445	2,342
Lease payments transferred to accounts receivable	(2,970)	(3,810)
Balance, end of period	6,428	7,953
Less current portion	(4,125)	(3,990)
Long-term lease receivables	**$ 2,303**	**$ 3,963**

(Amounts expressed in thousands of U.S. dollars except for share and per share data)

Note 9: NOTES PAYABLE AND CONVERTIBLE NOTES

The Company's notes payable and convertible notes are as follows:

Terms	September 30, 2024	December 31, 2023
Secured promissory notes dated May 10, 2019, as subsequently amended, with a related party which mature on May 1, 2026 and bear interest at a rate of 16.5% per annum through May 1, 2024 and 12% per annum thereafter	$ 28,767	$ 47,491
Convertible promissory note dated October 6, 2021, which matures on October 6, 2024 and bears interest at a rate of 10% per annum	17,331	15,818
Promissory note dated October 13, 2023, as subsequently amended, under the senior secured credit facility which matures on December 31, 2024 and bears interest at a rate of 18.5% per annum.	4,261	3,410
Unsecured convertible promissory note at $0.50 per share due December 18, 2024 at 12% per annum with monthly cash payments of $50,000 beginning January 15, 2024 through maturity	2,203	2,051
Promissory note issued for the acquisition of Island due October 25, 2026 at 6% per annum	11,480	11,030
Secured promissory note due January 1, 2024 at 1.5% monthly interest through November 30, 2022 and 2% monthly interest through maturity	3,268	2,734
Unsecured promissory note due November 30, 2024 with monthly interest payments at 12% per annum through September 2023 and 11% per annum through November 2024	1,639	1,630
Various	—	9
Total Notes Payable and Convertible Notes	**$ 68,949**	**$ 84,173**

Senior Secured Credit Facility

On October 13, 2023, the Company entered into a senior secured credit facility agreement (the "Facility") for an aggregate principal up to $10.0 million in which a term loan in the amount of $3.4 million was drawn on the closing date and a second tranche of $4.0 million is available to be drawn through July 13, 2024. On September 20, 2024, the Company amended 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. The amendment of the Facility was deemed to be a substantial modification under ASC Subtopic 470-50 and a loss on extinguishment of $1.34 million was recorded in the consolidated statement of operations for the three and nine months ended September 30, 2024.

In connection with the amendment, the Company voided the original restricted stock unit agreement dated November 13, 2023 and entered into a restricted stock unit agreement dated September 20, 2024 wherein the Company issued 49,957,714 RSUs to the lender at an issue price of CAD$0.08. Each RSU represents an unsecured promise to issue one SVS upon the earliest of certain distribution events. Refer to Note 7 for information on additional RSUs to be issued which are classified as a derivative liability.

LI Lending LLC

On May 10, 2019, the Company entered into a loan agreement with LI Lending LLC ("LI Lending"), a related party, for $50.0 million, of which $45.0 million was drawn as of September 30, 2024. On January 29, 2024, the Company entered into the second amendment to the restated loan agreement to convert $23.0 million of the loan into 244,680,852 SVS and issued LI Lending a warrant to purchase 36,702,127 SVS at a price of C$0.14, reducing the loan to $28.9 million. The warrant was determined to be a derivative liability under ASC 815, see Note 7 for further information. In addition, the Company issued LI Lending an RSU agreement providing that, in the event of a financing by the Company on or before July 29, 2024 at less than C$0.125 per SVS, LI Lending would be entitled to receive a number of shares necessary to restore it to 18.43% of the voting interests of the Company. See Note 7 for further information regarding the fair value of the restricted stock units. The parties agreed that accrued interest in the amount of $0.2 million would be paid-in-kind. The second amendment was deemed to be a substantial modification under ASC Subtopic 470-50 and a loss on extinguishment of debt of $11.8 million was recorded in the consolidated statement of operations for the nine months ended September 30, 2024.

For the three months ended September 30, 2024 and 2023, the Company recognized accrued interest expense of $0.9 million and $2.0 million, respectively, on the related party loan and made $1.2 million and $1.6 million, respectively, in cash payments of principal and interest to the related party. For the nine months ended September 30, 2024 and 2023, the Company recognized accrued interest expense of $2.6 million and $5.8 million, respectively, on the related party loan and made $2.6 million and $4.8 million, respectively, in cash payments of principal and interest to the related party. See Note 14 for further discussion of this related party transaction.

October 2021 Convertible Note

On October 6, 2021, the Company entered into a convertible promissory note for $15.0 million that is exercisable into SVS for $1.03 per share at any time at the option of the holder. The notes bear interest at 6.0% per annum and mature on October 6, 2024 upon which any remaining balance is payable in cash. All accrued and unpaid interest is payable in cash on an annual basis beginning on October 6, 2022.

On October 6, 2023, the Company amended the October 2021 Convertible Note to defer payment of accrued interest until the earlier of the maturity date, a change of control, or event of default under the loan. In addition, the outstanding balance, including any deferred interest payments, accrues interest at a rate of 10.0% per annum through maturity, and the conversion price was amended to $0.23 per share.

As of September 30, 2024, payments of principal and interest totaling $1.1 million have been made for this loan. As of September 30, 2024 and December 31, 2023, the unamortized discount balance related to the October 2021 Convertible Note was $0.1 million and $0.5 million, respectively, with a remaining amortization period of 0.00 years and 0.75 years, respectively. For the three months ended September 30, 2024 and 2023, the Company recognized interest expense of $0.4 million and $0.2 million, respectively, and accretion of debt discount of $0.1 million and $0.1 million, respectively, related to the October 2021 Convertible Note. For the nine months ended September 30, 2024 and 2023, the Company recognized interest expense of $1.2 million and $0.7 million, respectively, and accretion of debt discount of $0.3 million and $0.2 million, respectively, related to the October 2021 Convertible Note.

Subsequent to September 30, 2024, management is renegotiating the terms of the October 2021 Convertible Note as of the date of these consolidated financial statements.

(Amounts expressed in thousands of U.S. dollars except for share and per share data)

Note 10: SHAREHOLDERS' DEFICIT

The Company has authorized an unlimited number of SVS and MVS, all with no par value.

All share classes are included within share capital in the consolidated statements of shareholders' equity on an as-converted basis. Each share class is entitled to notice of and to attend any meeting of the shareholders, except a meeting of which only holders of another particular class of shares will have the right to vote. All share classes are entitled to receive dividends, as and when declared by the Company, on an as-converted basis, and no dividends will be declared by the Company on any individual class unless the Company simultaneously declares or pays dividends on all share classes. No subdivision or consolidation of any share class shall be made without simultaneously subdividing or consolidating all share classes in the same manner.

Voting shares activity for the periods presented is summarized as follows:

	Class A Subordinate Voting Shares	Class C Multiple Voting Shares	Total
Balance, December 31, 2023	668,243,141	1,276,208	669,519,349
Share capital issuances	245,680,852	—	245,680,852
Balance, September 30, 2024	**913,923,993**	**1,276,208**	**915,200,201**

Class A Subordinate Voting Shares

Holders of SVS are entitled to one vote in respect of each SVS.

Class C Multiple Voting Shares

Holders of MVS are entitled to 800 votes in respect of each MVS. One MVS can convert to one SVS but are not convertible until the aggregate number of MVS held by the Initial Holders (being the MVS holders on their initial issuance) are reduced to a number which is less than 50% of the aggregate number of MVS held by the Initial Holders on the date of completion of the business combination with Cannex.

Series	September 30, 2024
Class A - Subordinate Voting Shares	913,923,993
Class C - Multiple Voting Shares	1,276,208
Total shares outstanding	**915,200,201**

(Amounts expressed in thousands of U.S. dollars except for share and per share data)

Note 11: WARRANTS

A reconciliation of the beginning and ending balance of outstanding share purchase warrants classified as equity is as follows:

	Number of Warrants		Weight-Average Exercise Price
Balance, December 31, 2023	6,783,400	$	0.61
Issued	5,483,600	$	0.07
Expired	(2,999,975)	$	1.00
Balance, September 30, 2024	**9,267,025**	$	0.16

As of September 30, 2024, the Company had the following warrants classified as equity outstanding:

Warrants Outstanding		Exercise Price		Expiration Date
625,000	*	C$	0.80	October 6, 2024
500,000	*	C$	0.80	October 6, 2025
625,000		C$	0.23	May 10, 2027
750,000		$	0.10	September 1, 2027
1,283,425		$	0.20	October 17, 2027
5,483,600		$	0.07	July 9, 2034
9,267,025				

*Represents warrants that were exercisable as of September 30, 2024.

Refer to Note 7 for warrants classified as liability.

(Amounts expressed in thousands of U.S. dollars except for share and per share data)

Note 12: SHARE-BASED COMPENSATION

The Company has adopted a stock option plan under which the Company may grant SVS stock options. Under the terms of the plan, the maximum number of stock options which may be granted are a total of 15% of the number of shares outstanding assuming conversion of all shares to SVS. The exercise price for stock options issued under the plans is set by the Board of Directors but will not be less than the greater of the closing price of the Company's SVS on the Canadian Securities Exchange on the grant date or the trading day before the grant date. Stock options have a maximum term of 10 years from the date of grant. Stock options vest at the discretion of the Board.

As of September 30, 2024, the Company had 50,916,209 options exercisable and 82,483,506 options outstanding, with exercise prices ranging from C$0.10 to C$1.63. The following table summarizes the Company's stock option activity and related information:

	Number of Options	Weighted Average Price (CAD$)	Weighted Average Years
Balance, December 31, 2023	91,702,766	$ 0.34	3.78
Granted	1,730,000	$ 0.14	3.48
Forfeited/Expired	(10,949,260)	$ 0.49	—
Balance, September 30, 2024	**82,483,506**	$ 0.31	4.56

During the three months ended September 30, 2024 and 2023, the Company recognized share-based compensation of $0.7 million and $2.6 million, respectively. During the nine months ended September 30, 2024 and 2023, the Company recognized share-based compensation of $2.5 million and $3.9 million, respectively. In determining the amount of share-based compensation during the nine months ended September 30, 2024 and 2023, the Company used the Black-Scholes option pricing model to establish the fair value of options granted with the following key assumptions:

	Nine Months Ended September 30,	
	2024	**2023**
Risk-Free Interest Rate	3.78 %	4.02 %
Expected Life (in Years)	3.5 years	3.4 years
Expected Annualized Volatility	96.50 %	86.62 %
Forfeiture Rate	— %	— %
Expected Dividend Yield	—	—

(Amounts expressed in thousands of U.S. dollars except for share and per share data)

Note 13: INCOME TAXES

The following table summarizes the Company's income tax expense:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net loss from continuing operations before income taxes	$ (6,463)	$ (30,627)	$ (30,053)	$ (38,745)
Income tax benefit (expense)	$ —	$ 4,199	$ —	$ (818)

The Company has computed its provision for income taxes under the discrete method which treats the year-to-date period as if it were the annual period and determines the income tax expense or benefit on that basis. The discrete method is applied when application of the estimated annual effective tax rate is impractical because it is not possible to reliably estimate the annual effective tax rate. At this time, there is a high degree of uncertainty in estimating the Company's annual pre-tax income and significant non-deductible expenses so the Company cannot reliably estimate the annual effective tax rate.

Due to its cannabis operations, the Company is subject to the U.S. Internal Revenue Code ("IRC") Section 280E under which the Company is only allowed to deduct expenses directly related to sales of product. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E. Therefore, the effective tax rate can be highly variable and may not necessarily correlate with pre-tax income and provides for effective tax rates that are well in excess of statutory tax rates.

The Company files income tax returns in the U.S. and various state jurisdictions and is subject to examination of its income tax returns by tax authorities in these jurisdictions who may challenge any item on these returns. The corporate statute of limitations for these jurisdictions remains open for the 2019 tax year to the present. Prior to July 31, 2019, the Company was treated as a partnership for income tax purposes and tax income and losses generated from operations were passed through to the Company's individual members.

Note 14: RELATED PARTIES

LI Lending LLC

As discussed in Note 9 above, Linchpin Investors LLC ("Linchpin"), a subsidiary of the Company, and LI Lending LLC entered into a loan agreement dated May 10, 2019, later amended, whereby Linchpin received an up-to $50.0 million loan from LI Lending, of which $45.0 million was drawn as of September 30, 2024. Mr. Gontmakher, a director of the Company and the former Chief Executive Officer, and Roman Tkachenko, a director of the Company, each holds a 14.28% ownership interest in LI Lending. The outstanding balance as of September 30, 2024 of $28.8 million includes notes payable and accrued interest of $29.5 million less debt discount of $0.7 million. See Note 9 for details on the outstanding note payable.

In August 2023, the Company issued warrants to LI Lending to purchase a variable number of SVS wherein each warrant shall be exercisable into one SVS at an exercise price of $0.17 through May 1, 2026. See Note 7 for warrant terms.

In January 2024, the Company issued a warrant to LI Lending to purchase 36,702,127 SVS at an exercise price of C$0.14 through May 1, 2026. The Company also entered into an RSU agreement providing that, in the event of a financing by the Company on or before July 29, 2024 at less than C$0.125 per SVS, LI Lending would be entitled to receive a number of shares necessary to restore it to 18.43% of the voting interests of the Company. No financing that would trigger the RSU had occurred as of July 29, 2024 and the RSU was forfeited as of September 30, 2024. See Note 7 for further information regarding the fair value of the warrants and RSUs.

Note 15: CONTINGENCIES

(a) Cannabis Industry

While marijuana is legal under the laws of several U.S. states (with varying restrictions), the United States 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. As such, there is an inherent risk related to the federal government’s position on cannabis. There is additional risk associated with the Company’s business in cannabis that third-party service providers could suspend or withdraw services and regulatory bodies could impose certain restrictions on the issuer’s ability to operate in the U.S. As of September 30, 2024, Company has not estimated a potential liability related to the possible enforcement of laws against the cannabis industry.

(b) Legal Matters

From time to time, the Company may be involved in certain disputes arising in the ordinary course of business. Such disputes, taken in the aggregate, are not expected to have a material adverse effect on the Company. There are also no proceedings in which any of the Company’s directors, officers, or affiliates is an adverse party or has a material interest adverse to the Company’s interest.

On May 9, 2023, Florival LLC (“Florival”) sued 4Front Ventures in the California Superior Court for the County of Santa Cruz. The lawsuit alleged 4Front Ventures had breached an agreement with Florival under which Island Global Holdings, Inc. (“Island”), a subsidiary of the Company, agreed to purchase the membership interests of licensed cannabis cultivator Gold Coast Gardens, LLC. Florival claimed damages of $0.85 million. 4Front Ventures denied it had any direct liability under the agreement, which was executed two years before 4Front Ventures’ acquisition of Island, and asserted an unclean hands defense on behalf of both 4Front Ventures and Island based on Florival’s inequitable conduct during the litigation. On November 7, 2023, the court entered summary judgment against 4Front Ventures and Island. The Company has appealed the decision. Management has accrued $0.9 million related to this matter as of September 30, 2024.

On September 29, 2023, Teichman Enterprises, Inc. (“Teichman”) sued 4Front California Capital Holdings, Inc. (“4Front CA”), a subsidiary of the Company, and 4Front Ventures in the Superior Court for the County of Los Angeles. The lawsuit alleged 4Front CA had breached a lease agreement ending January 31, 2029 and 4Front Ventures breached its guarantee of the lease. Teichman seeks damages for unpaid rent, marketing expenses, and other amounts totaling $15.5 million. 4Front CA and 4Front Ventures denied the allegations in the complaint and denied that Teichman was entitled to the full amount of damages claimed due to Teichman's obligation to mitigate. The case is in discovery. Based on management's review of the matter, the Company has accrued $2.7 million associated with this legal liability as of September 30, 2024.

Note 16: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The fair value of the Company's cash, accounts receivable, other receivables, accounts payable and accrued expenses approximates carrying value due to their short-term nature. The Company's lease receivables, convertible notes payable, and notes payable approximate fair value due to the instruments bearing market rates of interest. These measurements were identified as Level 1 measurements, due to the proximity of fair value to carrying values. The fair value of stock options granted were estimated based on a Black-Scholes model. The estimated fair value of the derivative liabilities, which represent warrants classified as liabilities, represent Level 1 and 3 measurements.

There were no transfers between fair value levels for the three and nine months ended September 30, 2024 and the year ended December 31, 2023.

(a) Financial Risk Management

The Company is exposed in varying degrees to a variety of financial instruments related risks. The Company's board of directors mitigate these risks by assessing, monitoring and approving the Company's risk management processes.

(b) Credit Risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash, accounts receivable, lease receivables, and other receivables. The risk to cash deposits is mitigated by holding these instruments with regulated financial institutions. Accounts receivable, lease receivables, and other receivables credit risk arises from the possibility that principal and interest due may become uncollectible. The Company mitigates this risk by managing and monitoring the underlying business relationships.

The Company maintains cash with federally insured financial institutions. As of September 30, 2024 and December 31, 2023, the Company exceeded federally insured limits by nil and $0.3 million, respectively. The Company has historically not experienced any losses in such accounts. As of September 30, 2024 and December 31, 2023, the Company held an immaterial amount of cash in a Canadian account that is denominated in C$.

As of September 30, 2024 and December 31, 2023, the maximum credit exposure related to the carrying amounts of accounts receivable, other receivable, and lease receivables was $14.0 million and $12.4 million, respectively.

(c) Liquidity Risk

The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to raise sufficient capital to settle obligations and liabilities when due. 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.

(Amounts expressed in thousands of U.S. dollars except for share and per share data)

The Company has the following gross contractual obligations as of September 30, 2024, which are expected to be payable in the following respective periods:

	Less than 1 year	1 to 3 years	3 to 5 years	Greater than 5 years	Total
Accounts payable and accrued liabilities	$ 26,401	$ 2,062	$ —	$ —	$ 28,463
Convertible notes, notes payable and accrued interest	28,702	40,247	—	—	68,949
Construction finance liability	—	16,000	—	—	16,000
Total	**$ 55,103**	**$ 58,309**	**$ —**	**$ —**	**$ 113,412**

(d) Foreign Exchange Risk

The Company is exposed to exchange rate fluctuations between United States and Canadian dollars. The Company's share price is denominated in Canadian dollars. If the Canadian dollar declines against the United States dollar, the United States dollar amounts available to fund the Company through the exercise of stock options or warrants will be reduced. The Company also has bank accounts with immaterial balances in Canadian dollars. The value of these bank balances if converted to U.S. dollars will fluctuate. While the Company maintains a head office in Canada where it incurs expenses primarily denominated in Canadian dollars, such expenses are a small portion of overall expenses incurred by the Company. The Company does not have a practice of trading derivatives and does not engage in "natural hedging" for funds held in Canada.

Note 17: DISCONTINUED OPERATIONS

During the fiscal quarter ended September 30, 2023, the Company ceased its cultivation and production operations in the state of California (together, the "California operations") as reported under the THC Cannabis segment. The Company concluded that 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. Long-lived assets related to the California operations ceased to be used as of September 30, 2023 and thus considered disposed of other than by sale as of September 30, 2023. The assets associated with the California operations were measured at the lower of their carrying amount or fair value less costs to sell. The Company does not have significant continuing involvement with the California operations outside of the litigation matters disclosed in Note 15.

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.

(Amounts expressed in thousands of U.S. dollars except for share and per share data)

The operating results of the discontinued operations are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	**2023**	**2024**	**2023**
REVENUE				
Revenue from sale of goods	$ —	$ 1,566	$ 3	$ 9,033
Real estate income	—	260	—	411
Total revenues	—	1,826	3	9,444
Cost of goods sold	—	(6,666)	(5)	(21,992)
Gross profit	—	(4,840)	(2)	(12,548)
OPERATING EXPENSES				
Selling, general and administrative expenses	6	1,310	(266)	4,703
Depreciation and amortization	—	42	—	189
Transaction and restructuring related expenses	—	942	—	942
Impairment of goodwill and intangible assets	—	12,856	—	12,856
(Gain) Loss on disposal	—	12,747	—	12,747
Total operating expenses	6	27,897	(266)	31,437
Income (loss) from operations	(6)	(32,737)	264	(43,985)
Other income (expense)				
Interest expense	—	—	—	(32)
Other	66	(2,930)	66	(1,371)
Total other income (expense), net	66	(2,930)	66	(1,403)
Net income (loss) from discontinued operations before income taxes	60	(35,667)	330	(45,388)
Income tax expense	—	(1)	—	(1)
Net income (loss) on discontinued operations	**$ 60**	**$ (35,668)**	**$ 330**	**$ (45,389)**

(Amounts expressed in thousands of U.S. dollars except for share and per share data)

The carrying amounts of assets and liabilities in the disposal group are summarized as follows:

	September 30, 2024	December 31, 2023
Carrying amount of the assets included in discontinued operations:		
Current assets:		
Cash	$ —	$ 63
Accounts receivable, net	31	(49)
Other receivables	108	16
Inventory	30	33
Prepaid expenses and other assets	35	—
Total current assets [(1)]	204	63
Intangible assets, net	738	738
Deposits	14	14
Total non-current assets [(1)]	752	752
TOTAL ASSETS OF THE DISPOSAL GROUP	**$ 956**	**$ 815**
Carrying amount of the liabilities included in discontinued operations:		
Current liabilities:		
Accounts payable	3,397	3,552
Accrued expenses and other current liabilities	4,756	4,752
Taxes payable	72	72
Current portion of contract liabilities	903	48
Total current liabilities [(1)]	9,128	8,424
Long term notes payable	(1)	5
Long term accounts payable	255	330
Contract liabilities	1,425	2,280
Total non-current liabilities [(1)]	1,679	2,615
TOTAL LIABILITIES OF THE DISPOSAL GROUP	**$ 10,807**	**$ 11,039**

(1) The assets and liabilities of the disposal group are classified as current on the consolidated balance sheets as of September 30, 2024 and December 31, 2023 because the disposal had already occurred as of the reporting date.

(Amounts expressed in thousands of U.S. dollars except for share and per share data)

Note 18: SEGMENT INFORMATION

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 ASC 280, all previously reported information as presented herein has been restated to conform to the current period presentation. As of September 30, 2024, the Company had three reportable segments as follows:

- Illinois – Cultivation, manufacturing, distribution and retail of cannabis and cannabis derived goods within the state of Illinois, providing a vertically integrated supply chain to serve both medical and recreational markets;
- Massachusetts – Cultivation, manufacturing, distribution and retail of cannabis and cannabis derived goods within the state of Massachusetts, providing a vertically integrated supply chain to serve both medical and recreational markets; and
- Corporate – The aggregation of all other operating segments, including the following: sale of CBD products to third-party consumers, leasing of real estate in the state of Washington, and other corporate activities.

The below table presents financial results of each segment for the three and nine months ended September 30, 2024 and 2023, as well as total assets as of September 30, 2024 and December 31, 2023:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	**2023**	**2024**	**2023**
Net Revenues				
Illinois	$ 7,255	9,058	$ 23,969	$ 29,172
Massachusetts	7,883	10,455	24,117	34,794
Corporate	1,994	3,489	6,544	12,490
Total Net Revenues	**$ 17,132**	**23,002**	**$ 54,630**	**$ 76,456**
Net Income (Loss) Attributable to Shareholders				
Illinois	$ (1,429)	(1,242)	$ (716)	$ (3,604)
Massachusetts	(350)	(563)	(1,838)	6,288
Corporate	(4,684)	(24,623)	(27,499)	(42,247)
Total Net Loss From Continuing Operations	**$ (6,463)**	**(26,428)**	**$ (30,053)**	**$ (39,563)**

	September 30, 2024	**December 31, 2023**
Assets		
Illinois	$ 125,770	$ 104,333
Massachusetts	117,369	121,274
Corporate	34,944	38,347
Total Assets	**$ 278,083**	**$ 263,954**

(Amounts expressed in thousands of U.S. dollars except for share and per share data)

Note 19: SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The below table presents detailed information of selling, general and administrative expenses 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
Rent and lease related expenses	$ 1,471	$ 5,204	$ 7,766	$ 13,591
Salaries and benefits	3,626	6,788	10,911	13,610
Share-based compensation	688	3,678	2,594	4,912
Professional services	1,811	651	4,650	2,781
Bad debt expense	68	6,523	(84)	6,852
Licenses, fees and taxes	365	900	957	1,307
Advertising and promotions	475	225	1,025	1,160
Security expenses	380	343	1,068	1,029
Other general and administrative expenses	1,035	(1,905)	3,831	4,181
Total Selling, General, and Administrative	**$ 9,919**	**$ 22,407**	**$ 32,718**	**$ 49,423**

Note 20: SUBSEQUENT EVENTS

The Company has evaluated subsequent events through November 14, 2024, which is the date these condensed consolidated interim financial statements were issued, and has concluded that no subsequent events have occurred that would require recognition in the condensed consolidated financial statements or disclosure in the notes to the condensed consolidated interim financial statements.

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.

Due to the existence of the above material weakness, management, including the CEO and CFO, has concluded our internal control over financial reporting was not effective as of September 30, 2024. This material weakness creates a possibility that a material misstatement to the consolidated financial statements will not be prevented or detected on a timely basis.

Remediation of Material Weaknesses in Internal Control over Financial Reporting

The Company continues to strengthen our internal control over financial reporting and is committed to ensuring that such controls are designed and operating effectively. The Company is implementing process and control improvements to address the above material weakness as follows:

- The Company will obtain additional resources, both in accounting staff and related technology, needed to timely perform closing and audit related procedures and align identified resources.

The material weakness in the Company's internal control over financial reporting will not be considered remediated until the remediated controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. The Company is working to have the material weaknesses remediated as soon as possible. However, there is no assurance that the remediation will be fully effective. As described above, the material weakness has not been fully remediated as of the filing date of this Form 10-Q. If these remediation efforts do not prove effective and control deficiencies and material weaknesses persist or occur in the future, the accuracy and timing of the Company's financial reporting may be materially and adversely affected.

Inherent Limitations on Effectiveness of Controls

Management recognizes that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud or error, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the nine months ended September 30, 2024 that have materially affected, or that are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

On May 9, 2023, Florival LLC (“Florival”) sued 4Front Ventures in the California Superior Court for the County of Santa Cruz. The lawsuit alleged 4Front Ventures had breached an agreement with Florival under which Island Global Holdings, Inc. (“Island”), a subsidiary of the Company, agreed to purchase the membership interests of licensed cannabis cultivator Gold Coast Gardens, LLC. Florival claimed damages of $0.85 million. 4Front Ventures denied it had any direct liability under the agreement, which was executed two years before 4Front Ventures’ acquisition of Island, and asserted an unclean hands defense on behalf of both 4Front Ventures and Island based on Florival’s inequitable conduct during the litigation. On November 7, 2023, the court entered summary judgment against 4Front Ventures and Island. The Company has appealed the decision. Management has accrued $0.9 million related to this matter as of September 30, 2024.

On September 29, 2023, Teichman Enterprises, Inc. (“Teichman”) sued 4Front California Capital Holdings, Inc. (“4Front CA”), a subsidiary of the Company, and 4Front Ventures in the Superior Court for the County of Los Angeles. The lawsuit alleged 4Front CA had breached a lease agreement ending January 31, 2029 and 4Front Ventures breached its guarantee of the lease. Teichman seeks damages for unpaid rent, marketing expenses, and other amounts totaling $15.5 million. 4Front CA and 4Front Ventures denied the allegations in the complaint and denied that Teichman was entitled to the full amount of damages claimed due to Teichman's obligation to mitigate. The case is in discovery. Based on management's review of the matter, the Company has accrued $2.7 million associated with this legal liability as of September 30, 2024.

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.

Item 6. Exhibits

Exhibit Number	Exhibit Description	Form	Filing Date	Exhibit Number	Filed Herewith
31.1	Certification of the Chief Executive Officer (Principal Executive Officer) pursuant to Rule 13a-14(a) of the Securities Exchange Act				x
31.2	Certification of the Chief Financial Officer (Principal Financial Officer) pursuant to Rule 13a-14(a) of the Securities Exchange Act				x
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Rule 13a-14(b) Under the Securities Exchange Act of 1934 and Section 1350 of Chapter 60 of Title 18 of the United States Code *				x
101.INS	XBRL Instance Document				
101.SCH	XBRL Taxonomy Extension Schema Document				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)				

\+ Indicates management contract or compensatory plan.

* This certification is being furnished solely to accompany this Quarterly Report pursuant to 18 U.S.C. Section 1350, and it is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934 and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

4FRONT VENTURES CORP.

Date: November 14, 2024

By: */s/ Andrew Thut*

Andrew Thut
Chief Executive Officer
(Principal Executive Officer)

Date: November 14, 2024

By: */s/ Michael Kronberg*

Michael Kronberg
Interim Chief Financial Officer
(Principal Financial Officer)