Ayr Strategies Inc.
(formerly, Cannabis Strategies Acquisition Corp.)

Form 51-102F4
Business Acquisition Report

Item 1 Identity of Company

1.1 Name and Address of Company

Ayr Strategies Inc. (“**Ayr**” or the “**Corporation**”)
c/o 590 Madison Avenue, 26th Floor
New York, New York
10022

1.2 Executive Officer

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 2 Details of Acquisition

2.1 Nature of Businesses Acquired

On May 24, 2019, the Corporation completed its qualifying transaction under Part X of the Neo Exchange Inc. Listing Manual (the “**Qualifying Transaction**”) in respect of its concurrent acquisitions of five target businesses. The Corporation, through its wholly-owned subsidiary CSAC Acquisition Inc. (“**CSAC AcquisitionCo**”), acquired the 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**” and together with Washoe, Canopy, Sira and LivFree, the “**Acquired Businesses**”). The Acquired Businesses operate in the cultivation, manufacture, branding and/or retail, as applicable, of cannabis products in the Corporation’s anchor states of Massachusetts and Nevada.

2.2 Acquisition Date

May 24, 2019 (the “**Closing Date**”).

2.3 Consideration

Each of the acquisitions is subject to specific terms relating to the satisfaction of the purchase price by the Corporation and its wholly-owned subsidiary, CSAC Acquisition Inc. (“CSAC AcquisitionCo”), and incorporates payments in cash, shares and debt as well as certain contingent consideration.

Sira Acquisition

The different components of the consideration paid (in U.S. dollars) to acquire Sira in connection with the Qualifying Transaction (the “**Sira Purchase Price**”) are summarized as follows:

i. $15.0 million of the Sira Purchase Price was paid in the form of cash consideration;

ii. $5.0 million of the Sira Purchase Price was paid in the form of a promissory note payable;

iii. $30.0 million of the Sira Purchase Price was paid in the form of 1,885,606 non-voting exchangeable common shares of CSAC AcquisitionCo (“**Exchangeable Shares**”) that are exchangeable on a one-for-one basis into an equal number of subordinate voting shares of the Corporation (“**Subordinate Voting Shares**”); and

iv. the definitive agreement in respect of the Sira acquisition (the “**Sira Agreement**”) contained an earn-out provision that may entitle the sellers thereof to earn additional consideration in the amount of up to $27,500,000 if certain milestones are achieved in respect of Sira’s planned cultivation facility in Milford, MA.

Additionally, CSAC AcquisitionCo must pay an amount equal to the fair market value of Sira’s inventory above a target level set at $800,000 (the “**Inventory Payment**”), pursuant to a formula specified in the Sira Agreement. One-third of this Inventory Payment, in the amount of $2,500,000, was paid by CSAC AcquisitionCo on the Closing Date and the remaining two-thirds will be paid within 120 days following the Closing Date.

Canopy Acquisition

The different components of the consideration paid (in U.S. dollars) to acquire Canopy in connection with the Qualifying Transaction (the “**Canopy Purchase Price**”) are summarized as follows:

i. $7.0 million of the Canopy Purchase Price was paid in the form of cash consideration;

ii. $4.50 million of the Canopy purchase price was paid in the form of a promissory note payable;

iii. $5.50 million of the Canopy Purchase Price was paid in the form of 250,000 Exchangeable Shares;

iv. an additional 15,360 Exchangeable Shares were issued to Canopy pursuant to certain make-whole provisions (the “**Canopy Make-Whole Provisions**”) in the definitive agreement in respect of the Canopy acquisition (the “**Canopy Agreement**”); and

v. pursuant to the terms of the Canopy Agreement, CSAC AcquisitionCo assumed Canopy loans outstanding with total principal value of approximately $400,000.

Additional Exchangeable Shares are also issuable to the Canopy sellers under the Canopy Make-Whole Provisions based on a formula specified therein relating to the market price of the Subordinate Voting Shares on certain specified dates.

Washoe Acquisition

The different components of the consideration paid (in U.S. dollars) to acquire Washoe in connection with the Qualifying Transaction (the “**Washoe Purchase Price**”) are summarized as follows:

i. $16.670 million of the Washoe Purchase Price was paid in the form of cash consideration;

ii. $5.640 million of the Washoe Purchase Price was paid in the form of a promissory note payable;

iii. $5.640 million of the Washoe Purchase Price was paid in the form of 256,364 Exchangeable Shares; and

iv. pursuant to the terms of the definitive agreement in respect of the Washoe acquisition (the "**Washoe Agreement**"), CSAC AcquisitionCo assumed Washoe loans outstanding with total principal value of approximately $9,100,000 and issued 13,636 Exchangeable Shares to a Washoe lender.

In addition, (i) CSAC AcquisitionCo agreed to fund a bonus plan in the amount of $5,000,000 that would be payable over two years following the Closing Date to various employees and consultants of Washoe, and (ii) additional Exchangeable Shares are issuable to the Washoe sellers under certain make-whole provisions of the Washoe Agreement based on a formula specified therein relating to the market price of the Subordinate Voting Shares on certain specified dates.

LivFree Acquisition

The different components of the consideration paid (in U.S. dollars) to acquire LivFree in connection with the Qualifying Transaction (the "**LivFree Purchase Price**") are summarized as follows:

i. $29.50 million of the LivFree Purchase Price was paid in the form of cash consideration;

ii. $20.0 million of the LivFree Purchase Price was paid in the form of a promissory note payable;

iii. $70 million of the LivFree Purchase Price was paid in the form of 4,342,432 Exchangeable Shares; and

iv. pursuant to an amendment to the definitive agreement in respect of the LivFree Acquisition, such amendment dated as of the Closing Date, CSAC AcquisitionCo issued an additional 321,750 Exchange Shares to the LivFree sellers.

CannaPunch Acquisition

The different components of the consideration paid (in U.S. dollars) to acquire CannaPunch in connection with the Qualifying Transaction (the "**CannaPunch Purchase Price**") are summarized as follows:

i. $0.750 million of the CannaPunch Purchase Price was paid in the form of cash consideration;

ii. $2.0 million of the CannaPunch Purchase Price was paid in the form of a promissory note payable;

iii. $14.0 million of the CannaPunch Purchase Price was paid in the form of 866,668 Exchangeable Shares; and

iv. pursuant to an amendment to the definitive agreement in respect of the CannaPunch acquisition, such amendment dated June 7, 2019, CSAC AcquisitionCo issued an additional 32,071 Exchangeable Shares to the CannaPunch sellers.

2.4 Effect on Financial Position

The expected effect of the acquisitions of the Acquired Businesses on the assets and operations of the Corporation are set out in detail in the Pro Forma Financial Statements (as defined below) attached hereto as Schedule “K”.

The Corporation presently has no plans or proposals that would constitute a material change in the business or affairs of the Corporation which may have a significant effect on the results of operations and financial position of the Corporation.

2.5 Prior Valuations

Not applicable.

2.6 Parties to Transaction

Prior to the closing of the Qualifying Transaction, Mark Smith, a director of the Corporation, held 50% of the issued and outstanding shares of CannaPunch.

2.7 Date of Report

August 7, 2019.

Item 3 Financial Statements and Other Information

The following financial statements and related notes thereto are attached to this business acquisition report as Schedules “A”, “B”, “C”, “D”, “E”, “F”, “G”, “H”, “I”, “J” and “K”, respectively, and form part of this business acquisition report:

- Audited consolidated annual financial statements of Sira and related notes thereto as of and for the years ended December 31, 2018 and 2017 (the “**Sira Annual Financial Statements**”);

- Audited consolidated annual financial statements of Canopy and related notes thereto as of and for the years ended December 31, 2018 and 2017 (the “**Canopy Annual Financial Statements**”);

- Audited consolidated annual financial statements of Washoe and related notes thereto as of and for the years ended December 31, 2018 and 2017 (the “**Washoe Annual Financial Statements**”);

- Audited consolidated annual financial statements of LivFree and related notes thereto as of and for the years ended December 31, 2018 and 2017 (the “**LivFree Annual Financial Statements**”);

- Audited consolidated annual financial statements of CannaPunch and related notes thereto as of and for the year ended December 31, 2018 and for the period from March 30, 2017 (inception date) to December 31, 2017 (the “**CannaPunch Annual Financial Statements**”);

- Unaudited condensed consolidated interim financial statements of Sira and related notes thereto as of and for the three months ended March 31, 2019 and March 31, 2018 (the “**Sira Interim Financial Statements**”);

- Unaudited condensed consolidated interim financial statements of Canopy and related notes thereto as of and for the three months ended March 31, 2019 and March 31, 2018 (the “**Canopy Interim Financial Statements**”);

- Unaudited condensed consolidated interim financial statements of Washoe and related notes thereto as of and for the three months ended March 31, 2019 and March 31, 2018 (the "**Washoe Interim Financial Statements**");

- Unaudited condensed consolidated interim financial statements of LivFree and related notes thereto as of and for the three months ended March 31, 2019 and March 31, 2018 (the "**LivFree Interim Financial Statements**");

- Unaudited condensed consolidated interim financial statements of CannaPunch and related notes thereto as of and for the three months ended March 31, 2019 and March 31, 2018 (the "**CannaPunch Interim Financial Statements**"); and

- A (i) pro forma statement of financial position of Ayr as at March 31, 2019 and related notes thereto, (ii) pro forma income statement of Ayr as of and for the 12 months ended December 31, 2018 and related notes thereto, and (iii) pro forma income statement of Ayr as of and for the three months ended March 31, 2019 and related notes thereto (together, the "**Pro Forma Financial Statements**").

SCHEDULE “A”
SIRA ANNUAL FINANCIAL STATEMENTS

(see attached)

SIRA NATURALS, INC.

Financial Statements

As of and for the Years Ended
December 31, 2018 and 2017

(EXPRESSED IN UNITED STATES DOLLARS)

SIRA NATURALS, INC.
Financial Statements
December 31, 2018 and 2017

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management's Responsibility

To the Members of Sira Naturals, Inc.

The accompanying financial statements and other financial information in this report were prepared by management of Sira Naturals, Inc. ("the Company"), reviewed by the Audit Committee and approved by the Board of Directors.

Management is responsible for the financial statements and believes that they fairly present the Company's financial condition and results of operations in conformity with International Financial Reporting Standards. Management has included in the Company's financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel and through the adoption and communication of financial and other relevant policies.

These financial statements have been audited by the Company's auditors, Macias Gini & O'Connell LLP, and their report is presented herein.

August 2, 2019

"Lou Karger" (Signed)
Treasurer

"Neil Sullivan" (Signed)
Controller

Certified Public Accountants

Independent Auditor's Report

To the Members of *Sira Naturals, Inc.*:

Opinion

We have audited the financial statements of Sira Naturals, Inc. ("Sira" or the "Company"), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of operations, changes in shareholders' deficit and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 of the financial statements which describe matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

Macias Gini & O'Connell LLP

San Diego, California
August 2, 2019

SIRA NATURALS, INC.
Statements of Financial Position
At December 31, 2018 and 2017

	2018	2017
	$	$
ASSETS		
Current		
Cash and cash equivalents	2,607,676	201,697
Inventory [Note 5]	6,197,598	11,579,070
Biological assets [Note 6]	1,733,316	1,081,141
Prepaid expenses and other assets	120,163	41,808
	10,658,753	12,903,716
Property, plant and equipment [Note 7]	7,629,881	8,203,108
Deferred tax assets [Note 8]	-	420,205
Other long term assets	480,401	280,401
Total assets	18,769,035	21,807,430
LIABILITIES		
Current		
Trade payables	1,557,153	1,117,295
Accrued liabilities	1,192,208	811,300
Income tax payable	3,997,954	523,238
Debts payable - current portion [Note 9]	7,572	17,383
	6,754,887	2,469,216
Deferred tax liability [Note 8]	1,242,460	-
Accrued interest payable [Note 9]	6,963,253	4,862,566
Debts payable - Non-current portion [Note 9]	14,965,045	15,363,015
Total liabilities	29,925,645	22,694,797
SHAREHOLDERS' DEFICIT		
Accumulated deficit	(11,156,610)	(887,367)
Total shareholders' deficit	(11,156,610)	(887,367)
Total liabilities and shareholders' deficit	18,769,035	21,807,430

Nature of operations [Note 1]
Commitments and contingencies [Note 13]
Subsequent events [Note 16]

Approved and authorized on behalf of the Board of Directors on August 2, 2019

"Lou Karger" (Signed)
Treasurer

"Neil Sullivan" (Signed)
Controller

The accompanying notes are an integral part of these financial statements.

SIRA NATURALS, INC.
Statements of Operations
For the Years Ended December 31, 2018 and 2017

	2018	2017
	$	$
Revenues, net of discounts	**16,398,127**	6,293,763
Cost of goods sold before biological asset adjustment	**3,823,025**	4,906,883
Gross profit before biological asset adjustment	**12,575,102**	1,386,880
Realized fair value adjustments on inventory sold during the year [Note 6]	**(18,470,531)**	(10,274,274)
Unrealized change in fair value of biological assets [Note 6]	**11,287,162**	12,015,641
Gross profit	**5,391,733**	3,128,247
Expenses		
General and administrative [Note 12]	**6,988,439**	3,134,182
Sales and marketing	**323,495**	303,852
Depreciation [Note 7]	**150,089**	58,404
Management Fee [Note 10]	**342,472**	-
Total expenses	**7,804,495**	3,496,438
Loss from operations	**(2,412,762)**	(368,191)
Other expense (income)		
Interest expense	**2,738,950**	2,526,809
Rental income and others	**(19,850)**	(3,321)
Other expense (income)	**2,719,100**	2,523,488
Loss before provision for income taxes	**(5,131,862)**	(2,891,679)
Provision for income taxes [Note 8]	**5,137,381**	680,384
Net loss	**(10,269,243)**	(3,572,063)

The accompanying notes are an integral part of these financial statements.

SIRA NATURALS, INC.
Statements of Changes in Shareholders' Deficit
For the Years Ended December 31, 2018 and 2017

	Retained Earnings (Accumulated deficit) $
Balance as at December 31, 2016	**2,684,696**
Net loss	(3,572,063)
Balance as at December 31, 2017	**(887,367)**
Net loss	(10,269,243)
Balance as at December 31, 2018	**(11,156,610)**

The accompanying notes are in integral part of these financial statements.

SIRA NATURALS, INC.
Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017

	2018	2017
	$	$
Operating activities		
Net loss	**(10,269,243)**	(3,572,063)
Adjustments for items not affecting cash:		
Depreciation	**965,936**	843,159
Fair value changes in biological assets included in cost of sales	**(18,470,531)**	(10,274,274)
Unrealized gain on biological asset transformation	**11,287,162**	12,015,641
Changes in working capital items:		
Inventory	**5,381,472**	(11,220,921)
Biological assets	**6,531,194**	6,866,670
Prepaid expenses and other assets	**(278,355)**	(241,482)
Deferred taxes	**1,662,665**	157,602
Trade payables	**439,858**	553,950
Accrued liabilities	**2,481,595**	2,955,135
Income tax payable	**3,474,716**	522,326
Cash provided by (used in) operating activities	**3,206,469**	(1,394,257)
Investing activities		
Purchase of property, plant and equipment	**(392,709)**	(1,714,196)
Cash used in investing activities	**(392,709)**	(1,714,196)
Financing activities		
Proceeds from issuance of debt	**-**	3,282,774
Repayment of debts	**(407,781)**	-
Cash (used in) provided by financing activities	**(407,781)**	3,282,774
Net increase in cash	**2,405,979**	174,321
Cash, beginning of year	**201,697**	27,376
Cash, end of year	**2,607,676**	201,697
Supplemental cash flow information		
Interest paid	**638,263**	1,414

The accompanying notes are an integral part of these financial statements.

1. NATURE OF OPERATIONS

Sira Naturals, Inc. ("Sira" or the "Company") was incorporated as a not-for-profit Corporation on June 18, 2013 in the Commonwealth of Massachusetts, United States of America ("USA"). The Company changes its name from time to time and its latest name change was from Sage Naturals, Inc. to Sira Naturals, Inc., effective November 27, 2017. The Company's registered address is 300 Trade Center, Suite 7700, Woburn, MA 01801.

On January 23, 2018, the Company converted its status from a not-for-profit Corporation into a for-profit Corporation. The Company applied the status change into a for-profit corporation to the financial statement's presentation and the accompanying notes retrospectively for all the periods presented consistently.

The Company's principal activities are the growing, processing and distribution of cannabis as regulated under the laws applicable in the USA.

Going Concern

These financial statements have been prepared on a going concern basis in accordance with IFRS. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. As at December 31, 2018, the Company has incurred an accumulated deficit of $11,156,610. For the years ended December 31, 2018 and 2017, the Company has losses of $10,269,243 and $3,572,063, respectively. Historically, the Company has used debt and equity financing from both related and unrelated sources to supplement its operations. The Company anticipates additional debt and/or equity financing in order to fully develop its business.

Although the Company has been successful in raising funds to date, there can be no assurance that adequate or sufficient funding will be available in the future or available under terms acceptable to the Company, or that the Company will be able to generate sufficient returns from operations.

The ability of the Company to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities and commitments when due is dependent on the Company generating revenue and debt and/or equity financing sufficient to fund its cash flow needs.

These circumstances indicate the existence of material uncertainty that casts significant doubt on the ability of the Company to meet its business plan and its obligations as they come due, and accordingly the appropriateness of the use of the accounting principles applicable to a going concern.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these financial statements, then adjustments would be necessary in the carrying value of the assets and liabilities, the reported revenue and expenses and the classifications used in the statement of financial position. Such differences in amounts could be material.

2. BASIS OF PRESENTATION

2.1 Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements were approved and authorized for issue by the Board of Directors of the Company on August 2, 2019.

2.2 Basis of Presentation

These financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3. The financial statements are presented in US dollars which is the presentation and functional currency of the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Revenues

IFRS 15 specifies how and when revenues should be recognized based on a five-step model, which is applied to all contracts with customers. The Company has applied IFRS 15 retrospectively and determined that there is no change to the comparative periods or transitional adjustments required as a result of the adoption of this standard. The Company's accounting policy for revenue recognition under IFRS 15 is to follow a five-step model to determine the amount and timing of revenue to be recognized:

- Identifying the contract with a customer
- Identifying the performance obligations within the contract
- Determining the transaction price
- Allocating the transaction price to the performance obligations
- Recognizing revenue when/as performance obligation(s) are satisfied.

Revenue from growing, processing and distribution of cannabis is recognized when the Company transfers control of the good to the customer. In some cases, judgement is required in determining whether the customer is a business or the end consumer. This evaluation was made on the basis of whether the business obtains control of the product before transferring to the end consumer. Control of the product transfers at a point in time either upon shipment to or receipt by the customer, depending on the contractual terms.

The Company recognizes revenue in an amount that reflects the consideration that the Company expects to receive taking into account any variation that may result from rights of return.

The pattern and timing of revenue recognition under the new standard is consistent with prior year practice. There were no adjustments recognized on the adoption of IFRS 15 in the year ended December 31, 2018.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Property, Plant and Equipment ("PPE")

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of PPE consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is provided at rates calculated to write off the cost of PPE, less their estimated residual value, using the straight-line method over the following expected useful lives:

- Buildings and leasehold improvements - the shorter of the useful life or life of the lease
- Furniture and fixtures – 5 years
- Office equipment – 3 years
- Machinery and equipment – 5 to 15 years
- Auto and Trucks – 5 years

An item of PPE is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the statements of operations.

Assets in process are transferred to the appropriate asset class when available for use and depreciation of the assets commences at that point of time.

The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for PPE and any changes arising from the assessment are applied by the Company prospectively.

Where an item of property, plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of property, plant and equipment. Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

3.3 Taxation

As the Company operates in the cannabis industry, it is subject to the limits of IRC Section 280E under which the Company is only allowed to deduct expenses directly related to sales of product. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E.

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in the statements of operations.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Taxation (Continued)

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and income or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

3.4 Financial Instruments

Recognition and Initial Measurement

Financial assets and financial liabilities, including derivatives, are recognized in the statements of financial position when the Company becomes a party to the contractual provisions of a financial instrument or non-financial derivative contract. All financial instruments are measured at fair value on initial recognition. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities, other than financial assets and financial liabilities classified as FVTPL, are added to or deducted from the fair value on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified as FVTPL are recognized immediately in net loss.

Classification and Subsequent Measurement

The Company classifies financial assets, at the time of initial recognition, according to the Company's business model for managing the financial assets and the contractual terms of the cash flows. Financial assets are classified in the following measurement categories:

a) amortized cost ("AC");
b) fair value through profit or loss ("FVTPL"); and
c) fair value through other comprehensive income ("FVTOCI").

Financial assets are subsequently measured at amortized cost if both the following conditions are met and they are not designated as FVTPL: a) the financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Financial Instruments (Continued)

These assets are subsequently measured at amortized cost using the effective interest rate method, less any impairment, with gains and losses recognized in net income in the period that the asset is derecognized or impaired. All financial assets not classified as amortized cost as described above are measured at FVTPL or FVTOCI depending on the business model and cash flow characteristics. The Company has no financial assets measured at FVTOCI.

Financial liabilities are subsequently measured at amortized cost using the effective interest rate method with gains and losses recognized in net income in the period that the liability is derecognized, except for financial liabilities classified as FVTPL.

Financial instruments are classified into one of the following categories: FVTPL; financial assets at amortized cost, financial liabilities at amortized cost, and financial assets at FVTOCI.

Impairment of Financial Instruments

For accounts receivable, the Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all accounts receivable, trade based on the Company's historical default rates over the expected life of the accounts receivable, trade and is adjusted for forward-looking estimates. The methodologies and assumptions, including any forecasts of future economic conditions, are reviewed regularly.

All individually significant loan receivables are assessed for impairment. All individually significant loans receivable found not to be specifically impaired are then collectively assessed for impairment. Loans receivables not individually significant are collectively assessed for impairment by grouping together loans receivable with similar risk characteristics.

Derecognition

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are recognized in the statements of operations.

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the statements of operations.

3.5 Impairment of Non-Financial Assets

At each date of the statements of financial position, the Company reviews the carrying amounts of its tangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, or when annual impairment testing for an asset is required, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the assets belong.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Impairment of Non-Financial Assets (Continued)

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than it's carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statements of operations, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

3.6 Biological Assets

The Company measures biological assets consisting of cannabis plants at fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of internally produced work in process and finished goods inventories after harvest. Unrealized gains or losses arising from changes in fair value less cost to sell during the year are included in the results of operations of the related year.

3.7 Inventory

Inventories of finished goods, work-in-process and raw materials are initially valued at cost and subsequently at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at the point of harvest, which becomes the initial deemed cost. Any subsequent post-harvest costs, including direct costs attributable to processing and related overheads, are capitalized to inventory to the extent that cost is less than net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to sell. The Company reviews inventories for obsolete, redundant and slow-moving goods and any such inventories identified are written down to net realizable value. At December 31, 2018 and 2017, there were no reserves for inventories required.

3.8 Cash and Cash Equivalents

The Company considers all investments with original maturities of three months or less, that are highly liquid and readily convertible into cash, to be cash equivalents.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

3.10 Significant Accounting Judgments and Estimates

The application of the Company's accounting policies requires management to use estimates and judgments that can have significant effect on the revenues, expenses, other income (loss), assets and liabilities recognized and disclosures made in the financial statements.

Management's best estimates concerning the future are based on the facts and circumstances available at the time estimates are made. Management uses historical experience, general economic conditions and assumptions regarding probable future outcomes as the basis for determining estimates. Estimates and their underlying assumptions are reviewed periodically and the effects of any changes are recognized immediately. Actual results could differ from the estimates used.

Management's budget and strategic plans are fundamental information used as a basis for estimates necessary to prepare financial information. Management tracks performance as compared to the budget and significant variances in actual performance are a key trigger to assess whether certain estimates used in the preparation of financial information must be revised.

The following areas require management's critical estimates and judgments:

(a) Biological assets and inventory

In calculating the value of the inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, average or expected selling prices and list prices, expected yields for the cannabis plants, and oil conversion factors. In calculating final inventory values, management compares the inventory costs to estimated net realizable value.

(b) Estimated useful lives and depreciation of property, plant and equipment

Depreciation of property, plant and equipment is dependent upon estimates of useful lives, which are determined through the exercise of judgement. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Significant Accounting Judgments and Estimates (Continued)

(c) Deferred taxes and income tax expense

Income taxes and tax exposures recognized in the financial statements reflect management's best estimate based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability. The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference. In addition, when the Company incurs losses for income tax purposes, it assesses the probability of taxable income being available in the future based on its budgeted forecasts. These forecasts are adjusted to take into account certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate that sufficient future taxable income will be available to deduct the temporary differences; a deferred tax asset is recognized for all deductible temporary differences.

3.11 Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease. An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statements of operations on a straight-line basis over the lease term.

3.12 Borrowing Costs

Borrowing costs directly attributable to the acquisition or construction of a qualifying asset are capitalized. Qualifying assets are those that require a minimum of three months to prepare for their intended use.

4. CHANGES IN ACCOUNTING STANDARDS

Adoption of New Accounting Pronouncements

IFRS 9 - Financial Instruments

In August 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments* ("IFRS 9"), which brings together the classification and measurement, impairment, and hedge-accounting phases of the IASB's project to replace IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39").

Classification and Measurement – Financial assets are classified and measured based on the business model under which they are managed and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified in a similar manner as under IAS 39, except that financial liabilities measured at fair value will have fair value changes resulting from changes in the entity's own credit risk recognized in Other Comprehensive Income ("OCI") instead of Net Income, unless this would create an accounting mismatch.

4. CHANGES IN ACCOUNTING STANDARDS (Continued)

Adoption of New Accounting Pronouncements (Continued)

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost ("AC"), fair value through other comprehensive income ("FVTOCI") and FVTPL. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables, and available for sale.

Impairment – The measurement of impairment of financial assets is based on an expected credit loss model. It is no longer necessary for a triggering event to have occurred before credit losses are recognized. IFRS 9 also includes new disclosure requirements about expected credit losses and credit risk.

Hedge Accounting – The new general hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. It will provide more opportunities to apply hedge accounting to reflect actual risk management activities.

The Company adopted IFRS 9 effective from January 1, 2018. The adoption did not result in any material change.

IFRS 15: Revenue from Contracts with Customers:

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The Company has adopted IFRS 15 from incorporation date.

IFRS 7, Financial Instruments: Disclosure

IFRS 7, Financial Instruments: Disclosure, was amended to require additional disclosures on transition from IAS 39 to IFRS 9. IFRS 7 is effective on adoption of IFRS 9, which is effective for annual periods commencing on or after January 1, 2018.

IAS 16 and IAS 41, Bearer Plants

The Company has implemented amendments to IAS 16 and IAS 41, which became effective for annual periods beginning on January 1, 2016. These amendments are summarized below.

- Bearer plants are accounted for as property, plant and equipment and measured at initial recognition at cost or revaluation basis.
- Bearer plants are defined as a living plant that are used in the production or supply of agricultural produce. Such plants are expected to bear produce for more than one period, and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.
- Bearer plants remain within the scope of IAS 41.

The amendments described above are consistent with the Company's accounting practices.

4. CHANGES IN ACCOUNTING STANDARDS (Continued)

Changes in Accounting Standards not yet Effective

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 – *Leases* ("IFRS 16"), which replaces IAS 17 – *Leases*, and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements and plans to adopt the requirements in 2019.

5. INVENTORY

The Company's inventory includes the following:

	2018			2017		
	Capitalized cost	Fair value adjustment	Carrying value	Capitalized cost	Fair value adjustment	Carrying value
	$	$	$	$	$	$
Raw Material						
Accessories	152,976	-	152,976	-	-	-
Harvested cannabis						
Work in process	602,966	3,230,842	3,833,808	2,914,481	3,386,673	6,301,154
Finished goods	10,760	60,507	71,267	14,590	16,954	31,544
	613,726	3,291,349	3,905,075	2,929,071	3,403,627	6,332,698
Cannabis Oils						
Work in process	252,963	1,773,790	2,026,753	2,274,051	2,642,482	4,916,533
Finished goods	14,078	98,716	112,794	152,561	177,278	329,839
	267,041	1,872,506	2,139,547	2,426,612	2,819,760	5,246,372
	1,033,743	**5,163,855**	**6,197,598**	5,355,683	6,223,387	11,579,070

Inventories expensed as cost of goods sold during the years ended December 31, 2018 and 2017, were $909,645 and $156,708, respectively.

6. BIOLOGICAL ASSETS

The continuity of biological assets was as follows:

	2018	2017
	$	$
Balance, beginning of year	1,081,141	9,689,178
Changes in fair value less costs to sell due to biological transformation	11,287,162	12,015,641
Transferred to inventory upon harvest	(10,634,987)	(20,623,678)
Balance, at end	1,733,316	1,081,141

As of December 31, 2018, and 2017, the weighted average fair value less cost to complete and cost to sell were $5.24 and $6.71 per gram, respectively.

The fair value of biological assets is categorized within Level 3 on the fair value hierarchy. The inputs and assumptions used in determining the fair value of biological assets include:

(a) Selling price per gram;	Level 3 input
(b) Attrition rate;	Level 3 input
(c) Average yield per plant;	Level 3 input
(d) Standard cost per gram to compete production	Level 3 input
(e) Cumulative stage of completion in production process	Level 3 input

Significant unobservable assumptions used in the valuation of biological assets, including the sensitivities on changes in these assumptions and their effect on the fair value of biological assets, are as follows:

Significant inputs or as	Range of inputs	Sensitivity	Effect on fair value	
			2018	2017
			$	$
Selling price per gram*	$6.61 to $7.62	Increase or decrease of $1 per gram	378,621	161,173
Average yield per plant	150 to 162 grams	Increase or decrease by 5 grams per plant	9,771	41,032

*Selling price per gram is based on average selling prices for the period.

These inputs are level 3 on the fair value hierarchy and are subject to volatility and several uncontrollable factors, which could significantly affect the fair value of biological assets in future periods.

As of December 31, 2018, and 2017, the biological assets were on average 60% and 83% complete, respectively. During the years ended December 31, 2018 and 2017, the Company's biological assets produced 2,323,076 and 161,173 grams of dried cannabis, respectively.

7. PROPERTY, PLANT AND EQUIPMENT

	Buildings & leasehold improvements	Furniture and fixtures	Office equipment	Machinery & equipment	Auto & trucks	Total
	$	$	$	$	$	$
Cost						
As at December 31, 2016	6,637,105	477,026	57,537	386,186	29,393	7,587,247
Additions	1,463,396	144,014	-	106,786	-	1,714,196
As at December 31, 2017	**8,100,501**	**621,040**	**57,537**	**492,972**	**29,393**	**9,301,443**
Additions	189,747	118,750	9,154	54,558	20,500	392,709
As at December 31, 2018	**8,290,248**	**739,790**	**66,691**	**547,530**	**49,893**	**9,694,152**
Depreciation						
As at December 31, 2016	249,792	-	233	5,151	-	255,176
Depreciation	793,729	19,511	700	23,830	5,389	843,159
As at December 31, 2017	**1,043,521**	**19,511**	**933**	**28,981**	**5,389**	**1,098,335**
Depreciation	701,387	162,378	16,358	79,593	6,220	965,936
As at December 31, 2018	**1,744,908**	**181,889**	**17,291**	**108,574**	**11,609**	**2,064,271**
Net book value						
As at December 31, 2017	7,056,980	601,529	56,604	463,991	24,004	8,203,108
As at December 31, 2018	**6,545,340**	**557,901**	**49,400**	**438,956**	**38,284**	**7,629,881**

As at December 31, 2018 and 2017, buildings and leasehold improvements include borrowing costs of $7,032 and $478,767, capitalized in connection with loan used for the construction of buildings.

Depreciation expense for the years ended December 31, 2018 and 2017, of $815,847 and $784,755, respectively, is included in cost of goods sold.

8. INCOME TAXES

Income tax expense attributable to income from continuing operations consists of the following:

	2018	2017
	$	$
Current		
Federal	**2,627,367**	415,331
State	**847,349**	107,451
	3,474,716	522,782
Deferred		
Federal	**1,223,583**	170,506
State	**439,082**	(12,904)
	1,662,665	157,602
Income tax expense	**5,137,381**	680,384

8. INCOME TAXES (Continued)

The Company's effective tax rate differs from the US federal statutory rate as follows:

	2018 $	2017 $
Tax at Federal statutory rate	(1,077,691)	(983,326)
State, net of Federal benefit	1,286,431	94,548
Change in biological value	1,341,057	(592,065)
Prior year tax expense	1,361,227	-
Disallowed 280E expenses	2,226,358	1,977,220
Impact of Federal rate change	-	184,007
Income tax expense	5,137,381	680,384

Net deferred tax assets are as follows:

	2018 $	2017 $
Deferred tax asset - Non-current		
Property, plant and equipment	100,250	29,230
Start up costs	616,881	390,975
	717,131	420,205
Deferred tax liabilities - Non-current		
Biological asset fair value	(1,959,591)	-
Net deferred tax assets (liabilities)	(1,242,460)	420,205

As at December 31, 2018 and 2017, the Company has approximately $nil and $nil, of federal and state net operating loss carry forwards. For tax reporting purposes, federal and state operating loss carry forwards are available to offset future taxable income. Such carry forwards expire beginning in 2027 for both federal and state tax purposes.

Based on available evidence during the year December 31, 2018, the Company determined it was more likely than not that the net deferred tax assets will be utilized.

The Company is subject to U.S. federal and Massachusetts income taxes. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. The Company was incorporated in 2013 and is subject to U.S. federal, state and local tax examinations by tax authorities for all prior years. All of the Company's tax returns remain subject to examination, and accordingly, net operating loss carry forward attributes may still be adjusted upon examination by federal or state taxing authorities. The Company is not under examination in any jurisdiction.

8. INCOME TAXES (Continued)

As the Company operates in the cannabis industry, it is subject to the limits of the U.S. Internal Revenue Code Section 280E under which the Company is only allowed to deduct expenses related to sales of product. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under US IRC Section 280E.

On December 22, 2017, the Tax Cuts and Jobs Act (H.R. 1) (the "Tax Act") was signed into law. The Tax Act contains significant changes to corporate taxation, including; (i) the reduction of the corporate income tax rate from a maximum rate of 35% to 21%, (ii) the acceleration of expensing for certain business assets, (iii) the one-time transition tax related to the transition of U.S. international tax from a worldwide tax system to a territorial tax system, (iv) the repeal of the domestic production deduction, (v) additional limitations on the deductibility of interest expense, (vi) expanded limitations on executive compensation, (vii) acceleration of tax revenue recognition, (viii) capitalization of research and development expenditures and (ix) creation of new minimum taxes such as the base erosion anti-abuse tax ("BEAT") and Global Intangible Low Taxed Income ("GILTI") tax.

After the enactment of the Tax Act, the Securities and Exchange Commission ("SEC") staff issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of U.S. GAAP in situations when an entity does not have the necessary information available, prepared or analyzed (including computations) in reasonable details to complete the accounting for certain income tax effects of the Act. The Company has made adjustments to reduce its deferred tax assets and liabilities as of December 31, 2018, based on the reduction of the U.S. federal corporate rate from 34% to 21% and assessed the reliability of its deferred tax assets based on its understanding of the provisions of the new law. As of December 31, 2018, the Company completed its assessment of the impact of the Tax Act and determined no additional adjustments are required.

The Company has considered required policy elections with respect to its treatment of potential base erosion anti-abuse tax ("BEAT") and Global Intangible Low Taxed Income ("GILTI"). Companies can either account for taxes on BEAT and GILTI as incurred or recognize deferred taxes when basis differences exist that are expected to affect the amount of the BEAT and GILTI inclusion upon reversal. The Company has considered the provisions of the Act associated with BEAT and GILTI and noted that these are not applicable as of December 31, 2018. The Company expects to account for any taxes on BEAT and GILTI as incurred if applicable.

9. DEBTS PAYABLE

The details of debts payable were as follows:

	2018	2017
	$	$
Promissory notes to a related party (a)	**14,958,333**	15,358,333
Loan payable to a third party (b)	**14,284**	22,065
Total debts payable	**14,972,617**	15,380,398
Less: Current portion	**(7,572)**	(17,383)
Debts payable - Non-current portion	**14,965,045**	15,363,015

9. DEBTS PAYABLE (Continued)

As at December 31, 2018, the maturity profile of the principal amounts of debts are as follows:

Year ending December 31	$
2019	**7,572**
2020	**2,465,045**
2021	-
2022	-
2023	-
2024 and thereafter	**12,500,000**
	14,972,617

(a) Promissory Notes Payable to a Related Party

The outstanding balances at respective year ends represent long term debts obtained from 2013 to 2018 in the form of promissory notes. These notes carry interest rate of 18% per annum to be paid monthly.

Promissory notes amounting to $12,500,000 (2017: $12,500,000) are to be repaid along with any unpaid accrued interest by April 2025. As of December 31, 2018, there was unpaid accrued interest of $6,277,500.

Promissory notes amounting to $2,458,333 (2017: $2,458,333) are to be repaid on maturity date of June 2020. Monthly interest payments to commence from March 2019. As of December 31, 2018 there was unpaid accrued interest of $147,900.

(b) Loan Payable to a Third Party

Effective November 10, 2016, the Company obtained a loan of $29,393 for a term of four years from a third party for the purchase of a vehicle. This loan carries interest at 5.49% per annum. The principal and interest are payable monthly until November 10, 2020.

10. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties are defined as management and members of the Company and/or members of their immediate family and/or other companies and/or entities in which a member or senior officer is a principal owner or senior executive.

Included in expenses for the year ended December 31, 2018 is a management fee of $342,472 charged by a related Corporation (December 31, 2017 - $nil) under a management agreement. The management fee was paid monthly and varied based on actual costs incurred by the related corporation when providing the Company administrative, support, and management services. The management agreement was a month-to-month arrangement. As of December 31, 2018, there was unpaid services of $193,600 included in trade payables.

The Company paid $291,500 to related party for unpaid accrued interest from prior periods during 2018.

The Company owes $538,625 in accrued interest to a related party as of December 31, 2018.

No compensation was paid to the key management for the years ended December 31, 2018 and 2017.

11. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support business development. The Directors do not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. In order to carry out the planned business development and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. There were no changes in the Company's approach to capital management during the year ended December 31, 2018. The Company is not subject to externally imposed capital requirements.

The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through loans from third parties and promissory notes. There can be no assurance that the Company will be able to continue raising capital in this manner. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly rated financial instruments.

12. GENERAL AND ADMINISTRATIVE

General and administrative expenses were comprised of:

	2018	2017
	$	$
Salaries and benefits	**2,670,613**	1,143,480
Rent [Note 13]	**585,239**	366,883
Taxes and licenses	**125,816**	17,793
Bank Service charges	**208,273**	109,962
Professional and consulting fees	**984,140**	644,112
Insurance	**270,697**	73,722
Office expenses	**295,853**	125,123
Community agreements	**577,085**	-
Security	**557,262**	-
Computer expenses	**114,237**	-
Utilities	**121,667**	160,386
Others	**477,557**	492,721
	6,988,439	3,134,182

13. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company conducts operations in facilities leased from various third parties. The Company also leases certain equipment. The leases expire through 2025 and contain certain renewal provisions. Future minimum lease payments under non-cancelable operating leases having an initial or remaining term of more than one year are as follows:

Year ending December 31	$
2019	764,938
2020	770,551
2021	751,052
2022	522,740
2023 and thereafter	946,960
	3,756,241

Total rent expensed for the years ended December 31, 2018 and 2017 were $936,042 and $720,598, respectively. For the years ended December 31, 2018 and 2017, rent included in general and administrative expenses in Note 12 were $585,239 and $366,883, respectively.

Contingencies

The Company's operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits and/or licenses that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulation at December 31, 2018, cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

Claims and Litigation

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. At December 31, 2018, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

14. FINANCIAL RISK FACTORS

The Company's financial instruments mainly comprise of cash and cash equivalents, trade payables, accrued liabilities and debts payable.

(a) Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

• Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date.

• Level 2 inputs are observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable directly or indirectly.

• Level 3 inputs are unobservable inputs for the asset or liability that reflect the reporting entity's own assumptions and are not based on observable market data.

The classification of financial instruments at their carrying and fair values is as follows:

	Carrying values				Fair values
Financial assets	**FVTPL**	**FVTOCI**	**AC**	**Total**	**Total**
December 31, 2018	**$**	**$**	**$**	**$**	**$**
Cash and cash equivalents	**2,607,676**	-	-	**2,607,676**	**2,607,676**
December 31, 2017					
Cash and cash equivalents	201,697	-	-	201,697	201,697

14. FINANCIAL RISK FACTORS (Continued)

(a) Fair Value (Continued)

Financial liabilities	Carrying values FVTPL	AC	Total	Fair values Total
December 31, 2018	**$**	**$**	**$**	**$**
Trade payables	-	**1,557,153**	**1,557,153**	**1,557,153**
Accrued liabilities	-	**1,192,208**	**1,192,208**	**1,192,208**
Debts payable	-	**14,972,617**	**14,972,617**	**14,972,617**
	-	**17,721,978**	**17,721,978**	**17,721,978**
December 31, 2017	**$**	**$**	**$**	**$**
Trade payables	-	1,117,295	1,117,295	1,117,295
Accrued liabilities	-	811,300	811,300	811,300
Debts payable	-	15,380,398	15,380,398	15,380,398
	-	17,308,993	17,308,993	17,308,993

The Company's financial instruments as at December 31, 2018 and 2017, classified as "Level 1 - quoted prices in active markets" is cash and cash equivalents. The Company has determined that there have been no transfers between levels in the hierarchy by re-assessing categorization at the reporting date.

The Company is exposed to credit risk, liquidity risk and interest rate risk. The Company's management oversees the management of these risks. The Company's management is supported by the Members that advises on financial risks and the appropriate financial risk governance framework for the Company. The Company's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with company policies and company risk appetite.

(b) Credit Risk

Credit risk is the risk of unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents. The cash and cash equivalents consist mainly of checking and operating accounts, cash and security deposits. The Company has deposited the cash equivalents with a major highly reputable US bank. As at December 31, 2018 and 2017, the maximum amount exposed to credit risks was $2,607,676 and $201,697, respectively.

(c) Liquidity Risk

Liquidity risk is the risk that the Company is unable to generate or obtain sufficient cash or its equivalents in a cost-effective manner to fund its obligations as they come due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company manages liquidity risk through obtaining financing from its members and third parties. As at December 31, 2018, all trade payables and accrued liabilities are due within a year, whereas, long term debts over a period of over a longer period of time.

14. FINANCIAL RISK FACTORS (Continued)

(d) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its long-term debts.

15. SEGMENTED INFORMATION

Operating and Geographical Segments

An operating segment is defined as a component of the Company:

- that engages in business activities from which it may earn revenues and incur expenses;
- whose operating results are reviewed regularly by the entity's chief operating decision maker; and;
- for which discrete financial information is available.

At December 31, 2018 and 2017, the Company's operations comprise a single reporting operating and geographical segment engaged in the growing, processing and distribution of cannabis.

16. SUBSEQUENT EVENTS

The Company's management has evaluated subsequent events up to August 2, 2019, the date the financial statements were issued, and determined the following event:

On May 24, 2019 – Ayr Strategies Inc. ("AYR"), formerly CSAC, closed its previously announced Qualifying Transaction. Through the qualifying transaction, AYR has created a vertically integrated Multi-State Operator in the U.S. cannabis sector, with an initial anchor portfolio in the Eastern and Western United States.

SCHEDULE “B”
CANOPY ANNUAL FINANCIAL STATEMENTS

(see attached)

THE CANOPY NV, LLC

Consolidated Financial Statements

As of and for the Years Ended
December 31, 2018 and 2017

(EXPRESSED IN UNITED STATES DOLLARS)

Certified
Public
Accountants

THE CANOPY NV, LLC
Consolidated Financial Statements
December 31, 2018 and 2017

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management's Responsibility

To the Members of The Canopy NV, LLC:

The accompanying consolidated financial statements and other financial information in this report were prepared by management of The Canopy NV, LLC ("the Company"), reviewed by the Audit Committee and approved by the Board of Directors.

Management is responsible for the consolidated financial statements and believes that they fairly present the Company's consolidated financial condition and results of operations in conformity with International Financial Reporting Standards. Management has included in the Company's consolidated financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of consolidated financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel and through the adoption and communication of financial and other relevant policies.

These consolidated financial statements have been audited by the Company's auditors, Macias Gini & O'Connell LLP, and their report is presented herein.

August 2, 2019

"Mark Pitchford" (Signed)
Chief Executive Officer

"Lilian Yohn" (Signed)
Chief Financial Officer

Certified
Public
Accountants

Independent Auditor's Report

To the Members of the Canopy NV, LLC:

Opinion

We have audited the consolidated financial statements of Canopy NV, LLC (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of operations, changes in members' equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our reports. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

Macias Gini & O'Connell LLP

San Diego, California
August 2, 2019

THE CANOPY NV, LLC
Consolidated Statements of Financial Position
At December 31, 2018 and 2017

	2018 $	2017 $
ASSETS		
Current		
Cash	**172,576**	821,928
Inventory [Note 5]	**1,310,676**	466,648
Advance to a related corporation [Note 9]	**690,461**	150,190
Prepaid expenses and other assets	**122,167**	328,703
	2,295,880	1,767,469
Intangible assets [Note 6]	**1,623,114**	1,623,114
Property, plant and equipment [Note 7]	**1,235,993**	253,097
Total assets	**5,154,987**	3,643,680
LIABILITIES		
Current		
Trade payables	**-**	130,127
Accrued liabilities	**268,156**	233,426
Debt payable - non-current portion [Note 12]	**421,128**	-
Total liabilities	**689,284**	363,553
MEMBERS' EQUITY [Note 8]	**4,465,703**	3,280,127
Total Liabilities and Members' Equity	**5,154,987**	3,643,680

Nature of operations [Note 1]
Commitments and contingencies [Note 13]
Subsequent events [Note 16]

Approved and authorized by the Board of Directors on August 2, 2019

"Mark Pitchford" (Signed)
Chief Executive Officer

"Lilian Yohn" (Signed)
Chief Financial Officer

The accompanying notes are an integral part of these consolidated financial statements.

THE CANOPY NV, LLC
Consolidated Statements of Operations
For the Years Ended December 31, 2018 and 2017

	2018 $	2017 $
Revenues, net of discounts	**11,748,244**	7,135,024
Cost of goods sold [Note 5]	**6,821,581**	3,496,736
Gross profit	**4,926,663**	3,638,288
Expenses		
General and administrative [Note 11]	**867,613**	1,455,043
Sales and marketing	**310,863**	190,850
Depreciation [Note 7]	**50,766**	16,483
Management fees [Note 9]	**546,848**	201,000
Total expenses	**1,776,090**	1,863,376
Net income	**3,150,573**	1,774,912

The accompanying notes are an integral part of these consolidated financial statements.

THE CANOPY NV, LLC
Consolidated Statements of Changes in Members' Equity
For the Years Ended December 31, 2018 and 2017

	$
Balance as of December 31, 2016	1,746,661
Contribution - cash [Note 8]	60,554
Distributions	(302,000)
Net income	1,774,912
Balance as at December 31, 2017	**3,280,127**
Distributions	**(1,964,997)**
Net income	**3,150,573**
Balance as at December 31, 2018	**4,465,703**

The accompanying notes are in integral part of these consolidated financial statements.

THE CANOPY NV, LLC
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017

	2018	2017
	$	$
Operating activities		
Net income	**3,150,573**	1,774,912
Adjustments for items not affecting cash:		
Depreciation	**50,766**	16,483
Changes in working capital items:		
Inventory	**(844,028)**	(460,903)
Prepaid expenses and other assets	**206,536**	(320,350)
Trade payables	**(130,127)**	130,127
Advance to a related corporation	**(540,271)**	(150,190)
Accrued liabilities	**34,730**	233,426
Cash provided by operating activities	**1,928,179**	1,223,505
Investing activities		
Purchase of property, plant and equipment	**(612,534)**	(160,131)
Cash used in investing activities	**(612,534)**	(160,131)
Financing activities		
Contribution	**-**	60,554
Distributions	**(1,964,997)**	(302,000)
Cash used in financing activities	**(1,964,997)**	(241,446)
Net (decrease) increase in cash	**(649,352)**	821,928
Cash, beginning of year	**821,928**	-
Cash, end of year	**172,576**	821,928
Non-Cash Supplementary Information		
Debt acquired for construction	**421,128**	-

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS

The Canopy NV, LLC ("Canopy" or the "Company") was incorporated as Domestic Limited Liability Company on April 1, 2016 in the State of Nevada, United States of America ("USA"). The Company's head office is located at 1645 Crane Way, Sparks, Nevada 89431.

The Company's management, operations, structure and other matters are governed through an Operating Agreement entered between the members and Managers of the Company on April 20, 2016. The Company's principal activities, through its subsidiaries, are the distribution and sale of cannabis as regulated under the laws applicable in the USA.

2. BASIS OF PRESENTATION

2.1 Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on August 2, 2019.

2.2 Basis of Presentation

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3. The consolidated financial statements are presented in US dollars which is the presentation and functional currency of the Company and its subsidiaries.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries – Kynd Strainz LLC ("Kynd") and Lemon Aide LLC ("Lemon"), Limited Liabilities Companies, incorporated in the state of Nevada. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of operations from the effective date of acquisition or up to the effective date of disposal, as appropriate. All inter-company transactions, balances, income and expenses are eliminated on consolidation. Lemon started operations in 2018.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Revenues

IFRS 15 specifies how and when revenues should be recognized based on a five-step model, which is applied to all contracts with customers. The Company has applied IFRS 15 retrospectively and determined that there is no change to the comparative periods or transitional adjustments required as a result of the adoption of this standard. The Company's accounting policy for revenue recognition under IFRS 15 is to follow a five-step model to determine the amount and timing of revenue to be recognized:

- Identifying the contract with a customer
- Identifying the performance obligations within the contract
- Determining the transaction price
- Allocating the transaction price to the performance obligations
- Recognizing revenue when/as performance obligation(s) are satisfied.

Revenue from distribution and sale of cannabis is recognized when the Company transfers control of the good to the customer. In some cases, judgement is required in determining whether the customer is a business or the end consumer. This evaluation was made on the basis of whether the business obtains control of the product before transferring to the end consumer. Control of the product transfers at a point in time either upon shipment to or receipt by the customer, depending on the contractual terms.

The Company recognizes revenue in an amount that reflects the consideration that the Company expects to receive taking into account any variation that may result from rights of return.

The pattern and timing of revenue recognition under the new standard is consistent with prior year practice. There were no adjustments recognized on the adoption of IFRS 15 in the year ended December 31, 2018.

3.3 Property, Plant and Equipment ("PPE")

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of PPE consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is provided at rates calculated to write off the cost of PPE, less their estimated residual value, using the straight-line method over the following expected useful lives:

- Leasehold improvements – the shorter of the useful life or life of the lease
- Furniture and fixtures – 5 to 7 years
- Office equipment – 5 years
- Vehicles – 7 years

An item of PPE is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statements of operations.

Assets in process are transferred to the appropriate asset class when available for use and depreciation of the assets commences at that point of time.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Property, Plant and Equipment ("PPE") (Continued)

The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for PPE and any changes arising from the assessment are applied by the Company prospectively.

Where an item of property, plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of property, plant and equipment. Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

3.4 Taxation

The Company and its subsidiaries are considered Limited Liability Companies for income tax purposes, for the years ended December 31, 2018 and 2017. Therefore, the Company's taxable income is allocated to the members for inclusion on their respective income tax returns.

As the Company operates in the cannabis industry, it is subject to the limits of IRC Section 280E under which the Company is only allowed to deduct expenses directly related to sales of product. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E.

3.5 Intangible Assets

Intangible assets are recorded at cost, less accumulated amortization and impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization is recorded on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any. Intangible assets, which include medical cannabis licenses, have indefinite useful lives and are not subject to amortization. Such assets are tested annually for impairment, or more frequently, if events or changes in circumstances indicate that they might be impaired. The estimated useful lives, residual values, and amortization methods are reviewed at each year-end, and any changes in estimates are accounted for prospectively. For the years ended December 31, 2018 and 2017, the Company did not recognize any impairment losses.

3.6 Financial Instruments

Recognition and Initial Measurement

Financial assets and financial liabilities, including derivatives, are recognized in the consolidated statements of financial position when the Company becomes a party to the contractual provisions of a financial instrument or non-financial derivative contract. All financial instruments are measured at fair value on initial recognition. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities, other than financial assets and financial liabilities classified as FVTPL, are added to or deducted from the fair value on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified as FVTPL are recognized immediately in net loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Financial Instruments (Continued)

Classification and Subsequent Measurement

The Company classifies financial assets, at the time of initial recognition, according to the Company's business model for managing the financial assets and the contractual terms of the cash flows. Financial assets are classified in the following measurement categories:

a) amortized cost ("AC");
b) fair value through profit or loss ("FVTPL"); and
c) fair value through other comprehensive income ("FVTOCI").

Financial assets are subsequently measured at amortized cost if both the following conditions are met and they are not designated as FVTPL: a) the financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortized cost using the effective interest rate method, less any impairment, with gains and losses recognized in net income in the period that the asset is derecognized or impaired. All financial assets not classified as amortized cost as described above are measured at FVTPL or FVTOCI depending on the business model and cash flow characteristics. The Company has no financial assets measured at FVTOCI.

Financial liabilities are subsequently measured at amortized cost using the effective interest rate method with gains and losses recognized in net income in the period that the liability is derecognized, except for financial liabilities classified as FVTPL.

Financial instruments are classified into one of the following categories: FVTPL; financial assets at amortized cost, financial liabilities at amortized cost, and financial assets at FVTOCI.

Impairment of Financial Instruments

For accounts receivable, the Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all accounts receivable, trade based on the Company's historical default rates over the expected life of the accounts receivable, trade and is adjusted for forward-looking estimates. The methodologies and assumptions, including any forecasts of future economic conditions, are reviewed regularly.

All individually significant loan receivables are assessed for impairment. All individually significant loans receivable found not to be specifically impaired are then collectively assessed for impairment. Loans receivables not individually significant are collectively assessed for impairment by grouping together loans receivable with similar risk characteristics.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Financial Instruments (Continued)

Derecognition

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are recognized in the consolidated statements of operations.

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of operations.

3.7 Impairment of Non-Financial Assets

At each date of the statements of financial position, the Company reviews the carrying amounts of its long lived assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, or when annual impairment testing for an asset is required, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the assets belong.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statements of operations, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Inventory

Inventories of purchased finished goods are initially at cost and subsequently at the lower of cost and 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 specific identification basis. Products for resale and supplies and consumables are valued at lower of cost and net realizable value. The company reviews inventory for obsolete, redundant and slow-moving goods and any such inventory are written-down to the net realizable value. At December 31, 2018 and 2017, there were no reserves for inventories required.

3.9 Cash and Cash Equivalents

The Company considers all investments with original maturities of three months or less, that are highly liquid and readily convertible into cash, to be cash equivalents.

3.10 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

3.11 Significant Accounting Judgments and Estimates

The application of the Company's accounting policies requires management to use estimates and judgments that can have significant effect on the revenues, expenses, assets and liabilities recognized and disclosures made in the consolidated financial statements.

Management's best estimates concerning the future are based on the facts and circumstances available at the time estimates are made. Management uses historical experience, general economic conditions and assumptions regarding probable future outcomes as the basis for determining estimates. Estimates and their underlying assumptions are reviewed periodically and the effects of any changes are recognized immediately. Actual results could differ from the estimates used.

Management's budget and strategic plans are fundamental information used as a basis for estimates necessary to prepare financial information. Management tracks performance as compared to the budget and significant variances in actual performance are a key trigger to assess whether certain estimates used in the preparation of financial information must be revised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 Significant Accounting Judgments and Estimates (Continued)

The following areas require management's critical estimates and judgments:

(a) Estimated useful lives and depreciation of property, plant and equipment

Depreciation and depreciation of property, plant and equipment are dependent upon estimates of useful lives, which are determined through the exercise of judgements. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

(b) Valuation, estimated life and impairment of intangible assets

Management used significant judgment in valuing the fair value of dispensary licenses and other intangible assets, estimating the useful lives and impairment. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

3.12 Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease. An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the consolidated statements of operations on a straight-line basis over the lease term.

4. CHANGES IN ACCOUNTING STANDARDS

Adoption of New Accounting Pronouncements

IFRS 9 - Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments* ("IFRS 9"), which brings together the classification and measurement, impairment, and hedge-accounting phases of the IASB's project to replace IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39").

Classification and Measurement – Financial assets are classified and measured based on the business model under which they are managed and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified in a similar manner as under IAS 39, except that financial liabilities measured at fair value will have fair value changes resulting from changes in the entity's own credit risk recognized in Other Comprehensive Income ("OCI") instead of Net Income, unless this would create an accounting mismatch.

4. CHANGES IN ACCOUNTING STANDARDS (Continued)

Adoption of New Accounting Pronouncements (Continued)

IFRS 9 - Financial Instruments (Continued)

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost ("AC"), fair value through other comprehensive income ("FVTOCI") and FVTPL. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables, and available for sale.

Impairment – The measurement of impairment of financial assets is based on an expected credit loss model. It is no longer necessary for a triggering event to have occurred before credit losses are recognized. IFRS 9 also includes new disclosure requirements about expected credit losses and credit risk.

Hedge Accounting – The new general hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. It will provide more opportunities to apply hedge accounting to reflect actual risk management activities.

The Company adopted IFRS 9 effective from January 1, 2018. The adoption did not result in any material change.

IFRS 15: Revenue from Contracts with Customers:

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The Company has adopted IFRS 15 from incorporation date.

IFRS 7, Financial Instruments: Disclosure

IFRS 7, Financial Instruments: Disclosure, was amended to require additional disclosures on transition from IAS 39 to IFRS 9. IFRS 7 is effective on adoption of IFRS 9, which is effective for annual periods commencing on or after January 1, 2018. The adoption did not result in any material change.

Changes in Accounting Standards not yet Effective

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 – *Leases* ("IFRS 16"), which replaces IAS 17 – *Leases*, and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements and plans to adopt the requirements in 2019.

5. INVENTORY

Inventory is comprised of finished goods.

Inventories expensed as cost of goods sold during the years ended December 31, 2018 and 2017, was $5,842,151 and $3,492,227, respectively.

6. INTANGIBLE ASSETS

Intangible assets represent dispensary licenses obtained by the two subsidiaries, as of December 31, 2018, and 2017. Intangible assets of $1,623,114 included $1,500,000 contribution from a member as explained in Note 8 to the consolidated financial statements.

7. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Furniture & Fixtures	Office Equipment	Vehicle	Assets in process	Total
Cost	$	$	$	$	$	$
As at December 31, 2016	-	-	-	-	**109,449**	**109,449**
Additions	32,184	76,059	17,904	-	33,984	160,131
Transfers	68,008	41,441	-	-	(109,449)	-
As at December 31, 2017	**100,192**	**117,500**	**17,904**	-	**33,984**	**269,580**
Additions	917,677	50,140	59,540	6,305	-	1,033,662
Transfers	33,984	-	-		(33,984)	-
As at December 31, 2018	**1,051,853**	**167,640**	**77,444**	**6,305**	-	**1,303,242**
Depreciation						
As at December 31, 2016	-	-	-	-	-	-
Depreciation	2,117	11,915	2,451	-	-	16,483
As at December 31, 2017	**2,117**	**11,915**	**2,451**	-	-	**16,483**
Depreciation	20,871	21,564	7,655	676	-	50,766
As at December 31, 2018	**22,988**	**33,479**	**10,106**	**676**	-	**67,249**
Net book value						
As at December 31, 2018	**1,028,865**	**134,161**	**67,338**	**5,629**	-	**1,235,993**
As at December 31, 2017	98,075	105,585	15,453	-	33,984	253,097

Depreciation expense for the years ended December 31, 2018 and 2017, of $50,766 and $0, respectively, is included in cost of goods sold.

8. MEMBERS' EQUITY

During the years ended December 31, 2018 and 2017, a member made a cash contribution of $nil and $60,554, respectively, to the Company.

9. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties are defined as management and members of the Company and/or members of their immediate family and/or other companies and/or entities in which a member or senior officer is a principal owner or senior executive.

Other than disclosed elsewhere in the consolidated financial statements, related party transactions and balances are as follows:

The Company purchases a substantial portion of its inventory from a related corporation. These purchases are made at arms-length rates, in line with rates charged to third party customers of the related corporation.

Included in expenses for the years ended December 31, 2018 and 2017, are management fees of $546,848 and $201,000, respectively. The management fee started on January 1, 2017 and was paid monthly. The monthly fee varied based on an allocation of the related corporation's expenses and was a month-to-month arrangement.

Advances to a related corporation of $690,461 and $150,190, respectively, were outstanding as at December 31, 2018 and 2017. These advances are unsecured, interest free, and repayable on demand.

No compensation was paid to key management for the years ended December 31, 2018 and 2017.

10. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support business development. The members do not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital to include its members' equity. In order to carry out the planned business development and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended December 31, 2018. The Company is not subject to externally imposed capital requirements. As at December 31, 2018 and 2017, the capital of the Company was $4,465,703 and $3,280,127, respectively.

The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through cash injection by the members of the Company. There can be no assurance that the Company will be able to continue raising equity capital in this manner. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly rated financial instruments.

11. GENERAL AND ADMINISTRATIVE

General and administrative expenses were comprised of:

	2018	2017
	$	$
Salaries and benefits	81,977	916,098
Rent [Note 12]	263,909	184,068
Taxes and licenses	168,148	123,386
Professional and consulting fees	17,496	52,552
Insurance	106,062	46,275
Office expenses	80,966	41,097
Computer expenses	74,274	21,223
Repairs and maintenance	21,859	14,832
Utilities	14,620	10,860
Allocation to cost of goods sold	38,302	44,652
	867,613	1,455,043

12. DEBTS PAYABLE

On October 1, 2018, the Company borrowed $421,128 in connection with the construction of a dispensary. The loan bears interest at a rate of 5% per annum and is due in 2020.

13. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company conducts operations in facilities leased from a related party. The leases expire through 2022 and contain certain renewal provisions. Rent expense under these leases for the years ended December 31, 2018 and 2017, totaled $263,909 and $184,068, respectively. Future minimum lease payments under non-cancelable operating leases having an initial or remaining term of more than one year are as follows:

Year ending December 31	$
2019	370,296
2020	381,398
2021	392,844
2022	41,236
	1,185,774

13. COMMITMENTS AND CONTINGENCIES (Continued)

Contingencies

The Company's operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits and/or licenses that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulation at December 31, 2018, cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

Claims and Litigation

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. At December 31, 2018, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

14. FINANCIAL RISK FACTORS

The Company's financial instruments mainly comprise of cash, advance to a related corporation, trade payables, accrued liabilities and due to a related corporation

(a) Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

• Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date.

• Level 2 inputs are observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable directly or indirectly.

14. FINANCIAL RISK FACTORS (Continued)

(a) Fair Value (Continued)

• Level 3 inputs are unobservable inputs for the asset or liability that reflect the reporting entity's own assumptions and are not based on observable market data.

The classification of financial instruments at their carrying and fair values is as follows:

	Carrying values				Fair values
Financial assets	**FVTPL**	**FVTOCI**	**AC**	**Total**	**Total**
December 31, 2018	**$**	**$**	**$**	**$**	**$**
Cash	**172,576**	-	-	**172,576**	**172,576**
Advance to a related corporation	-	-	**690,461**	**690,461**	**690,461**
	172,576	-	**690,461**	**863,037**	**863,037**
December 31, 2017					
Cash	821,928	-	-	821,928	821,928
Advance to a related corporation	-	-	150,190	150,190	150,190
	821,928	-	150,190	972,118	972,118

	Carrying values			Fair values
Financial liabilities	**FVTPL**	**AC**	**Total**	**Total**
December 31, 2018	**$**	**$**	**$**	**$**
Accrued liabilities	-	**268,156**	**268,156**	**268,156**
Debt payable	-	-	-	-
	-	**268,156**	**268,156**	**268,156**
December 31, 2017				
Trade payables	-	130,127	130,127	130,127
Accrued liabilities	-	233,426	233,426	233,426
	-	363,553	363,553	363,553

The Company's financial instruments as at December 31, 2018 and 2017, classified as "Level 1 - quoted prices in active markets" is cash. The Company has determined that there have been no transfers between levels in the hierarchy by re-assessing categorization at the reporting date.

The Company is exposed to credit risk and liquidity risk. The Company's management oversees the management of these risks. The Company's management is supported by the members that advises on financial risks and the appropriate financial risk governance framework for the Company. The Company's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with group policies and group risk appetite.

14. FINANCIAL RISK FACTORS (Continued)

(b) Credit Risk

Credit risk is the risk of unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash and advance to a related corporation. As at December 31, 2018 and 2017, the maximum amount exposed to credit risks was $863,037 and $972,118, respectively.

(c) Liquidity Risk

Liquidity risk is the risk that the Company is unable to generate or obtain sufficient cash in a cost-effective manner to fund its obligations as they come due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company manages liquidity risk through obtaining financing from its members. As at December 31, 2018, all trade payables, accrued liabilities and due to a related corporation are due within a year.

15. SEGMENTED INFORMATION

Operating and Geographical Segments

An operating segment is defined as a component of the Company:

- that engages in business activities from which it may earn revenues and incur expenses;
- whose operating results are reviewed regularly by the entity's chief operating decision maker; and;
- for which discrete financial information is available.

At December 31, 2018 and 2017, the Company's operations comprise a single reporting operating and geographical segment engaged in the distribution and sale of cannabis.

16. SUBSEQUENT EVENTS

The Company's management has evaluated subsequent events up to August 2, 2019, the date the consolidated financial statements were issued, and determined the following event:

On May 24, 2019 – Ayr Strategies Inc. ("AYR"), formerly Cannabis Strategies Acquisition Corp., closed its previously announced Qualifying Transaction. Through the qualifying transaction, AYR has created a vertically integrated Multi-State Operator in the U.S. cannabis sector, with an initial anchor portfolio in the Eastern and Western United States.

SCHEDULE “C”
WASHOE ANNUAL FINANCIAL STATEMENTS

(see attached)

WASHOE WELLNESS, LLC

Consolidated Financial Statements

As of and for the Years Ended
December 31, 2018 and 2017

(EXPRESSED IN UNITED STATES DOLLARS)

Certified
Public
Accountants

WASHOE WELLNESS, LLC
Consolidated Financial Statements
December 31, 2018 and 2017

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management's Responsibility

To the Members of Washoe Wellness, LLC:

The accompanying consolidated financial statements and other financial information in this report were prepared by management of Washoe Wellness, LLC ("the Company"), reviewed by the Audit Committee and approved by the Board of Directors.

Management is responsible for the consolidated financial statements and believes that they fairly present the Company's consolidated financial condition and results of operations in conformity with International Financial Reporting Standards. Management has included in the Company's consolidated financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of consolidated financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel and through the adoption and communication of financial and other relevant policies.

These consolidated financial statements have been audited by the Company's auditors, Macias Gini & O'Connell LLP, and their report is presented herein.

August 2, 2019

"Mark Pitchford" (Signed)
Chief Executive Officer

"Lilian Yohn" (Signed)
Chief Financial Officer

Independent Auditor's Report

To the Members of the Washoe Wellness, LLC:

Opinion

We have audited the consolidated financial statements of Washoe Wellness, LLC (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of operations, changes in members' equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our reports. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Macias Gini & O'Connell LLP

San Diego, California
August 2, 2019

WASHOE WELLNESS, LLC
Consolidated Statements of Financial Position
At December 31, 2018 and 2017

	2018	2017
	$	$
ASSETS		
Current		
Cash	**345,987**	1,435,345
Accounts receivable, no allowance	**350,974**	130,890
Inventory [Note 5]	**2,035,578**	1,144,188
Biological assets [Note 6]	**1,244,313**	1,232,350
Loans receivable [Note 7]	**-**	240,000
Other receivables	**11,532**	-
Prepaid expenses and other assets	**211,923**	749,466
	4,200,307	4,932,239
Intangible assets [Note 8]	**80,894**	46,018
Property, plant and equipment [Note 9]	**8,846,196**	5,783,992
Investment in associate [Note 10]	**1,664,347**	1,200,651
Total assets	**14,791,744**	11,962,900
LIABILITIES		
Current		
Trade payables	**861,240**	213,856
Accrued liabilities	**107,472**	92,368
Advance from a related corporation [Note 13]	**690,461**	150,190
Debts payable - current portion [Note 11]	**-**	70,156
	1,659,173	526,570
Debts payable - Non-current portion [Note 11]	**9,182,006**	8,991,936
Total liabilities	**10,841,179**	9,518,506
MEMBERS' EQUITY [Note 12]	**3,950,565**	2,444,394
Total liabilities and members' equity	**14,791,744**	11,962,900

Nature of operations [Note 1]
Commitments and contingencies [Note 16]
Subsequent events [Note 19]

Approved and authorized by the Board of Directors on August 2, 2019

"Mark Pitchford" (Signed)
Chief Executive Officer

"Lilian Yohn" (Signed)
Chief Financial Officer

The accompanying notes are an integral part of these consolidated financial statements.

WASHOE WELLNESS, LLC
Consolidated Statements of Operations
For the Years Ended December 31, 2018 and 2017

	2018 **$**	2017 $
Revenues, net of discounts	**7,017,779**	6,054,620
Cost of goods sold before biological assets adjustment	4,636,341	3,281,125
Gross profit before biological assets adjustment	**2,381,438**	2,773,495
Fair value changes in biological assets included in cost of goods sold	(4,005,602)	(1,061,462)
Unrealized gain on biological assets transformation	5,086,289	1,167,367
Gross profit	**3,462,125**	2,879,400
Expenses		
General and administrative [Note 15]	825,863	842,739
Sales and marketing	189,074	139,000
Depreciation [Note 9]	51,831	262,491
Management Fees [Note 13]	240,000	-
Total expenses	**1,306,768**	1,244,230
Income from operations	**2,155,357**	1,635,170
Other (income) expense		
Share of income on investment in associate [Note 10]	(1,642,415)	(922,955)
Interest expense	343,344	470,564
Interest income	(12,067)	(15,000)
Management fee income [Note 13]	(125,000)	(201,000)
Rental income and others	(91,368)	(35,344)
Total other (income)	**(1,527,506)**	(703,735)
Net income	**3,682,863**	2,338,905

The accompanying notes are an integral part of these consolidated financial statements.

WASHOE WELLNESS, LLC
Consolidated Statements of Changes in Members' Equity
For the Years Ended December 31, 2018 and 2017

	$
Balance as at December 31, 2016	**185,489**
Distributions	(80,000)
Net income	2,338,905
Balance as at December 31, 2017	**2,444,394**
Contributions	**1,100,000**
Distributions	**(3,276,692)**
Net income	**3,682,863**
Balance as at December 31, 2018	**3,950,565**

The accompanying notes are in integral part of these consolidated financial statements.

WASHOE WELLNESS, LLC
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017

	2018	2017
	$	$
Operating activities		
Net income	**3,682,863**	2,338,905
Adjustments for items not affecting cash:		
Depreciation	**361,611**	262,491
Share of (income) on equity investments	**(1,642,415)**	(922,955)
Unrealized gain on biological asset transformation	**4,005,602**	1,167,367
Fair value changes in biological assets included in cost of sales	**(5,086,289)**	(1,061,462)
Changes in working capital items:		
Accounts receivable	**(220,084)**	(63,785)
Inventory	**(891,390)**	584,239
Biological assets	**1,068,724**	(295,214)
Prepaid expenses and other assets	**537,543**	(704,622)
Other receivables	**(11,532)**	-
Trade payables	**647,384**	150,654
Accrued liabilities	**15,104**	60,137
Advance from a related corporation	**540,271**	150,190
Cash provided by operating activities	**3,007,392**	1,665,945
Investing activities		
Purchase of intangible assets	**(34,876)**	-
Changes in investment in associate, net	**1,178,719**	(60,554)
Receipts (issuance) of loans receivable	**240,000**	(240,000)
Purchase of property, plant and equipment	**(3,423,815)**	(2,890,586)
Cash used in investing activities	**(2,039,972)**	(3,191,140)
Financing activities		
Proceeds from issuance of debts payable	**190,000**	2,981,103
Repayments of debts payable	**(70,086)**	(73,938)
Contributions	**1,100,000**	-
Distributions	**(3,276,692)**	(80,000)
Cash (used in) provided by financing activities	**(2,056,778)**	2,827,165
Net (decrease) increase in cash	**(1,089,358)**	1,301,970
Cash, beginning of year	**1,435,345**	133,375
Cash, end of year	**345,987**	1,435,345
Supplemental cash flow information		
Interest paid	**455,590**	319,963

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS

Washoe Wellness, LLC ("Washoe" or the "Company") was incorporated as a Limited Liability Company on June 23, 2014 in the State of Nevada, United States of America ("USA"). The Company's head office is located at 1645 Crane Way, Sparks, NV 89431.

The Company's management, operations, structure and other matters are governed through an Operating Agreement entered between the Members and Managers of the Company on November 5, 2014. The Company's principal activities, through its subsidiaries, are the growing, processing and distribution of cannabis as regulated under the laws applicable in the USA.

2. BASIS OF PRESENTATION

2.1 Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The consolidated financial statements of the Company as at and for the years ended December 31, 2018 and 2017, comprise of the Company, and its wholly owned subsidiaries.

These consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on August 2, 2019.

2.2 Basis of Presentation

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3. The consolidated financial statements are presented in US dollars which is the presentation and functional currency of the Company and its subsidiaries.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries – Tahoe-Reno Extractions, LLC ("TRE"), Tahoe-Reno Botanicals, LLC ("TRB") and DWC Investments, LLC, Limited Liabilities Companies, and KLYMB Project Management, Inc., incorporated in the state of Nevada. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of operations from the effective date of acquisition or up to the effective date of disposal, as appropriate. All inter-company transactions, balances, income and expenses are eliminated on consolidation.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Property, Plant and Equipment ("PPE")

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of PPE consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is provided at rates calculated to write off the cost of PPE, less their estimated residual value, using the straight-line method over the following expected useful lives:

- Land – Not depreciated
- Buildings and leasehold improvements - the shorter of the useful life or life of the lease
- Furniture and fixtures – 5 to 7 years
- Office equipment – 5 years
- Machinery and equipment – 5 years
- Auto and Trucks – 5 years

An item of PPE is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statements of operations.

Assets under capital lease are amortized according to their asset category.

Assets in process are transferred to the appropriate asset class when available for use and depreciation of the assets commences at that point of time.

The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for PPE and any changes arising from the assessment are applied by the Company prospectively.

Where an item of property, plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of property, plant and equipment. Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

3.3 Taxation

The Company and its subsidiaries are considered Limited Liability companies for income tax purposes, for the years ended December 31, 2018 and 2017. Therefore, the Company's taxable income is allocated to the members for inclusion on their respective income tax returns.

As the Company operates in the cannabis industry, it is subject to the limits of IRC Section 280E under which the Company is only allowed to deduct expenses directly related to sales of product. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Revenues

IFRS 15 specifies how and when revenues should be recognized based on a five-step model, which is applied to all contracts with customers. The Company has applied IFRS 15 retrospectively and determined that there is no change to the comparative periods or transitional adjustments required as a result of the adoption of this standard. The Company's accounting policy for revenue recognition under IFRS 15 is to follow a five-step model to determine the amount and timing of revenue to be recognized:

- Identifying the contract with a customer
- Identifying the performance obligations within the contract
- Determining the transaction price
- Allocating the transaction price to the performance obligations
- Recognizing revenue when/as performance obligation(s) are satisfied.

Revenue from growing, processing and distribution of cannabis is recognized when the Company transfers control of the good to the customer. In some cases, judgement is required in determining whether the customer is a business or the end consumer. This evaluation was made on the basis of whether the business obtains control of the product before transferring to the end consumer. Control of the product transfers at a point in time either upon shipment to or receipt by the customer, depending on the contractual terms.

The Company recognizes revenue in an amount that reflects the consideration that the Company expects to receive taking into account any variation that may result from rights of return.

The pattern and timing of revenue recognition under the new standard is consistent with prior year practice. There were no adjustments recognized on the adoption of IFRS 15 in the year ended December 31, 2018.

3.5 Intangible Assets

Intangible assets are recorded at cost, less accumulated amortization and impairment losses, if any Amortization is recorded on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any. Intangible assets, which include product rights, domain name and trademark, have indefinite useful lives and are not subject to amortization. Such assets are tested annually for impairment, or more frequently, if events or changes in circumstances indicate that they might be impaired. The estimated useful lives, residual values, and amortization methods are reviewed at each year-end, and any changes in estimates are accounted for prospectively. For the years ended December 31, 2018 and 2017, the Company did not recognize any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Financial Instruments

Recognition and Initial Measurement

Financial assets and financial liabilities, including derivatives, are recognized in the statements of financial position when the Company becomes a party to the contractual provisions of a financial instrument or non-financial derivative contract. All financial instruments are measured at fair value on initial recognition. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities, other than financial assets and financial liabilities classified as FVTPL, are added to or deducted from the fair value on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified as FVTPL are recognized immediately in net loss.

Classification and Subsequent Measurement

The Company classifies financial assets, at the time of initial recognition, according to the Company's business model for managing the financial assets and the contractual terms of the cash flows. Financial assets are classified in the following measurement categories:

a) amortized cost ("AC");
b) fair value through profit or loss ("FVTPL"); and
c) fair value through other comprehensive income ("FVTOCI").

Financial assets are subsequently measured at amortized cost if both the following conditions are met and they are not designated as FVTPL: a) the financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortized cost using the effective interest rate method, less any impairment, with gains and losses recognized in net income in the period that the asset is derecognized or impaired. All financial assets not classified as amortized cost as described above are measured at FVTPL or FVTOCI depending on the business model and cash flow characteristics. The Company has no financial assets measured at FVTOCI.

Financial liabilities are subsequently measured at amortized cost using the effective interest rate method with gains and losses recognized in net income in the period that the liability is derecognized, except for financial liabilities classified as FVTPL.

Financial instruments are classified into one of the following categories: FVTPL; financial assets at amortized cost, financial liabilities at amortized cost, and financial assets at FVTOCI.

Impairment of Financial Instruments

For accounts receivable, the Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all accounts receivable, based on the Company's historical default rates over the expected life of the accounts receivable, trade and is adjusted for forward-looking estimates. The methodologies and assumptions, including any forecasts of future economic conditions, are reviewed regularly.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Financial Instruments (Continued)

All individually significant loan receivables are assessed for impairment. All individually significant loans receivable found not to be specifically impaired are then collectively assessed for impairment. Loans receivables not individually significant are collectively assessed for impairment by grouping together loans receivable with similar risk characteristics.

Derecognition

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are recognized in the consolidated statements of operations.

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of operations.

3.7 Impairment of Non-Financial Assets

At each date of the statements of financial position, the Company reviews the carrying amounts of its tangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, or when annual impairment testing for an asset is required, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the assets belong.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than it's carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statements of operations, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Biological Assets

The Company measures biological assets consisting of cannabis plants at fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of internally produced work in process and finished goods inventories after harvest. Unrealized gains or losses arising from changes in fair value less cost to sell during the year are included in the results of operations of the related year.

3.9 Inventory

Inventories of finished goods, work-in-process and raw materials are initially valued at cost and subsequently at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at the point of harvest, which becomes the initial deemed cost. Any subsequent post-harvest costs, including direct costs attributable to processing and related overheads, are capitalized to inventory to the extent that cost is less than net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to sell. The Company reviews inventories for obsolete, redundant and slow-moving goods and any such inventories identified are written down to net realizable value. At December 31, 2018 and 2017 there were no reserves for inventories required.

3.10 Cash

The Company considers all investments with original maturities of three months or less, that are highly liquid and readily convertible into cash, to be cash equivalents.

3.11 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

3.12 Significant Accounting Judgments and Estimates

The application of the Company's accounting policies requires management to use estimates and judgments that can have significant effect on the revenues, expenses, assets and liabilities recognized and disclosures made in the consolidated financial statements.

Management's best estimates concerning the future are based on the facts and circumstances available at the time estimates are made. Management uses historical experience, general economic conditions and assumptions regarding probable future outcomes as the basis for determining estimates. Estimates and their underlying assumptions are reviewed periodically and the effects of any changes are recognized immediately. Actual results could differ from the estimates used.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Significant Accounting Judgments and Estimates (Continued)

Management's budget and strategic plans are fundamental information used as a basis for estimates necessary to prepare financial information. Management tracks performance as compared to the budget and significant variances in actual performance are a key trigger to assess whether certain estimates used in the preparation of financial information must be revised.

The following areas require management's critical estimates and judgments:

(a) Biological assets and inventory

In calculating the value of the inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, average or expected selling prices and list prices, expected yields for the cannabis plants, and oil conversion factors. In calculating final inventory values, management compares the inventory costs to estimated net realizable value.

(b) Estimated useful lives and depreciation of property, plant and equipment

Depreciation and depreciation of property, plant and equipment are dependent upon estimates of useful lives, which are determined through the exercise of judgements. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

(c) Valuation, estimated life and impairment of intangible assets

Management used significant judgment in valuing the fair value of intangible assets, estimating the useful lives and impairment. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

3.13 Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease. An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the consolidated statements of operations on a straight-line basis over the lease term.

3.14 Borrowing Costs

Borrowing costs directly attributable to the acquisition or construction of a qualifying asset are capitalized. Qualifying assets are those that require a minimum of three months to prepare for their intended use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15 Investment in Associate

An associate is an entity over which the Company exercises significant influence. Significant influence is the power to participate in the financial and operating policy of the investee but without control or joint control over those policies. Interests in associates are accounted for using the equity method, and are initially recognized at cost. Subsequent to initial recognition, the carrying value of the Company's interest in an associate is adjusted for the Company's share of income and distributions of the investee. The carrying value of the Company's investment in associate is assessed for impairment at each statement of financial position date. Significant influence is the power to participate in the financial and operating policy decisions of the investee without control or joint control over those decisions. Significant influence is presumed if the Company holds between 20% and 50% of the voting rights, unless evidence exists to the contrary. The Company has assessed that it has joint control over its investment in The Canopy NV LLC.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Investees in which the Company has joint control and rights to the net assets thereof, are defined as joint ventures.

Investees in which the Company has significant influence are accounted for using the equity method. The Company's interest in an investee is initially recorded at cost and is subsequently adjusted for the Company's share of changes in net assets of the investee, less any impairment in the value of individual investments, less any dividends paid. Where the Company transacts with an investee, unrealized profits and losses are eliminated to the extent of the Company's interest in that investee.

4. CHANGES IN ACCOUNTING STANDARDS

Adoption of New Accounting Pronouncements

IFRS 9 - Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments* ("IFRS 9"), which brings together the classification and measurement, impairment, and hedge-accounting phases of the IASB's project to replace IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39").

Classification and Measurement – Financial assets are classified and measured based on the business model under which they are managed and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified in a similar manner as under IAS 39, except that financial liabilities measured at fair value will have fair value changes resulting from changes in the entity's own credit risk recognized in Other Comprehensive Income ("OCI") instead of Net Income, unless this would create an accounting mismatch.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost ("AC"), fair value through other comprehensive income ("FVTOCI") and FVTPL. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables, and available for sale.

Impairment – The measurement of impairment of financial assets is based on an expected credit loss model. It is no longer necessary for a triggering event to have occurred before credit losses are recognized. IFRS 9 also includes new disclosure requirements about expected credit losses and credit risk.

4. CHANGES IN ACCOUNTING STANDARDS (Continued)

Adoption of New Accounting Pronouncements (Continued)

IFRS 9 - Financial Instruments (Continued)

Hedge Accounting – The new general hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. It will provide more opportunities to apply hedge accounting to reflect actual risk management activities.

The Company adopted IFRS 9 effective from January 1, 2018. The adoption did not result in any material change.

IFRS 15: Revenue from Contracts with Customers:

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The Company has adopted IFRS 15 from incorporation date.

IFRS 7, Financial Instruments: Disclosure

IFRS 7, Financial Instruments: Disclosure, was amended to require additional disclosures on transition from IAS 39 to IFRS 9. IFRS 7 is effective on adoption of IFRS 9, which is effective for annual periods commencing on or after January 1, 2018.

IAS 16 and IAS 41, Bearer Plants

The Company has implemented amendments to IAS 16 and IAS 41, which became effective for annual periods beginning In January 1, 2016. These amendments are summarized below.

- Bearer plants are accounted for as property, plant and equipment and measured at initial recognition at cost or revaluation basis.
- Bearer plants are defined as a living plant that are used in the production or supply of agricultural produce. Such plants are expected to bear produce for more than one period, and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.
- Bearer plants remain within the scope of IAS 41.

The amendments described above are consistent with the Company's accounting practices.

4. CHANGES IN ACCOUNTING STANDARDS (Continued)

Changes in Accounting Standards not yet Effective

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 – *Leases* ("IFRS 16"), which replaces IAS 17 – *Leases*, and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements and plans to adopt the requirements in 2019.

5. INVENTORY

The Company's inventory includes the following:

	2018			2017		
	Capitalized cost	Fair value adjustment	Carrying value	Capitalized cost	Fair value adjustment	Carrying value
	$	$	$	$	$	$
Harvested cannabis						
Work in process	51,922	-	51,922	145,283	45	145,328
Finished goods	268,340	(29,676)	238,664	29,348	26,493	55,841
	320,262	(29,676)	290,586	174,631	26,538	201,169
Production Assets						
Raw materials	130,409	31,713	162,122	168,328	65,352	233,680
Work in process	1,384,047	102,105	1,486,152	298,196	111,815	410,011
Finished goods	58,385	8,347	66,732	138,371	23,699	162,070
	1,572,841	142,165	1,715,006	604,895	200,866	805,761
Accessories and supplies	29,986	-	29,986	137,258	-	137,258
	1,923,089	**112,489**	**2,035,578**	**916,784**	**227,404**	**1,144,188**

Inventories expensed as cost of goods sold during the years ended December 31, 2018 and 2017, are $3,281,125 and $2,434,607, respectively. These exclude the fair market value changes of biological assets.

Non-cash expense relating to change in fair value of inventory sold recognized during the years ended December 31, 2018 and 2017, are $5,086,289 and $1,061,462, respectively.

6. BIOLOGICAL ASSETS

The continuity of biological assets was as follows:

	2018	2017
	$	$
Balance, at beginning of year	1,232,350	1,043,041
Production costs	3,049,368	2,887,977
Fair value change	968,197	1,167,367
Transferred to inventory upon harvest	(4,005,602)	(3,866,035)
Balance, at end of year	**1,244,313**	**1,232,350**

As of December 31, 2018 and 2017, the weighted average fair value less cost to complete and cost to sell was $3.39 and $2.4 per gram, respectively.

The fair value of biological assets is categorized within Level 3 on the fair value hierarchy. The inputs and assumptions used in determining the fair value of biological assets include:

(a) Selling price per gram;	Level 3 input
(b) Attrition rate;	Level 3 input
(c) Average yield per plant;	Level 3 input
(d) Standard cost per gram to compete production	Level 3 input
(e) Cumulative stage of completion in production process	Level 3 input

Significant unobservable assumptions used in the valuation of biological assets, including the sensitivities on changes in these assumptions and their effect on the fair value of biological assets, are as follows:

Significant inputs or as	Range of inputs	Sensitivity	Effect on fair value	
			2018	2017
			$	$
Selling price per gram*	$3.90 to $4.16	Increase or decrease of $1 per gram	366,308	514,055
Average yield per plant	369 to 358 gram	Increase or decrease by 5 grams per plant	21,299	27,121

*Selling price per gram is based on average selling prices for the period.

The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

As of December 31, 2018, and 2017, the biological assets were on average 51% and 43% complete, respectively. During the years ended December 31, 2018 and 2017, the Company's biological assets produced 1,181,220 grams and 1,106,825 grams of dried cannabis, respectively.

7. LOANS RECEIVABLE

Loans receivable includes two loans provided by the Company to third parties, amounting to $200,000 and $40,000 in 2017. In August 2017, the Company made a short-term loan of $200,000 which carried an interest rate of 24% per annum, payable monthly and was secured by real estate. This loan was initially due in December 2017 but was subsequently amended to extend the maturity date to February 2018 in exchange for additional fees and penalties. The Company received $15,000 in interest payments for the year ended December 31, 2017.

In November 2017, the Company made a short-term loan of $40,000 to a vendor, which carried an interest rate of 2.5% and was due March 2018. The loan was secured by third party equipment. There are no principal amounts outstanding for both the loans as at December 31, 2018 (December 31, 2017: $200,000 and $40,000).

8. INTANGIBLE ASSETS

As at December 31, intangible assets having indefinite lives consisted of the following:

	2018 $	2017 $
Product rights	59,894	25,018
Domain name	16,000	16,000
Trademarks	5,000	5,000
	80,894	46,018

9. PROPERTY, PLANT AND EQUIPMENT

	Land $	Buildings & leasehold improvements $	Furniture & fixtures $	Office equipment $	Machinery & equipment $	Auto & trucks $	Total $
Cost							
As at December 31, 2016	600,000	2,504,052	9,855	62,315	784,917	10,435	3,971,574
Additions		2,199,625	12,340	8,857	69,764	-	2,290,586
As at December 31, 2017	**600,000**	**4,703,677**	**22,195**	**71,172**	**854,681**	**10,435**	**6,262,160**
Additions	296,444	2,743,634	40,489	33,039	286,322	23,887	3,423,815
As at December 31, 2018	**896,444**	**7,447,311**	**62,684**	**104,211**	**1,141,003**	**34,322**	**9,685,975**
Depreciation							
As at December 31, 2016	-	58,738	1,291	14,634	140,666	348	215,677
Depreciation	-	83,048	1,662	12,934	162,760	2,087	262,491
As at December 31, 2017	-	**141,786**	**2,953**	**27,568**	**303,426**	**2,435**	**478,168**
Depreciation	-	144,107	5,181	18,868	188,183	5,272	361,611
As at December 31, 2018	-	**285,893**	**8,134**	**46,436**	**491,609**	**7,707**	**839,779**
Net book value							
As at December 31, 2017	**600,000**	**4,561,891**	**19,242**	**43,604**	**551,255**	**8,000**	**5,783,992**
As at December 31, 2018	**896,444**	**7,161,418**	**54,550**	**57,775**	**649,394**	**26,615**	**8,846,196**

As at December 31, 2018, buildings and leasehold improvements include borrowing costs of $nil capitalized in connection with loan used for the construction of buildings (December 31, 2017: $204,660).

Depreciation expense for the years ended December 31, 2018 and 2017, of $51,831 and $262,491, respectively, is included in cost of goods sold.

10. INVESTMENT IN ASSOCIATE

The Company has a 52% participating interest in one of its related corporations. Management has concluded that the current participating interest does not provide control to the Company. Accordingly, the current investment has been accounted for as an investment in associate using the equity method as detailed below:

	2018	2017
	$	$
Balance, at beginning of year	1,200,651	217,142
Addition (deletions)	(1,178,719)	60,554
Share of income	1,642,415	922,955
Balance, at end of year	**1,664,347**	1,200,651

The following table presents a summary of statements of financial position and statements of operations of the investee:

	2018	2017
	$	$
Current assets	2,295,880	1,567,469
Non-current assets	2,859,107	2,076,211
Current liabilities	689,284	363,553
Revenue	11,748,244	7,135,024
Income	3,150,573	1,774,912

11. DEBTS PAYABLE

The details of debts payable were as follows:

	2018	2017
	$	$
Revolving line of credit promissory note (a)	6,561,749	6,561,818
Loan payable to a third party (b) and (c)	2,620,257	2,500,274
Total debts payable	**9,182,006**	9,062,092
Less: Current portion	-	(70,156)
Debts payable - Non-current portion	**9,182,006**	8,991,936

Total debt payable includes interest payable as of December 31, 2018 and 2017, of $961,818 and $961,818, respectively.

11. DEBTS PAYABLE (Continued)

As at December 31, 2018, the maturity profile of the principal amounts of debts outstanding are as follows:

Year ending December 31	$
2019	-
2020	181,220
2021	123,322
2022	2,213,481
2023	39,014
Thereafter	6,624,969
	9,182,006

(a) Revolving Line of Credit Promissory Note

Debt under this arrangement represented financing obtained from a related corporation under an original Revolving Line of Credit Note dated November 5, 2014 of a maximum borrowing limit of $2,500,000, which was revised from time to time. Effective January 1, 2017, the Company entered into a Restated Revolving Line of Credit, which replaced the revolving line of credit note with a straight promissory note of $5,600,000 with maturity date extended indefinitely.

The promissory note carries an interest of 6% per annum to be paid monthly. If monthly payment of interest is not made timely, the interest for the period of the missed payment shall accrue at the default interest rate of 12%. The Company granted a 5% membership interest to the note holder due to the principal amount of note was not repaid by June 30, 2017 (First Repayment Date). Subsequently, a further 5% membership interest was granted to the note holder when the principal amount of the note was not repaid by December 31, 2017 (Second Repayment Date).

As at December 31, 2018, the entire principal amount remained outstanding. A 5% membership interest was granted to the note holder subsequent to the First Repayment Date, and a further 5% membership interest was granted to the note holder subsequent to the Second Repayment Date. In addition, as at that date, accrued interest, included in debts payable – non-current portion, the amount of $961,818 has remained unpaid (December 31, 2017: $961,818). The principal amounts outstanding as at December 31, 2018 and 2017, were $5,600,000 and $5,600,000, respectively.

(b) Loan Payable to a Third Party

Effective August 24, 2017, the Company obtained a loan of $2,525,000 for a term of five years from a third party. This loan carries interest at 5% per annum with a monthly blended payment of $16,664, started from October 1, 2017 with a final payment of $2,123,899 on September 1, 2022. The loan is secured by a deed of trust with assignment of rents on the Company's land and buildings in favour of the lender. The principal amounts outstanding as at December 31, 2018 and 2017, were $2,430,187 and $2,500,274, respectively.

(c) Loan Payable to a Third Party

On July 23, 2018, the Company borrowed $190,000 in connection with the purchase of land. The loan bears interest at a rate of 6% per annum and is due in 2023. Monthly installments of principal and interest in an amount of $3,673 beginning on July 23, 2020.The loan is secured by a deed of trust. Should the Company prepay this loan by July 23, 2019, the principal amount will be reduced by $25,000.

The principal amounts outstanding as at December 31, 2018 and 2017, were $190,000 and $nil, respectively.

12. MEMBERS' EQUITY

In a series of transaction in Q2 2018, the Company adjusted its capital structure. On May 31, 2018, the Company (i) added additional members, granting them membership interests in exchange for services provided on a historical and ongoing basis, (ii) created a revised membership class structure to reflect these new members and (iii) allowed an existing member to make an additional capital contribution to the Company. On Jun 4, 2018, the aforementioned member increased the amount of the additional capital contribution of $1,100,000.

13. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties are defined as management and members of the Company and/or members of their immediate family and/or other companies and/or entities in which a member or senior officer is a principal owner or senior executive.

Other than disclosed elsewhere in the consolidated financial statements, related party transactions and balances are as follows:

Included in other income for the years ended December 31, 2018 and 2017, is management fees of $125,000 and $201,000, respectively, received from a related corporation. The management fee is paid monthly. The monthly fee varied based on an allocation of the Company's expenses and was a month-to-month arrangement.

During the year ended December 31, 2018, sales of $5,016,480 made to a related corporation is included in revenues and purchases of $830,221 from a related corporation is included in cost of goods sold.

Advance from a related corporation of $690,461 and $150,190, respectively, was outstanding as at December 31, 2018 and 2017. The advance from a related corporation is unsecured, interest free and is repayable on demand.

During the years ended December 31, 2018 and 2017, management fees of $280,000 and $nil, respectively, were paid to a related party under consulting agreements. TRE and TRB each pay $20,000 per month ($40,000 per month in total) under these agreements, which were executed and were effective on June 1, 2018. These agreements have a three-year term and automatically renew every three years unless any party gives notice of their intent to terminate the agreement. Any party may also terminate the agreement at any time with 120 days notice.

The following outlines the compensation of the Company's key management personnel:

	2018	2017
	$	$
Salaries and benefits to key management personnel	**127,124**	179,754

14. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support business development. The Members do not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

14. CAPITAL MANAGEMENT (Continued)

The Company defines capital to include its Members' equity. In order to carry out the planned business development and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. There were no changes in the Company's approach to capital management during the year ended December 31, 2018. The Company is not subject to externally imposed capital requirements. As at December 31, 2018 and 2017, the capital of the Company was $3,950,565 and $2,444,394, respectively.

The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through cash injection by the Members of the Company. There can be no assurance that the Company will be able to continue raising equity capital in this manner. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly rated financial instruments.

15. GENERAL AND ADMINISTRATIVE

General and administrative expenses were comprised of:

	2018	2017
	$	$
Salaries and benefits	**393,464**	531,962
Rent [Note 16]	**7,872**	10,284
Taxes and licenses	**5,766**	38,698
Professional and consulting fees	**112,281**	47,494
Insurance	**6,679**	31,044
Office expenses	**37,699**	30,638
Computer expenses	**69,605**	50,495
Shipping expenses	**51,682**	62,021
Utilities	**5,381**	4,111
Others	**135,434**	35,992
	825,863	842,739

16. COMMITMENTS AND CONTINGENCIES

Operating Leases

Effective March 1, 2017, the Company conducted operations in facilities leased from a related party. The leases expire through 2022 and contain certain renewal provisions. Future minimum lease payments under non-cancelable operating leases having an initial or remaining term of more than one year are as follows:

Year ending December 31	$
2019	243,336
2020	250,634
2021	258,156
2022	41,236
	793,362

Total rent expensed for the years ended December 31, 2018 and 2017, were $7,872 and $10,284, respectively.

Contingencies

The Company's operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits and/or licenses that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulation at December 31, 2018, cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

Claims and Litigation

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. At December 31, 2018, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

17. FINANCIAL RISK FACTORS

The Company's financial instruments mainly comprise of cash, accounts receivable, loans receivable, trade payables, accrued liabilities, advance from a related corporation and debts payable.

(a) Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company.

17. FINANCIAL RISK FACTORS (Continued)

(a) Fair Value (Continued)

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

• Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date.

• Level 2 inputs are observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable directly or indirectly.

• Level 3 inputs are unobservable inputs for the asset or liability that reflect the reporting entity's own assumptions and are not based on observable market data.

17. FINANCIAL RISK FACTORS (Continued)

The classification of financial instruments at their carrying and fair values is as follows:

	Carrying values				Fair values
Financial assets	**FVTPL**	**FVTOCI**	**AC**	**Total**	**Total**
December 31, 2018	**$**	**$**	**$**	**$**	**$**
Cash	**345,987**	-	-	**345,987**	**345,987**
Accounts receivable	-	-	**350,974**	**350,974**	**350,974**
Other receivables	-	-	**11,532**	**11,532**	**11,532**
	345,987	-	**362,506**	**708,493**	**708,493**
December 31, 2017					
Cash	1,435,345	-	-	1,435,345	1,435,345
Accounts receivable	-	-	130,890	130,890	130,890
Loans receivable	-	-	240,000	240,000	240,000
	1,435,345	-	370,890	1,806,235	1,806,235

	Carrying values			Fair values
Financial liabilities	**FVTPL**	**AC**	**Total**	**Total**
December 31, 2018	**$**	**$**	**$**	**$**
Trade payables	-	**861,240**	**861,240**	**861,240**
Accrued liabilities	-	**107,472**	**107,472**	**107,472**
Advance from a related corporation	-	**690,461**	**690,461**	**690,461**
Debts payable	-	**9,182,006**	**9,182,006**	**9,182,006**
	-	**10,841,179**	**10,841,179**	**10,841,179**
December 31, 2017	**$**	**$**	**$**	**$**
Trade payables	-	213,856	213,856	213,856
Accrued liabilities	-	92,368	92,368	92,368
Advance from a related corporation	-	150,190	150,190	150,190
Debts payable	-	9,062,092	9,062,092	9,062,092
	-	9,518,506	9,518,506	9,518,506

The Company's financial instruments as at December 31, 2018 and 2017 classified as "Level 1 - quoted prices in active markets" is cash. The Company has determined that there have been no transfers between levels in the hierarchy by re-assessing categorization at the reporting date.

The Company is exposed to credit risk, liquidity risk and interest rate risk. The Company's management oversees the management of these risks. The Company`s management is supported by the Members that advises on financial risks and the appropriate financial risk governance framework for the Company. The Company's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with group policies and group risk appetite.

17. FINANCIAL RISK FACTORS (Continued)

(b) Credit Risk

Credit risk is the risk of unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash and accounts receivable. For its accounts receivable, the Company ensures to deal with creditworthy customers. As at December 31, 2018 and 2017, the maximum amount exposed to credit risks was $708,493 and $1,566,235 respectively.

During the years ended December 31, 2018 and 2017, revenue from one customer is approximately 69% and 43%, respectively, of total revenues and purchases of raw materials from two suppliers were approximately $nil% and 40%, respectively, of total purchases.

(c) Liquidity Risk

Liquidity risk is the risk that the Company is unable to generate or obtain sufficient cash in a cost-effective manner to fund its obligations as they come due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company manages liquidity risk through obtaining financing from its members and third parties. As at December 31, 2018, all trade payables and accrued liabilities are due within a year, whereas, long term debts over a period of seven years.

(d) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its long-term debts.

18. SEGMENTED INFORMATION

Operating and Geographical Segments

An operating segment is defined as a component of the Company:

- that engages in business activities from which it may earn revenues and incur expenses;
- whose operating results are reviewed regularly by the entity's chief operating decision maker; and;
- for which discrete financial information is available.

At December 31, 2018 and 2017, the Company's operations comprise a single reporting operation and geographical segment engaged in the growing, processing and distribution of cannabis.

19. SUBSEQUENT EVENTS

The Company's management has evaluated subsequent events up to August 2, 2019, the date the consolidated financial statements were issued, and determined the following event:

On May 24, 2019 – Ayr Strategies Inc. ("AYR"), formerly Cannabis Strategies Acquisition Corp. closed its previously announced Qualifying Transaction. Through the qualifying transaction, AYR has created a vertically integrated Multi-State Operator in the U.S. cannabis sector, with an initial anchor portfolio in the Eastern and Western United States.

SCHEDULE “D”
LIVFREE ANNUAL FINANCIAL STATEMENTS

(see attached)

LIVFREE WELLNESS, LLC

Consolidated Financial Statements

As of and for the Years Ended
December 31, 2018 And 2017

(EXPRESSED IN UNITED STATES DOLLARS)

LIVFREE WELLNESS, LLC
Consolidated Financial Statements
December 31, 2018 and 2017

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management's Responsibility

To the Members of LivFree Wellness, LLC:

The accompanying consolidated financial statements and other financial information in this report were prepared by management of LivFree Wellness, LLC ("the Company"), reviewed by the Audit Committee and approved by the Board of Directors.

Management is responsible for the consolidated financial statements and believes that they fairly present the Company's financial condition and results of operations in conformity with International Financial Reporting Standards. Management has included in the Company's consolidated financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of consolidated financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel and through the adoption and communication of financial and other relevant policies.

These consolidated financial statements have been audited by the Company's auditors, Macias Gini & O'Connell LLP, and their report is presented herein.

August 2, 2019

"Steve Menzies" (Signed)
Managing Member

"Timothy Harris" (Signed)
Chief Financial Officer

Independent Auditor's Report

To the Members of LivFree Wellness, LLC:

Opinion

We have audited the consolidated financial statements of LivFree Wellness, LLC (the "Company"), which comprises the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of operations, changes in members' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

Macias Gini & O'Connell LLP

San Diego, California
August 2, 2019

LIVFREE WELLNESS, LLC
Consolidated Statements of Financial Position
At December 31, 2018 and 2017

	2018	2017
	$	$
ASSETS		
Current		
Cash and cash equivalents	**2,196,398**	898,658
Inventory [Note 5]	**2,344,459**	1,396,981
Due from a related corporation	**-**	590,495
Prepaid expenses and other assets	**248,769**	148,224
	4,789,626	3,034,358
Property, plant and equipment [Note 6]	**1,625,978**	1,390,530
Investment in associate [Note 7]	**3,354,501**	1,586,966
Total assets	**9,770,105**	6,011,854
LIABILITIES		
Current		
Trade payables	**1,150,649**	133,849
Accrued liabilities	**984,367**	558,305
Distributions payables	**280,000**	1,980,000
Debt payable - current portion [Note 8]	**220,000**	220,000
	2,635,016	2,892,154
Debt payable - Non-current portion [Note 8]	**-**	240,000
Total liabilities	**2,635,016**	3,132,154
MEMBERS' EQUITY [Note 9]	**7,135,089**	2,879,700
Total liabilities and members' equity	**9,770,105**	6,011,854

Nature of operations [Note 1]
Commitments and contingencies [Note 13]
Subsequent events [Note 16]

Approved and authorized by the Board of Directors on August 2, 2019

"Steve Menzies" (Signed)	"Timothy Harris" (Signed)
Managing Member	Chief Financial Officer

The accompanying notes are an integral part of these consolidated financial statements.

LIVFREE WELLNESS, LLC
Consolidated Statements of Operations
For the Years Ended December 31, 2018 and 2017

	2018 $	2017 $
Revenues, net of discounts	**34,058,319**	14,465,998
Cost of goods sold	**22,142,020**	9,254,267
Gross profit	**11,916,299**	5,211,731
Expenses		
General and administrative [Note 12]	**4,024,862**	2,421,520
Sales and marketing	**512,282**	299,681
Depreciation [Note 6]	**191,301**	145,099
Total expenses	**4,728,445**	2,866,300
Income from operations	**7,187,854**	2,345,431
Other (income) expense		
Share of income on investment in associate [Note 7]	**(274,899)**	(586,966)
Loss on disposal of property, plant and equipment	**-**	4,043
Total other income	**(274,899)**	(582,923)
Net income	**7,462,753**	2,928,354

The accompanying notes are an integral part of these consolidated financial statements.

LIVFREE WELLNESS, LLC
Consolidated Statements of Changes in Members' Equity
For the Years Ended December 31, 2018 and 2017

	$
Balance as at December 31, 2016	**1,143,139**
Contribution [Note 9]	788,207
Distributions	(1,980,000)
Net income	2,928,354
Balance as at December 31, 2017	**2,879,700**
Contribution [Note 9]	92,636
Distributions	(3,300,000)
Net income	7,462,753
Balance as at December 31, 2018	**7,135,089**

The accompanying notes are in integral part of these consolidated financial statements.

LIVFREE WELLNESS, LLC
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017

	2018	2017
	$	$
Operating activities		
Net income	**7,462,753**	2,928,354
Adjustments for items not affecting cash:		
Depreciation	**191,301**	145,099
Share of income on equity investments	**(274,899)**	(586,966)
Loss on disposal of property, plant and equipment	**-**	4,043
Bad Debt Expenses	**297,192**	-
Changes in working capital items:		
Inventory	**(947,478)**	(1,198,265)
Due from (to) a related corporation	**293,303**	(563,518)
Prepaid expenses and other assets	**(100,545)**	(12,105)
Trade payables	**1,016,800**	133,849
Accrued liabilities	**426,062**	434,737
Cash provided by operating activities	**8,364,489**	1,285,228
Investing activities		
Change in investment in associates, net	**(1,492,636)**	(1,000,000)
Purchase of property, plant and equipment	**(426,749)**	(248,481)
Cash used in investing activities	**(1,919,385)**	(1,248,481)
Financing activities		
Repayment of debt	**(240,000)**	-
Payment on distributions payables	**(1,980,000)**	-
Contribution	**92,636**	788,207
Distributions	**(3,020,000)**	-
Cash (used in) provided by financing activities	**(5,147,364)**	788,207
Net increase in cash	**1,297,740**	824,954
Cash, beginning of year	**898,658**	73,704
Cash, end of year	**2,196,398**	898,658
Non-Cash supplementary information		
Distributions payable	**(280,000)**	(1,980,000)

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS

LivFree Wellness, LLC ("LivFree" or the "Company") [formerly LivFree Wellness Reno LLC ("Reno")] was incorporated as a Limited Liability Company on August 16, 2014 in the State of Nevada, United States of America ("USA"). The Company's head office is located at 5347 S. Decatur Blvd, Las Vegas, NV 89118.

The Company's principal activities are buying and selling of cannabis as regulated under the laws applicable in the USA.

2. BASIS OF PRESENTATION

2.1 Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on August 2, 2019.

2.2 Basis of Presentation

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3. The consolidated financial statements are presented in US dollars which is the presentation and functional currency of the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries Billco Holdings, LLC ("Billco") and BP Solutions LLC ("BP"), Limited Liabilities Companies, incorporated in the state of Nevada. The results of subsidiaries acquired or disposed of during the year is included in the consolidated statements of operations from the effective date of acquisition or up to the effective date of disposal, as appropriate. All inter-company transactions, balances, income and expenses are eliminated on consolidation. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Revenues

IFRS 15 specifies how and when revenues should be recognized based on a five-step model, which is applied to all contracts with customers. The Company has applied IFRS 15 retrospectively and determined that there is no change to the comparative periods or transitional adjustments required as a result of the adoption of this standard. The Company's accounting policy for revenue recognition under IFRS 15 is to follow a five-step model to determine the amount and timing of revenue to be recognized:

- Identifying the contract with a customer
- Identifying the performance obligations within the contract
- Determining the transaction price
- Allocating the transaction price to the performance obligations
- Recognizing revenue when/as performance obligation(s) are satisfied.

Revenue from buying and selling of cannabis is recognized when the Company transfers control of the good to the customer. In some cases, judgement is required in determining whether the customer is a business or the end consumer. This evaluation was made on the basis of whether the business obtains control of the product before transferring to the end consumer. Control of the product transfers at a point in time either upon shipment to or receipt by the customer, depending on the contractual terms.

The Company recognizes revenue in an amount that reflects the consideration that the Company expects to receive taking into account any variation that may result from rights of return.

The pattern and timing of revenue recognition under the new standard is consistent with prior year practice. There were no adjustments recognized on the adoption of IFRS 15 in the year ended December 31, 2018.

3.3 Property, Plant and Equipment ("PPE")

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of PPE consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is provided at rates calculated to write off the cost of PPE, less their estimated residual value, using the straight-line method over the following expected useful lives:

- Leasehold improvements – the shorter of the useful life or life of the lease
- Furniture and fixtures – 5-10 years
- Office and equipment – 3-5 years

An item of PPE is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the statement of income (loss).

Assets in process are transferred to the appropriate asset class when available for use and depreciation of the assets commences at that point of time.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Property, plant and equipment ("PPE") (Continued)

The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for PPE and any changes arising from the assessment are applied by the Company prospectively.

Where an item of property, plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of property, plant and equipment. Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

3.4 Taxation

The Company is considered a Limited Liability Company for income tax purposes, for the years ended December 31, 2018 and 2017. Therefore, the Company's taxable income is allocated to the members for inclusion on their respective income tax returns.

As the Company operates in the cannabis industry, it is subject to the limits of IRC Section 280E under which the Company is only allowed to deduct expenses directly related to sales of product. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E.

3.5 Financial Instruments

Recognition and Initial Measurement

Financial assets and financial liabilities, including derivatives, are recognized in the consolidated statements of financial position when the Company becomes a party to the contractual provisions of a financial instrument or non-financial derivative contract. All financial instruments are measured at fair value on initial recognition. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities, other than financial assets and financial liabilities classified as FVTPL, are added to or deducted from the fair value on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified as FVTPL are recognized immediately in net loss.

Classification and Subsequent Measurement

The Company classifies financial assets, at the time of initial recognition, according to the Company's business model for managing the financial assets and the contractual terms of the cash flows. Financial assets are classified in the following measurement categories:

a) amortized cost ("AC");
b) fair value through profit or loss ("FVTPL"); and
c) fair value through other comprehensive income ("FVTOCI").

Financial assets are subsequently measured at amortized cost if both the following conditions are met and they are not designated as FVTPL: a) the financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Financial Instruments (Continued)

These assets are subsequently measured at amortized cost using the effective interest rate method, less any impairment, with gains and losses recognized in net income in the period that the asset is derecognized or impaired. All financial assets not classified as amortized cost as described above are measured at FVTPL or FVTOCI depending on the business model and cash flow characteristics. The Company has no financial assets measured at FVTOCI.

Financial liabilities are subsequently measured at amortized cost using the effective interest rate method with gains and losses recognized in net income in the period that the liability is derecognized, except for financial liabilities classified as FVTPL.

Financial instruments are classified into one of the following categories: FVTPL; financial assets at amortized cost, financial liabilities at amortized cost, and financial assets at FVTOCI.

Impairment of Financial Instruments

For accounts receivable, the Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all accounts receivable, trade based on the Company's historical default rates over the expected life of the accounts receivable, trade and is adjusted for forward-looking estimates. The methodologies and assumptions, including any forecasts of future economic conditions, are reviewed regularly.

All individually significant loan receivables are assessed for impairment. All individually significant loans receivable found not to be specifically impaired are then collectively assessed for impairment. Loans receivables not individually significant are collectively assessed for impairment by grouping together loans receivable with similar risk characteristics.

Derecognition

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are recognized in the consolidated statements of operations.

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of operations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Impairment of Non-Financial Assets

At each date of the consolidated statements of financial position, the Company reviews the carrying amounts of its long lived assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, or when annual impairment testing for an asset is required, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the assets belong.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statements of operations, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

3.7 Inventory

Inventories purchased from third parties represent finished goods that are valued at the lower of cost and net realizable value. Cost is determined using the weighted average costing method. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to sell. The Company reviews inventories for obsolete, redundant and slow-moving goods and any such inventories identified are written down to net realizable value. At December 31, 2018 and 2017, there were no reserves for inventories required.

3.8 Cash and Cash Equivalents

The Company considers all investments with original maturities of three months or less, that are highly liquid and readily convertible into cash, to be cash equivalents.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

3.10 Significant Accounting Judgments and Estimates

The application of the Company's accounting policies requires management to use estimates and judgments that can have significant effect on the revenues, expenses, income (loss), assets and liabilities recognized and disclosures made in the consolidated financial statements.

Management's best estimates concerning the future are based on the facts and circumstances available at the time estimates are made. Management uses historical experience, general economic conditions and assumptions regarding probable future outcomes as the basis for determining estimates. Estimates and their underlying assumptions are reviewed periodically and the effects of any changes are recognized immediately. Actual results could differ from the estimates used.

Management's budget and strategic plans are fundamental information used as a basis for estimates necessary to prepare financial information. Management tracks performance as compared to the budget and significant variances in actual performance are a key trigger to assess whether certain estimates used in the preparation of financial information must be revised.

The following areas require management's critical estimates and judgments:

(a) Estimated useful lives and depreciation of property, plant and equipment.

Depreciation and depreciation of property, plant and equipment are dependent upon estimates of useful lives, which are determined through the exercise of judgements. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

3.11 Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease. An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the consolidated statements of operations on a straight-line basis over the lease term.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Investment in Associates

An associate is an entity over which the Company exercises significant influence. Significant influence is the power to participate in the financial and operating policy of the investee but without control or joint control over those policies. Interests in associates are accounted for using the equity method, and are initially recognized at cost. Subsequent to initial recognition, the carrying value of the Company's interest in an associate is adjusted for the Company's share of income and distributions of the investee. The carrying value of associates is assessed for impairment at each statement of financial position date. Significant influence is the power to participate in the financial and operating policy decisions of the investee without control or joint control over those decisions. Significant influence is presumed if the Company holds between 20% and 50% of the voting rights, unless evidence exists to the contrary.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Investees in which the Company has joint control and rights to the net assets thereof, are defined as joint ventures. The Company has assessed that it has joint control over its investment in JDSS Investments LLC.

Investees in which the Company has significant influence are accounted for using the equity method. The Company's interest in an investee is initially recorded at cost and is subsequently adjusted for the Company's share of profit or income of the investee, less any impairment in the value of individual investments, less any dividends paid. Where the Company transacts with an investee, unrealized profits and losses are eliminated to the extent of the Company's interest in that investee.

4. CHANGES IN ACCOUNTING STANDARDS

Adoption of New Accounting Pronouncements

IFRS 9 - Financial Instruments

In August 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments* ("IFRS 9"), which brings together the classification and measurement, impairment, and hedge-accounting phases of the IASB's project to replace IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39").

Classification and Measurement – Financial assets are classified and measured based on the business model under which they are managed and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified in a similar manner as under IAS 39, except that financial liabilities measured at fair value will have fair value changes resulting from changes in the entity's own credit risk recognized in Other Comprehensive Income ("OCI") instead of Net Income, unless this would create an accounting mismatch.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost ("AC"), fair value through other comprehensive income ("FVTOCI") and FVTPL. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables, and available for sale.

Impairment – The measurement of impairment of financial assets is based on an expected credit loss model. It is no longer necessary for a triggering event to have occurred before credit losses are recognized. IFRS 9 also includes new disclosure requirements about expected credit losses and credit risk.

4. CHANGES IN ACCOUNTING STANDARDS (Continued)

IFRS 9 - Financial Instruments (Continued)

Hedge Accounting – The new general hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. It will provide more opportunities to apply hedge accounting to reflect actual risk management activities.

The Company adopted IFRS 9 effective from January 1, 2018. The adoption did not result in any material change.

IFRS 15: Revenue from Contracts with Customers:

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The Company has adopted IFRS 15 from incorporation date.

IFRS 7, Financial Instruments: Disclosure

IFRS 7, Financial Instruments: Disclosure, was amended to require additional disclosures on transition from IAS 39 to IFRS 9. IFRS 7 is effective on adoption of IFRS 9, which is effective for annual periods commencing on or after January 1, 2018. The adoption did not result in any material change.

Changes in Accounting Standards not yet Effective

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 – *Leases* ("IFRS 16"), which replaces IAS 17 – *Leases*, and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements and plans to adopt the requirements in 2019.

5. INVENTORY

Inventory is comprised of finished goods.

Inventories expensed as cost of goods sold during the years ended December 31, 2018 and 2017, was $18,422,993 and $7,335,444, respectively.

6. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Furniture and fixtures	Office & Equipment	Total
	$	$	$	$
Cost				
As at December 31, 2016	**1,327,313**	**14,209**	**9,096**	**1,350,618**
Additions	187,446	15,052	45,983	248,481
Disposals	-	-	(9,096)	(9,096)
As at December 31, 2017	**1,514,759**	**29,261**	**45,983**	**1,590,003**
Additions	321,454	27,344	77,951	426,749
As at December 31, 2018	**1,836,213**	**56,605**	**123,934**	**2,016,752**
Depreciation				
As at December 31, 2016	**56,746**	**408**	**2,274**	**59,428**
Depreciation	134,215	3,262	7,622	145,099
Disposals	-	-	(5,054)	(5,054)
As at December 31, 2017	**190,961**	**3,670**	**4,842**	**199,473**
Depreciation	161,854	7,093	22,354	191,301
As at December 31, 2018	**352,815**	**10,763**	**27,196**	**390,774**
Net book value				
As at December 31, 2017	**1,323,798**	**25,591**	**41,141**	**1,390,530**
As at December 31, 2018	**1,483,398**	**45,842**	**96,738**	**1,625,978**

Depreciation expense for the years ended December 31, 2018 and 2017, of $191,301 and $145,099, respectively, is included within operating expenses.

7. INVESTMENT IN ASSOCIATE

Pursuant to Membership Interest Purchase and Sale Agreement dated July 1, 2017, the Company acquired a 50% membership interest in JDSS Investments LLC. Per the purchase agreement section 2.0, the total purchase price was $2.4 million. Management has concluded that the current investment is to be accounted for as an investment in associate using the equity method as detailed below:

	2018	2017
	$	$
Balance, at beginning of year	**1,586,966**	-
Additions	**1,492,636**	1,000,000
Share of income	**274,899**	586,966
Balance, at end of year	**3,354,501**	1,586,966

7. INVESTMENT IN ASSOCIATE (Continued)

The following table presents a summary of the statements of financial position and statements of operations of the investee:

	2018	2017
	$	$
Current assets	**2,490,315**	529,714
Non-current assets	**2,839,647**	3,004,653
Current liabilities	**314,421**	80,636
Revenue	**4,736,053**	1,263,372
Income	**595,147**	419,397

8. DEBT PAYABLE

Effective December 12, 2014, the Company obtained a loan of $460,000 from a third party. The loan is unsecured, carries no interest, and there is no repayment term.

On January 16, 2018, the Company entered into Settlement Agreement (the "Agreement") with the debt holder and one of its existing members for the repayment of debt in accordance with an agreed repayment schedule. The Company agreed to pay $20,000 within 30 days from the execution of this Agreement and the remaining balance to be paid in 22 equal monthly payments of $20,000. The current and non-current portion of the debt has been classified in accordance with the agreed repayment schedule. The Company has provided a loan to the owner amounting to $280,000. The loan is interest free and repayable on demand.

The details of debt payable were as follows:

	2018	2017
	$	$
Debt payable to a third party	**220,000**	460,000
Less: Current portion	**(220,000)**	(220,000)
Debt payable - Non-current portion	**-**	240,000

9. MEMBERS' EQUITY

During the years ended December 31, 2018 and 2017, contributions by the members of the Company amounted to $92,636 and $788,207, respectively.

During the years ended December 31, 2018 and 2017, distributions to the members of the Company amounted to $3,300,000 and $1,980,000, respectively.

As at December 31, 2018 and 2017, distribution payable balance was $280,000 and $1,980,000, respectively.

10. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties are defined as management and members of the Company and/or members of their immediate family and/or other companies and/or entities in which a member or senior officer is a principal owner or senior executive.

Other than disclosed elsewhere in the consolidated financial statements, related party transactions and balances are as follows:

Total rent expense for the years ended December 31, 2018 and 2017, includes rent charged from a related corporation amounting to $68,260 and $nil, respectively.

During the years ended December 31, 2018 and 2017, purchases of harvested cannabis totaling $440,310 and $474,440, respectively, from a related party is included in cost of goods sold.

No compensation was paid to key management for the years ended December 31, 2018 and 2017.

11. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support business development. The Members do not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital to include its Members' equity. In order to carry out the planned business development and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. There were no changes in the Company's approach to capital management during the year ended December 31, 2018. The Company is not subject to externally imposed capital requirements. As at December 31, 2018 and 2017, the capital of the Company was $7,135,089 and $2,879,700, respectively.

The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through cash injection by the Members of the Company. There can be no assurance that the Company will be able to continue raising equity capital in this manner. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly rated financial instruments.

12. GENERAL AND ADMINISTRATIVE

General and administrative expenses were comprised of:

	2018	2017
	$	$
Salaries and benefits	**1,738,572**	1,283,492
Rent [Notes 10 & 13]	**430,168**	252,285
Taxes and licenses	**45,457**	21,681
Professional and consulting fees	**796,701**	323,340
Insurance	**152,455**	94,686
Office expenses	**184,780**	187,764
Travel	**107,529**	76,716
Utilities	**98,963**	45,228
Others	**470,237**	136,328
	4,024,862	2,421,520

13. COMMITMENTS AND CONTINGENCIES

Operating Leases

Pursuant to various lease agreements, the Company conducted operations in facilities leased from third parties and a related party. The leases expire through 2022 and contain certain renewal provisions. Future minimum lease payments under non-cancelable operating leases having an initial or remaining term of more than one year are as follows:

Year ending December 31	$
2019	483,094
2020	501,595
2021	463,664
2022	348,649
	1,797,002

Total rent expensed for the years ended December 31, 2018 and 2017, were $430,168 and $252,285, respectively.

Contingencies

The Company's operations are subject to a variety of local and state regulations. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits and/or licenses that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulation at December 31, 2018, cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

13. COMMITMENTS AND CONTINGENCIES (Continued)

Claims and Litigation

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. At December 31, 2018, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

An affiliate of the Company engaged a contractor to determine if a site met the requirements for a new grow facility. Based on the survey done by the contractor, the Company proceeded with the purchase and incurred a loss when the site was subsequently determined not to be suitable. The Company filed a claim with the contractor's insurer to recover its losses and commenced litigation when the insurer refused to pay any portion of the claim. In 2018, the Company's legal counsel indicated they were not able to collect the $250,000 paid by the Company. As a result, the Company recognized $250,000 of bad debt expense.

14. FINANCIAL RISK FACTORS

The Company's financial instruments mainly comprise of cash, amounts due from a related corporation, trade payables, accrued liabilities, distributions payable and debts payable.

(a) Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

• Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date.

• Level 2 inputs are observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable directly or indirectly.

14. FINANCIAL RISK FACTORS (Continued)

• Level 3 inputs are unobservable inputs for the asset or liability that reflect the reporting entity's own assumptions and are not based on observable market data.

The classification of financial instruments at their carrying and fair values is as follows:

	Carrying values				Fair values
Financial assets	**FVTPL**	**FVTOCI**	**AC**	**Total**	**Total**
December 31, 2018	**$**	**$**	**$**	**$**	**$**
Cash	**2,196,398**	-	-	**2,196,398**	**2,196,398**
Due from a related corporation	-	-	-	-	-
	2,196,398	-	-	**2,196,398**	**2,196,398**
December 31, 2017					
Cash	898,658	-	-	898,658	898,658
Due from a related corporation	590,495	-	-	590,495	590,495
	1,489,153	-	-	1,489,153	1,489,153

	Carrying values			Fair values
Financial liabilities	**FVTPL**	**AC**	**Total**	**Total**
December 31, 2018	**$**	**$**	**$**	**$**
Trade payables	-	**1,150,649**	**1,150,649**	**1,150,649**
Accrued liabilities	-	**984,367**	**984,367**	**984,367**
Distributions payable	-	**280,000**	**280,000**	**280,000**
Debt payable	-	**220,000**	**220,000**	**220,000**
	-	**2,635,016**	**2,635,016**	**2,635,016**
December 31, 2017				
Trade payables	-	133,849	133,849	133,849
Accrued liabilities	-	558,305	558,305	558,305
Distributions payable	-	1,980,000	1,980,000	1,980,000
Debt payable	-	460,000	460,000	460,000
	-	3,132,154	3,132,154	3,132,154

The Company's financial instruments as at December 31, 2018 and 2017, classified as "Level 1 - quoted prices in active markets" is cash. The Company has determined that there have been no transfers between levels in the hierarchy by re-assessing categorization at the reporting date.

The Company is exposed to credit risk and liquidity risk. The Company's management oversees the management of these risks. The Company's management is supported by the Members that advises on financial risks and the appropriate financial risk governance framework for the Company. The Company's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Company's policies and Company's risk appetite.

14. FINANCIAL RISK FACTORS (Continued)

(b) Credit Risk

Credit risk is the risk of unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash and due from a related corporation. As at December 31, 2018 and 2017, the maximum amount exposed to credit risks was $2,196,398 and $1,489,153, respectively.

(c) Liquidity Risk

Liquidity risk is the risk that the Company is unable to generate or obtain sufficient cash in a cost-effective manner to fund its obligations as they come due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company manages liquidity risk through obtaining financing from its members and third parties. As at December 31, 2018 and 2017, all trade payables and accrued liabilities are due within a year, whereas, long term debt over a period of two years.

15. SEGMENTED INFORMATION

Operating and Geographical Segments

An operating segment is defined as a component of the Company:

- that engages in business activities from which it may earn revenues and incur expenses;
- whose operating results are reviewed regularly by the entity's chief operating decision maker; and;
- for which discrete financial information is available.

At December 31, 2018 and 2017, the Company's operations comprise a single reporting operating and geographical segment engaged in buying and selling of cannabis.

16. SUBSEQUENT EVENTS

The Company's management has evaluated subsequent events up to August 2, 2019, the date the consolidated financial statements were issued, and determined the following event:

On May 24, 2019 – Ayr Strategies Inc. ("AYR"), formerly Cannabis Strategies Acquisition Corp. closed its previously announced Qualifying Transaction. Through the qualifying transaction, AYR has created a vertically integrated Multi-State Operator in the U.S. cannabis sector, with an initial anchor portfolio in the Eastern and Western United States.

SCHEDULE "E"
CANNAPUNCH ANNUAL FINANCIAL STATEMENTS

(see attached)

CANNAPUNCH OF NEVADA, LLC

Financial Statements

As of and for the Year Ended
December 31, 2018 and
As of and for the Period From
March 30, 2017 (Inception Date) To
December 31, 2017

(EXPRESSED IN UNITED STATES DOLLARS)

CANNAPUNCH OF NEVADA, LLC
Financial Statements
December 31, 2018 and 2017

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management's Responsibility

To the Members of CannaPunch of Nevada, LLC:

The accompanying financial statements and other financial information in this annual report were prepared by management of CannaPunch of Nevada, LLC ("the Company"), reviewed by the Audit Committee and approved by the Board of Directors.

Management is responsible for the financial statements and believes that they fairly present the Company's financial condition and results of operations in conformity with International Financial Reporting Standards. Management has included in the Company's financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel and through the adoption and communication of financial and other relevant policies.

These financial statements have been audited by the Company's auditors, Macias Gini & O'Connell LLP, and their report is presented herein.

August 2, 2019

"Mark Smith" (Signed)
Chief Executive Officer

Independent Auditor's Report

To the Members of CannaPunch of Nevada, LLC:

Opinion

We have audited the financial statements of CannaPunch of Nevada, LLC (the "Company"), which comprises the statements of financial position as at December 31, 2018 and 2017, and the statements of operations, changes in members' equity and cash flows for the year ended December 31, 2018 and for the period from March 30, 2017 (inception date) to December 31, 2017, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the year ended December 31, 2018 and for the period from March 30, 2017 (inception date) to December 31, 2017 in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

Macias Gini & O'Connell LLP

San Diego, California
August 2, 2019

CANNAPUNCH OF NEVADA, LLC
Statements of Financial Position
At December 31, 2018 and 2017

	2018 $	2017 $
ASSETS		
Current		
Cash	**122,367**	146,817
Inventory [Note 5]	**337,129**	138,420
Accounts receivable, trade, no allowance	**374,649**	81,483
Prepaid expenses and other assets	**-**	22,645
	834,145	389,365
Machinery and equipment [Note 6]	**22,154**	21,601
Total assets	**856,299**	410,966
LIABILITIES		
Current		
Trade payables	**174,902**	26,752
Accrued liabilities	**58,956**	94,330
Advance from a member	**1,402**	-
Total liabilities	**235,260**	121,082
MEMBERS' EQUITY [Note 7]	**621,039**	289,884
Total liabilities and members' equity	**856,299**	410,966

Nature of operations [Note 1]
Commitments and contingencies [Note 12]
Subsequent events [Note 15]

Approved and authorized on behalf of the Board of Directors on August 2, 2019

"Mark Smith" (Signed)
Chief Executive Officer

The accompanying notes are an integral part of these financial statements.

CANNAPUNCH OF NEVADA, LLC
Statements of Operations
For the Year Ended December 31, 2018 and for the Period
from March 30, 2017 to December 31, 2017

	2018 $	2017 $
Revenues, net of discounts	**6,658,021**	2,668,521
Cost of goods sold	**2,961,681**	1,330,007
Gross profit	**3,696,340**	1,338,514
Expenses		
General and administrative [Note 10]	**924,650**	277,982
Sales and marketing	**77,198**	53,494
Licensor profit share [Note 11]	**1,123,212**	423,501
Total expenses	**2,125,060**	754,977
Net income	**1,571,280**	583,537

The accompanying notes are an integral part of these financial statements.

CANNAPUNCH OF NEVADA, LLC
Statements of Changes in Members' Equity
For the Year Ended December 31, 2018 and for the Period
from March 30, 2017 to December 31, 2017

	$
Contribution [Note 7]	**58,135**
Distributions	(351,788)
Net income	583,537
Balance as at December 31, 2017	**289,884**
Distributions	(1,240,125)
Net income	1,571,280
Balance as at December 31, 2018	**621,039**

The accompanying notes are in integral part of these financial statements.

CANNAPUNCH OF NEVADA, LLC
Statements of Cash Flows
For the Year Ended December 31, 2018 and for the Period
from March 30, 2017 to December 31, 2017

	2018	2017
	$	$
Operating activities		
Net income	**1,571,280**	583,537
Adjustments for items not affecting cash:		
Depreciation	**5,027**	745
Changes in working capital items:		
Inventory	**(198,709)**	(138,420)
Accounts receivable	**(293,166)**	(81,483)
Prepaid expenses and other assets	**22,645**	(22,645)
Trade payables	**148,150**	26,752
Accrued liabilities	**(35,374)**	94,330
Advance from a member	**1,402**	-
Cash provided by operating activities	**1,221,255**	462,816
Investing activities		
Purchase of machinery and equipment	**(5,580)**	(22,346)
Cash used in investing activities	**(5,580)**	(22,346)
Financing activities		
Contribution	**-**	58,135
Distributions	**(1,240,125)**	(351,788)
Cash used in financing activities	**(1,240,125)**	(293,653)
Net (decrease) increase in cash	**(24,450)**	146,817
Cash, beginning of the year/period	**146,817**	-
Cash, end of year/period	**122,367**	146,817

The accompanying notes are an integral part of these financial statements.

1. NATURE OF OPERATIONS

CannaPunch of Nevada, LLC ("CannaPunch" or the "Company") was incorporated as a Limited Liability Company on March 30, 2017 in the State of Nevada, United States of America ("USA"). The Company's head office is located at 5425 Polaris Ave, Las Vegas, NV 89118.

The Company's principal activities are the manufacture and distribution of cannabis infused products as regulated under the laws applicable in the USA.

2. BASIS OF PRESENTATION

2.1 Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements were approved and authorized for issue by the Board of Directors of the Company on August 2, 2019.

2.2 Basis of Presentation

These financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3. The financial statements are presented in US dollars which is the presentation and functional currency of the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Revenue

IFRS 15 specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. The Company has applied IFRS 15 retrospectively and determined that there is no change to the comparative periods or transitional adjustments required as a result of the adoption of this standard. The Company's accounting policy for revenue recognition under IFRS 15 is to follow a five-step model to determine the amount and timing of revenue to be recognized:

- Identifying the contract with a customer
- Identifying the performance obligations within the contract
- Determining the transaction price
- Allocating the transaction price to the performance obligations
- Recognizing revenue when/as performance obligation(s) are satisfied.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Revenue (Continued)

Revenue from manufacturing and distribution of cannabis is recognized when the Company transfers control of the good to the customer. In some cases, judgement is required in determining whether the customer is a business or the end consumer. This evaluation was made on the basis of whether the business obtains control of the product before transferring to the end consumer. Control of the product transfers at a point in time either upon shipment to or receipt by the customer, depending on the contractual terms. The Company recognizes revenue in an amount that reflects the consideration that the Company expects to receive taking into account any variation that may result from rights of return. The pattern and timing of revenue recognition under the new standard is consistent with prior year practice. There were no adjustments recognized on the adoption of IFRS 15 in the year ended December 31, 2018.

3.2 Machinery and Equipment ("M&E")

Machinery and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of M&E consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is provided at rates calculated to write off the cost of M&E, less their estimated residual value, using the straight-line method over the expected useful life of 5 years for M&E.

An item of M&E is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the statement of income.

Assets in process are transferred to the appropriate asset class when available for use and depreciation of the assets commences at that point of time.

The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for M&E and any changes arising from the assessment are applied by the Company prospectively.

Where an item of machinery and equipment comprise of major components with different useful lives, the components are accounted for as separate items of machinery and equipment. Expenditures incurred to replace a component of an item of machinery and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

3.3 Taxation

The Company is considered a Limited Liability Company for income tax purposes, for the year ended December 31, 2018 and for the period from Match 30, 2017 (Date of inception) to December 31, 2017. Therefore, the Company's taxable income is allocated to the members for inclusion on their respective income tax returns.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Taxation (Continued)

As the Company operates in the cannabis industry, it is subject to the limits of IRC Section 280E under which the Company is only allowed to deduct expenses directly related to sales of product. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E.

3.4 Financial Instruments

Recognition and Initial Measurement

Financial assets and financial liabilities, including derivatives, are recognized in the consolidated statements of financial position when the Company becomes a party to the contractual provisions of a financial instrument or non-financial derivative contract. All financial instruments are measured at fair value on initial recognition. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities, other than financial assets and financial liabilities classified as FVTPL, are added to or deducted from the fair value on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified as FVTPL are recognized immediately in net loss.

Classification and Subsequent Measurement

The Company classifies financial assets, at the time of initial recognition, according to the Company's business model for managing the financial assets and the contractual terms of the cash flows. Financial assets are classified in the following measurement categories:

a) amortized cost ("AC");
b) fair value through profit or loss ("FVTPL"); and
c) fair value through other comprehensive income ("FVTOCI").

Financial assets are subsequently measured at amortized cost if both the following conditions are met and they are not designated as FVTPL: a) the financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortized cost using the effective interest rate method, less any impairment, with gains and losses recognized in net income in the period that the asset is derecognized or impaired. All financial assets not classified as amortized cost as described above are measured at FVTPL or FVTOCI depending on the business model and cash flow characteristics. The Company has no financial assets measured at FVTOCI.

Financial liabilities are subsequently measured at amortized cost using the effective interest rate method with gains and losses recognized in net income in the period that the liability is derecognized, except for financial liabilities classified as FVTPL.

Financial instruments are classified into one of the following categories: FVTPL; financial assets at amortized cost, financial liabilities at amortized cost, and financial assets at FVTOCI.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Financial Instruments (Continued)

Impairment of Financial Instruments

For accounts receivable, the Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all accounts receivable, trade based on the Company's historical default rates over the expected life of the accounts receivable, trade and is adjusted for forward-looking estimates. The methodologies and assumptions, including any forecasts of future economic conditions, are reviewed regularly.

All individually significant loan receivables are assessed for impairment. All individually significant loans receivable found not to be specifically impaired are then collectively assessed for impairment. Loans receivables not individually significant are collectively assessed for impairment by grouping together loans receivable with similar risk characteristics.

Derecognition

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are recognized in the statements of operations.

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the statements of operations.

3.5 Impairment of Non-Financial Assets

At each date of the statements of financial position, the Company reviews the carrying amounts of its long-lived assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, or when annual impairment testing for an asset is required, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the assets belong.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Impairment of Non-Financial Assets (Continued)

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statements of operations, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

3.6 Inventory

Inventories purchased from third parties comprise of raw materials and finished goods, and are valued at the lower of cost and net realizable value. Cost is determined using the weighted average costing method. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to sell. The Company reviews inventories for obsolete, redundant and slow-moving goods and any such inventories identified are written down to net realizable value. At December 31, 2018 and 2017, there were no reserves for inventories required.

3.7 Cash and Cash Equivalents

The Company considers all investments with original maturities of three months or less, that are highly liquid and readily convertible into cash, to be cash equivalents.

3.8 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

3.9 Significant Accounting Judgments and Estimates

The application of the Company's accounting policies requires management to use estimates and judgments that can have significant effect on the revenues, expenses, assets and liabilities recognized and disclosures made in the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Significant Accounting Judgments and Estimates (Continued)

Management's best estimates concerning the future are based on the facts and circumstances available at the time estimates are made. Management uses historical experience, general economic conditions and assumptions regarding probable future outcomes as the basis for determining estimates. Estimates and their underlying assumptions are reviewed periodically and the effects of any changes are recognized immediately. Actual results could differ from the estimates used.

Management's budget and strategic plans are fundamental information used as a basis for estimates necessary to prepare financial information. Management tracks performance as compared to the budget and significant variances in actual performance are a key trigger to assess whether certain estimates used in the preparation of financial information must be revised.

The following area require management's critical estimates and judgments:

(a) Estimated useful lives and depreciation of machinery and equipment

Depreciation of machinery and equipment are dependent upon estimates of useful lives, which are determined through the exercise of judgements. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

4. CHANGES IN ACCOUNTING STANDARDS

Adoption of New Accounting Pronouncements

<u>IFRS 9 - Financial Instruments</u>

In July 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments* ("IFRS 9"), which brings together the classification and measurement, impairment, and hedge-accounting phases of the IASB's project to replace IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39").

Classification and Measurement – Financial assets are classified and measured based on the business model under which they are managed and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified in a similar manner as under IAS 39, except that financial liabilities measured at fair value will have fair value changes resulting from changes in the entity's own credit risk recognized in Other Comprehensive Income ("OCI") instead of Net Income, unless this would create an accounting mismatch.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost ("AC"), fair value through other comprehensive income ("FVTOCI") and FVTPL. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables, and available for sale.

Impairment – The measurement of impairment of financial assets is based on an expected credit loss model. It is no longer necessary for a triggering event to have occurred before credit losses are recognized. IFRS 9 also includes new disclosure requirements about expected credit losses and credit risk.

4. CHANGES IN ACCOUNTING STANDARDS (Continued)

Adoption of New Accounting Pronouncements (Continued)

Hedge Accounting – The new general hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. It will provide more opportunities to apply hedge accounting to reflect actual risk management activities.

The Company adopted IFRS 9 effective from January 1, 2018. The adoption did not result in any material change.

IFRS 15: Revenue from Contracts with Customers:

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The Company has adopted IFRS 15 from incorporation date.

IFRS 7, Financial Instruments: Disclosure

IFRS 7, Financial Instruments: Disclosure, was amended to require additional disclosures on transition from IAS 39 to IFRS 9. IFRS 7 is effective on adoption of IFRS 9, which is effective for annual periods commencing on or after January 1, 2018.

Changes in Accounting Standards not yet Effective

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 – *Leases* ("IFRS 16"), which replaces IAS 17 – *Leases*, and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15. The Company is currently evaluating the impact the final standard is expected to have on its financial statements and plans to adopt the requirements in 2019.

5. INVENTORY

The Company's inventory includes the following:

	December 31, 2018	December 31, 2017
	$	$
Raw materials	65,193	23,283
Finished goods	271,936	115,137
	337,129	138,420

Inventories expensed as cost of goods sold during the years ended December 31, 2018 and 2017, was $2,247,538 and $1,025,749, respectively.

6. MACHINERY AND EQUIPMENT

	Machinery & equipment
	$
Cost	
Additions	22,346
As at December 31, 2017	**22,346**
Additions	5,580
As at December 31, 2018	**27,926**
Depreciation	
Depreciation	745
As at December 31, 2017	**745**
Depreciation	5,027
As at December 31, 2018	**5,772**
Net book value	
As at December 31, 2017	**21,601**
As at December 31, 2018	**22,154**

Depreciation expense for the year ended December 31, 2018 and for the period from March 30, 2017 to December 31, 2017, of $5,027 and $745, respectively, is included in cost of goods sold.

7. MEMBERS' EQUITY

During the year ended December 31, 2018 and for the period from March 30, 2017 to December 31, 2017, the members of the Company contributed cash of $nil and $58,135, respectively, to the Company.

8. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties are defined as management and members of the Company and/or members of their immediate family and/or other companies and/or entities in which a member or senior officer is a principal owner or senior executive.

Other than disclosed elsewhere in the financial statements, related party transactions and balances are as follows:

During the year ended December 31, 2018 and for the period from March 30, 2017 to December 31, 20107, sales of $110,811 and $63,757, respectively, made to a related corporation is included in revenues and purchases of $120,681 and $51,358, respectively, from a related corporation is included in cost of goods sold.

No compensation was paid to key management for the year ended December 31, 2018 and for the period from March 30, 2017 to December 31, 2017.

Accounts receivable as at December 31, 2018 and December 31, 2017 include $953 and $nil, respectively, representing amounts due from a related corporation.

9. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support business development. The Members do not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital to include its Members' equity. In order to carry out the planned business development and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company is not subject to externally imposed capital requirements. As at December 31, 2018 and 2017, the capital of the Company was $621,039 and $289,884, respectively.

The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through cash injection by the Members of the Company. There can be no assurance that the Company will be able to continue raising equity capital in this manner. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company invests all capital (after dividend) that is surplus to its immediate operational needs in short-term, liquid and highly rated financial instruments.

10. GENERAL AND ADMINISTRATIVE

General and administrative expenses were comprised of:

	2018	2017
	$	$
Salaries and benefits	**642,179**	209,004
Taxes and Licenses	**109,948**	22,383
Travel	**40,508**	24,128
Meals	**9,452**	7,648
Office expenses	**3,972**	4,829
Professional and consulting fees	**108,403**	3,384
Others	**10,188**	6,606
	924,650	277,982

11. LICENSOR PROFIT SHARE

Effective March 31, 2017, the Company entered into a Licensing Agreement (the "Agreement") with a Third Party ("Licensor") for use of Licensor's medical (and subsequent adult use recreational) marijuana production establishment and equipment, in order to produce wholesale and certain retail marijuana edible and infused products for a period of 5 years to be renewed annually by mutual agreement.

Pursuant to the terms of the Agreement, 50% of profits or EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) generated by sales, shall be paid as License Fee, along with any taxes and fees paid by the Licensor. On December 31, 2017, the Agreement was amended by signing a subsequent license fee agreement memo (the "Memo"). In accordance with the Memo, license fee payable by the Company would work as a credit netted against any amounts owed by Licensor for product purchases less any amounts owed by the Company for reimbursement of taxes and utilities to the Licensor.

On September 18, 2018, the Company entered into a Supply Agreement with the Licensor, which is contingent upon cancellation of the license fee Agreement. Pursuant to this Supply Agreement, the Company agreed to offer a 20% discount on its lowest retail price to the Licensor for a period of 5 years.

12. COMMITMENTS AND CONTINGENCIES

Contingencies

The Company's operations are subject to a variety of local and state regulations. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits and/or licenses that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulation at December 31, 2018, cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

12. COMMITMENTS AND CONTINGENCIES (Continued)

Claims and Litigation

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. At December 31, 2018, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

13. FINANCIAL RISK FACTORS

The Company's financial instruments mainly comprise of cash, account receivables, trade payables, accrued liabilities and advance from a member.

(a) Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

• Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date.

• Level 2 inputs are observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable directly or indirectly.

• Level 3 inputs are unobservable inputs for the asset or liability that reflect the reporting entity's own assumptions and are not based on observable market data.

13. FINANCIAL RISK FACTORS (Continued)

(a) Fair Value (Continued)

The classification of financial instruments at their carrying and fair values is as follows:

	Carrying values			Fair values
Financial assets	**FVTPL**	**AC**	**Total**	**Total**
December 31, 2018	**$**	**$**	**$**	**$**
Cash	**122,367**	**-**	**122,367**	**122,367**
Accounts receivable	**-**	**374,649**	**374,649**	**374,649**
	122,367	**374,649**	**497,016**	**497,016**
December 31, 2017				
Cash	146,817	-	146,817	146,817
Accounts receivable	-	81,483	81,483	81,483
	146,817	81,483	228,300	228,300

	Carrying values			Fair values
Financial liabilities	**FVTPL**	**AC**	**Total**	**Total**
December 31, 2018	**$**	**$**	**$**	**$**
Trade payables	-	**174,902**	**174,902**	**174,902**
Accrued liabilities	-	**58,956**	**58,956**	**58,956**
Advance from a member	-	**1,402**	**1,402**	**1,402**
	-	**235,260**	**235,260**	**235,260**
December 31, 2017				
Trade payables	-	26,752	26,752	26,752
Accrued liabilities	-	94,330	94,330	94,330
Advance from a member	-	-	-	-
	-	121,082	121,082	121,082

The Company's financial instruments as at December 31, 2018 and 2017, classified as "Level 1 - quoted prices in active markets" is cash. The Company has determined that there have been no transfers between levels in the hierarchy by re-assessing categorization at the reporting date.

The Company is exposed to credit risk and liquidity risk. The Company's management oversees the management of these risks. The Company`s management is supported by the Members that advises on financial risks and the appropriate financial risk governance framework for the Company. The Company's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Company's policies and Company's risk appetite.

13. FINANCIAL RISK FACTORS (Continued)

(b) Credit Risk

Credit risk is the risk of unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash and account receivable due from a related corporation. As at December 31, 2018 and 2017, the maximum amount exposed to credit risks was $497,016 and $228,300, respectively.

During the year ended December 31, 2018 and for the period from March 30, 2017 to December 31, 2017, revenue from one customer is approximately 30% and 36%, respectively, of total revenues and purchase of raw material from two suppliers were approximately nil and 33%, respectively, of total purchases.

(c) Liquidity Risk

Liquidity risk is the risk that the Company is unable to generate or obtain sufficient cash in a cost-effective manner to fund its obligations as they come due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company manages liquidity risk through obtaining financing from its members and third parties. As at December 31, 2018 and 2017, all trade payables and accrued liabilities are due within a year.

14. SEGMENTED INFORMATION

Operating and Geographical Segments

An operating segment is defined as a component of the Company:

- that engages in business activities from which it may earn revenues and incur expenses;
- whose operating results are reviewed regularly by the entity's chief operating decision maker; and;
- for which discrete financial information is available.

At December 31, 2018 and 2017 the Company's operations comprise a single reporting operating and geographical segment engaged in the manufacture and distribution of cannabis infused products.

15. SUBSEQUENT EVENTS

The Company's management has evaluated subsequent events up to August 2, 2019, the date the financial statements were issued, and determined the following event:

On May 24, 2019 – Ayr Strategies Inc. ("AYR"), formerly Cannabis Strategies Acquisition Corp., closed its previously announced Qualifying Transaction. Through the qualifying transaction, AYR has created a vertically integrated Multi-State Operator in the U.S. cannabis sector, with an initial anchor portfolio in the Eastern and Western United States.

SCHEDULE “F”
SIRA INTERIM FINANCIAL STATEMENTS

(see attached)

SIRA NATURALS, INC.

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

(EXPRESSED IN UNITED STATES DOLLARS)

Notice to reader

The accompanying unaudited condensed interim financial statements of Sira Naturals, Inc. (the Company) have been prepared by and are the responsibility of management. The unaudited condensed interim financial statements have not been reviewed by the Company's auditors.

SIRA NATURALS, INC.
UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2019 AND 2018

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management's Responsibility

To the Members of Sira Naturals, Inc.:

The accompanying unaudited condensed interim financial statements and other financial information in this report were prepared by management of Sira Naturals, Inc. ("the Company"), reviewed by the Audit Committee and approved by the Board of Directors.

Management is responsible for the unaudited condensed interim financial statements and believes that they fairly present the Company's financial condition and results of operation in conformity with International Financial Reporting Standards. Management has included in the Company's unaudited condensed interim financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of the unaudited condensed interim financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel and through the adoption and communication of financial and other relevant policies.

August 5, 2019

"Lou Karger" (Signed)	"Neil Sullivan" (Signed)
Treasurer	Controller

SIRA NATURALS, INC.
Unaudited Condensed Interim Statements of Financial Position
At March 31, 2019 and December 31, 2018

	March 31, 2019	December 31, 2018
	$	$
ASSETS		
Current		
Cash and cash equivalents	**3,315,782**	2,607,676
Accounts receivable, no allowance	**1,026,229**	-
Inventory [Note 5]	**8,868,104**	6,197,598
Biological assets [Note 6]	**2,417,379**	1,733,316
Prepaid expenses and other assets	**132,789**	120,163
	15,760,283	10,658,753
Property, plant and equipment [Note 7]	**7,521,303**	7,629,881
Right-of-use assets [Note 8]	**5,434,999**	-
Other long term assets	**140,401**	480,401
Total assets	**28,856,986**	18,769,035
LIABILITIES		
Current		
Trade payables	**605,217**	1,557,153
Accrued liabilities	**2,025,356**	1,192,208
Income tax payable	**3,715,371**	3,997,954
Lease obligations - current portion [Note 8]	**142,220**	-
Debts payable - current portion [Note 9]	**7,695**	7,572
	6,495,859	6,754,887
Deferred tax liabilities	**2,402,770**	1,242,460
Accrued interest payable	**7,627,157**	6,963,253
Lease obligations - Non-current portion [Note 8]	**5,485,755**	-
Debts payable - Non-current portion [Note 9]	**14,963,691**	14,965,045
Total liabilities	**36,975,232**	29,925,645
SHAREHOLDERS' DEFICIT		
Accumulated deficit	**(8,118,246)**	(11,156,610)
Total shareholders' deficit	**(8,118,246)**	(11,156,610)
Total liabilities and shareholders' deficit	**28,856,986**	18,769,035

Nature of operations [Note 1]
Contingencies [Note 13]
Subsequent events [Note 16]

Approved and authorized by the Board of Directors on August 5, 2019

"Lou Karger" (Signed)
Treasurer

"Neil Sullivan" (Signed)
Controller

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

SIRA NATURALS, INC.
Unaudited Condensed Interim Statements of Operations
For the Three Months Ended March 31, 2019 and 2018

	Three months ended March 31, 2019	Three months ended March 31, 2018
	$	$
Revenues, net of discounts	**6,670,180**	2,976,969
Cost of goods sold before biological asset adjustment	**(1,470,860)**	(1,025,728)
Gross profit before biological asset adjustment	**5,199,320**	1,951,241
Fair value changes in biological assets included in cost of sales	**(4,253,737)**	(8,337,585)
Unrealized gain on biological asset transformation [Note 6]	**7,282,658**	2,070,210
Gross profit (loss)	**8,228,241**	(4,316,134)
Expenses		
General and administrative [Note 12]	**1,450,206**	1,893,325
Sales and marketing	**62,315**	123,889
Depreciation [Note 7 & 8]	**352,954**	33,959
Management Fee [Note 10]	**49,500**	49,500
Total expenses	**1,914,975**	2,100,673
Income (loss) from operations	**6,313,266**	(6,416,807)
Other expense (income)		
Interest expense	**824,668**	684,493
Rental income and others	**(3,000)**	(82,716)
Other expense	**821,668**	601,777
Income (loss) before income tax	**5,491,598**	(7,018,584)
Income tax expense	**2,453,234**	1,492,438
Net income (loss)	**3,038,364**	(8,511,022)

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

SIRA NATURALS, INC.
Unaudited Condensed Interim Statements of Changes in Shareholder's deficit
For the Three Months Ended March 31, 2019 and 2018

	Accumulated deficit $
Balance as at December 31, 2017	**(887,367)**
Net loss	(8,511,022)
Balance as at March 31, 2018	**(9,398,389)**
Balance as at December 31, 2018	**(11,156,610)**
Net income	3,038,364
Balance as at March 31, 2019	**(8,118,246)**

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

SIRA NATURALS, INC.
Unaudited Condensed Interim Statements of Cash Flows
For the Three Months Ended March 31, 2019 and 2018

	Three months ended March 31, 2019	Three months ended March 31, 2018
	$	$
Operating activities		
Net income (loss)	**3,038,364**	(8,511,022)
Adjustments for items not affecting cash:		
Depreciation of property, plant and equipment and right-of-use assets	**352,954**	236,443
Fair value changes in biological assets included in cost of sales	**(4,253,737)**	(8,337,585)
Unrealized gain on biological asset transformation	**7,282,658**	2,070,210
Changes in working capital items:		
Accounts Receivable	**(1,026,229)**	(8,990)
Inventory	**(2,670,506)**	6,622,734
Biological assets	**(3,712,984)**	5,892,693
Prepaid expenses and other assets	**327,374**	(269,552)
Deferred tax assets	**-**	420,205
Deferred Tax Liability	**1,160,310**	1,065,460
Trade payables	**(951,936)**	535,497
Accrued liabilities	**1,619,032**	591,735
Income tax payable	**(282,583)**	7,582
Cash provided by operating activities	**882,717**	315,410
Investing activities		
Net purchase of property, plant and equipment	**(140,699)**	(187,894)
Cash used in investing activities	**(140,699)**	(187,894)
Financing activities		
Repayment of lease obligations	**(32,681)**	-
Repayment of debts	**(1,231)**	(7,574)
Cash used in financing activities	**(33,912)**	(7,574)
Net increase in cash	**708,106**	119,942
Cash, beginning of period	**2,607,676**	201,697
Cash, end of period	**3,315,782**	321,639
Supplemental cash flow information		
Interest paid	**160,764**	59,743

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

1. NATURE OF OPERATIONS

Sira Naturals, Inc. ("Sira" or the "Company") was incorporated as a not-for-profit Corporation on June 18, 2013 in the Commonwealth of Massachusetts, United States of America ("USA"). The Company changed its name from time to time and its latest name change was from Sage Naturals, Inc. to Sira Naturals, Inc., effective December 27, 2017. The Company's registered address is 300 TradeCenter, Suite 7700, Woburn, MA 01801.

On January 23, 2018, the Company converted its status from a not-for-profit Corporation into a for-profit Corporation. The company applied the status change into a for-profit corporation to the financial statement's presentation and the accompanying notes retrospectively for all the periods presented consistently.

The Company's principal activities are the growing, processing and distribution of cannabis as regulated under the laws applicable in the USA.

2. BASIS OF PRESENTATION

2.1 Statement of compliance

These unaudited condensed interim financial statements for the three months ended March 31, 2019 (and comparative results for the three months ended March 31, 2018) have been prepared in accordance with International Accounting Standard ("IAS") 34 – *Interim Financial Reporting* and therefore do not contain all disclosures required by International Financial Reporting Standards ("IFRS"). These unaudited condensed interim financial statements should be read in conjunction with the Company's 2018 financial statements and notes and have been prepared using the same accounting policies with the exception of significant accounting policy adopted as a result of initial application of IFRS 16 - Leases ("IFRS 16") effective from January 1, 2019.

These unaudited condensed interim financial statements were approved and authorized for issue by the Board of Directors of the Company on August 5, 2019.

2.2 Basis of presentation

These unaudited condensed interim financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value. The unaudited condensed interim financial statements are presented in US dollars which is the presentation and functional currency of the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Leases

The Company assesses whether a contract is or contains a lease, at inception of a contract. Leases are recognized as a right-of-use asset and corresponding liability at the commencement date. Each lease payment included in the lease liability is apportioned between the repayment of the liability and a finance cost. The finance cost is recognized in net finance costs in the statements of operations over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), variable lease payments that are based on an index or a rate or subject to a fair market value renewal, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option. The Company allocates the consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate stand-alone price of the non-lease components.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Leases (continued)

The lease liability is net of lease incentives receivable. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the lessee's incremental borrowing rate. The period over which the lease payments are discounted is the reasonably certain lease term, including renewal options that the Company is reasonably certain to exercise. Renewal options are included in a number of leases across the Company. Payments associated with short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis in selling, general and administrative expenses in the statements of operations. Short-term leases are leases with a lease term of 12 months or less. Variable lease payments that do not depend on an index or a rate or subject to a fair market value renewal are expensed as incurred and recognized in selling, general and administrative expenses in the statements of operations.

Right-of-use assets are measured at cost which is calculated as the amount of the initial measurement of lease liability plus any lease payments made at or before the commencement date, any initial direct costs and related restoration costs. The right-of-use asset is depreciated over the lease term on a straight-line basis. The right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

4. CHANGES IN ACCOUNTING STANDARDS

Adoption of New Accounting Pronouncement

Adoption of IFRS 16 – Leases

The Company adopted IFRS 16 - Leases ("IFRS 16") on January 1, 2019. IFRS 16 introduced a single on-balance sheet accounting model for lessees which replaced IAS 17 - Leases ("IAS 17"). Leasing activity for the Company typically involves the leases of land or buildings to operate cannabis dispensaries, processing or cultivation facilities or corporate offices.

The Company previously classified leases as either operating or finance leases from the perspective of the lessee. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases. The Company adopted IFRS 16 using the modified retrospective cumulative catch-up approach beginning on January 1, 2019. Under this approach, the Company did not restate its comparative amounts and recognized a right-of-use asset equal to the present value of the future lease payments. The Company elected to apply the practical expedient to only transition contracts which were previously identified as leases under IAS 17, and also elected to not recognize right-of-use assets and lease liabilities for leases of low-value assets.

Changes in Accounting Standards not yet Effective

Insurance Contracts

In May 2017, the International Accounting Standards Board ("IASB") issued IFRS 17 - Insurance Contracts ("IFRS 17"), that replaces IFRS 4 - Insurance Contracts and establishes a new model for recognizing insurance policy obligations, premium revenue and claims-related expenses. IFRS 17 is effective for annual periods beginning on or after January 1, 2021; however, based on recent IASB meetings, an upcoming amendment to IFRS 17 and a deferral of the transition date by one year is anticipated. Early adoption is permitted. The Company is assessing the potential impact of this standard.

5. INVENTORY

The Company's inventory includes the following:

	March 31, 2019			December 31, 2018		
	Capitalized cost	Fair value adjustment	Carrying value	Capitalized cost	Fair value adjustment	Carrying value
	$	$	$	$	$	$
Raw Material						
Accessories	-	-	-	152,976	-	152,976
Harvested cannabis						
Work in process	**274,789**	**5,485,619**	**5,760,408**	602,966	3,230,842	3,833,808
Finished goods	**9,499**	**100,343**	**109,842**	10,760	60,507	71,267
	284,288	**5,585,962**	**5,870,250**	613,726	3,291,349	3,905,075
Cannabis Oils						
Work in process	**198,587**	**2,737,245**	**2,935,832**	252,963	1,773,790	2,026,753
Finished goods	**4,642**	**57,380**	**62,022**	14,078	98,716	112,794
	203,229	**2,794,625**	**2,997,854**	267,041	1,872,506	2,139,547
	487,517	**8,380,587**	**8,868,104**	1,033,743	5,163,855	6,197,598

Inventories expensed as cost of goods sold during the three months ended March 31, 2019 and 2018 are $548,541 and $115,235, respectively.

6. BIOLOGICAL ASSETS

The continuity of biological assets was as follows:

	March 31, 2019	December 31, 2018
	$	$
Balance, beginning of year	1,733,316	1,081,141
Changes in fair value less costs to sell due to biological transformation	7,282,658	11,287,162
Transferred to inventory upon harvest	(6,598,595)	(10,634,987)
Balance, at end	**2,417,379**	1,733,316

As of March 31, 2019, and December 31, 2018, the weighted average fair value less cost to complete and cost to sell was $5.97 and $5.24 per gram, respectively.

The fair value of biological assets is categorized within Level 3 on the fair value hierarchy. The inputs and assumptions used in determining the fair value of biological assets include:

(a) Selling price per gram;	Level 3 input
(b) Attrition rate;	Level 3 input
(c) Average yield per plant;	Level 3 input
(d) Standard cost per gram to compete production	Level 3 input
(e) Cumulative stage of completion in production process	Level 3 input

6. BIOLOGICAL ASSETS (continued)

Significant unobservable assumptions used in the valuation of biological assets, including the sensitivities on changes in these assumptions and their effect on the fair value of biological assets, are as follows:

Significant inputs or as	Range of inputs	Sensitivity	Effect on fair value March 31, 2019	Effect on fair value December 31, 2018
			$	$
Selling price per gram*	$6.61 to $7.62	Increase or decrease of $1 per gram	**456,382**	378,621
Average yield per plant	150 to 162 grams	Increase or decrease by 5 grams per plant	**90,430**	9,771

*Selling price per gram is based on average selling prices for the period.

The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

As of March 31, 2019, and year ended December 31, 2018, the biological assets were on average 53% and 60% complete, respectively. During the three months ended March 31, 2019 and year ended December 31, 2018, the Company's biological assets produced 980,002 grams and 2,323,076 grams of dried cannabis, respectively.

7. PROPERTY, PLANT AND EQUIPMENT

	Buildings & leasehold improvements	Furniture and fixtures	Office equipment	Machinery & equipment	Auto & trucks	Total
	$	$	$	$	$	$
Cost						
As at December 31, 2018	**8,290,248**	**739,790**	**66,691**	**547,530**	**49,893**	**9,694,152**
Additions	144,349	-	-	-	-	144,349
Disposals	-	(3,650)	-	-	-	(3,650)
As at March 31, 2019	**8,434,597**	**736,140**	**66,691**	**547,530**	**49,893**	**9,834,851**
Depreciation						
As at December 31, 2018	**1,744,908**	**181,889**	**17,291**	**108,574**	**11,609**	**2,064,271**
Depreciation	200,068	30,695	1,621	14,398	2,495	249,277
As at March 31, 2019	**1,944,976**	**212,584**	**18,912**	**122,972**	**14,104**	**2,313,548**
Net book value						
As at December 31, 2018	**6,545,340**	**557,901**	**49,400**	**438,956**	**38,284**	**7,629,881**
As at March 31, 2019	**6,489,621**	**523,556**	**47,779**	**424,558**	**35,789**	**7,521,303**

As at March 31, 2019 and December 31, 2018, buildings and leasehold improvements include borrowing costs of $505,799, capitalized in connection with loan used for the construction of buildings.

Depreciation expense for the three months ended March 31, 2019 and 2018 of $Nil and $202,484, respectively, is included in cost of goods sold.

8. RIGHT-OF-USE ASSETS AND LEASE OBLIGATIONS

	Right-of-use assets	Lease obligations
Net book value at January 1, 2019	5,538,676	5,660,656
Depreciation and repayment	103,677	32,681
Net book value at March 31, 2019	5,434,999	5,627,975

Right-of-use assets and lease obligations of $5,538,676 and $5,660,656, respectively were recorded as at January 1, 2019, with no net impact on retained earnings. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rates applied were in the range of 10.06% to 11.62%.

As at March 31, 2019, the current and non-current portion of the lease obligations were $142,220 and $5,485,755, respectively.

9. DEBTS PAYABLE

The details of debts payable were as follows:

	March 31, 2019	December 31, 2018
	$	$
Promissory notes (a)	**14,958,333**	14,958,333
Loan payable to a third party (b)	**13,053**	14,284
Total debts payable	**14,971,386**	14,972,617
Less: Current portion	**(7,695)**	(7,572)
Debts payable - Non-current portion	**14,963,691**	14,965,045

As at March 31, 2019, the maturity profile of the debts are as follows:

Year ending December 31	$
2019 (9 months)	**7,695**
2020	**2,455,996**
2021	**-**
2022	**-**
2023	**-**
2024 and thereafter	**12,500,000**
	14,963,691

9. DEBTS PAYABLE (continued)

(a) Promissory notes

The outstanding balances at respective year ends represent long term debts obtained from 2013 to 2018 in the form of promissory notes. These notes carry interest rate of 18% per annum to be paid monthly.

Promissory notes amounting to $12,500,000 (December 31, 2018: $12,500,000) are to be repaid along with any unpaid accrued interest by April 2025. As of March 31, 2019, and December 31, 2019, there was unpaid accrued interest of $6,832,294 and $6,277,500, respectively.

Promissory notes amounting to $2,458,333 (December 31, 2018: $2,458,333) are to be repaid on maturity date of June 2020. As of March 31,2019, and December 31, 2018, there was unpaid accrued interest of $257,014 and $147,900, respectively.

(b) Loan payable to a third party

Effective November 10, 2016, the Company obtained a loan of $29,393 for a term of four years from a third party for purchase of a vehicle. This loan carries interest at 5.49% per annum. The principal and interest are payable monthly until November 10, 2020.

10. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties are defined as management and members of the Company and/or members of their immediate family and/or other companies and/or entities in which a member or senior officer is a principal owner or senior executive.

Included in expenses for the three months ended March 31, 2019 is a management fee of $49,500 charged by a related Corporation (March 31, 2018 - $49,500) under a management agreement. The management fee was paid monthly and varied based on actual costs incurred by the related corporation when providing the Company administrative, support, and management services. The management agreement was a month-to-month arrangement. As of March 31,2019, and December 31, 2018, there was unpaid services of $16,500 and $193,600, respectively included in trade payables.

The Company paid $nil to related party for unpaid accrued interest from prior periods during the three months March 31, 2019.

The Company owes $7,083,308 in accrued interest to a related party as of March 31, 2019.

No compensation was paid to the key management for the three months ended March 31, 2019 and 2018.

11. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support business development. The Directors do not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. In order to carry out the planned business development and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. There were no changes in the Company's approach to capital management during the three months ended March 31, 2019. The Company is not subject to externally imposed capital requirements.

11. CAPITAL MANAGEMENT (continued)

The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through loans from third parties and promissory notes. There can be no assurance that the Company will be able to continue raising capital in this manner. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly rated financial instruments.

12. GENERAL AND ADMINISTRATIVE

General and administrative expenses were comprised of:

	March 31, 2019	March 31, 2018
	$	$
Salaries and benefits	**598,833**	672,660
Rent	**26,112**	573,171
Taxes and licenses	**4,626**	15,959
Bank Service charges	**39,225**	55,073
Professional and consulting fees	**260,310**	121,628
Insurance	**65,648**	49,669
Office expenses	**65,504**	72,101
Community agreements	**133,674**	163,247
Security	**121,540**	66,830
Computer expenses	**76,260**	31,971
Utilities	**(1,483)**	14,975
Others	**59,957**	56,041
	1,450,206	1,893,325

13. CONTINGENCIES

Contingencies

The Company's operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits and/or licenses that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulation at March 31, 2019, cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

13. CONTINGENCIES (continued)

Claims and litigation

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. At March 31, 2019, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

14. FINANCIAL RISK FACTORS

The Company’s financial instruments mainly comprise of cash and cash equivalents, accounts receivable, trade payables, accrued liabilities, debts payable and lease obligations.

(a) Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset’s highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the unaudited condensed interim financial statements are categorised within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

• Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date.

• Level 2 inputs are observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable directly or indirectly.

• Level 3 inputs are unobservable inputs for the asset or liability that reflect the reporting entity’s own assumptions and are not based on observable market data.

14. FINANCIAL RISK FACTORS (continued)

(a) Fair Value **(continued)**

The classification of financial instruments at their carrying and fair values is as follows:

	Carrying values				Fair values
Financial assets	**FVTPL**	**FVTOCI**	**AC**	**Total**	**Total**
March 31, 2019	**$**	**$**	**$**	**$**	**$**
Cash and cash equivalents	**3,315,782**	**-**	**-**	**3,315,782**	**3,315,782**
Account receivables	**-**	**-**	**1,026,229**	**1,026,229**	**1,026,229**
	3,315,782	**-**	**1,026,229**	**4,342,011**	**4,342,011**
December 31, 2018					
Cash and cash equivalents	2,607,676	-	-	2,607,676	2,607,676

	Carrying values			Fair values
Financial liabilities	**FVTPL**	**AC**	**Total**	**Total**
March 31, 2019	**$**	**$**	**$**	**$**
Trade payables	-	**605,217**	**605,217**	**605,217**
Accrued liabilities	-	**2,025,356**	**2,025,356**	**2,025,356**
Debts payable	-	**14,971,386**	**14,971,386**	**14,971,386**
Lease obligations	-	**5,627,975**	**5,627,975**	**5,627,975**
	-	**23,229,934**	**23,229,934**	**23,229,934**
December 31, 2018	**$**	**$**	**$**	**$**
Trade payables	-	1,557,153	1,557,153	1,557,153
Accrued liabilities	-	1,192,208	1,192,208	1,192,208
Debts payable	-	14,972,617	14,972,617	14,972,617
	-	17,721,978	17,721,978	17,721,978

The Company's financial instruments as at March 31, 2019 and December 31, 2018 classified as "Level 1 - quoted prices in active markets" is cash. The Company has determined that there have been no transfers between levels in the hierarchy by re-assessing categorization at the reporting date.

The Company is exposed to credit risk, liquidity risk and interest rate risk. The Company's management oversees the management of these risks. The Company`s management is supported by the Members that advises on financial risks and the appropriate financial risk governance framework for the Company. The Company's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with company policies and company risk appetite.

(b) Credit Risk

Credit risk is the risk of unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents, and accounts receivable.

14. FINANCIAL RISK FACTORS (continued)

(b) Credit Risk (continued)

The cash and cash equivalents consist mainly of checking and operating accounts, cash and security deposits. The Company has deposited the cash equivalents with a major highly reputable US bank. For its accounts receivable, the Company ensures to deal with creditworthy customers. As at March 31, 2019 and December 31, 2018 the maximum amount exposed to credit risks was $4,342,011 and $2,607,676, respectively.

(c) Liquidity Risk

Liquidity risk is the risk that the Company is unable to generate or obtain sufficient cash in a cost-effective manner to fund its obligations as they come due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company manages liquidity risk through obtaining financing from its members and third parties. As at March 31, 2019, all trade payables and accrued liabilities are due within a year, whereas, long term debts over a period of five years.

(d) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its long-term debts.

15. SEGMENTED INFORMATION

Operating and geographical segments

An operating segment is defined as a component of the Company:

- that engages in business activities from which it may earn revenues and incur expenses;
- whose operating results are reviewed regularly by the entity's chief operating decision maker; and;
- for which discrete financial information is available.

As at March 31, 2019 and December 31, 2018, the Company's operations comprise a single reporting operating and geographical segment engaged in the growing, processing and distribution of cannabis.

16. SUBSEQUENT EVENTS

The Company's management has evaluated subsequent events up to August 5, 2019, the date the unaudited condensed interim financial statements were issued, and determined the following event:

On May 24, 2019 – Ayr Strategies Inc. ("Ayr"), formerly Cannabis Strategies Acquisition Corp., closed its previously announced Qualifying Transaction. Through the qualifying transaction, Ayr has created a vertically integrated Multi-State Operator in the U.S. cannabis sector, with an initial anchor portfolio in the Eastern and Western United States.

SCHEDULE “G”
CANOPY INTERIM FINANCIAL STATEMENTS

(see attached)

THE CANOPY NV, LLC

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

(EXPRESSED IN UNITED STATES DOLLARS)

Notice to reader

The accompanying unaudited condensed interim consolidated financial statements of Canopy NV, LLC (the Company) have been prepared by and are the responsibility of management. The unaudited condensed interim consolidated financial statements have not been reviewed by the Company's auditors.

THE CANOPY NV, LLC

Unaudited Condensed Interim Consolidated Financial Statements

March 31, 2019 and 2018

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management's Responsibility

To the Members of The Canopy NV, LLC:

The accompanying unaudited condensed interim consolidated financial statements and other financial information in this report were prepared by management of The Canopy NV, LLC ("the Company"), reviewed by the Audit Committee and approved by the Board of Directors.

Management is responsible for the unaudited condensed interim consolidated financial statements and believes that they fairly present the Company's financial condition and results of operation in conformity with International Financial Reporting Standards. Management has included in the Company's unaudited condensed interim consolidated financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of unaudited condensed interim consolidated financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel and through the adoption and communication of financial and other relevant policies.

August 5, 2019

"Mark Pitchford" (Signed)	"Lilian Yohn" (Signed)
Chief Executive Officer	Chief Financial Officer

THE CANOPY NV, LLC
Unaudited Condensed Interim Consolidated Statements of Financial Position
At March 31, 2019 and December 31, 2018

	March 31, 2019	December 31, 2018
	$	$
ASSETS		
Current		
Cash	**222,626**	172,576
Inventory [Note 5]	**1,163,196**	1,310,676
Advance to a related corporation [Note 10]	**1,217,830**	690,461
Prepaid expenses and other assets	**153,353**	122,167
	2,757,005	2,295,880
Intangible assets [Note 6]	**1,623,114**	1,623,114
Property plant and equipment [Note 7]	**1,220,641**	1,235,993
Right-of-use assets [Note 8]	**2,427,320**	-
Total assets	**8,028,080**	5,154,987
LIABILITIES		
Current		
Accrued liabilities	**349,301**	268,156
Lease obligations - current portion [Note 8]	**62,841**	-
	412,142	268,156
Debt payable [Note 13]	**421,128**	421,128
Lease obligations - non-current portion [Note 8]	**2,397,955**	-
Total liabilities	**3,231,225**	689,284
MEMBERS' EQUITY [Note 9]	**4,796,855**	4,465,703
Total liabilities and members' equity	**8,028,080**	5,154,987

Nature of operations [Note 1]
Contingencies [Note 14]
Subsequent events [Note 17]

Approved and authorized by the Board of Directors on August 5, 2019

"Mark Pitchford" (Signed)
Chief Executive Officer

"Lilian Yohn" (Signed)
Chief Financial Officer

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

THE CANOPY NV, LLC
Unaudited Condensed Interim Consolidated Statements of Operations
For the Three Months Ended March 31, 2019 and 2018

	For the Three months ended March 31, 2019	For the Three months ended March 31, 2018
	$	$
Revenues, net of discounts	**3,627,129**	2,589,630
Cost of goods sold [Note 5]	**(2,113,680)**	(1,320,141)
Gross profit	**1,513,449**	1,269,489
Expenses		
General and administrative [Note 12]	**590,157**	396,004
Sales and marketing	**95,198**	62,643
Depreciation [Note 7 & 8]	**77,596**	7,158
Management fee [Note 10]	**180,000**	60,000
Total expenses	**942,951**	525,805
Income from operations	**570,498**	743,684
Other expense		
Net finance costs	**78,446**	-
Net income	**492,052**	743,684

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

THE CANOPY NV, LLC
Unaudited Condensed Interim Consolidated Statements of Changes in Members' Equity
For the Three Months Ended March 31, 2019 and 2018

	Members' Equity $
Balance as of December 31, 2017	**3,280,127**
Distributions	(444,000)
Net income for the period	743,684
Balance as at March 31, 2018	**3,579,811**
Balance as of December 31, 2018	**4,465,703**
Distributions	**(160,900)**
Net income for the period	**492,052**
Balance as at March 31, 2019	**4,796,855**

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

THE CANOPY NV, LLC
Unaudited Condensed Interim Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2019 and 2018

	Three months ended March 31, 2019	Three months ended March 31, 2018
	$	$
Operating activities		
Net income	**492,052**	743,684
Adjustments for items not affecting cash:		
Depreciation of property plant and equipment and right-of-use assets	**77,596**	7,158
Changes in working capital items:		
Inventory	**147,480**	(27,170)
Prepaid expenses and other assets	**(31,186)**	157,977
Advance to a related corporation	**(527,369)**	97,251
Trade payables	**-**	67,435
Accrued liabilities	**81,145**	(35,991)
Cash provided by operating activities	**239,718**	1,010,344
Investing activities		
Purchase of property, plant and equipment	**(8,491)**	(665,795)
Cash used in investing activities	**(8,491)**	(665,795)
Financing activities		
Distributions	**(160,900)**	(444,000)
Repayment of lease obligations	**(20,277)**	-
Cash used in financing activities	**(181,177)**	(444,000)
Net increase (decrease) in cash	**50,050**	(99,451)
Cash, beginning of period	**172,576**	821,928
Cash, end of period	**222,626**	722,477

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

1. NATURE OF OPERATIONS

The CANOPY NV, LLC ("Canopy" or the "Company") was incorporated as Domestic Limited Liability Company on April 1, 2016 in the State of Nevada, United States of America ("USA"). The Company's head office is located at 1645 Crane Way, Sparks, Nevada 89431.

The Company's management, operations, structure and other matters are governed through an Operating Agreement entered between the members and Managers of the Company on April 20, 2016. The Company's principal activities, through its subsidiaries, are the distribution and sale of cannabis as regulated under the laws applicable in the USA.

2. BASIS OF PRESENTATION

2.1 Statement of compliance

These unaudited condensed interim consolidated financial statements for the three months ended March 31, 2019 (and comparative results for the three months ended March 31, 2018) have been prepared in accordance with International Accounting Standard ("IAS") 34 – *Interim Financial Reporting* and therefore do not contain all disclosures required by International Financial Reporting Standards ("IFRS"). These unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's 2018 consolidated financial statements and notes and have been prepared using the same accounting policies with the exception of significant accounting policy adopted as a result of initial application of IFRS 16 - Leases ("IFRS 16") effective from January 1, 2019.

These unaudited condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on August 5, 2019.

2.2 Basis of presentation

These unaudited condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3. The unaudited condensed interim consolidated financial statements are presented in US dollars which is the presentation and functional currency of the Company and its subsidiaries.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of consolidation

The unaudited condensed interim consolidated financial statements include the unaudited condensed interim financial statements of the Company and its wholly owned subsidiaries – Kynd Strainz LLC ("Kynd") and Lemon Aide LLC ("Lemon"), Limited Liabilities Companies, incorporated in the state of Nevada. The results of subsidiaries acquired or disposed of during the period are included in the unaudited condensed interim consolidated statements of operations from the effective date of acquisition or up to the effective date of disposal, as appropriate. All inter-company transactions, balances, income and expenses are eliminated on consolidation. Lemon started operations in 2018.

The unaudited condensed interim financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Leases

The Company assesses whether a contract is or contains a lease, at inception of a contract. Leases are recognized as a right-of-use asset and corresponding liability at the commencement date. Each lease payment included in the lease liability is apportioned between the repayment of the liability and a finance cost. The finance cost is recognized in net finance costs in the unaudited condensed interim consolidated statements of operations over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), variable lease payments that are based on an index or a rate or subject to a fair market value renewal, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option. The Company allocates the consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate stand-alone price of the non-lease components. The lease liability is net of lease incentives receivable. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the lessee's incremental borrowing rate. The period over which the lease payments are discounted is the reasonably certain lease term, including renewal options that the Company is reasonably certain to exercise. Renewal options are included in a number of leases across the Company.

Payments associated with short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis in selling, general and administrative expenses in the unaudited condensed interim consolidated statements of operations. Short-term leases are leases with a lease term of 12 months or less. Variable lease payments that do not depend on an index or a rate or subject to a fair market value renewal are expensed as incurred and recognized in Selling, general and administrative expenses in the unaudited condensed interim consolidated statements of operations.

Right-of-use assets are measured at cost which is calculated as the amount of the initial measurement of lease liability plus any lease payments made at or before the commencement date, any initial direct costs and related restoration costs. The right-of-use asset is depreciated over the lease term on a straight-line basis. The right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

4. CHANGES IN ACCOUNTING STANDARDS

Adoption of New Accounting Pronouncement

Adoption of IFRS 16 – Leases

The Company adopted IFRS 16 - Leases ("IFRS 16") on January 1, 2019. IFRS 16 introduced a single on-balance sheet accounting model for lessees which replaced IAS 17 - Leases ("IAS 17"). Leasing activity for the Company typically involves the leases of land or buildings to operate cannabis dispensaries, processing or cultivation facilities or corporate offices.

4. CHANGES IN ACCOUNTING STANDARDS (continued)

Adoption of New Accounting Pronouncement (continued)

Adoption of IFRS 16 – Leases (continued)

The Company previously classified leases as either operating or finance leases from the perspective of the lessee. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases. The Company adopted IFRS 16 using the modified retrospective cumulative catch-up approach beginning on January 1, 2019. Under this approach, the Company did not restate its comparative amounts and recognized a right-of-use asset equal to the present value of the future lease payments. The Company elected to apply the practical expedient to only transition contracts which were previously identified as leases under IAS 17, and also elected to not recognize right-of-use assets and lease liabilities for leases of low-value assets.

Changes in Accounting Standards not yet Effective

Insurance Contracts

In May 2017, the International Accounting Standards Board ("IASB") issued IFRS 17 - Insurance Contracts ("IFRS 17"), that replaces IFRS 4 - Insurance Contracts and establishes a new model for recognizing insurance policy obligations, premium revenue and claims-related expenses. IFRS 17 is effective for annual periods beginning on or after January 1, 2021; however, based on recent IASB meetings, an upcoming amendment to IFRS 17 and a deferral of the transition date by one year is anticipated. Early adoption is permitted. The Company is assessing the potential impact of this standard.

5. INVENTORY

Inventory comprised of finished goods.

Inventories expensed as cost of goods sold during the three months ended March 31, 2019 and 2018 is $2,113,680 and $1,320,141, respectively.

6. INTANGIBLE ASSETS

Intangible assets represent dispensary licenses obtained by the two subsidiaries. Intangible assets of $1,623,114 include $1,500,000 contribution from a member.

7. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Furniture & Fixtures	Office Equipment	Vehicle	Total
Cost	**$**	**$**	**$**		**$**
As at December 31, 2018	**1,051,853**	**167,640**	**77,444**	**6,305**	**1,303,242**
Additions	-	7,788	703	-	8,491
As at March 31, 2019	**1,051,853**	**175,428**	**78,147**	**6,305**	**1,311,733**
Depreciation					
As at December 31, 2018	**22,988**	**33,479**	**10,106**	**676**	**67,249**
Depreciation	13,149	6,597	3,872	225	23,843
As at March 31, 2019	**36,137**	**40,076**	**13,978**	**901**	**91,092**
Net book value					
As at December 31, 2018	**1,028,865**	**134,161**	**67,338**	**5,629**	**1,235,993**
As at March 31, 2019	**1,015,716**	**135,352**	**64,169**	**5,404**	**1,220,641**

Depreciation expense for the three months ended March 31, 2019 and 2018 of $Nil, is included in cost of goods sold.

8. RIGHT-OF-USE ASSETS AND LEASE OBLIGATIONS

	Right-of-use assets $	Lease obligations $
Net book value at January 1, 2019	2,481,073	2,481,073
Depreciation and repayment	53,753	20,277
Net book value at March 31, 2019	**2,427,320**	**2,460,796**

Right-of-use assets and lease obligations of $2,481,073 were recorded as at January 1, 2019, with no net impact on retained earnings. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rates applied were in the range of 9.84% to 11.62%.

As at March 31, 2019, the current and non-current portion of the lease obligations were $62,841 and $2,397,955, respectively.

9. MEMBERS' EQUITY

During the three months ended March 31, 2019 and 2018, members made cash contributions of $nil to the Company.

10. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties are defined as management and members of the Company and/or members of their immediate family and/or other companies and/or entities in which a member or senior officer is a principal owner or senior executive.

Other than disclosed elsewhere in the unaudited condensed interim consolidated financial statements, related party transactions and balances are as follows:

The Company purchases a substantial portion of its inventory from a related corporation. These purchases are made at arms-length rates, in line with rates charged to third party customers of the related corporation.

Included in expenses for the three months ended March 31, 2019 and 2018 is management fees of $180,000 and $60,000, respectively. The management fee started on January 1, 2017 and was paid monthly. The monthly fee varied based on an allocation of the related corporation's expenses and was a month-to-month arrangement.

Advance to a related corporation of $1,217,830 and $690,461 were outstanding as at March 31, 2019 and December 31, 2018, respectively. These advances are unsecured, interest free and repayable on demand.

No compensation was paid to key management for the three months ended March 31, 2019 and 2018.

11. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support business development. The members do not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital to include its members' equity. In order to carry out the planned business development and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the three ended March 31, 2019. The Company is not subject to externally imposed capital requirements. As at March 31, 2019 and December 31, 2018, the capital of the Company was $4,796,855 and $4,465,703, respectively.

The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through cash injection by the members of the Company. There can be no assurance that the Company will be able to continue raising equity capital in this manner. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly rated financial instruments.

12. GENERAL AND ADMINISTRATIVE

General and administrative expenses were comprised of:

	March 31, 2019	March 31, 2018
	$	$
Salaries and benefits	**292,372**	268,412
Rent	**58,120**	55,981
Taxes and licenses	**129,102**	23,718
Professional and consulting fees	**24,840**	2,350
Insurance	**27,354**	14,713
Office expenses	**15,550**	5,793
Computer expenses	**13,663**	6,043
Repair and maintenance	**4,850**	3,551
Utilities	**4,838**	3,419
Others	**19,468**	12,024
	590,157	396,004

13. DEBTS PAYABLE

On October 1, 2018, the Company borrowed $421,128 in connection with the construction of a dispensary. The loan bears interest at a rate of 5% per annum and is due in 2020.

14. CONTINGENCIES

Contingencies

The Company's operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits and/or licenses that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulation at March 31, 2019, cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

Claims and litigation

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. At March 31, 2019, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

15. FINANCIAL RISK FACTORS

The Company's financial instruments mainly comprise of cash, advance to a related corporation, trade payables, accrued liabilities, due to related corporation and lease obligations.

(a) Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the unaudited condensed interim consolidated financial statements are categorised within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

• Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date.

• Level 2 inputs are observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable directly or indirectly.

• Level 3 inputs are unobservable inputs for the asset or liability that reflect the reporting entity's own assumptions and are not based on observable market data.

The classification of financial instruments at their carrying and fair values is as follows:

	Carrying values				Fair values
Financial assets	**FVTPL**	**FVTOCI**	**AC**	**Total**	**Total**
March 31, 2019	**$**	**$**	**$**	**$**	**$**
Cash	**222,626**	-	-	**222,626**	**222,626**
Advance to a related corporation	-	-	**1,217,830**	**1,217,830**	**1,217,830**
	222,626	-	**1,217,830**	**1,440,456**	**1,440,456**
December 31, 2018					
Cash	172,576	-	-	172,576	172,576
Advance to a related corporation		-	690,461	690,461	690,461
	172,576	-	690,461	863,037	863,037

15. FINANCIAL RISK FACTORS (continued)

(a) Fair Value **(continued)**

	Carrying values			Fair values
Financial liabilities	**FVTPL**	**AC**	**Total**	**Total**
March 31, 2019	**$**	**$**	**$**	**$**
Accrued liabilities	**-**	**349,301**	**349,301**	**349,301**
Lease obligations	**-**	**2,460,796**	**2,460,796**	**2,460,796**
Debt payable	**-**	**421,128**	**421,128**	**421,128**
	-	**3,231,225**	**3,231,225**	**3,231,225**
December 31, 2018				
Accrued liabilities	-	268,156	268,156	268,156
Debt payable	-	421,128	421,128	421,128
	-	689,284	689,284	689,284

The Company's financial instruments as at March 31, 2019 and December 31, 2018 classified as "Level 1 - quoted prices in active markets" is cash. The Company has determined that there have been no transfers between levels in the hierarchy by re-assessing categorization at the reporting date.

The Company is exposed to credit risk and liquidity risk. The Company's management oversees the management of these risks. The Company's management is supported by the members that advises on financial risks and the appropriate financial risk governance framework for the Company. The Company's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with group policies and group risk appetite.

(b) Credit Risk

Credit risk is the risk of unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash and advance to a related corporation. As at March 31, 2019 and December 31, 2018, the maximum amount exposed to credit risks was $1,440,456 and $863,037, respectively.

(c) Liquidity Risk

Liquidity risk is the risk that the Company is unable to generate or obtain sufficient cash in a cost-effective manner to fund its obligations as they come due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company manages liquidity risk through obtaining financing from its members. As at March 31, 2019, all trade payables and accrued liabilities are due within a year.

16. SEGMENTED INFORMATION

Operating and geographical segments

An operating segment is defined as a component of the Company:

- that engages in business activities from which it may earn revenues and incur expenses;
- whose operating results are reviewed regularly by the entity's chief operating decision maker; and;
- for which discrete financial information is available.

As at March 31, 2019 and December 31, 2018, the Company's operations comprise a single reporting operating and geographical segment engaged in the distribution and sale of cannabis.

17. SUBSEQUENT EVENTS

The Company's management has evaluated subsequent events up to August 5, 2019, the date the unaudited condensed interim consolidated financial statements were issued, and determined the following event:

On May 24, 2019 – Ayr Strategies Inc. ("Ayr"), formerly Cannabis Strategies Acquisition Corp., closed its previously announced Qualifying Transaction. Through the qualifying transaction, Ayr has created a vertically integrated Multi-State Operator in the U.S. cannabis sector, with an initial anchor portfolio in the Eastern and Western United States.

SCHEDULE “H”
WASHOE INTERIM FINANCIAL STATEMENTS

(see attached)

WASHOE WELLNESS, LLC

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

(EXPRESSED IN UNITED STATES DOLLARS)

Notice to reader

The accompanying unaudited condensed interim consolidated financial statements of Washoe Wellness, LLC (the Company) have been prepared by and are the responsibility of management. The unaudited condensed interim consolidated financial statements have not been reviewed by the Company's auditors.

WASHOE WELLNESS, LLC

Unaudited Condensed Interim Consolidated Financial Statements

March 31, 2019 and 2018

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management's Responsibility

To the Members of Washoe Wellness, LLC:

The accompanying unaudited condensed interim consolidated financial statements and other financial information in this report were prepared by management of Washoe Wellness, LLC ("the Company"), reviewed by the Audit Committee and approved by the Board of Directors.

Management is responsible for the unaudited condensed interim consolidated financial statements and believes that they fairly present the Company's financial condition and results of operation in conformity with International Financial Reporting Standards. Management has included in the Company's unaudited condensed interim consolidated financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of unaudited condensed interim consolidated financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel and through the adoption and communication of financial and other relevant policies.

August 5, 2019

“Mark Pitchford” (Signed)
Chief Executive Officer

“Lilian Yohn” (Signed)
Chief Financial Officer

WASHOE WELLNESS, LLC
Unaudited Condensed Interim Consolidated Statements of Financial Position
At March 31, 2019 and December 31, 2018

	March 31, 2019 $	December 31, 2018 $
ASSETS		
Current		
Cash	**722,273**	345,987
Accounts receivable, no allowance	**133,075**	350,974
Inventory [Note 5]	**2,519,505**	2,035,578
Biological assets [Note 6]	**1,646,000**	1,244,313
Other receivables	**-**	11,532
Prepaid expenses and other assets	**197,933**	211,923
	5,218,786	4,200,307
Intangible assets [Note 7]	**80,894**	80,894
Property, plant and equipment [Note 8]	**8,961,601**	8,846,196
Investment in associate [Note 9]	**1,939,517**	1,664,347
Total assets	**16,200,798**	14,791,744
LIABILITIES		
Current		
Trade payables	**577,458**	861,240
Accrued liabilities	**162,209**	107,472
Advance from a related corporation [Note 12]	**1,217,830**	690,461
	1,957,497	1,659,173
Debts payable - non-current portion [Note 10]	**9,162,306**	9,182,006
Total liabilities	**11,119,803**	10,841,179
MEMBERS' EQUITY [Note 11]	**5,080,995**	3,950,565
Total liabilities and members' equity	**16,200,798**	14,791,744

Nature of operations [Note 1]
Commitment and contingencies [Note 15]
Subsequent events [Note 18]

Approved and authorized by the Board of Directors on August 5, 2019.

"Mark Pitchford" (Signed)
Chief Executive Officer

"Lilian Yohn" (Signed)
Chief Financial Officer

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

WASHOE WELLNESS, LLC
Unaudited Condensed Interim Consolidated Statements of Operations
For the Three Months Ended March 31, 2019 and 2018

	Three months ended March 31, 2019 $	Three months ended March 31, 2018 $
Revenues, net of discounts	**1,972,925**	1,707,193
Cost of goods sold before biological asset adjustment	**(1,017,328)**	(865,140)
Gross profit before biological asset adjustment	**955,597**	842,053
Fair value changes in biological assets included in cost of sales	**(804,650)**	(551,056)
Unrealized gain on biological asset transformation	**1,227,204**	1,003,455
Gross profit	**1,378,151**	1,294,452
Expenses		
General and administrative [Note 14]	**160,492**	257,079
Sales and marketing	**55,369**	33,258
Management fees [Note 15]	**120,000**	-
Depreciation [Note 8]	**95,266**	67,488
Total expenses	**431,127**	357,825
Income from operations	**947,024**	936,627
Other income (expense)		
Share of income on equity investments [Note 9]	**275,170**	807,121
Interest expense	**(94,888)**	(84,720)
Interest income	**-**	12,067
Management fee income [Note 12]	**-**	60,000
Rental income and others	**23,124**	23,124
Total other income	**203,406**	817,592
Net income	**1,150,430**	1,754,219

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

WASHOE WELLNESS, LLC
Unaudited Condensed Interim Consolidated Statements of Changes in Members' Equity
For the Three Months Ended March 31, 2019 and 2018

	Members' Equity $
Balance as at December 31, 2017	**2,444,394**
Distributions	-
Net income for the period	1,754,219
Balance as at March 31, 2018	**4,198,613**
Balance as at December 31, 2018	**3,950,565**
Distributions	(20,000)
Net income for the period	1,150,430
Balance as at March 31, 2019	**5,080,995**

The accompanying notes are in integral part of these unaudited condensed interim consolidated financial statements.

WASHOE WELLNESS, LLC
Unaudited Condensed Interim Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2019 and 2018

	Three months ended March 31, 2019 $	Three months ended March 31, 2018 $
Operating activities		
Net income	**1,150,430**	1,754,219
Adjustments for items not affecting cash:		
Depreciation of property, plant and equipment	**110,774**	78,475
Share of income on equity investments	**(275,170)**	(807,121)
Unrealized gain on biological asset transformation	**(1,227,204)**	(1,003,455)
Fair value changes in biological assets included in cost of sales	**804,650**	551,056
Changes in working capital items:		
Accounts receivable	**217,899**	121,649
Other receivables	**11,532**	-
Inventory	**(483,927)**	(459,889)
Biological assets	**20,867**	(64,994)
Prepaid expenses and other assets	**13,990**	524,202
Trade payables	**(283,782)**	2,539,556
Accrued liabilities	**54,737**	(11,454)
Advance from a related corporation	**527,369**	(97,251)
Cash provided by operating activities	**642,165**	3,124,993
Investing activities		
Investment in associate	**-**	(10)
Purchase of property, plant and equipment	**(226,179)**	(311,762)
Receipts of loans receivable	**-**	13,309
Cash used in investing activities	**(226,179)**	(298,463)
Financing activities		
Repayments of debts payable	**-**	(2,361,998)
Proceeds from issuance of debts payable	**(19,700)**	-
Distributions	**(20,000)**	-
Cash used in financing activities	**(39,700)**	(2,361,998)
Net increase in cash	**376,286**	464,532
Cash, beginning of period	**345,987**	1,435,345
Cash, end of period	**722,273**	1,899,877
Supplemental cash flow information		
Interest paid	**94,888**	58,944

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

1. NATURE OF OPERATIONS

Washoe Wellness, LLC ("Washoe" or the "Company") was incorporated as a Limited Liability Company on June 23, 2014 in the State of Nevada, United States of America ("USA"). The Company's head office is located at 1645 Crane Way, Sparks, NV 89431.

The Company's management, operations, structure and other matters are governed through an Operating Agreement entered between the Members and Managers of the Company on November 5, 2014. The Company's principal activities, through its subsidiaries, are the growing, processing and distribution of cannabis as regulated under the laws applicable in the USA.

2. BASIS OF PRESENTATION

2.1 Statement of compliance

These unaudited condensed interim consolidated financial statements for the three months ended March 31, 2019 (and comparative results for the three months ended March 31, 2018) have been prepared in accordance with International Accounting Standard ("IAS") 34 – *Interim Financial Reporting* and therefore do not contain all disclosures required by International Financial Reporting Standards ("IFRS"). These unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's 2018 consolidated financial statements and notes and have been prepared using the same accounting policies with the exception of significant accounting policy adopted as a result of initial application of IFRS 16 - Leases ("IFRS 16") effective from January 1, 2019.

These unaudited condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on August 5, 2019.

2.2 Basis of presentation

These unaudited condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value. The unaudited condensed interim consolidated financial statements are presented in US dollars which is the presentation and functional currency of the Company and its subsidiaries.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of Consolidation

The unaudited condensed interim consolidated financial statements include the unaudited condensed interim financial statements of the Company and its wholly owned subsidiaries – Tahoe-Reno Extractions, LLC ("TRE"), Tahoe-Reno Botanicals, LLC ("TRB") and DWC Investments, LLC, Limited Liabilities Companies, and KLYMB Project Management, Inc., incorporated in the state of Nevada. The results of subsidiaries acquired or disposed of during the period are included in the unaudited condensed interim consolidated statements of operations from the effective date of acquisition or up to the effective date of disposal, as appropriate. All inter-company transactions, balances, income and expenses are eliminated on consolidation.

The unaudited condensed interim financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Leases

The Company assesses whether a contract is or contains a lease, at inception of a contract. Leases are recognized as a right-of-use assets and corresponding liability at the commencement date. Each lease payment included in the lease liability is apportioned between the repayment of the liability and a finance cost. The finance cost is recognized in net finance costs in the unaudited condensed interim consolidated statement of operations over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), variable lease payments that are based on an index or a rate or subject to a fair market value renewal, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option. The Company allocates the consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate stand-alone price of the non-lease components. The lease liability is net of lease incentives receivable. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the lessee's incremental borrowing rate. The period over which the lease payments are discounted is the reasonably certain lease term, including renewal options that the Company is reasonably certain to exercise. Renewal options are included in a number of leases across the Company.

Payments associated with short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis in Selling, general and administrative expenses in the unaudited condensed interim consolidated statement of operations. Short-term leases are leases with a lease term of 12 months or less. Variable lease payments that do not depend on an index or a rate or subject to a fair market value renewal are expensed as incurred and recognized in selling, general and administrative expenses in the unaudited condensed interim consolidated statement of operations.

Right-of-use assets are measured at cost which is calculated as the amount of the initial measurement of lease liability plus any lease payments made at or before the commencement date, any initial direct costs and related restoration costs. The right-of-use asset is depreciated over the lease term on a straight-line basis. The right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

4. CHANGES IN ACCOUNTING STANDARDS

Adoption of New Accounting Pronouncement

Adoption of IFRS 16 – Leases

The Company adopted IFRS 16 - Leases ("IFRS 16") on January 1, 2019. IFRS 16 introduced a single on-balance sheet accounting model for lessees which replaced IAS 17 - Leases ("IAS 17"). The adoption of IFRS 16 did not result in any recognition of right-of-use assets and the related lease obligations as none of the leases met the criteria of capitalization.

4. CHANGES IN ACCOUNTING STANDARDS (continued)

Changes in Accounting Standards not yet Effective

Insurance Contracts

In May 2017, the International Accounting Standards Board ("IASB") issued IFRS 17 - Insurance Contracts ("IFRS 17"), that replaces IFRS 4 - Insurance Contracts and establishes a new model for recognizing insurance policy obligations, premium revenue and claims-related expenses. IFRS 17 is effective for annual periods beginning on or after January 1, 2021; however, based on recent IASB meetings, an upcoming amendment to IFRS 17 and a deferral of the transition date by one year is anticipated. Early adoption is permitted. The Company is assessing the potential impact of this standard.

5. INVENTORY

The Company's inventory includes the following:

	March 31, 2019			December 31, 2018		
	Capitalized cost	**Fair value adjustment**	**Carrying value**	Capitalized cost	Fair value adjustment	Carrying value
	$	$	$	$	$	$
Harvested cannabis						
Work in process	**329,856**	**24,073**	**353,929**	51,922	-	51,922
Finished goods	**177,676**	**121,040**	**298,716**	268,340	(29,676)	238,664
	507,532	**145,113**	**652,645**	320,262	(29,676)	290,586
Cannabis oils						
Raw materials	**83,669**	**10,909**	**94,578**	130,409	31,713	162,122
Work in process	**575,355**	**49,031**	**624,386**	1,384,047	102,105	1,486,152
Finished goods	**75,284**	**4,121**	**79,405**	58,385	8,347	66,732
	734,308	**64,061**	**798,369**	1,572,841	142,165	1,715,006
Accessories and supplies	**1,068,491**	**-**	**1,068,491**	29,986	-	29,986
	2,310,331	**209,174**	**2,519,505**	1,923,089	112,489	2,035,578

Inventories expensed as cost of goods sold during the three months ended March 31, 2019 and 2018 are $70,852 and $283,753, respectively. These exclude the fair market value changes of biological assets.

Non-cash expense relating to change in fair value of inventory sold recognized during the three months ended March 31, 2019 and 2018 are $804,650 and $551,056, respectively.

6. BIOLOGICAL ASSETS

The continuity of biological assets was as follows:

	March 31, 2019	December 31, 2018
	$	$
Balance, at beginning	**1,244,313**	1,232,350
Production costs	**334,824**	3,049,368
Fair value change	**1,294,067**	968,197
Transferred to inventory upon harvest	**(1,227,204)**	(4,005,602)
Balance, at end	**1,646,000**	1,244,313

As of March 31, 2019, and December 31, 2018, the weighted average fair value less cost to complete and cost to sell was $3.14 and $3.39 per gram, respectively.

The fair value of biological assets is categorized within Level 3 on the fair value hierarchy. The inputs and assumptions used in determining the fair value of biological assets include:

(a) Selling price per gram;	Level 3 input
(b) Attrition rate;	Level 3 input
(c) Average yield per plant;	Level 3 input
(d) Standard cost per gram to compete production	Level 3 input
(e) Cumulative stage of completion in production process	Level 3 input

Significant unobservable assumptions used in the valuation of biological assets, including the sensitivities on changes in these assumptions and their effect on the fair value of biological assets, are as follows:

Significant inputs or assumptions	**Range of inputs**	**Sensitivity**	**Effect on fair value**	
			March 31, 2019	**December 31, 2018**
			$	$
Selling price per gram*	$3.83 to $4.16	Increase or decrease of $1 per gram	**617,716**	366,308
Average yield per plant**	302 to 370 grams	Increase or decrease by 5 grams per plant	**37,191**	21,299

*Selling price per gram is based on average selling prices for the period.

The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

As of March 31, 2019, and December 31, 2018, the biological assets were on average 55% and 51% complete, respectively. During the three months ended March 31, 2019 and year ended December 31, 2018, the Company's biological assets produced 390,345 grams and 1,181,220 grams of dried cannabis, respectively.

7. INTANGIBLE ASSETS

Intangible assets having indefinite lives consisted of the following:

	March 31, 2019 $	December 31, 2018 $
Product rights	**59,894**	59,894
Domain name	**16,000**	16,000
Trademarks	**5,000**	5,000
	80,894	80,894

8. PROPERTY, PLANT AND EQUIPMENT

	Land $	Buildings & leasehold improvements $	Furniture & fixtures $	Office equipment $	Machinery & equipment $	Auto & trucks $	Total $
Cost							
As at December 31, 2018	**896,444**	**7,447,311**	**62,684**	**104,211**	**1,141,003**	**34,322**	**9,685,975**
Additions	-	165,673	1,150	3,848	55,508	-	226,179
As at March 31, 2019	**896,444**	**7,612,984**	**63,834**	**108,059**	**1,196,511**	**34,322**	**9,912,154**
Depreciation							
As at December 31, 2018	**-**	**285,893**	**8,134**	**46,436**	**491,609**	**7,707**	**839,779**
Depreciation	-	48,473	2,241	5,210	53,134	1,716	110,774
As at March 31, 2019	**-**	**334,366**	**10,375**	**51,646**	**544,743**	**9,423**	**950,553**
Net book value							
As at December 31, 2018	**896,444**	**7,161,418**	**54,550**	**57,775**	**649,394**	**26,615**	**8,846,196**
As at March 31, 2019	**896,444**	**7,278,618**	**53,459**	**56,413**	**651,768**	**24,899**	**8,961,601**

As at March 31, 2019 and December 31, 2018, buildings and leasehold improvements include borrowing costs of $204,660 capitalized in connection with loan used for the construction of buildings.

Depreciation expense for the three months ended March 31, 2019 and 2018 of $15,508 and $10,987, respectively, is included in cost of goods sold.

9. INVESTMENT IN ASSOCIATE

The Company has a 52% participating interest in one of its related corporations. Management has concluded that the current participating interest does not provide control to the Company. Accordingly, the current investment has been accounted for as investment in associate using the equity method as detailed below:

	March 31, 2019	December 31, 2018
	$	$
Balance, at beginning	**1,664,347**	1,200,651
Dividends	**-**	(1,178,719)
Share of income	**275,170**	1,642,415
Balance, at end	**1,939,517**	1,664,347

The following table presents a summary of statement of financial position and statement of operations of the investee:

	March 31, 2019	December 31, 2018
	$	$
Current assets	**2,757,005**	2,295,880
Non-current assets	**5,271,075**	2,859,107
Current liabilities	**412,128**	689,284
Revenue	**3,627,129**	11,748,244
Income	**570,498**	3,150,573

10. DEBTS PAYABLE

The details of debts payable were as follows:

	March 31, 2019	December 31, 2018
	$	$
Revolving line of credit promissory note (a)	**6,561,819**	6,561,749
Loan payable to a third party (b) and (c)	**2,600,487**	2,620,257
Total debts payable	**9,162,306**	9,182,006
Less: Current portion	**-**	-
Debts payable - Non-current portion	**9,162,306**	9,182,006

Total debt payable includes interest payable as at March 31, 2019 and December 31, 2018 of $961,818 and $961,818 respectively.

10. DEBTS PAYABLE (continued)

As at March 31, 2019, the maturity profile of the principal amounts of debts outstanding are as follows:

Year ending December 31	$
2019 (9 months)	-
2020	**161,590**
2021	**123,322**
2022	**2,213,481**
Thereafter	**6,663,913**
	9,162,306

(a) Revolving line of credit promissory note

Debt under this arrangement represented financing obtained from a related corporation under an original Revolving Line of Credit Note dated November 5, 2014 of a maximum borrowing limit of $2,500,000, which was revised from time to time. Effective January 1, 2017, the Company entered into a Restated Revolving Line of Credit, which replaced the revolving line of credit note with a straight promissory note of $5,600,000 with maturity date extended indefinitely.

The promissory note carries an interest of 6% per annum to be paid monthly. If monthly payment of interest is not made timely, the interest for the period of the missed payment shall accrue at the default interest rate of 12%. The Company granted a 5% membership interest to the note holder due to the principal amount of note was not repaid by June 30, 2017 (First Repayment Date). Subsequently, a further 5% membership interest was granted to the note holder when the principal amount of the note was not repaid by December 31, 2017 (Second Repayment Date).

As at March 31, 2019, the entire principal amount remained outstanding. A 5% membership interest was granted to the note holder subsequent to the First Repayment Date, and a further 5% membership interest was granted to the note holder subsequent to the Second Repayment Date. In addition, as at March 31, 2019 and December 31, 2018, accrued interest, included in debts payable – non-current portion, the amount of $961,818 has remained unpaid. The principal amounts outstanding as at March 31, 2019 and December 31, 2018 were $5,600,000.

(b) Loan Payable to a Third Party

Effective August 24, 2017, the Company obtained a loan of $2,525,000 for a term of five years from a third party. This loan carries interest at 5% per annum with a monthly blended payment of $16,664, started from October 1, 2017 with a final payment of $2,123,899 on September 1, 2022. The loan is secured by a deed of trust with assignment of rents on the Company's land and buildings in favour of the lender. The principal amounts outstanding as at March 31, 2019 and December 31, 2018, were $2,410,487 and $2,430,187, respectively.

(c) Loan Payable to a Third Party

On July 23, 2018, the Company borrowed $190,000 in connection with the purchase of land. The loan bears interest at a rate of 6% per annum and is due in 2023. Monthly installments of principal and interest in an amount of $3,673 beginning on July 23, 2020.The loan is secured by a deed of trust. Should the Company prepay this loan by July 23, 2019, the principal amount will be reduced by $25,000. The principal amounts outstanding as at March 31, 2019 and December 31, 2018, were $190,000.

11. MEMBERS' EQUITY

In a series of transaction in Q2 2018, the Company adjusted its capital structure. On May 31, 2018, the Company (i) added additional members, granting them membership interests in exchange for services provided on a historical and ongoing basis, (ii) created a revised membership class structure to reflect these new members and (iii) allowed an existing member to make an additional capital contribution to the Company. On June 4, 2018, the aforementioned member increased the amount of the additional capital contribution of $1,100,000.

12. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties are defined as management and members of the Company and/or members of their immediate family and/or other companies and/or entities in which a member or senior officer is a principal owner or senior executive.

Other than disclosed elsewhere in the unaudited condensed interim consolidated financial statements, related party transactions and balances are as follows:

Included in other income for the three months ended March 31, 2019 is management fee of $nil, received from a related corporation (March 31, 2018 - $60,000). The management fee started on January 1, 2018 and was paid monthly. The monthly fee varied based on an allocation of the Company's expenses and was a month-to-month arrangement.

During the three months ended March 31, 2019, sales of $1,576,525 made to a related corporation is included in revenue and purchase of $259,772 from a related corporation is included in cost of goods sold.

Advance from a related corporation of $1,217,830 and $690,461 was outstanding as at March 31, 2019 and December 31, 2018, respectively. The advance from a related corporation is unsecured, interest free and is repayable on demand.

During the three months ended March 30, 2019 and 2018, management fees of $120,000 and $nil, respectively, were paid to a related party under consulting agreements. TRE and TRB each pay $20,000 per month ($40,000 per month in total) under these agreements, which were executed and were effective on June 1, 2018. These agreements have a three-year term and automatically renew every three years unless any party gives notice of their intent to terminate the agreement. Any party may also terminate the agreement at any time with 120 days notice.

The following outlines the compensation of the Company's key management personnel:

	March 31, 2019	March 31, 2018
	$	$
Salaries and benefits to key management personnel	**6,000**	43,754

13. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support business development. The Members do not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital to include its Members' equity. In order to carry out the planned business development and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. There were no changes in the Company's approach to capital management during the three months ended March 31, 2019. The Company is not subject to externally imposed capital requirements. As at March 31, 2019, and December 31, 2018, the capital of the Company was $5,080,995 and $3,950,565 respectively.

The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through cash injection by the Members of the Company. There can be no assurance that the Company will be able to continue raising equity capital in this manner. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly rated financial instruments.

The Company invest all capital that is surplus to its immediate operational needs in short-term, liquid and highly rated financial instruments.

14. GENERAL AND ADMINISTRATIVE

General and administrative expenses were comprised of:

	March 31, 2019 $	March 31, 2018 $
Salaries and benefits	**78,133**	161,623
Professional and consulting fees	**17,666**	13,502
Computer expenses	**11,854**	27,496
Shipping expenses	**11,434**	13,600
Office expenses	**7,133**	9,389
Utilities	**3,475**	2,870
Insurance	**2,793**	(9,128)
Taxes and licenses	**1,506**	1,185
Rent	**-**	4,712
Others	**26,498**	31,830
	160,492	257,079

15. COMMITMENTS AND CONTINGENCIES

Contingencies

The Company's operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits and/or licenses that could result in the Company ceasing operations.

15. COMMITMENTS AND CONTINGENCIES (continued)

Contingencies (continued)

While management of the Company believes that the Company is in compliance with applicable local and state regulation at March 31, 2019, cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

Claims and litigation

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. At March 31, 2019, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

Management Fees

On June 1, 2018 the Company entered into consulting agreements with a related party. Under these agreements TRE and TRB each pay $20,000 per month ($40,000 per month in total) for administrative, support, and management services. These agreements have a three-year term and automatically renew every three years unless any party gives notice of their intent to terminate the agreement. Any party may also terminate the agreement at any time with 120 days notice.

Future minimum payments under this agreement, assuming no party terminates the agreements prior to the three-year initial term, are as follows:

Year ending December 31	$
2019 (9 months)	360,000
2020	480,000
2021	200,000
	1,040,000

16. FINANCIAL RISK FACTORS

The Company’s financial instruments mainly comprise of cash, accounts receivable, other receivables, trade payables, accrued liabilities, advance from a related corporation and debts payable.

(a) Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company.

16. FINANCIAL RISK FACTORS (continued)

(a) Fair Value (continued)

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the unaudited condensed interim consolidated financial statements are categorised within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

• Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date.

• Level 2 inputs are observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable directly or indirectly.

• Level 3 inputs are unobservable inputs for the asset or liability that reflect the reporting entity's own assumptions and are not based on observable market data.

The classification of financial instruments at their carrying and fair values is as follows:

	Carrying values				Fair values
Financial assets	**FVTPL**	**FVTOCI**	**AC**	**Total**	**Total**
March 31, 2019	**$**	**$**	**$**	**$**	**$**
Cash	**722,273**	-	**-**	**722,273**	**722,273**
Accounts receivable	**-**	-	**133,075**	**133,075**	**133,075**
	722,273	**-**	**133,075**	**855,348**	**855,348**
December 31, 2018					
Cash	345,987	-	-	345,987	345,987
Accounts receivable	-	-	350,974	350,974	350,974
Other receivables	-	-	11,532	11,532	11,532
	345,987	-	362,506	708,493	708,493

16. FINANCIAL RISK FACTORS (continued)

(a) Fair Value (continued)

Financial liabilities	Carrying values FVTPL	AC	Total	Fair values Total
March 31, 2019	**$**	**$**	**$**	**$**
Trade payables	-	**577,458**	**577,458**	**577,458**
Accrued liabilities	-	**162,209**	**162,209**	**162,209**
Advance from a related corporation	-	**1,217,830**	**1,217,830**	**1,217,830**
Debts payable	-	**9,162,306**	**9,162,306**	**9,162,306**
	-	**11,119,803**	**11,119,803**	**11,119,803**
December 31, 2018	**$**	**$**	**$**	**$**
Trade payables	-	861,240	861,240	861,240
Accrued liabilities	-	107,472	107,472	107,472
Advance from a related corporation	-	690,461	690,461	690,461
Debts payable	-	9,182,006	9,182,006	9,182,006
	-	10,841,179	10,841,179	10,841,179

The Company's financial instruments as at March 31, 2019 and December 31, 2018 classified as "Level 1 - quoted prices in active markets" is cash. The Company has determined that there have been no transfers between levels in the hierarchy by re-assessing categorization at the reporting date.

The Company is exposed to credit risk, liquidity risk and interest rate risk. The Company's management oversees the management of these risks. The Company`s management is supported by the Members that advises on financial risks and the appropriate financial risk governance framework for the Company. The Company's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with group policies and group risk appetite.

(b) Credit Risk

Credit risk is the risk of unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash, accounts receivable and other receivables. For its accounts receivable, the Company ensures to deal with creditworthy customers. As at March 31, 2019 and 31 December 2018, the maximum amount exposed to credit risks was $855,348 and $708,493 respectively.

During the three months ended March 31, 2019, revenue from one customer is approximately 41% (March 31, 2018: 41%) of total revenue and none for purchases of raw materials from suppliers (March 31, 2018: none).

(c) Liquidity Risk

Liquidity risk is the risk that the Company is unable to generate or obtain sufficient cash in a cost-effective manner to fund its obligations as they come due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company manages liquidity risk through obtaining financing from its members and third parties. As at March 31, 2019, all trade payables and accrued liabilities are due within a year, whereas, long term debts over a period of seven years.

17. SEGMENTED INFORMATION

Operating and geographical segments

An operating segment is defined as a component of the Company:

- that engages in business activities from which it may earn revenues and incur expenses;
- whose operating results are reviewed regularly by the entity's chief operating decision maker; and;
- for which discrete financial information is available.

As at March 31, 2019 and December 31, 2018, the Company's operations comprise a single reporting operation and geographical segment engaged in the growing, processing and distribution of cannabis.

18. SUBSEQUENT EVENTS

The Company's management has evaluated subsequent events up to August 5, 2019, the date the unaudited condensed interim consolidated financial statements were issued, and determined the following event:

On May 24, 2019 – Ayr Strategies Inc. ("Ayr"), formerly Cannabis Strategies Acquisition Corp., closed its previously announced Qualifying Transaction. Through the qualifying transaction, Ayr has created a vertically integrated Multi-State Operator in the U.S. cannabis sector, with an initial anchor portfolio in the Eastern and Western United States.

SCHEDULE “I”
LIVFREE INTERIM FINANCIAL STATEMENTS

(see attached)

LIVFREE WELLNESS, LLC

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

(EXPRESSED IN UNITED STATES DOLLARS)

Notice to reader

The accompanying unaudited condensed interim consolidated financial statements of Livfree Wellness, LLC (the Company) have been prepared by and are the responsibility of management. The unaudited condensed interim consolidated financial statements have not been reviewed by the Company's auditors

LIVFREE WELLNESS, LLC

Unaudited Condensed Interim Consolidated Financial Statements

March 31, 2019 and 2018

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management's Responsibility

To the Members of Livfree Wellness, LLC:

The accompanying unaudited condensed interim consolidated financial statements and other financial information in this report were prepared by management of Livfree Wellness, LLC ("the Company"), reviewed by the Audit Committee and approved by the Board of Directors.

Management is responsible for the unaudited condensed interim consolidated financial statements and believes that they fairly present the Company's financial condition and results of operation in conformity with International Financial Reporting Standards. Management has included in the Company's unaudited condensed interim consolidated financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of unaudited condensed interim consolidated financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel and through the adoption and communication of financial and other relevant policies.

August 5, 2019

“Steve Menzies” (Signed)
Managing Member

“Timothy Harris” (Signed)
Chief Financial Officer

LIVFREE WELLNESS, LLC
Unaudited Condensed Interim Consolidated Statements of Financial Position
At March 31, 2019 and December 31, 2018

	March 31, 2019 $	December 31, 2018 $
ASSETS		
Current		
Cash	**2,182,938**	2,196,398
Inventory [Note 5]	**2,557,557**	2,344,459
Due from a related corporation [Note 11]	**89,389**	-
Prepaid expenses and other assets	**123,589**	248,769
	4,953,473	4,789,626
Property, plant and equipment [Note 6]	**1,673,445**	1,625,978
Investment in associate [Note 8]	**3,331,885**	3,354,501
Right-of-use assets [Note 7]	**2,230,783**	-
Total assets	**12,189,586**	9,770,105
LIABILITIES		
Current		
Trade payables	**849,613**	1,150,649
Accrued liabilities	**1,426,638**	984,367
Distributions payables [Note 11]	**-**	280,000
Lease obligations - current portion [Note 7]	**231,379**	-
Debt payable - current portion [Note 9]	**160,000**	220,000
	2,667,630	2,635,016
Lease obligations - Non-current portion [Note 7]	**1,985,735**	-
Total liabilities	**4,653,365**	2,635,016
MEMBERS' EQUITY [Note 10]	**7,536,221**	7,135,089
Total liabilities and members' equity	**12,189,586**	9,770,105

Nature of operations [Note 1]
Contingencies [Note 14]
Subsequent events [Note 17]

Approved and authorized by the Board of Directors on August 5, 2019

"Steve Menzies" (Signed)
Managing Member

"Timothy Harris" (Signed)
Chief Financial Officer

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

LIVFREE WELLNESS, LLC
Unaudited Condensed Interim Consolidated Statements of Operations
For the Three Months Ended March 31, 2019 and 2018

	Three months ended March 31, 2019 $	Three months ended March 31, 2018 $
Revenues, net of discounts	**11,935,852**	7,238,675
Cost of goods sold	**(7,651,562)**	(4,637,085)
Gross profit	**4,284,290**	2,601,590
Expenses		
General and administrative [Note 13]	**961,988**	726,196
Sales and marketing	**220,044**	59,792
Depreciation [Note 6 & 7]	**137,156**	45,048
Total expenses	**1,319,188**	831,036
Net income from operations	**2,965,102**	1,770,554
Other expenses (income)		
Net finance costs	**41,354**	-
Share of loss (income) on investment in associate [Note 8]	**22,616**	(68,725)
Total other expenses (income)	**63,970**	(68,725)
Net income	**2,901,132**	1,839,279

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

LIVFREE WELLNESS, LLC
Unaudited Condensed Interim Consolidated Statements of Changes in Equity
For the Three Months Ended March 31, 2019 and 2018

	Members' Equity $
Balance as at December 31, 2017	**2,879,700**
Distributions	-
Net income for the period	1,839,279
Balance as at March 31, 2018	**4,718,979**
Balance as at December 31, 2018	**7,135,089**
Distributions	(2,500,000)
Net income for the period	2,901,132
Balance as at March 31, 2019	**7,536,221**

The accompanying notes are in integral part of these unaudited condensed interim consolidated financial statements.

LIVFREE WELLNESS, LLC
Unaudited Condensed Interim Statements of Cash Flows
For the Three Months Ended March 31, 2019 and 2018

	Three months ended March 31, 2019 $	Three months ended March 31, 2018 $
Operating activities		
Net income	**2,901,132**	1,839,279
Adjustments for items not affecting cash:		
Depreciation of property, plant and equipment and right-of-assets	**137,156**	45,048
Share of loss in investment in associate	**22,616**	(68,725)
Changes in working capital items:		
Inventory	**(213,098)**	(85,276)
Due from a related corporation	**(89,389)**	(430,392)
Prepaid expenses and other assets	**67,820**	(32,417)
Trade payables	**(301,036)**	1,097,844
Accrued liabilities	**442,271**	207,413
Distributions payables	**(280,000)**	(1,980,000)
Cash provided by operating activities	**2,687,472**	592,774
Investing activities		
Change in investment in associate, net	**-**	(400,000)
Net purchase of property, plant and equipment	**(100,905)**	(102,941)
Cash used in investing activities	**(100,905)**	(502,941)
Financing activities		
Repayment of debts	**(60,000)**	(60,000)
Distributions	**(2,500,000)**	-
Repayment of lease obligations	**(40,027)**	-
Cash used in financing activities	**(2,600,027)**	(60,000)
Net (decrease) increase in cash	**(13,460)**	29,833
Cash, beginning of period	**2,196,398**	898,658
Cash, end of period	**2,182,938**	928,491

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

1. NATURE OF OPERATIONS

Livfree Wellness, LLC ("LivFree" or the "Company") [formerly LivFree Wellness Reno LLC ("Reno")] was incorporated as a Limited Liability Company on July 16, 2014 in the State of Nevada, United States of America ("USA"). The Company's head office is located at 5347 S. Decatur Blvd Las Vegas NV 89118.

The Company's principal activities are buying and selling of cannabis as regulated under the laws applicable in the USA.

2. BASIS OF PRESENTATION

2.1 Statement of compliance

These unaudited condensed interim consolidated financial statements for the three months ended March 31, 2019 (and comparative results for the three months ended March 31, 2018) have been prepared in accordance with International Accounting Standard ("IAS") 34 – Interim Financial Reporting and therefore do not contain all disclosures required by International Financial Reporting Standards ("IFRS"). These unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's 2018 consolidated financial statements and notes and have been prepared using the same accounting policies with the exception of significant accounting policy adopted as a result of initial application of IFRS 16 - Leases ("IFRS 16") effective from January 1, 2019.

These unaudited condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on August 5, 2019.

2.2 Basis of presentation

These unaudited condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3. The unaudited condensed interim consolidated financial statements are presented in US dollars which is the presentation and functional currency of the Company and its subsidiaries.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of consolidation

The unaudited condensed interim consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries Billco Holdings, LLC ("Billco") and BP Solutions LLC ("BP"), Limited Liabilities Companies, incorporated in the state of Nevada. The results of subsidiaries acquired or disposed of during the period is included in the unaudited condensed interim consolidated financial statements from the effective date of acquisition or up to the effective date of disposal, as appropriate. All inter-company transactions, balances, income and expenses are eliminated on consolidation. The unaudited condensed interim financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Leases

The Company assesses whether a contract is or contains a lease, at inception of a contract. Leases are recognized as a right-of-use assets and corresponding liability at the commencement date. Each lease payment included in the lease liability is apportioned between the repayment of the liability and a finance cost. The finance cost is recognized in net finance costs in the unaudited condensed interim consolidated statement of operations over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), variable lease payments that are based on an index or a rate or subject to a fair market value renewal, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option. The Company allocates the consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate stand-alone price of the non-lease components. The lease liability is net of lease incentives receivable. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the lessee's incremental borrowing rate. The period over which the lease payments are discounted is the reasonably certain lease term, including renewal options that the Company is reasonably certain to exercise. Renewal options are included in a number of leases across the Company.

Payments associated with short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis in selling, general and administrative expenses in the unaudited condensed interim consolidated statement of operations. Short-term leases are leases with a lease term of 12 months or less. Variable lease payments that do not depend on an index or a rate or subject to a fair market value renewal are expensed as incurred and recognized in Selling, general and administrative expenses in the unaudited condensed interim consolidated statement of operations.

Right-of-use assets are measured at cost which is calculated as the amount of the initial measurement of lease liability plus any lease payments made at or before the commencement date, any initial direct costs and related restoration costs. The right-of-use asset is depreciated over the lease term on a straight-line basis. The right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

4. CHANGES IN ACCOUNTING STANDARDS

Adoption of New Accounting Pronouncement

Adoption of IFRS 16 – Leases

The Company adopted IFRS 16 - Leases ("IFRS 16") on January 1, 2019. IFRS 16 introduced a single on-balance sheet accounting model for lessees which replaced IAS 17 - Leases ("IAS 17"). Leasing activity for the Company typically involves the leases of land or buildings to operate cannabis dispensaries, processing or cultivation facilities or corporate offices.

4. CHANGES IN ACCOUNTING STANDARDS (continued)

Adoption of New Accounting Pronouncement (continued)

Adoption of IFRS 16 – Leases (continued)

The Company previously classified leases as either operating or finance leases from the perspective of the lessee. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases. The Company adopted IFRS 16 using the modified retrospective cumulative catch-up approach beginning on January 1, 2019. Under this approach, the Company did not restate its comparative amounts and recognized a right-of-use asset equal to the present value of the future lease payments. The Company elected to apply the practical expedient to only transition contracts which were previously identified as leases under IAS 17, and also elected to not recognize right-of-use assets and lease liabilities for leases of low-value assets.

Changes in Accounting Standards not yet Effective

Insurance Contracts

In May 2017, the International Accounting Standards Board ("IASB") issued IFRS 17 - Insurance Contracts ("IFRS 17"), that replaces IFRS 4 - Insurance Contracts and establishes a new model for recognizing insurance policy obligations, premium revenue and claims-related expenses. IFRS 17 is effective for annual periods beginning on or after January 1, 2021; however, based on recent IASB meetings, an upcoming amendment to IFRS 17 and a deferral of the transition date by one year is anticipated. Early adoption is permitted. The Company is assessing the potential impact of this standard.

5. INVENTORY

Inventory comprised of finished goods.

Inventories expensed as cost of goods sold for the three months ended March 31, 2019 and 2018 are $6,402,651 and $3,897,134, respectively.

6. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Furniture and fixtures	Office & Equipment	Total
	$	$	$	$
Cost				
As at December 31, 2018	**1,836,213**	**56,605**	**123,934**	**2,016,752**
Additions	85,090	-	20,105	105,195
Disposals	(4,290)	-	-	(4,290)
As at March 31, 2019	**1,917,013**	**56,605**	**144,039**	**2,117,657**
Depreciation				
As at December 31, 2018	**352,815**	**10,763**	**27,196**	**390,774**
Depreciation	44,016	2,144	7,278	53,438
As at March 31, 2019	**396,831**	**12,907**	**34,474**	**444,212**
Net book value				
As at December 31, 2018	**1,483,398**	**45,842**	**96,738**	**1,625,978**
As at March 31, 2019	**1,520,182**	**43,698**	**109,565**	**1,673,445**

Depreciation expense for the three months ended March 31, 2019 and 2018 of $53,438 and $45,048, is included within operating expenses.

7. RIGHT-OF-USE ASSETS AND LEASE OBLIGATIONS

	Right-of-use assets	Lease obligations
	$	$
Net book value at January 1, 2019	**2,314,501**	2,257,141
Depreciation and repayment	**83,718**	40,027
Net book value at March 31, 2019	**2,230,783**	2,217,114

Right-of-use assets and lease obligations of $2,314,501 were recorded as at January 1, 2019, with no net impact on retained earnings. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rates applied were in the range of 10.29% to 10.90%.

As at March 31, 2019, the current and non-current portion of the lease obligations were $231,379 and $1,985,735, respectively.

8. INVESTMENT IN ASSOCIATE

Pursuant to Membership Interest Purchase and Sale Agreement dated July 1, 2017, the Company acquired 50% membership interest in JDSS Investments LLC. Per the purchase agreement section 2.0. total purchase price shall be $2.4 million. Management has concluded that the current investment is to be accounted for as an investment in associate using the equity method as detailed below:

	March 31, 2019	December 31, 2018
	$	$
Balance, at beginning	**3,354,501**	1,586,966
Additions	**-**	1,492,636
Share of (loss) income	**(22,616)**	274,899
Balance, at end	**3,331,885**	3,354,501

The following table presents a summary of statement of financial position and statement of operations of the investee:

	March 31, 2019	December 31, 2018
	$	$
Current assets	**2,569,874**	2,490,315
Non-current assets	**2,771,490**	2,839,647
Current liabilities	**368,361**	314,421
Revenue	**1,230,192**	4,736,053
(Loss) income	**(42,539)**	595,147

9. DEBT PAYABLE

Effective December 12, 2014, the Company obtained a loan of $460,000 from a third party. The loan was unsecured, carried no interest and there was no repayment term.

On January 16, 2018, the Company entered into Settlement Agreement (the “Agreement”) with the debt holder and one of its existing members for the repayment of debt in accordance with an agreed repayment schedule. The Company agreed to pay $20,000 within 30 days from the execution of this Agreement and the remaining balance to be paid in 22 equal monthly payments of $20,000. The current and non-current portion of the debt has been classified in accordance with the agreed repayment schedule.

The details of debt payable were as follows:

	March 31, 2019	December 31, 2018
	$	$
Loan payable to a third party	**160,000**	220,000
Less: Current portion	**(160,000)**	(220,000)
Debt payable - Non-current portion	**-**	-

10. MEMBERS' EQUITY

During the three months ended March 31, 2019 and March 31, 2018, the members of the Company contributed in cash amounting to $nil.

During the three months ended March 31, 2019 and March 31, 2018, the distributions to the members of the Company in cash amounted to $2,500,000 and $nil, respectively.

As at March 31, 2019 and December 31, 2018, distributions payables balance was $nil and $280,000.

11. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties are defined as management and members of the Company and/or members of their immediate family and/or other companies and/or entities in which a member or senior officer is a principal owner or senior executive.

Other than disclosed elsewhere in the unaudited condensed interim consolidated financial statements, related party transactions and balances are as follows:

Total rent expense for three months ended March 31, 2019 and 2018, include rent charged from a related corporation amounting to $17,458 and $nil, respectively.

During the three months ended March 31, 2019 and 2018, purchases of harvested cannabis totaling $118,188 and $56,412, respectively, from a related party is included in cost of goods sold.

Due from a related corporation of $80,389 and $nil were outstanding as at March 31, 2019 and December 31, 2018, respectively. These advances are unsecured, interest free and repayable on demand.

No compensation was paid to key management for the three months ended March 31, 2019 and 2018.

12. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support business development. The Members do not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital to include its Members' equity. In order to carry out the planned business development and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. There were no changes in the Company's approach to capital management during the three months ended March 31, 2019. The Company is not subject to externally imposed capital requirements. As at March 31, 2019 and December 31, 2018, the capital of the Company was $7,536,221 and $7,135,089 respectively.

The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through cash injection by the Members of the Company. There can be no assurance that the Company will be able to continue raising equity capital in this manner. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly rated financial instruments.

13. GENERAL AND ADMINISTRATIVE

General and administrative expenses were comprised of:

	Three months ended March 31, 2019	Three months ended March 31, 2018
	$	**$**
Salaries and benefits	**683,943**	468,197
Insurance	**80,188**	38,907
Office expenses	**64,988**	31,385
Utilities	**19,518**	18,288
Travel	**17,906**	15,817
Taxes and licenses	**8,885**	2,475
Professional and consulting fees	**4,551**	61,733
Rent	**3,000**	75,000
Others	**79,009**	14,394
	961,988	726,196

14. CONTINGENCIES

Contingencies

The Company's operations are subject to a variety of local and state regulations. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits and/or licenses that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulation at March 31, 2019, cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

Claims and litigation

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. At March 31, 2019, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

An affiliate of the Company engaged a contractor to determine if a site met the requirements for a new grow facility. Based on the survey done by the contractor, the Company proceeded with the purchase and incurred a loss when the site was subsequently determined not to be suitable. The Company filed a claim with the contractor’s insurer to recover its losses and commenced litigation when the insurer refused to pay any portion of the claim. In 2018, the Company’s legal counsel indicated they were not able to collect the $250,000 paid by the Company. As a result, the Company recognized $250,000 of bad debt expense.

15. FINANCIAL RISK FACTORS

The Company's financial instruments mainly comprise of cash, due from a related corporation, trade payables, accrued liabilities, distributions payable, debts payable and lease obligations.

(a) Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the unaudited condensed interim consolidated financial statements are categorised within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

• Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date.

• Level 2 inputs are observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable directly or indirectly.

• Level 3 inputs are unobservable inputs for the asset or liability that reflect the reporting entity's own assumptions and are not based on observable market data.

The classification of financial instruments at their carrying and fair values is as follows:

	Carrying values				Fair values
Financial assets	**FVTPL**	**FVTOCI**	**AC**	**Total**	**Total**
March 31, 2019	**$**	**$**	**$**	**$**	**$**
Cash	**2,182,938**	-	**-**	**2,182,938**	**2,182,938**
Due from a related corporation	**-**	-	**89,389**	**89,389**	**89,389**
	2,182,938	**-**	**89,389**	**2,272,327**	**2,272,327**
December 31, 2018					
Cash	2,196,398	-	-	2,196,398	2,196,398
	2,196,398	-	-	2,196,398	2,196,398

15. FINANCIAL RISK FACTORS (continued)

(a) Fair Value (continued)

	Carrying values			Fair values
Financial liabilities	**FVTPL**	**AC**	**Total**	**Total**
March 31, 2019	**$**	**$**	**$**	**$**
Trade payables	-	**849,613**	**849,613**	**849,613**
Accrued liabilities	-	**1,426,638**	**1,426,638**	**1,426,638**
Debt payable	-	**160,000**	**160,000**	**160,000**
Lease obligations	-	**2,217,114**	**2,217,114**	**2,217,114**
	-	**4,653,365**	**4,653,365**	**4,653,365**
December 31, 2018				
Trade payables	-	1,150,649	1,150,649	1,150,649
Accrued liabilities	-	984,367	984,367	984,367
Distributions payable	-	280,000	280,000	280,000
Debt payable	-	220,000	220,000	220,000
	-	2,635,016	2,635,016	2,635,016

The Company’s financial instruments as at March 31, 2019 and December 31, 2018, classified as “Level 1 - quoted prices in active markets” is cash. The Company has determined that there have been no transfers between levels in the hierarchy by re-assessing categorization at the reporting date.

The Company is exposed to credit risk and liquidity risk. The Company’s management oversees the management of these risks. The Company`s management is supported by the Members that advises on financial risks and the appropriate financial risk governance framework for the Company. The Company’s financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Company’s policies and Company’s risk appetite.

(b) Credit Risk

Credit risk is the risk of unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash and due from a related corporation. As at March 31, 2019 and December 31, 2018, the maximum amount exposed to credit risks was $2,272,327 and $2,196,398, respectively.

(c) Liquidity Risk

Liquidity risk is the risk that the Company is unable to generate or obtain sufficient cash in a cost-effective manner to fund its obligations as they come due. The Company’s approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company manages liquidity risk through obtaining financing from its members and third parties. As at March 31, 2019 and December 31, 2018, all trade payables, accrued liabilities, distributions payable and debt payable are due within a year.

16. SEGMENTED INFORMATION

Operating and geographical segments

An operating segment is defined as a component of the Company:

- that engages in business activities from which it may earn revenues and incur expenses;
- whose operating results are reviewed regularly by the entity's chief operating decision maker; and;
- for which discrete financial information is available.

As at March 31, 2019 and December 31, 2018, the Company's operations comprise a single reporting operating and geographical segment engaged in buying and selling of cannabis.

17. SUBSEQUENT EVENTS

The Company's management has evaluated subsequent events up to August 5, 2019, the date the unaudited condensed interim consolidated financial statements were issued, and determined the following event:

On May 24, 2019 – Ayr Strategies Inc. ("Ayr"), formerly Cannabis Strategies Acquisition Corp., closed its previously announced Qualifying Transaction. Through the qualifying transaction, Ayr has created a vertically integrated Multi-State Operator in the U.S. cannabis sector, with an initial anchor portfolio in the Eastern and Western United States.

SCHEDULE "J"
CANNAPUNCH INTERIM FINANCIAL STATEMENTS

(see attached)

CANNAPUNCH OF NEVADA, LLC

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

(EXPRESSED IN UNITED STATES DOLLARS)

Notice to reader

The accompanying unaudited condensed interim financial statements of CannaPunch of Nevada LLC. (the Company) have been prepared by and are the responsibility of management. The unaudited condensed interim financial statements have not been reviewed by the Company's auditors.

CANNAPUNCH OF NEVADA, LLC
UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

March 31, 2019 and 2018

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MANAGEMENT'S RESPONSIBILITY FOR
FINANCIAL REPORTING

Management's Responsibility

To the Members of CannaPunch of Nevada, LLC:

The accompanying unaudited condensed interim financial statements and other financial information in this report were prepared by management of CannaPunch of Nevada LLC. ("the Company"), reviewed by the Audit Committee and approved by the Board of Directors.

Management is responsible for the unaudited condensed interim financial statements and believes that they fairly present the Company's financial condition and results of operation in conformity with International Financial Reporting Standards. Management has included in the Company's unaudited condensed interim financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of the unaudited condensed interim financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel and through the adoption and communication of financial and other relevant policies.

August 5, 2019

“Mark Smith” (Signed)
Chief Executive Officer

CANNAPUNCH OF NEVADA, LLC
Unaudited Condensed Interim Statement of Financial Position
At March 31, 2019 and December 31, 2018

	March 31, 2019 $	December 31, 2018 $
ASSETS		
Current		
Cash	**193,329**	122,367
Inventory [Note 5]	**369,761**	337,129
Accounts receivable, trade, no allowance	**533,871**	374,649
	1,096,961	834,145
Property, plant and equipment [Note 6]	**460,823**	22,154
Right-of-use assets [Note 7]	**593,978**	-
Total assets	**2,151,762**	856,299
LIABILITIES		
Current		
Trade payables	**247,445**	174,902
Accrued liabilities	**255,968**	58,956
Advance from a member	**1,402**	1,402
Lease obligations - current portion [Note 7]	**116,879**	-
Total liabilities	**621,694**	235,260
Advance from related party	**285,000**	-
Lease obligations - non-current portion [Note 7]	**486,035**	-
Total liabilities	**1,392,729**	235,260
MEMBERS' EQUITY [Note 8]	**759,033**	621,039
Total liabilities and members' equity	**2,151,762**	856,299

Nature of operations [Note 1]
Contingencies [Note 13]
Subsequent events [Note 16]

Approved and authorized on behalf of the Board of Directors on August 5, 2019

"Mark Smith" (Signed)
Chief Executive Officer

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

CANNAPUNCH OF NEVADA, LLC
Unaudited Condensed Interim Statement of Operations
For the Three Months Ended March 31, 2019 and 2018

	Three months ended March 31, 2019 $	Three months ended March 31, 2018 $
Revenues, net of discounts	**1,598,666**	1,540,443
Cost of goods sold	**(805,234)**	(816,833)
Gross profit	**793,432**	723,610
Expenses		
General and administrative [Note 11]	**211,050**	189,740
Sales and marketing	**22,932**	40,517
Licensor profit share [Note 12]	**224,730**	339,542
Total expenses	**458,712**	569,799
Net income from operations	**334,720**	153,811
Other expense		
Net finance costs	**15,969**	-
Net income	**318,751**	153,811

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

CANNAPUNCH OF NEVADA, LLC
Statement of Changes in Members' Equity
For the Three Months Ended March 31, 2019 and 2018

	Members' Equity $
Balance as at December 31, 2017	**289,884**
Distributions	(178,044)
Net income for the period	153,811
Balance as at March 31, 2018	**265,651**
Balance as at December 31, 2018	**621,039**
Contributions [Note 8]	47,180
Distributions	(227,937)
Net income for the period	318,751
Balance as at March 31, 2019	**759,033**

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

CANNAPUNCH OF NEVADA, LLC
Statement of Cash Flows
For the Three Months Ended March 31, 2019 and 2018

	Three months ended March 31, 2019	Three months ended March 31, 2018
	$	$
Operating activities		
Net income	**318,751**	153,811
Adjustments for items not affecting cash:		
Depreciation on property, plant and equipment and right-of-use assets	**47,821**	1,117
Changes in working capital items:		
Inventory	**(32,632)**	(8,594)
Accounts receivable, trade, no allowance	**(159,222)**	(106,148)
Prepaid expenses	**-**	22,645
Trade payables	**72,543**	127,258
Accrued liabilities	**197,012**	(70,721)
Advance from a member	**-**	1,402
Cash provided by operating activities	**444,273**	120,770
Investing activities		
Purchase of machinery and equipment	**(450,851)**	-
Cash used in investing activities	**(450,851)**	-
Financing activities		
Advance from a related party - Non current	**285,000**	-
Repayment of lease obligations	**(26,703)**	-
Contributions	**47,180**	-
Distributions	**(227,937)**	(178,044)
Cash provided by (used in) financing activities	**77,540**	(178,044)
Net increase (decrease) in cash	**70,962**	(57,274)
Cash, beginning of the period	**122,367**	146,817
Cash, end of period	**193,329**	89,543

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

1. NATURE OF OPERATIONS

CannaPunch of Nevada LLC ("CannaPunch" or the "Company") was incorporated as a Limited Liability Company on March 30, 2017 in the State of Nevada, United States of America ("USA"). The Company's head office is located at 5425 Polaris Ave, Las Vegas, NV 89118.

The Company's principal activities are the manufacture and distribution of cannabis infused products as regulated under the laws applicable in the USA.

2. BASIS OF PRESENTATION

2.1 Statement of compliance

These unaudited condensed interim financial statements for the three months ended March 31, 2019 (and comparative results for the three months ended March 31, 2018) have been prepared in accordance with International Accounting Standard ("IAS") 34 – *Interim Financial Reporting* and therefore do not contain all disclosures required by International Financial Reporting Standards ("IFRS"). These unaudited condensed interim financial statements should be read in conjunction with the Company's 2018 financial statements and notes and have been prepared using the same accounting policies with the exception of significant accounting policy adopted as a result of initial application of IFRS 16 - Leases ("IFRS 16") effective from January 1, 2019.

These unaudited condensed interim financial statements were approved and authorized for issue by the Board of Directors of the Company on August 5, 2019.

2.2 Basis of presentation

These unaudited condensed interim financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value. The unaudited condensed interim financial statements are presented in US dollars which is the presentation and functional currency of the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Leases

The Company assesses whether a contract is or contains a lease, at inception of a contract. Leases are recognized as a right-of-use asset and corresponding liability at the commencement date. Each lease payment included in the lease liability is apportioned between the repayment of the liability and a finance cost. The finance cost is recognized in net finance costs in the unaudited condensed interim statements of operations over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), variable lease payments that are based on an index or a rate or subject to a fair market value renewal, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option. The Company allocates the consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate stand-alone price of the non-lease components. The lease liability is net of lease incentives receivable. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the lessee's incremental borrowing rate. The period over which the lease payments are discounted is the reasonably certain lease term, including renewal options that the Company is reasonably certain to exercise. Renewal options are included in a number of leases across the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Leases (continued)

Payments associated with short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis in selling, general and administrative expenses in the unaudited condensed interim statements of operations. Short-term leases are leases with a lease term of 12 months or less. Variable lease payments that do not depend on an index or a rate or subject to a fair market value renewal are expensed as incurred and recognized in Selling, general and administrative expenses in the unaudited condensed interim statements of operations.

Right-of-use assets are measured at cost which is calculated as the amount of the initial measurement of lease liability plus any lease payments made at or before the commencement date, any initial direct costs and related restoration costs. The right-of-use asset is depreciated over the lease term on a straight-line basis. The right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

4. CHANGES IN ACCOUNTING STANDARDS

Adoption of New Accounting Pronouncements

Adoption of IFRS 16 – Leases

The Company adopted IFRS 16 - Leases (“IFRS 16”) on January 1, 2019. IFRS 16 introduced a single on-balance sheet accounting model for lessees which replaced IAS 17 - Leases (“IAS 17”). Leasing activity for the Company typically involves the leases of land or buildings to operate cannabis dispensaries, processing or cultivation facilities or corporate offices.

The Company previously classified leases as either operating or finance leases from the perspective of the lessee. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases. The Company adopted IFRS 16 using the modified retrospective cumulative catch-up approach beginning on January 1, 2019. Under this approach, the Company did not restate its comparative amounts and recognized a right-of-use asset equal to the present value of the future lease payments. The Company elected to apply the practical expedient to only transition contracts which were previously identified as leases under IAS 17, and also elected to not recognize right-of-use assets and lease liabilities for leases of low-value assets.

Changes in Accounting Standards not yet Effective

Insurance Contracts

In May 2017, the International Accounting Standards Board (“IASB”) issued IFRS 17 - Insurance Contracts (“IFRS 17”), that replaces IFRS 4 - Insurance Contracts and establishes a new model for recognizing insurance policy obligations, premium revenue and claims-related expenses. IFRS 17 is effective for annual periods beginning on or after January 1, 2021; however, based on recent IASB meetings, an upcoming amendment to IFRS 17 and a deferral of the transition date by one year is anticipated. Early adoption is permitted. The Company is assessing the potential impact of this standard.

5. INVENTORY

The Company's inventory includes the following:

	March 31, 2019	December 31, 2018
	$	$
Raw materials	**44,486**	65,193
Finished goods	**325,275**	271,936
	369,761	337,129

Inventories expensed as cost of goods sold during the three months ended March 31, 2019 and 2018 is $545,844 and $661,327 respectively.

6. MACHINERY AND EQUIPMENT

	Machinery and equipment
	$
Cost	
As at December 31, 2018	**27,926**
Additions	450,851
As at March 31, 2019	**478,777**
Depreciation	
As at December 31, 2018	**5,772**
Depreciation	12,182
As at March 31, 2019	**17,954**
Net book value	
As At December 31, 2018	**22,154**
As at March 31, 2019	**460,823**

Depreciation expense for the three months period ended March 31, 2019 and 2018 of $12,182 and $1,117 is included in cost of goods sold.

7. RIGHT OF-USE ASSETS AND LEASE OBLIGATIONS

	Right-of-use assets	Lease obligations
	$	$
Net book value at January 1, 2019	629,617	629,617
Depreciation and repayment	35,639	26,703
Net Book value at March 31, 2019	**593,978**	**602,914**

Right-of-use assets and lease liabilities of $629,617 were recorded as at January 1, 2019, with no net impact on retained earnings. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied was 10.29%.

As at March 31, 2019, the current and the non-current portion of the lease obligations were $116,879 and $486,035 respectively.

8. MEMBERS' EQUITY

During the three months ended March 31, 2019 and 2018, the members of the Company contributed cash of $47,180 and $nil, respectively, to the Company.

9. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties are defined as management and members of the Company and/or members of their immediate family and/or other companies and/or entities in which a member or senior officer is a principal owner or senior executive.

Other than disclosed elsewhere in the unaudited condensed interim financial statements, related party transactions and balances are as follows:

During the three months ended March 31, 2019 and 2018, sales of $86,058 and $9,565, respectively, made to a related corporation is included in revenue and purchase of $17,915 and $13,653, respectively, from a related corporation is included in cost of goods sold.

No compensation was paid to key management for the three months ended March 31, 2019 and 2018.

Accounts receivable as at March 31, 2019 and December 31, 2018 include $nil and $953, respectively, representing amounts due from a related corporation.

10. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support business development. The Members do not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital to include its Members' equity. In order to carry out the planned business development and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company is not subject to externally imposed capital requirements. As at March 31, 2019 and December 31, 2018, the capital of the Company was $759,033 and $621,039, respectively.

10. CAPITAL MANAGEMENT (continued)

The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through cash injection by the Members of the Company. There can be no assurance that the Company will be able to continue raising equity capital in this manner. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly rated financial instruments.

11. GENERAL AND ADMINISTRATIVE

General and administrative expenses were comprised of:

	March 31, 2019	March 31, 2018
	$	$
Salaries and benefits	**130,967**	128,113
Taxes and Licenses	**41,061**	22,551
Travel	**18,488**	5,631
Meals	**2,327**	-
Office expenses	**1,754**	1,591
Professional and consulting fees	**14,327**	29,658
Others	**2,126**	2,196
	211,050	189,740

12. LICENSOR PROFIT SHARE

Effective March 31, 2017, the Company entered into a Licensing Agreement (the “Agreement”) with a Third Party (“Licensor”) for use of Licensor’s medical (and subsequent adult use recreational) marijuana production establishment and equipment, in order to produce wholesale and certain retail marijuana edible and infused products for a period of 5 years to be renewed annually by mutual agreement.

Pursuant to the terms of the Agreement, 50% of profits or EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) generated by sales, shall be paid as License Fee, along with any taxes and fees paid by the Licensor. On December 31, 2017, the Agreement was amended by signing a subsequent license fee agreement memo (the “Memo”). In accordance with the Memo, license fee payable by the Company would work as a credit netted against any amounts owed by Licensor for product purchases less any amounts owed by the Company for reimbursement of taxes and utilities to the Licensor.

On September 18, 2018, the Company entered into a Supply Agreement with the Licensor, which is contingent upon cancellation of the license fee Agreement. Pursuant to this Supply Agreement, the Company agreed to offer a 20% discount on its lowest retail price to the Licensor for a period of 5 years.

13. CONTINGENCIES

Contingencies

The Company's operations are subject to a variety of local and state regulations. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits and/or licenses that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulation at March 31, 2019, cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

Claims and litigation

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. At March 31, 2019, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

14. FINANCIAL RISK FACTORS

The Company's financial instruments mainly comprise of cash, account receivable, trade payables, accrued liabilities, advance from a member, advance from related party and lease obligations.

(a) Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

• Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date.

• Level 2 inputs are observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable directly or indirectly.

14. FINANCIAL RISK FACTORS (continued)

(a) Fair Value (continued)

• Level 3 inputs are unobservable inputs for the asset or liability that reflect the reporting entity's own assumptions and are not based on observable market data.

The classification of financial instruments at their carrying and fair values is as follows:

	Carrying values			Fair values
Financial assets	**FVTPL**	**AC**	**Total**	**Total**
March 31, 2019	**$**	**$**	**$**	**$**
Cash	**193,329**	**-**	**193,329**	**193,329**
Accounts receivable	**-**	**533,871**	**533,871**	**533,871**
	193,329	**533,871**	**727,200**	**727,200**
Deceber 31, 2018				
Cash	122,367	-	122,367	122,367
Accounts receivable	-	374,649	374,649	374,649
	122,367	374,649	497,016	497,016

	Carrying values			Fair values
Financial liabilities	**FVTPL**	**AC**	**Total**	**Total**
March 31, 2019	**$**	**$**	**$**	**$**
Trade payables	-	**247,445**	**247,445**	**247,445**
Accrued liabilities	-	**255,968**	**255,968**	**255,968**
Advance from a member	-	**1,402**	**1,402**	**1,402**
Advance from related party	-	**285,000**	**285,000**	**285,000**
Lease obligations	-	**602,914**	**602,914**	**602,914**
	-	**1,392,729**	**1,392,729**	**1,392,729**
December 31, 2018				
Trade payables	-	174,902	174,902	174,902
Accrued liabilities	-	58,956	58,956	58,956
Advance from a member	-	1,402	1,402	1,402
	-	235,260	235,260	235,260

The Company's financial instruments as at March 31, 2019 and December 31, 2018, classified as "Level 1 - quoted prices in active markets" is cash. The Company has determined that there have been no transfers between levels in the hierarchy by re-assessing categorization at the reporting date.

The Company is exposed to credit risk and liquidity risk. The Company's management oversees the management of these risks. The Company`s management is supported by the Members that advises on financial risks and the appropriate financial risk governance framework for the Company. The Company's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Company's policies and Company's risk appetite.

14. FINANCIAL RISK FACTORS (continued)

(b) Credit Risk

Credit risk is the risk of unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash and accounts receivable due from a related corporation. As at March 31, 2019 and December 31, 2018, the maximum amount exposed to credit risks was $727,200 and $497,016 respectively.

During the three months ended March 31, 2019 and 2018, revenue from one customer is approximately nil% and 32%, respectively, of total revenue and purchase of raw material from one supplier were approximately 29% and nil%, respectively, of total purchases.

(c) Liquidity Risk

Liquidity risk is the risk that the Company is unable to generate or obtain sufficient cash in a cost-effective manner to fund its obligations as they come due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company manages liquidity risk through obtaining financing from its members and third parties. As at March 31, 2019 and December 31, 2018, all trade payables and accrued liabilities are due within a year.

15. SEGMENTED INFORMATION

Operating and geographical segments

An operating segment is defined as a component of the Company:

- that engages in business activities from which it may earn revenues and incur expenses;
- whose operating results are reviewed regularly by the entity's chief operating decision maker; and;
- for which discrete financial information is available.

As at March 31, 2019 and December 31, 2018 the Company's operations comprise a single reporting operating and geographical segment engaged in the manufacture and distribution of cannabis infused products.

16. SUBSEQUENT EVENTS

The Company's management has evaluated subsequent events up to August 5, 2019, the date the unaudited condensed interim financial statements were issued, and determined the following event:

On May 24, 2019 – Ayr Strategies Inc. ("Ayr"), formerly Cannabis Strategies Acquisition Corp., closed its previously announced Qualifying Transaction. Through the qualifying transaction, Ayr has created a vertically integrated Multi-State Operator in the U.S. cannabis sector, with an initial anchor portfolio in the Eastern and Western United States.

SCHEDULE "K"
PRO FORMA FINANCIAL STATEMENTS

(see attached)

Ayr Strategies Inc.
(formerly, Cannabis Strategies Acquisition Corp.)

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE THREE MONTHS ENDED MARCH 31, 2019
AND FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2018

(EXPRESSED IN UNITED STATES DOLLARS)

Ayr Strategies Inc.
(formerly, Cannabis Strategies Acquisition Corp.)

Unaudited Pro Forma Consolidated Financial Statements

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Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Unaudited Pro Forma Consolidated Statement of Financial Position
As at March 31, 2019

US$	AYR March 31, 2019 $	Sira March 31, 2019 $	Canopy March 31, 2019 $	Washoe March 31, 2019 $	LivFree March 31, 2019 $	CannaPunch March 31, 2019 $	Subtotal $	Notes	Acquisition $	Notes	Pro-Forma Adjustments $	Total March 31, 2019 $
ASSETS												
Current												
Cash	36,355	3,315,782	222,626	722,273	2,182,938	193,329	6,673,303	8a,e,f	30,566,737	8h	(3,529,170)	**33,710,870**
Accounts receivable, trade, no allowance	-	1,026,229	-	133,075	-	533,871	1,693,175		-	6a	(93,211)	**1,599,964**
Deposit	15,096	-	-	-	-	-	15,096		-		-	**15,096**
Inventory	-	8,868,104	1,163,196	2,519,505	2,557,557	369,761	15,478,123	8i	15,163,525		-	**30,641,648**
Biological assets	-	2,417,379	-	1,646,000	-	-	4,063,379		-		-	**4,063,379**
Prepaid expenses and other assets	-	132,789	153,353	197,933	123,589	-	607,664				-	**607,664**
Advance to a related corporation	-	-	1,217,830	-	89,389	-	1,307,219	8i	(1,307,219)		-	**-**
	51,451	15,760,283	2,757,005	5,218,786	4,953,473	1,096,961	29,837,959		44,423,043		(3,622,381)	**70,638,621**
Restricted cash and short-term investments held in escrow	101,986,737	-	-	-	-	-	101,986,737	8e	(101,986,737)		-	-
Intangible assets	-	-	1,623,114	80,894	-	-	1,704,008	8b	57,816,886		-	**59,520,894**
Property, plant and equipment	-	7,521,303	1,220,641	8,961,601	1,673,445	460,823	19,837,813		-		-	**19,837,813**
Right-of-use assets	-	5,434,999	2,427,320	-	2,230,783	593,978	10,687,080		-		-	**10,687,080**
Goodwill	-	-	-	-	-	-	-	8c	148,164,731		-	**148,164,731**
Investment in associate	-	-	-	1,939,517	3,331,885	-	5,271,402		-		-	**5,271,402**
Deferred tax assets	-	-	-	-	-	-	-		-		-	-
Other long term assets	-	140,401	-	-	-	-	140,401		-		-	**140,401**
Total assets	**102,038,188**	**28,856,986**	**8,028,080**	**16,200,798**	**12,189,586**	**2,151,762**	**169,465,400**		**148,417,923**		**(3,622,381)**	**314,260,942**
LIABILITIES												
Current												
Trade payables	3,650,804	605,217	-	577,458	849,613	247,445	5,930,537		-	6a	(93,211)	**5,837,326**
Accrued liabilities	-	2,025,356	349,301	162,209	1,426,638	255,968	4,219,472		-		-	**4,219,472**
Advance from a related corporation	612,385	-	-	1,217,830	-	-	1,830,215	8i	(1,307,219)	6a	-	**522,996**
Income tax payable	-	3,715,371	-	-	-	-	3,715,371		-		-	**3,715,371**
Distributions payables	-	-	-	-	-	-	-		-		-	-
Lease liabilities - current portion	-	142,220	62,841	-	231,379	116,879	553,319		-		-	**553,319**
Debts/notes payable - current portion	-	7,695	-	-	160,000	-	167,695		-		-	**167,695**
Advance from a member	-	-	-	-	-	1,402	1,402		-		-	**1,402**
	4,263,189	6,495,859	412,142	1,957,497	2,667,630	621,694	16,418,011		(1,307,219)		(93,211)	**15,017,581**
Deferred underwriters' commission	3,529,170	-	-	-	-	-	3,529,170		-	8h	(3,529,170)	-
Class A restricted voting shares subject to redemption	201,666,850	-	-	-	-	-	201,666,850		-	8g	(201,666,850)	-
Warrant liability	106,623,318	-	-	-	-	-	106,623,318		-		-	**106,623,318**
Deferred tax liability	-	2,402,770	-	-	-	-	2,402,770		-		-	**2,402,770**
Accrued interest payable	-	7,627,157	-	-	-	-	7,627,157		-		-	**7,627,157**
Advances from related party	-	-	-	-	-	285,000	285,000		-		-	**285,000**
Lease liabilities - Non-current portion	-	5,485,755	2,397,955	-	1,985,735	486,035	10,355,480		-		-	**10,355,480**
Debts payable - Non-current portion	-	14,963,691	421,128	9,162,306	-	-	24,547,125	8a	37,140,000		-	**61,687,125**
Total liabilities	316,082,527	36,975,232	3,231,225	11,119,803	4,653,365	1,392,729	373,454,881		35,832,781		(205,289,231)	**203,998,431**
Members' equity	-	(8,118,246)	4,796,855	5,080,995	7,536,221	759,033	10,054,858	8d	(10,054,858)		-	-
Share capital	1,711,826	-	-	-	-	-	1,711,826	8a	125,140,000	8g	201,666,850	**328,518,676**
Accumulated deficit	(215,756,165)	-	-	-	-	-	(215,756,165)	8f	(2,500,000)		-	**(218,256,165)**
Contributed surplus	-	-	-	-	-	-	-		-		-	-
	(214,044,339)	(8,118,246)	4,796,855	5,080,995	7,536,221	759,033	(203,989,481)		112,585,142		201,666,850	**110,262,511**
Total liabilities and members' equity	**102,038,188**	**28,856,986**	**8,028,080**	**16,200,798**	**12,189,586**	**2,151,762**	**169,465,400**		**148,417,923**		**(3,622,381)**	**314,260,942**

The accompanying notes are an integral part of these unaudited pro forma consolidated financial statements.

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Unaudited Pro Forma Consolidated Statement of Operations
For the Three Months Ended March 31, 2019

US$	AYR March 31, 2019 $	Sira March 31, 2019 $	Canopy March 31, 2019 $	Washoe March 31, 2019 $	LivFree March 31, 2019 $	CannaPunch March 31, 2019 $	Subtotal March 31, 2019 $	Notes	Pro-Forma Adjustments $	Consolidated March 31, 2019 $
Revenues, net of discounts	-	6,670,180	3,627,129	1,972,925	11,935,852	1,598,666	25,804,752	6b	(2,080,660)	**23,724,092**
Cost of goods sold before biological asset adjustment	-	1,470,860	2,113,680	1,017,328	7,651,562	805,234	13,058,664	6b	(2,080,660)	**10,978,004**
	-	5,199,320	1,513,449	955,597	4,284,290	793,432	12,746,088		-	**12,746,088**
Fair value changes in biological assets included in cost of sales	-	(4,253,737)	-	(804,650)	-	-	(5,058,387)		-	**(5,058,387)**
Unrealized gain on biological asset transformation	-	7,282,658	-	1,227,204	-	-	8,509,862		-	**8,509,862**
Gross profit (loss)	-	8,228,241	1,513,449	1,378,151	4,284,290	793,432	16,197,563		-	**16,197,563**
Expenses										
Transaction costs	-	-	-	-	-	-	-	6c	2,500,000	**2,500,000**
General and administrative	1,540,740	1,450,206	590,157	160,492	961,988	211,050	4,914,633		-	**4,914,633**
Sales and marketing	-	62,315	95,198	55,369	220,044	22,932	455,858		-	**455,858**
Depreciation	-	352,954	77,596	95,266	137,156	-	662,972		-	**662,972**
Licensor profit share	-	-	-	-	-	224,730	224,730		-	**224,730**
Management fee	-	49,500	180,000	120,000	-	-	349,500		-	**349,500**
Net unrealized loss on changes in the fair value of financial liabilities	135,781,900	-	-	-	-	-	135,781,900		-	**135,781,900**
Total expenses	137,322,640	1,914,975	942,951	431,127	1,319,188	458,712	142,389,593		2,500,000	**144,889,593**
Net income (loss) from operations	(137,322,640)	6,313,266	570,498	947,024	2,965,102	334,720	(126,192,030)		(2,500,000)	**(128,692,030)**
Other (income) expense										
Share of (income) loss on equity investments	-	-	-	(275,170)	22,616	-	(252,554)		-	**(252,554)**
Interest expense / Finance cost	-	824,668	78,446	94,888	41,354	15,969	1,055,325		-	**1,055,325**
Interest income	(227,164)	-	-	-	-	-	(227,164)		-	**(227,164)**
Foreign exchange gain	(16,745)	-	-	-	-	-	(16,745)		-	**(16,745)**
Management fee income	-	-	-	-	-	-	-		-	-
Rental income and others	-	(3,000)	-	(23,124)	-	-	(26,124)		-	**(26,124)**
Total other (income) expense	(243,909)	821,668	78,446	(203,406)	63,970	15,969	532,738		-	**532,738**
Income tax (recovery) expense	-	2,453,234	-	-	-	-	2,453,234		-	**2,453,234**
Net income (loss) and comprehensive income (loss)	(137,078,731)	3,038,364	492,052	1,150,430	2,901,132	318,751	(129,178,002)		(2,500,000)	**(131,678,002)**
Loss per share - basic and diluted								9		**(7.23)**
Weighted average number of shares outstanding								9		**18,214,341**

For Adjusted EBITDA refer to Note 10

The accompanying notes are an integral part of these unaudited pro forma consolidated financial statements.

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Unaudited Pro Forma Consolidated Statement of Operations
For the Twelve Months Ended December 31, 2018

US$	AYR December 31, 2018 $	Sira December 31, 2018 $	Canopy December 31, 2018 $	Washoe December 31, 2018 $	LivFree December 31, 2018 $	CannaPunch December 31, 2018 $	Subtotal $	Notes	Pro-Forma Adjustments $	Consolidated December 31, 2018 $
Revenues, net of discounts	-	16,398,127	11,748,244	7,017,779	34,058,319	6,658,021	75,880,490	6b	(5,016,480)	**70,864,010**
Cost of goods sold before biological asset adjustment	-	3,823,025	6,821,581	4,636,341	22,142,020	2,961,681	40,384,648	6b	(5,016,480)	**35,368,168**
	-	12,575,102	4,926,663	2,381,438	11,916,299	3,696,340	35,495,842		-	**35,495,842**
Fair value changes in biological assets included in cost of	-	(18,470,531)	-	(4,005,602)	-	-	(22,476,133)			**(22,476,133)**
Unrealized gain on biological asset transformation	-	11,287,162	-	5,086,289	-	-	16,373,451			**16,373,451**
Gross profit (loss)	-	5,391,733	4,926,663	3,462,125	11,916,299	3,696,340	29,393,160		-	**29,393,160**
Expenses										
Transaction costs	392,467	-	-	-	-	-	392,467	6c	2,500,000	**2,892,467**
General and administrative	3,244,682	6,988,439	867,613	825,863	4,024,862	924,650	16,876,109			**16,876,109**
Sales and marketing	-	323,495	310,863	189,074	512,282	77,198	1,412,912			**1,412,912**
Depreciation	-	150,089	50,766	51,831	191,301	-	443,987			**443,987**
Licensor profit share	-	-	-	-	-	1,123,212	1,123,212			**1,123,212**
Management fee	-	342,472	546,848	240,000	-	-	1,129,320	6b	(125,000)	**1,004,320**
Net unrealized loss on changes in the fair value of financial liabilities	72,449,316	-	-	-	-	-	72,449,316			**72,449,316**
Total expenses	76,086,465	7,804,495	1,776,090	1,306,768	4,728,445	2,125,060	93,827,323		2,375,000	**96,202,323**
Net income (loss) from operations	(76,086,465)	(2,412,762)	3,150,573	2,155,357	7,187,854	1,571,280	(64,434,163)		(2,375,000)	**(66,809,163)**
Other (income) expense										
Share of (income) loss on equity investments	-	-	-	(1,642,415)	(274,899)	-	(1,917,314)			**(1,917,314)**
Interest expense	-	2,738,950	-	343,344	-	-	3,082,294			**3,082,294**
Interest income	(934,831)	-	-	(12,067)	-	-	(946,898)			**(946,898)**
Foreign exchange loss	20,212	-	-	-	-	-	20,212			**20,212**
Management fee income	-	-	-	(125,000)	-	-	(125,000)	6b	125,000	-
Rental income and others	-	(19,850)	-	(91,368)	-	-	(111,218)			**(111,218)**
Total other (income) expense	(914,619)	2,719,100	-	(1,527,506)	(274,899)	-	2,076		125,000	**127,076**
Income tax (recovery) expense	-	5,137,381	-	-	-	-	5,137,381			**5,137,381**
Net income (loss) and comprehensive income (loss)	(75,171,846)	(10,269,243)	3,150,573	3,682,863	7,462,753	1,571,280	(69,573,620)		(2,500,000)	**(72,073,620)**
Loss per share - basic and diluted								9		**(3.96)**
Weighted average number of shares outstanding								9		**18,214,341**

For Adjusted EBITDA refer to Note 10

The accompanying notes are an integral part of these unaudited pro forma consolidated financial statements.

1) Description of Transactions

On October 17, 2018, Ayr Strategies Inc. ("Ayr" or the "Corporation" – formerly Cannabis Strategies Acquisition Corp. – "CSAC") and its wholly-owned subsidiary, CSAC Acquisition Inc. ("CSAC AcquisitionCo"), entered into the following definitive agreements to acquire five (5) businesses (the "Target Businesses"):

- Equity Exchange Agreement dated as of October 17, 2018, among Green Partners Investor LLC and Green Partners Sponsor I, LLC as the shareholders of Sira Naturals, Inc. ("Sira"), Louis Karger as sellers' representative, Sira, CSAC AcquisitionCo and Ayr, as amended and restated (the "Sira Agreement");

- Equity Purchase Agreement dated as of October 17, 2018, among The Canopy NV, LLC ("Canopy"), Lemon Aide, LLC, Kynd-Strainz, LLC, CSAC AcquisitionCo and Ayr, as amended (the "Canopy Agreement");

- Equity Purchase Agreement dated as of October 17, 2018, among the members of Washoe, Mark E. Pitchford as sellers' representative, Washoe Wellness, LLC ("Washoe"), CSAC AcquisitionCo and Ayr, as amended (the "Washoe Agreement");

- Equity Purchase Agreement, dated as of October 17, 2018, among the members of LivFree Wellness, LLC ("LivFree"), Steve Menzies as sellers' representative, LivFree, CSAC AcquisitionCo and Ayr, as mended (the "LivFree Agreement"); and

- Equity Purchase Agreement dated as of October 17, 2018, among Mark Smith and Daniel Griffin as the members of CannaPunch of Nevada LLC ("CannaPunch"), CannaPunch, Mark Smith as sellers' representative, CSAC AcquisitionCo and Ayr, as amended (the "CannaPunch Agreement", and together with the Sira Agreement, the Canopy Agreement, the Washoe Agreement and the LivFree Agreement, the "Definitive Agreements").

The description of the Definitive Agreements, both below and in Ayr's final non-offering prospectus dated February 15, 2019 (the "Prospectus"), is a summary only, is not exhaustive and is qualified in its entirety by reference to the terms of the Definitive Agreements, which may be found on Ayr's profile on SEDAR at www.sedar.com.

Subsequent to March 31, 2019 and pursuant to the above mentioned Definitive Agreements, on May 24, 2019, the Corporation completed its concurrent acquisitions of the target businesses of Sira, Canopy (by acquisition of its two operating subsidiaries, Kynd-Strainz, LLC and Lemon Aide, LLC), Washoe, LivFree and CannaPunch, which collectively constituted its qualifying transaction (collectively, the "Qualifying Transaction"). In connection with the closing of the Qualifying Transaction, all non-redeemed Class A Restricted Voting shares of the Corporation (the "Class A Restricted Voting Shares") were automatically converted into subordinate voting shares of the Corporation (the "Subordinate Voting Shares"), and all Class B shares of the Corporation (the "Class B Shares") were automatically converted into multiple voting shares of the Corporation (the "Multiple Voting Shares"). Following the closing of the Qualifying Transaction, the Subordinate Voting Shares, the share purchase warrants of the Corporation and the rights of the Corporation began trading on the Neo Exchange Inc. (the "Exchange") under the symbols "AYR.A", "AYR.WT" and "AYR.RT", respectively. The Multiple Voting Shares are not listed on the Exchange.

Acquisition of Sira

Pursuant to the Sira Agreement, the shareholders of Sira agreed to contribute all of the issued and outstanding securities of Sira to CSAC AcquisitionCo in exchange for (i) a note in the amount of $5,000,000 (the "Sira Promissory Note") to a lender of Sira that will be secured by a first-priority security interest over all of the assets of Sira, (ii) the issuance of an aggregate of 1,885,606 non-voting common stock of CSAC AcquisitionCo (such shares of CSAC AcquisitionCo, the "Exchangeable Shares") that are exchangeable on a one-for-one basis into Subordinate Voting Shares with a deemed value of $15.91, and (iii) a cash payment of $15,000,000 to pay existing indebtedness of Sira. All of the Exchangeable Shares issuable under the Sira Agreement will be subject to a twelve-month post-closing lock-up period. Exchange of the Exchangeable Shares for Subordinate Voting Shares is also subject to applicable restrictions under applicable U.S. securities laws. Additionally, CSAC AcquisitionCo will pay by wire transfer to the shareholders of Sira, each shareholder's pro rata share of the fair market value of Sira's inventory above a target level set at $800,000 (the "Inventory Payment"), pursuant to a formula to be agreed to between Sira and CSAC AcquisitionCo. One-third of this Inventory Payment will be paid by CSAC AcquisitionCo following the closing date of the Qualifying Transaction and the remaining two-thirds within 90 days following the closing.

The Sira Agreement also contains an earn-out provision that may entitle the sellers to earn additional consideration, if certain milestones (as defined in the Sira Agreement) are achieved at Sira's planned cultivation facility in Milford, MA over its first full year of operation. Such facility may not be financed with third-party debt that exceeds 50% of the cost of construction and a first priority mortgage (which would be subordinated to any third-party construction lender) on such facility will provide further security for the Sira Promissory Note. Ayr may set off indemnification claims against any payments to be made by it under the earn-out provision and/or the Sira Promissory Note, except the total amount set off against earn-out payments and the Sira Promissory Note may not exceed $5,000,000 in the aggregate.

Acquisition of Canopy

Pursuant to the Canopy Agreement: (i) Canopy agreed to contribute all of the assets of its two operating companies, Lemon Aide, LLC and Kynd-Strainz, LLC (together, the "Canopy Target Businesses"), except for certain retained licenses and associated inventory, the transfer of which is subject to consent from regulatory authorities (the "Canopy Consents"), to a "NewCo" entity (the "Canopy NewCo") (the "Canopy Reorganization"); (ii) CSAC AcquisitionCo agreed to acquire all of the equity interests of Canopy NewCo in exchange for (A) a promissory note in the amount of $4,500,000 to Canopy that will be secured by a first-priority security interest over all of the assets of Canopy NewCo, (B) the issuance to Canopy of an aggregate of 250,000 Exchangeable Shares with a deemed value of $5,500,000 and (C) cash consideration in the amount of $7,000,000, some of which will be used to pay debt and expenses of Canopy, as well as applicable taxes; (iii) CSAC AcquisitionCo agreed to assume a loan in the amount of approximately $400,000; and (iv) Canopy agreed to take all reasonable measures in good faith to secure the Canopy Consents and once obtained, agreed to convey the retained assets to Ayr via the transfer of the equity interests in the Canopy Target Businesses or the retained assets to CSAC AcquisitionCo for nominal consideration. 102,273 Exchangeable Shares issuable under the Canopy Agreement will be subject to a six-month post-closing lock-up period, a further 102,273 Exchangeable Shares will be subject to a twelve-month post-closing lock-up period, and 45,454 Exchangeable Shares will not be subject to any lock-up period. On closing, Canopy granted to Ayr or its affiliates a five-year option to purchase the real property owned by affiliates of Canopy and used in the business of the Canopy Target Businesses at fair market value.

Exchange of the Exchangeable Shares for Subordinate Voting Shares is also subject to applicable restrictions under applicable U.S. securities laws. The sellers have no obligation to indemnify for losses incurred by Ayr as a result of the Canopy Reorganization except for certain obligations with respect to obtaining necessary regulatory approval.

Additionally, Ayr agreed to issue additional Exchangeable Shares up to a year following the closing date in certain circumstances, subject to certain limitations. More specifically, if the trailing 3-day volume-weighted average trading price of the Subordinate Voting Shares (the "Closing Price") is less than C$29.00 on: (i) the closing date of the Canopy acquisition, a number of additional Exchangeable Shares may be issued to Canopy so that the cumulative market value of the Exchangeable Shares issued to Canopy on the closing date with no lock-up period is equal to $999,998; (ii) the date that is 180 days after the closing date of the Canopy acquisition, a number of additional Exchangeable Shares may be issued to Canopy so that the cumulative market value of the Exchangeable Shares issued to Canopy with a 6-month lock-up period is equal to $2,250,006; or (iii) the date that is 360 days after the closing date of the Canopy acquisition, a number of additional Exchangeable Shares may be issued to Canopy so that the cumulative market value of the Exchangeable Shares issued to Canopy with a 12-month lock-up period is equal to $2,250,006. Under no circumstances may the total number of additional Exchangeable Shares to be issued under this make-whole provision exceed 10% of the total number of issued and outstanding Class B Shares as of the closing date of the Qualifying Transaction.

Acquisition of Washoe

Pursuant to the Washoe Agreement: (i) Washoe and the members of Washoe agreed to contribute all of the assets of Washoe and its subsidiaries (including certain parcels of real property owned by Washoe or a subsidiary), except for certain retained licenses and associated inventory, the transfer of which is subject to consent from regulatory authorities (the "Washoe Consents"), to a "NewCo" entity (the "Washoe NewCo") (the "Washoe Reorganization"); (ii) CSAC AcquisitionCo agreed to acquire all of the equity interests of the Washoe NewCo in exchange for (A) a promissory note in the amount of $5,640,000 to the members of Washoe that will be secured by a first-priority security interest over all of the assets of Washoe NewCo, (B) the issuance to the members of Washoe of an aggregate of 256,364 Exchangeable Shares with a deemed value of $5,640,000 and (C) cash consideration in the amount of $16,670,000, some of which will be used to pay debt and expenses of Washoe, as well as applicable taxes; (iii) Washoe and its members agreed to take all reasonable measures in good faith to secure the Washoe Consents, and once obtained, agreed to convey the retained assets to Ayr via the transfer of the equity interests in Washoe or the retained assets to CSAC AcquisitionCo for nominal consideration; (iv) CSAC AcquisitionCo agreed to assume a member loan in the amount of approximately $6.5 million and issue 13,636 Exchangeable Shares in the name of such member (the "Washoe Lender"); and (v) CSAC AcquisitionCo agreed to assume mortgage debt of approximately $2.6 million in the aggregate, secured by real property owned by Washoe or its subsidiaries. 128,182 Exchangeable Shares issuable under the Washoe Agreement will be subject to a six-month post-closing lock-up period, and the other 128,182 Exchangeable Shares will be subject to a twelve-month post-closing lock-up period.

Exchange of the Exchangeable Shares for Subordinate Voting Shares is also subject to applicable restrictions under applicable U.S. securities laws. The sellers have no obligation to indemnify for losses incurred by Ayr as a result of the Washoe Reorganization except for certain obligations with respect to obtaining necessary regulatory approval.

Additionally, Ayr agreed to issue additional Exchangeable Shares up to a year following the closing date in certain circumstances, subject to certain limitations. More specifically, if the Closing Price is less than

C$29.00 on: (i) the date that is 180 days after the closing date of the Washoe acquisition, a number of additional Exchangeable Shares may be issued to the sellers of Washoe so that the cumulative market value of the Exchangeable Shares issued to such persons with a 6-month lock-up period is equal to $2,820,000 and a number of additional Exchangeable Shares may be issued to the Washoe Lender so that the cumulative market value of the Exchangeable Shares issued to the Washoe Lender with a 6-month lock-up period is equal to $150,000 or (ii) the date that is 360 days after the closing date of the Washoe acquisition, a number of additional Exchangeable Shares may be issued to the sellers of Washoe so that the cumulative market value of the Exchangeable Shares issued to such persons with a 12-month lock-up period is equal to $2,820,006 and a number of additional Exchangeable Shares may be issued to the Washoe Lender so that the cumulative market value of the Exchangeable Shares issued to the Washoe Lender with a 12-month lock-up period is equal to $150,000. Under no circumstances may the total number of additional Exchangeable Shares to be issued under this make-whole provision exceed 10% of the total number of issued and outstanding Class B Shares as of closing date of the Qualifying Transaction. On closing, Washoe granted to Ayr or its affiliates a five-year option to purchase the real property owned by affiliates of Washoe and used in the business of Washoe at fair market value.

Acquisition of LivFree

Pursuant to the LivFree Agreement: (i) LivFree and the members of LivFree agreed to contribute all of the assets of LivFree and its subsidiaries, except for certain retained licenses and associated inventory, the transfer of which is subject to consent from regulatory authorities (the “LivFree Consents”), to a “NewCo” entity (“LivFree NewCo”) (the “LivFree Reorganization”); (ii) CSAC AcquisitionCo agreed to acquire all of the equity interests of LivFree NewCo in exchange for (A) a promissory note in the amount of $20,000,000 to the members of LivFree that will be secured by a first-priority security interest over all of the assets of LivFree NewCo, (B) the issuance to the members of LivFree of an aggregate of 4,342,432 Exchangeable Shares with a deemed value of $70,000,000 (approximately $16.10 per Exchangeable Share) and (C) cash consideration in the amount of $29,500,000, some of which will be used to pay debt and expenses of LivFree, as well as applicable taxes; and (iv) LivFree and its members agreed to take all reasonable measures in good faith to secure the LivFree Consents, and once obtained, agreed to convey the retained assets to Ayr via the transfer of the equity interests in LivFree or the retained assets to CSAC AcquisitionCo for nominal consideration. 3,038,986 Exchangeable Shares issuable under the LivFree Agreement will be subject to a six-month post-closing lock-up period, and the other 1,303,446 Exchangeable Shares will be subject to a twelve-month post-closing lock-up period. Exchange of the Exchangeable Shares for Subordinate Voting Shares is also subject to applicable restrictions under applicable U.S. securities laws. The sellers have no obligation to indemnify for losses incurred by Ayr as a result of the LivFree Reorganization except for certain obligations with respect to obtaining necessary regulatory approval. On closing, LivFree granted to Ayr or its affiliates a five-year option to purchase the real property owned by affiliates of LivFree and used in the business of LivFree at fair market value.

Acquisition of CannaPunch

Pursuant to the CannaPunch Agreements: (i) CSAC AcquisitionCo agreed to acquire all of the equity interests of CannaPunch NewCo in exchange for (A) a promissory note in the amount of $2,000,000 to the members of CannaPunch that will be secured by a first-priority security interest over all of the assets of CannaPunch NewCo, (B) the issuance to the members of CannaPunch of an aggregate of 866,668 Exchangeable Shares with a deemed value of $14,000,000 and (C) cash consideration in the amount of $750,000, some of which will be used to pay debt and expenses of CannaPunch, as well as applicable taxes. 433,334 Exchangeable Shares will be subject to a twelve-month post-closing lock-up period. Exchange of the Exchangeable Shares for Subordinate Voting Shares is also subject to applicable restrictions under

applicable U.S. securities laws. On closing, CannaPunch granted to Ayr or its affiliates (i) a five-year option to purchase the real property owned by affiliates of CannaPunch and used in the business of CannaPunch at fair market value and (ii) a license to use the CannaPunch name in all jurisdictions other than in the State of Colorado.

2) Basis of Presentation

The unaudited pro forma consolidated statement of financial position ("Pro Forma Statement of Financial Position") as at March 31, 2019 has been prepared by Ayr to give effect to the Acquisitions comprising the Qualifying Transactions, as if they had occurred on March 31, 2019. The unaudited Pro Forma Consolidated Statement of Operations for the three month period ended March 31, 2019 and for the twelve months ended December 31, 2018 have been prepared by AYR to give effect to the acquisitions comprising the Qualifying Transaction, as if they had occurred on January 1, 2018.

Ayr financial statements have been translated per the Bank of Canada exchange rates as detailed below:

- Statement of financial position as at March 31, 2019 has been translated at period end rate of CAD/USD of 0.7483.
- Statement of operations for the three months period ended March 31, 2019 has been translated at 3 month (January to March 2019) average rate of CAD/USD of 0.7522.
- Statement of operations for the twelve months ended September 30, 2018 (for the purpose of constructed statement of operations for the twelve months ended December 31, 2018) has been translated at 12 month (October 2017 to September 2018) average rate of CAD/USD of 0.7793.
- Statement of operations for three months ended December 31, 2017 (for the purpose of constructed statement of operations for the twelve months ended December 31, 2018) has been translated at 3 month (October to December 2017) average rate of CAD/USD of 0.7867.
- Statement of operations for three months ended December 31, 2018 (for the purpose of constructed statement of operations for the twelve months ended December 31, 2018) has been translated at 3 month (October to December 2018) average rate of CAD/USD of 0.7575.

The Unaudited Pro Forma Consolidated Financial Statements are derived from the following:

- The unaudited condensed interim financial statements of Ayr, Sira, Canopy, Washoe, LivFree and CannaPunch for the three months period ended March 31, 2019.
- The audited financial statements of Sira, Canopy, Washoe, LivFree and CannaPunch for the twelve months ended December 31, 2018.
- The audited financial statements of Ayr for the twelve months ended September 30, 2018 (for the purpose of constructed statement of operations for the twelve months ended December 31, 2018).
- The audited financial statements of AYR for the short period (three months) ended December 31, 2018 (for the purpose of constructed statement of operations for the twelve months ended December 31, 2018).
- The unaudited condensed interim financial statements of AYR for the three months period ended December 31, 2017 (for the purpose of constructed statement of operations for the twelve months ended December 31, 2018).

The unaudited Pro Forma Consolidated Financial Statements were prepared using the acquisition method of accounting in accordance with IFRS 3, *Business Combinations,* with Ayr being the accounting and legal acquirer. It uses the fair value concepts defined in IFRS 13, *Fair Value Measurement*, and was based on the historical financial statements of Ayr, Sira, Canopy, Washoe, LivFree and CannaPunch. All financial data in the unaudited Pro Forma Consolidated Financial Statements are presented in United States Dollars, unless stated otherwise.

Under the acquisition method of accounting, the assets acquired and liabilities assumed are recorded as of the completion of the acquisitions comprising the Qualifying Transaction at their respective fair values. Under IFRS 3, acquisition-related transaction costs (i.e., advisory, legal, valuation, other professional fees) and certain acquisition-related restructuring charges are not included as a component of consideration transferred but are accounted for as expenses in the periods in which the costs are incurred.

The accounting for the acquisitions comprising the Qualifying Transaction is dependent upon valuations, where available, that are provisional and are subject to change. Management will finalize the acquisition accounting for the acquisitions comprising the Qualifying Transaction no later than one year from the date of the respective acquisition dates as required under IFRS 3. Accordingly, certain pro forma adjustments are preliminary and have been prepared solely for the purpose of these unaudited Pro Forma Consolidated Financial Statements. Differences between these provisional estimates and the final acquisition accounting may occur and these differences could have a material impact on Ayr future financial performance. In addition, the unaudited Pro Forma Consolidated Statements of Operations do not reflect any cost savings, operating synergies or revenue enhancements that the consolidated businesses may achieve, the costs to integrate the operations of Ayr and the acquisitions comprising the Qualifying Transaction, or any costs necessary to achieve these cost savings, operating synergies and revenue enhancements.

3) Accounting Policies

The accounting policies used in the preparation of these unaudited Pro Forma Consolidated Financial Statements are consistent with those described in the audited financial statements of Ayr for the year ended March 31, 2019. Ayr has conducted a review of the acquisitions' accounting policies and has not identified any differences in accounting policies that were applied historically by these entities. Additional accounting policies related to the Target Businesses companies will be included in the Ayr consolidated financial statements after acquisition on going forward basis. For purposes of these unaudited Pro Forma Consolidated Financial Statements, certain reclassifications have been made to the acquisitions' historical financial statements (as described in notes 6 and 8) to conform to the classifications adopted by Ayr.

4) Preliminary Purchase Price Consideration

Each of the acquisitions comprising the Qualifying Transaction is subject to specific terms relating to satisfaction of the purchase price by Ayr and incorporates payments in cash, notes payables and shares. In addition, the purchase prices may be adjusted for consideration of acquisition date working capital. No working capital adjustments have been reflected in the unaudited Pro Forma Consolidated Financial Statements. IFRS 3 requires that contingent consideration be estimated and recorded at the acquisition date with subsequent changes to estimates reflected in earnings. For purposes of the unaudited Pro Forma Consolidated Financial Statements, all estimates of contingent consideration are preliminary and subject to change. In addition, the purchase prices may be adjusted for consideration of acquisition date working capital. No working capital adjustments have been reflected in the unaudited Pro Forma Financial Statements. The purchase prices do not include any assumed debt of the Target Businesses.

The total purchase price consideration is summarized as follows:

	Cash	Note Payable	Share Capital	Total
	$	$	$	$
Sira	15,000,000	5,000,000	30,000,000	**50,000,000**
Canopy	7,000,000	4,500,000	5,500,000	**17,000,000**
Washoe	16,670,000	5,640,000	5,640,000	**27,950,000**
Livfree	29,500,000	20,000,000	70,000,000	**119,500,000**
Cannapunch	750,000	2,000,000	14,000,000	**16,750,000**
Total Consideration	**68,920,000**	**37,140,000**	**125,140,000**	**231,200,000**

Sira Acquisition

Pursuant to the terms of the Sira Agreement, Ayr satisfied the purchase price of $50 million for Sira through the following:

i. $15.0 million of the Sira purchase price was paid in the form of cash consideration.

ii. $5.0 million of the Sira purchase price was paid in the form of a promissory note payable.

iii. $30.0 million of the Sira purchase price was paid in the form of 1,885,606 Exchangeable Shares that are exchangeable on a one-for-one basis into an equal number of Subordinate Voting Shares.

iv. The Sira Agreement also contains an earn-out provision that may entitle the sellers to earn additional consideration, if certain Adjusted EBITDA (as defined in the Sira Agreement) milestones are achieved at Sira's planned cultivation facility in Milford, MA over its first full year of operation, which is expected to be 2020. See "*Description of Transactions – Acquisition of Sira*."

Additionally, CSAC AcquisitionCo must pay an amount equal to the fair market value of Sira's inventory above a target level set at $800,000 (the "Inventory Payment"), pursuant to a formula specified in the Sira Agreement. One-third of this Inventory Payment, in the amount of $2,500,000, was paid by CSAC AcquisitionCo on the Closing Date and the remaining two-thirds will be paid within 120 days following the Closing Date.

Canopy Acquisition

Pursuant to the terms of the Sira Agreement, Ayr satisfied the purchase price of $17 million for Canopy through the following:

i. $7.0 million of the Canopy purchase price was paid in the form of cash consideration.

ii. $4.50 million of the Canopy purchase price was paid in the form of a promissory note payable.

iii. $5.50 million of the Canopy purchase price was paid in the form of 250,000 Exchangeable Shares that are exchangeable on a one-for-one basis into an equal number of Subordinate Voting Shares.

iv. an additional 15,360 Exchangeable Shares were issued to Canopy pursuant to certain make-whole provisions (the "Canopy Make-Whole Provisions") in the definitive agreement in respect of the Canopy acquisition (the "Canopy Agreement"); and

v. Pursuant to the terms of the Canopy Agreement, Ayr assumed Canopy loans outstanding with total principal value of approximately $400,000.

Additional Exchangeable Shares are also issuable to the Canopy sellers under the Canopy Make-Whole Provisions based on a formula specified therein relating to the market price of the Subordinate Voting Shares on certain specified dates.

Washoe Acquisition

Pursuant to the terms of the Washoe Agreement, Ayr satisfied the purchase price of $27.950 million for Washoe through the following:

i. $16.670 million of the Washoe purchase price was paid in the form of cash consideration.

ii. $5.640 million of the Washoe purchase price was paid in the form of a promissory note payable.

iii. $5.640 million of the Washoe purchase price was paid in the form of 256,364 Exchangeable Shares that are exchangeable on a one-for-one basis into an equal number of Subordinate Voting Shares.

iv. Pursuant to the terms of the Washoe Agreement, Ayr assumed Washoe loans outstanding with total principal value of approximately $9,100,000 and issued 13,636 Exchangeable Shares to a Washoe lender.

In addition, (i) CSAC AcquisitionCo agreed to fund a bonus plan in the amount of $5,000,000 that would be payable over two years following the Closing Date to various employees and consultants of Washoe, and (ii) additional Exchangeable Shares are issuable to the Washoe sellers under certain make-whole provisions of the Washoe Agreement based on a formula specified therein relating to the market price of the Subordinate Voting Shares on certain specified dates.

LivFree Acquisition

Pursuant to the terms of the LivFree Agreement, Ayr satisfied the purchase price of $119.50 million for LivFree through the following:

i. $29.50 million of the LivFree purchase price was paid in the form of cash consideration.

ii. $20.0 million of the LivFree purchase price was paid in the form of a promissory note payable.

iii. $70 million of the LivFree purchase price was paid in the form of 4,342,432 Exchangeable Shares that are exchangeable on a one-for-one basis into an equal number of Subordinate Voting Shares.

iv. Pursuant to an amendment to the definitive agreement in respect of the LivFree Acquisition, such amendment dated as of the Closing Date, CSAC AcquisitionCo issued an additional 321,750 Exchange Shares to the LivFree sellers.

CannaPunch Acquisition

Pursuant to the terms of the CannaPunch Agreement, Ayr satisfied the purchase price of $16.75 million for CannaPunch through the following:

i. $0.750 million of the CannaPunch purchase price was paid in the form of cash consideration.

ii. $2.0 million of the CannaPunch purchase price was paid in the form of a promissory note payable.

iii. $14.0 million of the CannaPunch purchase price was paid in the form of 866,668 Exchangeable Shares that are exchangeable on a one-for-one basis into an equal number of Subordinate Voting Shares.

iv. Pursuant to an amendment to the definitive agreement in respect of the CannaPunch acquisition, such amendment dated June 7, 2019, CSAC AcquisitionCo issued an additional 32,071 Exchangeable Shares to the CannaPunch sellers.

5) Preliminary Acquisition Accounting

Assuming an acquisition date of January 1, 2018, a preliminary estimate of the fair values of the assets to be acquired and the liabilities to be assumed by Ayr in connection with the proposed acquisitions is as follows:

US$	Ref	Sira	Canopy	Washoe	Livfree	Cannapunch	Total
		$	$	$	$	$	$
ASSETS ACQUIRED							
Cash and cash equivalents	a	3,315,782	222,626	722,273	2,182,938	193,329	**6,636,948**
Accounts receivable, trade, no allowance	a	1,026,229	-	133,075	-	533,871	**1,693,175**
Inventory	f	15,470,123	4,252,023	5,686,129	4,239,362	994,011	**30,641,648**
Biological assets	f	2,417,379	-	1,646,000	-	-	**4,063,379**
Advance to a related corporation		-	1,217,830	-	89,389	-	**1,307,219**
Prepaid expenses and other assets	a	132,789	153,353	197,933	123,589	-	**607,664**
Intangible assets	c	19,109,000	8,789,000	6,080,894	25,542,000	-	**59,520,894**
Property, plant and equipment	f	7,521,303	1,220,641	8,961,601	1,673,445	460,823	**19,837,813**
Right-of-use assets		5,434,999	2,427,320	-	2,230,783	593,978	**10,687,080**
Investment in associate	a	-	-	1,939,517	3,331,885	-	**5,271,402**
Other long term assets		140,401	-	-	-	-	**140,401**
Total assets acquired at fair value		**54,568,005**	**18,282,793**	**25,367,422**	**39,413,391**	**2,776,012**	**140,407,623**
LIABILITIES ASSUMED							
Trade payables	b	605,217	-	577,458	849,613	247,445	**2,279,733**
Accrued liabilities	b	2,025,356	349,301	162,209	1,426,638	255,968	**4,219,472**
Income tax payable	b	3,715,371	-	-	-	-	**3,715,371**
Deferred tax liabilities		2,402,770	-	-	-	-	**2,402,770**
Accrued interest payable	b	7,627,157	-	-	-	-	**7,627,157**
Advance from a related corporation - current	b	-	-	1,217,830	-	-	**1,217,830**
Advance from a related corporation - non-current	b	-	-	-	-	285,000	**285,000**
Advance from a member		-	-	-	-	1,402	**1,402**
Lease liabilities - current portion		142,220	62,841	-	231,379	116,879	**553,319**
Lease liabilities - non-current portion		5,485,755	2,397,955	-	1,985,735	486,035	**10,355,480**
Debts payable - current portion	b	7,695	-	-	160,000	-	**167,695**
Debts payable - non-current portion	b,d	14,963,691	421,128	9,162,306	-	-	**24,547,125**
Total liabilitites assumed at fair value		**36,975,232**	**3,231,225**	**11,119,803**	**4,653,365**	**1,392,729**	**57,372,354**
Goodwill	e	32,407,227	1,948,432	13,702,381	84,739,974	15,366,717	**148,164,731**
Total Purchase Price		**50,000,000**	**17,000,000**	**27,950,000**	**119,500,000**	**16,750,000**	**231,200,000**

a) The carrying values of the assets acquired, including cash and equivalents, accounts receivable, prepaid expenses and other assets, investment in associates and deferred tax assets are all assumed to be representative of their estimated fair values given the short timeframe until settlement.

b) The carrying values of the liabilities assumed, including trade payables, accrued liabilities, advance from a related corporation, income tax payable, accrued interest payable and debts payable are all assumed to be representative of their estimated fair values given the short timeframe until settlement.

c) A preliminary fair value estimate of $59,520,894 has been assigned to intangible assets representing licenses and intellectual properties. The assumptions used to determine the fair value of the acquired licenses and intellectual properties may change as Ayr finalises valuations of the acquired intangible assets following the completion of the acquisitions comprising the Qualifying Transaction.

d) The carrying value of long term borrowings approximates the fair value of these liabilities. The value is preliminary and subject to change.

e) Goodwill represents the difference between the acquisition date fair value of the consideration transferred and the values assigned to the assets acquired and liabilities assumed. Goodwill is not amortized and is not deductible for tax purposes.

f) Assets acquired at their fair market values include inventory, biological assets and property, plant and equipment.

6) Pro Forma adjustments to the statement of operations in connection with acquisitions

The following summarizes the pro forma adjustments in connection with the acquisitions of the Target Businesses to give effect to the acquisitions as if they had occurred on April 1, 2019 for purposes of the unaudited Pro Forma Consolidated Statements of Operations for the three months ended March 31, 2019 and twelve months ended December 31, 2018:

a) Intercompany balances were eliminated on consolidation consequent to acquisitions of the Target Businesses by Ayr.

b) Intercompany transactions in the nature of sales, purchases and management fee were eliminated on consolidation consequent to the acquisitions of the Target Businesses by Ayr.

c) To incorporate additional estimated transaction cost of $2,500,000 to be incurred in connection of acquisition of the Target Businesses by Ayr.

d) The tax rate is expected to be approximately 23% as a result of acquisitions. However, no impact of tax other than what is reflected historically on the financial statements of Ayr and the entities being acquired, has been shown in the unaudited Pro Forma statements. As the target businesses operate in the cannabis industry, they are subject to the limitations of the U.S. Internal Revenue Code Section 280E.

7) Constructed/calculated statements of operations

The financial statements of the businesses used to prepare the unaudited Pro Forma Consolidated Financial Statements, were prepared for the purpose of the unaudited Pro Forma Consolidated Financial Statements and do not conform with the financial statements for the businesses included elsewhere in the Prospectus.

For the purpose of the unaudited Pro Forma Consolidated Financial Statements, the Ayr unaudited Pro Forma Consolidated Statements of Operations for the twelve months ended December 31, 2018 were calculated as follows:

	AYR (USD)			
US $	12M Ended September 30, 2018 $	Less: 3M Ended December 31, 2017 $	Plus: 3M Ended December 31, 2018 $	**12M Ended December 31, 2018 $**
Revenues, net of discounts	-	-	-	-
Cost of goods sold before biological asset adjustment	-	-	-	-
	-	-	-	-
Fair value changes in biological assets included in cost of sales	-	-	-	-
Unrealized gain on biological asset transformation	-	-	-	-
Gross profit (loss)	-	-	-	-
Expenses				
Transaction costs	7,115,646	6,723,178	-	**392,467**
General and administrative	916,469	13,391	2,341,604	**3,244,682**
Sales and marketing	-	-	-	-
Depreciation	-	-	-	-
Licensor profit share	-	-	-	-
Management fee	-	-	-	-
Foreign exchange	-	-	20,212	**20,212**
Net unrealized loss on changes in the fair value of financial liabilities	29,454,070	(491,688)	42,503,558	**72,449,316**
Total expenses	37,486,185	6,244,882	44,865,374	**76,106,677**
Income (loss) from operations	(37,486,185)	(6,244,882)	(44,865,374)	**(76,106,677)**
Other (income) expense				
Share of (income) loss on equity investments	-	-	-	-
Interest expense	-	-	-	-
Interest income	(727,526)	(24,248)	(231,553)	**(934,831)**
Management fee income	-	-	-	-
Rental income and others	-	-	-	-
Total other (income) expense	(727,526)	(24,248)	(231,553)	**(934,831)**
Income tax (recovery) expense	-	-	-	-
Net income (loss)	**(36,758,658)**	**(6,220,634)**	**(44,633,822)**	**(75,171,846)**

8) Pro Forma adjustments to the unaudited Pro Forma Consolidated Statement of Financial Position in connection with the Acquisitions of the Target Businesses

The following summarizes the pro forma adjustments in connection with the acquisitions of the Target Businesses to give effect to the acquisitions as if they had occurred on January 1, 2018 for purposes of the unaudited Pro Forma Consolidated Statement of Financial Position as at December 31, 2018:

a) Cash, shares and notes payable totaling $231,200,000 is paid/issued on the acquisitions.

b) To reflect the fair value adjustment to the licenses and intellectual property as discussed under "Preliminary Acquisition Accounting" section above (refer to note 5(c)).

c) Goodwill represents the excess of the preliminary estimated purchase price over the estimated fair value of the tangible and identifiable intangible assets acquired and liabilities assumed by Ayr. Goodwill represents the value of intangible assets that do not qualify for separate recognition.

d) All members' equity relating to the Target Businesses were eliminated upon each respective acquisition thereof by Ayr.

e) Upon the acquisition of each of the Target Businesses, the restricted cash and short-term investments held in escrow was transferred to cash.

f) To incorporate additional estimated transaction cost of $2,500,000 to be incurred in connection of acquisition of the Target Businesses by Ayr.

g) This adjustment relates to the closing of the Qualifying Transaction. This adjustment has been presented based on the redemption of 1,000 Class A Restricted Voting Shares. The adjustment includes the following elements: (i) release of $101 million from restricted cash held in the form of flexible guaranteed investment certificates to cash, and (ii) release of $3.5 million to pay deferred underwriters commission.

h) To show the repayment of the deferred underwriters' commission as a reduction of the liability and cash.

i) To adjust for the fair market value of assets taken over by Ayr on acquisition as disclosed in Note 5.

9) Pro Forma Earnings per Share ("Pro Forma EPS")

The Pro Forma EPS have been adjusted to reflect the unaudited Pro Forma Consolidated Statement of Operations for the three months period ended March 31, 2019 and the twelve months ended December 31, 2018. In addition, the number of shares used in calculating the unaudited Pro Forma Consolidated Basic and Diluted Earnings Per Share has been adjusted to reflect the estimated total number of shares of Ayr that would be outstanding as of the closing of the acquisitions of the Target Businesses.

The pro forma total number of shares of stock of the consolidated corporation that would be outstanding after the expected closing of the acquisitions of the Target Businesses noted below in the table.

The following is a breakdown of the Pro Forma EPS calculation:

	Three Months Ended March 31, 2019	Twelve Months ended December 31, 2018
Net loss	**$ (131,678,002)**	**$ (72,073,620)**
Ayr Strategies Inc. shares:		
Multiple voting shares	3,696,486	3,696,486
Subordinate voting shares	14,517,855	14,517,855
Weighted average number of shares outstanding	**18,214,341**	**18,214,341**
Loss per share - basic and diluted	**$ (7.23)**	**$ (3.96)**

10) Reconciliation of Non-IFRS Measures

The Company reports certain non-IFRS measures that are used to evaluate the performance of such businesses and the performance of their respective segments, as well as to manage their capital structure. As non-IFRS measures generally do not have a standardized meaning, they may not be comparable to similar measures presented by other issuers. Securities regulations require such measures to be clearly defined and reconciled with their most directly comparable IFRS measure.

The Company references non-IFRS measures and cannabis industry metrics in this document and elsewhere. These measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these are provided as additional information to complement those IFRS measures by providing further understanding of the results of the operations of the Company from management's perspective. Accordingly, these measures should not be considered in isolation, nor as a substitute for analysis of the Company's financial information reported under IFRS. Non-IFRS measures used to analyze the performance of the Target Businesses include "Adjusted EBITDA".

The Company believes that these non-IFRS financial measures provide meaningful supplemental information regarding the Company's performances and may be useful to investors because they allow for greater transparency with respect to key metrics used by management in its financial and operational decision-making. These financial measures are intended to provide investors with supplemental measures of the Company's operating performances and thus highlight trends in the Company's core businesses that may not otherwise be apparent when solely relying on the IFRS measures.

Adjusted EBITDA

"Adjusted EBITDA" represents income (loss) from operations, as reported, before interest, tax, and adjusted to exclude extraordinary items, non-recurring items, other non-cash items, including stock based compensation expense, depreciation, and the non-cash effects of accounting for biological assets and inventories, and further adjusted to remove acquisition related costs.

The following is a reconciliation of how Ayr calculates Adjusted EBITDA and reconciles it to IFRS figures, based on figures derived from the financial statements of Ayr and the respective Target Businesses.

Adjusted EBITDA Reconciliation for the twelve months ended December 31, 2018

Period	12 mo ended 12/31/2018 As Reported	12 mo ended 12/31/2018 As Reported	12 mo ended 12/31/2018 As Reported	12 mo ended 12/31/2018 As Reported	12 mo ended 12/31/2018 As Reported	12 mo ended 12/31/2018 Pro forma	12 mo ended 12/31/2018 As Reported	12 mo ended 12/31/2018 Pro forma
	Washoe	**Canopy**	**LivFree**	**Sira**	**CannaPunch**	**Total Anchor Portfolio**	**Ayr[2]**	**Combined**
Net income (loss) from operations	3,682,863	3,150,573	7,462,753	(10,269,243)	1,571,280	**5,598,226**	(77,671,846)	**(72,073,620)**
Non-cash items accounting for biological assets and inventories								
Fair value changes in biological assets	5,086,289	–	–	18,470,531	–	**23,556,820**	–	**23,556,820**
Unrealized gain on changes in fair value of biological assets	(4,005,602)	–	–	(11,287,162)	–	**(15,292,764)**	–	**(15,292,764)**
	1,080,687	–	–	7,183,369	–	**8,264,056**	–	**8,264,056**
Interest	331,277	–	–	2,738,950	–	**3,070,227**	(934,831)	**2,135,396**
Depreciation and amortization	51,831	50,766	191,301	965,936	5,027	**1,264,861**	–	**1,264,861**
Acquisition costs			324,299	318,448	20,883		3,045,800	**3,045,800**
Share-based compensation expense	–	–	–	–	–	**–**	–	**–**
Other[1]	(1,858,783)	546,848	(274,899)	5,117,531	1,123,212	**4,653,909**	75,560,877	**80,214,786**
	(1,475,675)	597,614	240,701	9,140,865	1,149,122	**9,652,627**	77,671,846	**84,824,473**
Adjusted EBITDA	**3,287,875**	**3,748,187**	**7,703,454**	**6,054,991**	**2,720,402**	**23,514,909**	**(0)**	**23,514,909**

[1] Other adjustments made to exclude the impact of management fees, profit sharing arrangements, transaction fees, and the net unrealized loss on changes in the fair value of financial liabilities
[2] Includes pro forma adjustments as outlined in the notes to the Unaudited Pro Forma Consolidated Financial Statements

Adjusted EBITDA Reconciliation for the three months ended March 31, 2019

Period	3 mo ended 3/31/2019 As Reported	3 mo ended 3/31/2019 As Reported	3 mo ended 3/31/2019 As Reported	3 mo ended 3/31/2019 As Reported	3 mo ended 3/31/2019 As Reported	3 mo ended 3/31/2019 Pro forma	3 mo ended 3/31/2019 As Reported	3 mo ended 3/31/2019 Pro forma
	Washoe	**Canopy**	**LivFree**	**Sira**	**CannaPunch**	**Total Anchor Portfolio**	**Ayr[2]**	**Combined**
Net income (loss) from operations	1,150,430	492,052	2,901,132	3,038,364	318,751	**7,900,729**	(139,578,731)	**(131,678,002)**
Non-cash items accounting for biological assets and inventories								
Fair value changes in biological assets	804,650	–	–	4,253,838	–	**5,058,488**	–	**5,058,488**
Unrealized gain on changes in fair value of biological assets	(1,227,204)	–	–	(7,282,658)	–	**(8,509,862)**	–	**(8,509,862)**
	(422,554)	–	–	(3,028,820)	–	**(3,451,374)**	–	**(3,451,374)**
Interest	94,888	78,446	41,354	824,668	15,969	**1,055,325**	(227,164)	**828,161**
Depreciation and amortization	95,266	77,596	137,156	352,954	47,821	**710,793**	–	**710,793**
Acquisition costs	5,362	11,200		122,438			3,012,026	**3,012,026**
Share-based compensation expense	–	–	–	–	–	**–**	–	**–**
Other[1]	(178,294)	180,000	22,616	2,499,734	224,730	**2,748,786**	136,793,869	**139,542,655**
	17,222	347,242	201,126	3,799,794	288,520	**4,653,904**	139,578,731	**144,093,635**
Adjusted EBITDA	**745,098**	**839,294**	**3,102,258**	**3,809,338**	**607,271**	**9,103,259**	**0**	**9,103,259**