
Ayr Strategies Inc.
(Formerly Cannabis Strategies Acquisition Corp.)
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS MARCH 31, 2020 AND 2019
(EXPRESSED IN UNITED STATES DOLLARS)

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Introduction

The following management's discussion and analysis ("MD&A") of the financial condition and results of the operations of Ayr Strategies Inc. (formerly Cannabis Strategies Acquisition Corp.) ("Ayr", "the Corporation", "we", "our" or "us") constitutes management's review of the factors that affected the Corporation's financial and operating performance for the three months ended March 30, 2020. This MD&A was written to comply with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with the Corporation's unaudited condensed interim consolidated financial statements as at March 31, 2020 and for the three months ended March 31, 2020 (the "Interim Financials Statements") and audited consolidated financial statements for the years ended December 31, 2019 and 2018, and the related notes thereto (the "Financial Statements"). Results are reported in United States dollars, unless otherwise noted. In the opinion of management, all adjustments (which consist only of normal recurring adjustments) considered necessary for a fair presentation have been included. Until it completed its Qualifying Transaction (as defined below) on May 24, 2019, the Corporation was a special purpose acquisition corporation ("SPAC"), and therefore the results presented for the year ended December 31, 2019 and the three months ended March 31, 2019 will not be indicative of the results that may be expected for any future period. See "Timing Issues Related to the December Financial Statements" below. The Financial Statements and the financial information contained in this MD&A were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). Further information about the Corporation and its operations can be obtained on www.sedar.com.

The effective date of this MD&A is May 21, 2020.

On May 24, 2019, the Corporation completed its qualifying transaction under Part X of the NEO Exchange Inc. Listing Manual (the "**Qualifying Transaction**") in respect of its concurrent acquisitions of five Acquired Businesses. The Corporation, through its wholly-owned subsidiary CSAC Acquisition Inc. ("**CSAC AcquisitionCo**"), acquired the businesses of Washoe Wellness, LLC ("**Washoe**"), The Canopy NV, LLC ("**Canopy**"), Sira Naturals, Inc. ("**Sira**"), LivFree Wellness, LLC ("**LivFree**") and CannaPunch of Nevada, LLC ("**CannaPunch**"). Washoe, Canopy, Sira, LivFree and CannaPunch are collectively referred to as the "**Acquired Businesses**". The Acquired Businesses operate in the cultivation, manufacturing, branding and/or retail, as applicable, of cannabis products in the states of Massachusetts and Nevada.

Cautionary Note Regarding Forward-Looking Information

Certain statements in this MD&A are forward-looking statements within the meaning of applicable securities laws, including, but not limited to, those statements relating to the Qualifying Transaction, information concerning the Acquired Businesses and the parties and their financial capacity and availability of capital and other statements that are not historical facts. These statements are based upon certain material factors, assumptions and analyses that were applied in drawing a conclusion or making a forecast or projection, including experience of the Corporation and each of the Acquired Businesses, as applicable, and perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be reasonable in the circumstances. Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. These statements may include, without limitation, statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of the Corporation and the Acquired Businesses. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "pro forma", "expects", "anticipates", "plans", "believes", "estimates", "intends", "targets", "projects", "forecasts", "seeks", "likely" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could".

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By their nature, forward-looking statements are subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A variety of material factors, many of which are beyond the parties' control, could affect operations, business, financial condition, performance and results of the parties that may be expressed or implied by such forward-looking statements and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to, the following:

- the extent of the impact of COVID-19, including government and/or regulatory responses to the outbreak;
- assumptions and expectations described in the Corporation's critical accounting policies and estimates;
- the adoption and impact of certain accounting pronouncements;
- the number of users of cannabis or the size of the regulated cannabis market in the United States;
- the potential time frame for the implementation of legislation to legalize and regulate medical or recreational cannabis (and the consumer products derived from each of the foregoing) in the United States, and the potential form the legislation and regulations will take;
- the Corporation's future financial and operating performance and anticipated profitability;
- future performance, results and terms of strategic initiatives, strategic agreements and supply agreements;
- the market for the Corporation's current and proposed products and services, as well as the Corporation's ability to capture market share;
- the benefits and applications of the Corporation's products and services and expected sales thereof;
- development of affiliated brands, product diversification and future corporate development;
- anticipated investment in and results of research and development;
- inventory and production capacity, including discussions of plans or potential for expansion of capacity at existing or new facilities;
- future expenditures, strategic investments and capital activities;
- the competitive landscape in which the Corporation operates and the Corporation's market expertise;
- the Corporation's ability to secure further equity or debt financing, if required;
- consistent or increasing pricing of various cannabis products;
- the level of demand for cannabis products, including the Corporation's and third-party products sold by the Corporation;

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- the Corporation's ability to mitigate risks relating to the cannabis industry, the larger economy, breaches of and unauthorized access to the Corporation's systems and related cybersecurity risks, money laundering, costly litigation, and health pandemics;
- the application for additional licenses and the grant of licenses or renewals of existing licenses that have been applied for;
- the rollout of new dispensaries, including as to the number of planned dispensaries to be opened in the future and the timing and location in respect of the same, and related forecasts; and
- other events or conditions that may occur in the future.

In making these statements, in addition to those described above and elsewhere herein, the parties have made assumptions with respect to expected cash provided by continuing operations, future capital expenditures, including the amount and nature thereof, trends and developments in the industry, business strategy and outlook, expansion and growth of business and operations, accounting policies, credit risks, anticipated acquisitions, opportunities available to or pursued by the parties, and other matters.

Definition and Reconciliation of Non-IFRS Measures

The Corporation reports certain non-IFRS measures that are used to evaluate the performance of such businesses and the performance of their respective segments, as well as to manage their capital structure. As non-IFRS measures generally do not have a standardized meaning, they may not be comparable to similar measures presented by other issuers. Securities regulations require such measures to be clearly defined and reconciled with their most directly comparable IFRS measure.

The Corporation references non-IFRS measures including cannabis industry metrics, in this document and elsewhere. These measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these are provided as additional information to complement those IFRS measures by providing further understanding of the results of the operations of the Corporation from management's perspective. Accordingly, these measures should not be considered in isolation, nor as a substitute for analysis of the Corporation's financial information reported under IFRS. Non-IFRS measures used to analyze the performance of the Acquired Businesses include "Adjusted EBITDA".

The Corporation believes that these non-IFRS financial measures provide meaningful supplemental information regarding the Corporation's performances and may be useful to investors because they allow for greater transparency with respect to key metrics used by management in its financial and operational decision-making. These financial measures are intended to provide investors with supplemental measures of the Corporation's operating performances and thus highlight trends in the Corporation's core businesses that may not otherwise be apparent when solely relying on the IFRS measures.

Adjusted EBITDA

"Adjusted EBITDA" represents loss from operations, as reported, before interest, and tax, and is adjusted to exclude extraordinary items, non-recurring items, other non-cash items, including stock based compensation expense, depreciation, amortization, the adjustments for the accounting of the fair value of biological assets, and further adjusted to remove acquisition related costs.

Reconciliations are provided elsewhere in this MD&A.

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Description of Business

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 a portfolio in Massachusetts and Nevada. Through its operating companies, Ayr is a leading cultivator, manufacturer and retailer of cannabis products and branded cannabis packaged goods. 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 Company had only one operating segment, cannabis sales, during the period ended March 31, 2020. As the Corporation has experienced rapid growth with the Qualifying Transaction, operating segments will be further analyzed and are subject to future change. The Corporation is a reporting issuer in each of the provinces and territories of Canada, other than Quebec.

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.

For information on the Corporation’s initial public offering, please refer to the Corporation’s final non offering prospectus dated February 15, 2019 and the Corporation’s management information circular dated February 19, 2019.

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 AcquisitionCo. On May 24, 2019, the Corporation completed its concurrent acquisitions of the target businesses of Washoe, Canopy, Sira, LivFree, and CannaPunch, which collectively constituted its Qualifying Transaction. For more information regarding the Qualifying Transaction, view the December 31, 2019 audited consolidated financial statements.

The Corporation’s Subordinate Voting Shares, Warrants, and Rights are trading on the Canadian Stock Exchange (the “CSE”), under the symbols “AYR.A”, “AYR.WT” and “AYR.RT”, respectively. The Corporation’s Subordinate Voting Shares are also trading on the Over-the-Counter Market (“OTC”) in the U.S. under the symbol “AYRSF”.

Acquisition of Businesses

On May 24, 2019 (the “acquisition date”), the Corporation completed its concurrent acquisitions of the five Acquired Businesses. 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 Corporation treats the Exchangeable Shares as options with a value equal to a share of Subordinate Voting Shares, which represents the holder’s claim on the equity of the Corporation. In

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order to comply with certain contractual requirements of the acquisition, the Corporation and CSAC AcquisitionCo. are required to maintain the economic equivalency of such Exchangeable Shares with the publicly traded Subordinated Voting Shares of the Corporation. This means the Exchangeable Shares are required to share the same economic benefits and retain the same proportionate ownership in the assets of the Corporation as the holders of the Corporation’s publicly traded Subordinated Voting Shares. The Corporation has presented these Exchangeable Shares as a part of shareholders’ equity within these Interim Financial Statements due to (i) the fact that they are economically equivalent to the Corporation’s publicly traded Subordinated Voting Shares (ii) the holders of the Exchangeable Shares are subject to restrictions on transfer under US securities laws, but may dispose of the Exchangeable Shares without such restriction by exchanging them for Subordinate Voting Shares of the Corporation. Changes in these assumptions would affect the presentation of the Exchangeable Shares from shareholders’ equity to non-controlling interests; however, there would be no impact on earnings per share.

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

	Cash	Debt Payable	Shares Issued	Other	Total
	\$	\$	\$	\$	\$
Calculated Consideration	76,420,000	37,140,000	125,421,479	31,471,789	270,453,268

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 obtained control of Washoe, Canopy, and LivFree through separate management service agreements. Each management service agreement provides Ayr significant management rights over the entities’ operations. Through these management service agreements, Ayr has the power to control relevant activities which affect the returns Ayr receives. As a result of the control obtained through the management service agreements, these entities are consolidated on Ayr’s Interim Financial Statements. As at March 31, 2020, Washoe, Canopy, and LivFree are awaiting state approval to transfer licenses to Ayr. See Note 3.1 for a breakout of the various management companies.

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

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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	625,143	87,617	-	1,312,911
Inventory	2,670,057	9,671,814	552,040	4,500,213	1,618,639	19,012,763
Biological assets	-	1,996,642	-	1,763,516	-	3,760,158
Prepaid expenses and other assets	96,157	340,428	-	129,477	160,748	726,810
Intangible assets	105,000,000	57,000,000	2,390,000	22,800,000	10,750,000	197,940,000
Property, plant and equipment	1,640,418	9,090,090	486,100	9,070,645	1,217,736	21,504,989
Right-of-use assets	2,894,076	5,239,201	1,119,826	-	2,057,681	11,310,784
Due from related parties	-	-	-	-	784,733	784,733
Deposits	90,147	149,251	-	91,574	9,983	340,955
Total assets acquired at fair value	113,649,783	84,357,857	5,180,342	38,464,500	16,747,450	258,399,932
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	25,796,726	13,611,222	567,507	2,153,131	2,841,746	44,970,332
Advance from related parties	187,809	-	-	784,733	-	972,542
Lease obligations	2,520,437	6,514,038	1,083,189	-	2,553,502	12,671,166
Debts payable	120,000	13,054	-	9,180,808	421,128	9,734,990
Total liabilities assumed at fair value	30,188,560	21,583,925	1,949,497	12,725,157	6,336,829	72,783,968
Goodwill	39,779,584	16,399,143	13,971,953	8,121,569	6,565,055	84,837,304
Calculated Purchase Price	123,240,807	79,173,075	17,202,798	33,860,912	16,975,676	270,453,268

The goodwill recognized on acquisition is attributable mainly to the expected future growth potential and expanded customer base arising as a result of completion of Qualifying Transaction as explained in Note 1 to the Interim Financial Statements. Goodwill has been allocated to the Cash Generating Units (“CGU” or “CGU’s”) corresponding to each of the acquired businesses. None of the goodwill is expected to be deductible for income tax purposes. The Corporation tests the recoverability of its goodwill annually, or more frequently if events or changes in circumstances indicate that they might be impaired.

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

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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;
- 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.

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 Interim Financial Statements.

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.

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;

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- 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.

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.

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.

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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, in the form of an additional 321,750 Exchangeable Shares to the LivFree sellers; and
- v. Settlement of the final working capital adjustment.

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		331,812
Total		898,739	17,202,798

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Pursuant to the terms of the CannaPunch Agreement, Ayr satisfied the purchase price of \$17.2 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, 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 Corporation used a Monte-Carlo simulation model to estimate the fair value of the make-whole provision liability. The fair value as of the acquisition date was \$2,813,718. The earn-out provision in the Sira purchase agreement has been measured at fair value, which was \$21,820,132, by taking a probability-weighted average of possible outcomes, as estimated by management, and discounting the payment to the acquisition date.

Goodwill and Intangibles

The goodwill balance reflects the benefits of an 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.

Outlook

Due to the evolving and uncertain impact of the COVID-19 pandemic, like most companies around the globe, Ayr is currently unable to estimate the full duration, magnitude and pace of recovery with reasonable accuracy, particularly with respect to the timing of regulatory approvals for adult use dispensaries in Massachusetts. Due to this uncertainty, the previous 2020 financial outlook is no longer applicable and is as a result withdrawn. Ayr expects to continue generating positive cash flow in each of its markets in 2020 and deliver strong top and bottom-line growth over the prior year. Ayr believes the opportunity for M&A continues to be robust, even more so in this current market environment. Ayr intends to remain diligent in its search for the right opportunity and is committed to expanding its footprint by the end of 2020.

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Adjusted EBITDA Reconciliation for the Three Months Ended March 31, 2020 and 2019

	Three Months Ended March 31,	
	2020	2019
Loss from operations	(4,873,462)	(1,526,668)
<u>Non-cash items accounting for biological assets and inventory</u>		
Fair value adjustment on sale of inventory	7,003,489	-
Unrealized gain on biological asset transformation	(10,625,878)	-
	(3,622,389)	-
Interest	212,421	-
Depreciation and amortization (from statement of cash flows)	4,268,176	105,990
Acquisition costs	128,380	1,420,678
Stock-based compensation expense, non-cash	12,145,302	-
Other ¹	181,112	-
	16,935,391	1,526,668
Adjusted EBITDA (non-IFRS)	8,439,540	-

Notes:

¹ Other adjustments made to exclude the impact of non-recurring items.

Review of the Financial Results for the Three Months Ended March 31, 2020 and 2019

Selected Financial Information

(\$ in millions)	Three Months Ended December 31,	
	2020	2019
Revenues, net of discounts	33.6	-
Cost of goods sold before biological asset adjustments	(16.9)	-
Gross profit before fair value adjustments	16.6	-
Fair value adjustment on sale of inventory	(7.0)	-
Unrealized gain on biological asset transformation	10.6	-
Gross profit	20.3	-
Total expenses	(25.1)	(1.5)
Loss from operations	(4.9)	(1.5)
Total other income (expenses)	11.1	(135.2)
Income (Loss) before income tax	6.2	(136.7)
Provision for income taxes	(4.7)	-
Net income (loss)	1.6	(136.7)
Foreign currency translation adjustment	1.8	(0.1)
Net income (loss) and comprehensive income (loss)	3.3	(136.8)

Revenue

Revenue for the three months ended March 31, 2020 was \$33.6 million, an increase of \$33.6 million from the three

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months ended March 31, 2019, when there was no revenue generated. This increase was due to the operations of the businesses resulting from the closing of the Qualifying Transaction.

Gross Profit Before Biological Asset Adjustments

Gross profit before the fair value adjustments for the three months ended March 31, 2020 was \$16.6 million, an increase of \$16.6 million from the three months ended March 31, 2019, a period when the Corporation had no meaningful operations. This increase was due to the operations of the businesses resulting from the closing of the Qualifying Transaction.

Gross Profit

Gross profit for the three months ended March 31, 2020 was \$20.3 million, an increase of \$20.3 million from three months ended March 31, 2019, a period when the Corporation had no meaningful operations. This change was driven by the operations of the businesses resulting from the Qualifying Transaction.

Inventory of plants under production is considered a biological asset. Under IFRS, biological assets are to be recorded at fair value at the time of harvest, less costs to sell, which are transferred to inventory and the transfer becomes the deemed cost on a go-forward basis.

When the product is sold, the fair value is relieved from inventory and the transfer is booked to cost of sales. Cost of sales also includes products and costs related to other products acquired from other producers and sold by the Corporation.

Total Expenses

Total expenses for the three months ended March 31, 2020 were \$25.1 million, an increase of \$23.6 million from \$1.5 million for the three months ended March 31, 2019. This change was driven by the operations of the businesses resulting from the Qualifying Transaction.

The most significant operating expenses for the three months ended March 31, 2020 were non-cash stock-based compensation of \$12.1 million, general and administrative expenses of \$8.8 million, and amortization expenses of \$3.0 million, as compared to acquisition expenses of \$1.4 million, for the three months ended March 31, 2019.

Total Other Income (Expenses)

Total other income for the three months ended March 31, 2020 was \$11.1 million, an increase of \$146.3 million from total other expenses of \$(135.2) million for the three months ended March 31, 2019. This change was primarily driven by the changes in fair value of financial liabilities.

Income Tax

Income tax expense is recognized based on the expected tax payable on the taxable income for the period and the deferred tax, using tax rates enacted or substantively enacted at year-end. For three months ended March 31, 2020, income tax expense was \$4.7 million as compared to \$0.0 million for the three months ended March 31, 2019.

Net Income (Loss)

Net income for the three months ended March 31, 2020 was \$1.6 million as compared to the net loss of \$(136.7) million

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for the three months ended March 31, 2019. The increase was primarily driven by the factors described above.

Liquidity and Capital Resources as at December 31, 2019

Selected Liquidity and Capital Resource Information

(\$ in millions)	March 31, 2020	December 31, 2019
Cash and cash equivalents	9.9	8.4
Total current assets	36.8	29.9
Total assets	360.8	355.1
Total current liabilities	40.3	34.7
Total long-term liabilities	136.7	151.8
Total shareholders' equity (deficiency)	183.8	168.6

As at March 31, 2020, the Corporation had cash and cash equivalents of \$9.9 million, other current assets of \$26.9 million, current liabilities of \$40.3 million, and negative working capital of \$3.5 million compared to December 31, 2019 which had cash and cash equivalents of \$8.4 million, other current assets of \$21.5 million, current liabilities of \$34.7 million, and negative working capital of \$4.8 million to meet its current obligations. The working capital calculations include the make-whole provision liability, which is not settled in cash. As at March 31, 2020 and December 31, 2019, the make-whole provision in current liabilities was \$4.3M and \$3.5M, respectively.

The Corporation, post the Qualifying Transaction, is generating cash from sales and deploying its capital reserves to develop assets capable of producing additional revenues and earnings over both the immediate and near term. Capital reserves are expected to be used for capital expenditures and improvements to existing facilities, marketing and product development, as well as the share buyback program.

Selected Cash Flow Information

(\$ in millions)	Three Months Ended March 31,	
	2020	2019
Net cash provided by (used in) operating activities	7.4	(0.0)
Net cash (used in) provided by investing activities	(4.4)	0.1
Net cash used in financing activities	(1.4)	-
Net increase in cash and cash equivalents	1.5	0.0
Effect of foreign currency translation	-	(0.1)
Cash and cash equivalents, beginning of period	8.4	0.1
Cash and cash equivalents, end of period	9.9	0.0

Operating Activities

Net cash provided by operating activities was \$7.4 million for the period ended March 31, 2020, compared to the \$(0.0) million net cash used in operating activities for the period ended March 31, 2019. The increase in net cash provided by operating activities was primarily driven by the operations of the businesses resulting from the Qualifying Transaction.

Investing Activities

Net cash used in investing activities was \$(4.4) million for the period ended March 31, 2020, a decrease of \$4.5 million compared to the \$0.1 million net cash provided by investing activities for the period ended March 31, 2019. The decrease

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was due to the purchase of property, plant, and equipment.

Financing Activities

Net cash used in financing activities was \$(1.4) million for the period ended March 31, 2020. There was no comparable activity during the period ended March 31, 2019. The net cash used in financing activities was primarily due to the repayments of debt and lease obligations.

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.

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 period ended March 31, 2020. 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.

Share Capital

As at March 31, 2020 and December 31, 2019, the Corporation had share capital of \$382.2 million. The share capital as at March 31, 2020 was comprised of \$1.8 million from Multiple Voting Shares, \$265.8 million from Subordinate Voting Shares, and \$114.5 million from Exchangeable Shares, while the share capital as at December 31, 2019 was comprised of \$1.8 million from Multiple Voting Shares, \$251.7 million from Subordinate Voting Shares, and \$128.7 million from Exchangeable Shares.

Outstanding Shares

	March 31, 2020	December 31, 2019
<u>Issued and outstanding</u>		
Multiple Voting Shares	3,696,486	3,696,486
Subordinate Voting Shares	15,805,573	14,824,485
Exchangeable Shares	7,475,053	8,373,792
Treasury stock	(63,300)	(29,500)
Total number of shares	26,913,812	26,865,263

As at March 31, 2020, the Corporation had 16,060,858 Subordinate Voting Shares issuable upon the exercise of Warrants, 298,087 make-whole Exchangeable Shares, 3,837,150 restricted Exchangeable Share units, and 231,685 Subordinate

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Voting Shares issuable upon the exercise of rights reserved for issuance. As at December 31, 2019, the Corporation had 16,060,858 Subordinate Voting Shares issuable upon the exercise of Warrants, 298,087 make-whole Exchangeable Shares, 3,837,150 restricted Exchangeable Share units, and 314,034 Subordinate Voting Shares issuable upon the exercise of rights reserved for issuance.

Liquidity

As at March 31, 2020, the Corporation had negative working capital of \$3.5 million compared to December 31, 2019 when it had negative working capital of \$4.8 million.

Summary of Future Commitments

Year	Leases	Debt	Total
2020	1,833,628	5,822,354	7,655,982
2021	2,276,925	7,480,631	9,757,556
2022	2,214,915	5,762,108	7,977,023
2023	2,261,501	1,511,532	3,773,033
2024	2,189,639	22,612,549	24,802,188
Thereafter	16,020,040	-	16,020,040
Total Commitments	26,796,648	43,189,174	69,985,822

Off-Balance Sheet Arrangements

As of the date of this filing, the Corporation does not have any off-balance sheet arrangements, with the exception of the binding term sheet referenced in Note 19 in the Interim Financial Statements, that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Corporation including, without limitation, such considerations as liquidity and capital resources that have not previously been discussed.

Related Party Transactions

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 Interim Financial Statements, related party transactions and balances are as follows:

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 \$7,500 per month, plus applicable taxes for such services. For the three months ended March 31, 2019, the Corporation incurred fees of \$22,500, in respect of these services. 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 with the Corporation dated May 24, 2019, to provide consulting and management advisory services. As at March 31, 2020 and December 31, 2019, \$118,131 and \$48,008 was included in prepaid expenses as an advance for these services. Included in expenses for the three months ended March 31, 2020, are management fees of \$1,129,052 that are included in general and administrative expenses and depreciation and interest expense for the embedded lease of \$98,848. 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.

During the three months ended March 31, 2020 and 2019, the Corporation incurred professional fees of \$nil and \$6,516,

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respectively, to Marrelli Support Services Inc. ("Marrelli"), 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 March 31, 2020 and December 31, 2019, there was no amount due to Marrelli.

As at March 31, 2020 and December 31, 2019, Mercer Park Brand Acquisition Corp. ("Brand"), a special purpose acquisition company that has limited services shared with the Corporation, owed Ayr \$85,000. This amount is included in due from related parties.

During the period ended March 31, 2020, the Corporation incurred fees from Panther Residential Management, LLC ("Panther"), a company partially owned by former owners of Sira. The total incurred fees were \$25,500 of office expenses, \$112,500 of rental fees, and \$1,308 of interest expense and \$5,332 of depreciation related to an office lease.

During the period ended March 31, 2020, the Corporation incurred fees from JOCHCO Investments, LLC (JOCHCO), a company owned by certain former owners of Washoe. The total incurred fees are \$89,370 of interest expense and \$22,773 of depreciation related to a dispensary lease.

Directors and officers of the Corporation are considered key members of management. Compensation for the directors and officers in the respective years were comprised of:

	<u>Three Months Ended</u>	
	March 31, 2020	March 31, 2019
	\$	\$
Compensation and benefits, included in management fee	469,375	-
Stock-based compensation, non-cash	12,145,302	-
Total compensation	12,614,677	-

In connection with the Qualifying Transaction, the Corporation issued notes, on an arm's length basis, to certain persons who are now related parties including directors in their capacities as sellers. The balance of these notes as at March 31, 2020 was \$40,316,834. Additional related party disclosures can be found in Note 12 to the Interim Financial Statements.

Selected Quarterly Information

A summary of selected information for each of the previous eight quarters is as follows:

Three Months Ended	Net Revenues	Net Income (Loss)	
		Total	Income (Loss) per Share¹
March 31, 2020	33,552,681	1,555,068	0.06
December 31, 2019	32,282,616	(17,464,233)	(0.65)
September 30, 2019	32,087,805	26,180,617 ²	0.99
June 30, 2019	10,823,206	(38,511,790) ²	(2.34)
March 31, 2019	-	(137,078,730) ³	(37.08)
December 31, 2018	-	(44,613,609) ³	(12.07)
September 30, 2018	-	(24,638,034) ³	(6.64)
June 30, 2018	-	(5,567,083) ³	(1.51)

Notes:

¹ Per share amounts are rounded to the nearest cent, therefore, aggregating quarterly amounts may not reconcile to year-to-date per

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share amounts. Amounts are calculated using basic weighted average number of shares outstanding.

² Net Income (Loss) for the three months ended September 30, 2019 and June 30, 2019 was primarily due to fair value changes in financial liabilities.

³ Prior to the Qualifying Transaction, Ayr was a special purpose acquisition corporation. Issues of seasonality have not had an impact on the results or operations while a special purpose acquisition corporation. From July 31, 2017 to March 31, 2019, variations in the quarterly net income (loss) were caused by fluctuations in the net unrealized gain (loss) on changes in the fair value of financial liabilities, transaction costs and general and administrative expense. Fluctuations in the net unrealized gain (loss) on changes in the fair value of financial liabilities has varied from quarter-to-quarter due primarily to changes in the fair value of the Corporation's Class A Restricted Voting Shares (prior to the Qualifying Transaction) and the liability associated with the Warrants.

Accounting Policies and Critical Accounting Estimates

The application of the Corporation's accounting policies requires management to use estimates and judgments that can have a significant effect on the revenues, expenses, assets and liabilities recognized, and disclosures made in the Interim 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 at that time. Actual results could differ from the estimates used.

The global pandemic outbreak of the novel strain of coronavirus ("COVID-19") has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, store closures, self-imposed quarantine periods and social distancing, may cause material disruption to businesses globally resulting in an economic slowdown. COVID-19 has cast uncertainty on the assumptions used by management in making its judgements and estimates. The full extent of the impact that COVID-19, including government and/or regulatory responses to the outbreak, will have on the Corporation is highly uncertain and difficult to predict at this time. Accordingly, there is a higher level of uncertainty with respect to management's judgements and estimates.

The following discusses the most significant accounting judgments, estimates and assumptions that the Corporation has made in the preparation of its Interim Financial Statements.

Business combination

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses and is accounted for using the acquisition method. The total consideration paid for the acquisition is the aggregate of the fair values of assets acquired, liabilities assumed, and equity instruments issued in exchange for control of the acquiree at the acquisition date. The acquisition date is the date when the Corporation obtains control of the acquiree. The identifiable assets acquired and liabilities assumed are recognized at their acquisition date fair values, except for deferred taxes and share-based payment awards where IFRS provides exceptions to recording the amounts at fair value.

Goodwill represents the difference between total consideration paid and the fair value of the net identifiable assets acquired. Acquisition costs incurred are expensed to total expenses. Contingent consideration is measured at its acquisition date fair value and is included as part of the consideration transferred in a business combination, subject to the applicable terms and conditions.

Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent

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settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9 with the corresponding gain or loss recognized in net income (loss).

Based on the facts and circumstances that existed at the acquisition date, management will perform a valuation analysis to allocate the purchase price based on the fair values of the identifiable assets acquired and liabilities assumed on the acquisition date. Management has one year from the acquisition date to confirm and finalize the facts and circumstances that support the finalized fair value analysis and related purchase price allocation. Until such time, these values are provisionally reported and are subject to change. Changes to fair values and allocations are retrospectively adjusted in subsequent periods.

In determining the fair value of all identifiable assets acquired and liabilities assumed, the most significant estimates generally relate to contingent consideration and intangible assets. Management exercises judgment in estimating the probability and timing of when earn-outs are expected to be achieved, which is used as the basis for estimating fair value. Identified intangible assets are fair valued using appropriate valuation techniques which are generally based on a forecast of the total expected future net cash flows of the acquiree. Valuations are highly dependent on the inputs used and assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied.

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.

Estimated useful lives and depreciation of property, plant and equipment

Depreciation of PPE is 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. 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.

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.

Goodwill impairment

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When determining the recoverable amount of the CGU or CGUs to which goodwill is allocated, the Corporation relies on a number of factors, including historical results, business plans, forecasts and market data. Changes in the conditions for these judgments and estimates can significantly affect the recoverable amount.

Leases

Each capitalized lease is evaluated to determine if the Corporation would exercise any of the renewal options offered. Several material factors are considered in determining if the renewal options would be exercised, such as length of the renewal, renewal rate, and ability to transfer locations. When measuring lease liabilities, the Corporation used discounted lease payments using a weighted-average rate in the range of 9.8% to 11.6% per annum. The weighted-average rate is based on the internal borrowing rate, which relies on judgements and estimates.

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.

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 if it requires concurrent fair value measurement; and (c) valuing the instrument at the issuance value less any amortized costs. As judgment 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.

Application of the option pricing model requires estimates in expected dividend yields, expected volatility in the underlying assets and the expected life of the financial instruments. These estimates may ultimately be different from amounts subsequently realized, resulting in an overstatement or understatement of net income (loss) and comprehensive income (loss).

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.

Expected credit loss

Management determines expected credit loss ("ECL") by evaluating individual receivable balances and considering customers' financial condition and current economic conditions. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded as income when received. All receivables are expected to be collected within one year of the year ended.

Income taxes

In assessing the probability of realizing income tax assets, management make estimates related to the expectation of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary

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differences and the likelihood that the tax positions taken will be sustained upon examination by applicable tax authorities.

Risk Factors

Please refer to the Corporation's final non-offering prospectus dated February 15, 2019, the Corporation's management information circular dated February 19, 2019, and the Corporation's Annual Information Form for information on the risk factors to which the Corporation is subject. In addition, see "Cautionary Note Regarding Forward-Looking Information" above.

Financial Instruments, Financial Risk Management and Other Instruments

The Corporation does not utilize financial instruments such as derivatives to manage financial risks. The Corporation's financial instruments consist of cash and cash equivalents, deposits, restricted cash, short term investments, warrant liability, and make-whole provisions and contingent consideration included as purchase consideration relating to business combinations. These financial instruments are measured at fair value or are short-term in nature where fair value approximates their carrying value (see Note 22 to the Interim Financial Statements).

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 advises 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.

Fair value measurements

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.

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 considered to be appropriate in the circumstances and for which there is sufficient data are with unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the 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.

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- 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 March 31, 2020 and December 31, 2019, were as follows:

- Level 1: Cash and cash equivalents, deposits, 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 is considered to approximate fair value due to their market terms.

Financial assets	Carrying values			Fair values	
	FVTPL	FVTOCI	AC	Total	Total
March 31, 2020	\$	\$	\$	\$	\$
Cash and cash equivalents	9,935,245	-	-	9,935,245	9,935,245
Deposits	866,902	-	-	866,902	866,902
Accounts receivable	-	-	493,730	493,730	493,730
	10,802,147	-	493,730	11,295,877	11,295,877
December 31, 2019					
Cash and cash equivalents	8,403,196	-	-	8,403,196	8,403,196
Deposits	740,666	-	-	740,666	740,666
Accounts receivable	-	-	2,621,239	2,621,239	2,621,239
	9,143,862	-	2,621,239	11,765,101	11,765,101

Financial liabilities	Carrying values			Fair values	
	FVTPL	AC	Total	Total	Total
March 31, 2020	\$	\$	\$	\$	\$
Warrant liability	22,192,412	-	22,192,412	22,192,412	22,192,412
Contingent consideration	23,013,758	-	23,013,758	23,013,758	23,013,758
Make-whole provision	4,340,097	-	4,340,097	4,340,097	4,340,097
Trade payables	-	7,677,778	7,677,778	7,677,778	7,677,778
Accrued liabilities	-	4,352,751	4,352,751	4,352,751	4,352,751
Accrued interest payable	-	1,187,211	1,187,211	1,187,211	1,187,211
Debts payable	-	43,189,174	43,189,174	43,189,174	43,189,174
	49,546,267	56,406,914	105,953,181	105,953,181	105,953,181
December 31, 2019					
Warrant liability	36,874,124	-	36,874,124	36,874,124	36,874,124
Contingent consideration	22,656,980	-	22,656,980	22,656,980	22,656,980
Make-whole provision	3,540,803	-	3,540,803	3,540,803	3,540,803
Trade payables	-	6,806,053	6,806,053	6,806,053	6,806,053
Accrued liabilities	-	5,123,865	5,123,865	5,123,865	5,123,865
Accrued interest payable	-	815,662	815,662	815,662	815,662
Debts payable	-	43,995,661	43,995,661	43,995,661	43,995,661
	63,071,907	56,741,241	119,813,148	119,813,148	119,813,148

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 board 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 policies and procedures and financial risks are identified, measured and managed in accordance with the Corporation's policies and the Corporation's risk appetite.

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The Corporation quantified the sensitivity of inputs in relation to the contingent consideration as at March 31, 2020 and December 31, 2019, and would expect the following effect on fair value in the event of changes to the discount rate:

Significant assumption	Range of inputs	Sensitivity	Value at period end	
			March 31, 2020	December 31, 2019
			\$	\$
Discount rate	6.3%	Increase 1%	22,574,499	22,169,349
		Decrease 1%	23,467,584	23,161,325

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 reputable financial institutions. The Corporation has not recorded an expected credit loss 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. No expected credit loss (“ECL”) has been recorded by the Corporation as all receivables are expected to be collected and are not significant. As at March 31, 2020 and December 31, 2019, the maximum amount exposed to credit risks was \$11,295,878 and \$11,024,435, respectively. The components of accounts receivable as at March 31, 2020 and December 31, 2019 were:

	(In \$)	0-30 days	31-90 days	Over 90 days	Total
Balance, as at March 31, 2020		412,247	72,737	8,746	493,730
Balance, as at December 31, 2019		2,456,226	115,808	49,205	2,621,239

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 March 31, 2020 and December 31, 2019, all trade payables and accrued liabilities are due within a year. Refer to the Summary of Future Commitments table for future lease and debt commitments.

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 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.

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.

Ayr Strategies Inc. (formerly, Cannabis Strategies Acquisition Corp.)
Management's Discussion and Analysis
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As at March 31, 2020 and December 31, 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 a change in exchange rates will not have a significant impact on financial results. The Corporation performed a sensitivity analysis on the conversion rate applied to Canadian balances:

Balance sheet account	Value at year end Dr (Cr.)	Conversion rate	Sensitivity	Effect on fair value, as at March 31, 2020
	CDN \$			\$
Cash and cash equivalents	815,919	0.7086	Increase / Decrease 1%	5,782
Warrants	(31,318,673)	0.7086	Increase / Decrease 1%	(221,924)