
Ayr Strategies Inc.
(Formerly Cannabis Strategies Acquisition Corp.)
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018
(EXPRESSED IN UNITED STATES DOLLARS)
(UNAUDITED)

Notice to Reader

The accompanying unaudited condensed interim consolidated financial statements of Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.) ("the Corporation") have been prepared by and are the responsibility of management. The unaudited condensed interim consolidated financial statements have not been reviewed by the Corporation's auditors.

Ayr Strategies Inc.
(formerly, Cannabis Strategies Acquisition Corp.)
Unaudited Condensed Interim Consolidated Financial Statements

September 30, 2019 and 2018

Unaudited Condensed Interim Consolidated Financial Statements

Unaudited Condensed Interim Consolidated Statements of Financial Position	1
Unaudited Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)	2
Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficiency)	3
Unaudited Condensed Interim Consolidated Statements of Cash Flows	4
Notes to the Unaudited Condensed Interim Consolidated Financial Statements	5 - 40

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 (Note-3.18)
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	14,657,912	109,952
Deposits	477,815	274,886
Accounts receivable	810,511	-
Inventory [Note 6]	14,394,136	-
Biological assets [Note 7]	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 [Note 8]	-	99,684,243
Long-term deposits	417,103	-
Property, plant and equipment [Note 9]	28,283,658	-
Intangible assets [Note 10]	194,531,692	-
Right-of-use assets [Note 11]	11,040,612	-
Goodwill [Note 5]	84,706,008	-
Investments in associates [Note 12]	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 [Note 13]	-	536,382
Lease obligations - current portion [Note 11]	570,964	-
Purchase consideration payable [Note 5]	12,563,601	-
Income tax payable [Note 23]	1,407,872	-
Debts payable - current portion [Note 14]	5,936,807	-
	30,422,048	3,025,478
Non-current		
Deferred underwriters commission	-	3,457,154
Deferred tax liabilities [Note 23]	43,999,033	-
Class A Restricted Voting Shares subject to redemption	-	145,694,363
Warrant liability [Note 16]	40,627,305	23,983,372
Lease obligations - non-current portion [Note 11]	10,716,347	-
Contingent consideration [Notes 5 and 16]	22,285,153	-
Debts payable - non-current portion [Note 14]	39,246,014	-
Accrued interest payable	466,521	-
Total liabilities	187,762,421	176,160,367
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share capital [Note 15]	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

Nature of operations [Note 1]

Subsequent events [Note 24]

Approved on behalf of the Board:

“Jonathan Sandelman” (signed)

Director

“Charles Miles” (signed)

Director

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

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

	Three Months Ended		Nine Months Ended	
	September 30, 2019	September 30, 2018 Restated (Note 3.18)	September 30, 2019	September 30, 2018 Restated (Note 3.18)
	\$	\$	\$	\$
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 [Note 7]	5,862,775	-	8,342,578	-
Gross profit	14,326,317	-	17,971,129	-
Expenses				
General and administrative [Note 18]	8,836,934	596,480	11,788,182	900,389
Sales and marketing	509,472	-	881,556	-
Depreciation [Notes 9 and 11]	283,007	-	375,795	-
Amortization [Note 10]	3,400,331	-	4,788,308	-
Stock-based compensation [Note 20]	11,062,444	-	15,582,582	-
Acquisition expense [Note 5]	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 [Note 12]	(420,626)	-	(313,714)	-
Transaction costs	-	-	-	(454,288)
Foreign exchange	(104,834)	-	(123,202)	-
Unrealized gain (loss) - changes to fair value of financial liabilities [Note 16]	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 [Note 23]	(3,502,178)	-	(4,932,991)	-
Deferred tax [Note 23]	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 [Note 19]	0.99	(6.64)	(10.23)	(8.25)
Diluted net income (loss) per share [Note 19]	0.84	(6.64)	(10.23)	(8.25)
Weighted average number of shares outstanding (basic) [Note 19]	26,406,682	3,711,493	14,337,386	3,696,486
Weighted average number of shares outstanding (diluted) [Note 19]	31,179,896	3,711,493	14,337,386	3,696,486

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

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
(Expressed in United States Dollars)

	Class B shares		Share Capital				Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total
			Multiple Voting Shares		Subordinate Voting Shares					
	Number	Amount	Number	Amount	Number	Amount				
#	\$	#	\$	#	\$	\$	\$	\$	\$	
Balance, December 31, 2018 - Restated (Note 3.18)	3,696,486	1,821,997	-	-	-	-	-	3,422,120	(81,335,403)	(76,091,286)
Share exchange - Qualifying Transaction [Notes 1 and 5]	(3,696,486)	(1,821,997)	3,696,486	1,821,997	13,474,000	248,411,016	-	-	-	248,411,016
Share issuance - Qualifying Transaction [Notes 1 and 5]	-	-	-	-	7,983,887	125,421,479	-	-	-	125,421,479
Stock-based compensation [Note 20]	-	-	-	-	-	-	15,582,582	-	-	15,582,582
Exercise of rights [Note 1]	-	-	-	-	1,054,215	-	-	-	-	-
Exercise of warrants [Note 1]	-	-	-	-	298,200	3,376,539	-	-	-	3,376,539
Net loss for the period	-	-	-	-	-	-	-	-	(146,715,369)	(146,715,369)
Foreign currency translation adjustment	-	-	-	-	-	-	-	(624,738)	-	(624,738)
Balance, September 30, 2019	-	-	3,696,486	1,821,997	22,810,302	377,209,034	15,582,582	2,797,382	(228,050,772)	169,360,223
Balance, December 31, 2017 - Restated (Note 3.18)	3,912,110	1,738,590	-	-	-	-	-	(82,475)	(6,220,633)	(4,564,518)
Issuance of Class B units to Sponsor	12,188	95,399	-	-	-	-	-	-	-	95,399
Allocation of proceeds received pursuant to the offering, over-allotment option and attributed to warrants	-	(7,155)	-	-	-	-	-	-	-	(7,155)
Transaction costs	-	(4,837)	-	-	-	-	-	-	-	(4,837)
Forfeiture of founders Class B shares	(227,812)	-	-	-	-	-	-	-	-	-
Net loss for the period	-	-	-	-	-	-	-	-	(30,501,161)	(30,501,161)
Foreign currency translation adjustment	-	-	-	-	-	-	-	311,591	-	311,591
Balance, September 30, 2018 - Restated (Note 3.18)	3,696,486	1,821,997	-	-	-	-	-	229,116	(36,721,794)	(34,670,681)

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

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 (Note 3.18)
	\$	\$
Operating activities		
Net loss	(146,715,369)	(30,501,161)
<i>Adjustments for:</i>		
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)
<i>Changes in non-cash operations, net of business acquisition:</i>		
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

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

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

1. NATURE OF OPERATIONS

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.) (“Ayr” or “the Corporation”) is a vertically-integrated multi-state operator in the U.S. cannabis sector, with an initial anchor portfolio in Massachusetts and Nevada. Through its five operating companies, Ayr is a leading cultivator, manufacturer and retailer of cannabis products and branded cannabis packaged goods. The Corporation was previously a special purpose acquisition corporation which was incorporated for the purpose of effecting an acquisition of one or more businesses or assets, by way of a merger, amalgamation, arrangement, share exchange, asset acquisition, share purchase, reorganization, or any other similar business combination involving the Corporation, referred to as the Corporation’s “Qualifying Transaction”. The Corporation’s business activities are carried out in a single business segment. It is a reporting issuer in each of the provinces and territories of Canada, other than Quebec.

On May 24, 2019, the Corporation completed its concurrent acquisitions of the target businesses of Washoe Wellness, LLC (“Washoe”), The Canopy NV, LLC (“Canopy”), Sira Naturals, Inc. (“Sira”), LivFree Wellness, LLC (“LivFree”) and CannaPunch of Nevada LLC (“CannaPunch”), 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 (as defined below) 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 Warrants and the Rights began trading on the NEO Exchange Inc. (the “NEO Exchange”) under the symbols “AYR.A”, “AYR.WT” and “AYR.RT”, respectively, while the Multiple Voting Shares were not listed on the NEO Exchange. On August 20, 2019, the Corporation stopped trading on the NEO Exchange and began trading on the Canadian Stock Exchange (the “CSE”), under the same symbols. On June 26, 2019, the Corporation began trading on the Over-the-Counter Market (“OTC”) in the U.S. and traded under the symbol “CBAQF”. On July 5, 2019, the Corporation was approved to change its OTC symbol to “AYRSF”.

Each Multiple Voting Share has 25 votes per share (subject, in the case of the Sponsor, to the terms of the Voting Agreement), whereas each Subordinate Voting Share has one vote per share. The Multiple Voting Shares are convertible, at the discretion of the holders in accordance with their terms, into Subordinate Voting Shares on a one-for-one basis. However, the Multiple Voting Shares are subject to certain sunset provisions, as follows: the Multiple Voting Shares are automatically convertible into Subordinate Voting Shares on a one-for-one basis, on the earlier of: (i) the date on which the aggregate number of Multiple Voting Shares has been reduced to less than 33 1/3% of those issued and outstanding on the first date of issuance thereof, and (ii) the date that is five years from the date of closing of the Qualifying Transaction.

On December 31, 2018, the Corporation changed its financial year end to December 31 to better synchronize its financial reporting with that of its proposed target businesses in connection with its proposed Qualifying Transaction. On May 24, 2019, in connection with its continuance into British Columbia, the Corporation changed its name from “Cannabis Strategies Acquisition Corp.” to “Ayr Strategies Inc.”.

The Corporation was incorporated on July 31, 2017 under the Business Corporations Act (Ontario) and continued on May 24, 2019 into British Columbia under the Business Corporations Act (British Columbia) in connection with its Qualifying Transaction. The registered office of the Corporation is located at 666 Burrard Street, Suite 1700, Vancouver, British Columbia V6C 2X8. The head office of the Corporation is located at 590 Madison Avenue, 26th Floor, New York, New York, 10022.

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

1. NATURE OF OPERATIONS (Continued)

On September 12, 2018, the Corporation incorporated a wholly owned subsidiary in Nevada, United States, named CSAC Holdings Inc., to facilitate the proposed Qualifying Transaction. On September 17, 2018, CSAC Holdings Inc. incorporated a wholly owned subsidiary in Nevada, United States, named CSAC Acquisition Inc. (“CSAC AcquisitionCo”).

On December 21, 2017, the Corporation completed its initial public offering (the “Offering”) of 12,500,000 Class A Restricted Voting units (“Class A Restricted Voting Units”) at CDN\$10.00 per Class A Restricted Voting Unit. Each Class A Restricted Voting Unit consisted of one Class A restricted voting share (“Class A Restricted Voting Share”), one share purchase warrant (each, a “Warrant”) and one right (each, a “Right”).

In connection with the Offering, the Corporation granted the underwriter, Canaccord Genuity Corp. (the “Underwriter”), a 30 day non-transferable option (the “Over-Allotment Option”) to purchase up to an additional 1,875,000 Class A Restricted Voting Units, at a price of CDN\$10.00 per Class A Restricted Voting Unit, to cover over allotments, if any, and for market stabilization purposes. On January 19, 2018, the Underwriter partially exercised its Over-Allotment Option to acquire an additional 975,000 Class A Restricted Voting Units, and as a result, an aggregate of 13,475,000 Class A Restricted Voting Units were issued pursuant to the Offering (for aggregate proceeds of CDN\$134,750,000).

Following the closing of the Qualifying Transaction, each of the 13,474,000 non-redeemed Class A Restricted Voting Shares was automatically converted into one Subordinate Voting Share. Each Warrant is exercisable to purchase one Subordinate Voting Share and each Right represents the entitlement to automatically receive, for no additional consideration, one tenth (1/10) of one Subordinate Voting Share. All Warrants became exercisable at a price of CDN\$11.50 per share, effective 65 days after the completion of the Qualifying Transaction (on July 28, 2019, subject to certain early exercise rights described below), and will expire on the day that is five years after the completion of the Qualifying Transaction (being May 24, 2024), and will (except in the case of certain Warrants held by the Sponsor) expire earlier if the expiry date of the Warrants is accelerated. Holders of Warrants were granted an additional right (the “Early Exercise Right”) to exercise, for cash only, their Warrants at any time commencing on July 15, 2019 until July 26, 2019 (the “Early Exercise Period”). For each Warrant duly exercised during the Early Exercise Period, Ayr paid a commitment fee of CDN\$0.50, which was offset against the payment of the applicable exercise price, resulting in a net payment of CDN\$11.00. Throughout the Early Exercise Period, 298,200 warrants were exercised at a price of \$8.25 (CDN\$11), resulting in proceeds of \$2.4 million (CDN\$3.3 million).

Each Class A Restricted Voting Unit commenced trading on December 21, 2017 on the NEO Exchange under the symbol “CSA.UN”, and separated into its underlying Class A Restricted Voting Share, Warrant and Right following the close of business on January 30, 2018, (40 days following the closing of the Offering). Until closing of the Qualifying Transaction, the Class A Restricted Voting Units, the Warrants (including the Founders’ Warrants (as defined below) and the Warrants underlying the Class B Units (as defined below)) and the Rights traded under the symbols “CSA.A”, “CSA.WT” and “CSA.RT”, respectively. The Class B Shares issued to the Founders (as defined below) and the Class B Units issued to the Sponsor (as defined below) were not listed on the NEO Exchange.

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

1. NATURE OF OPERATIONS (Continued)

Concurrent with the completion of the Offering, for total proceeds of CDN\$25,000, Mercer Park CB, L.P. (the “Sponsor”), a limited partnership formed under the laws of the State of Delaware, indirectly controlled by Mercer Park, L.P., a privately held family office based in New York, New York and Kamaldeep Thindal and Charles Miles (or persons or companies controlled by them) (collectively with the Sponsor, the “Founders”) purchased an aggregate of 3,434,298 Class B Shares (“Founders’ Shares”), consisting of 3,415,438 Class B Shares purchased by the Sponsor, 9,430 Class B Shares purchased by Kamaldeep Thindal, and 9,430 Class B Shares purchased by Charles Miles, including the forfeiture without compensation of an aggregate of 227,812 Founders’ Shares by the Founders due to the partial exercise of the Over-Allotment Option). In addition, in connection with the Offering (and following the exercise of the Over-Allotment Option), the Sponsor purchased an aggregate of 262,188 Class B Units (the “Class B Units”) at CDN\$10.00 per Class B Unit and 2,621,870 Warrants (“Founders’ Warrants”) at CDN\$1.00 per Founders’ Warrant. Each Class B Unit consisted of one Class B Share, one Warrant and one Right. The Founders’ Warrants were subject to the same terms and conditions as the Warrants underlying the Class A Restricted Voting Units and Class B Units. The Rights underlying the Class B Units were subject to the same terms and conditions as the Rights underlying the Class A Restricted Voting Units.

The proceeds of CDN\$134,750,000 from the Offering (including the partial exercise of the Over-Allotment Option) were held by Odyssey Trust Corporation, acting as escrow agent, in an escrow account (the “Escrow Account”) at a Canadian chartered bank or subsidiary thereof, in accordance with the escrow agreement. Subject to applicable law and payment of certain taxes, permitted redemptions and certain expenses, as further described herein, none of the funds held in the Escrow Account were permitted to be released to the Corporation prior to the closing of the Qualifying Transaction. The escrowed funds were held to enable the Corporation to: (i) satisfy redemptions made by holders of Class A Restricted Voting Shares; (ii) fund the Qualifying Transaction with the net proceeds following payment of any such redemptions and deferred underwriting commissions, and/or (iii) pay taxes on amounts earned on the escrowed funds and certain permitted expenses. Such escrowed funds and all amounts earned, subject to such obligations and applicable law, were assets of the Corporation. The deferred underwriting commissions were paid through the escrow account on completion of the Qualifying Transaction.

In addition to regulatory approvals, consummation of the Qualifying Transaction required approval by (i) a majority of the directors unrelated to the Qualifying Transaction, and (ii) a majority of the holders of the Class A Restricted Voting Shares and Class B Shares, voting together as if they were a single class of shares. Approval was obtained at a shareholders meeting to consider the Qualifying Transaction, held on March 18, 2019.

Irrespective of whether they voted for or against, or did not vote on the proposed Qualifying Transaction, holders of Class A Restricted Voting Shares were entitled to elect to redeem all or a portion of their Class A Restricted Voting Shares at a per share price, payable in cash, equal to the pro rata portion per Class A Restricted Voting Share of: (A) the escrowed funds available in the Escrow Account at the time of the shareholders meeting, including interest and other amounts earned thereon; less (B) an amount equal to the total of (i) applicable taxes payable by the Corporation on such interest and other amounts earned in the Escrow Account and (ii) actual and expected direct expenses related to the redemption, each as reasonably determined by the Corporation, subject to certain limitations. Each holder of Class A Restricted Voting Shares, together with any affiliate of such holder or any other person with whom such holder or affiliate is acting jointly or in concert, were subject to a redemption limitation of an aggregate 15% of the number of Class A Restricted Voting Shares issued and outstanding. Class B Shares were not redeemable in connection with the Qualifying Transaction. In connection with the Qualifying Transaction, 1,000 Class A Restricted Voting Shares were redeemed at a redemption price of \$10.11 per share.

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

2. BASIS OF PRESENTATION

2.1 Statement of compliance

These unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2019 (and comparative results for the three and nine months ended September 30, 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”). Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by the International Accounting Standards Board (“IASB”).

These unaudited condensed interim consolidated financial statements should be read in conjunction with the Corporation’s audited consolidated financial statements for the period ended December 31, 2018 and for the year ended September 30, 2018, and the related notes thereto, and have been prepared using the same accounting policies described therein with the exception of the significant accounting policies adopted as a result of the completion of the Qualifying Transaction as described in Notes 1 and 5 and the initial application of IFRS 16 – Leases (“IFRS 16”) effective beginning January 1, 2019.

These unaudited condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Corporation on November 18, 2019.

2.2 Basis of presentation and measurement

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 United States dollars which is the presentation currency. The functional currency of each entity is determined separately in accordance with International Accounting Standard IAS 21 – *Foreign Exchange* and is measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The functional currency of Ayr (“the parent”) is Canadian dollars (CDN\$) and for each of the United States subsidiaries is United States dollars (US\$ or \$).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of consolidation

The unaudited interim consolidated financial statements for the three and nine months ended September 30, 2019 include the accounts of the Corporation, its wholly-owned subsidiaries, and entities over which the Corporation has control as defined in IFRS 10. Entities over which the Corporation has control are presented on a consolidated basis from the date control commences. Control exists when the Corporation is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. All of the consolidated entities were under control during the entirety of the periods for which their respective results of operations were included in the consolidated statements (i.e., from the date of the acquisitions). All intercompany balances and transactions are eliminated on consolidation.

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Property, plant and equipment (“PPE”)

PPE 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 – 3 to 5 years
- Machinery and equipment – 5 to 15 years
- Auto and trucks – 5 years
- Assets under construction – Not depreciated

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 unaudited condensed interim consolidated statements of income (loss) and comprehensive income (loss).

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

The Corporation 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 Corporation prospectively.

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

3.3 Taxation

The income tax payable is based on taxable income for the period. Taxable income differs from “income before taxes” as reported in the unaudited condensed interim consolidated statements of income (loss) and comprehensive income (loss) because of items of income or expenses that are taxable or deductible in other years and items that are never taxable or deductible.

Current income tax represents the expected income taxes recoverable (or payable) on taxable income for the period using income tax rates enacted or substantively enacted at the end of the reporting period and taking into account any adjustments arising from prior years.

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Taxation (continued)

Deferred taxes are accounted for using the liability method. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities in the unaudited consolidated interim financial statements and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates in effect for the period in which those temporary differences are expected to be recovered or settled.

The effect of a change in tax rates on deferred tax assets and liabilities is recognized in earnings in the period that includes the substantive enactment date. A deferred tax asset is recognized initially when it is probable that future taxable income will be sufficient to use the related tax benefits and may be subsequently reduced, if necessary, to the extent that it is probable that future taxable profits will be available. A deferred tax expense or benefit is recognized in other comprehensive earnings or otherwise directly in equity to the extent that it relates to items that are recognized in other comprehensive earnings or directly in equity in the same or a different period.

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 Corporation 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 Revenue

IFRS 15 – Revenue from contracts with customers (“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 pattern and timing of revenue recognition is consistent with prior year practice. There were no adjustments recognized on the adoption of IFRS 15 in the year ended December 31, 2018. The Corporation’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 cultivation, manufacturing and retail of cannabis products and branded cannabis packaged goods is recognized when the Corporation transfers control of the good to the customer. In some cases, judgment 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.

In determining the appropriate time of sale, the Corporation takes into consideration a) the Corporation’s right to payment for the goods or services; b) customers legal title; c) transfer of physical possession of the goods; and d) timing of acceptance of goods.

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

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Intangible assets

a) Goodwill

The Corporation measures goodwill as the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount of the identifiable assets and liabilities assumed, all measured as at the acquisition date. Goodwill is allocated to the Cash Generating Units (“CGU” or “CGU’s”) to which it relates. CGU’s have been grouped for purposes of impairment testing. Impairment testing is performed annually by the Corporation. Management makes estimates during impairment testing as judgment is required to determine indicators of impairment and estimates are used to measure impairment losses. The recoverable value of goodwill is determined by using discounted future cash flows, which incorporates assumptions regarding future events, growth rates and discount rates. The Corporation has determined that the goodwill with all acquisitions belong to the United States subsidiaries as this is the lowest level at which management monitors goodwill.

b) Finite life and indefinite life intangible assets

Intangible assets are recorded at cost, less accumulated amortization and impairment losses. 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 licences and trade name/brand have useful lives of 15 and 5 years, respectively. 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.

3.6 Financial instruments

Recognition and initial measurement

Financial assets and financial liabilities, including derivatives, are recognized when the Corporation 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 (as defined below), 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 the unaudited condensed interim consolidated statements of income (loss) and comprehensive income (loss).

Classification and subsequent measurement

The Corporation classifies financial assets, at the time of initial recognition, according to the Corporation’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”).

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Financial instruments (continued)

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 the unaudited condensed interim consolidated statements of income (loss) and comprehensive income (loss) 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 Corporation 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 the unaudited condensed interim consolidated statements of income (loss) and comprehensive income (loss) in the period that the liability is derecognized, except for financial liabilities classified as FVTPL.

Refer to Note 22 for the classification and FV level of financial instruments.

Impairment of financial instruments – Expected credit losses (“ECL”)

For all financial assets recorded at amortized cost, the Corporation applies the simplified approach to provide expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all accounts receivables based on the Corporation’s historical default rates over the expected life of the accounts receivable 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.

ECL are calculated as the product of the probability of default, exposure at default and loss given default over the remaining expected life of the receivables. No ECL has been recorded by the Corporation as all receivables are expected to be collected and are not significant.

Derecognition

The Corporation 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 unaudited condensed interim consolidated statements of income (loss) and comprehensive income (loss).

The Corporation 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 unaudited condensed interim consolidated statements of income (loss) and comprehensive income (loss).

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Impairment of non-financial assets

At each financial reporting date, the Corporation 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 Corporation estimates the recoverable amount of the CGU to which the assets belong.

The recoverable amount is the higher of fair value less the 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 CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in the unaudited condensed interim consolidated statements of income (loss) and comprehensive income (loss).

Where an impairment loss subsequently reverses, the carrying amount of the asset (CGU) 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 CGU) in prior years. A previously recognized 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 recognized.

Goodwill and intangible assets with indefinite useful lives are tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill and intangible assets with indefinite useful lives are allocated to CGUs for purposes of impairment testing. An impairment test is performed by determining the recoverable amount of the CGU to which the goodwill or intangible assets with indefinite useful lives relates. The recoverable amount of a CGU or individual asset is the higher of its value in use and its fair value less costs of disposal. Where the recoverable amount is less than the carrying amount, an impairment loss is recognized in the unaudited condensed interim consolidated statements of income (loss) and comprehensive income (loss). Impairment losses recognized on goodwill are not reversed in subsequent periods.

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Biological assets

The Corporation's biological assets consist of cannabis plants, from the date of initial cutting from mother plants, which are not yet harvested. While the Corporation's biological assets are within the scope of IAS 41 – *Agriculture*, the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2 – *Inventories*. They include the direct cost of seeds and growing materials as well as other direct costs such as utilities and supplies used in the growing process. Indirect labor for individuals involved in the growing and quality control process is also included, as well as depreciation on production equipment and the building portion associated with the growing space. All direct and indirect costs of biological assets are capitalized as they are incurred and they are subsequently recorded within the line items in “cost of sales” on the unaudited condensed interim consolidated statements of income (loss) and comprehensive income (loss) in the period that the related product is sold. Unrealized fair value gains/losses on growth of biological assets are recorded in a separate line on the face of the unaudited condensed interim consolidated statements of income (loss) and comprehensive income (loss). Biological assets are measured at their fair values less costs to sell in the unaudited condensed interim consolidated statements of financial position.

Mother plants, or bearer plants, are plants grown for the purpose of taking cuttings in order to grow more quantities of the same plants. Bearer plants are critical to the success of the business and once mature, are held solely to grow produce over their useful lives. Costs attributed to the growing of mother plants are included in the costs of biological assets.

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 Corporation reviews inventories for obsolete, redundant and slow-moving goods and any such inventories identified are written down to net realizable value.

3.10 Cash

The Corporation 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 Corporation 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.

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Significant accounting judgments and estimates

The application of the Corporation'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 unaudited condensed interim 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.

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

(a) Biological assets and inventory

In calculating the value of the biological assets and 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 PPE are dependent upon estimates of useful lives, which are determined through the exercise of judgments. 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 and goodwill

Management uses significant judgment in determining the fair value of intangible assets and goodwill, 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.

The Corporation uses judgment in determining the grouping of assets by identifying CGU's for purposes of testing for impairment of goodwill and intangible assets. The Corporation's estimate of CGU's or a group of CGU's recoverable amount based on value in use involves estimating future cash flows before taxes. Future cash flows are estimated based on multi-year extrapolation of the most recent historical actual results and budgets calculated by discounting the final year in perpetuity.

(d) Stock-based compensation

The fair value of stock-based compensation expenses are estimated using an option pricing model and rely on a number of estimates, such as expected life of the option, the volatility of the underlying share price, the risk free rate of return, and the estimated rate of forfeitures of options granted.

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Significant accounting judgments and estimates (continued)

(e) Business combination

Judgment is used in determining whether an acquisition is a business combination or an asset acquisition. In determining the allocation of purchase price in a business combination including any acquisition related contingent consideration, estimates including market based and appraisal values are used. The Corporation measures all assets acquired and liabilities assumed at their acquisition date fair values.

(f) Income taxes

In assessing the probability of realizing income tax assets, management makes estimates related to the expectation of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary difference and the likelihood the tax positions taken will be sustained upon examination by applicable tax authorities.

(g) Financial instruments

To determine the fair value of financial instruments, the Corporation develops assumptions and selects certain methods to perform the fair value calculations. Various methods considered include but are not limited to: (a) assigning the value attributed to the transaction at the time of origination; (b) re-measuring the instrument as it requires concurrent fair value measurement; and (c) valuing the instrument at the issuance value less any amortized costs. As judgement is a factor in determining the value and selecting a method, as well as, the inherent uncertainty in estimating the fair value, the valuation estimates may be different.

(h) Provisions and contingent liabilities

When the Corporation is more likely than not to incur an outflow of resources to settle an obligation and the amount can be reasonably estimated, a contingent liability is recorded. The contingent liability is recorded at management's best estimates of the expenditure required to settle the obligation at period end, discounted to the present value, if material.

3.13 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.

3.14 Investment in associates

An associate is an entity over which the Corporation 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 Corporation's interest in an associate is adjusted for the Corporation'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 presumed if the Corporation holds between 20% and 50% of the voting rights, unless evidence exists to the contrary.

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Investment in associates (continued)

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 Corporation has joint control and rights to the net assets thereof, are defined as joint ventures.

Investees in which the Corporation has significant influence are accounted for using the equity method. The Corporation's interest in an investee is initially recorded at cost and is subsequently adjusted through the equity method. Where the Corporation transacts with an investee, unrealized profits and losses are eliminated to the extent of the Corporation's interest in that investee.

3.15 Leases

Policy applicable as of January 1, 2019 – adoption of IFRS 16, also refer to Note 4

The Corporation 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 income (loss) and comprehensive income (loss) over the lease period 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 Corporation 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 Corporation is reasonably certain to exercise. Renewal options are included in a number of leases across the Corporation.

Payments associated with short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis in the unaudited condensed interim consolidated statements of income (loss) and comprehensive income (loss). 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 are not subject to a fair market value renewal are expensed as incurred and recognized in unaudited condensed interim consolidated statements of income (loss) and comprehensive income (loss).

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 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 Corporation 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.

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the unaudited condensed interim consolidated statements of income (loss) and comprehensive income (loss).

The results and financial position of an entity that has a functional currency different from the presentation currency is translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognized as a separate component of comprehensive income (loss).

Effect of translation differences are accumulated and presented as a component of equity under other comprehensive income (loss).

3.17 Business combination

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The Corporation measures goodwill as the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount of the identifiable assets and liabilities assumed, all measured as at the acquisition date.

Consideration transferred includes the fair value of the assets transferred (including cash), liabilities incurred by the Corporation on behalf of the acquiree, the fair value of any contingent consideration and any equity interests issued by the Corporation. Transaction costs, other than those associated with the issuance of debt or equity securities that the Corporation incurs in connection with a business combination, are expensed as incurred.

The acquisition date is the date when the Corporation obtains control of the acquiree. Contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as a liability is re-measured at subsequent reporting dates in accordance with the criteria and guidance provided under IFRS with corresponding gain or loss recorded in the statement of income (loss) and comprehensive income (loss).

3.18 Change in accounting policy

Pursuant to completion of the Qualifying Transaction as explained in Note 1 to the unaudited condensed interim consolidated financial statements, on May 24, 2019, the Corporation decided to change the presentation currency of its consolidated financial statements from CDN\$ to US\$, effective since the condensed interim consolidated financial statements for the three and six months ended June 30, 2019.

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18 Change in accounting policy (continued)

The Board of Directors believe that US dollar financial reporting provides more relevant presentation of the Corporation's financial position, funding and treasury functions, financial performance and cash flows.

A change in presentation currency represents a change in accounting policy in terms of IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*, requiring the restatement of comparative information.

In accordance with IAS 21 – *The Effects of Changes in Foreign Exchange Rates*, the methodology followed in restating historical financial information from CDN\$ to US\$ is listed in Note 3.16.

The average and closing rates used in translating the historical financial information from CDN\$ to US\$ for the various periods were as follows:

- The closing rate used as at December 31, 2017 was \$0.7971; as at September 30, 2018 was \$0.7725; as at December 31, 2018 was \$0.7330.
- The average rate used for the six months ended June 30, 2018 was \$0.7827; for the nine months ended September 30, 2018 was \$0.7769; and for the three months ended September 30, 2018 was \$0.7652.

3.19 Earnings (loss) per share

The basic earnings (loss) per share is computed by dividing the net income (loss) by the weighted average number of common shares outstanding during the period. The diluted gain (loss) per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. The “treasury stock method” is used for the assumed proceeds upon the exercise of the options and warrants that are used to purchase common shares at the average market price during the period. During the nine months ended September 30, 2019 and the three and nine months ended September 30, 2018 all the outstanding stock options and warrants were antidilutive.

3.20 Stock-based payments

(a) Stock-based payment transactions

Employees (including directors and senior executives) of the Corporation receive a portion of their remuneration in the form of stock-based payment transactions, whereby employees render services as consideration for equity instruments (“equity settled transactions”).

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the Corporation as consideration cannot be specifically identified, they are measured at fair value of the stock-based payment.

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted, using an appropriate valuation model.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the “vesting date”).

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20 Stock-based payments (continued)

(a) Stock-based payment transactions (continued)

The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Corporation's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in contributed surplus. At the end of each reporting period, the Corporation re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions in the unaudited condensed interim consolidated statements of income (loss) and comprehensive income (loss).

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity settled award are modified, the minimum expense recognized is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense is recognized for any modification which increases the total fair value of the stock-based payment arrangement or is otherwise beneficial to the employee as measured at the date of modification. Where an award is cancelled by the Corporation or the counterparty, any remaining element of the fair value of the award is derecognized immediately through the unaudited condensed interim consolidated statements of income (loss) and comprehensive income (loss).

The dilutive effect of outstanding options is reflected as additional dilution in the computation of earnings per share.

(b) Warrants

The Corporation measures the fair value of warrants issued using the Black-Scholes option pricing model or using the quoted price (if warrants are traded). The fair value of each warrant is estimated based on their respective issuance dates taking into account volatility, expected life, the dividend rate, and the risk-free interest rate.

4. CHANGES IN ACCOUNTING STANDARDS

Changes in accounting standards adopted

Adoption of IFRS 16 – Leases

The Corporation adopted 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 Corporation typically involves the leases of land or buildings to operate cannabis dispensaries, processing or cultivation facilities or corporate offices.

The Corporation previously classified leases as either operating or finance leases from the perspective of the lessee. Under IFRS 16, the Corporation recognizes right-of-use assets and lease liabilities for most leases. The Corporation adopted IFRS 16 using the modified retrospective cumulative catch-up approach beginning on January 1, 2019. Under this approach, the Corporation did not restate its comparative amounts and recognized a right-of-use asset equal to the present value of the future lease payments. The Corporation 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.

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

4. CHANGES IN ACCOUNTING STANDARDS (Continued)

Changes in accounting standards adopted (continued)

As at December 31, 2018, the Corporation had no leases and as a result, there was no impact to the financial statements on adoption of IFRS 16.

5. BUSINESS COMBINATION

As explained in Note 1 to the unaudited condensed interim consolidated financial statements, on May 24, 2019 (the “acquisition date”), the Corporation completed its concurrent acquisitions of the target businesses of Washoe, Canopy, Sira, LivFree, and CannaPunch, which collectively constituted its Qualifying Transaction. Any summary information of certain material terms from definitive agreements in respect of the acquisitions of Washoe, Canopy, Sira, LivFree, and CannaPunch (respectively, the “Washoe Agreement”, the “Canopy Agreement”, the “Sira Agreement”, the “LivFree Agreement”, and the “CannaPunch Agreement”, collectively the “Definitive Agreements”) 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.

Each of the acquisitions are subject to specific terms relating to the satisfaction of the purchase price by the Corporation and its wholly-owned subsidiary, CSAC AcquisitionCo, and incorporates payments in cash, shares and debt as well as certain contingent consideration. The shares issued as consideration are non-voting exchangeable 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.

The details of the purchase price consideration are summarized as follows:

	Cash	Debt Payable	Shares Issued	Other	Total
	\$	\$	\$	\$	\$
Total Consideration	76,420,000	37,140,000	125,421,479	31,415,182	270,396,661

The purchase consideration consists of cash, debt, Exchangeable Shares, and other consideration. The other consideration includes a contingent cash payment based on certain milestones being met as detailed in the Sira Agreement, a payment for excess inventory as outlined in the Sira Agreement, and make-whole provisions as outlined in the Canopy Agreement and the Washoe Agreement.

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

5. BUSINESS COMBINATION (Continued)

The fair value of the identifiable assets acquired and liabilities assumed as at the acquisition date are as follows:

US\$	Livfree \$	Sira \$	Cannapunch \$	Washoe \$	Canopy \$	Total \$
ASSETS ACQUIRED						
Cash and cash equivalents	1,258,928	270,280	7,233	21,458	147,930	1,705,829
Accounts receivable	-	600,151	568,536	87,617	-	1,256,304
Inventory	2,055,494	8,827,851	422,148	3,579,291	1,198,117	16,082,901
Biological assets	-	1,112,726	-	1,763,516	-	2,876,242
Prepaid expenses and other assets	96,157	340,428	-	129,478	160,748	726,811
Intangible assets	107,000,000	59,000,000	2,320,000	20,600,000	10,400,000	199,320,000
Property, plant and equipment	1,717,712	8,473,534	480,600	8,918,005	1,206,585	20,796,436
Right-of-use assets	2,598,532	5,695,449	623,947	-	1,967,525	10,885,453
Due from related parties	-	-	-	1,020,761	1,805,494	2,826,255
Deposits	90,147	149,251	-	91,574	9,983	340,955
Investment in associates	3,610,628	-	-	-	-	3,610,628
Total assets acquired at fair value	118,427,598	84,469,670	4,422,464	36,211,700	16,896,382	260,427,814
LIABILITIES ASSUMED						
Trade payables	387,500	475,193	251,829	506,073	-	1,620,595
Accrued liabilities	1,176,088	970,418	46,972	100,412	520,453	2,814,343
Deferred tax liabilities	25,566,857	16,104,180	545,588	1,728,940	2,729,490	46,675,055
Advance from related parties	187,809	-	-	1,805,494	1,020,761	3,014,064
Lease obligations	2,224,892	5,623,733	587,310	-	2,451,923	10,887,858
Debts payable	120,000	13,054	-	9,171,064	421,128	9,725,246
Total liabilities assumed at fair value	29,663,146	23,186,578	1,431,699	13,311,983	7,143,755	74,737,161
Goodwill	34,476,355	17,889,983	14,155,426	10,961,195	7,223,049	84,706,008
Total Purchase Price	123,240,807	79,173,075	17,146,191	33,860,912	16,975,676	270,396,661

The goodwill recognized on acquisition is attributable mainly to the expected future growth potential and expanded customer base arising as a result of the completion of the Qualifying Transaction as explained in Note 1 to the unaudited condensed interim consolidated financial statements. Goodwill has been allocated to the CGUs corresponding to each of the acquired businesses. None of the goodwill is expected to be deductible for income tax purposes.

During the three and nine months ended September 30, 2019, the Corporation incurred acquisition costs of \$968,580 and \$5,123,661, as reflected in the statement of income (loss) and comprehensive income (loss).

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

5. BUSINESS COMBINATION (Continued)

Sira Acquisition

Sira is a vertically-integrated cannabis company with cultivation, extraction, production, manufacturing, distribution and retail dispensary operations in Massachusetts. Sira operates its dispensaries in the medical market in Massachusetts.

Purchase consideration was comprised of the following:

		Shares	Value
Cash	i	\$ 17,500,000	
Debt Payable	ii		5,000,000
Shares Issued	iii	1,885,606	29,165,138
Contingent Consideration	iv		21,820,132
Inventory Payment	v		6,091,357
Working Capital Receivable	vi		(403,552)
Total		1,885,606	79,173,075

Pursuant to the terms of the Sira Agreement, Ayr satisfied the purchase price of \$79.2 million for Sira through the following:

- i. \$17.5 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. \$29.2 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 of the Corporation. These shares have restrictions on their ability to be sold for twelve months (the “Lock-Up Provision”);
- iv. A portion of the Sira purchase price is derived from an earn-out provision that may entitle the sellers to earn additional consideration, if certain milestones are achieved at Sira’s planned final cultivation facility in Milford, MA over its first full year of operation, which is expected to be 2021;
- v. 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; and
- vi. Settlement following the final working capital adjustment (the value included is an estimate).

One-third of the Inventory Payment, subject to a cap of \$2,500,000, was paid on the Closing Date and is included in the cash consideration listed above. The remaining two-thirds is part of the current portion of purchase consideration payable as set out on the unaudited condensed interim consolidated statement of financial position.

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

5. BUSINESS COMBINATION (Continued)

Canopy Acquisition

Canopy is an owner and operator of cannabis dispensaries in Nevada, with an established footprint in Reno, NV. Canopy operates its dispensaries in both the medical and adult-use recreational markets under the Mynt Cannabis dispensary brand.

Purchase consideration was comprised of the following:

		Shares	Value
Cash	i	\$	7,000,000
Debt Payable	ii		4,500,000
Shares Issued	iii, iv	265,360	4,349,003
Make-Whole Provision	v		1,389,182
Working Capital Receivable	vi		(262,509)
Total		265,360	16,975,676

Pursuant to the terms of the Canopy Agreement, Ayr satisfied the purchase price of \$17.0 million for Canopy through the following:

- i. \$7.0 million of the Canopy purchase price was paid in the form of cash consideration;
- ii. \$4.5 million of the Canopy purchase price was paid in the form of a promissory note payable;
- iii. \$4.3 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 of the Corporation. These shares have restrictions on their ability to be sold for six to twelve months (the “Lock-Up Provision”);
- iv. An additional 15,360 Exchangeable Shares were issued to Canopy pursuant to certain make-whole provisions (the “Canopy Make-Whole Provisions”);
- v. 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; and
- vi. Settlement following the final working capital adjustment (the value included is an estimate).

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

5. BUSINESS COMBINATION (Continued)

Washoe Acquisition

Washoe is a Nevada-based cannabis company with cultivation, extraction, processing, manufacturing and distribution capabilities. Washoe operates in both the medical and adult-use segments of the Nevada cannabis market.

Purchase consideration was comprised of the following:

		Shares	Value
Cash	i	\$ 21,670,000	
Debt Payable	ii		5,640,000
Shares Issued	iii, iv	270,000	4,260,775
Make-Whole Provision	v		1,424,536
Working Capital Payable	vi		865,601
Total		270,000	33,860,912

Pursuant to the terms of the Washoe Agreement, Ayr satisfied the purchase price of \$33.9 million for Washoe through the following:

- i. \$21.7 million of the Washoe purchase price was paid in the form of cash consideration;
- ii. \$5.6 million of the Washoe purchase price was paid in the form of a promissory note payable;
- iii. \$4.3 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 of the Corporation. These shares have restrictions on their ability to be sold for six to twelve months (the “Lock-Up Provision”);
- iv. Pursuant to the terms of the Washoe Agreement, Ayr issued 13,636 Exchangeable Shares to a Washoe lender;
- v. Additional Exchangeable Shares are also issuable to the Washoe sellers pursuant to certain make-whole provisions (the “Washoe Make-Whole Provisions”) in the Washoe Agreement based on a formula specified therein relating to the market price of the Subordinate Voting Shares on certain specified dates; and
- vi. Settlement following the final working capital adjustment (the value included is an estimate).

CSAC AcquisitionCo agreed to fund a bonus payment in the amount of \$5,000,000 to various employees and consultants of Washoe; this amount is included in the cash consideration above.

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

5. BUSINESS COMBINATION (Continued)

LivFree Acquisition

LivFree is a leading Nevada-based cannabis company with retail dispensary operations in Las Vegas and Reno, Nevada. LivFree operates in both the medical and adult-use segments of the Nevada cannabis market. LivFree operates three retail dispensaries where it sells products purchased in the wholesale market. LivFree has licenses to operate medical marijuana dispensary, cultivation, and production facilities, and adult-use/recreational marijuana retail dispensary and production facilities.

Purchase consideration was comprised of the following:

		Shares	Value
Cash	i		\$ 29,500,000
Debt Payable	ii		20,000,000
Shares Issued	iii, iv	4,664,182	73,525,577
Working Capital Payable	v		215,230
Total		4,664,182	123,240,807

Pursuant to the terms of the LivFree Agreement, Ayr satisfied the purchase price of \$123.2 million for LivFree through the following:

- i. \$29.5 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. \$69.1 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 of the Corporation. These shares have restrictions on their ability to be sold for six to twelve months (the "Lock-Up Provision");
- iv. \$4.4 million of the LivFree purchase price was paid, pursuant to an amendment to the definitive agreement in respect of the LivFree Acquisition dated as at the Closing Date, in the form of an additional 321,750 Exchangeable Shares to the LivFree sellers; and
- v. Settlement of the final working capital adjustment.

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

5. BUSINESS COMBINATION (Continued)

CannaPunch Acquisition

CannaPunch extracts raw cannabis plant material to create processed cannabis oil for use in vaporizer cartridges and pens or as an input into other infused products, as well as finished extract products such as wax and shatter. CannaPunch manufactures a variety of cannabis-infused products, including beverages, gummies, chocolates, CBD cream, and vaporizer pens.

Purchase consideration was comprised of the following:

		Shares	Value
Cash	i	\$	750,000
Debt Payable	ii		2,000,000
Shares Issued	iii, iv	898,739	14,120,986
Working Capital Payable	v		275,205
Total		898,739	17,146,191

Pursuant to the terms of the CannaPunch Agreement, Ayr satisfied the purchase price of \$17.1 million for CannaPunch through the following:

- i. \$0.8 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. \$13.7 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 of the Corporation. These shares have restrictions on their ability to be sold for six to twelve months (the “Lock-Up Provision”);
- iv. \$0.4 million of the CannaPunch purchase price was paid, pursuant to an amendment to the definitive agreement in respect of the CannaPunch acquisition dated June 7, 2019, in the form of an additional 32,071 Exchangeable Shares to the CannaPunch sellers; and
- v. Settlement of the final working capital adjustment.

Fair Value Considerations

The consideration has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The purchases have been accounted for by the acquisition method, with the results included in the Corporation’s net earnings from the date of acquisition.

The consideration that is subject to a Lock-Up Provision or that is payable under a Make-Whole provision is measured at fair value based on unobservable inputs and is considered a Level 3 measurement. The fair value was determined by the Corporation’s share price at the acquisition date and other inputs based on other observable market data. The earn-out provision in the Sira purchase agreement has been measured at fair value by taking a probability-weighted average of possible outcomes, as estimated by management, and discounting the payment to the acquisition date. Refer to Note 16 for the Make-Whole provision and contingent consideration fair value treatment subsequent to the acquisition.

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

5. BUSINESS COMBINATION (Continued)

Fair Value Considerations (continued)

Final valuations of the assets acquired and liabilities assumed are not yet complete due to the inherent complexity associated with valuations and the short period of time between the acquisition date and the period end. Therefore, the purchase price allocation is preliminary and subject to adjustment on completion of the valuation process and analysis of resulting tax effects. Management will finalize the accounting for the acquisitions no later than one year from the date of the respective acquisition dates as required under IFRS 3. Accordingly, all fair value adjustments are in progress. Differences between these provisional estimates and the final acquisition accounting may occur and these differences could have a material impact on future financial performance.

Goodwill and Intangibles

The goodwill balance reflects the benefits of assembled workforce, expected earnings and future market development. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. Goodwill will not be amortized and will be reviewed for impairment on an annual basis.

Pro Forma Disclosures

The above acquisitions contributed revenues of \$42.9 million and net loss of \$0.3 million, resulting in an increase in the net loss per share of approximately \$0.01 as part of the Corporation's consolidated results from their dates of acquisition, excluding the impact of fair value adjustments and any amortization of intangibles assumed on acquisition. If each acquisition had occurred on January 1, 2019, management estimates that consolidated revenue would have increased by \$36.6 million, and the net loss would have decreased by \$7.6 million for the nine months ended September 30, 2019, which would have resulted in a decrease in the net loss per share of approximately \$0.53. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisitions had occurred on January 1, 2019.

6. INVENTORY

The Corporation's inventory includes the following:

	September 30, 2019	December 31, 2018
	\$	\$
Work in process	6,526,306	-
Finished goods	627,921	-
Total Cultivation and Production Inventory	7,154,227	-
Retail Inventory	5,316,848	-
Supplies and others	1,923,061	-
Total Inventory	14,394,136	-

Inventories expensed as cost of goods sold during the three and nine months ended September 30, 2019 was \$11,495,177 and \$15,286,066, and for the three and nine months ended September 30, 2018 was \$Nil and \$Nil. These exclude other direct and indirect costs included as part of cost of goods sold as well as the fair market value changes of biological assets.

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

7. BIOLOGICAL ASSETS

The continuity of biological assets is as follows:

	September 30, 2019	December 31, 2018
	\$	\$
Acquired on completion of Qualifying Transaction [Notes 1 & 5]	2,876,242	-
Changes in fair value less costs to sell due to biological transformation	8,342,578	-
Transferred to inventory upon harvest	(8,787,315)	-
Balance, at end	2,431,505	-

As at September 30, 2019, the weighted average fair value less cost to complete and cost to sell was \$4.44 per gram.

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 the key 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	
			September 30, 2019	December 31, 2018
			\$	\$
Selling price per gram*	\$6.86 to \$7.86	Increase or decrease of \$1 per gram	709,247	-
Average yield per plant	207 to 217 grams	Increase or decrease by 5 grams per plant	47,415	-

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

The Corporation'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 at September 30, 2019, the biological assets were on average 56% complete and the average number of weeks in the growing cycle was 20 weeks. As at September 30, 2019, the Corporation's biological assets produced 2,091,708 grams of dried cannabis.

8. RESTRICTED CASH AND SHORT-TERM INVESTMENTS HELD IN ESCROW

	September 30, 2019	December 31, 2018
	\$	\$
Restricted cash*	-	92,476,045
Investments in Flexible Guaranteed Investment Certificate	-	7,147,046
Accrued interest	-	61,152
Restricted cash and short term investments held in escrow	-	99,684,243

* Restricted cash was transferred to cash and cash equivalents as a result of the completion of the Qualifying Transaction as explained in Note 1.

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

9. PROPERTY, PLANT AND EQUIPMENT

	Buildings & leasehold improvements	Furniture and fixtures	Office equipment	Machinery & equipment	Auto & trucks	Total
	\$	\$	\$	\$	\$	\$
Cost						
As at December 31, 2018	-	-	-	-	-	-
Acquired on completion of Qualifying Transaction [Notes 1 & 5]	18,457,534	764,356	246,344	1,267,153	61,049	20,796,436
Additions	7,532,462	454,901	42,170	68,600	-	8,098,133
As at September 30, 2019	25,989,996	1,219,257	288,514	1,335,753	61,049	28,894,569
Depreciation						
As at December 31, 2018	-	-	-	-	-	-
Depreciation	340,860	88,194	13,611	128,662	39,584	610,911
As at September 30, 2019	340,860	88,194	13,611	128,662	39,584	610,911
Net book value						
As at December 31, 2018	-	-	-	-	-	-
As at September 30, 2019	25,649,136	1,131,063	274,903	1,207,091	21,465	28,283,658

As at September 30, 2019, buildings and leasehold improvements include assets in construction of \$8,901,933. No depreciation has been charged on these assets.

Depreciation expense in cost of goods sold for the three and nine months ended September 30, 2019 and 2018 was \$356,248 and \$474,845 and \$Nil and \$Nil, respectively. Depreciation expense in General and Administrative expenses for the three and nine months ended September 30, 2019 and 2018 was \$98,381 and \$136,066 and \$Nil and \$Nil, respectively.

10. INTANGIBLE ASSETS

	Useful Life # (Years)	September 30, 2019 \$	December 31, 2018 \$
Acquired on completion of Qualifying Transaction [Notes 1 & 5]			
Licenses	15	197,000,000	-
Trade name / brand	5	2,320,000	-
		199,320,000	-
Amortization			
Licenses	15	4,624,910	-
Trade name / brand	5	163,398	-
		4,788,308	-
Net book value			
Licenses		192,375,090	
Trade name / brand		2,156,602	
Total net book value as at		194,531,692	-

11. RIGHT-OF-USE ASSETS AND LEASE OBLIGATIONS

	Right-of-use assets \$	Lease obligations \$
As at December 31, 2018	-	-
Acquired on completion of Qualifying Transaction [Notes 1 & 5]	10,885,453	10,887,859
New leases and re-valuation	554,443	565,866
Less: depreciation and repayment	(399,284)	(166,414)
Net book value at September 30, 2019	11,040,612	11,287,311

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

11. RIGHT-OF-USE ASSETS AND LEASE OBLIGATIONS (Continued)

Right-of-use assets and lease liabilities were acquired on completion of the Qualifying Transaction as explained in Notes 1 and 5 with no net impact on retained earnings. When measuring lease liabilities, the Corporation discounted lease payments using its incremental borrowing rate at May 24, 2019. The weighted-average rate applied was in the range of 9.84% to 11.62%.

The current and long-term lease obligations were \$570,964 and \$10,716,347 respectively. Also refer to Note 4 (Adoption of IFRS 16 – “Leases”).

Interest accretion relating to right-of-use assets during the three and nine months ended September 30, 2019 and 2018 was \$323,991 and \$424,571 and \$Nil and \$Nil, respectively. Depreciation related to right-of-use assets in cost of goods sold for the three and nine months ended September 30, 2019 and 2018 was \$119,666 and \$159,555 and \$Nil and \$Nil, respectively. Depreciation expense related to right-of-use assets in General and Administrative expenses for the three and nine months ended September 30, 2019 and 2018 was \$184,626 and \$239,729 and \$Nil and \$Nil, respectively.

The following table presents the contractual undiscounted cash flows for lease obligations as at September 30, 2019:

	\$
Less than one year	1,806,554
One to five years	9,324,768
More than five years	9,839,406
Total undiscounted lease obligations	20,970,729

12. INVESTMENTS IN ASSOCIATES

The Corporation has a 50% interest in JDSS Investments, LLC (“JDSS”) through the Qualifying Transaction and a 40% interest in Green Garden, LLC (“Green Garden”). Management has concluded that the current interests do not provide control to the Corporation. Accordingly, the investments have been accounted for as investments in associates using the equity method as detailed below for the periods listed. For the three months ended September 30, 2019, the Corporation’s share of loss in JDSS and Green Garden was \$356,728 and \$64,898, respectively.

	Nine months ended September 30, 2019			Year ended December 31, 2018		
	JDSS	Green Garden	Total	JDSS	Green Garden	Total
Acquired on completion of Qualifying Transaction [Notes 1 & 5]	3,610,627	-	3,610,627	-	-	-
Investment	-	500,000	500,000	-	-	-
Share of loss	(248,816)	(64,898)	(313,714)	-	-	-
Net book value, as at	3,361,811	435,102	3,796,913	-	-	-

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

	September 30, 2019		December 31, 2018	
	JDSS	Green Garden	JDSS	Green Garden
Current assets	2,381,488	46,450	-	-
Non-current assets	2,763,506	-	-	-
Current liabilities	1,162,897	-	-	-
Revenue (nine months ended)	3,006,323	-	-	-
Income (nine months ended)	(674,517)	(162,244)	-	-

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

13. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties are defined as management and members of the Corporation 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:

During the period ended September 30, 2019, purchases of harvested cannabis totaling \$359,983 from JDSS are included in cost of goods sold.

The Corporation had entered into an administrative services agreement with the Sponsor for an initial term of 18 months, subject to a possible extension, for office space, utilities and administrative support, which may include payment for services of related parties, for, but not limited to, various administrative, managerial or operational services or to help effect a Qualifying Transaction. The Corporation had agreed to pay \$10,000 per month, plus applicable taxes for such services. As at September 30, 2019, the Corporation satisfied \$163,400, in respect of these services and \$89,644 was owed at December 31, 2018. The service agreement was terminated on May 24, 2019, the date the Qualifying Transaction was completed.

Mercer Park, L.P. entered into a Management Agreement dated May 24, 2019, to provide consulting and management advisory services. As at September 30, 2019, \$325,043 was included in prepaid expenses as an advance for these services. Included in expenses for the three and nine months ended September 30, 2019, are management fees of \$905,334 and \$996,697 that are included in general and administrative expenses [Note 18]. The management fee is paid monthly and varied based on actual costs incurred by the related entity when providing the Corporation administrative support, management services, office space, and utilities. The agreement is a month-to-month arrangement.

As at September 30, 2019 and December 31, 2018, the amount payable to the Corporation's Chief Executive Officer was \$nil and \$446,742, respectively for out-of-pocket expenses paid on behalf of the Corporation with respect to the Qualifying Transaction. The amounts due to the Sponsor and the Corporation's Chief Executive Officer were unsecured, non-interest bearing and are payable no earlier than the date of the consummation of the Qualifying Transaction, with no recourse against the funds held in the Escrow Account. Due to the short-term nature of this arrangement, the fair value of the amounts due to related parties approximated their carrying amount.

During the three and nine months ended September 30, 2019 and 2018, the Corporation incurred professional fees of \$12,125 and \$25,112 and \$7,536 and \$23,399, respectively, to Marrelli Support Services Inc. ("Marrelli Support"), an organization of which the Corporation's former Chief Financial Officer is President. These services were incurred in the normal course of operations for general accounting and financial reporting matters. As at September 30, 2019 and December 31, 2018, Marrelli Support was owed \$4,572 and \$4,370, respectively. These amounts are included in trade payables and accrued liabilities on the Corporation's consolidated statements of financial position.

Directors and officers of the Corporation are considered key members of management. Their compensation for the respective periods was comprised of:

	Three Months Ended		Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	\$	\$	\$	\$
Salaries	369,148	-	471,504	-
Stock based compensation	11,062,444	-	15,582,582	-
Total compensation	11,431,592	-	16,054,086	-

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

14. DEBTS PAYABLE

The details of debts payable were as follows:

	September 30, 2019		Total Debt \$
	Related Party Debt \$	Non-Related Party Debt \$	
Principal payments	42,216,603	2,966,218	45,182,821
Less: current portion	5,763,163	173,644	5,936,807
Total non-current debt	36,453,440	2,792,574	39,246,014

The following table presents the future debt obligation as at September 30, 2019:

Future Debt Obligations	\$
Less than one year	5,936,807
One to five years	39,246,014
More than five years	-
Total Debt Obligations	45,182,821

As part of the Qualifying Transaction, the Corporation issued and assumed notes with related and non-related parties. The related party notes are considered part of the purchase price to the former shareholders of the acquired businesses. As a result of the Qualifying Transaction, several of these individual shareholders are now considered related parties of the Corporation across various roles including directors, officers, and shareholders.

Pursuant to the Sira Agreement, the Corporation issued a related-party promissory note in the amount of \$5,000,000 to a lender of Sira that is secured by a first-priority security interest over all the assets of Sira. The note matures five years from the closing date with a 6% annual interest rate. In addition, the Corporation agreed to assume a non-related party loan of \$29,393 and it matures on November 10, 2020 with a 5.49% annual interest rate. Total balance assumed was \$13,053.

Pursuant to the Canopy Agreement, the Corporation issued a related-party promissory note in the amount of \$4,500,000 to Canopy that is secured by a first-priority security interest over all the assets of Canopy. The note matures five years from the closing date with a 6% annual interest rate. In addition, the Corporation agreed to assume a non-related party loan of \$421,128 and it matures on October 1, 2020 with a 7% annual interest rate.

Pursuant to the Washoe Agreement, the Corporation issued a related-party promissory note in the amount of \$5,640,000 to the members of Washoe that is secured by a first-priority security interest over all the assets of Washoe. The note matures three years from the closing date with a 6% annual interest rate. In addition, the Corporation agreed to assume a related-party member loan that has \$6,561,818 remaining, secured by an all-assets security interest over all assets of Washoe that matures three years from the closing date with a 6% interest rate. The Corporation also agreed to assume non-related party notes of \$2,525,000 and \$190,000 that mature on September 1, 2022 and July 23, 2023 with 5% and 6% annual interest rates, respectively; both are secured by real property owned by Washoe or its subsidiaries. Total balances assumed were \$2,397,152 and \$190,000, respectively.

Pursuant to the LivFree Agreement, the Corporation issued a related-party promissory note in the amount of \$20,000,000 to the members of LivFree that is secured by a first-priority security interest over all the assets of LivFree. The note matures five years from the closing date with a 6% annual interest rate.

Pursuant to the CannaPunch Agreement, the Corporation issued a related-party promissory note in the amount of \$2,000,000 to the members of CannaPunch that is secured by a first-priority security interest over all the assets of CannaPunch. The note matures five years from the closing date with a 6% annual interest rate.

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

14. DEBTS PAYABLE (Continued)

Interest expense associated with related party debt payable for the three and nine months ended at September 30, 2019, was \$649,792 and \$915,594, respectively. There were no such expenses during the prior periods.

15. SHARE CAPITAL

As explained in Notes 1 and 5, on May 24, 2019 the Corporation completed its Qualifying Transaction. As a result, Class A Restricted Voting Shares subject to redemption, which were previously classified as liabilities, were converted into Subordinate Voting Shares and Class B shares were converted into Multiple Voting Shares.

16. DERIVATIVE LIABILITIES

Fair value of Warrants

As at September 30, 2019, the Corporation had 16,060,858 Warrants issued and outstanding.

Each Warrant became exercisable for one Subordinate Voting Share, at a price of CDN\$11.50 per share, commencing 65 days after the completion of the Qualifying Transaction (subject to adjustments, as further described below), and will expire on the day that is five years after the completion of the Qualifying Transaction (being May 24, 2024), or may expire earlier if the expiry date of the Warrants is accelerated.

As the number of Subordinate Voting Shares to be issued by the Corporation upon exercise of the Warrants is not fixed and fail the "fixed for fixed" criteria for equity classification, the Warrants have been classified as derivative liabilities to be measured at FVTPL. The fair value of a financial instrument that is traded in active markets at each reporting date is determined by reference to its quoted market price. If the financial instrument does not trade on active market, the Corporation applies an option pricing model to measure the fair value of the Warrants when issued. Application of the option pricing model requires estimates in expected dividend yields, expected volatility in the underlying assets and the expected life of the Warrants. These estimates may ultimately be different from amounts subsequently realized, resulting in an overstatement or understatement of income (loss) and comprehensive income (loss).

Warrants - Issued and Outstanding

	Number #	Amount \$
From incorporation on July 31, 2017	-	-
Warrants issued in connection with :		
Issuance to Founders	2,621,870	2,061,063
Issuance of Class A Restricted Voting Units pursuant to the Offering	12,500,000	7,362,188
Issuance of Class A Restricted Voting Units pursuant to the over-allotment option	975,000	586,901
Issuance of Class B Units to Sponsor	262,188	154,581
Exercise of Warrants	(298,200)	(1,587,876)
	16,060,858	8,576,857
Fair value adjustment	-	32,050,448
Balance on September 30, 2019	16,060,858	40,627,305

The Corporation's Warrant liability increased from its original value to \$40,627,305 as the Warrant's bid price on September 30, 2019 was \$2.52 (CDN\$3.35).

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

16. DERIVATIVE LIABILITIES

Make-Whole Provision and Contingent Consideration

As part of the purchase price of the Qualifying Transaction, the Corporation issued Make-Whole provisions relating to the Exchangeable Shares. The Corporation uses a Monte-Carlo simulation model to estimate the fair value of the Make-Whole provision liability. Upon initial recognition, the Corporation recorded a derivative liability of \$2,813,718. As at September 30, 2019, the Corporation revalued the Make-Whole provision liability which increased to \$6,272,704.

The earn-out provision related to the acquisition of Sira is measured at fair value by taking a probability-weighted average of possible outcomes, as estimated by management, and discounting the payment to a present value. Upon initial recognition, the earn-out provision was estimated to have a total undiscounted value of \$26,125,000 and has been discounted to \$21,820,132. As at September 30, 2019, the earn out accreted interest of \$465,021 for a total value of \$22,285,153. There were no changes to the probability-weighted average fair value of the Sira earn-out provision as at September 30, 2019.

The fair value adjustment relating to derivative liabilities has been reflected in the unaudited condensed interim consolidated financial statements under “Unrealized gain (loss) - changes to fair value of financial liabilities” as detailed below:

	Three Months Ended		Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	\$	\$	\$	\$
Income (Loss) from FV adjustment on warrants	43,886,295	-	(17,092,093)	-
Loss from FV adjustment on Class A units	-	(24,273,089)	(101,455,740)	(29,847,798)
Loss from FV adjustment on make whole provision	(3,458,987)	-	(3,458,987)	-
Total	40,427,308	(24,273,089)	(122,006,820)	(29,847,798)

17. CAPITAL MANAGEMENT

The Corporation’s objectives when managing capital are to ensure sufficient liquidity to support its financial obligations and to execute its operating and strategic plans, managing healthy liquidity reserves and access to capital.

In the process of managing the Corporation’s capital, management includes shareholders equity (deficiency) plus the Class A Restricted Voting Shares (prior to the Qualifying Transaction) and Warrants in the definition of capital.

The Corporation manages its capital structure and makes adjustments to it based on the funds available to the Corporation, in order to support business development. The Directors do not establish quantitative return on capital criteria for management, but rather rely on the expertise of the Corporation's management to sustain future development of the business. In order to carry out the planned business development and pay for administrative costs, the Corporation will spend its existing working capital and seek to raise additional amounts, as needed. There were no changes in the Corporation's approach to capital management during the three and nine months ended September 30, 2019. The Corporation is not subject to externally imposed capital requirements apart from the need to maintain its listing in accordance with stock exchange requirements.

The Corporation 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. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Corporation, is reasonable. The Corporation plans to use existing funds, as well as funds from the future sale of products, to fund operations and expansion activities. However, the Corporation may attempt to issue new shares or issue new debt for acquisitions. There can be no assurance that the Corporation will be able to continue raising capital in this manner.

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

18. GENERAL AND ADMINISTRATIVE

General and administrative expenses were comprised of:

	Three Months Ended		Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	\$	\$	\$	\$
Public company filing and listing costs	27,272	5,312	26,112	25,671
Compensation & Benefits	3,553,444	-	4,855,012	-
Rent	199,004	-	231,505	-
Taxes and licenses	683,251	-	887,045	-
Professional and consulting fees	1,515,436	551,609	1,835,176	798,566
Office expenses	420,481	39,559	675,808	76,152
Computer expenses	113,792	-	139,198	-
Bank charges and fees	76,418	-	106,395	-
Insurance	528,229	-	681,810	-
Community agreements	116,141	-	159,641	-
Security	281,019	-	394,093	-
Utilities	93,512	-	122,522	-
Management Fee	905,334	-	996,697	-
Other	323,601	-	677,168	-
Total	8,836,934	596,480	11,788,182	900,389

19. NET INCOME (LOSS) PER SHARE

Basic

Basic net income (loss) per share is calculated by dividing the income (loss) attributable to shareholders of the Corporation by the weighted average number of shares outstanding, made up of Multiple Voting Shares and Subordinate Voting Shares outstanding, during the periods ended. As all the classes of shares are subject to the same distribution rights, the Corporation performs the net income (loss) per share calculations as if all shares are a single class.

	Three Months Ended		Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	\$	\$	\$	\$
Net income (loss) attributable to shareholders of the Corporation	26,180,617	(24,638,034)	(146,715,369)	(30,501,161)
Weighted average number of shares outstanding during the period	26,406,682	3,711,493	14,337,386	3,696,486
Basic net income (loss) per share □	0.99	(6.64)	(10.23)	(8.25)

Diluted

Diluted net income (loss) per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all potential dilutive shares. This would include the Warrants, restricted stock units (RSUs), Rights, and contingent shares. During a period when a loss is recorded, the diluted net loss per share does not assume conversion of shares as their impact would be anti-dilutive. These dilutive shares were excluded from the calculation for the nine months ended September 30, 2019 and the three and nine months ended September 30, 2018.

	Three Months Ended		Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	\$	\$	\$	\$
Net income (loss) attributable to shareholders of the Corporation	26,180,617	(24,638,034)	(146,715,369)	(30,501,161)
Weighted average number of shares outstanding during the period	31,179,896	3,711,493	14,337,386	3,696,486
Diluted net income (loss) per share □	0.84	(6.64)	(10.23)	(8.25)

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

20. STOCK-BASED COMPENSATION

In connection with the Qualifying Transaction the Corporation has adopted an Equity Incentive Plan (“the Plan”), which allows the Corporation to compensate qualifying plan participants through stock-based arrangements and provide them with opportunities for stock ownership in the Corporation, thereby aligning the interests of such persons with the Corporation’s shareholders. Under the Plan the Corporation may grant stock options, restricted stock units, performance compensation awards, and unrestricted stock bonuses or purchases.

In addition, CSAC AcquisitionCo established a Restricted Stock Plan (“the AcquisitionCo Plan”) to facilitate the granting of restricted Exchangeable Shares. Any shares issued under the AcquisitionCo Plan will reduce the number of Subordinate Voting Shares that may be awarded under the Equity Incentive Plan on a one-for-one basis.

During the three and nine months ended September 30, 2019, the Corporation recognized stock-based compensation expense of \$11,062,444 and \$15,582,582, respectively, from the issuance of 3,199,550 restricted Exchangeable Shares. The stock-based compensation expense is based on the Corporation’s share price on the date of the grant. There was no additional activity during the current year and there was no comparable activity in the prior year periods.

21. COMMITMENTS AND CONTINGENCIES

Contingencies

The Corporation'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 Corporation ceasing operations. While management of the Corporation believes that the Corporation is in compliance, in all material respects, with applicable local and state regulations at September 30, 2019, cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Corporation may be subject to regulatory fines, penalties, or restrictions in the future.

Claims and litigation

From time to time, the Corporation may be involved in litigation relating to claims arising out of operations in the normal course of business. At September 30, 2019, there were no material pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Corporation's operations. There are also no proceedings in which any of the Corporation's directors, officers or affiliates are an adverse party or have a material interest adverse to the Corporation's interest.

22. FINANCIAL RISK FACTORS

(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 Corporation.

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

22. 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 utilize the asset in its highest and best use.

The Corporation uses valuation techniques that are appropriate in the circumstances and for which there is sufficient data with unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the unaudited condensed interim financial statements are categorized 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 hierarchy used to fair value the financial instruments as at September 30, 2019 and December 31, 2018 were as follows:

- Level 1: Cash and cash equivalents, deposits, restricted cash, short term investments and warrant liability
- Level 2: None
- Level 3: Make-whole provisions and contingent consideration issued as purchase consideration relating to business combinations

There were no transfers between levels in the hierarchy. For financial assets and liabilities not measured at fair value, their carrying value approximates fair value due to their short-term nature and market terms.

Financial assets	Carrying values			Fair values	
	FVTPL	FVTOCI	AC	Total	Total
September 30, 2019	\$	\$	\$	\$	\$
Cash and cash equivalents	14,657,912	-	-	14,657,912	14,657,912
Deposit	-	-	477,815	477,815	477,815
Accounts receivable	-	-	810,511	810,511	810,511
	14,657,912	-	1,288,326	15,946,238	15,946,238
December 31, 2018					
Cash and cash equivalents	109,952	-	-	109,952	109,952
Restricted cash and short-term investments held in escrow	99,684,243	-	-	99,684,243	99,684,243
Deposit	-	-	274,886	274,886	274,886
	99,794,194	-	274,886	100,069,081	100,069,081

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

22. FINANCIAL RISK FACTORS (Continued)

(a) Fair Value (continued)

Financial liabilities	Carrying values			Fair values
	FVTPL	AC	Total	Total
September 30, 2019	\$	\$	\$	\$
Warrant liability	40,627,305	-	40,627,305	40,627,305
Trade payables	-	5,420,509	5,420,509	5,420,509
Accrued liabilities	-	4,522,295	4,522,295	4,522,295
Accrued interest payable	-	466,521	466,521	466,521
Debts payable	-	45,182,821	45,182,821	45,182,821
	40,627,305	55,592,146	96,219,451	96,219,451
December 31, 2018				
Class A Restricted Voting Shares subject to redemption	-	145,694,363	145,694,363	145,694,363
Warrant liability	23,983,372	-	23,983,372	23,983,372
Accrued liabilities	-	2,489,096	2,489,096	2,489,096
	23,983,372	148,183,459	172,166,831	172,166,831

The Corporation is exposed to credit risk, liquidity risk and interest rate risk. The Corporation's management oversees the management of these risks. The Corporation's management is supported by the members that advise on financial risks and the appropriate financial risk governance framework for the Corporation. The Corporation's financial risk activities are governed by appropriate policies and procedures and financial risks are identified, measured and managed in accordance with Corporation policies and Corporation 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 Corporation to concentrations of credit risk consist of cash and cash equivalents, deposits and accounts receivable. To address its credit risk arising from cash and cash equivalents and deposits, the Corporation ensures to keep these balances with financial institutions of high repute. The Corporation has not recorded an ECL as all amounts are considered to be recoverable and are immaterial. The Corporation is not significantly exposed to its accounts receivable due to its diversified customer base and a stringent collection policy. As at September 30, 2019 and December 31, 2018 the maximum amount exposed to credit risks was \$14,958,180 and \$384,838, respectively.

(c) Liquidity Risk

Liquidity risk is the risk that the Corporation is unable to generate or obtain sufficient cash in a cost-effective manner to fund its obligations as they come due. The Corporation's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Corporation manages liquidity risk through maintaining sufficient funds on hand and continuously monitoring forecast and actual cash flows. As at September 30, 2019, all trade payables and accrued liabilities are due within a year. Refer to Notes 11 and 14 for future lease and debt commitments.

(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 Corporation is exposed to interest rate risk on its cash and cash equivalents, deposit and long-term debts. Cash and cash equivalents and deposits bear interest at market rates. The Corporation's debts have fixed rates of interest. The Corporation does not use any derivative instruments to hedge against interest rate risk and believes that the change in interest rates will not have a significant impact on its financial results.

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Notes to Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2019 and 2018

22. FINANCIAL RISK FACTORS (Continued)

(e) Currency Risk

The operating results and financial position of the Corporation are reported in United States dollars. As the Corporation operates in an international environment, some of the Corporation's financial instruments and transactions are denominated in currencies other than the United States dollar. The results of the Corporation's operations are subject to currency transaction and translation risks.

At September 30, 2019, the Corporation had no hedging agreements in place with respect to foreign exchange rates. The Corporation has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time. The Corporation believes that the change in exchange rates will not have a significant impact on financial results.

23. TAXATION

In relation to the acquisitions, explained in Notes 1 and 5 to the unaudited condensed interim consolidated financial statements, the Corporation has recognized deferred tax liabilities on the acquisition date of \$46,675,055 largely due to the recognition of acquired intangible assets, property and equipment and biological assets. The deferred tax recovery during the three and nine months ended September 30, 2019 and year ended December 31, 2018, was \$1,743,121, \$2,676,022 and \$Nil, respectively, resulting in a Deferred Tax Liability of \$43,999,033 and \$Nil as at September 30, 2019 and December 31, 2018.

The Corporation incurred current income tax expense of \$3,502,175 and \$4,932,991 for the three and nine months ended September 30, 2019, and \$Nil for the year ended December 31, 2018.

As the Corporation operates in the cannabis industry, it is subject to the limits of IRC Section 280E under which the Corporation is only allowed to deduct expenses directly related to the cost of goods sold. This results in permanent book/tax differences for ordinary and necessary business expenses deemed non-allowable under IRC Section 280E. Therefore, the effective tax rate can be highly variable and may not necessarily correlate with pre-tax income or loss.

24. SUBSEQUENT EVENTS

The Corporation's management has evaluated subsequent events up to November 18, 2019, the date the unaudited condensed interim financial statements were issued.

On October 1, 2019, the Corporation commenced a stock repurchase program for up to 5% of outstanding Subordinate Voting Shares. The program will last for 12 months and the maximum number of shares able to be repurchased are 725,892. As of November 18, 2019, the Corporation has repurchased 14,000 shares under this program.