

Form 51-102F3

**Material Change Report**

**Item 1 Name and Address of Company**

AYR STRATEGIES INC. (“AYR” or the “Corporation”)  
c/o 590 Madison Avenue, 26<sup>th</sup> Floor  
New York, New York  
10022

**Item 2 Date of Material Change**

May 17, 2019

**Item 3 News Release**

A press release describing the material change was disseminated by AYR on May 24, 2019 through GlobeNewswire and can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

**Item 4 Summary of Material Change**

AYR, formerly known as Cannabis Strategies Acquisition Corp., is pleased to announce that it has completed its qualifying transaction (the “**Transaction**”), with the result that AYR is now a vertically-integrated cannabis company with an initial anchor portfolio in the Eastern and Western United States. The board of directors of the Corporation is led by Jonathan Sandelman, its Chairman, Chief Executive Officer and Corporate Secretary, and is also comprised of Mark Smith, Charles Miles, Chris Burggraeve, Steve Menzies and Louis F. Karger. As contemplated in the Corporation’s final prospectus dated February 15, 2019, certain management services or operations agreements have been entered into, as applicable. Copies of these and other material corporate agreements, including a strategic opportunities agreement, have been filed under the Corporation’s profile on SEDAR.

**Item 5 Full Description of Material Change**

**5.1 Full Description of Material Change**

*The Qualifying Acquisition*

AYR (formerly Cannabis Strategies Acquisition Corp., a special purpose acquisition corporation, or SPAC, that listed in Canada on December 21, 2017), announced that it has completed its qualifying acquisition in respect of the target businesses of Washoe Wellness, LLC (“**Washoe**”), The Canopy NV, LLC (“**Canopy**”), Sira Naturals, Inc. (“**Sira**”), LivFree Wellness, LLC (“**LivFree**”) and CannaPunch of Nevada LLC (“**Cannapunch**”).

The Transaction will create a combined enterprise with a strong combination of high-quality assets anchoring the Eastern and Western United States. Once final state and/or local regulatory approvals are in place in Nevada, AYR will own three cultivation and production facilities, a facility dedicated to cannabis goods manufacturing, and 8 dispensaries, in addition to key licenses.

100% of the equity of each of Sira and Cannapunch has been acquired. In addition, pending final state and/or local regulatory approvals in Nevada, as contemplated in the Corporation’s final prospectus dated February 15, 2019, an Operations Agreement has been entered into in respect of the operations of LivFree in Henderson County, unincorporated Clark County and Las Vegas (all in Nevada) and Management Services Agreements have been entered into in respect of Canopy,

Washoe and the remaining operations of LivFree. AYR has acquired certain operating assets of each of the Nevada businesses.

In addition, AYR has entered into a strategic opportunities agreement with Mercer Park Brand Acquisition Corp. ("BRND"), a special purpose acquisition company listed on the NEO Exchange in Toronto that recently completed a US\$402.5 million initial public offering. It is seeking to pursue brand-focussed cannabis acquisition opportunities. Under the agreement, tiered rights of first refusal have been created to reflect the focus of each of AYR and BRND.

Copies of the Operations Agreement, the Management Services Agreements and the strategic opportunities agreement have all been filed on SEDAR.

Aggregate consideration for the transactions paid by AYR was comprised of a combination of cash, equity and debt, as follows:

- an aggregate of approximately US\$76 million in cash;
- the issuance of approximately 7.6 million exchangeable shares of CSAC Acquisition Inc., exchangeable on a 1 for 1 basis into (and designed to be economically equivalent to) AYR Subordinate Voting Shares; and
- the issuance of promissory notes and the assumption of debt in an aggregate amount of approximately US\$44 million.

After the transaction, AYR has 26.2 million Subordinate Voting Shares outstanding, assuming the exchange of all exchangeable shares and the conversion of all Multiple Voting Shares. In addition, 16,359,058 warrants of AYR (the "**Warrants**") with an exercise price of C\$11.50 per share are outstanding, as are rights (the "**Rights**") to acquire an additional 1.35 million shares. The fully diluted share count as at closing is approximately 42.6 million shares, before giving effect to any potential future employee equity incentives stock option plan. Each Warrant entitling the holder thereof to purchase, for a period of five years expiring on May 24, 2024, one Subordinate Voting Share commencing 65 days following the closing of the transaction. Each Right represents the entitlement to automatically receive, for no additional consideration, one-tenth (1/10) of one Subordinate Voting Share. Any Right that has not been converted by May 24, 2021 will be null and void. Further details on the exercise of Warrants and the conversion of the Rights are available on SEDAR.

#### *Sira*

A few minor changes were made to the terms of the Sira acquisition at closing, as follows.

In particular, the earn-out in respect of Sira's planned cultivation facilities in Milford, Massachusetts (which are now expected to be comprised of two nearby buildings) has been agreed to be a fixed amount of US\$27,500,000 rather than a multiple of EBITDA following the attainment of certain harvest thresholds and the satisfaction of other conditions. The aggregate harvest threshold is 400 pounds of saleable recreational cannabis flower, pro-rated between the two buildings based on their size. The earnout will be earned, if at all, one year after the harvest threshold and other conditions are met and will be payable 120 days later.

In addition, the payment by AYR for inventory over \$800,000 will now be paid in two phases within 120 days after the closing of the qualifying acquisition.

An amended and restated Equity Exchange Agreement reflecting the above has been filed on SEDAR.

In addition to certain technical matters related to the Exchangeable Shares issued to the Sira vendors, Jonathan Sandelman has agreed to assist the Sira vendors holding Exchangeable Shares

to arrange loans to pay any taxes that may result from a forced redemption of the Exchangeable Shares by AYR.

#### *LivFree*

On May 24, 2019, contemporaneously with the closing of the Transaction, an amendment was entered into by the Corporation and CSAC Acquisition, Inc. with the vendors of LivFree. The outside or “drop dead” date of the LivFree transaction, as previously varied, was May 1, 2019. Accordingly, to facilitate the later closing of the Transaction, and in recognition of the general increase in business values across the sector, CSAC Acquisition, Inc. agreed, subject to the approval of the board of directors of the Corporation and of the Neo Exchange, both of which are to be sought following such closing, to issue an additional US\$5 million worth of Exchangeable Shares at a valuation of Cdn. \$21.00 per share. In addition, upon such shares being issued, the vendors agreed to transfer to CSAC Acquisition Inc. all of their rights to the name JDSS™, which is used to market cannabis related products in Nevada, which rights had not previously been included as part of the transaction.

#### *Department of Justice Enquiries*

In connection with the Transaction, AYR and the acquired Nevada companies recently received a civil investigative demand (CID) from the Antitrust Division of the Department of Justice (the “Division”) requesting further information (the “Information Request”) on the entities operating in Nevada. It is AYR’s understanding that the Division is engaging in a variety of inquiries across the U.S. cannabis sector in relation to recent proposed business combinations. This Information Request did not affect the closing of the Transaction. AYR and the acquired Nevada companies plan to comply with the Information Request. AYR believes that it will be able to satisfy the Division that the acquisitions present no material competitive issues in Nevada.

#### *Growth Plans*

Following successful completion of the Transaction, AYR plans to seek additional growth opportunities through synergy realization, organic growth, expansion of the existing Anchor Portfolio footprint, securing of new licenses and further acquisition activity and is currently examining various potential opportunities, some of which may require additional equity financing to complete.

#### **Forward-Looking Statements**

Certain information contained in this report may be forward-looking statements within the meaning of Canadian securities laws. Forward-looking statements are often, but not always identified by the use of words such as “target”, “expect”, “anticipate”, “believe”, “foresee”, “could”, “estimate”, “goal”, “intend”, “plan”, “seek”, “will”, “may” and “should” and similar expressions or words suggesting future outcomes. With respect to the forward-looking statements included in this report, AYR has made certain assumptions with respect to, among other things, the Transaction, the receipt of necessary approvals for the Transaction, the proposed acquisition of Green Leaf, certain anticipated strategic, operational, and competitive advantages and benefits created by the qualifying acquisition and future opportunities for AYR.

Numerous risks and uncertainties relating to AYR’s businesses could cause actual events and results to differ materially from the estimates, beliefs and assumptions expressed or implied in the forward-looking statements, including, without limitation, risks related to: cannabis is a controlled substance under the United States *Federal Controlled Substances Act*; any potential future legalization of adult-use and/or medical marijuana under U.S. Federal law; enforcement of cannabis laws could change; renewal of the Leahy Amendment; the differing regulatory and legal environment relating to the cannabis in the United States and Canada; the market for cannabis could decline due to regulatory changes; the unpredictable nature of the cannabis industry; regulatory scrutiny; the impact of regulatory scrutiny on the ability to raise capital; anti-money laundering laws and regulations; any-reclassification of cannabis or changes in U.S. controlled substances and regulations; risk of civil

asset forfeiture; lack of access to U.S. bankruptcy protection; enforceability of contracts; changes in regulation or a failure to comply; general regulatory and licensing risks; limitations on ownership of licenses; and regulatory action and approvals from the Food and Drug Administration. Furthermore, risks and uncertainties relating to the qualifying acquisition could cause actual events and results to differ materially from the estimates, beliefs and assumptions expressed or implied in the forward-looking statements, including, but not limited to: risks relating to the failure to obtain necessary state and/or local regulatory approvals in Nevada or elsewhere; the risk of possible intervention by U.S. anti-trust authorities; anticipated strategic, operational and competitive benefits may not be realized; events or series of events may cause business interruptions; and AYR may prove unable to raise additional capital.

### **Risk Factors**

Please refer to the final prospectus dated February 15, 2019 for a discussion of risks related to the business of AYR. These risks and uncertainties are not the only ones facing AYR.

### **5.2 Disclosure for Restructuring Transactions**

Not applicable.

#### **Item 6 Reliance on subsection 7.1(2) of National Instrument 51-102**

Not applicable.

#### **Item 7 Omitted Information**

Not applicable.

#### **Item 8 Executive Officer**

Further information regarding the matters described in this report may be obtained from:

Jonathan Sandelman  
Chief Executive Officer, Chairman, Director and Corporate Secretary,  
AYR STRATEGIES INC.

Chief Executive Officer, Mercer Park CB, L.P.  
590 Madison Avenue, 26th Floor, New York, New York, 10022  
(212) 299-7666 or jsandelman@mercerparklp.com

#### **Item 9 Date of Report**

May 28, 2019