



**RIV** CAPITAL

**RIV CAPITAL INC.**

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

FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2022 AND 2021

Date: February 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”). 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 nine months ended December 31, 2022 and 2021. This MD&A should be read in conjunction with the Company’s unaudited condensed interim consolidated financial statements for the three and nine months ended December 31, 2022 and 2021 (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.

This MD&A was prepared with reference to National Instrument 51-102 – *Continuous Disclosure Obligations* of the Canadian Securities Administrators. This MD&A provides information for the three and nine months ended December 31, 2022 and 2021. This MD&A is dated February 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, 2022 and 2021, and the notes thereto (the “Annual Consolidated Financial Statements”), and the related MD&A for the three months and years ended March 31, 2022 and 2021 (the “Annual MD&A”), each dated June 10, 2022. 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 10, 2022 (the “AIF”), and the Company’s press releases, have been filed electronically through the System for Electronic Document Analysis and Retrieval (“SEDAR”) at [www.sedar.com](http://www.sedar.com) 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 February 28, 2023.

Unless otherwise indicated, all financial information in this MD&A is presented in thousands of dollars, except share and per share amounts, and, as a result of the change in the Company’s presentation currency (see “Changes in Accounting Policies – Change in Presentation Currency”), all amounts are now 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;
- 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 Cannabis Control Board’s (as defined herein) proposed regulations for the New York adult-use cannabis market, and licensing application forms and guidance for the initial CAURDs (as defined herein);
- the Company’s expectations with respect to the SAFE 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 The Scotts Miracle-Gro Company (“ScottsMiracle-Gro”);
- 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 (as defined herein);
- 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 Company’s expectations regarding the impairment of the Etain CGU (as defined herein) and whether additional impairment testing and further impairment charges will or will not occur in the future;

- 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;
- the Company's expectations with respect to the expansion of Etain LLC's (as defined herein) Chestertown facility, including the expected cost and timing for completion of such expansion 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 intention to develop a flagship facility in upstate New York, including 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 operation;
- the ability of the Company to achieve its growth objectives in a capably efficient manner;
- the Company's expectations regarding the proposed one-time fees that Etain LLC may be required to pay to the OCM (as defined herein) to operate in New York State's adult-use cannabis market;
- 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 impacts of the ongoing 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;
- the anticipated benefits of the shift in the Company's presentation currency to U.S. dollars;
- 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 remediation thereof;
- the Company's expectations regarding the effectiveness of remedies to significant deficiencies, including their ability to fully remediate such deficiencies; 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 were 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 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, the Initial Etain Closing (as defined herein) occurred and RIV Capital acquired the non-regulated portion of the Etain Companies (as defined herein). 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 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 ("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 certain adjustments) and \$34,787 of the purchase price was to be satisfied by the issuance of Common Shares. Concurrent with the announcement of the Etain Purchase Agreements, the Company also announced that the Board appointed Mark Sims as President and Chief Executive Officer of the Company.

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 for \$197,605 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 “Cannabis Control Board”) and the New York State Office of Cannabis Management (“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.

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:

<b>Summary of the Company and its Active Subsidiaries</b>		
<b>Name of Company</b>	<b>Place of Incorporation or Formation</b>	<b>Ownership %</b>
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 the 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 that enable it to exercise control over Allgro. 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 Cannabis Control Board 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 21 states, plus the District of Columbia, where cannabis is legal for adult use and 37 states, plus the District of Columbia, where cannabis is legal for medical use, representing a large addressable population. According to estimates published by BDS Analytics in September 2022, the country’s legal cannabis sales are expected to total approximately \$27 billion in 2022. The Company expects sales to trend higher as a result of a continuation of medical and adult-use programs rolling out across states. 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 Cannabis Control Board 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 December 14, 2022, the Cannabis Control Board 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, and it is expected that the proposed regulations will either be modified and reissued for another public comment period or finalized and approved by the Cannabis Control Board in their current form.

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 ten Registered Organizations (“ROs”) licensed to sell medical marijuana 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 12,000 square foot cultivation and processing facility located in Chestertown, New York, a hamlet with approximately 700 residents in the Adirondack Mountains. Originally constructed in 2015, the facility is currently 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 manufactures its portfolio of medicated cannabis products (dried flower, pre-rolls, vaporizers, capsules, tinctures, powders, lozenges, lotions, and oral sprays).



The Chestertown facility is currently undergoing a significant expansion, which is expected to be substantially completed during the second calendar quarter of 2023. The expansion plans include approximately 28,800 square feet of additional rooms dedicated for flowering with eight new hybrid greenhouse bays, as well as new production space to meet the anticipated demands of the impending adult-use market in New York.

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 manufacturing 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. The Company will sublease the Flagship Facility to Etain LLC upon receipt of necessary regulatory approvals, and the lease is contingent on receipt of regulatory and other necessary approvals. The initial term of the lease is for 15 years and will commence upon substantial completion of construction of the buildings. 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 expansion of the existing cultivation and production space in Chestertown, 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 finishing and equipping the Chestertown expansion, 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 in the range of \$35,000 to \$40,000. This estimate, 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 three fiscal years.

These projected capital expenditures include estimates for one-time fees that Etain LLC may be required to pay to the OCM to operate in New York’s adult-use cannabis market. The Company’s estimates are based upon proposed regulations for New York’s adult-use cannabis market that were filed by the Cannabis Control Board on December 14, 2022. As discussed above, these proposed regulations have not been finalized as of the date of this MD&A. The proposed regulations currently 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 (ROs are permitted to co-locate a maximum of three facilities under the proposed regulations, but the co-location cannot occur until December 29, 2025, which is three years from the date of the first legal sale of adult-use cannabis in the State of New York). The public comment period on the proposed adult-use regulations closed on February 13, 2023, and it is unclear whether the proposed regulations will be modified and reissued for another public comment period or finalized and approved by the Cannabis Control Board in their current form.

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 has active investments in the following companies (the “Investees”):

Summary of Other Investments		
Company <sup>(1)</sup>	Location of Operations	Business Description
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. The company’s Light Treatment Platform combines biological insights, genetic marker knowledge, data, and innovation in light-mediated plant development. Through a short duration application of Light Signal Recipes™ to young plants or seeds, BioLumic has created large improvements in plant yield, quality, and disease resistance. This includes triggering genetic expression changes to better match existing genetics to varying environments and growing system requirements.
Dynaleo Inc. (“Dynaleo”)	Canada (Alberta, British Columbia, Manitoba, Ontario, Northwest Territories, Saskatchewan, and Yukon)	Dynaleo is a company licensed to produce cannabis edibles under the Cannabis Act. Based in Nisku, Alberta, Dynaleo operates a 27,000 square foot purpose-built facility, and is focused on manufacturing edible cannabis gummies for the Canadian adult-use market by way of white-label contracts and Dynaleo-branded products.
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.
High Beauty, Inc. (“High Beauty”)	Canada, Europe, Hong Kong, United Arab Emirates, and U.S.	High Beauty is a beauty company, offering multiple products under the brands <i>high</i> and <i>canBE Naturally</i> , including cleansing foams, facial oils, facial moisturizers, eye gels, and peeling masks, among others. Product offerings under both brands are expertly formulated using hempseed oil, bioflavonoids, and pure essential plant oils to deliver the high-powered benefits of hemp for the skin. The <i>high</i> -branded portfolio of products is sold through U.S., Canadian, and European retailers, and is offered direct to consumers online. The <i>canBE Naturally</i> -branded portfolio is distributed through U.S. retailers. High Beauty also has distribution partnerships with retailers and distributors in Asia, the Middle East, and the United Kingdom.
LeafLink Services International ULC (“LeafLink International”)	Canada (Ontario)	LeafLink International is a subsidiary of LeafLink, Inc., a U.S.-based company, that exclusively licenses LeafLink, Inc.’s business-to-business e-commerce marketplace and supply chain technology platform for deployment throughout regulated international cannabis markets outside of the U.S. LeafLink, Inc. is a business-to-business wholesale marketplace that simplifies the supply chain through its e-commerce platform and that has linked approximately 8,500 cannabis retailers across approximately 26 territories in the U.S. with approximately 3,700 vendors, servicing approximately \$4.5 billion of gross merchandise value on an annualized basis. As of the date of this MD&A, LeafLink International’s Canadian operations have been temporarily suspended due to regulatory limitations in Canada.

### Summary of Other Investments

Company <sup>(1)</sup>	Location of Operations	Business Description
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.

(1) As of the date of this MD&A, the Company also has certain financial interests in Civilized Worldwide Inc. and RAMM Pharma Corp. These companies are not included above due to various factors, including, but not limited to, the fact that the Company is not actively engaged with these companies and, in the case of Civilized, the Company does not currently ascribe any value to its financial interests, among other items.

Below is a summary of the Company's investments as at December 31, 2022. Please refer to Notes 12, 13, and 25 of the Interim Consolidated Financial Statements for information relating to the Company's carrying values and fair value estimates for these financial instruments.

### Summary of Royalty and Debt Investments<sup>(1)</sup>

Investee	Investment	Carrying Value as at Dec. 31, 2022	Notes <sup>(2)</sup>
Agripharm <sup>(3)</sup>	Royalty interest	\$ 1,033	<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>
NOYA <sup>(4)</sup>	Royalty interest	\$ 2,140	<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	\$ 620	<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> </ul>

- (1) The information contained in this table excludes certain immaterial debt investments held by the Company as at December 31, 2022, in instances where the Company is not actively involved with the debtor and/or has not ascribed any value to its investment.
- (2) Annual payments 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 December 31, 2022, 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 at December 31, 2022, the Company had recognized a provision for expected credit losses of 50% of the outstanding gross royalty and interest receivable balance of \$1,920 owed by NOYA based upon the Company's expectations regarding the likelihood of collection in light of NOYA's underlying business conditions.

### Summary of Equity and Warrant Investments<sup>(1)</sup>

Investee	Investment	Carrying Value as at Dec. 31, 2022	Number of Shares / Warrants	Notes
BioLumic	Preferred shares	\$ 3,543	472,389	● Represents an approximate 8% basic and 7% fully-diluted equity interest
Dynaleo	Common shares	\$ 1,336	1,449,569	● Represents an approximate 10% basic and 7% fully-diluted equity interest
	Warrants	\$ 52	1,000,000	

Summary of Equity and Warrant Investments <sup>(1)</sup>				
Investee	Investment	Carrying Value as at Dec. 31, 2022	Number of Shares / Warrants	Notes
Headset	Preferred shares	\$ 1,552	2,126,901	• Represents an approximate 8% basic and 7% fully-diluted equity interest
High Beauty	Preferred shares	\$ nil	3,500,017	• Represents an approximate 18% basic and 16% fully-diluted equity interest
	Warrants	\$ nil	612,500	
LeafLink International <sup>(2)</sup>	Common shares	\$ 1,503	2,000,000	• Represents an approximate 17% basic and 17% fully-diluted equity interest
NOYA <sup>(3)</sup>	Common shares	\$ 1,358	17,588,424	• Represents an approximate 25% basic and 24% fully-diluted equity interest
	Warrants	\$ nil	266,667	
ZeaKal	Preferred shares	\$ 9,966	248,446	• Represents an approximate 9% basic and 9% fully-diluted equity interest

(1) The information contained in this table excludes certain immaterial equity and/or warrant investments held by the Company as at December 31, 2022, in instances where the Company is not actively involved with the subject company and/or has not ascribed any value to its investment.

(2) 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.

(3) Equity ownership on a fully-diluted basis assumes the conversion of the convertible security described in the previous table.

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 facilitate growth, optimize capital allocation, and 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**

#### **Business Combinations**

##### Etain

On April 22, 2022, the Company completed the Initial Etain Closing, whereby the Company acquired ownership of 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.

In connection with the Initial Etain Closing, the Company paid cash consideration of \$169,775 (subject to certain customary closing adjustments) and issued 21,092,335 Common Shares, together representing approximately 80% of the total consideration payable pursuant to the Etain Acquisition. The remaining 20% of the total consideration was payable at the time of the Second Etain Closing, of which \$42,444 was paid in cash and the remainder was settled through the issuance of an additional 5,273,084 Common Shares.

The provisional fair values of the identifiable assets acquired and liabilities assumed as at the date of the Initial Etain Closing on April 22, 2022, were as follows:

<b>Summary of Provisional Fair Values of Net Assets Acquired</b>	
<b>Etain</b>	
<b>Identifiable assets acquired</b>	
Cash and cash equivalents	\$ 339
Accounts receivable and other receivables	111
Inventory	6,524
Biological assets	236
Other current assets	81
Property, plant, and equipment	315
Intangible assets	113,769
Right-of-use assets	13,158
Deferred tax assets	186
<b>Total assets acquired at fair value</b>	<b>\$ 134,719</b>
<b>Liabilities assumed</b>	
Accounts payable and accrued liabilities	\$ 1,040
Loyalty program liabilities	370
Lease liabilities	13,158
Deferred tax liabilities	23,864
<b>Total liabilities acquired at fair value</b>	<b>\$ 38,432</b>
Goodwill	138,937
<b>Total purchase price</b>	<b>\$ 235,224</b>

Please refer to Note 5 in the Interim Consolidated Financial Statements for additional information on the provisional nature of the fair values and tax attributes of the net assets acquired pursuant to the Etain Acquisition.

### **Other Investments**

During the three and nine months ended December 31, 2022, the Company divested its interest in nil and one Investee, respectively. Please refer to the Annual Consolidated Financial Statements, Annual MD&A, and AIF for additional details on the Company's investments prior to March 31, 2022.

### **Greenhouse Juice**

As at March 31, 2022, the Company held 3,830,412 preferred shares of Greenhouse Juice, which were accounted for under the equity method, and held a secured convertible debenture and control warrant, which were accounted for at FVTPL. On June 20, 2022, the Company disposed of all financial instruments it held in Greenhouse Juice. Upon disposition, the Company received cash consideration of \$4,260 (C\$5,500), which was allocated among the respective underlying instruments in accordance with the sale agreement. The proceeds from disposition were consistent with the carrying values of the assets as at the date of disposition; accordingly, no gain or loss or mark-to-market adjustments were recognized upon disposition.

### **Headset**

As at December 31, 2022, the Company determined that the valuation implied by Headset's November 2021 financing was no longer indicative of the fair value of the Company's investment due to Headset's recent financial performance and a challenging business environment. Accordingly, the Company remeasured Headset's equity value using a market-based approach and recognized a decrease in the estimated fair value of its investment in Headset preferred shares.

## High Beauty

As at March 31, 2022, the Company held 2,500,000 preferred shares of High Beauty, which were accounted for under the equity method, and held a senior secured convertible promissory note and warrants, which were accounted for at FVTPL. On July 21, 2022, High Beauty completed the initial closing of a financing round that triggered automatic conversion mechanisms pursuant to the senior secured convertible promissory note agreement between High Beauty and the Company (which had been amended during the three months ended June 30, 2022, to extend the maturity date). Accordingly, the principal amount of \$750 that the Company had advanced to High Beauty pursuant to that agreement and accrued interest thereon converted into an additional 1,000,017 preferred shares of High Beauty. The preferred shares of High Beauty held by the Company prior to this conversion had a nominal value, and the Company determined that the additional preferred shares to be received pursuant to this automatic conversion of the promissory note would also have nominal value. Accordingly, the Company recognized a decrease in the fair value of the promissory note to reduce the carrying value of the promissory note to \$nil prior to its conversion and derecognition.

## LeafLink International

During the three months ended June 30, 2022, LeafLink International decided to temporarily suspend operations in Canada in light of ongoing limitations on the company's growth prospects driven primarily by certain regulatory restrictions, until such time that the Canadian regulatory framework evolves to allow more direct transactions between producers and retailers, or there are further developments in international cannabis markets. These developments represented indicators of impairment for the Company's equity investment in LeafLink International, which necessitated impairment testing in accordance with *IAS 36, Impairment of Assets*. Pursuant to its impairment testing, which considered the valuation implied for LeafLink Inc., LeafLink International's parent company, by reference to LeafLink Inc.'s recent external financing, the Company concluded that no impairment charge was required.

## Capital Activities

### Second Hawthorne Investment

On April 22, 2022, The Hawthorne Collective purchased Convertible Note II in the principal amount of C\$31,272 pursuant to rights existing under the Initial Hawthorne Investment. The consideration paid by The Hawthorne Collective for the purchase of Convertible Note II was received by the Company in U.S. dollars (\$25,000). Convertible Note II has a maturity date of August 24, 2027, and bears interest at a rate of approximately 2.0% per annum until April 22, 2024, after which no interest will accrue for the remainder of the term. Accrued interest will be payable on the maturity date or will be included in the conversion value of Convertible Note II at the time of conversion. Convertible Note II is convertible into Common Shares at a fixed conversion price of C\$1.65 per Common Share. Convertible Note II may be converted into Common Shares at the election of The Hawthorne Collective on a discretionary basis, or at RIV Capital's discretion upon the date on which federal laws in the U.S. are amended to allow for the general cultivation, distribution, and possession of cannabis, and prior to and including the close of business on August 24, 2027. Assuming full conversion of Convertible Note II, including the full amount of the anticipated accrued interest over the life of Convertible Note II, The Hawthorne Collective would be entitled to receive 19,722,524 Common Shares.

Conversion of Convertible Note II is subject to the receipt of any required regulatory approvals (including under the *Competition Act* (Canada) and/or the U.S. Hart-Scott-Rodino Antitrust Improvements Act of 1976) and stock exchange approvals, and other conditions set out in the terms of Convertible Note II. The Company used the proceeds from the Second Hawthorne Investment (along with the proceeds previously received from the Initial Hawthorne Investment) to partially finance the cash portion of the consideration payable pursuant to the Etain Acquisition.

Please refer to Note 16 in the Interim Consolidated Financial Statements for additional information regarding Convertible Note II.

## Share Capital

Below is a summary of the Company's equity capital activity during the nine months ended December 31, 2022:

<b>Summary of Equity Capital Activity</b>	
	<b>Number of Common Shares</b>
<b>Opening balance – April 1, 2022</b>	<b>142,592,403</b>
Issued pursuant to business combinations	26,365,419
Exercise of stock options	-
Redemption of RSUs (as defined herein)	9,628
Redemption of PSUs (as defined herein)	160,260
<b>Ending balance – December 31, 2022</b>	<b>169,127,710</b>



## RESULTS OF OPERATIONS

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

<b>Summary Operating Results<sup>(1)</sup></b>				
	<b>Three months ended Dec. 31, 2022</b>	<b>Three months ended Dec. 31, 2021</b>	<b>Nine months ended Dec. 31, 2022</b>	<b>Nine months ended Dec. 31, 2021</b>
<b>Revenue</b>				
Revenue	\$ 2,008	\$ -	\$ 5,413	\$ -
Excise taxes	(123)	-	(334)	-
<b>Total revenue, net</b>	<b>1,885</b>	<b>-</b>	<b>5,079</b>	<b>-</b>
Cost of goods sold	1,087	-	2,776	-
<b>Gross profit excluding fair value items</b>	<b>798</b>	<b>-</b>	<b>2,303</b>	<b>-</b>
Unrealized loss on changes in fair value of biological assets	(13)	-	(113)	-
Realized fair value amounts included in inventory sold	(2)	-	4	-
<b>Gross profit</b>	<b>783</b>	<b>-</b>	<b>2,194</b>	<b>-</b>
<b>Operating expenses</b>				
Selling, general, and administrative expenses	4,801	1,950	15,170	8,015
Impairment of goodwill	-	-	138,937	-
<b>Operating loss</b>	<b>(4,018)</b>	<b>(1,950)</b>	<b>(151,913)</b>	<b>(8,015)</b>
<b>Other income (loss)</b>				
Royalty, interest, and lease income	414	596	633	1,375
Change in provision for credit losses	(218)	(526)	(327)	(671)
Share of income (loss) from associates	256	(470)	(378)	(1,161)
Net change in fair value of financial assets at FVTPL	(604)	(2,991)	(2,151)	(31,640)
Gain on dispositions	-	-	-	890
Accretion and interest expense	(5,866)	(2,366)	(13,948)	(3,301)
Foreign exchange gain (loss)	(685)	3,972	10,041	5,777
Other income (expenses), net	398	117	425	616
<b>Loss before taxes</b>	<b>(10,323)</b>	<b>(3,618)</b>	<b>(157,618)</b>	<b>(36,130)</b>
Income tax recovery	(432)	(847)	(1,929)	(7,666)
<b>Net loss</b>	<b>\$ (9,891)</b>	<b>\$ (2,771)</b>	<b>\$ (155,689)</b>	<b>\$ (28,464)</b>
<b>Other comprehensive income (loss) not subsequently reclassified to net income (loss)</b>				
Net change in fair value of financial assets at FVTOCI (as defined herein), net of tax expense (recovery)	(3,073)	342	(1,653)	281
<b>Other comprehensive income (loss) subsequently reclassified to net income (loss)</b>				
Foreign currency translation adjustment	299	1,369	(5,280)	(1,993)
<b>Total comprehensive loss</b>	<b>\$ (12,665)</b>	<b>\$ (1,060)</b>	<b>\$ (162,622)</b>	<b>\$ (30,176)</b>
<b>Loss per share – basic</b>	<b>\$ (0.06)</b>	<b>\$ (0.02)</b>	<b>\$ (0.93)</b>	<b>\$ (0.20)</b>
<b>Loss per share – diluted</b>	<b>\$ (0.06)</b>	<b>\$ (0.02)</b>	<b>\$ (0.93)</b>	<b>\$ (0.20)</b>

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

### **Review of Operating Results for the Three and Nine Months Ended December 31, 2022**

The operating results reported by the Company for the nine months ended December 31, 2022, include the operating results for Etain LLC from April 23, 2022, being the date following the Initial Etain Closing, to December 31, 2022. The revenue and net loss reported by the Company for the nine months ended December 31, 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 \$1,885 for the three months ended December 31, 2022 (the Company did not report revenue for any reporting periods ended on or prior to March 31, 2022). Retail revenue of \$1,836 was generated from the Company's U.S. Cannabis Platform through Etain LLC's dispensaries in Manhattan, Kingston, Syracuse, and Yonkers, and wholesale revenue of \$172 was generated from sales of Etain-branded products to other RO's in New York. The Company reported excise taxes of \$123 for the same period.

For the nine months ended December 31, 2022, the Company reported revenue, net of excise taxes, of \$5,079 (the Company did not report revenue for any reporting periods ended on or prior to March 31, 2022). Retail revenue of \$4,959 was generated from the Company's U.S. Cannabis Platform through Etain LLC's dispensaries and wholesale revenue of \$454 was generated from sales of Etain-branded products to other RO's in New York. The Company reported excise taxes of \$334 for the same period.

#### **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 \$1,087 for the three months ended December 31, 2022 (the Company did not report cost of goods sold for any reporting periods ended on or prior to March 31, 2022).

For the nine months ended December 31, 2022, the Company reported cost of goods sold of \$2,776 (the Company did not report cost of goods sold for any reporting periods ended on or prior to March 31, 2022).

#### **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 loss on changes in fair value of biological assets of \$13 and a fair value loss included in inventory sold of \$2 for the three months ended December 31, 2022 (the Company did not report either of these items for any reporting periods ended on or prior to March 31, 2022).

Based on the foregoing, the Company reported a gross profit of \$783 for the three months ended December 31, 2022 (the Company did not report gross profit for any reporting periods ended on or prior to March 31, 2022).

For the nine months ended December 31, 2022, the Company reported an unrealized loss on changes in fair value of biological assets of \$113 and a fair value gain included in inventory sold of \$4 (the Company did not report either of these items for any reporting periods ended on or prior to March 31, 2022).

Based on the foregoing, for the nine months ended December 31, 2022, the Company reported a gross profit of \$2,194 (the Company did not report either of these items for any reporting periods ended on or prior to March 31, 2022).

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 production costs. Changes in these underlying estimates and assumptions could have a material impact on the Company's financial results. Please refer to Notes 4, 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 \$4,801 and \$15,170 for the three and nine months ended December 31, 2022, respectively, compared with SG&A expenses of \$1,950 and \$8,015 for the same periods last year, respectively. The increase in SG&A expenses relative to the comparative periods was primarily due to the significant increase in the size and scope of general and administrative functions of the Company to support its strategic shift to the U.S. cannabis market and as a result of the Etain Acquisition.

SG&A expenses for the three and nine months ended December 31, 2022, and 2021, included the following:

	Three months ended Dec. 31, 2022	Three months ended Dec. 31, 2021	Nine months ended Dec. 31, 2022	Nine months ended Dec. 31, 2021
Personnel costs (excluding share-based compensation)	\$ 1,843	\$ 566	\$ 4,899	\$ 1,739
Director fees (excluding share-based compensation)	99	33	209	306
Share-based compensation	177	205	388	743
Legal expenses and consulting fees (excluding transaction and restructuring)	603	94	2,471	1,288
Non-inventoriable lease expenses	71	33	288	98
Non-inventoriable right-of-use asset amortization	150	29	424	89
Non-inventoriable depreciation and amortization of fixed assets and intangible assets	273	9	757	24
Audit-related fees	309	142	825	427
Insurance premiums	577	426	1,678	863
Investor relations and other public company expenses	106	88	708	293
Selling and marketing expenses	97	2	247	13
Transaction and restructuring expenses	-	219	502	1,641
Severance expense	70	-	537	-
Other	426	104	1,237	491
<b>Total SG&amp;A expenses</b>	<b>\$ 4,801</b>	<b>\$ 1,950</b>	<b>\$ 15,170</b>	<b>\$ 8,015</b>

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

- Personnel costs were \$1,843 and \$4,899 for the three and nine months ended December 31, 2022, respectively, compared with \$566 and \$1,739 for the same periods last year, respectively. The increase in personnel costs relative to the comparative period was primarily attributable to the Company’s increased headcount as a result of the Etain Acquisition.
- Legal expenses and consulting fees (excluding transaction and restructuring expenses) were \$603 and \$2,471 for the three and nine months ended December 31, 2022, respectively, compared with \$94 and \$1,288 for the same periods last year, respectively. The increase in legal expenses and consulting fees relative to the comparative nine-month period was primarily attributable to a significant increase in the scope of the Company’s activities as a result of its strategic shift to the U.S. cannabis market and the legal and consulting expenses incurred in connection with the completion of the Etain Acquisition, as well as fees incurred in respect of litigation and other public company matters.
- Non-inventoriable lease expenses and non-inventoriable right-of-use amortization expenses were \$221 and \$712, in aggregate, for the three and nine months ended December 31, 2022, respectively, compared with \$62 and \$187, in aggregate, for the same periods last year, respectively. The increase in lease expenses relative to the comparative periods was primarily attributable to the leases acquired upon the Initial Etain Closing. Please refer to Note 14 in the Interim Consolidated Financial Statements for additional information on the Company’s lease obligations. Lease expenses of \$275 and \$742 were capitalized to inventory and biological assets during the three and nine months ended December 31, 2022, respectively.

- Non-inventoriable depreciation and amortization of fixed assets and intangible assets were \$273 and \$757 for the three and nine months ended December 31, 2022, respectively, compared with \$9 and \$24 for the same periods last year, respectively. The increase in amortization relative to the comparative nine-month period primarily relates to the recognition of intangible assets upon the Initial Etain Closing. Please refer to Note 11 in the Interim Consolidated Financial Statements for additional information on the Company's intangible assets. Amortization expenses of \$146 and \$400 were capitalized to inventory and biological assets during the three and nine months ended December 31, 2022, respectively. As permitted during 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 described in Note 5 in the Interim Consolidated Financial Statements and updated 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.
- Insurance premiums were \$577 and \$1,678 for the three and nine months ended December 31, 2022, respectively, compared with \$426 and \$863 for the same periods last year, respectively. The increase in insurance premiums relative to the comparative periods was primarily attributable to the Company's strategic shift to the U.S. cannabis market.
- Transaction and restructuring expenses were nominal and \$502, respectively, for the three and nine months ended December 31, 2022, compared with \$219 and \$1,641, respectively, for the same periods last year. The decrease in transaction expenses relative to the comparative periods was primarily attributable to certain transaction-related expenses that were incurred in connection with the Initial Hawthorne Investment in the comparative periods.

#### 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, reducing the carrying value of the goodwill acquired through the Etain Acquisition to \$nil. During the three months ended December 31, 2022, the Company determined that there were no new indicators of impairment present for its Etain CGU.

While the Company remains optimistic about the New York market, the discounted cash flow analysis used for the impairment assessment considered, among other things, the delay in the development of the regulated market for adult-use cannabis in New York relative to initial expectations, as well as increased uncertainty regarding RO's pathway to participation in such market. The Company believes that these developments have contributed to proposed transactions involving New York cannabis license holders being abandoned and values implied by recently announced transactions involving comparable businesses being lower than the purchase price paid in the Etain Acquisition. In addition, the Company believes that market-based perceptions of the value of New York cannabis licenses have also been negatively impacted by the perceived proliferation of the unregulated market that has developed (particularly within New York City) and a disappointing lack of enforcement to curtail such activities.

As noted above, on December 14, 2022, the Cannabis Control Board filed proposed regulations for the New York adult-use cannabis market, including the rules governing ROs' transition to the adult-use market. The public comment period on the proposed adult-use regulations closed on February 13, 2023, and it is unclear whether the proposed regulations will be modified and reissued for another public comment period or finalized and approved by the Cannabis Control Board in their current form. The Company will assess whether the finalized regulations establish a requirement for additional impairment testing in respect of its Etain CGU.

#### **Operating Loss**

Based on the foregoing, the Company reported an operating loss of \$4,018 for the three months ended December 31, 2022, compared with an operating loss of \$1,950 for the same period last year.

For the nine months ended December 31, 2022, the Company reported an operating loss of \$151,913 compared with an operating loss of \$8,015 for the same period last year.

## Other Income (Loss)

The Company reported other loss of \$6,305 and \$5,705 for the three and nine months ended December 31, 2022, respectively, compared with other loss of \$1,668 and \$28,115 for the same periods last year, respectively. The following factors contributed to the changes in the Company's reported results:

- Royalty, interest, and lease income was \$414 and \$633 for the three and nine months ended December 31, 2022, respectively, compared with \$596 and \$1,375 for the same periods last year, respectively. The decrease in royalty, interest, and lease income relative to the comparative periods was primarily attributable to the Company no longer recognizing royalty, interest, or lease income from certain Investees due to challenges in the underlying business performance of those Investees or as a result of dispositions of these financial assets.
- The change in the Company's provision for credit losses was an increase of \$218 and \$327 for the three and nine months ended December 31, 2022, respectively, compared with an increase of \$526 and \$671 for the same periods last year, respectively. The change in the Company's provision for credit losses is attributable to the Company continuing to experience significant challenges in collecting royalty and interest receivables.
- Share of income from associates was \$256 and share of loss from associates was \$378 for the three and nine months ended December 31, 2022, respectively, compared with share of loss from associates of \$470 and \$1,161 for the same periods last year, respectively. The Company elects to account for its equity method investees one quarter in arrears. NOYA represented the Company's only equity method investee for which a share of income was recognized for the three months ended December 31, 2022. LeafLink International and NOYA represented the Company's equity method investees for which a share of loss was recognized for the nine months ended December 31, 2022.
- The net change in fair value of financial assets at FVTPL was a decrease of \$604 and \$2,151 for the three and nine months ended December 31, 2022, respectively, compared with a decrease of \$2,991 and \$31,640 for the same periods last year, respectively. The net change in fair value of financial assets at FVTPL reported in the comparative nine-month period included a negative change in the fair value of the Company's previously-held investment in CGC common shares of \$29,925.
- Accretion and interest expense was \$5,866 and \$13,948 for the three and nine months ended December 31, 2022, respectively, compared with \$2,366 and \$3,301 for the same periods last year, respectively. The increase in accretion expense relative to the comparative periods was primarily attributable to the accretion expense recognized on the Convertible Notes and the deferred consideration payable. Included in the accretion expense for the three and nine months ended December 31, 2022, is an accelerated accretion expense of \$1,655, recognized upon the settlement of the deferred cash consideration paid upon the Second Etain Closing. At the time of settlement, the Company's financial liability in respect of this deferred consideration had not fully accreted to the payment amount as the Company had anticipated a longer term to the expected payment date.
- Foreign exchange gain (loss) was \$(685) and \$10,041 for the three and nine months ended December 31, 2022, respectively, compared with \$3,972 and \$5,777 for the same periods last year, respectively. The foreign exchange loss for the three months ended December 31, 2022, was primarily driven by a realized foreign exchange loss of \$2,453 on the settlement of the deferred consideration. The increase in the foreign exchange gain for the nine months ended December 31, 2022, was primarily attributable to foreign-denominated cash deposits held by the Company and certain of its subsidiaries as a result of the strengthening U.S. dollar.

## Income Tax Recovery

The Company reported an income tax recovery of \$432 for the three months ended December 31, 2022, compared with an income tax recovery of \$847 for the same period last year. Income tax recovery for the period included a tax expense of \$314 related to the estimated taxable profits of Etain LLC for which the Company is responsible.

For the nine months ended December 31, 2022, the Company reported an income tax recovery of \$1,929 compared with an income tax recovery of \$7,666 for the same period last year. Income tax recovery for the period included a tax expense of \$867 related to the estimated taxable profits of Etain LLC for which the Company is responsible. The Company's significant income tax recovery in the comparative period was driven primarily by capital losses generated and available for carryback to recover income taxes paid in respect of previous taxation years.

## Net Loss

Based on the foregoing, the Company reported a net loss of \$9,891 and basic and diluted earnings per share ("EPS") of \$(0.06) for the three months ended December 31, 2022, compared with a net loss of \$2,771 and basic and diluted EPS of \$(0.02) for the same period last year.

For the nine months ended December 31, 2022, the Company reported a net loss of \$155,689 and basic and diluted EPS of \$(0.93), compared with a net loss of \$28,464 and basic and diluted EPS of \$(0.20) for the same period last year.

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

The Company reported other comprehensive loss of \$2,774 for the three months ended December 31, 2022, compared with other comprehensive income of \$1,711 for the same period 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 a decrease of \$3,073 for the three months ended December 31, 2022, compared with an increase of \$342 for the same period last year. For the three months ended December 31, 2022, the net decrease was primarily driven by the negative change in the fair value of the Company's investment in Headset preferred shares of \$3,321.

The Company also reported an upward adjustment as a result of foreign currency translation of \$299 for the three months ended December 31, 2022, compared with an upward adjustment of \$1,369 for the same period last year. The recognition of the foreign currency translation adjustment was new this fiscal year as a result of the change in the Company's presentation currency from Canadian dollars to U.S. dollars, effective April 1, 2022.

For the nine months ended December 31, 2022, the Company reported other comprehensive loss of \$6,933, compared with other comprehensive loss of \$1,712 for the same period last year.

The net change in fair value of financial assets at FVTOCI (net of tax expense or recovery) was a decrease of \$1,653 for the nine months ended December 31, 2022, compared with an increase of \$281 for the same period last year. For the nine months ended December 31, 2022, the net decrease was primarily driven by the negative change in the fair value of the Company's investment in Headset preferred shares of \$2,874.

The Company also reported a downward adjustment as a result of foreign currency translation of \$5,280 for the nine months ended December 31, 2022, compared with a downward adjustment of \$1,993 for the same period last year.

#### **Total Comprehensive Loss**

Based on the foregoing, the Company reported a total comprehensive loss of \$12,665 for the three months ended December 31, 2022, compared with a total comprehensive loss of \$1,060 for the same period last year.

For the nine months ended December 31, 2022, the Company reported a total comprehensive loss of \$162,622, compared with a total comprehensive loss of \$30,176 for the same period 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.

<b>Summary Operating Results for the Three Months Ended<sup>(1)</sup></b>								
	<b>Dec. 31, 2022</b>	<b>Sep. 30, 2022</b>	<b>Jun. 30, 2022</b>	<b>Mar. 31, 2022</b>	<b>Dec. 31, 2021</b>	<b>Sep. 30, 2021</b>	<b>Jun. 30, 2021</b>	<b>Mar. 31, 2021</b>
<b>Revenue, net</b>	<b>\$ 1,885</b>	<b>\$ 1,853</b>	<b>\$ 1,341</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Cost of goods sold	1,087	906	783	-	-	-	-	-
Fair value items	(15)	(58)	(36)	-	-	-	-	-
<b>Gross profit</b>	<b>783</b>	<b>889</b>	<b>522</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
SG&A expenses	4,801	4,840	5,529	3,804	1,950	4,035	2,029	6,238
Goodwill impairment	-	138,937	-	-	-	-	-	-
<b>Operating loss</b>	<b>(4,018)</b>	<b>(142,888)</b>	<b>(5,007)</b>	<b>(3,804)</b>	<b>(1,950)</b>	<b>(4,035)</b>	<b>(2,029)</b>	<b>(6,238)</b>
Other income (loss)	(6,305)	(1,557)	2,157	(12,210)	(1,668)	(18)	(26,430)	(12,818)
<b>Loss before taxes</b>	<b>(10,323)</b>	<b>(144,445)</b>	<b>(2,850)</b>	<b>(16,014)</b>	<b>(3,618)</b>	<b>(4,053)</b>	<b>(28,459)</b>	<b>(19,056)</b>
Income tax expense (recovery)	(432)	(2,121)	624	(2,273)	(847)	(2,870)	(3,949)	(2,065)
<b>Net loss</b>	<b>\$ (9,891)</b>	<b>\$ (142,324)</b>	<b>\$ (3,474)</b>	<b>\$ (13,741)</b>	<b>\$ (2,771)</b>	<b>\$ (1,183)</b>	<b>\$ (24,510)</b>	<b>\$ (16,991)</b>
Other comprehensive income (loss)	(2,774)	390	(4,549)	3,980	1,711	(6,609)	3,186	71,376
<b>Total comprehensive income (loss)</b>	<b>\$ (12,665)</b>	<b>\$ (141,934)</b>	<b>\$ (8,023)</b>	<b>\$ (9,761)</b>	<b>\$ (1,060)</b>	<b>\$ (7,792)</b>	<b>\$ (21,324)</b>	<b>\$ 54,385</b>
Basic EPS	\$ (0.06)	\$ (0.84)	\$ (0.02)	\$ (0.10)	\$ (0.02)	\$ (0.01)	\$ (0.17)	\$ (0.10)
Diluted EPS	\$ (0.06)	\$ (0.84)	\$ (0.02)	\$ (0.09)	\$ (0.02)	\$ (0.01)	\$ (0.17)	\$ (0.10)

(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:

	Nine months ended Dec. 31, 2022	Nine months ended Dec. 31, 2021
Net cash flows from operating activities	\$ (2,625)	\$ (24,094)
Net cash flows from investing activities	(212,317)	85,442
Net cash flows from financing activities	23,436	144,981
<b>Net increase (decrease) in cash</b>	<b>\$ (191,506)</b>	<b>\$ 206,329</b>
Effect of foreign exchange rate movements on cash held	(1,599)	11,899
Cash, beginning of fiscal period	318,706	101,695
<b>Cash, end of fiscal period</b>	<b>\$ 125,601</b>	<b>\$ 319,923</b>

  

	As at Dec. 31, 2022	As at Mar. 31, 2022
Current assets	\$ 136,641	\$ 330,190
Non-current assets	153,050	36,021
<b>Total assets</b>	<b>\$ 289,691</b>	<b>\$ 366,211</b>
Current liabilities	\$ 6,205	\$ 3,946
Non-current liabilities	146,044	97,551
<b>Total liabilities</b>	<b>\$ 152,249</b>	<b>\$ 101,497</b>
<b>Total shareholders' equity</b>	<b>\$ 137,442</b>	<b>\$ 264,714</b>

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

Net cash used in operating activities was \$2,625 for the nine months ended December 31, 2022, compared with net cash used of \$24,094 for the same period last year. Net loss for the nine months ended December 31, 2022 and 2021, was \$155,689 and \$28,464, respectively, and included numerous significant non-cash items (including the goodwill impairment charge discussed above), which are reflected in the Company's consolidated statements of cash flows in the Interim Consolidated Financial Statements. For the nine months ended December 31, 2021, net cash used in operating activities included the net settlement of the Company's fiscal year 2021 taxes payable of \$13,661 (primarily related to the CGC Transaction).

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

Net cash used in investing activities was \$212,317 for the nine months ended December 31, 2022, compared with net cash provided by investing activities of \$85,442 for the same period last year. For the nine months ended December 31, 2022, net cash used in investing activities was primarily attributable to the cash consideration paid pursuant to the Etain Acquisition. For the nine months ended December 31, 2021, net cash provided by investing activities was primarily attributable to the disposition of the Company's investment in CGC common shares for total proceeds of \$82,725.

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

Net cash provided by financing activities was \$23,436 for the nine months ended December 31, 2022, compared with \$144,981 for the same period last year. For the nine months ended December 31, 2022, net cash provided by financing activities was primarily attributable to the net proceeds received from the issuance of Convertible Note II. For the nine months ended December 31, 2021, net cash provided by financing activities was primarily attributable to the net proceeds received from the issuance of Convertible Note I.



## **Commitments and Contingencies**

### **Financial Obligations**

As at December 31, 2022, 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	\$ 4,279	\$ 4,279	\$ -	\$ -	\$ -
Lease liability <sup>(1)</sup>	20,132	2,431	4,590	4,330	8,781
Tenant Cost Contributions <sup>(2)</sup>	3,363	3,363	-	-	-
Convertible Notes <sup>(3)</sup>	168,804	-	-	-	168,804
<b>Total financial obligations</b>	<b>\$ 196,578</b>	<b>\$ 10,073</b>	<b>\$ 4,590</b>	<b>\$ 4,330</b>	<b>\$ 177,585</b>

(1) Based on minimum lease payments related to the Company's cultivation facility in Chestertown, New York; four retail dispensaries in New York; and corporate head office in Toronto, Ontario. Please see Note 14 in the Interim Consolidated Financial Statements for additional details.

(2) Based on expected capital expenditures related to the construction of the Flagship Facility. Please see Note 14 in the Interim Consolidated Financial Statements for further details.

(3) Assumes the principal balance as at December 31, 2022, 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 December 31, 2022. Please see Note 16 in the Interim Consolidated Financial Statements for additional details.

### **Commitments**

Prior to the commencement of the Zephyr Lease, the Company is required to make three installment payments totaling \$4,484 (the "Tenant Cost Contributions") to assist in funding the construction of the Flagship Facility. During the three and nine months ended December 31, 2022, the Company made Tenant Cost Contributions of \$1,121, which have been recorded within "Other long-term assets" on the consolidated statements of financial position in the Interim Consolidated Financial Statements. Tenant Cost Contributions 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 has committed to fund certain construction costs related to the ongoing facility expansion project (the "Chestertown Expansion"). The Company's commitment became effective once the landlord's capital contributions to the Chestertown Expansion surpassed an agreed-upon amount (the "Chestertown Landlord Threshold"). The timing of expenditure and total quantum of the Company's potential liability in respect of this commitment is dependent upon several factors that are not wholly within the control of the Company, including the final scope of the Chestertown Expansion.

During the three months ended December 31, 2022, the Chestertown Landlord Threshold had been met; accordingly, the Company commenced making expenditures related to this commitment. As at December 31, 2022, the Company had incurred \$1,518 in capital expenditures related to the Chestertown Expansion and recognized the corresponding leasehold improvements within "Property, plant, and equipment, net" on the consolidated statements of financial position. The Company estimates the remaining construction costs related to the Chestertown Expansion for which it will be responsible will be in the range of \$3,000 to \$3,500 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 December 31, 2022, the Company had no off-balance sheet arrangements.

### **Litigation**

On May 24, 2022, the Company announced that it had received notice of an Ontario Superior Court of Justice application by JW Asset Management, LLC ("JWAM") in connection with the Company's process regarding the Etain Acquisition. In its application, JWAM sought a declaration that the management, business, or affairs of the Company were conducted in a manner that was oppressive or unfairly prejudicial or that unfairly disregarded the interests of JWAM as a shareholder of RIV Capital. JWAM also sought an order requiring the Company to purchase JWAM's Common Shares at C\$1.65 per Common Share.

Please refer to “Subsequent Events” herein for further information regarding related events that occurred subsequent to December 31, 2022.

### **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 nine months ended December 31, 2022, the Company financed its operations and current liquidity position primarily through proceeds raised from prior equity financings, consideration received pursuant to the CGC Transaction (including the subsequent sale of the CGC common shares received as consideration), and the proceeds received from the Hawthorne Investments. As at December 31, 2022, working capital (calculated as the difference between the Company’s current assets and current liabilities on its consolidated statement of financial position) was approximately \$130,436, primarily attributable to the Company’s cash balance of \$125,601.

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 favourable 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 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 and retail dispensary operations; paying any necessary regulatory 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; potentially making follow-on investments in existing Investees; 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 December 31, 2022, 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 1.4% of the issued and outstanding Common Shares on a fully diluted basis as at December 31, 2022.

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:

	Three months ended Dec. 31, 2022	Three months ended Dec. 31, 2021	Nine months ended Dec. 31, 2022	Nine months ended Dec. 31, 2021
<b>Executive management</b>				
Salaries and accrued bonuses	\$ 636	\$ 294	\$ 1,603	\$ 889
Share-based compensation	61	92	(73)	362
<b>Board</b>				
Director fees <sup>(1)</sup>	\$ 99	\$ 33	\$ 209	\$ 112
Special committee fees	-	-	-	194
Share-based compensation	126	81	380	190

(1) At the beginning of the Company's fiscal year, each director submits an election to allocate their annual retainer between cash and share-based compensation, subject to certain restrictions. 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

On April 22, 2022, in connection with the Second Hawthorne Investment and the Etain Acquisition, The Hawthorne Collective invested \$25,000 in the Company pursuant to Convertible Note II issued by the Company. Please refer to "Corporate Developments – Capital Activities – Second Hawthorne Investment" above and Note 16 in the Interim Consolidated Financial Statements for further details regarding the Hawthorne Investments.

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 December 31, 2022, the Company had recognized an accrued liability of \$401 for the withholding tax that will be payable to the Canada Revenue Agency in respect of accrued and unpaid interest on the Convertible Notes for the fiscal year ending March 31, 2023. 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 December 31, 2022, the Company had recognized a related party receivable from The Hawthorne Collective of \$199.

During the three and nine months ended December 31, 2022, the Company purchased equipment for \$330 and \$1,147, 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 facility equipment purchases from affiliates of The Hawthorne Collective as part of its ongoing 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 nine months ended December 31, 2022, the Company recognized lease payments of \$547 and \$1,430, 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 December 31, 2022

On February 23, 2023, the Company announced that it had entered into a settlement agreement, pursuant to which JWAM consented to the dismissal, without costs, of its application related to the Etain Acquisition. Under the terms of the settlement agreement, the Company repurchased for cancellation all Common Shares owned or controlled by JWAM and its affiliates, amounting to 33,733,334 Common Shares, for an aggregate purchase price of \$19,625. The Company also reimbursed certain legal expenses incurred by JWAM as part of its application and related matters in the amount of \$375. As part of the settlement, JWAM and its affiliates withdrew their requisition for a special meeting of the Company's shareholders that was scheduled for June 6, 2023, and such meeting was cancelled by the Company.

On February 28, 2023, the Board appointed Chief Operating Officer Mike Totzke as interim Chief Executive Officer ("CEO"), following the departure of former President and CEO Mark Sims.

## 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:

	As at Dec. 31, 2022	As at Feb. 28, 2023
Common Shares	169,127,710	135,407,696
Convertible Notes <sup>(1)</sup>	122,947,306	122,947,306
Stock Options	6,598,167	5,998,167
RSUs	771,517	771,517
PSUs	1,573,095	1,559,775

(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", "Corporate Developments – Capital Activities – Second Hawthorne Investment", and Note 16 in the Interim Consolidated Financial Statements for additional information, as applicable, regarding the Hawthorne Investments.

As described in Note 17 in the Interim Consolidated Financial Statements, as at December 31, 2022, 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\$2.71 per share;
- Restricted Share Units ("RSUs") redeemable pursuant to the Company's share unit plan for non-employee directors; and
- 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%.

On December 19, 2022, the Board determined that non-employee directors who previously received a portion of their annual remuneration in the form of RSUs will instead receive a portion of their annual remuneration in the form of

deferred share units ("DSUs") for periods of service commencing January 1, 2023. DSUs will be granted pursuant to the Company's non-employee director share unit plan (previously approved by the Company's shareholders).

## **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**

The significant accounting policies used in preparing the Interim Consolidated Financial Statements are consistent with those disclosed in the Annual Consolidated Financial Statements and have been applied across all periods presented in the Interim Consolidated Financial Statements, except as noted below.

Significant accounting policies newly applicable to the Company for the nine months ended December 31, 2022, are described below.

### **Change in Presentation Currency**

In light of the Etain Acquisition, and the Initial Etain Closing which occurred on April 22, 2022, the Company changed the presentation currency of its consolidated financial statements from the Canadian dollar to the U.S. dollar effective April 1, 2022.

The Company believes that U.S. dollar financial reporting provides more relevant presentation of the Company's financial position, funding and treasury functions, financial performance, and cash flows.

A change in presentation currency represents a change in accounting policy as defined in *IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors*, which requires restatement of comparative information as if the accounting policy was always adopted.

In accordance with *IAS 21, The Effects of Changes in Foreign Exchange Rates*, the methodology followed in restating historical financial information from Canadian dollars to U.S. dollars for the Company's consolidated entities with a Canadian dollar functional currency was as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate of the period;
- Income and expenses for each quarterly statement of loss and comprehensive loss are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the respective transactions);
- Equity transactions are translated at historical exchange rates in effect on the date of the respective equity transaction; and
- All resulting change differences are recognized as a separate component of equity, the "Foreign currency translation adjustment", which is recorded within other comprehensive income (loss).

The average and closing rates used in translating the historical financial information from Canadian dollars to U.S. dollars for the comparative periods presented in these Interim Consolidated Financial Statements are as follows:

- The average rates used for the three and nine months ended December 31, 2022, were 0.73 and 0.76, respectively;

- The average rates used for the three and nine months ended December 31, 2021, were 0.79 and 0.80, respectively;
- The closing rate used as at December 31, 2022, was 0.74;
- The closing rate used as at March 31, 2022, was 0.80; and
- The closing rate used as at April 1, 2021, was 0.80.

### **Business Combinations**

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value at the date of acquisition. Acquisition-related transaction costs are expensed as incurred. Identifiable assets and liabilities, including intangible assets, of acquired businesses are recorded at their fair value at the date of acquisition. When the Company acquires control of a business, any previously held equity interest is also remeasured to fair value. The excess of the purchase consideration and any previously held equity interest over the fair value of identifiable net assets acquired is goodwill. If the fair value of identifiable net assets acquired exceeds the purchase consideration and any previously held equity interest, the difference is recognized in the consolidated statements of loss and comprehensive loss immediately as a bargain purchase gain.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted, or additional assets or liabilities are recognized, during the measurement period to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that time. Upon conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded within comprehensive income (loss).

### **Biological Assets**

The Company measures biological assets, which consist of medical cannabis plants, at fair value less costs to sell and complete up to the point of harvest, which becomes the basis for the cost of internally-produced harvested cannabis and finished goods inventory after harvest. These costs are then recorded within cost of goods sold in the consolidated statements of loss and comprehensive loss in the period in which the related product is sold. Unrealized gains or losses arising from changes in fair value less costs to sell during the period are recorded within comprehensive income (loss).

Production costs related to biological assets are capitalized. These costs include the direct costs of seeds and growing materials, as well as other indirect costs such as utilities and supplies used in the growing process. The cost of indirect labour for individuals involved in the growing and quality control processes is also capitalized, as well as depreciation on production equipment and overhead costs such as rent to the extent it is associated with the growing space. Unrealized fair value gains or losses on the growth of biological assets are reported in a separate line on the face of the consolidated statements of loss and comprehensive loss.

The Company capitalizes costs incurred after harvest to bring the products to their present location and condition in accordance with *IAS 2, Inventories*. The cost of inventory includes the fair value less costs to sell of the cannabis at harvest and costs incurred after harvest (such as quality assurance costs, fulfillment costs, and packaging costs) to bring the products to their present location and condition.

### **Inventory**

Inventory of purchased finished goods, packaging materials, supplies, and consumables is initially valued at cost and subsequently measured at the lower of cost and net realizable value. Inventory of harvested cannabis is transferred from biological assets at its fair value less costs to sell and complete at harvest, which becomes the deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that the cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the weighted average cost basis. Products for resale and supplies and consumables are valued at the lower of cost and net realizable value. The Company reviews inventory for obsolete, redundant, and slow-moving goods and any such inventory is written down to net realizable value.

### **Property, Plant, and Equipment**

Property and equipment are reported at cost, net of accumulated depreciation and impairment losses, if any. Expenditures that materially increase the life of the assets are capitalized. Ordinary repairs and maintenance are

expensed as incurred. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset using the following terms:

<b>Asset Class</b>	<b>Depreciable Life</b>
Leasehold improvements	Lease term
Manufacturing equipment	2 to 10 years
Right-of-use assets	5 to 10 years
Vehicles	5 years

The assets' residual values, useful lives, and methods of depreciation are reviewed at each financial year-end and adjusted prospectively, if appropriate. An item of equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the consolidated statements of loss and comprehensive loss in the period the asset is derecognized.

## **Intangible Assets**

### *Finite life intangible assets*

Intangible assets are reported at cost, net of accumulated amortization and impairment losses, if any. Intangible assets are amortized on a systematic basis over their useful lives in a manner that reflects how the Company expects to derive value from use of the asset. Amortization is calculated over the estimated useful life of the asset (which does not exceed the contractual period, if any) using the following terms:

<b>Asset class</b>	<b>Amortization method</b>	<b>Amortizable life</b>
Brand	Straight-line	10 years
Cannabis license	Pattern of projected revenue	15 years
Computer software	Straight-line	5 years

The estimated useful lives, residual values, and methods of amortization are reviewed at each financial year-end and adjusted prospectively, if appropriate. The Company's definite life intangible assets are tested for impairment when circumstances indicate the carrying value may be impaired. The Company assesses whether indicators of impairment exist at each reporting date.

### *Goodwill*

Goodwill represents the excess of the purchase price paid for the acquisition of an entity over the fair value of the net tangible and intangible assets acquired. Goodwill is allocated to the CGU or CGUs that are expected to benefit from the synergies of the business combination.

Goodwill is not subject to amortization and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. Impairment is determined for goodwill by assessing if the carrying value of a CGU, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell or the value in use. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amounts of the assets in the CGU. Any goodwill impairment loss is recognized in the consolidated statements of loss and comprehensive loss in the period in which the impairment is identified. Impairment losses that have been recognized in respect of goodwill are not subsequently reversed.

## **Revenue**

Revenue is recognized by the Company in accordance with *IFRS 15, Revenue from Contracts with Customers* ("IFRS 15"). Through application of the standard, the Company recognizes revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

To recognize revenue under IFRS 15, the Company applies the following five steps:

- Identify a customer along with a corresponding contract;
- Identify the performance obligation(s) in the contract to transfer goods or provide distinct services to a customer;
- Determine the transaction price the Company expects to be entitled to in exchange for transferring promised goods or services to a customer;
- Allocate the transaction price to the performance obligation(s) in the contract; and
- Recognize revenue when or as the Company satisfies the performance obligation(s).

Under IFRS 15, revenue from the sale of cannabis is generally recognized at a point in time when control over the goods have been transferred to the customer. Payment is typically due upon transferring the goods to the customer or within a specified time period permitted under the Company's credit policy.

Revenue is recognized upon the satisfaction of the performance obligation. The Company satisfies its performance obligation and transfers control upon delivery and acceptance by the customer at either its medical dispensaries or delivery to a wholesale customer. Revenue is presented net of discounts and sales tax (if applicable). The majority of the Company's revenue is currently derived from sales at medical cannabis dispensaries in the state of New York.

Local authorities will often impose excise tax on the sale or production of cannabis products. Excise taxes are effectively a production tax that is payable on the gross receipts of medical cannabis sold by a RO to a certified patient or designated caregiver. The excise tax is borne by the Company and is not a tax on the patient. Excise taxes are included in revenue. The subtotal "total revenue, net" on the consolidated statements of loss and comprehensive loss represents the Company's revenue as defined by IFRS, less the excise taxes.

The Company offers customer loyalty programs through which medical cannabis customers accumulate points for each dollar of spending. These points are recorded as deferred revenue until customers redeem their points for discounts on cannabis products as part of an in-store sales transaction.

## **Income Taxes**

The Company uses the liability method to account for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for accounting purposes, and their respective tax bases. Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in comprehensive income (loss) in the year of change. Deferred income tax assets are recorded when their recoverability is considered probable and are reviewed at the end of each reporting period.

Certain of the Company's U.S.-domiciled consolidated subsidiaries are subject to Section 280E of the U.S. Internal Revenue Code of 1986, as amended (the "Code") ("IRC Section 280E"), which disallows tax deductions and credits from gross income attributable to a trade or business of trafficking in US controlled substances (labeled as Schedule I or Schedule II). Under current U.S. federal law, cannabis is a Schedule I controlled substance, and therefore the provisions of IRC Section 280E apply. Accordingly, the Company's effective tax rate can be highly variable and may not necessarily correlate with pre-tax income or loss.

## **Segment Reporting**

### Operating Segment

An operating segment is a component of the Company for which discrete financial information is available and whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and that engaged in business activities from which it may earn revenue and incur expenses.

The Company's chief operating decision maker is represented by key management personnel. For management purposes, during the nine months ended December 31, 2022, the Company was organized into the following two main operating segments, which are reportable segments:

- **U.S. Cannabis Platform** – focused on the cultivation, manufacturing, distribution, and sale of medical cannabis in the U.S.; and services related thereto, including the Company's corporate activities; and



- Minority Portfolio** – focused on the maintenance of the Company’s legacy portfolio of minority investments in the cannabis space in which it had historically invested to provide investor returns through dividends, interest, rent, royalties, and capital appreciation.

As permitted under *IFRS 8, Operating Segments*, the Company does not separately disclose operating segments that do not meet certain quantitative thresholds. As such, the Company’s one reportable segment is the U.S. cannabis platform.

### Geography

The Company operates in the U.S. and Canada. As at December 31, 2022, the Company had the following non-current assets by geography:

	U.S.	Canada
Non-current assets <sup>(1)</sup>	\$ 129,242	\$ 137

(1) The Company’s non-current assets disclosed in the table above exclude associates, other investments, and deferred tax assets.

The Company’s reported revenue, net of excise tax, of \$1,885 and \$5,079 for the three and nine months ended December 31, 2022, respectively, was entirely attributable to the U.S.

### **Non-controlling Interest**

Non-controlling interest ("NCI") represents the portion of equity ownership in subsidiaries not attributable to the Company’s shareholders. NCI is initially measured at either the fair value or proportionate share of its interest in the acquiree’s identifiable net assets as at the date of acquisition. The initial measurement is an election made on a transaction-by-transaction basis. NCI is subsequently adjusted for the share of net income (loss) and other comprehensive income (loss) attributable to the NCI based on contractual terms of the related agreements.

The Company does not own a direct equity interest in Etain LLC, but has financial control over Etain LLC through a number of agreements that have been entered into between the Company’s subsidiaries and Etain LLC. These agreements prevent Etain LLC from taking certain actions or omitting to take certain actions where to do so would be contrary to the future economic benefits that the Company expects to derive from its relationship with Etain LLC. Taken together, these agreements effectively devalue any future economic benefits that Etain LLC’s members would have otherwise derived from their ownership interest in Etain LLC. Accordingly, the Company does not ascribe any value to the equity interest of Etain LLC that it does not directly own, and there is no non-controlling interest accounted for on the Company’s consolidated statements of loss and comprehensive loss or on its consolidated statements of financial position.

### **New Accounting Pronouncements**

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 12, Deferred Taxes*

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, with early application permitted.

#### *Amendments to IAS 8, Accounting Estimates*

On February 12, 2021, the IASB issued ‘Definition of Accounting Estimates (Amendments to IAS 8)’, which introduces a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and

accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The amendments are effective for annual periods beginning on or after January 1, 2023.

Certain other new accounting standards, amendments, and interpretations have been published that are not mandatory for the current period and have not been early adopted by the Company.

## **CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of the Interim Consolidated Financial Statements in conformity with IFRS requires management to make judgements, estimates, 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.

In addition to the significant accounting estimates and judgements outlined in the Annual Consolidated Financial Statements, the Company has applied the following newly applicable estimates and judgements in the Interim Consolidated Financial Statements.

### **Biological Assets**

Management is required to make significant estimates in calculating the fair value of biological assets and harvested cannabis inventory. These estimates include a number of assumptions, such as estimating the stages of growth of the cannabis plant up to the point of harvest, expected yields, harvesting costs, selling costs, and average expected selling prices.

Please refer to Note 8 in the Interim Consolidated Financial Statements for more information regarding the Company's biological assets.

### **Business Combinations**

In a business combination, all identifiable assets, liabilities, and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities.

For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total future net cash flows expected to be derived from the asset. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied.

Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period may last up to one year from the acquisition date. In estimating the fair value of a financial asset or a liability, the Company uses market-observable data to the extent it is available. Where such "Level 1" inputs are not available, the Company uses various valuation models to determine the fair value of its financial instruments that maximize the use of observable inputs and minimize the use of unobservable inputs.

Please refer to Note 5 in the Interim Consolidated Financial Statements for more information regarding the Company's business combinations.

### **Control**

The Company consolidates entities over which it exercises control. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The assessment of control is based on the consideration of all facts and circumstances on a collective basis. Judgement is required in determining whether the Company has control over an entity. When voting rights are not relevant in determining whether the Company has power over an entity, the assessment of control considers the Company's

relationship with the entity, its ability to make decisions over significant activities, and whether the Company acts as principal or agent. The Company has determined it exercises control over Etain LLC, as defined in *IFRS 10, Consolidation*, as of the acquisition date. Please refer to Note 5 in the Interim Consolidated Financial Statements for additional details.

### **Impairment of Goodwill and Intangible Assets**

The carrying values of goodwill and intangible assets are reviewed annually for impairment, or more frequently when there are indicators that impairment may have occurred. The Company tests for impairment of goodwill and intangible assets by comparing the carrying amount of the CGU to its recoverable amount, which is the greater of estimated fair value less costs to sell and value-in-use calculations that use a discounted cash flow model. The determination of the Company's CGUs is based on management's judgement.

Estimates of fair value less costs to sell are based on the best information available to reflect the amount that could be obtained from the disposal of the CGU in an arm's length transaction between knowledgeable and willing parties, net of estimates of the costs of disposal. Fair value less costs to sell calculations may encompass an income approach, market approach, or cost approach, as prescribed in *IFRS 13, Fair value*.

Value-in-use calculations employ key assumptions regarding future cash flows, growth prospects, economic risks, and estimates of the Company's ability to achieve key operating metrics, among other items. The cash flows are derived from the Company's budget for the future and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset base of the CGU being tested. The recoverable amount is sensitive to several items, including the discount rate applied in the discounted cash flow model (if applicable) and expectations regarding growth rates and future cash flows. The estimated fair value less costs to sell may also be based upon an assessment of comparable company multiples and precedent transaction multiples.

Please refer to Note 11 in the Interim Consolidated Financial Statements for more information regarding the Company's intangible assets and goodwill.

### **Inventory**

The net realizable value of inventory represents the estimated selling price for inventories in the ordinary course of business, less all estimated costs of completion and costs necessary to make the sale. The determination of net realizable value requires significant judgement, including consideration of factors such as shrinkage, the aging of and future demand for inventory, the expected future selling price the Company expects to realize by selling the inventory, and the contractual arrangements with customers. Reserves for excess and obsolete inventory are based upon quantities on hand, projected volumes from demand forecasts, and net realizable value. The estimates are judgmental in nature and are made at a point in time, using available information, expected business plans, and expected market conditions. As a result, the actual amount received on sale could differ from the estimated value of inventory. Periodic reviews are performed on the inventory balance. The impact of changes in inventory reserves is reflected in cost of goods sold.

Please refer to Note 7 in the Interim Consolidated Financial Statements for more information regarding the Company's inventory.

### **IRC 280E**

Goodwill and intangible assets that arise from business combinations may be subject to the limits of IRC Section 280E if they exist in an entity that deals in trade or business of trafficking in U.S. controlled substances (labeled as Schedule I or Schedule II). The assessment of tax basis on goodwill and intangible assets requires significant judgment and a view of facts and circumstances on an aggregate basis. The Company has prepared the Interim Financial Statements on the basis that the tax attributes related to the goodwill and intangible assets acquired in the Etain Acquisition will be subject to IRC Section 280E.

### **Estimated Useful Lives and Depreciation and Amortization of Property, Plant, and Equipment and Intangible Assets**

Depreciation and amortization of property and equipment and intangible assets are dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that consider factors such as economic and market conditions and the useful lives of assets.

Please refer to Notes 10 and 11 in the Interim Consolidated Financial Statements for more information regarding the Company's property, plant, and equipment and intangible assets.

## **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 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 25 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, warrants, 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 25 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 Canadian dollars and U.S. dollars, incur operating expenses in Canadian dollars and U.S. 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 \$892. 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 \$892. 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 December 31, 2022, 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 16 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.

### **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 in the normal course of business 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.

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 December 31, 2022, the Company’s financial liabilities were comprised of accounts payable and accrued liabilities, lease liability, and the Convertible Notes. As at December 31, 2022, 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.

### **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 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 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, respectively, 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, respectively, 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, respectively, is, or will be, accurate and free of material misstatement or fraud. Should the financial information provided by Etain LLC or the Investees, respectively, 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 a privately-held U.S. company, Etain LLC was not required to evaluate its ICFR. In connection with the preparation of the Interim Consolidated Financial Statements, management of RIV Capital has identified 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. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected on a timely basis. The deficiencies that management has identified relate to completeness and classification issues related to underlying financial statement line items. Management has taken steps to address and remedy the deficiencies identified, which the Company believes will address their underlying causes. The Company is also in the process of hiring additional personnel with requisite skills in both technical accounting and ICFR, and is evaluating the longer term resource needs of Etain LLC's various financial functions, particularly in light of the anticipated growth of the business. In addition, management plans to develop a detailed plan to design, evaluate, and document the overall control environment and resolve the identified weaknesses. Implementing any appropriate changes to Etain LLC's internal controls and continuing to update and maintain Etain LLC's internal controls may distract the Company's officers and employees, entail substantial costs to implement new processes and modify its existing processes, and take significant time to complete. If the Company fails to enhance Etain LLC's ICFR, the Company may be unable to report its financial results accurately, which could increase operating costs and harm the Company's and Etain LLC's respective businesses, including the Company's investors' perception of its business and the Company's share price. The actions that management plans to take are subject to continued management review, supported by confirmation and testing, as well as Audit Committee oversight. While the Company expects to fully remediate these significant deficiencies, it cannot provide assurance that it will be able to do so in a timely manner, which could impair the Company's ability to report its financial position. Additionally, the Company cannot ensure that the measures the Company has taken to date, and is continuing to implement, will be sufficient to avoid potential future material weaknesses or significant deficiencies. Moreover, the Company cannot be certain that there will not be additional significant deficiencies or material weaknesses in ICFR in the future, or that the Company will successfully remediate any that it finds.

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 licences, 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, 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 licences, including licences for standard cultivation, micro-cultivation, industrial hemp cultivation, and nursery cultivation, licences for standard processing and micro-processing, medical sales licences, and licences 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. The panel's report will be submitted to Parliament within 18 months of the start of the review, and may recommend legislative changes.

### ***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, 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, 37 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 21 states and the territory of Guam, the sale and possession of cannabis is legal for both medical and adult-use, 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. 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.

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.

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 the former President Donald Trump in the U.S. 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, “[t]he 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.

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) 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 (though these laws are not immediately effective and may take well into 2023 before becoming effective). Measures to legalize adult-use marijuana in Arkansas, North Dakota, and South Dakota failed. Other states, including Ohio and Pennsylvania, are currently considering the implementation of adult-use regulatory frameworks in 2023. 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, and will likely be introduced in the current Congress, but with the change in control of the House and a narrow Democrat majority

in the Senate, 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”. The administrative review of how marijuana is scheduled under the CSA would be conducted by the FDA and Drug Enforcement Administration, but it remains unclear when these agencies will complete their respective reviews and whether such reviews will result in a change in how marijuana is classified under the CSA.

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. 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 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 smoking of 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 Cannabis Control Board, the approval and oversight body of the OCM. The Cannabis Control Board 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 Cannabis Control Board and the OCM.

On December 14, 2022 the Cannabis Control Board filed proposed regulations for the New York adult-use cannabis market, including the rules governing 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 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. It is expected that the proposed regulations will either be modified by the OCM and reissued for another public comment period or finalized and approved by the Cannabis Control Board in their current form.

On February 22, 2023, the OCM issued final regulations to govern medical cannabis and replace the former medical regulations promulgated by the NYDOH.

The OCM has also:

- Released Laboratory Testing Regulations (comment period closed on August 15, 2022) and a revised version of the Packaging, Labeling, Marketing and Advertising Regulations (comment period closed on January 30, 2023). It is unclear if these regulations will be modified and reissued for public comment or promulgated as final. OCM also issued final Personal Home Cultivation of Medical Cannabis regulations which became effective on October 5, 2022.
- Awarded 66 Conditional Adult-Use Retail Dispensaries (CAURDs), which are the first retail dispensaries to open for adult-use cannabis sales in New York State and are intended to be issued to applications 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.

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. Under New York State law, certain licensed medical dispensaries may be permitted to sell adult-use cannabis products, 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 ten 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. 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.

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:

MM0401M	Chestertown	07/31/2023	Acquiring, possession, manufacture, sale, transporting, distributing, and dispensing medical marijuana
MM0403D	Kingston	07/31/2023	Acquiring, possession, sale, transporting, distributing, and dispensing medical marijuana
MM0404D	Yonkers	07/31/2023	Acquiring, possession, sale, transporting, distributing, and dispensing medical marijuana

MM0405D	Syracuse	07/31/2023	Acquiring, possession, sale, transporting, distributing, and dispensing medical marijuana
MM0407D	Manhattan	07/31/2023	Acquiring, possession, sale, transporting, distributing, and dispensing medical marijuana
OCM-HMPD-22-00028	New York	02/09/2024	Cannabinoid Hemp Distributor Permit
OCM-HMPR-22-00108	New York	Renewal application submitted to OCM 01/31/2023  In process/pending	Cannabinoid Hemp Retail License
OCM-HMPR-22-00108-001	Manhattan	Renewal application submitted to OCM 01/31/2023  In process/pending	Cannabinoid Hemp Retail License
OCM-HMPR-22-00108-002	Kingston	Renewal application submitted to OCM 01/31/2023  In process/pending	Cannabinoid Hemp Retail License
OCM-HMPR-22-00108-003	Yonkers	Renewal application submitted to OCM 01/31/2023  In process/pending	Cannabinoid Hemp Retail License
OCM-HMPR-22-00108-004	Syracuse	Renewal application submitted to OCM 01/31/2023  In process/pending	Cannabinoid Hemp Retail License

New York Record-Keeping and Reporting

The OCM uses the BioTrack THC T&T system to track commercial cannabis activity. 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, and (e) the patient's registry identification card number.

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) a perimeter alarm, (b) a duress alarm, (c) a panic alarm, and (d) a holdup alarm. 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 24 hours, seven days a week. 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 90 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) appoint each vehicle with a minimum of two employees where at least one transport team member remains with the vehicle at all times, (d) possess a copy of the shipping manifest at all times when transporting or delivering approved medical cannabis products, and (e) keep the shipping manifest in a safe compartment for a minimum of five years.

#### 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.

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

To the knowledge of management of the Company, other than as disclosed elsewhere in this AIF, 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 is developing 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. 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 has engaged New York State and local regulatory/compliance counsel to assist in evaluating compliance of applicable requirements. The Company understands that Etain LLC has longstanding New York State-specific legal counsel, in addition to its Compliance Department, to monitor and implement applicable requirements.

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

Further, 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.

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 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.

### **COVID-19 Pandemic**

In March 2020, the World Health Organization declared the outbreak of COVID-19 as a global pandemic. COVID-19 continues to spread in Canada, the U.S., and globally, including in multiple jurisdictions where the Company and the Investees have operations. The COVID-19 pandemic has caused companies and various international jurisdictions to impose restrictive measures such as quarantines, business closures, and travel restrictions and has had a negative impact on the global economy. The situation is continuing to evolve, but the Company continues to monitor developments and actively assess the impact of the COVID-19 pandemic on its employees, service providers, the Investees, and the Company as a whole, and, where possible, has adopted measures to mitigate such impact, including work-from-home programs and certain restrictions on business travel where appropriate and practicable. Notably, many states (including New York) deemed cannabis businesses as "essential" allowing them to operate during government ordered lockdowns related to COVID-19.

Going forward, the Company expects to continue to experience some short to medium-term negative impacts from the COVID-19 pandemic and the ongoing uncertainty related to certain continuing macroeconomic challenges, including the potential for continued supply and personnel shortages, a reduction in demand for certain products and services, mandated social distancing and quarantines, impacts of declared states of emergency, public health emergencies and similar declarations, increased governmental regulations, capital markets volatility, a reduction in available financing for the Company and the Investees, and an elevated cost of capital.

At this time, it is impossible to predict the effect and overall impact of the COVID-19 pandemic on the operations, liquidity, and financial results of the Company or any of the Investees due to uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, containment and treatment of COVID-19, and the timing and length of any travel restrictions and business closures that have been or may be imposed by government authorities. However, the COVID-19 pandemic has had, and may continue to have, an adverse effect on global economies and financial markets, which may result in an economic downturn that could have a material adverse effect on the business, financial condition, operating results, and cash flows of the Company and the Investees. Please refer to "Financial Risk Management" herein and "Risk Factors" in the AIF for additional details.

### **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.sedar.com](http://www.sedar.com).

Under IFRS the Company is required to review the carrying value of goodwill and intangible assets annually for impairment or more frequently when there are indicators that impairment may have occurred. In the Company's second fiscal quarter of 2023, the Company recognized a goodwill impairment charge of \$138,937 on the Etain CGU. Any further impairment of goodwill could have a material adverse effect on the Company and its financial condition. In addition, investing in and/or acquiring businesses involves numerous risks (see "Risk Factors" in the AIF, including "Risk Factors – Acquisition and Integration Risks" and "Risk Factors – Risks Associated with Investing in or Acquiring United States Cannabis Business"). The Company's business strategy, including its acquisition strategy, may not be

successful and it has written down, and may in the future need to write down, the goodwill recognized in connection with acquisitions.