



Ayr Strategies Reports Record Third Quarter 2019 Financial Results; Reiterates 2019 Revenue Guidance and Updates 2020 Forecasts

- *Continues to Produce Strong Organic Growth with Record Third Quarter Revenue of \$32.1 Million and Adjusted EBITDA of \$8.7 Million*
- *2019 & 2020 Expansion Goals Remain Fully Funded with \$14.7 Million Cash on Balance Sheet and More than \$4 Million of Quarterly Cash Flow from Operations*
- *Recently Added Key Talent with Appointment of New Chief Financial Officer and Chief Integration Officer*

Toronto, Ontario, November 18, 2019 – Ayr Strategies Inc. (CSE: AYR.A, OTCQX: AYRSF) (“Ayr” or the “Company”), a vertically-integrated cannabis multi-state operator (MSO) with a presence in the western and eastern U.S., is reporting financial results for the three and nine months ended September 30, 2019.

Unless otherwise noted, all results are presented in U.S. dollars.

Q3 2019 Financial Summary (vs. Normalized Q2 2019¹)

- Total revenue increased 19% to \$32.1 million compared to \$26.9 million.
- Gross profit before fair value adjustments increased 17% to \$17.2 million compared to \$14.7 million.
- Adjusted EBITDA increased 16% to \$8.7 million compared to \$7.5 million.
- Loss from operations was \$10.7 million compared to \$20.1 million.

Management Commentary

“We are extremely pleased with how well our business is executing after just four months of combined operations,” said Jonathan Sandelman, CEO of Ayr. “In that brief time, we have made considerable progress on key initiatives in both the Western and Eastern U.S. – organic growth has exceeded our expectations, our retail stores are among the most productive in the industry, and our wholesale business has become a substantial contributor to the top and bottom line.

“In Nevada, we continued to generate margin improvements from vertical integration of the four companies we acquired. In fact, our dispensaries are now sourcing even more products internally than they were just a few months ago, and our cultivation expansion in Nevada remains on track for completion in the first half of 2020. In Massachusetts, our wholesale business continued to gain momentum during the quarter as our monthly revenue has nearly tripled since closing our qualifying transaction in May.

“As cannabis investors are likely aware, in late September, Massachusetts implemented a four-month ban on all vape sales, after which we quickly developed substitute products and pivoted our production, reflecting the flexibility of our operating platform. Even without the sale of vape cartridges in Q4, we believe we will meet our 2019 revenue guidance, which called for approximately \$120 to \$130 million of annualized revenue. Given that some of the substitute products generate lower margins than vapes, we may come slightly short on our 2019 annualized adjusted EBITDA forecast of \$35 to \$40 million – although we believe margins will normalize when the vape ban lifts, which is currently slated for January 25, 2020.



“For 2020, a key growth driver has been our cultivation expansion in Massachusetts, and I’m pleased to announce that we have completed our new construction, which expands our capacity by more than 150% to 32,000 square feet under canopy. While the construction is complete, the facility has been inspected and is ready to receive flower, we are still awaiting regulatory approval from the state. As such, we now expect a delay in the timing of our increase in wholesale capacity.

“While we can’t predict the exact timing of Massachusetts regulatory approval and the increase in wholesale supply, we estimate that each month of delay in approval will result in delays of approximately \$6 million of revenue and \$4 million in adjusted EBITDA from our prior 2020 forecasts, which called for revenue of \$225 to \$245 million and adjusted EBITDA of \$105 to \$115 million. At this stage, we believe there may be a two to three-month delay from our prior expectation of receiving Massachusetts regulatory approval this month.

“Despite these delays, demand for wholesale cannabis in Massachusetts is stronger than ever. Once we have approval, we are highly confident in our run rate revenue and adjusted EBITDA targets given the earnings power of our assets. The opportunity set for recreational cannabis in Massachusetts continues to be one of the strongest in the country. Our wholesale demand is robust – we continue to sell every gram that we produce each month – and overall consumer demand is far outpacing supply given the limited number of recreational cannabis dispensaries in operation.

“As a reminder, other key drivers of growth in 2020 include the expansion of our Nevada cultivation facility to capture greater margin, new product development, and the transition to recreational dispensary sales in Massachusetts. We will also continue to diligently target business combinations that can expand our initial portfolio and footprint, which is not included in our current 2020 growth projections. The market environment for consolidation continues to favor our strengths of financial discipline, execution, and a fully funded operating strategy that will have us more than doubling adjusted EBITDA in 2020.”

Conference Call

Ayr CEO Jonathan Sandelman, CFO Brad Asher and COO Jennifer Drake will host a conference call tomorrow, November 19, 2019 at 8:30 a.m. Eastern time, followed by a question and answer period.

Conference Call Date: Tuesday, November 19, 2019

Time: 8:30 a.m. Eastern time

Toll-free dial-in number: (877) 282-0546

International dial-in number: (270) 215-9898

Conference ID: 1157988

Please call the conference telephone number 5-10 minutes prior to the start time. An operator will register your name and organization. If you have any difficulty connecting with the conference call, please contact Gateway Investor Relations at (949) 574-3860.

The conference call will be broadcast live and available for replay [here](#).

A telephonic replay of the conference call will also be available after 11:30 a.m. Eastern time on the same day through November 26, 2019.

Toll-free replay number: (855) 859-2056

International replay number: (404) 537-3406

Replay ID: 1157988



Interim Financial Statements

Certain financial information reported in this news release is extracted from Ayr's financial statements as at and for the three and nine month periods ended September 30, 2019. Ayr will file such interim financial statements on SEDAR shortly. All such financial information contained in this news release is qualified in its entirety by reference to such financial statements.

Definition and 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.

A reconciliation of how Ayr calculates Adjusted EBITDA and reconciles it to IFRS figures is provided in our MD&A for September 30, 2019. As well, we remind you that Adjusted EBITDA is a non-IFRS measure. We refer you to the reconciliation to IFRS measures and other disclosure concerning non-IFRS measures contained in our MD&A for September 30, 2019.

Forward-Looking Statements

Certain information contained in this news release may be forward-looking statements within the meaning of applicable securities laws. Forward-looking statements are often, but not always identified by the use of words such as "target", "expect", "anticipate", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "will", "may" and "should" and similar expressions or words suggesting future outcomes. This news release includes forward-looking information and statements pertaining to, among other things, Ayr's future growth plans. Numerous risks and uncertainties could cause the actual events and results to differ materially from the estimates, beliefs and assumptions expressed or implied in the forward-looking statements, including,



but not limited to: anticipated strategic, operational and competitive benefits may not be realized; events or series of events may cause business interruptions; required regulatory approvals may not be obtained; acquisitions may not be able to be completed on satisfactory terms or at all; and Ayr may not be able to raise additional capital. Among other things, Ayr has assumed that its businesses will operate as anticipated, that it will be able to complete acquisitions on reasonable terms, and that all required regulatory approvals will be obtained on satisfactory terms and within expected time frames.

2019 and 2020 targets, and the related assumptions, involve known and unknown risks and uncertainties that may cause actual results to differ materially. While Ayr believes there is a reasonable basis for these targets, such targets may not be met. These targets represent forward-looking information. Actual results may vary and differ materially from the targets.

Assumptions

Forward-looking information in this subject to the assumptions and risks as described in our MD&A for Sept. 30, 2019. Please see our MD&A for September 30, 2019 for a summary of assumptions underlying our revised targets for 2019 and 2020 revenues and Adjusted EBITDA. As well, we remind you that Adjusted EBITDA is a non-IFRS measure. We refer you to the reconciliation to IFRS measures and other disclosure concerning non-IFRS measures contained in our MD&A for Sept. 30, 2019

About Ayr Strategies Inc.

Ayr is a vertically integrated multi-state operator in the U.S. cannabis sector, with an initial anchor portfolio in Massachusetts and Nevada. Through its operating companies, Ayr is a leading cultivator, manufacturer and retailer of cannabis products and branded cannabis packaged goods. Ayr seeks to create regional clusters in core geographies for future expansion, while pursuing strong organic growth within its existing portfolio. For more information, please visit www.ayrstrategies.com.

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Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Unaudited Condensed Interim Consolidated Statements of Financial Position
(Expressed in United States Dollars)

	As at	
	September 30, 2019	December 31, 2018
	\$	Restated \$
ASSETS		
Current		
Cash and cash equivalents	14,657,912	109,952
Deposits	477,815	274,886
Accounts receivable	810,511	-
Inventory	14,394,136	-
Biological assets	2,431,505	-
Prepaid expenses and other assets	1,574,779	-
	34,346,658	384,838
Non-current		
Restricted cash and short-term investments held in escrow	-	99,684,243
Long-term deposits	417,103	-
Property, plant and equipment	28,283,658	-
Intangible assets	194,531,692	-
Right-of-use assets	11,040,612	-
Goodwill	84,706,008	-
Investments in associates	3,796,913	-
Total assets	357,122,644	100,069,081
LIABILITIES		
Current		
Trade payables	5,420,509	-
Accrued liabilities	4,522,295	2,489,096
Advances from related parties	-	536,382
Lease obligations - current portion	570,964	-
Purchase consideration payable	12,563,601	-
Income tax payable	1,407,872	-
Debts payable - current portion	5,936,807	-
	30,422,048	3,025,478
Non-current		
Deferred underwriters commission	-	3,457,154
Deferred tax liabilities	43,999,033	-
Class A Restricted Voting Shares subject to redemption	-	145,694,363
Warrant liability	40,627,305	23,983,372
Lease obligations - non-current portion	10,716,347	-
Contingent consideration	22,285,153	-
Debts payable - non-current portion	39,246,014	-
Accrued interest payable	466,521	-
Total liabilities	187,762,421	176,160,367
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share capital	379,031,031	1,821,997
Contributed surplus	15,582,582	-
Other comprehensive income	2,797,382	3,422,120
Deficit	(228,050,772)	(81,335,403)
Total shareholders' equity (deficiency)	169,360,223	(76,091,286)
Total liabilities and shareholders' equity	357,122,644	100,069,081



Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Expressed in United States Dollars)

	Three Months Ended		Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	\$	Restated \$	\$	Restated \$
Revenues, net of discounts	32,087,805	-	42,912,940	-
Cost of goods sold before biological asset adjustments	14,887,337	-	19,850,991	-
Gross profit before fair value adjustments	17,200,468	-	23,061,949	-
Fair value adjustment on sale of inventory	(8,736,926)	-	(13,433,398)	-
Unrealized gain on biological asset transformation	5,862,775	-	8,342,578	-
Gross profit	14,326,317	-	17,971,129	-
Expenses				
General and administrative	8,836,934	596,480	11,788,182	900,389
Sales and marketing	509,472	-	881,556	-
Depreciation	283,007	-	375,795	-
Amortization	3,400,331	-	4,788,308	-
Stock-based compensation	11,062,444	-	15,582,582	-
Acquisition expense	968,580	-	5,123,661	-
Total expenses	25,060,768	596,480	38,540,084	900,389
Loss from operations	(10,734,451)	(596,480)	(20,568,955)	(900,389)
Other (expense) income				
Share of loss on equity investments	(420,626)	-	(313,714)	-
Transaction costs	-	-	-	(454,288)
Foreign exchange	(104,834)	-	(123,202)	-
Unrealized gain (loss) - changes to fair value of financial liabilities	40,427,308	(24,273,089)	(122,006,820)	(29,847,798)
Interest expense	(1,272,421)	-	(1,859,213)	-
Interest income	31,834	231,535	396,352	701,314
Other	12,864	-	17,152	-
Total other income (expense)	38,674,125	(24,041,554)	(123,889,445)	(29,600,772)
Income (Loss) before income tax	27,939,674	(24,638,034)	(144,458,400)	(30,501,161)
Current tax	(3,502,178)	-	(4,932,991)	-
Deferred tax	1,743,121	-	2,676,022	-
Net income (loss)	26,180,617	(24,638,034)	(146,715,369)	(30,501,161)
Foreign currency translation adjustment	255,298	(66,489)	(624,738)	311,591
Net income (loss) and comprehensive income (loss)	26,435,915	(24,704,523)	(147,340,107)	(30,189,570)
Basic net income (loss) per share	0.99	(6.64)	(10.23)	(8.25)
Diluted net income (loss) per share	0.84	(6.64)	(10.23)	(8.25)
Weighted average number of shares outstanding (basic)	26,406,682	3,711,493	14,337,386	3,696,486
Weighted average number of shares outstanding (diluted)	31,179,896	3,711,493	14,337,386	3,696,486

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Unaudited Condensed Interim Consolidated Statements of Cash Flows
(Expressed in United States Dollars)

	Nine Months Ended	
	September 30, 2019	September 30, 2018
	\$	Restated \$
Operating activities		
Net loss	(146,715,369)	(30,501,161)
Adjustments for:		
Acquisition costs associated with financing activities	129,236	454,288
Net unrealized loss on changes in the fair value of financial liabilities	122,006,820	29,847,798
Stock-based compensation	15,582,582	-
Depreciation	1,010,195	-
Amortization on intangible assets	4,788,308	-
Share of loss on equity investments	313,714	-
Unrealized gain on biological asset transformation	(8,342,578)	-
Fair value changes in biological assets included in cost of sales	13,433,398	-
Deferred tax benefit	(2,676,022)	-
Interest accretion	931,542	-
Interest income	-	(701,314)
Changes in non-cash operations, net of business acquisition:		
Accounts receivable	445,793	-
Inventory and biological assets	(2,957,318)	-
Prepaid expenses and other assets	(847,968)	14,079
Deposits	(279,077)	(231,750)
Trade payables	2,147,083	-
Accrued liabilities	(781,144)	128,962
Income tax payable	1,407,872	-
Cash used in operating activities	(402,933)	(989,098)
Investing activities		
Transfer of (Investment in) restricted cash and short term investments held in escrow and interest income	99,684,243	(7,527,919)
Purchase of property, plant and equipment	(6,445,302)	-
Deferred underwriters commission paid	(3,457,154)	263,615
Cash paid for business combinations, net of cash acquired	(74,714,171)	-
Cash paid for business combinations, working capital	(490,435)	-
Payments for interests in equity accounted investments	(500,000)	-
Advances (to) from related corporation	(724,191)	152,676
Cash provided by (used in) investing activities	13,352,990	(7,111,628)
Financing activities		
Proceeds from issuance of Class A and B shares	-	7,548,516
Proceeds from exercise of warrants	2,460,150	-
Redemption of Class A shares	(7,519)	-
Repayments of debts payable	(1,660,425)	-
Repayments of lease obligations (principal portion)	(166,414)	-
Cash provided by financing activities	625,792	7,548,516
Net increase (decrease) in cash	13,575,849	(552,210)
Effect of foreign currency translation	972,111	(327,714)
Cash and cash equivalents, beginning of period	109,952	1,423,174
Cash and cash equivalents, end of period	14,657,912	543,250



Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Unaudited Condensed Interim Consolidated Adjusted EBITDA Reconciliation
(Expressed in United States Dollars)

	Three Months ended September 30,		Nine Months ended September 30,	
	2019	2018	2019	2018
Loss from operations	(10,734,451)	(596,480)	(20,568,955)	(900,389)
<u>Non-cash items accounting for biological assets and inventories</u>				
Fair value adjustment on sale of inventory	8,736,926	-	13,433,398	-
Unrealized gain on biological asset transformation	(5,862,775)	-	(8,342,578)	-
	2,874,151	-	5,090,820	-
Interest	-	-	-	-
Depreciation and amortization	4,159,252	-	5,798,503	-
Acquisition costs	968,580	-	5,123,661	-
Stock-based compensation expense	11,062,444	-	15,582,582	-
Other ¹	320,567	-	633,368	-
	16,510,843	-	27,138,114	-
Adjusted EBITDA	8,650,543	(596,480)	11,659,979	(900,389)

ⁱ Due to the qualifying transaction (QT) completed on May 24, 2019, the previously reported financial results for the second quarter ended June 30, 2019 included consolidated results from May 25, 2019 to June 30, 2019. For comparative purposes, the Q2 figures below have been normalized by taking the 37-day period and extrapolating a full quarter of results.