



**RIV** CAPITAL

**RIV CAPITAL INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS**

FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2023 AND 2022

Date: November 28, 2023

RIV Capital Inc. (the “Company” or “RIV Capital”) is the direct parent company of RIV Capital US Corporation and RIV Capital Corporation (“RCC”), and exercises financial control over Etain, LLC (“Etain LLC”). References in this Management’s Discussion and Analysis (“MD&A”) to “RIV Capital” or the “Company” refer to RIV Capital Inc. and/or its subsidiaries, as applicable. RIV Capital is a publicly-traded corporation, incorporated under the laws of the Province of Ontario and located at 2504 Scotia Plaza, 40 King Street West, Toronto, Ontario, M5H 3Y2. The Company’s class A common shares (the “Common Shares”) are listed on the Canadian Securities Exchange under the trading symbol “RIV”.

RIV Capital is an investment and acquisition firm specializing in cannabis. The Company aims to capitalize on the building momentum in the United States (“U.S.”) cannabis market by acquiring, investing in, and developing operators and brands across financially and strategically attractive markets to create a multistate platform. As of the date hereof, in light of the Etain Acquisition (as defined herein) and the agreements referenced under the heading “Company Overview – Etain Acquisition and the Second Hawthorne Investment”, following the Initial Etain Closing (as defined herein), the Company (through Etain (as defined herein)) may be considered to be directly engaged in the cultivation or distribution of cannabis in the U.S. for purposes of the Canadian Securities Administrators Staff Notice 51-352 – *Issuers with U.S. Marijuana-Related Activities* (the “Staff Notice”). Please refer to “Regulatory Framework” below for additional information.

This MD&A reports on the financial condition and results of operations of RIV Capital for the three and six months ended September 30, 2023, and 2022. This MD&A should be read in conjunction with the Company’s unaudited condensed interim consolidated financial statements for the three and six months ended September 30, 2023 and 2022 (the “Interim Consolidated Financial Statements”), including the accompanying notes, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. The Interim Consolidated Financial Statements have not been reviewed by the Company’s auditors.

This MD&A was prepared with reference to National Instrument 51-102 – *Continuous Disclosure Obligations* of the Canadian Securities Administrators. On August 15, 2023, the Company approved a change in its fiscal year end from March 31 to December 31 to align its financial statement and continuous disclosure requirements with the majority of its industry peers, which operate on a calendar fiscal year end. This MD&A provides information for the three and six months ended September 30, 2023, and 2022. This MD&A is dated November 28, 2023.

By their nature, the Interim Consolidated Financial Statements do not include all of the information required for full annual financial statements. Accordingly, this MD&A should be read in conjunction with the Company’s audited consolidated financial statements for the years ended March 31, 2023 and 2022, and the notes thereto (the “Annual Consolidated Financial Statements”), and the related MD&A for the three months and years ended March 31, 2023 and 2022 (the “Annual MD&A”), each dated June 14, 2023. Generally, information contained within the Annual MD&A is not discussed in this MD&A if it remains substantially unchanged.

Additional information related to the Company, including this MD&A, the Interim Consolidated Financial Statements, the Annual MD&A, the Annual Consolidated Financial Statements, the Company’s annual information form dated June 14, 2023 (the “AIF”), and the Company’s press releases, have been filed electronically under the Company’s profile on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca) and also on the Company’s website at [www.rivcapital.com](http://www.rivcapital.com).

The Interim Consolidated Financial Statements and this MD&A have been reviewed by the Company’s audit committee (the “Audit Committee”) and approved by the Company’s board of directors (the “Board”) on November 28, 2023.

Unless otherwise indicated, all financial information in this MD&A is presented in thousands of dollars, except share and per share amounts. All amounts are expressed in U.S. dollars and references to “\$” are to U.S. dollars and references to “C\$” are to Canadian dollars.

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains certain “forward-looking information” within the meaning of applicable Canadian securities laws. All information, other than statements of historical fact, included in this MD&A that address activities, events, or developments that the Company expects or anticipates will or may occur in the future, including things such as future business strategy, competitive strengths, goals, expansion, and growth of the Company’s and the Investees’ (as defined herein) businesses, operations, plans, and other matters, is forward-looking information. To the extent any forward-looking information in this MD&A constitutes “financial outlooks” within the meaning of applicable Canadian securities laws, the reader is cautioned that this information may not be appropriate for any other purpose and the reader should not place undue reliance on such financial outlooks. Forward-looking information is often identified by the words “may”, “would”, “could”, “should”, “will”, “intend”, “plan”, “anticipate”, “believe”, “estimate”, “expect”, “seek”, “positioned”, “project”, “risk” or similar expressions and includes, among others, statements relating to:

- The Company’s expectations regarding being considered to be directly engaged in the cultivation or distribution of cannabis in the U.S. for purposes of the Staff Notice (as defined herein);
- the Company’s expectations regarding the reliability of independent sources of market and industry data;
- the evolution of cannabis markets globally and the potential for global investment opportunities to arise;
- the Company’s expectations regarding legislation, regulations, and licensing related to various cannabis markets and product offerings;
- the potential time frame for the implementation of legislation and related regulations regarding the production, sale, and use of hemp and hemp-derived products in the U.S. and the potential form that implementation of the legislation and related regulations will take;
- the potential time frame for the implementation of legislation for a regulated medical or adult-use market, or related activities, in the U.S. and internationally, and the potential form that implementation of the legislation will take, including the method of delivery and framework adopted or to be adopted in the U.S. or various international jurisdictions, as applicable;
- the Company’s expectations regarding recent regulatory and legislative changes in the U.S., including but not limited to, President Biden’s recently announced marijuana-related initiatives, the HHS’ (as defined herein) recommendations to the DEA (as defined herein) that marijuana be rescheduled under the CSA (as defined herein), the CCB’s (as defined herein) recently approved regulations for the New York adult-use cannabis market and proposed amendments to New York’s medical cannabis regulations, and licensing application forms and guidance for adult-use license types;
- the Company’s expectations regarding the number and types of adult-use and medical cannabis licenses that may be issued by the CCB and the impact that such license awards may have on the Company’s expectations, business, and strategy;
- the Company’s expectations with respect to the SAFER Banking Act (as defined herein);
- the impact of legislative changes related to cannabis on the ability of the Company to further invest or hold interests in other entities in the U.S. or any other jurisdiction;
- the size and roll out of the medical and adult-use cannabis markets in various jurisdictions;
- the Company’s expectations regarding the anticipated benefits of its strategic partnership with ScottsMiracle-Gro (as defined herein);
- the plans, strategies, and objectives of the Company and the Investees, including the expected timing for implementing such plans, strategies, and objectives, and expectations regarding international investment opportunities and the Company’s ability to enter and participate in such opportunities;
- the Investees’ capital needs and potential additional investments by the Company in such Investees;
- the Company’s expectations regarding the U.S. cannabis market;
- the Company’s expectations regarding opportunities created by the current political and regulatory conditions in the U.S.;
- the Company’s expectations regarding sales trends resulting from medical and adult-use programs being adopted in U.S. states;
- the Company’s expectations regarding the changing political environment in the U.S.;
- the Company’s expectations regarding the uncertainty and constraints faced by other U.S. cannabis market participants, including the ability to access capital;
- the Company’s expectations regarding its ability to grow in the U.S. cannabis market, including growth resulting from the CGC Transaction (as defined herein), the Hawthorne Investments (as defined herein), and the Etain Acquisition;
- the Company’s expectations regarding the strength of its balance sheet and its knowledge of the U.S. cannabis landscape, including the ability of such knowledge and the strength of the balance sheet to allow the Company to grow in the U.S. cannabis market;
- the Company’s expectations and plans surrounding the shift in its strategic focus to the U.S. cannabis market;

- the Company's expectations of the anticipated benefits of the Etain Acquisition and strategic rationale for acquiring Etain (as defined herein), including expectations regarding legal cannabis market opportunities in New York, the benefits of the New York cannabis market, and the value of New York cannabis licenses;
- the impact of recent developments in the New York cannabis market, including the impact of such developments on New York cannabis license holders, the purchase price paid in the Etain Acquisition, and market perceptions of the value of New York cannabis licenses;
- expectations regarding the launch of adult-use sales in the state of New York;
- the Company's expectations regarding Etain's business, including its market share, sales, brand, products, and locations;
- the Company's expectations with respect to the expansion of Etain LLC's (as defined herein) Chestertown facility and the impact of the expansion on the existing cultivation and production footprint;
- the anticipated demand of the adult-use cannabis market in New York;
- Etain LLC's ability to evaluate new product formats to meet the demands of the evolving cannabis market;
- the Company's expectations regarding its competitive advantage in respect of its liquidity and available capital, including having sufficient capital to execute its business plan in New York and invest in opportunities throughout the U.S. cannabis market;
- the Company's expectations regarding the development of the Flagship Facility (as defined herein) in upstate New York and expectations related thereto, including timing for completion thereof and expectations related to the Zephyr Lease (as defined herein) and related accounting treatment;
- estimates with respect to the Company's commitment to fund certain construction costs pursuant to the Zephyr Lease;
- the Company's expectations regarding its capital investments in Etain's New York cannabis operations;
- the ability of the Company to achieve its growth objectives in a capital efficient manner;
- the Company's expectations regarding the special licensing fees that Etain LLC will be required to pay to the OCM (as defined herein) in accordance with the regulations to operate in New York State's adult-use cannabis market pursuant to MRTA (as defined herein) Section 63-1a;
- the expansion of Etain LLC's retail footprint;
- the Company's expectations regarding its shareholders, including maximizing shareholder value;
- the Company's expectations with respect to its future financial results, and terms of strategic initiatives and strategic agreements;
- the Company's expectations with respect to its business activities and future financial and operating performance, including with respect to the impact of the Investees' operating results and the anticipated cash profitability of its business;
- the Company's expectations with respect to the business activities, products, and future financial and operating performance of its Investees;
- the Company's exposure to risks related to the cannabis industry, including in light of the Etain Acquisition;
- the Company's exposure to risks related to the ability of Investees to make contractual payments owed to it;
- expectations regarding timing and receipt of cash inflows from certain Investees, where the Company has recognized a provision for credit losses on the related receivable;
- the Company's expectations about the growth and future market volatility of the cannabis industry;
- changes and trends in the Company's industry or the global economy;
- the potential impact of infectious diseases, including the COVID-19 pandemic;
- future investments, the need for additional financing, the potential for additional dilution as a result of issuing additional equity securities, other business activities, and corporate development, including potential investment structures, including by way of investments in, or acquisitions of, companies that may have operations in the U.S.;
- the Company's expectations with respect to future expenditures and capital activities, including the ability to access the capital markets and obtain additional financing on terms acceptable to the Company, if at all;
- the Company's expectations regarding additional facility equipment purchases from affiliates of The Hawthorne Collective (as defined herein);
- the Company's liquidity position and the Company's belief that it has sufficient capital resources for the next twelve months;
- the Company's expectations regarding its ability to strengthen its financial position with future equity or debt financings, the divestment of certain investments, or other liquidity events;
- the management of the Company's portfolio, including its growth, optimization, and capital allocation;
- the potential for the Company to invest in additional financing rounds pursuant to pre-emptive rights granted to the Company by certain Investees;
- the Company's dividend policy and its current stated goal to reinvest retained earnings, if any;
- statements about expected use of proceeds from fundraising activities;
- the assumptions and expectations described in the Company's critical accounting policies and estimates;
- the adoption and impact of certain accounting pronouncements;

- significant deficiencies identified in the internal control over financial reporting of Etain LLC and the effective remediation thereof; and
- the Company's expectation that the tax attributes related to goodwill and intangible assets acquired in the Etain Acquisition will be subject to IRC Section 280E (as defined herein).

Investors are cautioned that forward-looking information is not based on historical fact, but instead is based on the reasonable assumptions and estimates of management of the Company at the time they are made and involve known and unknown risks, uncertainties, and other factors that may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking information. Such factors include, but are not limited to, the factors discussed in the section entitled "Financial Risk Management" herein and the section entitled "Risk Factors" in the AIF. Financial outlooks, as with forward-looking information generally, are, without limitation, based on assumptions and subject to various risks as discussed in the section entitled "Financial Risk Management" herein and the section entitled "Risk Factors" in the AIF. The Company's actual financial position and results of operations may differ materially from management's current expectations. Although the Company has attempted to identify important factors that could cause actual results to differ materially from statements contained in forward-looking information, there may be other factors that cause results to not be as anticipated, estimated, or intended. There can be no assurance that such statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. Forward-looking information is made as of the date given and the Company does not intend or undertake any obligation to publicly revise or update any forward-looking information that is included in this MD&A, whether as a result of new information, future events, or otherwise, other than as required by applicable law.

### **THIRD-PARTY INFORMATION**

Market and industry data used throughout this MD&A was obtained from various publicly available sources. Although the Company believes that these independent sources are generally reliable, the accuracy and completeness of such information is not guaranteed and has not been verified due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process, and the limitations and uncertainty inherent in any statistical survey of market size, conditions, and prospects. The Company does not make any representation as to the completeness or accuracy of such information.

### **TRADEMARKS, TRADE NAMES, AND COPYRIGHTS**

This MD&A includes trademarks, trade names, and material subject to copyright, which are protected under applicable intellectual property laws and are the property of the Company. Solely for convenience, the Company's trademarks, trade names, and copyrighted material referred to in this MD&A may appear without the TM, ®, or © symbol, but such references are not intended to indicate, in any way, that the Company will not assert, to the fullest extent under applicable law, its rights to these trademarks, trade names, and copyrights. All other trademarks used in this MD&A are the property of their respective owners.

## **COMPANY OVERVIEW**

RIV Capital is an investment and acquisition firm specializing in cannabis. The Company's original focus was on strategic transactions with companies licensed under the Canadian federal regulatory framework for cannabis cultivation, processing, distribution, and sale (currently, the *Cannabis Act* (Canada) and *Cannabis Regulations*, as amended (collectively, the "Cannabis Act")) and ancillary businesses related to the cannabis industry. In connection with the completion of the CGC Transaction (as defined herein), the Company shifted its strategic focus to the U.S. cannabis market. The Company aims to capitalize on the building momentum in the U.S. cannabis market and pursue large investment or acquisition opportunities in established U.S.-based operating businesses. On March 30, 2022, the Company announced the Etain Purchase Agreements (as defined herein) to acquire Etain and on April 22, 2022, and December 15, 2022, the Initial Etain Closing (as defined herein) and the Second Etain Closing (as defined herein), respectively, occurred. A summary of certain key events in the Company's corporate history is provided below.

### **AIM2 Ventures Inc. Qualifying Transaction**

The Company was incorporated under the name "AIM2 Ventures Inc." by articles of incorporation pursuant to the *Business Corporations Act* (Ontario) (the "OBCA") on October 31, 2017. On September 17, 2018, the Company completed the acquisition of 100% of the issued and outstanding securities of Canopy Rivers Corporation ("CRC PrivateCo") in connection with a business combination involving the Company and CRC PrivateCo, and concurrently changed its name to "Canopy Rivers Inc."

### **CGC Transaction**

Prior to the completion of the CGC Transaction, the Company was controlled by Canopy Growth Corporation ("CGC"). On February 23, 2021, the Company, RCC, CGC, and a wholly-owned subsidiary of CGC completed a plan of arrangement under the OBCA pursuant to which, among other things, the Company disposed of certain assets held by RCC in exchange for cash, common shares in the capital of CGC, and the cancellation of all shares in the capital of the Company held by CGC (collectively, the "CGC Transaction"), and concurrently changed its name to "RIV Capital Inc." Following the completion of the CGC Transaction, the Company has a single class of common shares (the Common Shares, as defined above).

### **Initial Hawthorne Investment**

As further discussed under "Description of Business, Industry, and Strategy – U.S. Cannabis Platform – Strategic Shift to the U.S. Cannabis Market" below, in early 2021, RIV Capital embarked upon a strategic shift to the U.S. cannabis market. On August 24, 2021, The Hawthorne Collective, Inc. ("The Hawthorne Collective"), a newly-formed cannabis-focused subsidiary of The Scotts Miracle-Gro Company ("ScottsMiracle-Gro"), invested \$150,000 in the Company pursuant to an unsecured convertible promissory note (the "Convertible Note I") issued by RIV Capital (the "Initial Hawthorne Investment"). The Initial Hawthorne Investment established RIV Capital as ScottsMiracle-Gro's preferred vehicle for cannabis-related investments not currently under the purview of The Hawthorne Gardening Company (a separate subsidiary of ScottsMiracle-Gro).

### **Etain Acquisition and the Second Hawthorne Investment**

On March 30, 2022, the Company announced definitive agreements (the "Etain Purchase Agreements") to acquire (the "Etain Acquisition") ownership of Etain IP LLC ("Etain IP") and control for financial reporting purposes of Etain LLC, owner and operator of legally licensed cannabis cultivation and retail dispensaries in the state of New York (together, the "Etain Companies" or "Etain"), for \$247,006 (subject to certain adjustments) payable through a combination of cash and newly issued Common Shares. Under the terms of the Etain Purchase Agreements, \$212,219 of the purchase price was to be satisfied in cash (subject to customary post-closing adjustments) and \$34,787 of the purchase price was to be satisfied by the issuance of Common Shares.

The Etain Acquisition was structured to close in two stages. On April 22, 2022, the initial closing of the Etain Acquisition (the "Initial Etain Closing") was completed. In connection with the Initial Etain Closing, RIV Capital acquired the non-regulated portion of the Etain Companies through a combination of cash in the amount of \$169,775 (subject to customary post-closing adjustments) and 21,092,335 newly issued Common Shares.

On April 22, 2022, concurrent with the Initial Etain Closing, The Hawthorne Collective completed an additional \$25,000 unsecured convertible promissory note (the "Convertible Note II", and together with the Convertible Note I, the "Convertible Notes") investment in the Company pursuant to rights existing under the Initial Hawthorne Investment (the "Second Hawthorne Investment", and together with the Initial Hawthorne Investment, the "Hawthorne Investments").

To finance the cash portion of the consideration payable pursuant to the Initial Etain Closing, the Company utilized proceeds received from the Hawthorne Investments.

On November 21, 2022, the New York State Cannabis Control Board (the “CCB”) and the New York State Office of Cannabis Management (the “OCM”) approved Etain LLC’s change of control request. On December 15, 2022, the Company completed the Etain Acquisition (the “Second Etain Closing”). In connection with the Second Etain Closing, the Company satisfied the remainder of the purchase price through a combination of cash in the amount of \$42,444 (subject to customary post-closing adjustments) and 5,273,084 newly issued Common Shares.

**Change in Fiscal Year End**

On August 15, 2023, the Company filed a Notice of Change in Year End to change its fiscal year end from March 31 to December 31. As a result, the Company’s fiscal year ending December 31, 2023, will be comprised of three quarters for a total of nine months, beginning on April 1, 2023. Further details regarding the change in fiscal year end, including the length and ending dates of the Company’s financial reporting periods, are available in the Company’s Notice of Change in Year End prepared in accordance with Section 4.8 of National Instrument 48-102 and filed on the Company’s SEDAR+ profile at [www.sedarplus.ca](http://www.sedarplus.ca).

**Present Day**

The table below lists, as of the date of this MD&A, the Company, its active controlled material subsidiaries, their respective jurisdictions of incorporation or formation, and the percentage of voting securities of each that are beneficially owned, controlled, or directed by the Company:

Summary of the Company and its Active Subsidiaries		
Name of Company	Place of Incorporation or Formation	Ownership %
RIV Capital Inc.	Canada	n/a
RCC	Canada	100%
2683922 Ontario Inc.	Canada	100%
RIV Capital US Corporation	U.S.	100%
RIV Capital US Holdings LLC	U.S.	100%
RIV Capital US Real Estate LLC	U.S.	100%
RIV Capital US Services LLC	U.S.	100%

Following the Initial Etain Closing, the following events occurred: i) the assets of Etain IP were transferred to the Company’s U.S. subsidiaries; ii) Etain IP was converted from a limited liability company to a corporation named “Etain IP Corp.”; iii) the Company’s former wholly-owned indirect subsidiary, RIV Capital US Corporation, dissolved and transferred its assets to Etain IP Corp.; and iv) Etain IP Corp. changed its name to RIV Capital US Corporation.

In addition, the Company, through its subsidiaries, provides support services to Etain LLC, a legally licensed cannabis cultivation and retail dispensary operator in the state of New York. The Company has also entered into agreements with Etain LLC that prevent Etain LLC from taking certain actions or omitting to take certain actions where to do so would be contrary to the economic benefits that the Company expects to derive from its relationship with Etain LLC. For financial reporting purposes, the Company is considered to control an entity when it has power to direct certain activities of an entity; is exposed, or has rights to, variable returns from its involvement with an entity; and has the ability to affect those returns. The Company has assessed that as of the Initial Etain Closing, it controls Etain LLC for financial reporting purposes.

Furthermore, on December 15, 2022, the Company, through its subsidiary RIV Capital US Holdings LLC, entered into a convertible promissory note agreement with Allgro Holdings LLC (“Allgro”), a member-managed limited liability company that, following the Second Etain Closing, holds the membership interests in Etain LLC. The consideration received by Allgro from the Company’s convertible note investment, in an aggregate principal amount of \$5,500, represented the sole source of financing used by Allgro to complete the acquisition of Etain LLC on December 15, 2022. Pursuant to the convertible promissory note agreement, the Company is afforded substantive voting rights. Accordingly, the Company has assessed that as of the Second Etain Closing, it controls Allgro for financial reporting purposes.

## DESCRIPTION OF BUSINESS, INDUSTRY, AND STRATEGY

### **U.S. Cannabis Platform**

#### **Strategic Shift to the U.S. Cannabis Market**

On February 23, 2021, the Company completed the CGC Transaction. Upon completion of the CGC Transaction, the Board, in consultation with management and external advisors, comprehensively re-evaluated the Company's business and investment strategy. As a result, the Company shifted its strategic focus to potential material investments in, or acquisitions of, established operating businesses in the U.S. cannabis market.

As RIV Capital embarked upon its strategic shift to the U.S. cannabis market, the Company, in an effort to enhance the differentiation of the platform and strengthen its positioning for future operational success, established a strategic partnership with ScottsMiracle-Gro through The Hawthorne Collective. As discussed above under "Company Overview – Initial Hawthorne Investment", on August 24, 2021, The Hawthorne Collective invested \$150,000 in the Company pursuant to the Convertible Note I issued by the Company.

After completion of the Initial Hawthorne Investment, the Company continued to evaluate opportunities for transactions with U.S. cannabis businesses. These efforts culminated in the announcement on March 30, 2022, of the Etain Purchase Agreements to acquire ownership of Etain IP and control for financial reporting purposes of Etain LLC, as discussed above under "Company Overview – Etain Acquisition". On April 22, 2022, the Initial Etain Closing occurred and RIV Capital acquired the non-regulated portion of the Etain Companies. In addition, The Hawthorne Collective purchased Convertible Note II for \$25,000 pursuant to rights existing under the Initial Hawthorne Investment. To finance the cash portion of the consideration payable pursuant to the Initial Etain Closing, the Company utilized proceeds received from the Hawthorne Investments. On November 21, 2022, the CCB approved Etain LLC's change of control request and on December 15, 2022, the Second Etain Closing occurred, with the Company satisfying the remaining cash and share consideration pursuant to the Etain Acquisition.

The Company believes that the market opportunity in the U.S. continues to be significant, and that current political and regulatory conditions present a unique opportunity for entities seeking and willing to deploy capital into cannabis businesses in the U.S. The U.S. cannabis market is currently comprised of 24 states, plus the District of Columbia, where cannabis is legal for adult use and 41 states, plus the District of Columbia, where cannabis is legal for medical use, representing a large addressable population. According to estimates published by MJBizDaily in April 2023, the country's legal cannabis sales are expected to surpass \$33 billion in 2023. The Company expects sales to trend higher as a result of a continuation of medical and adult-use programs rolling out across states and other favorable regulatory momentum. Despite the changing political environment, many participants in the U.S. cannabis market continue to experience uncertain and constrained access to capital. Accordingly, the Company believes that, with the completion of the CGC Transaction, the Hawthorne Investments, and the Etain Acquisition, it is well-positioned with its strong balance sheet and existing expertise and knowledge of the U.S. cannabis landscape to continue to grow in the U.S. market.

#### **New York: Etain**

The State of New York's medical cannabis program was introduced in July 2014 when former Governor Andrew Cuomo signed the Compassionate Care Act (the "CCA"), which legalized medical cannabis oils for patients with certain qualifying conditions.

On March 31, 2021, the New York legislature passed the Marijuana Regulation and Taxation Act (the "MRTA"), legalizing adult-use cannabis in the State of New York and establishing a regulatory framework for medical and adult-use cannabis and hemp. Under the MRTA, the CCA provisions were repealed and authority over medical cannabis was transferred from the New York State Department of Health ("NYDOH") to the CCB and the OCM. On February 22, 2023, the OCM issued final regulations to govern medical cannabis, which replaced the previous medical regulations promulgated by the NYDOH. On July 19, 2023, the OCM recommended and the CCB approved proposed amendments to align the adopted medical regulations with the adult-use regulations. The amended medical regulations are subject to a 60-day public comment period, which commenced on November 8, 2023, and ends on January 8, 2024.

On December 14, 2022, the CCB filed proposed regulations for the New York adult-use cannabis market, including the rules governing ROs' (as defined herein) transition to the adult-use market. The public comment period on the proposed adult-use regulations closed on February 13, 2023. On June 14, 2023, the CCB filed a revised package of adult-use regulations, incorporating feedback from the public comment period that ended on February 13, 2023. The public comment period on the revised adult-use regulations closed on July 31, 2023, and CCB adopted final adult-use regulations on September 27, 2023.



Etain LLC is a vertically-integrated cannabis company operating in the state of New York. It was founded as a women- and family-owned company in 2015 and is one of eleven Registered Organizations (“ROs”) licensed to sell medical cannabis in New York State. As a RO, Etain LLC’s license allows for the cultivation, processing, and dispensing of medical cannabis products. As of the date of this MD&A, Etain LLC operates a cultivation and processing facility in Chestertown, as well as four retail dispensaries in the State of New York.

### Cultivation and Production

Etain LLC currently operates a cultivation and production facility located in Chestertown, New York, a hamlet with approximately 700 residents in the Adirondack Mountains. Constructed in 2015, the original approximately 20,000 square foot facility is comprised of approximately 8,100 square feet of rooms dedicated for flowering and includes two smaller extraction labs and a larger production floor, out of which Etain LLC manufactured its portfolio of medicated cannabis products (dried flower, pre-rolls, vaporizers, capsules, tinctures, powders, lozenges, lotions, and oral sprays).

During the six months ended September 30, 2023, the Chestertown facility substantially completed a significant expansion (the “Chestertown Expansion”). The Chestertown Expansion includes approximately 28,800 square feet of additional rooms dedicated for flowering with eight new hybrid greenhouse bays, as well as new production space to address the anticipated demands of the impending adult-use market in New York. The Company is in the process of ramping up usage of the new greenhouse bays and expanded production space, including commissioning new production machinery to enhance operational efficiencies.

On August 23, 2022, the Company entered into a lease agreement with Zephyr (the “Zephyr Lease”), a leading California-based developer, for the development and operation of a planned new flagship cannabis cultivation and production facility in Buffalo, New York (the “Flagship Facility”). Under the lease agreement, Zephyr will develop and lease to the Company two buildings totaling approximately 75,000 square feet. On August 1, 2023, the Company announced that the OCM had reviewed and approved Etain’s request for the Flagship Facility, which will be subleased to Etain LLC upon substantial completion of the construction of the buildings. The initial term of the lease is for 15 years and is anticipated to commence upon substantial completion of construction of the buildings. As of the date of this MD&A, the exterior elements of the structure are nearing completion and focus has shifted to commencing work on tenant improvements. See “Commitments and Contingencies” below for additional information.

### Retail

Etain LLC operates four medical cannabis dispensaries in the State of New York under the “Etain” banner, which are focused on delivering superior patient experience through high-engagement patient interaction and a consultative, transparent, and education-forward approach to dispensing medical cannabis. Etain LLC’s current dispensary footprint includes the following locations:

Summary of Etain Dispensaries			
Location	Address	Year Opened	Description
Manhattan	242 E 58 <sup>th</sup> Street, New York, NY	2020	The dispensary is Etain LLC’s flagship retail location in Manhattan designed by Clodagh near highly-trafficked New York landmarks and retail stores. The dispensary services an area with an addressable population of approximately 8 million people in Manhattan, Queens, Brooklyn, and the Bronx.
Kingston	445 Onteora Trail, NY-28, Kingston, NY	2016	The dispensary was the first medical cannabis dispensary to open in New York. It services an area with an addressable population of approximately 65,000 people in Ulster County, with a reach extending into surrounding counties.
Syracuse	2140 Erie Blvd E, Syracuse, NY	2016	The dispensary is located off of Interstate 690 and near high-traffic retail stores. It services an area with an addressable population of approximately 460,000 people in Onondaga County, with additional reach into surrounding counties.
Yonkers	55 Main Street, Yonkers, NY	2016	The dispensary is situated at the south end of Westchester County with easy access to the Bronx. It services an area with an addressable population of approximately 1 million people within Westchester County.

## Products and Brands

Etain LLC's portfolio of medical cannabis products is primarily generated from plant materials that Etain LLC grows and processes itself, which are used to produce consumer packaged goods. This portfolio consists of stock keeping units ("SKUs") across a range of cannabis product categories, consisting of dried flower, pre-rolls, vaporizers, capsules, tinctures, powders, lozenges, lotions, and oral sprays.

Etain LLC's portfolio of SKUs are offered under four brands, each carefully tailored to deliver specific results for medical patients:

**Balance:** *"Feel comfortable in your own skin"*

- 1:1 cannabidiol ("CBD") to tetrahydrocannabinol ("THC") ratio to maintain a relaxing foundation and build on the euphoria

**Dolce:** *"Find your center"*

- High level of CBD combined with just a splash of THC to provide a full-body calm

**Forte:** *"More power to you"*

- High concentration of THC, with a small amount of CBD to smooth the edges

**Mezzo:** *"Zen with benefits"*

- 2:1 CBD-to-THC ratio to pair the calming effects of CBD with a gentle bounce of energy

## **Liquidity Position**

As referenced above, the current political and regulatory conditions regarding cannabis in the U.S. create significant constraints on the ability of cannabis operators, brands, and industry participants to access capital. Accordingly, the Company believes that it has a competitive advantage in respect of the liquidity on its balance sheet. Through the CGC Transaction (including the subsequent monetization of CGC common shares received as consideration) and the Hawthorne Investments, among other items, the Company was able to build a sizeable level of cash reserves.

While the Company plans to make substantial investments in Etain's New York cannabis operations (including the optimization of Etain LLC's retail footprint and the development of the Flagship Facility in Western New York), the Company aims to achieve its growth objectives in a capital efficient manner. The Company currently anticipates that optimizing Etain LLC's retail footprint, completing the development of the Flagship Facility, and fully transitioning to serve both the wholesale and retail adult-use markets in New York will require additional capital expenditures and other investments in the range of \$35,000 to \$45,000. The higher end of this range has increased as a result of an increase in the projected capital costs associated with the Flagship Facility. This estimated range, which excludes net cash flows from operating and financing activities, is based upon a number of assumptions and will continue to be refined. Furthermore, the timing of these expenditures continues to be evaluated by the Company and is dependent upon a number of external and internal factors; generally, the Company expects these capital investments to be incurred over the next few years.

These projected capital expenditures include special licensing fees that Etain LLC will be required to pay to the OCM in accordance with the regulations to operate in New York's adult-use cannabis market and open co-located dispensaries. The Company's estimates are based upon final regulations for New York's adult-use cannabis market that were filed by the CCB on September 27, 2023. The final regulations prescribe that one-time fees related to an RO's transition to New York's adult-use cannabis market will be \$20,000 in total (exclusive of application fees, which are expected to be less than \$500), including \$5,000 payable when an RO receives its ROD (as defined below) license, with another \$5,000 payable within 180 days of opening its second co-located dispensary (ROs are permitted to co-locate a maximum of three retail facilities under the MRTA for medical and adult-use sales, with the first co-location permitted not sooner than December 29, 2023, which is one year from the date of the first legal sale of adult-use cannabis in New York, and the remaining two stores no sooner than June 29, 2024), \$5,000 payable within 30 days of achieving \$100,000 in cumulative revenue from its ROD license, and \$5,000 payable within 30 days of achieving \$200,000 in cumulative revenue from its ROD license. The balance of the \$20,000 special licensing fee referenced above must be paid by December 31, 2033, even if the triggering events above are not achieved, unless aggregate New York State cannabis retail and wholesale revenues are less than \$20 billion, in which case, the fee obligation sunsets. Under the proposed regulations, if an ROD license expires or is otherwise revoked, cancelled, or abandoned before December 31, 2033, the ROD must still pay the remainder of the \$20,000 special licensing fee. An "ROD" license is a registered organization adult-use cultivator processor distributor retail dispensary licensed pursuant to section 68-a of the MRTA.

Based on the foregoing, the Company believes that it has sufficient capital to execute its business plan in New York and invest in opportunities in different states throughout the U.S. cannabis market.

### **Other Investments**

Prior to the closing of the CGC Transaction, the Company was a venture capital firm specializing in cannabis. The Company's business strategy was to create shareholder value through the continued deployment of strategic capital throughout the global cannabis sector. The Company identified strategic counterparties that were seeking financial and/or operating support, and aimed to provide investor returns through dividends and capital appreciation, while also generating interest, lease, and royalty income. Investments were made through a variety of financial structures (including common and preferred equity, debt, royalty, joint venture, and profit-sharing agreements, among others) in 20 companies, and in doing so, the Company established a diversified portfolio of investments.

In connection with its shift in investment strategy discussed herein, the Company has capitalized on certain monetization opportunities and streamlined its legacy portfolio. As of the date of this MD&A, the Company continues to have investments in the following companies (the "Investees"), among others described below:

<b>Summary of Other Investments</b>		
<b>Company</b>	<b>Location of Operations</b>	<b>Business Description</b>
Agripharm Corp. ("Agripharm")	Canada (Alberta, British Columbia, Manitoba, Ontario, Quebec, Prince Edward Island, and Saskatchewan)	Agripharm is a company licensed to cultivate, process, and sell dried and fresh cannabis, cannabis plants, cannabis seeds, edible cannabis, and cannabis extracts and topicals under the Cannabis Act. Based in Creemore, Ontario, Agripharm currently operates a 20,000 square foot indoor production facility and a 570,000 square foot outdoor cultivation lot located on a 20-acre property.
BioLumic Inc. ("BioLumic")	New Zealand and U.S.	BioLumic is an agricultural biotech company that programs the genetic expression of plants through light in order to improve plant yield, quality, and health. The company's Light Treatment Platform has been deployed across 12 crops and leverages leading biological insights, genetic marker knowledge, and proprietary performance data. In cannabis, BioLumic has triggered large, defensible gains across a host of commercial strains and is introducing light treatments into existing grow light technology.
Headset, Inc. ("Headset")	Canada (Alberta, British Columbia, Ontario, and Saskatchewan) and U.S.	Headset is a market intelligence and analytics software platform for the cannabis industry. With services that provide access to information on sales trends, emerging industries, popular products, and pricing, Headset's proprietary software platform allows customers to use data to identify new areas of opportunity, understand the competition, and tailor product development. Headset has launched its Insights market intelligence product in multiple adult-use cannabis markets in the U.S. and in Canada, and its retail data intelligence tool in the U.S. and Canada.
NOYA Cannabis Inc. ("NOYA")	Canada (British Columbia, Manitoba, Newfoundland, Ontario, Quebec, and Saskatchewan)	NOYA is a white label company licensed to cultivate, process, and sell dried cannabis and cannabis oils under the Cannabis Act. Based in Hamilton, Ontario, NOYA is located near key transportation infrastructure and currently occupies a 140,000 square foot indoor facility, which is being developed in phases, with 40,000 square feet currently in operation. NOYA cultivates for Cookies- and Gage-branded products.
ZeaKal, Inc. ("ZeaKal")	New Zealand and U.S.	ZeaKal, a California-based plant science company, is building a value-driven "NewType" of agriculture to harmonize the needs of farmers, consumers, and the planet. Its flagship plant trait technology, PhotoSeed™, helps crops capture more carbon and sunlight, leading to healthier, nutrient-rich food and feed grown on a smaller environmental footprint. The company goes beyond science to make affordable nutrition more sustainable, with marketable differentiation for growers. ZeaKal is currently developing its PhotoSeed™ technology for hemp, corn, and soybeans.

As of the date of this MD&A, the Company also has certain financial interests in other companies that are not included in the table above, including High Beauty, Inc., and other companies to which it ascribes an immaterial or nominal value, and LeafLink Services International ULC ("LeafLink International"), which has temporarily suspended operations

in Canada in light of ongoing limitations on the company's growth prospects (driven primarily by certain regulatory restrictions). Please refer to the Annual MD&A for more information on these investments.

Below is a summary of the Company's other investments as at September 30, 2023. Please refer to Notes 12, 13, and 24 of the Interim Consolidated Financial Statements for information relating to the Company's carrying values and fair value estimates for these financial instruments.

<b>Summary of Other Investments<sup>(1)</sup></b>				
<b>Investee</b>	<b>Investment</b>	<b>Carrying Value as at Sep. 30, 2023</b>	<b>Number of Shares / Warrants</b>	<b>Notes<sup>(2)</sup></b>
<b>Agripharm<sup>(3)</sup></b>	Royalty interest	\$ 922	n/a	<ul style="list-style-type: none"> <li>Advanced C\$20,000 to Agripharm pursuant to a royalty agreement</li> <li>Royalty is for a term of 20 years and is subject to a minimum annual payment based on 20% of the amount advanced</li> </ul>
<b>BioLumic</b>	Preferred shares	\$ 3,536	472,389	<ul style="list-style-type: none"> <li>Represents an approximate 8% basic and 7% fully-diluted equity interest</li> </ul>
<b>Headset</b>	Preferred shares	\$ 1,547	2,126,901	<ul style="list-style-type: none"> <li>Represents an approximate 8% basic and 6% fully-diluted equity interest</li> </ul>
<b>LeafLink International<sup>(4)</sup></b>	Common shares	\$ 1,500	2,000,000	<ul style="list-style-type: none"> <li>Represents an approximate 17% basic and 17% fully-diluted equity interest</li> </ul>
<b>NOYA<sup>(5)</sup></b>	Royalty interest	\$ 738	n/a	<ul style="list-style-type: none"> <li>Advanced C\$5,000 to NOYA pursuant to a royalty agreement</li> <li>Royalty is for a term of 20 years and is subject to a minimum annual payment of C\$900</li> </ul>
	Convertible debenture	\$ 736	n/a	<ul style="list-style-type: none"> <li>Advanced C\$1,000 to NOYA pursuant to a convertible debenture agreement</li> <li>Amount drawn under the debenture bears interest at a rate of 12% per annum, payable semi-annually</li> <li>Convertible into 1,666,667 common shares of NOYA</li> <li>Matured on January 2, 2023</li> </ul>
	Common shares	\$ nil	17,588,424	<ul style="list-style-type: none"> <li>Represents an approximate 25% basic and 22% fully-diluted equity interest</li> </ul>
<b>ZeaKal</b>	Preferred shares	\$ 9,946	248,446	<ul style="list-style-type: none"> <li>Represents an approximate 9% basic and 9% fully-diluted equity interest</li> </ul>

(1) The information contained in this table excludes certain immaterial debt, equity, and/or warrant investments held by the Company as at September 30, 2023, in instances where the Company is not actively involved with the subject company and/or has not ascribed any value to its investment. Please refer to the Annual MD&A and the Annual Consolidated Financial Statements for additional information about these investments.

(2) Annual payments for royalty or debt instruments are based on the contractual terms of the underlying instruments in effect as of the date of this MD&A and may not reflect actual cash amounts received by the Company. Please refer to "Financial Risk Management" herein and "Risk Factors" in the AIF.

(3) As at September 30, 2023, the Company had written off the entire outstanding gross royalty receivable balance owed by Agripharm based upon the Company's expectations regarding the likelihood of collection in light of Agripharm's underlying business conditions. The Company does not recognize any ongoing royalty income related to its royalty investment in Agripharm.

(4) As described above, as of the date of this MD&A, LeafLink International's Canadian operations have been temporarily suspended due to regulatory limitations in Canada.

(5) As at September 30, 2023, the Company had recognized a provision for expected credit losses of 100% of the outstanding gross royalty and interest receivable balance of \$2,784 owed by NOYA based upon the Company's expectations regarding the likelihood of collection in light of NOYA's underlying business conditions. Equity ownership on a fully-diluted basis assumes the conversion of the convertible security.

In addition to pursuing its strategy targeting opportunities in the U.S. cannabis market, the Company plans to continue to manage its existing portfolio in a manner intended to maximize value for its shareholders.

### **Operational and Regulatory Overview**

RIV Capital and Etain LLC take all actions necessary to ensure that the Company's and Etain LLC's respective operations are in full compliance with all applicable provincial, state, and local laws, rules, regulations, and licensing requirements in the jurisdictions in which the Company and Etain LLC operate, respectively. Please refer to "Regulatory

Framework” herein for additional information on the regulatory frameworks that are material to the Company’s and Etain LLC’s respective operations.

## **CORPORATE DEVELOPMENTS**

### **U.S. Cannabis Platform**

#### **New York: Etain**

During the three months ended June 30, 2023, the Chestertown Expansion was substantially completed. As noted above, the Chestertown Expansion includes approximately 28,800 square feet of additional rooms dedicated for flowering with eight new hybrid greenhouse bays, as well as new production space to address the anticipated demands of the impending adult-use market in New York.

During the three months ended September 30, 2023, the Company began ramping up usage of the new greenhouse bays and expanded production space, including commissioning new production machinery to enhance operational efficiencies.

#### **Other Investments**

During the three and six months ended September 30, 2023, the Company did not divest or add any Investees.

#### **Dynaleo**

During the three months ended June 30, 2023, certain material changes to existing contracts with customers were effected such that Dynaleo became unable to meet its short term financial obligations required to continue operations. On May 23, 2023, Dynaleo filed a Notice of Intention for creditor protection pursuant to section 50.4(1) of the *Bankruptcy and Insolvency Act* (Canada). As a result, the Company reduced the estimated fair value of its investment in Dynaleo to \$nil. On October 20, 2023, Dynaleo was deemed to have filed an assignment under bankruptcy.

#### **Capital Activities**

During the three and six months ended September 30, 2023, the Company did not raise capital through any debt or equity financings.

#### **Share Capital**

Below is a summary of the Company’s equity capital activity during the six months ended September 30, 2023:

<b>Summary of Equity Capital Activity</b>	
	<b>Number of Common Shares</b>
<b>Balance – Mar. 31, 2023</b>	<b>135,617,313</b>
Redemption of RSUs (as defined herein)	9,628
Redemption of PSUs (as defined herein)	53,213
<b>Balance – Sep. 30, 2023</b>	<b>135,680,154</b>

## RESULTS OF OPERATIONS

The following table sets forth summary operating results for the indicated periods:

Summary Operating Results <sup>(1)</sup>						
	Three months ended September 30,			Six months ended September 30,		
	2023	2022	2021	2023	2022	2021
<b>Revenue</b>						
Revenue	\$ 1,803	\$ 1,977	\$ -	\$ 3,704	\$ 3,405	\$ -
Excise taxes	(106)	(124)	-	(221)	(211)	-
<b>Total revenue, net</b>	<b>1,697</b>	<b>1,853</b>	<b>-</b>	<b>3,483</b>	<b>3,194</b>	<b>-</b>
Cost of goods sold	1,851	906	-	3,442	1,689	-
<b>Gross profit (loss) excluding fair value items</b>	<b>(154)</b>	<b>947</b>	<b>-</b>	<b>41</b>	<b>1,505</b>	<b>-</b>
Unrealized gain (loss) on changes in fair value of biological assets	214	(64)	-	411	(100)	-
Realized fair value amounts included in inventory sold	(9)	6	-	(8)	6	-
<b>Gross profit</b>	<b>51</b>	<b>889</b>	<b>-</b>	<b>444</b>	<b>1,411</b>	<b>-</b>
<b>Operating expenses</b>						
Selling, general, and administrative expenses	4,804	4,840	4,035	10,110	10,369	6,064
Impairment of goodwill	-	138,937	-	-	138,937	-
<b>Operating loss</b>	<b>(4,753)</b>	<b>(142,888)</b>	<b>(4,035)</b>	<b>(9,666)</b>	<b>(147,895)</b>	<b>(6,064)</b>
<b>Other income (loss)</b>						
Share of loss from associates	(13)	(501)	(413)	(172)	(634)	(692)
Impairment of associates	(323)	-	-	(323)	-	-
Net change in fair value of financial assets at FVTPL	(1,466)	(1,381)	549	(1,513)	(1,547)	(28,649)
Gain on dispositions	-	-	-	-	-	890
Accretion and interest expense	(3,588)	(4,256)	(930)	(7,104)	(8,082)	(935)
Foreign exchange gain	1,600	4,421	1,804	136	10,725	1,804
Other income (loss), net	5	160	(1,028)	902	138	1,134
<b>Loss before taxes</b>	<b>(8,538)</b>	<b>(144,445)</b>	<b>(4,053)</b>	<b>(17,740)</b>	<b>(147,295)</b>	<b>(32,512)</b>
Income tax recovery	(1,152)	(2,121)	(2,870)	(1,212)	(1,497)	(6,819)
<b>Net loss</b>	<b>\$ (7,386)</b>	<b>\$ (142,324)</b>	<b>\$ (1,183)</b>	<b>\$ (16,528)</b>	<b>\$ (145,798)</b>	<b>\$ (25,693)</b>
<b>Other comprehensive income (loss) not subsequently reclassified to net loss</b>						
Net change in fair value of financial assets at FVTOCI (as defined herein), net of tax expense (recovery)	256	950	341	(5)	1,420	(62)
<b>Other comprehensive income (loss) subsequently reclassified to net loss</b>						
Foreign currency translation adjustment	476	(560)	(6,950)	139	(5,579)	(3,361)
<b>Total comprehensive loss</b>	<b>\$ (6,654)</b>	<b>\$ (141,934)</b>	<b>\$ (7,792)</b>	<b>\$ (16,394)</b>	<b>\$ (149,957)</b>	<b>\$ (29,116)</b>
<b>Loss per share – basic</b>	<b>\$ (0.05)</b>	<b>\$ (0.84)</b>	<b>\$ (0.01)</b>	<b>\$ (0.12)</b>	<b>\$ (0.88)</b>	<b>\$ (0.18)</b>
<b>Loss per share – diluted</b>	<b>\$ (0.05)</b>	<b>\$ (0.84)</b>	<b>\$ (0.01)</b>	<b>\$ (0.12)</b>	<b>\$ (0.88)</b>	<b>\$ (0.18)</b>

(1) The comparative periods for the three and six months ended September 30, 2021, have been restated to align with the Company's presentation currency of the U.S. dollar.

### **Review of Operating Results for the Three and Six months ended September 30, 2023**

The comparative operating results reported by the Company for the six months ended September 30, 2022, include the operating results for Etain LLC from April 22, 2022, to September 30, 2022. The revenue and net loss reported by the Company for the six months ended September 30, 2022, would not have been materially different had the Initial Etain Closing been effected April 1, 2022, instead of April 22, 2022.

#### **Revenue, Net**

The Company reported revenue, net of excise taxes, of \$1,697 for the three months ended September 30, 2023, compared with \$1,853 for the same period last year. Retail revenue of \$1,545 was generated for the three months ended September 30, 2023, from the Company's U.S. cannabis platform through Etain LLC's medical dispensaries in Manhattan, Kingston, Syracuse, and Yonkers, compared with \$1,852 for the same period last year. Wholesale revenue of \$258 was generated from sales of Etain-branded medical cannabis products to other RO's in New York for the three months ended September 30, 2023, compared with \$125 for the same period last year. The Company reported excise taxes of \$106 for the three months ended September 30, 2023, compared with \$124 for the same period last year. The decrease in net revenue relative to the comparative period was primarily attributable to continued competitive pressure on Etain's medical cannabis retail business due to the launch of the adult-use market in New York and the proliferation of the illicit market in the State.

For the six months ended September 30, 2023, the Company reported revenue, net of excise taxes, of \$3,483, compared with \$3,194 for the same period last year. Retail revenue of \$3,232 was generated for the six months ended September 30, 2023, from the Company's U.S. cannabis platform through Etain LLC's medical dispensaries, compared with \$3,122 for the same period last year. Wholesale revenue of \$472 was generated for the six months ended September 30, 2023, from sales of Etain-branded products to other RO's in New York, compared with \$283 for the same period last year. The Company reported excise taxes of \$221 for the six months ended September 30, 2023, compared with \$211 for the same period last year.

#### **Cost of Goods Sold**

The Company reported cost of goods sold (which excludes unrealized fair value changes included in biological assets and realized fair value changes included in inventory sold) of \$1,851 for the three months ended September 30, 2023, compared with \$906 for the same period last year. The increase in cost of goods sold relative to the comparative period was attributable to the continued ramp-up of operations at Etain LLC's cultivation and production facility in Chestertown ahead of Etain's anticipated entry into the adult-use wholesale and retail markets in New York. Furthermore, during the three months ended September 30, 2023, the Company recognized an inventory write-down of \$490, primarily driven by intermediate oil solution from prior period extractions that the Company believes will not be used in future production of finished goods.

For the six months ended September 30, 2023, the Company reported cost of goods sold of \$3,442, compared with \$1,689 for the same period last year.

#### **Gross Profit**

Gross profit is determined as revenue (net of excise taxes), less the following items: cost of goods sold, unrealized gains or losses on changes in fair value of biological assets, and realized fair value amounts included in inventory sold.

The Company reported an unrealized gain on changes in fair value of biological assets of \$214 and a fair value loss included in inventory sold of \$9 for the three months ended September 30, 2023, compared with an unrealized loss on changes in fair value of biological assets of \$64 and a fair value gain included in inventory sold of \$6 for the same period last year.

Based on the foregoing, the Company reported a gross profit of \$51 for the three months ended September 30, 2023, compared with \$889 for the same period last year. The decrease in gross profit relative to the comparative period was attributable to the factors impacting the downward pressure on revenue and increase in cost of goods sold described above, including the underutilization of Etain LLC's cultivation and production assets and resources as operational capabilities related to the Chestertown Expansion continue to ramp up.

For the six months ended September 30, 2023, the Company reported an unrealized gain on changes in fair value of biological assets of \$411 and a fair value loss included in inventory sold of \$8, compared with an unrealized loss on changes in fair value of biological assets of \$100 and a fair value gain included in inventory sold of \$6 for the same period last year.

Based on the foregoing, for the six months ended September 30, 2023, the Company reported a gross profit of \$444, compared with \$1,411 for the same period last year.

Fair value changes that are included in gross profit are sensitive to changes in the Company's average selling price and product mix, and other changes in the Company's valuation estimates, which include, but are not limited to, estimated plant lifecycles and stage of growth, expected yields, remaining costs to complete, and the method of allocation of cultivation and production costs. Changes in these underlying estimates and assumptions could have a material impact on the Company's financial results. Please refer to Notes 2, 7, and 8 in the Interim Consolidated Financial Statements for additional information.

## Operating Expenses

### Selling, General, and Administrative ("SG&A") Expenses

The Company reported SG&A expenses of \$4,804 and \$10,110 for the three and six months ended September 30, 2023, respectively, compared with \$4,840 and \$10,369, respectively, for the same periods last year.

SG&A expenses for the three and six months ended September 30, 2023, and 2022, included the following:

<b>SG&amp;A Expenses</b>				
	<b>Three months ended Sep. 30, 2023</b>	<b>Three months ended Sep. 30, 2022</b>	<b>Six months ended Sep. 30, 2023</b>	<b>Six months ended Sep. 30, 2022</b>
Personnel costs (excluding share-based compensation)	\$ 2,100	\$ 1,761	\$ 4,359	\$ 3,056
Legal expenses and consulting fees (excluding transaction and restructuring)	369	1,053	1,090	1,868
Insurance premiums	610	554	1,265	1,101
Non-inventoriable depreciation and amortization of fixed assets and intangible assets	232	(99)	466	484
Director fees (excluding share-based compensation)	216	53	442	110
Non-inventoriable right-of-use asset amortization	204	151	398	274
Severance expense	154	172	339	467
Selling and marketing expenses	111	84	212	150
Non-inventoriable lease expenses	124	122	218	217
Audit-related fees	117	232	202	516
Investor relations and other public company expenses	120	364	201	602
Share-based compensation	47	(21)	104	211
Transaction and restructuring expenses	29	17	29	502
Other	371	397	785	811
<b>Total SG&amp;A expenses</b>	<b>\$ 4,804</b>	<b>\$ 4,840</b>	<b>\$ 10,110</b>	<b>\$ 10,369</b>

The following factors contributed to the Company's reported SG&A expenses:

- Personnel costs were \$2,100 and \$4,359 for the three and six months ended September 30, 2023, respectively, compared with \$1,761 and \$3,056, respectively, for the same periods last year. The increase in personnel costs relative to the comparative periods was primarily attributable to the Company's increased headcount in preparation for Etain's entrance into the New York adult-use cannabis market.
- Legal expenses and consulting fees (excluding transaction and restructuring) were \$369 and \$1,090 for the three and six months ended September 30, 2023, respectively, compared with \$1,053 and \$1,868, respectively, for the same periods last year. The decrease in legal expenses and consulting fees relative to the comparative periods was partially attributable to lower external legal fees incurred related to litigation activities and the Company's annual general meeting.



- Insurance premiums were \$610 and \$1,265 for the three and six months ended September 30, 2023, respectively, compared with \$554 and \$1,101, respectively, for the same periods last year. The increase in insurance premiums relative to the comparative periods was primarily attributable to the addition of new policies to the Company's insurance portfolio following the completion of the Initial Etain Closing.
- Non-inventoriable depreciation and amortization of fixed assets and intangible assets was \$232 and \$466 for the three and six months ended September 30, 2023, respectively, compared with \$(99) and \$484, respectively, for the same periods last year. As permitted under *IFRS 3, Business Combinations*, in the measurement period for a business combination, during the three months ended September 30, 2022, the Company refined the valuation of identifiable intangible assets acquired in the Etain Acquisition and revised the amortization method for the acquired cannabis license to more appropriately reflect the manner in which the cannabis license is projected to be utilized over its expected life. As a result, both inventoriable and non-inventoriable amortization of intangible assets for the three months ended September 30, 2022, reflected a recovery, such that both inventoriable and non-inventoriable amortization of intangible assets for the six months ended September 30, 2022, was appropriately presented. Depreciation and amortization expense of \$282 and \$426 was capitalized to inventory and biological assets during the three and six months ended September 30, 2023, respectively, compared with \$(884) and \$277 for the same periods last year. Please refer to Note 11 in the Interim Consolidated Financial Statements for additional information on the Company's intangible assets.
- Director fees were \$216 and \$442 for the three and six months ended September 30, 2023, respectively, compared with \$53 and \$110, respectively, for the same periods last year. The increase in director fees relative to the comparative periods was primarily attributable to an increase in the relative amount of total director compensation that was paid in cash versus equity, as well as an increase in the number of directors that received compensation.
- Non-inventoriable right-of-use asset amortization expense was \$204 and \$398 for the three and six months ended September 30, 2023, respectively, compared with \$151 and \$274 for the same periods last year. Lease-related expenses of \$278 and \$552 were capitalized to inventory and biological assets during the three and six months ended September 30, 2023, respectively, compared with \$264 and \$466, respectively, for the same periods last year. Please refer to Note 14 in the Interim Consolidated Financial Statements for additional information on the Company's lease obligations.
- Severance expense was \$154 and \$339 for the three and six months ended September 30, 2023, respectively, compared with \$172 and \$467, respectively, for the same periods last year. The decrease in severance expense relative to the comparative periods was primarily attributable to certain lump-sum termination payments that were recognized during the three and six months ended September 30, 2022.
- Audit-related fees were \$117 and \$202 for the three and six months ended September 30, 2023, respectively, compared with \$232 and \$516, respectively, for the same periods last year. The decrease in audit-related fees relative to the comparative periods was primarily attributable to a lower estimated fee associated with the Company's audit for its current fiscal year and the Company not engaging an external auditor for a quarterly review.
- Investor relations and other public company expenses were \$120 and \$201 for the three and six months ended September 30, 2023, respectively, compared with \$364 and \$602, respectively, for the same periods last year. The decrease in public company expenses relative to the comparative periods was primarily attributable to lower proxy and other external advisory fees related to the Company's annual general meeting.
- Share-based compensation was \$47 and \$104 for the three and six months ended September 30, 2023, respectively, compared with \$(21) and \$211 for the same periods last year. The increase in share-based compensation expense for the three months ended September 30, 2023, relative to the comparative period is a result of expense recapture in the comparative period driven by forfeited instruments, which represented a net benefit to the Company. The decrease in share-based compensation expense for the six months ended September 30, 2023, relative to the comparative period was primarily attributable to a decrease in outstanding unvested securities, expense recapture related to forfeited instruments, and the impact of a lower share price on share-based compensation measurement.
- Transaction and restructuring expenses were \$29 for the three and six months ended September 30, 2023, compared with \$17 and \$502, respectively, for the same periods last year. Transaction expenses recognized during the six months ended September 30, 2022, were primarily attributable to the Etain Acquisition.

#### Impairment of Goodwill

During the three months ended September 30, 2022, the Company determined that certain indicators of impairment were present for its Etain cash generating unit ("CGU") group (the "Etain CGU"). CGUs are tested for impairment by comparing the carrying value of the CGU to its recoverable amount, where the recoverable amount is the greater of fair value less costs to sell and value in use. As a result of the quantitative impairment assessment performed for the three months ended September 30, 2022, the Company determined that the recoverable amount of the Etain CGU was

higher than its fair value less costs to sell. Accordingly, the Company recognized a goodwill impairment charge of \$138,937 on the Etain CGU.

As at September 30, 2023, the Company determined that no new indicators of impairment were present for its Etain CGU beyond those considered as at March 31, 2023, primarily due to the fact that the adopted adult-use regulations that were approved by the OCM and CCB on September 27, 2023, contained favorable revisions for Etain related to the anticipated timing of its entry into the adult-use retail market.

### **Operating Loss**

Based on the foregoing, the Company reported an operating loss of \$4,753 for the three months ended September 30, 2023, compared with an operating loss of \$142,888 for the same period last year.

For the six months ended September 30, 2023, the Company reported an operating loss of \$9,666 compared with an operating loss of \$147,895 for the same period last year.

### **Other Income (Loss)**

The Company reported other loss of \$3,785 and \$8,074 for the three and six months ended September 30, 2023, respectively, compared with other loss of \$1,557 and other income of \$600 for the same periods last year. The following factors contributed to the Company's reported results:

- Share of loss from associates was \$13 and \$172 for the three and six months ended September 30, 2023, respectively, compared with share of loss of \$501 and \$634, respectively, for the same periods last year. The Company elects to account for its equity method investees one quarter in arrears.
- Impairment of associates was \$323 for the three and six months ended September 30, 2023, compared with \$nil for the same periods last year. The impairment charge recognized during the three months ended September 30, 2023, was attributable to the Company's equity investment in NOYA. Please refer to Note 12 in the Interim Consolidated Financial Statements for further information.
- The net change in fair value of financial assets at fair value through profit or loss ("FVTPL") was a decrease of \$1,466 and \$1,513 for the three and six months ended September 30, 2023, respectively, compared with a decrease of \$1,381 and \$1,547, respectively, for the same periods last year. Please refer to Notes 13 and 24 in the Interim Consolidated Financial Statements for additional information on the Company's other investments.
- Accretion and interest expense was \$3,588 and \$7,104 for the three and six months ended September 30, 2023, respectively, compared with \$4,256 and \$8,082, respectively, for the same periods last year. The decrease in accretion expense relative to the comparative periods was primarily attributable to the accretion expense recognized on the deferred consideration payable related to the Etain Acquisition during the three and six months ended September 30, 2022.
- Foreign exchange gain was \$1,600 and \$136 for the three and six months ended September 30, 2023, respectively, compared with foreign exchange gain of \$4,421 and \$10,725, respectively, for the same periods last year. The foreign exchange gain was primarily attributable to foreign-denominated cash deposits held by the Company and certain of its subsidiaries.

### **Income Tax Recovery**

The Company reported an income tax recovery of \$1,152 for the three months ended September 30, 2023, compared with an income tax recovery of \$2,121 for the same period last year. Income tax recovery was largely driven by current income tax recovery in certain of the Company's Canadian entities as a result of losses available for carryback. Income tax recovery for the period also included a current income tax expense of \$21 related to the estimated taxable profits of Etain LLC, compared with a current income tax expense of \$179 for the same period last year.

For the six months ended September 30, 2023, the Company reported an income tax recovery of \$1,212 compared with an income tax recovery of \$1,497 for the same period last year. Income tax recovery for the period included a tax expense of \$78 related to the estimated taxable profits of Etain LLC, compared with \$553 for the same period last year.

### **Net Loss**

Based on the foregoing, the Company reported a net loss of \$7,386 and basic and diluted earnings per share ("EPS") of \$(0.05) for the three months ended September 30, 2023, compared with a net loss of \$142,324 and basic and diluted EPS of \$(0.84) for the same period last year.

For the six months ended September 30, 2023, the Company reported a net loss of \$16,528 and basic and diluted EPS of \$(0.12), compared with a net loss of \$145,798 basic and diluted EPS of \$(0.88) for the same period last year.

### Other Comprehensive Income (Loss)

The Company reported other comprehensive income of \$732 and \$134 for the three and six months ended September 30, 2023, respectively, compared with other comprehensive income of \$390 and other comprehensive loss of \$4,159, respectively, for the same periods last year.

- The net change in fair value of financial assets at fair value through other comprehensive income (“FVTOCI”) (net of tax expense or recovery) was an increase (decrease) of \$256 and \$(5) for the three and six months ended September 30, 2023, respectively, compared with an increase of \$950 and \$1,420, respectively, for the same periods last year. Please refer to Notes 13 and 24 in the Interim Consolidated Financial Statements for additional information on the Company’s other investments.
- The Company also reported an upward adjustment as a result of foreign currency translation of \$476 and \$139 for the three and six months ended September 30, 2023, respectively, compared with a downward adjustment of \$560 and \$5,579, respectively, for the same periods last year.

### Total Comprehensive Loss

Based on the foregoing, the Company reported a total comprehensive loss of \$6,654 and \$16,394 for the three and six months ended September 30, 2023, respectively, compared with a total comprehensive loss of \$141,934 and \$149,957, respectively, for the same periods last year.

### Summary of Quarterly Financial Information

The following table sets forth a summary of quarterly financial information for the last eight consecutive quarters. The Company started reporting revenue, cost of goods sold, and gross profit following the Initial Etain Closing, as discussed in “Description of Business, Industry, and Strategy – U.S. Cannabis Platform – Strategic Shift to the U.S. Cannabis Market”. This quarterly financial information has been prepared in accordance with IFRS.

Summary Operating Results for the Three Months Ended <sup>(1)</sup>								
	Sep. 30, 2023	Jun. 30, 2023	Mar. 31, 2023	Dec. 31, 2022	Sep. 30, 2022	Jun. 30, 2022	Mar. 31, 2022	Dec. 31, 2021
Revenue, net	\$ 1,697	\$ 1,786	\$ 1,728	\$ 1,885	\$ 1,853	\$ 1,341	\$ -	\$ -
Cost of goods sold	1,851	1,591	1,596	1,087	906	783	-	-
Fair value items	205	198	80	(15)	(58)	(36)	-	-
<b>Gross profit</b>	<b>51</b>	<b>393</b>	<b>212</b>	<b>783</b>	<b>889</b>	<b>522</b>	-	-
SG&A	4,804	5,306	5,332	4,801	4,840	5,529	3,804	1,950
Goodwill impairment	-	-	-	-	138,937	-	-	-
<b>Operating loss</b>	<b>(4,753)</b>	<b>(4,913)</b>	<b>(5,120)</b>	<b>(4,018)</b>	<b>(142,888)</b>	<b>(5,007)</b>	<b>(3,804)</b>	<b>(1,950)</b>
Other income (loss)	(3,785)	(4,289)	(19,437)	(6,305)	(1,557)	2,157	(12,212)	(1,668)
<b>Loss before taxes</b>	<b>(8,538)</b>	<b>(9,202)</b>	<b>(24,557)</b>	<b>(10,323)</b>	<b>(144,445)</b>	<b>(2,850)</b>	<b>(16,016)</b>	<b>(3,618)</b>
Income tax expense (recovery)	(1,152)	(60)	(987)	(432)	(2,121)	624	(2,273)	(847)
<b>Net loss</b>	<b>\$ (7,386)</b>	<b>\$ (9,142)</b>	<b>\$ (23,570)</b>	<b>\$ (9,891)</b>	<b>\$ (142,324)</b>	<b>\$ (3,474)</b>	<b>\$ (13,743)</b>	<b>\$ (2,771)</b>
Other comprehensive income (loss)	732	(598)	(1,128)	(2,774)	390	(4,549)	3,980	1,711
<b>Total comprehensive loss</b>	<b>\$ (6,654)</b>	<b>\$ (9,740)</b>	<b>\$ (24,698)</b>	<b>\$ (12,665)</b>	<b>\$ (141,934)</b>	<b>\$ (8,023)</b>	<b>\$ (9,763)</b>	<b>\$ (1,060)</b>
Basic EPS	\$ (0.05)	\$ (0.07)	\$ (0.15)	\$ (0.06)	\$ (0.84)	\$ (0.02)	\$ (0.10)	\$ (0.02)
Diluted EPS	\$ (0.05)	\$ (0.07)	\$ (0.15)	\$ (0.06)	\$ (0.84)	\$ (0.02)	\$ (0.10)	\$ (0.02)

(1) The comparative periods have been restated to align with the Company’s presentation currency of the U.S. dollar.

## LIQUIDITY, FINANCING, AND CAPITAL RESOURCES

The following table sets forth summary cash flow and financial position data for the indicated periods:

<b>Summary Cash Flows and Financial Position Data</b>		
	<b>Six months ended Sep. 30, 2023</b>	<b>Six months ended Sep. 30, 2022</b>
Net cash flows from operating activities	\$ (8,841)	\$ (7,256)
Net cash flows from investing activities	17,260	(168,096)
Net cash flows from financing activities	(1,173)	23,994
<b>Net increase (decrease) in cash<sup>(1)</sup></b>	<b>\$ 7,246</b>	<b>\$ (151,358)</b>
Effect of foreign exchange rate movements on cash held	282	(1,928)
Cash, beginning of fiscal period <sup>(1)</sup>	77,468	318,706
<b>Cash, end of fiscal period</b>	<b>\$ 84,996</b>	<b>\$ 165,420</b>
	<b>As at Sep. 30, 2023</b>	<b>As at Mar. 31, 2023</b>
Current assets	\$ 98,450	\$ 111,906
Non-current assets	152,392	149,912
<b>Total assets</b>	<b>\$ 250,842</b>	<b>\$ 261,818</b>
Current liabilities	\$ 5,351	\$ 6,828
Non-current liabilities	153,075	146,143
<b>Total liabilities</b>	<b>\$ 158,426</b>	<b>\$ 152,971</b>
<b>Total shareholders' equity</b>	<b>\$ 92,416</b>	<b>\$ 108,847</b>

(1) At the beginning of the fiscal period for the six months ended September 30, 2023, the Company had \$20.4 million of surplus cash invested in instruments with a maturity of greater than three months, which was classified separate from cash on the Company's consolidated statements of financial position as at March 31, 2023. During the six months ended September 30, 2023, these investments matured and were reclassified to cash upon reinvestment in term deposits with a maturity of less than three months.

### **Net cash flows from operating activities**

Net cash used in operating activities was \$8,841 for the six months ended September 30, 2023, compared with net cash used of \$7,256 for the same period last year. Net loss for the six months ended September 30, 2023, and 2022, was \$16,528 and \$145,798, respectively, and included numerous non-cash items (including the goodwill impairment charge discussed above for the six months ended September 30, 2022), which are reflected in the Company's consolidated statements of cash flows in the Interim Consolidated Financial Statements.

### **Net cash flows from investing activities**

Net cash provided by investing activities was \$17,260 for the six months ended September 30, 2023, compared with net cash used in investing activities of \$168,096 for the same period last year. For the six months ended September 30, 2023, net cash provided by investing activities was primarily attributable to the movement of a portion of the Company's surplus cash from interest-earning investments with a maturity of greater than three months to interest-earning term deposits with a maturity of less than three months. For the six months ended September 30, 2022, net cash used in investing activities was primarily attributable to the cash consideration paid pursuant to the Initial Etain Closing.

### **Net cash flows from financing activities**

Net cash used in financing activities was \$1,173 for the six months ended September 30, 2023, compared with net cash provided by financing activities of \$23,994 for the same period last year. For the six months ended September 30, 2023, net cash used in financing activities was primarily attributable to lease payments. For the six months ended

September 30, 2022, net cash provided by financing activities was primarily attributable to the net proceeds received from the issuance of Convertible Note II.

### **Commitments and Contingencies**

#### **Financial Obligations**

As at September 30, 2023, the Company had the following financial obligations on an undiscounted basis:

	<b>Total</b>	<b>&lt; 1 Year</b>	<b>1 to 3 Years</b>	<b>4 to 5 Years</b>	<b>&gt; 5 Years</b>
Accounts payable and accrued liabilities	\$ 3,794	\$ 3,794	\$ -	\$ -	\$ -
Lease liability <sup>(1)</sup>	22,338	2,626	5,407	4,735	9,570
Tenant Cost Contributions <sup>(2)</sup>	2,483	2,483	-	-	-
Convertible Notes <sup>(3)</sup>	168,469	-	-	168,469	-
<b>Total financial obligations</b>	<b>\$ 197,084</b>	<b>\$ 8,903</b>	<b>\$ 5,407</b>	<b>\$ 173,204</b>	<b>\$ 9,570</b>

(1) Based on minimum lease payments related to the Company's cultivation and production facility in Chestertown, New York; four retail dispensaries in New York; one commercial space for a potential retail relocation in New York; and corporate offices in Toronto, Ontario, and Armonk, New York. Excludes Flagship Facility as the recognition criteria for that finance lease had not been met as at September 30, 2023. Please see Note 14 in the Interim Consolidated Financial Statements for additional details.

(2) Based on contractual capital contributions for the Flagship Facility. Please see Note 14 in the Interim Consolidated Financial Statements for additional details.

(3) Assumes the principal balance as at September 30, 2023, remains outstanding at the maturity date. Includes the estimated accrued and unpaid interest over the life of the Convertible Notes. As the Convertible Notes are denominated in Canadian dollars, the borrower's functional currency, the commitment has been translated into the Company's presentation currency as at September 30, 2023. Please see Note 15 in the Interim Consolidated Financial Statements for additional details.

#### **Commitments**

Prior to the commencement of the Zephyr Lease, the Company is required to make installment payments totaling \$4,484 (the "Tenant Cost Contributions") to assist in funding the construction of the Flagship Facility. As at September 30, 2023, the Company had made cumulative Tenant Cost Contributions of \$2,001, of which \$513 and \$880 were made during the three and six months ended September 30, 2023, respectively. The Tenant Cost Contributions have been recorded within "Other long-term assets" on the consolidated statements of financial position in the Interim Consolidated Financial Statements and will be added to the right-of-use asset when recognized upon commencement of the Zephyr Lease. Upon commencement of the Zephyr Lease, the Company will recognize a right-of-use asset and lease liability measured in accordance with *IFRS 16, Leases*.

Pursuant to the terms of the Company's lease agreement for its cultivation and production facility in Chestertown, New York, the Company committed to fund certain construction costs related to the Chestertown Expansion, which was substantially completed during the six months ended September 30, 2023. As at September 30, 2023, the Company had made cumulative payments related to this commitment of \$4,314, of which \$699 and \$1,279 were made during the three and six months ended September 30, 2023 respectively. These leasehold improvements are recognized within property, plant, and equipment on the consolidated statements of financial position in the Interim Consolidated Financial Statements. As at September 30, 2023, the Company estimated the remaining construction costs related to the Chestertown Expansion for which it will be responsible will be in the range of \$500 to \$1,000 and will be payable within the next twelve months. This estimate excludes any costs associated with new equipment for the expanded facility.

#### **Off-Balance Sheet Arrangements**

As at September 30, 2023, the Company had no off-balance sheet arrangements.

#### **Other**

The Company is subject to risks including, but not limited to, its ability to generate positive net cash flows or raise additional funds through debt and/or equity financing to support the Company's development and continued operations, and to meet the Company's liabilities and commitments as they come due.

The Company manages its capital with the objective of maximizing shareholder value and sustaining future development of the business. The Company defines capital as the Company's equity and any debt it may issue. The Company manages its capital structure and adjusts it, based on the funds available to the Company, in order to support

the Company's activities. The Company, upon approval from the Board, will undertake to balance its overall capital structure through new share issuances, the issuance of debt, or by undertaking other activities as deemed appropriate under the specific circumstances.

During the six months ended September 30, 2023, the Company financed its operations and current liquidity position primarily through consideration received pursuant to the CGC Transaction (including the subsequent sale of the CGC common shares received as consideration). As noted above, the Company utilized the proceeds received from the Hawthorne Investments to finance the cash portion of the consideration payable pursuant to the Etain Acquisition. As at September 30, 2023, working capital (calculated as the difference between the Company's current assets and current liabilities on its consolidated statements of financial position) was approximately \$93,099, primarily attributable to the Company's cash balance of \$84,996.

The Company believes that it has sufficient liquidity and capital resources to finance working capital for at least the next twelve months. Furthermore, if required, the Company believes that it may be able to further strengthen its financial position with future equity or debt financings, the divestment of certain investments, or other liquidity events. The Company believes that it currently has enough cash available to achieve its current business plans and objectives, including those described under "Description of Business, Industry, and Strategy – U.S. Cannabis Platform – Liquidity Position".

While the Convertible Notes are outstanding, the Company faces liquidity risks associated with the Hawthorne Investments. A failure to comply with the obligations related to the Hawthorne Investments could result in an event of default which, if not cured or waived, may result in the acceleration of the relevant indebtedness. If such indebtedness were to be accelerated, there can be no assurance that the Company's assets would be sufficient to repay such indebtedness in full. There can also be no assurance that the Company will generate cash flows in amounts sufficient to pay such indebtedness or to fund any other liquidity needs.

In the future, the Company may face certain liquidity risks if it is unable to: i) generate sufficient cash to fund its ongoing requirements and obligations; and ii) raise funds through equity or debt to account for its commitments. Ongoing capital markets, global economic, and general cannabis industry conditions, including as a result of the COVID-19 pandemic ("COVID-19"), may impact the ability of the Company to obtain equity, debt, or other suitable financing on favorable terms or at all. It may also impact the ability of the Investees to meet their commitments to the Company, including royalty payments, interest payments, and other debt obligations, which may negatively impact the Company's cash flow, and the value and liquidity of the Company's other investments. Furthermore, given the constraints on transaction activity, impact on valuations, and general business challenges caused by the COVID-19 pandemic and other events impacting the capital markets, global economic, and general cannabis industry conditions, the Company may not be able to realize successful monetization events involving its economic interests in the Investees. There can be no assurance that the Company will be able to generate sufficient positive net cash flow to achieve its business plans and objectives.

The Company's principal capital needs relate to the following business plans and objectives: completing expansion and development activities relating to Etain LLC's cultivation, production, and retail dispensary operations; paying any necessary special licensing fees associated with transitioning Etain LLC's operations to be able to serve the adult-use wholesale and retail markets in New York; enhancing the Company's competitive positioning in the U.S. through brand partnerships; investing in new global cannabis opportunities, including investments in, or acquisitions of, established operating businesses in the U.S. cannabis market; and satisfying working capital requirements for Etain's business and operations, and the Company's general corporate functions, as well as for general corporate purposes.

As at September 30, 2023, the Company did not have any contractual commitments to its Investees. However, the Company anticipates that certain Investees will require additional capital in order to achieve their business objectives and/or to sustain their operations. Accordingly, the Company may invest in additional financing rounds pursuant to pre-emptive rights granted to the Company by certain Investees. The amount of such investments will depend upon a host of factors, including, but not limited to, the following: the Company's assessment of the Investee's needs and uses for such capital; the Company's current liquidity and existing cash requirements at the time; and the Company's portfolio of investments and investment opportunities.

## **TRANSACTIONS WITH RELATED PARTIES**

### **Key Management Personnel**

The Company's key management personnel have authority and responsibility for overseeing, planning, directing, and controlling the activities of the Company, directly or indirectly. The key management personnel of the Company are the

members of the Company's executive management team and Board. Together, these individuals controlled approximately 1.3% of the issued and outstanding Common Shares on a fully diluted basis as at September 30, 2023.

Compensation provided to key management personnel includes executive salaries and accrued bonuses, director fees (excluding special committee fees and share-based compensation), special committee fees, and share-based compensation. The following table presents a summary of compensation provided to key management personnel:

<b>Key management personnel</b>				
	<b>Three months ended Sep. 30, 2023</b>	<b>Three months ended Sep. 30, 2022</b>	<b>Six months ended Sep. 30, 2023</b>	<b>Six months ended Sep. 30, 2022</b>
<b>Executive management</b>				
Salaries and accrued bonuses	\$ 514	\$ 532	\$ 1,021	\$ 967
Share-based compensation expense (recapture)	16	(203)	40	(134)
<b>Board</b>				
Director fees <sup>(1)</sup>	\$ 214	\$ 53	\$ 437	\$ 110
Special committee fees	2	-	5	-
Share-based compensation	7	128	12	260

(1) Director fees indicated above represent the cash portion of total director compensation (excluding special committee fees, which are paid in cash and presented separately), with the remainder presented in share-based compensation.

### **Transactions with The Hawthorne Collective**

The accrued and unpaid interest under the Convertible Notes is subject to the Income Tax Act non-resident thin capitalization tax rules. Accordingly, as at September 30, 2023, the Company had recognized an accrued liability of \$162 for the anticipated withholding tax that will be payable to the Canada Revenue Agency in respect of accrued and unpaid interest on the Convertible Notes following its next fiscal year end. Pursuant to the Convertible Note I and Convertible Note II agreements, The Hawthorne Collective and the Company have agreed to share this liability equally. As such, as at September 30, 2023, the Company had recognized a related party receivable from The Hawthorne Collective of \$79.

During the three and six months ended September 30, 2023, the Company purchased cultivation materials and equipment for \$57 and \$96, respectively, from Hawthorne Hydroponics, an affiliate of The Hawthorne Collective, for its Chestertown cultivation and production facility. The purchases were made on market terms. The Company anticipates making additional cultivation materials and facility equipment purchases from affiliates of The Hawthorne Collective as part of its ongoing operation and development of the Chestertown facility and the Flagship Facility. The Company expects any such additional purchases to be made on market terms.

### **Transactions with KDBF Ventures, LLC ("KDBF")**

During the three and six months ended September 30, 2023, the Company recognized lease payments of \$619 and \$1,513, respectively, to KDBF, the owner of the Chestertown facility and two of Etain's retail dispensaries in New York. The lease agreements between the Company and KDBF were negotiated at market terms.

## **SUBSEQUENT EVENTS**

### **Developments since September 30, 2023**

On November 17, 2023, New York Governor Kathy Hochul signed a bill that allows cannabis operators in New York City to deduct their business expenses from local taxes. This significant development provides tax relief to businesses engaged in the production, distribution, and sale of adult-use cannabis products or medical cannabis. The legislation amends the city's tax code to decouple from IRC Section 280E, which prohibits businesses from deducting ordinary business expenses. Previously, New York State allowed cannabis businesses to deduct state-level cannabis business taxes. However, New York City had its own tax laws that were not affected by that change. With the new legislation, New York City cannabis operators can now deduct their business expenses when computing taxable income under the city's unincorporated business tax, the general corporation tax, and the business corporation tax. This change is retroactive to tax years beginning in January 2022, providing relief for past tax liabilities as well.

## OUTSTANDING SHARE DATA

The Company has one class of shares outstanding (the Common Shares). The Company is authorized to issue an unlimited number of Common Shares.

The following table summarizes the Company's issued and outstanding securities:

Issued and outstanding securities		
	As at Sep. 30, 2023	As at Nov. 28, 2023
Common Shares	135,680,154	135,813,304
Convertible Notes <sup>(1)</sup>	122,947,306	122,947,306
Stock Options	2,811,500	2,586,500
RSUs	683,399	550,249
PSUs	1,497,442	1,497,442
DSUs	163,905	163,905

(1) Includes the principal and full amount of the anticipated accrued interest over the term of Convertible Note I and Convertible Note II under the assumption that conversion does not occur prior to interest being fully accrued on both Convertible Notes.

Convertible Note I and Convertible Note II held by The Hawthorne Collective are both outstanding as of the date of this MD&A and are convertible into Common Shares at a conversion price of C\$1.90 per Common Share and C\$1.65 per Common Share, respectively. Please refer to "Company Overview – Etain Acquisition and the Second Hawthorne Investment" and Note 15 in the Interim Consolidated Financial Statements for additional information, as applicable, regarding the Hawthorne Investments.

As described in Note 16 in the Interim Consolidated Financial Statements, as at September 30, 2023, the following dilutive securities were outstanding:

- Stock options exercisable pursuant to the Company's long-term incentive plan, with a weighted average exercise price of C\$1.38 per share;
- Restricted Share Units ("RSUs") redeemable pursuant to the Company's share unit plan for non-employee directors;
- Performance Share Units ("PSUs") redeemable pursuant to the Company's long-term incentive plan. The number of granted PSUs eligible to vest may be adjusted upwards based on the increase, if any, in the Common Share price between the grant date and the vesting date, subject to a maximum adjustment of 100%; and
- Deferred Share Units ("DSUs") redeemable pursuant to the Company's share unit plan for non-employee directors.

On March 30, 2023, the Board passed a resolution to defer the anticipated March 31, 2023, RSU grant to non-employee directors for the service period of April 1, 2022, to December 31, 2022, and the anticipated March 31, 2023, DSU grant to non-employee directors for the service period of January 1, 2023, to March 31, 2023. Given the depressed trading price of the Common Shares, the Board determined that a grant would have resulted in a significant dilutive impact to shareholders and would be in excess of the maximum grants allowable under the Unit Plan. On May 15, 2023, 131,127 RSUs and 54,635 DSUs were issued in satisfaction of these deferred awards. The difference between the grant date values of these May 15, 2023, grants and the share-based compensation expense previously recognized by the Company for these service periods would be settled with the non-employee directors in cash. Please refer to Note 16 in the Interim Consolidated Financial Statements for additional information.

## OTHER INFORMATION

The Company has not paid dividends in the past and does not expect to pay dividends in the near future. The Company plans to reinvest any earnings it may generate in the Company to manage its existing operations, pursue investment or acquisition opportunities, and maintain and develop the business. Any decision to declare dividends, in the future, will be made at the discretion of the Board and will depend upon, among other things, financial results, investment or acquisition opportunities, cash requirements, contractual obligations, and other factors the Board may consider relevant.

The Company is subject to risks and uncertainties that could significantly affect its future performance, including, but not limited to, changes to the regulatory environment for the cannabis industry, changes to the business environment



for the cannabis industry, and risks and uncertainties posed by the performance and management of the Investees. See "Risk Factors" in the AIF for information regarding the risks and uncertainties that could have a negative effect on the Company's future performance.

## **CHANGES IN ACCOUNTING POLICIES**

Except as described below, the accounting policies applied in the Interim Consolidated Financial Statements are consistent with those applied in the Annual Consolidated Financial Statements and have been applied across all periods presented in the Interim Consolidated Financial Statements.

### **Accounting pronouncements adopted**

#### *Amendments to IAS 12, Deferred Taxes ("IAS 12")*

In May 2021, the IASB issued amendments to IAS 12 that narrow the scope of certain recognition exceptions so that they no longer apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. It also, at the beginning of the earliest comparative period presented, recognizes deferred tax for all temporary differences related to leases and decommissioning obligations and recognizes the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings at that date. The amendment is effective for annual periods beginning on or after January 1, 2023. The Company's adoption of the IAS 12 amendment did not have a material impact on the Interim Consolidated Financial Statements.

Certain other new accounting standards, amendments, and interpretations have been published that are effective in the current period and are either not applicable to the Company or have been assessed by the Company and do not have a material impact on results.

### **Accounting pronouncements not yet effective**

The following new interpretations and amendments have been issued and are applicable for future annual reporting periods. The list includes standards and interpretations issued that the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become effective and does not expect the standards to have a material impact on the Interim Consolidated Financial Statements.

#### *Amendments to IAS 1, Classification of Liabilities as Current or Non-current*

On January 23, 2020, the IASB issued *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)*. The amendments address inconsistencies with how entities classify current and non-current liabilities. The amendments serve to address whether debt and other liabilities with an uncertain settlement date should be classified as current or non-current in the statements of financial position. The amendments are effective on January 1, 2024. The Company is currently assessing the impact of the amendment.

## **CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of the Interim Consolidated Financial Statements in accordance with IFRS requires management to make estimates, judgements, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Actual results may differ from these estimates.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Interim Consolidated Financial Statements, have not materially changed from those disclosed in the notes to the Annual Consolidated Financial Statements, unless as otherwise noted herein.

## **DISCLOSURE AND INTERNAL CONTROLS**

Management has established processes, which are in place to provide sufficient knowledge to support management representations that they have exercised reasonable diligence that: (i) the financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a

statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the Interim Consolidated Financial Statements; and (ii) the Interim Consolidated Financial Statements fairly present in all material respects the financial condition, results of operations, and cash flows of the Company, as of the date of and for the periods presented by the Interim Consolidated Financial Statements.

Management of the Company has separately filed on SEDAR+ the *Form 52-109FV2 Venture Issuer Basic Certificates* at the same time as having filed the Interim Consolidated Financial Statements and this MD&A. In contrast to the certificate required under National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"), the venture issuer certificate on Form 52-109FV2 does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109. In particular, the certifying officers filing the certificates are not making any representations relating to the establishment and maintenance of:

- controls and other procedures designed to provide reasonable assurance that the information required to be disclosed by the issuer in its annual filings, interim filings, or other reports filed or submitted under securities legislation is recorded, processed, summarized, and reported within the time periods specified in securities legislation; and
- a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's IFRS.

The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate.

Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost-effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency, and timeliness of interim and annual filings and other reports provided under securities legislation.

## **FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT**

### **Financial Instruments**

Please refer to Notes 13 and 24 in the Interim Consolidated Financial Statements for additional information on the Company's financial instruments and the related fair value estimates and disclosures.

### **Financial Risk Management**

The Company's activities expose it to a variety of financial risks, including market risk (i.e. general market risk, foreign currency risk, and interest rate risk), regulatory risk, credit risk, liquidity risk, asset forfeiture risk, and risks related to its internal controls. See "Risk Factors" in the AIF for additional information regarding these risks.

#### **Market risk**

Market risk is defined for these purposes as the risk that the fair value or future cash flows of a financial instrument held by the Company will fluctuate because of changes in market prices. The Company faces market risk from the impact of changes in foreign currency exchange rates and changes in market prices due to other factors, including changes in equity prices. Financial instruments held by the Company that are subject to market risk primarily relate to investments in financial assets. The categories of market risk that can give rise to significant variability are described below:

#### **General market risk**

The Company holds financial assets in the form of investments in shares and other convertible securities that are measured at fair value and recorded through either net income (or loss) or other comprehensive income (or loss). The Company is exposed to price risk on these financial assets, which is the risk of variability in fair value due to movements in equity or market prices. Information regarding the fair value of financial instruments that are measured at fair value on a recurring basis, and the relationship between the unobservable inputs used in the valuation of these financial assets and their fair value, are presented in Note 24 of the Interim Consolidated Financial Statements.

### Foreign currency risk

Foreign currency risk is the risk that a variation in exchange rates between the U.S. dollar and Canadian dollar, or other foreign currencies, will affect the Company's operations and financial results. The presentation currency of the Company is the U.S. dollar. The functional currencies of the Company and its subsidiaries are listed in Note 2(d) in the Interim Consolidated Financial Statements. The Company and certain subsidiaries hold cash and cash equivalents in both U.S. dollars and Canadian dollars, incur operating expenses in both U.S. dollars and Canadian dollars, and measure the fair value of certain other investments in Canadian dollars. While the Convertible Notes with The Hawthorne Collective are denominated in Canadian dollars, the proceeds were received by the Company in U.S. dollars, and the Company can repay the Convertible Notes upon maturity in U.S. dollars.

The Company does not currently engage in currency hedging activities to limit the risks of currency fluctuations. Consequently, fluctuations in the U.S. dollar/Canadian dollar exchange rate could have a negative impact on the Company's financial results. A 1.0% increase in the value of the U.S. dollar compared to the Canadian dollar would result in an unrealized foreign exchange gain of \$756. A 1.0% decrease in the value of the U.S. dollar compared to the Canadian dollar would result in an unrealized foreign exchange loss of \$756. Other than foreign denominated cash, each of the Company's consolidated subsidiaries does not hold significant monetary assets or liabilities in currencies other than its respective functional currency.

### Interest rate risk

Interest rate risk is defined for these purposes as the risk that the fair value or future cash flows of a financial instrument to which the Company is party will fluctuate because of changes in interest rates. The Company's exposure to interest rate risk is primarily limited to funding arrangements whereby the Company has committed to invest funds in the form of convertible or repayable debentures, notes, loans, or other debt instruments with variable interest rates, if any, or where the Company has borrowed funds in the form of convertible or repayable debentures, notes, loans, or other debt instruments with variable interest rates, if any. The Company's policy is to minimize cash flow exposure to interest rate risks on long-term financing. As at September 30, 2023, the Company is not directly party to any arrangement involving variable interest rates. The Convertible Notes carry a fixed interest rate for the first two years of approximately 2.0% and are thus not affected by changes in market interest rates. Please refer to Note 15 in the Interim Consolidated Financial Statements for additional information about the relationship between the liability and equity components of the Convertible Notes.

The Company may invest surplus cash in highly liquid investments with short terms to maturity that would accumulate interest at prevailing rates for such investments. As at September 30, 2023, the Company held \$84,002 in interest-earning term deposits with a maturity of 90 days or less that can be withdrawn at any time without penalty.

### **Regulatory Risk**

Regulatory risk pertains to the risk that the Company's business objectives are contingent, in part, upon compliance with regulatory requirements. Due to the nature of the industry, the Company recognizes that regulatory requirements are more stringent and punitive in nature than most other sectors of the economy. Any delays in obtaining, or failure to obtain, regulatory approvals could significantly delay operational and product development and could have a material adverse effect on the Company's business, results of operations, and financial condition. The Company is cognizant of the advent of regulatory changes in the cannabis industry on the city, state, provincial, and national levels. Although the regulatory outlook on the cannabis industry has been moving in a positive trend, the Company is aware of the effect that unforeseen regulatory changes could have on the goals and operations of the business as a whole.

### **Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk arises from the Company's interest and royalty receivables, as well as the principal amounts owing to the Company under the terms of any loan, debenture, or promissory note. The Company has provided financing and upfront capital to the Investees pursuant to its previous business as a venture capital firm and has evaluated and monitored counterparty credit to mitigate credit risk. Furthermore, although deposited cash is placed with U.S. financial institutions in good standing with regulatory authorities, changes in U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the cannabis industry have passed the U.S. House of Representatives, but have not yet been voted on within the U.S. Senate. Given that current U.S. federal law provides that the production and possession of cannabis is illegal, there is a strong argument that banks cannot accept for deposit funds from businesses involved with the cannabis industry.

The global economic slowdown, inflation, rising interest rates, and the prospects for recession, as well as recent and potential future disruptions in access to bank deposits or lending commitments due to bank failure, could materially and adversely affect the Company's liquidity, business, and financial condition. The recent closures of Silicon Valley Bank and Signature Bank and their placement into receivership with the Federal Deposit Insurance Corporation ("FDIC") have identified bank-specific liquidity risks and concerns. Although the Department of the Treasury, the Federal Reserve, and the FDIC jointly released a statement that depositors at Silicon Valley Bank and Signature Bank would have access to their funds (even deposit amounts that exceed FDIC deposit insurance limits), future adverse developments with respect to specific financial institutions or the broader financial services industry may lead to market-wide liquidity shortages. The failure of any bank in which the Company or Etain has deposited funds could reduce the amount of cash the Company has available for its operations or delay its ability to access such funds. Any such failure may increase the possibility of a sustained deterioration of financial market liquidity, or illiquidity at clearing, cash management, and/or custodial financial institutions. Neither the Company nor Etain currently has a commercial relationship with a bank that has failed, nor has the Company or Etain experienced delays or other issues in meeting financial obligations. If other banks and financial institutions enter receivership or become insolvent in the future in response to financial conditions affecting the banking system and financial markets, the Company's ability to access cash and cash equivalents and investments may be threatened and could have a material adverse effect on the Company's business operations and financial condition.

Under *IFRS 9, Financial Instruments* ("IFRS 9"), the Company is required to apply an expected credit loss ("ECL") model to all financial assets not held at FVTPL, where credit losses that are expected to transpire in future years are provided for, irrespective of whether a loss event has occurred as at the statement of financial position date. The Company recognizes a loss allowance for ECLs on its interest receivables, royalty receivables, and other receivables. Where the credit risk on a financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to the 12-month ECLs. The ECLs on these financial assets are measured as the probability-weighted present value of all expected cash shortfalls over the remaining expected life of the financial instrument, giving consideration to collateral and reasonable and supportable information about past events, current economic conditions, and forecasts of future events. The measurement of ECLs is primarily based on the product of the financial instrument's probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD"). A 12-month PD and lifetime PD are the probabilities of a default occurring over the next 12 months or over the life of a financial instrument, respectively, based on conditions existing at the statement of financial position date and on future economic conditions that have, or will have, an impact on credit risk. LGD reflects the losses expected should default occur and considers such factors as the mitigating effects of collateral and security, the realizable value thereof, and the time value of money. EAD is the expected balance owing at default and considers such factors as repayments of principal and interest beyond the statement of financial position date or additional amounts to be drawn. The Company recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. Lifetime ECLs represent the ECLs that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECLs represent the portions of lifetime ECLs that are expected to result from default events that are possible within 12 months after the reporting date.

### **Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by reviewing on an ongoing basis its capital requirements and maintaining sufficient cash balances for settlement of financial liabilities on their due dates.

As at September 30, 2023, the Company's financial liabilities were comprised of accounts payable and accrued liabilities, lease liability, and the Convertible Notes. As at September 30, 2023, the contractual maturities for the Company's accounts payable were generally within six months. The Convertible Notes' principal and accrued and unpaid interest are due at maturity, being August 24, 2027, unless conversion has occurred.

### **Asset Forfeiture Risk**

Because the cannabis industry remains illegal under U.S. federal law, any property owned by participants in the cannabis industry that are either used in the course of conducting such business, or are the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property was never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.

### **Internal Controls**

The Company's system of ICFR is not guaranteed to provide absolute assurance regarding the reliability of financial reporting and financial statements and may not prevent or detect misstatements. As described above under "Disclosure

and Internal Controls”, management of the Company has separately filed on SEDAR+ the Form 52-109FV2 *Certification of Interim Filings Venture Issuer Basic Certificates*. In contrast to the certificate required under NI 52-109, the venture issuer certificate on Form 52-109FV2 does not include representations relating to the establishment and maintenance of DC&P and ICFR, as defined in NI 52-109. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost-effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency, and timeliness of interim and annual filings and other reports provided under securities legislation. Additionally, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. A failure to prevent or detect errors or misstatements may have a material adverse effect on the business, financial condition, and results of operations of the Company or the market price of the Common Shares.

In addition, if the Company does not maintain adequate financial and management personnel, processes, and controls, it may not be able to accurately report financial performance on a timely basis, which could cause a decline in the price of the Common Shares, harm the Company’s ability to raise capital, and jeopardize the Company’s stock exchange listing. Delisting of the Common Shares would reduce the market liquidity of the Common Shares, which would increase the volatility of the price of the Common Shares.

Furthermore, the Company is dependent upon the quality of financial information provided to it by Etain LLC and certain Investees, which in turn is dependent upon adequate internal control over financial reporting within Etain LLC’s and the Investees’ respective finance functions. While the Company works closely with Etain LLC and the Investees with respect to receiving, analyzing, and querying the financial information received, or to be received, there can be no assurance that the financial information provided by Etain LLC or the Investees is, or will be, accurate and free of material misstatement or fraud. Should the financial information provided by Etain LLC or the Investees be materially incorrect, the Company may be required to re-file its financial statements, which could also cause investors to lose confidence in the Company’s reported financial information, which in turn could also result in a reduction in the trading price of the Common Shares.

As noted in the Annual MD&A, the Company had previously identified certain significant deficiencies in Etain LLC’s ICFR. A significant deficiency is a deficiency, or a combination of deficiencies, in internal controls that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of a company’s financial reporting. Management took steps to address and remedy the deficiencies identified. These actions are subject to continued management review, supported by confirmation and testing, as well as Audit Committee oversight.

The Company does not expect that the DC&P and ICFR will prevent all errors or fraud. A control system, no matter how well-designed and implemented, can provide only reasonable, not absolute, assurance that the control system’s objectives will be 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. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues within an organization are detected. The inherent limitations include the realities that judgements in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by individual acts of certain persons, by collusion of two or more people or by management override of the controls. Due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected in a timely manner or at all. If the Company cannot provide reliable financial reports or prevent fraud, its reputation and operating results could be materially adversely affected, which could also cause investors to lose confidence in the Company’s reported financial information and result in a reduction in the trading price of the Common Shares.

## **REGULATORY FRAMEWORK**

Prior to the Etain Acquisition, RIV Capital did not engage in the cultivation or distribution of cannabis in the U.S. for purposes of the Staff Notice. In light of the Etain Acquisition and the agreements referenced under the heading “Company Overview – Etain Acquisition and the Second Hawthorne Investment”, following the Initial Etain Closing, the Company (through Etain) may be considered to be directly engaged in the cultivation or distribution of cannabis in the U.S. for purposes of the Staff Notice. Etain is a legally licensed cannabis cultivation and retail dispensary operator in the state of New York. Etain is one of the state’s original five medical cannabis license recipients and one of 10 approved vertically integrated operators. Etain has four operating dispensaries, including its flagship store in Manhattan and locations in Kingston, Syracuse, and Westchester. The Investees are not currently directly involved in any marijuana-related activities in the U.S. (as defined in the Staff Notice). Pursuant to the Staff Notice, issuers with U.S. cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in prospectus filings and other required disclosure documents, such as this MD&A. The Company will evaluate, monitor, and reassess this disclosure, and any related risks, on an ongoing basis and the same will be supplemented and amended to investors

in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws or regulations regarding cannabis regulation. Any non-compliance, citations or notices of violation that may have an impact on Etain LLC's licenses, business activities, or operations will be promptly disclosed by the Company.

In accordance with the Staff Notice, below is a discussion of the federal and state-level U.S. regulatory regime in New York State, where Etain is currently involved in the cannabis industry. Also included below is a summary of the cannabis regulatory framework in Canada.

### **Financial Position and Operating Statement Exposure to U.S. Cannabis Related Activities**

As of the date of this MD&A, the majority of the Company's business was directly derived from U.S. cannabis-related activities. As such, excluding the Company's cash and short-term investments and legacy portfolio, the Company's balance sheet and operating statements exposure to U.S. cannabis-related activities for periods following the Etain Acquisition is nearly 100%.

### **Cannabis Regulatory Framework – Canada**

Medical cannabis has been regulated in Canada since 2001 under various legislative regimes. On October 17, 2018, the Cannabis Act came into force. The Cannabis Act governs both the medical and the regulated adult-use markets in Canada. Under the Cannabis Act, Health Canada has been granted the authority to issue a wide range of licenses, including licenses for standard cultivation, micro-cultivation, industrial hemp cultivation, and nursery cultivation, licences for standard processing and micro-processing, medical sales licenses, and licenses for analytical testing and research. In addition, federal regulations include various labeling and branding requirements.

Under the Cannabis Act, the distribution and sale of cannabis for adult-use purposes is regulated under the individual authority of each provincial and territorial government, and as such, regulatory regimes vary from jurisdiction to jurisdiction. With respect to retail sales of cannabis, certain provinces and territories allow only for government-run cannabis stores, whereas others, such as Ontario, leave the retail sale of cannabis to the private sector. In addition, other provinces and territories, such as British Columbia, allow for a hybrid model in which both public and private stores can operate.

Estimates of the potential size of the legal market for adult-use cannabis in Canada have varied greatly among industry observers, and initial projections failed to account for some of the operational growing pains that would be experienced by operators during Canada's initial years of cannabis legalization. Despite the early and, in some respects, ongoing challenges experienced by the industry, the emerging sector is demonstrating positive momentum. For example, the continued development of brick-and-mortar retail infrastructure and loosening of restrictions implemented in response to COVID-19 are expected to foster further industry growth by improving accessibility to the legal cannabis market through an increase in the number of access points for Canadians to purchase legal cannabis. It is also expected that the continued adoption by consumers of new cannabis product formats, including edible cannabis, cannabis extracts, and cannabis topical products, will support industry growth and further encourage consumers to migrate from the illicit market to the legal market.

On September 22, 2022, the federal government announced a legislative review of the Cannabis Act will be conducted by an independent panel, as required under the Cannabis Act. During the first phase of its work, the panel undertook a factual assessment of the impacts of the Cannabis Act to date through issues identification, evidence gathering and analysis; engagement with First Nations, Inuit and Métis peoples to determine areas of focus to guide the review; and engagement with stakeholders and the public. On October 10, 2023, the panel published a report summarizing the results of their initial engagement. The second phase of the legislative review will focus on providing advice on areas of the legislative framework, or its implementation, that the federal government could prioritize for improvement or reform, which will cumulate in a report that will be submitted to Parliament by March 2024.

On March 24, 2023, Health Canada published a notice of intent seeking feedback on potential amendments to the Cannabis Regulations regarding licensing, personnel and physical security measures, production requirements, packaging and labelling requirements, and record keeping and reporting requirements. The public comment period closed on May 24, 2023, and Health Canada is currently considering the feedback.

### **Cannabis Regulatory Framework – United States (Federal-Level)**

On February 8, 2018, the Canadian Securities Administrators revised their previously released Staff Notice, regarding required disclosures for issuers that currently have, or are in the process of developing, cannabis-related activities in the U.S. as permitted within a particular state's regulatory framework. Under the revised notice, all issuers with U.S.

cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in prospectus filings and other required disclosure documents.

Unlike in Canada, which has uniform federal legislation governing the cultivation, distribution, sale, and possession of cannabis under the Cannabis Act, in the U.S., cannabis is regulated differently at the federal and state level. Under U.S. federal law, drugs are regulated through the Controlled Substances Act (21 U.S.C. § 811) (“CSA”), which categorizes drugs into five different schedules. Schedule I is reserved for those drugs the federal Drug Enforcement Agency considers to have a high potential for abuse with no currently accepted medical use. Cannabis, other than hemp containing less than 0.3% THC on a dry weight basis (see below for more information), is categorized as a Schedule I controlled substance under the CSA (but see below regarding President Biden’s rescheduling marijuana initiative), making it illegal under U.S. federal law to cultivate, distribute, or possess cannabis. While state laws may take a permissive approach to medical and/or adult-use of cannabis, the CSA may still be enforced by U.S. federal law enforcement officials against citizens of those states for activity that is legal under state law. As at the date of this MD&A, and as mentioned above, 41 states, plus the District of Columbia (and the territories of Guam, Puerto Rico, the U.S. Virgin Islands, and the Northern Mariana Island), have legalized the cultivation and sale of cannabis for medical purposes. In 23 states and the territory of Guam, the sale and possession of cannabis is legal for both medical and adult-use (note Virginia’s general assembly did not reenact its adult-use program so it does not have an operational adult-use market), and the District of Columbia has legalized adult-use, but not commercial sale.

As a result of the conflicting views between state legislatures and the U.S. federal government regarding cannabis, investments in cannabis businesses in the U.S. are subject to inconsistent legislation and regulation. The response to this inconsistency was addressed in August 2013 when then Deputy Attorney General James Cole authored a memorandum (the “Cole Memorandum”) addressed to all U.S. district attorneys acknowledging that notwithstanding the designation of cannabis as a controlled substance at the federal level in the U.S., several U.S. states have enacted laws relating to cannabis.

The Cole Memorandum outlined certain priorities for the Department of Justice relating to the prosecution of cannabis offenses. In particular, the Cole Memorandum noted that in jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale, and possession of cannabis, conduct in compliance with those laws and regulations is less likely to be a priority at the federal level. Notably, however, the Department of Justice has never provided specific guidelines for what regulatory and enforcement systems it deems sufficient under the Cole Memorandum standard. In light of limited investigative and prosecutorial resources, the Cole Memorandum concluded that the Department of Justice should be focused on addressing only the most significant threats related to cannabis. States where medical cannabis had been legalized were not characterized as a high priority. On January 4, 2018, then U.S. Attorney General Jeff Sessions issued a memorandum (the “Sessions Memorandum”) that rescinded the Cole Memorandum. The Sessions Memorandum rescinded previous nationwide guidance specific to the prosecutorial authority of U.S. attorneys relative to cannabis enforcement on the basis that they are unnecessary, given the well-established principles governing federal prosecution that are already in place. Those principles require federal prosecutors deciding which cases to prosecute to weigh all relevant considerations, including federal law enforcement priorities set by the Attorney General, the seriousness of the crime, the deterrent effect of criminal prosecution, and the cumulative impact of particular crimes on the community.

As a result of the Sessions Memorandum, federal prosecutors are now free to utilize their prosecutorial discretion to decide whether to prosecute cannabis activities despite the existence of state-level laws that may be inconsistent with federal prohibitions. The Sessions Memorandum did not give federal prosecutors direction as to the priority they should ascribe to such cannabis activities, and therefore it is uncertain how active federal prosecutors will be in relation to such activities. Due to the ambiguity of the Sessions Memorandum, it is possible that the federal government will seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law. See “Risk Factors” in the AIF for additional information.

Notably, one legislative safeguard for medical cannabis programs remains in place. Congress has repeatedly passed a budget “rider” provision known as the “Rohrabacher-Farr Amendment” (also sometimes referred to as the “Rohrabacher-Blumenauer” or “Joyce-Leahy” Amendment), which prevents the federal government from using congressionally appropriated funds to enforce federal cannabis laws against regulated medical cannabis markets. The Rohrabacher-Farr amendment has been passed in the FY 2015, 2016, 2017, 2018, 2019, 2020, 2021 Consolidated Appropriations Acts. On March 15, 2022, the amendment was renewed through signing of the fiscal year 2022 omnibus spending bill, extending the rider’s protections through September of 2022. On September 30, 2022, President Biden signed H.R. 6833, a continuing resolution extending the provisions of the Rohrabacher-Farr Amendment through December 16, 2022. On December 29, 2022, President Biden signed PL 117-328, the Consolidated Appropriations Act for fiscal 2023, making the Rohrabacher Farr amendment effective through September 30, 2023. On September 29, 2023, President Biden signed a spending bill, officially called HR 5860, which extends the Rohrabacher Farr amendment

through November 17, 2023. While similar riders have been proposed to protect existing state enacted adult-use programs, such riders have not yet passed Congress and are not presently in place. There are no assurances that the Rohrabacher-Farr Amendment will be included in the omnibus appropriation package or a continuing budget resolution once the current spending bill expires.

It remains possible that state laws legalizing and regulating the sale and use of cannabis could be repealed or overturned, or that local governmental authorities will limit the applicability of state laws within their respective jurisdictions. Unless and until the U.S. Congress amends the CSA (or provides for some other legislative change) with respect to cannabis (and there can be no assurances as to the timing or scope of any such potential changes), there is a risk that federal authorities may enforce current U.S. federal law, including in respect of the cultivation, distribution, sale, and possession of cannabis.

If the Department of Justice opted to pursue a policy of aggressively enforcing U.S. federal law against financiers or equity owners of cannabis-related businesses, then the Company and its Investees could face: (i) seizure of their cash and other assets used to support or derived from their business activities; and/or (ii) the arrest of its employees, directors, officers, managers, and/or investors, who could face charges of ancillary criminal violations of the CSA for aiding and abetting and conspiring to violate the CSA by virtue of providing financial support to state-licensed or permitted cultivators, processors, distributors, and/or retailers of cannabis.

Under such an aggressive enforcement policy, the Department of Justice could allege that the Company and the Board, and potentially the Company's shareholders, "aided and abetted" violations of federal law by providing finances and services to the Company or certain of its Investees. Under these circumstances, it is possible that the federal prosecutor would seek to seize the assets of the Company or its Investees, and to recover "the illicit profits" previously distributed to the Company or, if the Company has paid dividends, the shareholders who received such dividends, resulting from any of the foregoing financing or services. In these circumstances, the Company's shareholders may lose their entire investment and directors, officers, and/or the Company's shareholders may be required to defend any criminal charges against them at their own expense and, if convicted, be sent to federal prison.

Additionally, under U.S. federal law it may, under certain circumstances, be a violation of federal money laundering statutes for financial institutions to accept any proceeds from cannabis sales or any other Schedule I controlled substances. Certain Canadian banks are similarly reluctant to transact business with U.S. cannabis companies, due to the uncertain legal and regulatory framework characterizing the industry at present. Banks and other financial institutions could be prosecuted and possibly convicted of money laundering for providing services to U.S. cannabis businesses. Under U.S. federal law, banks or other financial institutions that provide a cannabis business with a chequing account, debit or credit card, small business loan, or any other service could be found guilty of money laundering or conspiracy. Accordingly, the Company may have limited or no access to banking or other financial services. The inability, or limitation on the ability, to open or maintain bank accounts in the U.S., obtain other banking services, and/or accept credit card and debit card payments may make it difficult for the Company to operate and conduct its business as planned in the U.S. Indeed, the ability of retail customers to pay for their purchases of cannabis products by accessing the customers' personal bank accounts can be problematic and dependent upon how the payment processor networks view these transactions. Recently, one such network, Mastercard, reportedly instructed U.S. financial institutions to stop allowing retail purchases of cannabis products on its debit cards, thus denying customers of a convenient way to purchase marijuana products without cash. The Company is actively assessing this development and the impact, if any, upon its operations.

Despite these laws, in February 2014, the Financial Crimes Enforcement Network ("FinCEN") of the U.S. Treasury Department issued the FinCEN memorandum providing instructions to banks seeking to provide services to cannabis-related businesses (the "FinCEN Memorandum"). The FinCEN Memorandum states that in some circumstances, it is permissible for banks to provide services to cannabis-related businesses without risking prosecution for violation of federal money laundering laws. It refers to supplementary guidance that Deputy Attorney General Cole issued to federal prosecutors relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the CSA. It is unclear at this time whether the current administration will follow the guidelines of the FinCEN Memorandum. See "Risk Factors" in the AIF for additional information.

On December 20, 2018, the Agricultural Improvement Act of 2018 (commonly known as the "2018 Farm Bill") was signed into law by former President Donald Trump. The 2018 Farm Bill, among other things, removed industrial hemp and its cannabinoids, including CBD derived from industrial hemp (as defined in the 2018 Farm Bill), from the CSA and amended the Agricultural Marketing Act of 1946 to allow for industrial hemp production and sale in the U.S. Under the 2018 Farm Bill, industrial hemp is defined as "the plant *Cannabis sativa* L. and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a delta-9 tetrahydrocannabinol concentration of not more than 0.3 percent on a dry weight basis." The U.S. Department of Agriculture (the "USDA") has been tasked with promulgating regulations for the industrial hemp industry,



which, among other things, requires the USDA to review and approve any state-promulgated regulations relating to industrial hemp. On October 31, 2019, the USDA issued interim final regulations that imposed certain testing and other requirements in order to assure that crops to be sold as industrial hemp will meet the statutory limitations. On February 27, 2020, the USDA announced that it would delay enforcement of certain requirements of the interim final regulations pertaining to analytical testing and disposal requirements until October 31, 2021, or publication of the final rule, whichever occurred first. On January 11, 2021, the USDA announced the final regulations, with an effective date of March 22, 2021. The final regulations generally track the interim final regulations, though with some modifications.

Further, under the 2018 Farm Bill, the United States Food and Drug Administration (the “FDA”) has retained its authority to regulate products containing cannabis or cannabis-derived compounds, including CBD, under the Food, Drug and Cosmetics Act (the “FDCA”) and section 351 of the Public Health Services Act. On May 31, 2019, the FDA held its first public meeting to discuss the regulation of cannabis-derived compounds, including CBD. The meeting included stakeholders across academia, agriculture, consumer, health professional, and manufacturer groups, and was intended to explore new pathways for hemp-derived CBD to be sold legally in the food and supplement markets, while protecting research into future pharmaceutical applications. The FDA has expressed an interest in fostering innovation regarding the development of products containing hemp-derived compounds, such as CBD; however, the FDA has indicated that those actions will have to fit under the confines of current law and further legislation will likely be required.

In November 2019, the FDA issued guidance and a description of its activities, in which the FDA stated that only hemp seed oil, hulled hemp seed, and hemp seed powder were “Generally Recognized as Safe” (“GRAS”) as ingredients in food, and that CBD and THC were not GRAS. In the guidance, the FDA has taken the position that a food product or dietary supplement containing CBD would be “adulterated” and could not legally be marketed in the U.S. The FDA has continued to issue warning letters to manufacturers of food or dietary supplements that are labeled as including CBD.

The FDA has approved one prescription drug containing CBD and has taken the position that no other product can be marketed as containing CBD without approval as a new drug. On January 26, 2023, FDA announced that it had denied three citizen petitions that had asked FDA to issue a rulemaking allowing products containing CBD to be marketed as dietary supplements. Instead of agreeing to issue a rulemaking, FDA took the position that “a new regulatory pathway for CBD is needed that balances individuals’ desire for access to CBD products with the regulatory oversight needed to manage risks.” While FDA announced its willingness to work with Congress on such a program, it would not create such a regulatory program on its own. Moreover, in denying the citizen petitions, FDA expressed significant concerns about CBD. For example, FDA stated, “the accumulating evidence about CBD suggests that there are considerable safety concerns with its potential use as a dietary supplement, and it is not apparent from your Petition or the available evidence how a CBD product would be able to meet the applicable safety standard that the law provides for dietary supplements. The use of CBD raises safety concerns, especially with long-term use. Scientific studies show possible harm to the male reproductive system, including testicular atrophy; harm to the liver; and interactions with certain medications. The FDA has not found adequate information showing how much CBD can be consumed, and for how long, before causing harm. This is particularly true for vulnerable populations like children and those who are pregnant. For this reason, we have concerns as to whether CBD products could meet the safety standard for dietary supplements.”

There can be no assurance that the FDA will approve CBD as an additive to products under the FDCA. Additionally, the 2018 Farm Bill does not legalize “marihuana” (as such term is defined in the CSA), which remains a Schedule I controlled substance under the CSA.

Further, insofar as the 2018 Farm Bill expires this year, there can be no guarantee that the Farm Bill will be re-enacted or that if re-enacted, changes could be made to the current version that could impact treatment of hemp, including the current definition of hemp that excludes it from the provisions of the CSA.

On November 3, 2020, ballot initiatives regarding the establishment of medical use regulatory frameworks in Mississippi and South Dakota, and adult-use regulatory frameworks in Arizona, New Jersey, Montana, and South Dakota, successfully passed. Subsequently, Connecticut, New Mexico, New York, and Virginia (during 2021, though this adult-use program has now stalled) and Rhode Island (during 2022) passed legislation to allow adult use of cannabis, with implementing legislation and regulations for commercial sales to follow. On November 8, 2022, Maryland voters approved a referendum and Missouri voters passed a ballot initiative legalizing marijuana. Adult-use sales in Maryland are expected to commence on July 1, 2023, and have already commenced in Missouri earlier this year. Measures to legalize adult-use marijuana in Arkansas, North Dakota, and South Dakota failed. Pennsylvania is currently considering the implementation of an adult-use regulatory framework in 2023. Issue 2, a ballot initiative to create an adult-use program in Ohio is on the ballot for voters to decide on November 7, 2023, and a ballot initiative is currently anticipated to move forward in Florida.

In addition, several states have recently passed cannabis legislation signed into law by their respective governors. On March 31, 2023, Kentucky's legislature and governor approved a bill authorizing a medical cannabis program. On April 23, 2023, Delaware's legislature passed legislation that become law authorizing an adult-use cannabis program. On May 30, 2023, Minnesota's legislature and governor signed into law a bill creating an adult-use cannabis program.

Furthermore, multiple legislative reforms related to cannabis have been introduced in the U.S. Congress. Examples include the proposed bills styled as the States Reform Act, the Cannabis Administration and Opportunity Act, the Medical Marijuana Research Act, the Marijuana Opportunity Reinvestment and Expungement Act, the Strengthening the Tenth Amendment Through Entrusting States Act, and the Secure and Fair Enforcement Banking Act (the "SAFE Banking Act"). The SAFE Banking Act did not pass the Senate in the last Congress. On September 27, 2023, a modified version of the SAFE Banking Act, known as the Secure and Fair Enforcement Regulation (the "Safer Banking Act") was passed by the Senate Committee on Banking, Housing and Urban Affairs, representing the first time any version of the SAFE Banking Act has made it out of committee in the United States Senate. The SAFER Banking Act is expected to go to the Senate floor for a vote, though there can be no assurances to the timing of any such vote or that a vote will take place. Prior versions of the SAFER Banking Act have passed the United States House of Representatives on several occasions, but with the change in control of the House from the last election cycle, passage cannot be assured. None of these proposed bills have been approved by both chambers of Congress and none have yet been presented to President Biden for signature. There can be no assurance that any of these pieces of legislation will become law in the U.S.

On October 6, 2022, President Biden announced a series of marijuana-related initiatives: (1) pardoning those convicted of simple marijuana possession under the CSA (21 U.S.C. § 844) and under Washington D.C.'s Code 48-904.01(d)(1); and (2) asking the Secretary of Health and Human Services and the Attorney General "to initiate the administrative process to review expeditiously how marijuana is scheduled under federal law".

On August 29, 2023, for the first time ever, the Department of Health and Human Services ("HHS") recommended to the Drug Enforcement Administration ("DEA") that marijuana be rescheduled from Schedule I to Schedule III under the CSA. The next step in the rescheduling process is for DEA to conduct its own review of marijuana based upon three criteria: (1) whether the substance in question has a medical use (only federally legal research on Cannabis will likely be reviewed); (2) its potential for abuse; and (3) the extent to which the substance is unsafe or addictive. DEA must accept HHS' recommendation on medical and scientific matters.

For the reasons set forth above, the Company's existing investments in the U.S., and any current and future investments in the U.S. cannabis market that the Company pursues under its revised corporate strategy, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada, the U.S. and elsewhere. As a result, the Company may be subject to direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to further invest in the U.S. or any other jurisdiction. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, its investments in certain Investees, its financial position, operating results, profitability or liquidity or the market price of the Common Shares.

Moreover, as a result of the Company's strategy targeting opportunities in the U.S. cannabis market and/or the Etain Acquisition, parties outside of the cannabis industry with which the Company does business may perceive that they are exposed to reputational or other business risk as a result of the Company's cannabis-related business activities. For example, the Company could receive a notification from a financial institution or professional services firm advising it that they would no longer maintain a relationship with the Company. Accordingly, the Company may in the future have difficulty establishing certain business relationships that it needs to operate its business. Failure to establish or maintain business relationships could have a material adverse effect on the Company.

Please refer to "Regulatory Framework – Other Risk Related to Investing in the U.S. Cannabis Industry" below and the "Risk Factors" section in the AIF for additional details.

### **Cannabis Regulatory Framework – United States (State-Level and Compliance Summary)**

#### New York Legislative History

In July 2014, the New York legislature and Governor of New York enacted the CCA to provide a comprehensive, safe and effective medical cannabis program. The CCA bill was part of the Title V-A in Article 33, Title 10, Chapter 13 of the Public Health Law. The CCA provided access to the program to those who suffer from one of 31 qualifying serious conditions including debilitating or life-threatening conditions such as cancer, HIV/AIDS, ALS and chronic pain. Patients were also required to have one of the following associated or complicating conditions: cachexia or wasting syndrome, severe or chronic pain, severe nausea, seizures, or severe or persistent muscle spasms. Pursuant to the CCA, only a

limited number of product offerings were allowed including metered liquid or oil preparations, solid and semi-solid preparations (e.g., capsules, chewable and effervescent tablets), metered ground plant preparations, and topical forms and transdermal patches. Medical cannabis was not permitted to be incorporated into food products unless approved by the Commissioner of Health and smokable cannabis flower was prohibited.

On March 31, 2021, the New York State legislature passed the MRTA, legalizing adult-use cannabis in the state and establishing a regulatory framework for medical and adult-use cannabis and hemp. Under the MRTA, the CCA provisions were repealed effective six months after the appointment of the CCB, the approval and oversight body of the OCM. The CCB was appointed in September 2021 and held its first meeting on October 5, 2021. Accordingly, the CCA was repealed as of April 2022. The MRTA also provides for the transfer of authority over medical cannabis from the NYDOH to the CCB and the OCM.

On December 14, 2022, the CCB filed proposed regulations for the New York adult-use cannabis market, including the rules governing, among other things, ROs' transition to the adult-use market. More specifically, the proposed regulations prescribe that one-time fees related to an RO's transition to New York's adult-use cannabis market could be approximately \$19,000 in total, including \$5,000 payable upon entry into the adult-use wholesale market, with another \$5,000 payable in stages over a five-year period, and \$3,000 payable for each co-located medical and adult-use dispensary (maximum of three allowed, but the co-location cannot occur until December 29, 2025, which is three years from the first legal sale of adult-use cannabis in New York State). The proposed regulations also included a significant number of other rules governing the ROs as well as other aspects of the adult-use market. The Company, through Etain, submitted extensive comments on the proposed regulations as part of the 60-day public comment period, which closed on February 13, 2023.

On May 11, 2023, the CCB approved revised proposed regulations for the New York adult-use cannabis market, incorporating feedback from the prior public comment period. As noted above, under the revised regulations, the one-time fee related to an RO's transition to New York's adult-use cannabis market is approximately \$20,000 in total (exclusive of application fees), with \$5,000 payable when an RO receives its ROD (as defined above) license, with another \$5,000 payable within 180 days of opening its second co-located dispensary (with the first co-location permitted not sooner than December 29, 2023, which is one year from the date of the first legal sale of adult-use cannabis in the State of New York, and the remaining two stores no sooner than June 29, 2024), \$5,000 payable within 30 days of achieving \$100,000 in revenue from its ROD license, and \$5,000 payable within 30 days of achieving \$200,000 in revenue from its ROD license. The balance of the \$20,000 special licensing fee reference above must be paid by December 31, 2033, even if the triggering events above are not achieved unless aggregate New York State cannabis retail and wholesale revenues are less than \$20 billion, in which case, the fee obligation sunsets. Under the proposed regulations, if an ROD license expires or is otherwise revoked, cancelled, or abandoned before December 31, 2033, the ROD must still pay the remainder of the \$20,000 special licensing fee. As with the initial proposed regulations, the revised regulations included a significant number of other rules governing the ROs as well as other aspects of the adult-use market. The Company, through Etain, submitted comments on the revised regulations as part of the 45-day public comment period, which closed on July 31, 2023. On September 27, 2023, CCB adopted final adult-use regulations that were largely unchanged from the May 11, 2023 proposed regulations.

On February 22, 2023, the OCM issued final regulations to govern medical cannabis and replace the former medical regulations promulgated by the NYDOH. On July 19, 2023, the OCM recommended and the CCB approved proposed amendments to align the adopted medical regulations with the proposed adult-use regulations. The amended medical regulations are subject to a 60-day public comment period, which commenced on November 8, 2023, and ends on January 8, 2024.

The OCM has also:

- Released Laboratory Testing Regulations (Part 130) effective as of March 22, 2023.
- Released a revised version of the Packaging, Labeling, Marketing and Advertising Regulations (Part 128 and 129), which was made effective March 22, 2023.
- Issued final Personal Home Cultivation of Medical Cannabis regulations (Part 115), which became effective on October 5, 2022.
- Awarded 463 Conditional Adult-Use Retail Dispensaries (CAURDs) licenses, which are the first retail dispensaries to open for adult-use cannabis sales in New York State and are intended to be issued to applicants meeting certain social equity and justice involved criteria further outlined in guidance issued by the OCM. On December 29, 2022, the first CAURD licensee began operating and conducted the first adult-use retail cannabis sale in New York State.
- Released two sets of emergency regulations that became effective June 6, 2023 (the June emergency regulation expired on October 4, 2023) and August 4, 2023, which expires December 4, 2023.

Etain is currently regulated under New York State law related to medical cannabis. Etain has received licenses to cultivate and manufacture cannabis products, and to sell those products to individuals who have been prescribed medical marijuana and who have appropriate identification cards issued by New York State. The cultivation, manufacture, and sale must occur on the licensed premises. Etain currently has four operating dispensaries in New York (notably, under the MRTA, Etain can expand to a maximum of eight dispensaries statewide with a maximum of three permitted to co-locate for medical and adult-use sales). Under New York State law, certain licensed medical dispensaries may be permitted to sell adult-use cannabis products, subject to the timelines discussed above, once final regulations have issued.

Please refer to “Compliance Program and Procedures” below for information regarding Etain LLC’s compliance program and procedures.

New York Operations

Please refer to “Description of Business, Industry, and Strategy – U.S. Cannabis Platform – New York: Etain” for additional information regarding Etain LLC’s operations, products and brands.

New York Licenses

The NYDOH has issued licenses to eleven ROs which hold vertically integrated licenses. Each RO has one cultivation/processing license and four dispensary licenses. Under the MRTA, the authority to renew existing licenses and to issue new licenses has transferred from the NYDOH to the OCM.

The New York cultivation, processing, and dispensary licenses are valid for two years from the date of issuance and license holders are required to submit a renewal application not more than six months nor less than four months prior to expiration. Etain submitted its application for renewal of its cannabis licenses on May 1, 2023. On July 28, 2023, the OCM notified Etain and the other ROs that it is still finalizing its review of RO license renewal applications and that ROs may, pursuant to protections under New York’s State Administrative Procedure Act, continue to operate under their previously authorized licenses while the OCM completes its review. License holders must ensure that no cannabis is sold, delivered, transported or distributed by a producer to or from a location outside of New York State.

While Etain LLC’s compliance controls have been developed to mitigate the risk of any material violations of a license arising, there is no assurance that New York cannabis licenses will be renewed in the future in a timely manner. Any unexpected delays or costs associated with the licensing renewal process could impede the ongoing or planned New York cannabis operations and could have a material adverse effect on the business, financial condition and results of operations of the Company and Etain.

The table below lists Etain LLC’s active and pending OCM licenses:

License Number	City/County	Expiration Date	Description
MM0401M	Chestertown	07/31/2023 <sup>(1)</sup>	Acquiring, possession, manufacture, sale, transporting, and distributing medical cannabis
MM0403D	Kingston	07/31/2023 <sup>(1)</sup>	Acquiring, possession, sale, transporting, distributing, dispensing and delivery of medical cannabis
MM0404D	Yonkers	07/31/2023 <sup>(1)</sup>	Acquiring, possession, sale, transporting, distributing, dispensing and delivery of medical cannabis
MM0405D	Syracuse	07/31/2023 <sup>(1)</sup>	Acquiring, possession, sale, transporting, distributing, and dispensing medical cannabis
MM0407D	Manhattan	07/31/2023 <sup>(1)</sup>	Acquiring, possession, sale, transporting, distributing, dispensing and delivering medical cannabis
OCM-HMPD-22-00028	New York	02/09/2024	Cannabinoid Hemp Distributor Permit
OCM-HMPR-22-00108	Manhattan Kingston	02/24/2024	Cannabinoid Hemp Retail License

License Number	City/County	Expiration Date	Description
	Yonkers Syracuse		
OCM-HMPE-23-00046	Chestertown	02/16/2025	Cannabinoid Hemp Processor – Extracting & Manufacturing License

(1) The July 31, 2023 expiration date has been extended by the OCM, which sent an email to ROs on July 28, 2023 confirming that New York's State Administrative Procedure Act permits ROs to continue operating while the OCM completes its review of RO license renewal applications.

#### New York Record-Keeping and Reporting

The OCM uses the BioTrack THC T&T system to track commercial cannabis activity, although the State of New York is transitioning to an updated version of BioTrack later this year. Each month, each RO is required to file reports with the OCM which provides information showing all products dispensed during the month. All other data shall be pulled from the BioTrack THC T&T system. The data must include (a) documentation, including lot numbers where applicable, of all materials used in the manufacturing of the approved medical cannabis products to allow tracking of the materials, including but not limited to, soil, soil amendment, nutrients, hydroponic materials, fertilizers, growth promoters, pesticides, fungicides, and herbicides, (b) cultivation, manufacturing, packaging and labelling production records, and (c) laboratory testing results. The records are required to be maintained for a period of five years.

#### New York Inventory/Storage

A record of all approved medical cannabis products that have been dispensed must be filed with the OCM by ROs electronically through the BioTrack THC T&T system no later than 24 hours after the cannabis was dispensed to a certified patient or designated caregiver. The information filed must include (a) a serial number for each approved medical cannabis product dispensed to the certified patient or designated caregiver, (b) an identification number for the RO's dispensing facility, (c) the patient's name, date of birth and gender, (d) the patient's address, (e) the patient's registry identification card number, (f) the date the medical cannabis product was dispensed by the dispensing site, (g) the metric quantity for the medical cannabis product, (h) the medical cannabis product identifier code number, (i) the number of days supply dispensed, (j) the certifying practitioner's Drug Enforcement Administration number, (k) the date the written certification was issued by the certifying practitioner, and (l) the payment method.

All cannabis that is not part of a finished product must be stored in a secure area or location within the RO and be accessible only to a minimum number of employees essential for efficient operation and in such a manner as approved by the OCM in advance, to prevent diversion, theft or loss and against physical, chemical and microbial contamination and deterioration. Cannabis must be returned to its secure location immediately after completion of manufacture, distribution, transfer or analysis.

#### New York Security

All facilities operated by a RO, including any manufacturing facility and dispensing facility, must have a security system to prevent and detect diversion, theft or loss of cannabis and/or medical cannabis products. The security system must utilize commercial grade equipment which includes a perimeter alarm and a failure notification system that provides an audible text or visual notification of any failure in the surveillance system. Manufacturing and dispensing facilities must direct cameras at all approved safes, vaults, dispensing areas, cannabis sales areas and any other area where cannabis is manufactured, stored, handled, dispensed or disposed of. Manufacturing and dispensing facilities must angle the cameras to allow for the capture of clear and certain identification of any person entering or exiting the facilities. The surveillance cameras must record during hours of operation and at any time that cannabis or medical cannabis products, in any form, are being handled, and motion activated recordings at all other times. Recordings from all surveillance cameras must be readily available for immediate viewing by a New York State authorized representative upon request and must be retained for at least 60 days. A RO must test the security and surveillance equipment no less than semi-annually at each manufacturing and dispensing facility that is operated under the RO's registration. Records of security tests must be maintained for five years.

#### New York Transportation

Cannabis products must be transported in a locked storage compartment that is part of the vehicle transporting the cannabis and in a storage compartment that is not visible from outside the vehicle. An employee of a RO, when transporting approved medical cannabis products, must (a) travel directly to his or her destination(s) and may not make any unnecessary stops in between, (b) ensure that all approved medical cannabis product delivery times are randomized, (c) possess a copy of the shipping manifest at all times when transporting or delivering approved medical cannabis products, (d) keep the shipping manifest for a minimum of five years, and (e) ensure that the transport team

members have the ability to communicate with employees of the registered organization at all times that the vehicle contains medical cannabis products.

#### New York Inspections

A medical marijuana facility in New York must make its books, records and manufacturing and dispensing facilities available to the OCM or its authorized representatives for monitoring, on-site inspection, and audit purposes, including but not limited to, periodic inspections and/or evaluations of facilities, methods, procedures, materials, staff and equipment to assess compliance with requirements of New York State law.

If any deficiencies are identified by the inspection, such deficiencies must be documented in a statement of findings issued by OCM. The registered organization then has 15 days from the issue date of the statement of findings to submit a written plan of correction.

#### U.S. Attorney Statements in New York

To the knowledge of management of the Company, other than as disclosed elsewhere in this MD&A, there have not been any statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in New York. See "Risk Factors" in the AIF for further details.

#### Compliance Program and Procedures

Prior to the Etain Acquisition, the Company did not engage in the cultivation or distribution of cannabis in the U.S. for purposes of the Staff Notice. In light of the Etain Acquisition, the Company continues to develop its internal compliance and standard operating procedures on this topic, which will be fully integrated with the extensive state-approved standard operating procedures and compliance policies and programs Etain LLC has in place. In entering into the Etain Purchase Agreements, the Company conducted appropriate diligence to confirm that Etain has internal policies and procedures to maintain compliance with applicable state laws and as to current compliance. The Etain Purchase Agreements included appropriate representations as to current compliance.

Etain LLC has in place comprehensive standard operating procedures and policies, which are compliant with the applicable state and local laws, regulations, ordinances, and other requirements. Etain LLC ensures adherence to standard operating procedures by regularly conducting internal compliance inspections and assessments and is committed to ensuring any issues identified are resolved quickly and thoroughly. As part of Etain LLC's cannabis license renewal application, submitted to OCM on May 1, 2023, Etain submitted updated standard operating procedures and compliance policies. The Company and Etain continue to monitor and update these policies and protocols as changes are made.

While the Company believes that Etain LLC is currently in compliance with New York State rules, regulations and license requirements, there are significant risks associated with its business and the business of its contractual parties. Further, the rules and regulations as outlined above are not a full complement of all the rules that Etain LLC is required to follow in the state of New York. Etain LLC monitors, and the Company will monitor, the applicable rules and regulations of the state of New York as well as correspondence and changes to, and updates of, rules or regulatory policies impacting Etain LLC in the state of New York. The Company and Etain LLC have engaged New York State and local regulatory/compliance counsel to assist in evaluating compliance of applicable requirements, and Etain LLC has a compliance department to monitor and implement applicable requirements.

Etain LLC has no non-compliance citations or notices of violation which would be expected to have a material impact on its licenses, business activities or operations.

In addition, Etain LLC has a comprehensive training program that emphasizes, among other things, the importance of compliance with state and local laws and security and inventory control.

In order to comply with industry best practices, Etain LLC performs, amongst other things, the following:

- Ensure the operations are compliant with all licensing requirements that are set forth with regards to cannabis operation by New York State.
- Ensure the activities relating to cannabis business adhere to its New York State licensing requirements.

- Etain LLC functions within the New York State regulatory environment, which imposes a range of requirements and strict regulatory oversight aimed at ensuring, as do Etain’s business policies and practices, sufficient checks and balances to ensure that no revenue is distributed to criminal enterprises, gangs and cartels.
- Ensure Etain LLC’s products and product packaging are in compliance with applicable regulations and contain required disclaimers regarding such products.

While Etain LLC strives, and the Company will strive, to ensure that operations are in compliance with New York State laws, regulations and licensing requirements, some of such activities remain illegal under U.S. federal law. For the reasons described above, the risks described below under “Other Risks Related to Investing in the U.S. Cannabis Industry” and the risks further described under the heading “*Risk Factors*” in the AIF, there are significant risks associated with the business of Etain (and the Company).

**Other Risks Related to Investing in the U.S. Cannabis Industry**

**Contracts and Service Providers**

Operating or investing in the U.S. cannabis industry may breach existing contractual covenants the Company has with any banking institutions, suppliers, or other third parties. In such circumstances, the Company would be required to amend the terms of or replace such agreements and enter into alternative arrangements. Any violation of the terms of such contractual covenants and the failure to enter into appropriate alternative arrangements would result in a breach of the applicable agreement, and accordingly, may have a material adverse effect on the business, operations, and financial condition of the Company.

Prior to the Initial Etain Closing, the Company engaged in discussions with its service providers, including its auditor and any entities that provide commercial banking services to RIV Capital, whose terms of service prohibit the Company from making investments or acquisitions in the U.S. cannabis market regarding any necessary transition to service providers whose terms of service would not prohibit such activities. The Company successfully completed certain required transitions to new service providers prior to the Initial Etain Closing.

**Taxes**

An additional challenge for cannabis-related businesses in the U.S. is that the provisions of Section 280E of the Code, are being applied by the Internal Revenue Service (the “IRS”) to businesses operating in the medical and adult-use cannabis industry in the U.S. Pursuant to Section 280E of the Code, “no deduction or credit shall be allowed for any amount paid or incurred during the taxable year in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of Schedule I and II of the CSA) which is prohibited by Federal law or the law of any State in which such trade or business is conducted.”

Accordingly, Section 280E of the Code prohibits cannabis businesses from deducting their ordinary and necessary business expenses, forcing them to pay higher effective federal tax rates than similar companies in other industries. The effective tax rate on a cannabis business depends on how large its ratio of non-deductible expenses is to its total revenues. Therefore, businesses in the U.S. cannabis industry, such as Etain, may be less profitable than they would otherwise be if the provisions of Section 280E of the Code were not applicable. Furthermore, although the IRS issued a clarification allowing the deduction of cost of goods sold, the scope of such items is interpreted very narrowly, and a significant portion of operating costs and general administrative costs are not permitted to be deducted. These tax provisions could have a material adverse effect on the business, financial condition, and results of operations of the Company.

**Access to Public and Private Capital**

Given the illegality of cannabis under U.S. federal law, the Company’s access to capital could be negatively affected by public and/or private capital not being available to support continuing operations or future investment opportunities. To date, the Company has been able to access equity financing through public and private markets in Canada, and

debt financing through the Convertible Notes. At present, management believes that capital availability could change without notice, requiring the Company to operate solely on currently available and internally generated funds.

There can be no assurance that additional financing will be available to the Company when needed or on terms that are acceptable to the Company. The Company's inability to raise financing to fund its capital expenditures and execute on its investment strategy could limit its growth and may have a material adverse effect upon future profitability.

## **RISK FACTORS**

There are several risk factors that could cause the Company's actual results, performance, and achievements to differ materially from those described herein. If any of these risks occur, the Company's business may be harmed, and its financial condition and results of operations may suffer significantly. Such risk factors include, but are not limited to, the risks discussed in this MD&A and under the heading "Risk Factors" in the AIF, which has been filed under the Company's profile on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca).